THE SEARCH FOR A BALANCED ECONOMY: THE ORIGINS OF THE MORTGAGE MARKET AND BANK

BAILOUTS, 1913-1939

By

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This dissertation describes how a movement for economic balance through finance reshaped American capitalism and American government from the Progressive Era through the New Deal. It argues that in the early 20th century, a new political movement declared it the duty of the government to keep all parts and all sectors of the economy in a grand balance with each other, most importantly by supporting cheap financing, especially of mortgages, to those parts that lagged behind. The movement began with the pleas of farmers and bankers for government-supported mortgages, and eventually spread to urban builders and lenders. By the end of the 1930s, the movement had inspired the creation of numerous semi-public enterprises, such as the Federal Land Banks and Fannie Mae, and the extension of government guarantees to supposedly private creditors and lenders. Although the dream of a balanced economy was abandoned, the government’s powers to support bankers and financiers became a lasting part of American statecraft.
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INTRODUCTION

In Willa Cather’s 1913 novel *O Pioneers!,* the fierce and independent Alexandra Bergson convinces her brothers, Lou and Oscar, to place a mortgage on their Nebraska homestead in order to buy some neighboring land, but the very thought of a mortgage terrifies all of them. They remember the burden a mortgage placed on their father when he first came to the land and they are loath to place another such weight on themselves. “‘Mortgage the homestead again?’ Lou cried.... ‘I won’t slave to pay off another mortgage. I’ll never do it. You’d just as soon kill us all, Alexandra, to carry out some scheme!’”¹ It was at exactly this time that the hardships imposed on similar families, and on the entire battered farm economy, by such high-stakes, high-interest mortgages inspired a new political movement, one that aimed both to alleviate the burden of mortgage debt, and, ironically perhaps, to make mortgages more common and more tied into the broader financial world. In this period, farmers such as Alexandra Bergson made alliance with once-reviled bankers to convince Americans and their government to fully embrace mortgages.

This project traces the history of that movement and of the idea animating it. The movement declared it the duty of the government to keep all sectors of the economy in a grand balance with each other, most importantly by supporting cheap financing, through mortgages, to those parts that lagged behind. The dissertation explains how this idea was embraced by wide swaths of politicians, intellectuals, farmers, builders, and, of course, bankers. Though little understood today, and seemingly tangential to the main currents of American thought, the dream of “economic balance” through finance was at the center of many early 20th century political debates, and had profound ramifications for American banking, American capitalism,

and the shape of American government from the Progressive Era through the New Deal. Most importantly, the idea of economic balance helped shape the modern banking system of the United States, which became ever more focused on mortgage debt and ever-more bolstered by government guarantees.

The still commonplace plea by American thinkers or politicians to restore “balance,” to people’s lives, to the national budget, to the political system, has been so omnipresent in American history that it is hard to conceive of a time when it carried real rhetorical weight. Balance is, after all, no more than a metaphor, with amorphous yet positive connotations, used to invoke reason and fairness. A “balanced” approach in this sense is one which considers all sides and gives each their due. Perhaps the very banality of the term has caused historians to miss its importance in earlier political and economic thought.

The story of how economic balance became the lodestar of a political movement begins, as with so many stories in this era, with the farmers. Farmers had grumbled ever since the birth of capitalism that banks catered only to merchants and manufacturers. Banks had long accepted money from these groups, and loaned the money back to them, usually to finance goods traveling from one place to another, or raw materials going through the manufacturing process, and usually only for short-terms. Attempts by farmers to create “land banks,” banks loaning long-term on mortgages, the types of loans farmers needed most, met with opposition and failure. By the turn of the 20th century, therefore, farmers faced insuperable barriers to securing cheap loans, especially on their most valuable asset, their land. As the banking and financial system grew in importance, farmers’ exclusion from it became an ever more salient issue.

In the early 20th century, farmers, bankers, and many intellectuals began to argue that the declining fortunes of farmers, along with the sharply declining proportion of the population

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devoted to farming, was not just a threat to agriculture, but to the entire economy. They argued that a stable economy needed an equitable balance between all its producing sectors, and if one part, such as farming, fell behind, the rest of the economy was sure to follow. These advocates believed that farmers’ failure to finance themselves sapped their productive power and posed a threat to all producers and all classes, a threat that could only be met by government support to mortgage lenders and borrowers.

Despite a Democratic Party still enamored with Andrew Jackson’s fight against privileged banks, new Democrats in this era such as Senator Henry Hollis joined hands with bankers such as Charles Conant, new farm groups such as the Farmers Union, and “rural credits” experts such as David Lubin, to plead that special government privileges to some banks could help balance the stagnant farm economy with the buoyant industrial one. Beginning in 1913, rural advocates in Congress helped transform the new Federal Reserve System to support special types of longer-term loans to farmers, and to simultaneously provide the seemingly private Federal Reserve Banks with federal oversight and guarantees. In 1916 rural politicians and bankers helped create the Federal Land Banks, which relied on tax-exemptions and the implicit backing of the government to package farm mortgages into tradable “mortgage-backed bonds.” In the following decades, the federal government would use its new financial powers to become the dominant figure in the financial world, with whose health it became singularly preoccupied. And despite their continuing nominal concern for farmers, these new institutions would be dominated by bankers and investors, who would use them to succor an increasingly precarious banking system. The supposed means, government credit to banks in order to support farmers, became the ends, with the government using its new financial power to bolster banks.
In the 1920s, however, during an era of crop price declines and deflation, rural partisans formed a new theory of balance, one which was more concerned with farm prices than farm finance. Advocates like George Peek, Hugh Johnson, Bernard Baruch, and Henry A. Wallace thought that an imbalance between low farm prices and high industrial prices meant the two grand sectors of the economy could not “trade” with each other. They argued that low farm prices prevented farmers from buying industry’s goods, and this threatened the general economy. These reformers gave birth to the “price parity” movement. Eventually, however, as these ideas of price parity or price balance were implemented in the Herbert Hoover and later Franklin Roosevelt administrations, through new agencies such as the Federal Farm Board, they would also be used to support banks and their mortgages. In practice, the administrators of price support programs understood that higher farm prices helped banks salvage their bad mortgage loans, and they used new types of federal credit to support prices. Eventually, such ideas about price balance became another addendum to the ideology of financial balance, and another means to support banks.

The idea of economic balance eventually spread beyond the farm to the cities. During the Great Depression, certain sectors of the economy, such as home construction and heavy industries like lumber that depended on home construction, were exceptionally sluggish. New advocates of balance, including economists such as Wesley Clair Mitchell and Winfield Riefler, and urban bankers already involved in mortgage debt, such as the “buildings and loan” banks, argued that only government support for urban mortgages and builders could bring these sectors back to equality with the rest of the economy and restore prosperity. Herbert Hoover in his administration and then Franklin Roosevelt in the New Deal brought the ideology of economic balance from the rural to the urban sphere and into the forefront of federal policy. Both administrations eventually made subsidizing urban mortgages their cynosure of recovery
and reform in the Great Depression. Both also spearheaded the creation of several new semi-
public mortgage corporations and agencies, such as the Federal Home Loan Banks in 1932 and
Fannie Mae in 1938. At the same time they pressed for several reforms of the Federal Reserve
and the national banking system, all directed at encouraging cheap home mortgages, and all of
which also further tied the government into the financial world. By Second World War, the
government and the financial world were more intertwined than ever.

While the first half of the 20th century is often titled “Age of Reform,” and innumerable
historians have traced the new programs, from minimum wage legislation to food inspection to
social security, that transformed American economic and political life in this era, the reforms to
insure economic balance through finance rival or perhaps surpass in scale and scope the more
well-known reforms of the era.3 By the start of World War II, the government was surrounded
by an array of semi-public financial institutions unimaginable just 30 years earlier. The
government now supported the Federal Reserve Banks, the Federal Land Banks, the
Intermediate Credit Banks, the Reconstruction Finance Corporation, the Federal Home Loan
Banks, the Home Owners Loan Corporation, the Federal Farm Mortgage Corporation, the
Federal Deposit Insurance Corporation, the Federal Housing Administration, the Federal Savings
and Loan Insurance Corporation, the Federal National Mortgage Association, as well as a host of
other programs, subsidies, and guarantees, all designed to cosset the banking world, and all of
which enticed banks to make long-term loans and mortgages.

These new financial institutions rivaled in number and size other, better known
innovations of the era such as the Federal Trade Commission or Social Security Administration.
In fact, by 1939, government corporations and credit agencies owned or guaranteed over $12
billion in financial assets, the majority of which involved financing farm and home mortgages.

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Yet the entire federal budget in that year, at the end of the New Deal, was only $9 billion. One reason that these institutions were not better known, both then and now, is that their spending, lending, and guarantees were “off-the-books,” and did not appear in most reports of the government budget. These new semi-public corporations, as well as agencies that guaranteed private debts, provided politicians a means to support certain industries and banks without having to directly appropriate money. Funds for the subsequent bail-outs of these institutions would be required only of future politicians.

The government birthed by the Age of Reform was thus largely a government that subsidized mortgage loans and supported finance through new corporations and agencies. By the end of this period, many reformers understood that even if they had not achieved a grand balance between farm and industry, or between heavy and light industries, they had made the federal government the greatest investment banker and investment partner in the world, most especially for anyone interested in loaning money on land.

Viewing the politics of the early 20th century through the lens of economic balance and finance should help reshape our understanding of that era in several ways. First, despite a mass of literature examining the ideologies behind the Progressive Era and the New Deal, there is almost no discussion of the ideology of “economic balance,” or how it competed with an older understanding of government, which was defined by opposition to “class legislation” or “special

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4 Henry Edmiston and Gunhild Anderson, “United States Government Corporations and Credit Agencies in 1940,” Federal Reserve Bulletin (Apr., 1941): 299; Office of Management and Budget, Fiscal Year 2013 Historical Tables (Washington: Government Printing Office, 2012), 21. Total amounts loaned or guaranteed on mortgages were over $5 billion, and a substantial portion of the rest of the assets involved indirect support to mortgages, such as the purchase of private bank shares and debt which supported mortgage loans.
privileges.” The dissertation will describe the battle between these two ideas and those who celebrated them. It will demonstrate why older politicians and intellectuals, especially in the Democratic Party, once embraced the idea that government should strive to ensure “equal protection of the law” to all economic groups. They thought the government should eschew all special privileges or class legislation, most particularly for the corrupt banking world. By contrast, new farmer, builder, and banker movements argued that in the inherently unjust world of contemporary capitalism, special privileges for some groups were necessary. They worried instead about an economy unbalanced and unfair in its marrow, and thought only government support, most especially for finance, could restore that balance.

Although the methods and language of economic balance sometimes changed, the basic idea remained consistent. The balancing ideal stated that the economy was best conceptualized as a collection of large sectors, such as farming and industry, or light and heavy industry, which

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traded with each other, and which needed to share equally in prosperity if the overall economy was going to continue to survive and thrive. The government’s duty was to ensure a rough equality between sectors, using financial supports and price manipulation, so each sector could purchase the products of others and ensure prosperity for all. Although the focus on abstract “sectors” or “classes” in the economy has fallen into desuetude, as opposed to a focus on aggregate measures of the economy, this dissertation shows that such an analysis was once a political and economic commonplace. This dissertation also shows the surprising continuity of this new balancing ideology throughout the era, and across different politicians and political parties, which were often assumed to be at loggerheads. Whether Democratic or Republican, whether during the Progressive Era or subsequent “normalcy” or the New Deal, the desire to balance different economic sectors became the sine qua non of American political economy in this era. Eventually, the old ideology of class legislation became a forgotten relic, while ideas of balance through finance permeated American government and reshaped it for the rest of the twentieth and into the twenty-first century. Even after the ideal of economic balance faded, the financial reforms inspired by it remained.

6 It should be noted that this dissertation does not attempt to divine the “correct” way to analyze the American economy or improve it in the early 20th century. It does not comment on the wisdom of any particular reforms or economic idea, such as the putative importance of economic balance in this period or the importance of mortgage defaults in causing the Great Depression. Although it occasionally uses statistics or anecdotes to describe the economic scene, and occasionally references contemporary works of economic history, its main goal is to portray how policymakers and reformers conceived of the economy, and how their reforms reshaped it.

7 Although it is beyond the realm of this dissertation, it should be pointed out that balance and sectoral analyses were still prominent in the minds of many economists and officials up until the 1970s. Wassily Leontief won the Noble Prize in Economics in 1973 for his 1941 book *The Structure of the American Economy*, which aimed to show how every industry was an important “input” or “output” of another, and which also showed how these varied inputs and outputs affected the overall economy. Alvin Hansen’s influential 1953 book, *A Guide to Keynes*, quoted John Maynard Keynes’s extensive concerns about particular industries or sectors becoming out of sync with others. Hansen said that these ideas “are worth commenting on here, since it is often said the Keynes always deals in aggregates and takes no cognizance of the condition in different industries.” Hansen, by contrast, along with many others, continued to take cognizance of particular industries and most especially the importance of housing in the broader economy. Wassily Leontief, *Structure of the American Economy, 1919-1929* (Cambridge, MA: Harvard
A few words are necessary describing how the ideologies of class legislation and balance related to real economic interests. Although the interests behind these ideas were substantial and important, this dissertation does not treat ideologies as mere scrim bags for such interests. The struggle between the ideals of class legislation and economic balance was one of the central ideological struggles of the era, and reshaped both government and the economy in ways no single interest group fully understood or anticipated. After all, these interest groups had to convince many politicians and voters, who had no connection to farming or banking or heavy industry, that financial support was an important and necessary policy. At the same time, many intellectuals, economists, and, those most nebulous of creatures, reformers, embraced these ideas out of sincere beliefs, not mere self-interest, and were often the strongest promoters of them. The implications of these ideas could not always be foreseen by interest groups.

The dissertation does, of course, also hope to elucidate the interests that touted these ideas, and more often specific reforms, especially in the banking, farming, and building worlds.8

8 Many historians have placed the mortgage reforms described in this dissertation into a history of either agricultural policy or of urban and suburban development. They have thus ignored the essential financial nature of these reforms, and how agricultural and urban financial policies shared similar motivations and methods over these decades. The connections between the earlier Federal Land Banks and later federal housing programs have not been discussed. It should also be noted that agricultural ideologies of balance were distinct from ideologies that claimed agriculture was always and everywhere the foundation of prosperity, an ideology known as “agricultural fundamentalism,” which some of the proponents of balance explicitly opposed. For agricultural history, see David E. Hamilton, From New Day to New Deal: American Farm Policy From Hoover to Roosevelt, 1928-1933 (Chapel Hill: University of North Carolina Press, 1991); Adam Sheingate, The Rise of the Agricultural Welfare State: Institutions and Interest Group Power in the United States, France, and Japan (Princeton: Princeton University Press, 2001). For “agricultural fundamentalism, see Joseph Davis, “Agricultural Fundamentalism,” in On Agricultural Policy (Stanford: Food Research Institute, 1939), 24-43; Morton and Lucia White, The Intellectual Versus the City: From Thomas Jefferson to Frank Lloyd Wright (Cambridge, MA: Harvard University Press, 1962). For urban and suburban interpretations of these policies, see Kenneth T Jackson, Crabgrass Frontier: The Suburbanization of the United States (New York: Oxford University Press, 1985): Marc A. Weiss, The Rise of the Community Builders: The American Real Estate Industry and Urban Land Use Planning (New York: Columbia University Press, 1987); David M. P. Freund, Colored Property: State Policy and White Racial Politics in Suburban America (Chicago: University of Chicago Press, 2007). For argument against the “suburban” motivation of federal housing policy, see Judge Glock, “How the Federal Housing
In particular, it hopes to show how often politicians and officials in government did not just respond to interest groups, but were continuing and self-interested members of them. The dissertation shows how often investors and bankers in both Congress and in the new semi-public corporations used public agencies to pursue the ends of their group and to reap their own rewards, and how they used what would later be known as the “revolving door” to continue reaping them after leaving office. It also shows how they used government funds, government agencies, and government publicity to shape the debates around these ideas. More than occasional and aberrational “corruption,” the increasing intertwining of certain producers and politicians, and especially of the banking world and government officialdom, was both an important impetus to change in this period and a ramification of it. 9

The story of how farmers, bankers, reformers, and politicians reshaped both the state and finance should also challenge the now-common view that most economic reforms of the era were aimed at increasing the purchasing power of consumers. This dissertation demonstrates that Progressive and New Deal policies were aimed more at stimulating certain producers and industries than consumers. 10 The dissertation shows, for instance, that from the 1920s through

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9 The rise of explicit industry lobbying groups in this period, for farmers, builders, bankers, and others, has been the subject of some recent research. The self-interested bureaucrats described here, however, are closer to what Daniel Carpenter has called “bureaucratic entrepreneurs,” although they were just as often entrepreneurs who happened to be bureaucrats, or bankers who happened to be politicians. The importance of these actors, not as an accidental “corrupters” of government, but as an essential part of reform politics and policy this period, have not been investigated to my knowledge. For interest group politics, see Elisabeth Clemens, The People’s Lobby: Organization Innovation and the Rise of Interest Group Politics in the United States, 1890-1925 (Chicago: University of Chicago Press, 1997); Theodore Lowi, The End of Liberalism (New York: W.W. Norton & Company, 1969). For bureaucratic entrepreneurs, see Daniel P. Carpenter, The Forging of Bureaucratic Autonomy: Reputations, Networks, and Policy Innovation in Executive Agencies, 1862-1928. (Princeton: Princeton University Press, 2001).

the 1930s many politicians hoped to charge consumers higher prices for food even though they understood this lowered consumer income. It also demonstrates how both Herbert Hoover’s administration and the New Deal aimed to lower both wages and financing costs in order to encourage more profitable construction. The consistent goal of the policies was increasing profits in certain sectors to encourage more investment in them. Contrary to those who argue that a modern mass-consumption “Keynesianism,” premised on deficit spending, came to define American economics, this dissertation shows that economic theorists of the time, including John Maynard Keynes himself, thought achieving prosperity meant ensuring profitability to certain backwards industries, most especially through cheap finance. When consumers and workers came in conflict with financiers and businesses in this period, it was the latter that typically triumphed, not as part of a conservative “reaction,” but due to original and powerful currents of “reform” rooted in new ideals.

This dissertation should also help explain how the expansion of government financial guarantees restructured the relationship between the American state and banking, and thus remade American capitalism. Most historians of American “state-building” have ignored how

the government expanded its influence through expanding its financial supports in this period, while many banking historians have slighted the importance of ever-increasing government support in the growth and reshaping of this industry. In the history of capitalism literature, the

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13 A few histories have described how the government encouraged the rise of particular financial industries, such as credit unions and buildings and loans, although these did not study the industries as part of a wider financial and political transformation. In recent years there has been an increased focus on the “too big to fail” phenomena and bailouts in banking history, but this dissertation hopes to explain why the government worked to save many types and sizes of financial institutions, not just those dubbed “TBTF” or “systematically important,” and how these supports were often tied to the expansion of mortgage debt. Other histories of banking which were important to this work focus on the reforms and regulation of financial enterprises of this period, or the transformation of mortgages. This work also draws on the massive literature on the Federal Reserve, which, however, tends to ignore the simultaneous debate about mortgage debt surrounding it. For particular industries, see J. Carroll Moody and Gilbert C. Fite’s The Credit Union Movement: Origins and Development, 1850-1970 (Lincoln, Neb.: University of Nebraska Press, 1971); David L. Mason, From Building and Loans to Bail-Outs: A History of the American Savings and Loan Industry, 1831-1995 (Cambridge: Cambridge University Press, 2004); Sharon Ann Murphy, Investing In Life: Insurance in Antebellum America (Baltimore: John Hopkins University Press, 2010). For Too-Big-to-Fail analyses, Benton E. Gup, ed., Too Big to Fail: Policies and Practices in Government Bailouts (Westport, Conn.: Praeger, 2004); Vern McKinley, Financing Failure: A Century of Bailouts (Oakland, CA: Independent Institute, 2011); John D. Turner, Banking in Crisis: The Rise and Fall of British Banking Stability, 1800 to the Present (Cambridge: Cambridge University Press, 2014). For banking
political encouragement of debt is often seen as a way to entice more consumer spending, in the mold of mass-consumption “Keynesianism,” as opposed to a way to both reshape banking groups and producers. This dissertation will show how the government used new supports to expand its influence, and to push banks away from their older customers and loans and direct them towards new types of lending.

Most importantly, this dissertation shows that before new reforms enticed banks to lend on mortgages, bankers lent money almost exclusively to merchants or manufacturers, and


14 Many recent “histories of capitalism” have focused on finance, but they have not focused on the transformation of the banking industry itself, or on the attempts to use new government powers to simultaneously bailout banks and support certain industries. They have also tended to focus on the expansion of consumer debt as opposed to debt extended to producers. If these histories describe mortgage loans, they categorize them as “consumer” loans, though most economists of the period considered them investment loans, which created a durable good or “fixed capital” asset. For recent histories of financial capitalism, see Louis Hyman, Debtor Nation: The History of America in Red Ink (Princeton: Princeton University Press, 2011); Julia Ott, When Wall Street Met Main Street: The Quest for An Investors Democracy (Cambridge, MA: Harvard University Press, 2011); Scott Reynolds Nelson, A Nation of Deadbeats: An Uncommon History of America’s Financial Disasters (New York: Alfred A. Knopf, 2012); Jonathan Levy, Freaks of Fortune: The Emerging World of Capitalism and Risk in America (Cambridge, MA: Harvard University Press, 2014).
usually for terms of no more than a few weeks. Ideas about the necessity for short-term loans became embodied in banking laws and regulations, and became known as the “real bills doctrine,” after the short-term “real merchants’ bills” on which banks lent. Mortgages and other long-term loans were illegal for most banks and discouraged by most bankers.

The new believers in economic balance through finance, by contrast, aimed to change the banking industry and to push banks to make ever longer-term loans to both the agricultural and housing industries. They forced the government to support months-long bank loans for the planting and harvesting of crops, years-long loans on livestock and home repairs, and, most especially, they pushed the government to support decades-long mortgages for farmers and builders. These reformers understood that only by covering lenders with the guarantees of the government could banks and investors feel confident making and trading long-term and inscrutable mortgage debts nationally as part of a new mortgage market. To use the modern term, the government hoped to use its guarantees to make long-term loans and mortgages “liquid,” or always capable of being sold or transformed into cash. In this new conception, if mortgages could be made as easily tradable and liquid as cash, those parts of the economy that depended on land could be brought into balance with other parts that did not. Thanks to

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15 A brief note on terminology is warranted. Although this dissertation hopes to examine the history of banking and finance, and hopes to be of some service to those interested in that history, it also hopes to communicate with a wider audience about a variety of topics, including in political and intellectual history. Unfortunately, the use of some financial terms uncommon in these other areas is inevitable. I will try in the text to describe these terms as they arise, and what they meant to contemporaries. A nervous reader can perhaps be comforted that the precise meaning of terms such as “liquidity” and “capital” can bedevil even experts in the field, and that the reader only needs to understand how they work in context of this dissertation. As far as some institutional terminology, I have tried to keep it consistent throughout. For instance, I will use terms such as “Governor of the Federal Reserve Board” throughout, though in later years this position became known as the “Chair of the Board of Governors of the Federal Reserve System.”
reformers’ efforts, banking was transformed to make once-excluded mortgages the centerpiece of the banking world.\textsuperscript{16}

Some of the new government guarantees to banks and investors in this era were explicit, some were implicit (as in the creation of the first implicitly-guaranteed “Government Sponsored Enterprises,” such as the Federal Land Banks), and some were merely a promise to keep up a market in mortgages or other debts if trading in them slowed or halted. Sometimes the government bought bad banking debts, sometimes it gave banks loans or deposits in troubled times, sometimes it gave them tax-exemptions, and sometimes it purchased their stock. By the end of the period, almost every potential financial loan or investment had a potential home in one of the era’s new semi-public corporations, and almost every type of financial institution received some type of direct or indirect government assistance, most especially when lending on mortgages.

All of these state supports helped expand the power of banking and finance in the economy and in government. This dissertation shows that the supposed “financialization” of the economy, which putatively emerged in the 1970s and 1980s, actually began in the first part of the 20\textsuperscript{th} century, as part of a general ideology of balancing real economic sectors. In fact, the earnings of the banking and finance industry grew throughout this period and attained a temporary peak in the New Deal, at about 6\% of total Gross Domestic Product, a level the industry would not reach again until the 1980s. At the same time, an increasing proportion of those profits came from the ever growing number of mortgages. While in 1890 the nation’s per capita mortgage debt was $68, by the mid-1950s it had increased almost ten times, to $658. In the beginning of this period the majority of that mortgage debt was loaned and owned by local

\textsuperscript{16} Today the majority of so-called commercial bank assets are actually mortgages, which typically carry numerous government guarantees and subsidies originating in the first half of the century. Alex J. Pollack, “‘Commercial’ Bank is a misnomer. ‘Real Estate’ Bank is More Apt,” \textit{American Banker}, August 8, 2016.
individuals, who lent to neighbors and friends, yet by the postwar period it was almost entirely in the hands of rapidly expanding banks. The simultaneous expansion of the American state and American finance was one of the defining aspects of politics and reform in the first half of the twentieth century, and arguably the one with the most long-lasting consequences.

A brief illustration will help demonstrate the transformation. In 1910, in the midst of a heated national debate about reforming American banking, an economics professor at Northwestern University, Murray Wildman, wrote an article ridiculing a then lonely proposal to lend government money to failing banks. “There is no more reason why the members of the banking profession should stand before the public treasury hat in hand than that any other group of business men should do so.” He noted that the Populist Party had recently begged the government to fund mortgage loans to farmers, and said this idea had been widely derided by most Americans. Wildman asked his readers if it would “be any more preposterous,” for the government “to have a special fund” to support tottering banks, than to give them a special fund to loan on questionable mortgages? Yet, in a little over twenty years’ time, the United States government would be transformed to loan on or guarantee billions of dollars of American mortgages, and at the same time, it would use these loans and guarantees to bail-out banks and investors making those mortgages. Thus two propositions, about government assistance for mortgages and for banks, which in 1910 were regarded as equally ludicrous, would soon come to define the government’s relationship to American finance.

17 Total bank assets also expanded in this period. The ratio of commercial bank assets to Gross Domestic Product rose from 30% in 1900 to around 50% in the New Deal 1930s, and then expanded faster after World War II under the impetus of government guarantees, even if the total income generated by banks did not grow as rapidly. The assets of non-commercial mortgage banks, such as “building and loans,” which focused on mortgages, expanded over 3700% from 1900 to 1940. Thomas Phillippon, “Has the U.S. Finance Industry Become Less Efficient? On the Theory and Measurement of Financial Intermediation,” American Economic Review 105, no. 4 (Apr., 2015): 1416-1418; Richard Grossman, Unsettled Account: The Evolution of Banking in the Industrialized World Since 1800 (Princeton University Press, 2010), 25; Louis Winnick, “The Burden of Residential Mortgage Debt,” Journal of Finance 11, no. 2 (May 1956): 166.

The dissertation’s first chapter traces the roots of the land bank idea that came to inspire American farmers, reformers, and bankers. It describes how the rise of merchant-focused banking, “commercial banking” as it was called, provoked frustration among landholders and farmers. These concerns sparked a centuries-long transatlantic discussion on how to create a new type of bank, a “land bank,” based on farmers’ most important piece of wealth. The chapter describes the birth of the land bank idea in the mystical group known as the Spiritual Brotherhood, as well as three major failed attempts to implement it: first, purely government-owned land banks, second, purely private land banks, and third, cooperative land banks. Finally, it demonstrates how reformers in the early twentieth century settled on the possibilities of a new type of semi-public land bank, adopted from European examples, which seemed to combine the best parts of previous ideas. The new semi-public land bank idea included cooperative and for-profit features, but also new government guarantees and supports to investors. By the early 1910s these new semi-public banks became the most popular international solution to solving farmer’s financial problems. This chapter places the land bank idea in a long-tradition of transatlantic reform conversations, and demonstrates, in a way not discussed in the historiography of banking, how normal banking and mortgage banking fundamentally shaped each other as ideas about both of these systems evolved.

The second chapter explains how a new ideology of economic balance debates during the Woodrow Wilson administration, and how that ideology led to the creation of the new forms of federal support for finance. It will describe the battle between Wilson, who held to the old Democratic Party ideals of “equal protection of the laws” and opposition to “class legislation,” and new banker and farmer groups, such as the Farmers Union, who demanded special government financial support. The pleas of such groups had a profound though
unacknowledged impact on the shape of the American modern monetary system through the Federal Reserve Act, which granted several concessions to farmers and their debts. These pleas also led to the creation of the Federal Land Banks in 1916 as the first of what would later be known as a “Government Sponsored Enterprises,” nominally private financial companies that relied on the implicit-backing of the federal government. The chapter helps reimagine our understanding of the Progressive movement in the Wilson years, by showing how it shifted to a focus on financial reform and the balance of different economic sectors.

The third chapter shows how bankers and investors pushed the Federal Land Banks in their first decade to provide support for troubled investors and tottering banks, and how they became ever more divorced from the interests of farmers. The banks in this era became politicized and increasingly devoted to salvaging the banking world, as part of a general increased federal focus on finance. The problems in the Land Banks, however, precipitated their first crisis and endangered their existence by the mid-1920s. While previous historians have pointed to changes between the “reformist” Wilson years and the supposed “normalcy” of his Republican successors, this chapter shows the continuity of federal support for rural finance through both parties and many administrations, as well as its gradual expansion.

The fourth chapter explains how declining farm prices in the 1920s led to a new type of balancing ideology, known as the price parity movement, and caused the government to use new forms of credit to support both farm prices and farm debts. The chapter shows how the government enlisted both the new price-based Federal Farm Board, which lent federal money to help raise crop prices, and the older Land Banks to support a version of this parity ideology, and also support banks whose problems were exacerbated by the fall in prices. It describes the roots of the Land Banks’ collapse and their bailout, Congress’s first official bailout of a supposedly private financial institution. It elaborates the Land Banks’ connection to the falling prices and
the burgeoning farm foreclosure crisis that threatened bankers and creditors as much as farmers. This chapter hopes to supplement the meager literature on the price parity movement, and demonstrate how the movement was tied into wider hopes for agricultural, industrial, and financial balance.

Chapter five describes how ideas of economic balance through finance migrated from their origin in the agricultural sector to the industrial sector, and began to focus on the problems of illiquid mortgages. It shows how President Herbert Hoover and his economic advisors formulated a new theory in which the cost of urban mortgages determined the cycles of boom and bust in the economy. Hoover’s most important financial reforms in his presidency therefore aimed at lowering urban mortgage costs. These involved using the Federal Reserve and other institutions to support banks with bad mortgage debts, and also creating the nation’s second implicitly backed mortgage corporation, the Federal Home Loan Banks, based on the recently bailed-out Land Banks. This chapter reconceptualizes the American government’s and the Federal Reserve’s responses to the Great Depression. Unlike previous histories of this crucial period, it shows that the government hoped making urban mortgages cheap, liquid, and safe would ensure economic recovery.

Turning to the New Deal, chapter six describes how the Franklin Roosevelt administration continued the policies of the Progressive reformers and earlier Republican administrations. It first focused creating a balance between the agricultural and industrial economies, using both price and financial supports. The chapter shows how economists and advisors around Roosevelt perceived the collapse of the financial system during the Hoover administration as result of the failure of rural-urban balance. The Roosevelt administration thus extended some of the agricultural price and financial supports created by Hoover, and vastly expanded the use of the revived Federal Land Banks. Yet Roosevelt too ended frustrated by the
inability to rebalance the economy, even while his administration focused on using their new tools to support often insolvent banking institutions. While previous histories of the New Deal have slighted the importance of farming, and especially farm finance, in its original vision, this chapter demonstrates their centrality.

Chapter seven describes how advisors in the Roosevelt administration, including some economists carried over from Herbert Hoover, returned again to the issue of balance in the industrial sector, especially in regards to home construction. This renewed focus on balancing home production with other resurgent industries led to the passage of the 1934 National Housing Act. This act created new means to protect banks from mortgage losses, and also laid the foundations for two semi-public institutions, the Federal Savings and Loan Insurance Corporation and Fannie Mae, which were also understood to rely on implicit federal guarantees. Unlike histories which claim the National Housing Act largely aimed at encouraging suburban development, this chapter highlights the financial motives behind the act, and shows its importance in the New Deal’s new ideology of recovery, as well as its expansion of bailouts for endangered banks.

Chapter eight describes how the ideology behind the National Housing Act came to shape the entire Roosevelt administration, and especially Roosevelt’s reaction to the famous 1937 “Roosevelt recession.” In this period, Roosevelt and his advisors pushed the Federal Reserve System to fully support banks stuck with unsalable mortgages, and drastically extended the ambit of the National Housing Act and its support of urban mortgages. By the beginning of World War II, Roosevelt had helped to transform American banking to make mortgages a permanent and significant part of it, even while he surrounded the banking system with more government guarantees. Although this financial revolution in the latter years of the New Deal
has not been previously discussed, this chapter argues it remains perhaps the most significant legacy of that era.

The conclusion explores how institutions originally designed to balance disparate sectors carried on into the postwar period, and how they shaped the nature of our modern mortgage-based bailouts. It shows that although the farmer, building, and banker movements for balance did not fundamentally rebalance the economy in the early 20th century, they nevertheless birthed the financial industry of today, an industry buoyed by federal promises, most especially for mortgage debt. It shows how, in a myriad of ways, the United States is still dealing with the consequences of the earlier quest for balance through finance today.
CHAPTER I:

MAKING THE LAND LIQUID: THE ROOTS OF LAND BANKING

The Air Bank (“Bankers in Air” its notes unpropitiously said) opened its doors in 1769 in the Scottish parish of the same name.¹ Its opening was celebrated by its patron, the Duke of Buccleuch, along with some of his fellow landed nobles, who flaunted their altruistic motives and dreams of development for the Scottish countryside. They especially celebrated the cheap mortgage loans the bank would give to farmers. In the following three years, the bank and its book of loans grew rapidly, and its banknotes soon made up the majority of the currency of the country. Yet in 1772 a run by these note-holders led to the bank’s collapse, which in turn caused an unprecedented financial panic in London. The author James Boswell wrote that “War, famine, and pestilence, used formerly to fill up the number of the general calamities of mankind,” but now the financial panic added something new. Boswell argued that “All Scotland has been shaken by a kind of commercial earthquake, while, like a company connected by an electrical wire, the people in every corner of the country have almost instantaneously received the same shock.”² After the panic, banking in general fell into disrepute.³

One man who witnessed this collapse divined a moral in it, a moral he thought would allow people to distinguish between good banks and bad banks. The absent-minded bachelor Adam Smith had once sailed to Europe as a tutor to the young Duke of Buccleuch. While in France he met some of the continent’s earliest economists, the Physiocrats, who believed that land was the source of all wealth, and who spurred Smith’s interest in economic philosophy. After his return, and the failure of his benefactor’s bank, however, Smith attacked the very landed conception on which the bank was founded, and advised the Duke on how to unwind it. Smith’s friend David Hume knew Smith was working on a new book on economics at this time, and he wrote Smith asking if “these events any-wise affect your theory? Or will it occasion the revisal of any chapters?” It would.4

In An Inquiry into the Nature and Causes of the Wealth of Nations, written while Smith was on the Duke’s annuity, Smith conceded that the Air Bank’s “design was generous” and that it was instituted for “public spirited purposes.” Yet he thought it had a major defect. The bank’s loans were based on “improvements [for] which the returns are the most slow and distant, such as the improvements of land. To promote such improvements was even said to be the chief of the public spirited purposes for which it was instituted.”5 Smith worried that such slow loans on land were inappropriate for a bank. He made a stark distinction between what he called “real bills,” short-term loans given by banks to commercial traders, which were backed by real physical merchandise, and which could be quickly recovered if the borrower failed to pay, and “slow” loans, such as loans on land, also known as mortgages, which could not be collected easily and which lasted for long periods. Smith said slow loans that would “not be repaid till after a period of several years, ought not to be borrowed of a bank, but ought to be borrowed

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upon bond or mortgage, of such private people as propose to live upon the interest of money.”

In other words, he thought banks should stay away from such landed loans entirely, and leave mortgages to wealthy individuals.⁶

Smith said that banks could not support mortgages because of the way in which they were funded. Most of a bank’s funds came from gold and silver coins only temporarily left at the bank by customers. In exchange for these coins, bank customers received notes from the bank, which they, or anyone else who acquired the notes, could bring back to the bank counter at any time. In a panic or another calamity, all of these note-holders could flood the bank with demands for coins that were, as always in banking, being lent out to others. Smith said that if a bank loans were on short-term “real bills,” the loaned money would come back before the flood of notes had reached full tide, and the bank would be safe. If those loans were on long-term mortgages or other “slow” debts, the bank would be unable to immediately satisfy its note-holders, and would go underwater.⁷

Although Smith did not use the modern term “liquidity,” he offered a liquid metaphor: “The coffers of the bank, so far as its dealings are confined to such customers, resemble a water pond, from which, though a stream is continually running out, yet another is continually running in, fully equal to that which runs out.”⁸ The goal, in Smith’s conception, was to keep banks’ notes and loans both flowing like water, to make both the money emitted by the banks, since such bank notes acted like regular money, and the loans of the bank, “liquid,” or capable of being quickly transformed into cold, hard cash.

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⁸ Ibid, 334, 331. Smith did not demand legislation or regulation restricting banks’ investments to real bills, but eventually his theories were enacted into laws both at home and abroad. David Laidler, “Adam Smith as a Monetary Economist,” *Canadian Journal of Economics* 14, no. 2 (May, 1981): 185-200.
Nothing was less liquid, both financially and metaphysically, than land.⁹ William Playfair, the famous Scottish polymath, elaborated on Smith’s observations in this regard. He wrote that “it is one essential thing in every Bank that the sums advanced by it should be for temporary purposes. This is one of the principals laid down by Mr. Smith, and, a proof thereof, is that the bank of A[i]r in Scotland, which was a Land Bank, was ruined principally by lending to men of landed property...The agriculture of the country was benefited, but the borrowers were unable to pay.” Playfair argued along with Smith that so long as banks confined their loans to “real bills,” they would keep themselves, and the whole interconnected banking system, liquid and stable.¹⁰ In time, this theory would be known as the “real bills doctrine,” and would define the practice, laws, and regulations of much of modern banking.¹¹ Eventually, it became a ubiquitous refrain among bankers that the very “first duty of banking” was to “distinguish between a mortgage and a [real] bill,” and to loan only on the latter.¹² Yet where did this leave those whose wealth was tied up in their land, and who now had no way to transform that land into money?

Although the idea of a “land bank” is often relegated in history books to the status of a historical oddity, touted by eccentrics, with little lasting consequence, the idea was to exert a powerful pull over the Western imagination for centuries. In its earliest years, the land bank seemed to promise a plausible alternative to the “real bills” banks that became the norm of

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⁹ In another metaphysical metaphor, and in what was perhaps in an allusion to the bank’s name, Smith said that a bank’s credit was always “suspended upon the Daedelian wings of paper money” and was thus always in danger of crashing to Earth. Goodspeed, “Legislating Instability,” 6.

¹⁰ Playfair was most famous for inventing the bar and pie graphs. William Playfair, “A Letter to Sir William Pulteney, Bart, in Consequence of His Proposal for Establishing a New Bank, with Some Remarks on His Quotations from Adam Smith,” (London: Crosby, 1797), 16-17.

¹¹ The term “real bills doctrine,” now ubiquitous in the literature, was coined by the 20th century economics Professor Lloyd Mints in substitute for the once common phrase, “the commercial loan theory of credit,” as he said, “largely because it is much shorter.” Lloyd Mints, A History of Banking Theory in Great Britain and the United States (Chicago: University of Chicago Press, 1945), 9, 207.

Western finance. Later, the idea of the land bank offered a compelling addition for those excluded from such finance. Although historians have occasionally noted the idea’s appearance in certain periods, they have ignored how and why the idea became a recurring dream in agricultural and reformist circles for centuries. In fact, as Adam Smith’s story shows, regular banking and land banking evolved in tandem and influenced each other throughout their respective histories. Their combined evolution was the result of an ongoing transatlantic conversation on the nature of banking and the nature of mortgages.\textsuperscript{13}

The consistent motivation for land bank believers was the seeming inequity between an urban world awash in finance and a rural world supposedly excluded from it. The land bank was then the landholders’ attempt to achieve a financial equality with the rest of a growing economy. Yet the problems Smith identified continued to bedevil land bank promoters. There remained the insoluble dilemma of making long-term loans on hunks of immovable land, when banks could lose their deposits at a moment’s notice. Fitting land and mortgages into banks would forever be a circle difficult, maybe impossible, to square. Promoters of land banking therefore made three separate attempts to find the solution, each of which ran aground. The first efforts to make land banks mere extensions of the government led to rampant inflation; later attempts to allow private commercial banks to invest small portions of their loans in land led to panics and collapses; finally attempts to allow cooperative groups to loan on land

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encountered insuperable dilemmas in trying to expand. By the early 20th century, these failures meant modern banking became singularly defined by its opposition to mortgage loans.

The seeming solution to the problem of illiquid land, found in both Europe and America, after years of effort, was a new type of quasi-public, quasi-private corporation, that would rely on the support of the government, but would be owned and largely controlled by private shareholders or groups. This solution seemed to give all the stability of government guarantees and oversight, while allowing private groups to retain control, and, of course, profits. This chapter examines how the long-time goal of liquid land was tied into the dream of financial equality for agriculture, and how that dream led to the birth of a new type of semi-public bank, one which would reshape both banking and government in the twentieth-century United States.

**Government Land Banks in the Age of Revolutions**

Land had long been the focus of English government and law. While many of the European legal systems dealt with a myriad of distinct topics, from contracts to marriages, the so-called common law in England reflected the obsessions of the feudal barons who created and used it, and foremost among those was the possession of land. As one historian said, in England, “the law of the land was principally land law.”\(^{14}\) Most english barons tried to forbid the hasty disposal of land, and thus the dissipation of their power and wealth, and their common law placed restrictions on selling, trading, or lending on it.\(^{15}\)

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More entrepreneurial landowners, by contrast, struggled to dodge these limitations, along with laws which prohibited lending and borrowing money for interest, known as usury. To these ends, some clever landlords and lawyers in the 14th century invented the mortgage. In this new type of loan, the land remained nominally in the hands of the lender, while in fact the borrower owned and used the land at his or her pleasure. The lender pretended to receive a “rent” from the borrower instead of the forbidden interest. The actual title to the land only transferred on the final day when the debt was paid off, the contract “died,” and the land was supposedly conveyed for the first time. The death of the debt gave the instrument its name under the old Law French, “mortgage,” or the “dead pledge.” The legal fictions surrounding the mortgage created no end of complications. The English jurist Frederic Maitland said that the very idea of the mortgage resulted from one long and conscious suppression of the truth, and forced lenders and borrowers to pretend things were “other than really they are.”

This imperfect instrument, however, became the most effective way for enterprising lords and gentry to transfer and lend on land, largely back and forth to each other.

During what became known as the Financial Revolution in the 17th century, however, new classes began to displace the landed aristocracy at the center of English life and lending. It was during this period that goldsmiths first offered their customers, frightened by both royal and revolutionary confiscations, a safe place to deposit their gold and silver coins. In return their customers got notes, or IOUs, which promised to return the coins whenever their customers asked. The goldsmiths soon realized that they could lend out most of these deposited coins,

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16 George E. Osborne, *Handbook on the Law of Mortgages, 2nd Edition* (St. Paul, Minn.: West Publishing, 1970), 10, 9. Since the mortgage was technically the collateral for the loan, not the loan itself, borrowers on mortgages are known as mortgagors, and lenders as mortgagees, the reverse of the typical legal suffixes (for instance, lender and lendee).

since their customers did not all desire them back at the same time. They kept just a fraction of those coins at their goldsmith shop in reserve for customers’ requests. Their notes even began to circulate like the coins themselves.\textsuperscript{18} The goldsmiths did, however, require backing, also known as collateral or security, for many of their loans, and in this period they lent on everything from silver plates to furniture to merchants’ goods. One contemporary report noted that “severall persons being Goldsmiths and others by taking or borrowing great summes of money and lending out the same for extraordinary lucre and profitts have gained and acquired themselves the Reputacon and Name of Bankers.”\textsuperscript{19} The modern banker was born.

Some intellectuals concerned with the position of agriculture in this new world hoped to make land and mortgages a substantial, if not fundamental, part of the new banking system. Foremost among those was a mystical club of agricultural boosters known as the Spiritual Brotherhood. This inchoate clique, centered around the Dutch emigrant Samuel Hartlib, combined the new ideals of science with alchemical dreams of spiritual and physical improvement. They were radical democrats, parliamentarians, and free-thinkers, and they, like the goldsmiths, flourished during the English Civil War. As one historian noted, “Their primary focus...was to find ways to enhance the productivity of plant and animal husbandry.” Most notably, they were “advocates for the improvement of all available land.”\textsuperscript{20}

Tying the new world of banking to the old world of land was an essential part of their vision, and led to their invention of the “land bank” idea. In 1650, just one year after the execution of the English King for high treason, a young investor and Brotherhood member named William Potter wrote a lengthy pamphlet called “The Key of Wealth.” Potter noted that


\textsuperscript{19} Henry Roseveare, \textit{Financial Revolution}, 17.

\textsuperscript{20} Wennerlind, \textit{Casualties of Credit}, 60.
in times of strife rich men kept money “in their own possession, and by consequence, obstructing the revolution thereof, do thereby hinder Trade.”

Revolution in thought and deed was pervasive at the time, to the point where even revolution in money was a good thing, and Potter was of a piece with it. Potter proposed a parable, describing a hitherto undiscovered “Myne of Gold in this Land.” The mine was the land itself, not transformed into money and thus not sufficiently used, no matter the actual labor on it. Potter suggested that if a group of people could mortgage their land together, and together guarantee their own debts, they could create notes based on this durable, double security, and these notes could circulate throughout the country.

The “key” of Potter’s language was alchemical language for the Philosopher’s Stone, which could transform base metal into gold. In this new alchemy, the land bank could transform old land into fresh new currency. Soon Sir Cheney Culpeper, a wealthy landowner and member of Hartlib’s circle, transformed Potter’s vague alchemic statements into the more concrete “Bank of Lands.” Culpeper said that basing a new currency on land would mean “Land would rise much in price,” while the bank would “furnish the Landed man with Bank-credit.”

The pamphlets by the alchemic Brotherhood found fertile soil, but their hope that land banks would separate money-making from the grasp of what the brothers called “covetous princes” failed in practice. Counter to the Brotherhood’s ideals, all of the earliest land banks would be formed as addendums to governments, to support and extend the power of monarchs and states. Its first iteration came in the wake of the Glorious Revolution of 1688, after the triumphant Whig Party composed of merchants and financiers encouraged King William to

23 Wennerlind, Casualties of Credit, 68.
24 Cheney Culpeper, An Essay Upon Master W. Potters Designe: Concerning a Bank of Lands to Be Erected Throughout this Common-Wealth (London, 1653); Wennerlind, Casualties of Credit, 67-75.
25 As one historian argued, in their proposed system “the Hartlibians completely removed the monarch and the state from any responsibility for managing the monetary system.” Wennerlind, Casualties of Credit, 78.
charter the Bank of England, one of the world’s first “central banks,” a bank to lend to other banks. This Whig financial ascendency and its new bank attracted the attention of gimlet-eyed landholders and Tories, who warmed to the revolutionary idea of a land bank.  

One aristocratic Tory bemoaned that “the present Royal Bank refuses to supply Mortgagers,” and the already indebted “Landed-Men” could not get new loans. Therefore, “The Merciless Money’d Man takes the Advantage of him, seizeth his Estate, imprisoneth his Person.”

A few landed Tories proposed to the King a new government land bank, which they argued could also provide the monarchy with loans. Desperate for more money, King William chartered the bank and subscribed the majority of the original investment. But the opposition of the Bank of England and those same “Money’d Men” meant that bank could not raise sufficient funds, and it folded before it began. The land bank failure caused many of the Tories, later transformed into the group known as the Country Party, to cement their opposition to the new Whig regime. Opposition leaders such as Lord Bolingbroke continued to lament the ties between the new moneyed men far from the land and the corrupt government, and urged an economy whose credit was based more on land than on gold or government debt. These Country Party men and their criticisms of corrupt and monied government became a significant

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26 Ibid, 114. Landholders were also subject to a new land tax, one of the many financial innovations of William’s reign which irked the landholders and aristocracy.

27 Hugh Chamberlen, A Proposal for Erecting a General Bank, which May be fitly called the Land Bank of England (London: E. Whitlock, 1695).


29 Wennerlind, Casualties of Credit, 120-121. The pattern of a new central commercial bank followed by a new land bank would be repeated centuries later in the United States.

inspiration behind the American Revolution, but their impact on incipient land banks in the American colonies came first.31

The American colonies were land-rich and cash-poor, and to the early farmers of the American wilderness, the land bank idea exerted a pull as nowhere else on Earth. As early as the 1650s, the Massachusetts Puritan John Winthrop's library held Potter's “Key of Wealth.” Winthrop also began a correspondence with Samuel Hartlib on the subject. In the 1660s the Reverend John Woodbrige, who had talked to Potter before leaving England, proposed for Massachusetts a “Fund of Land...in the nature of a Money-Bank.”32 Eventually, a series of land banks were formed in the new colonies. These supplied almost all of the paper money of the young nation, and they were almost exclusively extensions of the colonial governments. South Carolina established the first one in 1712, followed by Massachusetts in 1714 (after a particularly heated battle), Rhode Island in 1715, New Hampshire in 1717, and Pennsylvania and New Jersey both in 1723.33 New Jersey’s bank was typical. The colonial government set up a public loan office in each county, which promised loans of up to 100 pounds of new currency to anyone who mortgaged their land to the government, for up to half the land’s value. The notes the borrowers received in exchange would be legal tender everywhere in the colony.34 In Pennsylvania a young Benjamin Franklin engaged in one of his first political campaigns for the

32 Margaret Newell, Dependency to Independence, 124. A version of this land bank was struck down by the crown’s Governor General Andros in 1688, just before King William came to England and tried establish his own.
state land bank, publishing “A Modest Enquiry into the Nature and Necessity of a Paper
Currency.” He later won a state contract to print the new land bank money, which he called
“coined land.”

Although some of these public land banks were conservative, many colonies used them
to print excessive notes and thus caused rampant inflation. The inflation in turn caused new
assaults on the system by the British government, which worried that the cheapened notes
robbed British creditors, banks, and merchants. Beginning in 1740, the American land banks
would collapse under the British campaign against them. John Adams later said the British
suppression of land banking was one of the first causes of the colonists’ break with England,
comparable to the effect of the Stamp Act. Samuel Adams, whose father was one of the most
important advocates for the Land Bank, and who was ruined by its demise, would swear revenge
on the British government. Benjamin Franklin after moving to England, continued his fight for
the land bank, and suggested that the Seven Years War be paid by a national land bank system.
Instead, the Stamp Act became law and a new Currency Act effectively banned all new currency
issues, whatever their backing, by any colony. Both sparked immediate rebellions.

On the other side of the ocean, another revolution seemed to discredit government
land banking forever. The revolutionary French government created their infamous assignats
currency in 1789. These notes were supported by mortgaged church lands, euphemistically

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36 Newell, *Dependency to Independence*, 228.
Progress and Consequences of the two late Schemes Commonly call’d the Land Bank or Manufactory
Scheme and the Silver Scheme in the Province of the Massachusetts-Bay,” c.1744.
38 Farley Grubb, “Benjamin Franklin and,” 5-8. Adam Smith, who occasionally corresponded with
Benjamin Franklin, celebrated the Currency Act as a necessity in the face of the land banks’ inflation,
calling the banks mere “scheme[s] of fraudulent debtors to cheat their creditors.” Thomas D. Eliot, “The
Relations Between Adam Smith and Benjamin Franklin Before 1776,” *Political Science Quarterly* 39, no. 1
called *biens nationaux* or “national goods,” which had been confiscated. In 1790 Edmund Burke warned that to “establish a current circulating credit upon any Land-bank...has hitherto proved difficult at the very least. The attempt has commonly ended in bankruptcy.” He predicted that the new money was only a means for the French government to inflate the currency and cheat their creditors. Within five years, *assignats* depreciated until they became a byword for inflation down through the ages. ³⁹ The belief that a government could effectively run a currency based on “coined land” fell into desuetude.

**Private Banks and Mortgages in the New United States**

The American revolutionary war, much like the recent English revolutions, encouraged the rise of a new financial class, and they viewed the old government land banks as a threat. These new elites drew on Adam Smith’s recent work on the real bills theory to fight a revival of the land bank idea. When the Bank of North America was formed in Philadelphia, in 1782, its founder, the financier Robert Morris, said explicitly its bank notes would be a substitute for old land bank’s, and its bylaws forbid it from lending long-term on mortgages or farm land.⁴⁰ One farmer writing to a Philadelphia newspaper complained that these rules excluded the farming majority of the population, and he said a “great source of discontent would have been avoided had this institution been made...a bank of mortgage, for accommodating landholders with loans,” instead of a bank “altogether commercial.”⁴¹ The next bank in the new country, the Bank of New York, established in 1784 by Alexander Hamilton, a devoted reader of Smith, was also explicitly designed by him to thwart calls for a new land bank in that state, and also refused

to lend money on mortgages. In a jest at the land bank’s origin, Hamilton mocked those who were “persuaded that the land bank was the true philosopher’s stone that was to turn all their rocks and trees into gold.” The Bank of the United States, also designed by Hamilton and chartered by Congress in 1791, kept close to this model and carried the same restrictions. Hamilton, Morris, and others thus succeeded in creating a viable and commercial alternative to the old colonial land banks.

Their efforts made private commercial banks based on merchant’s “real bills” the new center of finance in the young American nation. Yet the pleas of farmers for more loans and more mortgages remained, and in a fractious collection of states, many states tried to find new ways to accommodate farmers’ debts. Especially after President Andrew Jackson vetoed the re-chartering of the national Second Bank of the United States in 1832, states tried to allow purely private, for-profit banks to invest in mortgages, while trying to avoid the problems of illiquid land that Smith and others had pointed out.

42 Hammond, “Long and Short Term Credit,” 83; Bodenhorn, State Banking in Early America, 129.
43 Thomas Willing, once of the Bank of North America under Robert Morris and later first President of the First Bank of the United States, and Albert Gallatin, Treasury Secretary to Presidents Jefferson and Monroe, both argued that banking should not lend to agriculture or on land. Hammond, “Long and Short Term Credit,” 85.
45 Numerous states attempted to fund or support agricultural land banks in ways similar to older colonial land banks, but usually as part of more competitive banking system, and without legal tender status for their notes. Many were created in the South and were based on both mortgaged land and mortgaged slaves. Unlike the earlier land banks, these also kept coins as reserves behind their notes, meaning that land was not the only recourse. Some at the time differentiated them from earlier “land banks” by calling them “mortgage banks.” Most collapsed after the 1837 panic. Howard Bodenhorn, State Banking in Early America: A New Economic History (New York: Oxford University Press, 2003), 250-260.
In New York State a new banking law in 1838 allowed a limited investment in mortgages behind private banks’ notes. A farmers magazine of the period celebrated that now the “landholder can raise any reasonable amount” from the banks, which would make mortgages “favorite objects of investment.” A commercial newspaper, by contrast, laughed that “[b]y this alchymistic process, the vitality of landed property is to be extracted,” and argued that “[b]anks of issue [those that issued currency] should be restricted in their operations to the discounting of business paper. It is for the private capitalist to make long loans....This is among the elementary principles of banking.” In 1842 Louisiana, with one of the largest banking sectors in the world in New Orleans, created a distinctive new banking system, which allowed private banks to be divided into two parts. One part would act like a regular commercial bank, with short-term loans on merchant debts funded by notes and deposits payable upon a customer’s demand. Another part of the bank could make investments for long terms and on mortgages, but it had to be backed by purchases of stock whose funds could not be removed from the bank. Before then, every bank was funded in part by a purchase of stock or “capital” by its owners, and in part by notes and deposits, but Louisiana recognized that these different sources of funding could support different types of loans.

46 “An Act to Authorize the Business of Banking,” Chapter 260, April 18, 1838, in Laws of the State of New York Passed at the 61st Session of the Legislature (Albany: E. Croswell, 1838), 245-253. The bank could back only up to 10% of its notes by mortgages, which would seem to keep them sufficiently “liquid” to prevent devastating runs.


49 Hammond, “Long and Short,” 97-100. The deposits and the capital of a bank are known as its “liabilities,” namely, what the banking corporation itself owed to others, while a bank’s loans and other investments are known as its “assets,” what the bank could earn money on. In the Louisiana system, the part of the bank funded by stock was known as “dead weight,” and was perfect for long-term mortgage investments, since it was stable and could not be removed by investors.
A similar strategy emerged in some state-chartered “trust companies,” such as the Ohio Life and Trust Company, founded by a New York banker named Isaac Bronson. As historian John Denis Haeger noted, Bronson once believed with many of his contemporaries that a bank’s “credit should be lent only on short-term, most often no longer than sixty days, and only on the best security- the actual goods in transit.” Yet after some personal success loaning on mortgages, he tried to combine both long-term and short-term loans in one bank similar to Louisiana’s laws. As Haeger argued, this new “company represented a workable compromise among the merchant’s need for credit, [and] the farmer’s need for long-term capital.” Yet when the Ohio Life Insurance and Trust Company expanded too quickly and went bankrupt, it inaugurated the Panic of 1857, which brought a sharp collapse in the U.S. economy. The Chicago Daily Tribune said the company’s failure astonished the nation, since “[c]apitalists placed perfect confidence in its soundness,” and everyone assumed it had only loaned on “the best of real estate at a low appraisement.” Its failure seemed another black eye for a land and mortgage banking, even when based upon long-time capital, and also upon private state banks in general.

The Civil War gave those who witnessed this crash another chance to exclude mortgages from banks entirely. Among those who harbored this goal was Senator John Sherman, a financial wizard but unlikely politician known as the “Ohio Icicle,” who coldly viewed the war as a financial battle. As he said, “The problem was not whether we could muster men, but whether

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51 John Denis Haeger, “Eastern Financiers and Institutional Change,” 270.
we could raise money.”

Sherman pushed for a national banking system that would allow “a uniform national currency” to help fund the war. Under Sherman’s plan, this currency would be provided by any number of private “national banks,” chartered by the federal government, which would have to keep federal bonds behind the limited number of notes they were allowed to issue. These national banks could still, however, accept coin deposits and allow customers to write checks on those deposits, and use these deposits to fund other types of loans. (Checks had recently increased in importance relative to bank notes, and would increase even more after the creation of the new national system.)

In the original national banking act of 1863, without any seeming debate, mortgages were included as an acceptable loan for national banks. The next year, however, in debates over amendments to the law, Sherman and others led attacks on bank mortgages. Congressman James Brooks of New York said that experience “taught us” that “that the use of real estate in banking was unsafe.” In fact, his state had in the wake of the last panic eliminated mortgage banking, and the state superintendent of banking argued that banks which loaned on mortgages were particularly likely to fail. With such support, as well as a little legerdemain, Sherman slipped in an amendment to the act forbidding mortgage loans in the new national banks.

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54 *Congressional Globe*, 37th Cong., 3d sess., 1863, 820.
56 Ibid. One clause prohibited the new national banks from owning real estate except the actual land the bank stood on. The concern appeared to be, as one congressman later said, that the banking “associations might become large landholders, [and] large monopolists of real estate.” But this merely prevented the holding of real estate directly by the bank, not the loaning of money on real estate, or the temporary holding of it when someone defaulted on a loan. *Congressional Globe*, 38th Cong., 1st sess., 1864, 220.
59 *Congressional Globe*, 38th Congress, 1st Session, 1863, 1871; ibid, 1864, 2450. The confusing clause he slipped in forbid banks to hold any real estate unless for non-real estate “debts previously contracted,” which meant that they could not contract for new debts on real estate, which meant they could not make
Sherman’s exclusion of mortgages was motivated by the failure of the Ohio Life and Trust Company in his home state. In his memoirs Sherman lamented the state banking systems that were “sometimes secured by local bonds, sometimes by state bonds, sometimes by real estate, sometimes by a mixture of these.” He noted specifically that “whenever a failure occurred, such as that of the Ohio Life Insurance and Trust Company, it operated like a panic in a disorganized army.” A desire to keep the new national banks disentangled from any such landed loans was paramount. A final 1865 national bank act amendment by Sherman taxed state bank notes out of existence, and that meant national banks were the only banks in the country with circulating currency.

The national banks’ influence was vast, and the clause forbidding mortgages, slipped in almost unawares, became the definite standard for the nation. A popular banking textbook from the era repeated the truism that it “has been said to be the first duty of the banker to learn to distinguish between a [merchant’s] note and a mortgage, his business lying with the former.” This same textbook further argued that “[r]eal estate, of course cannot be regarded as a banking security, however desirable it may be as an investment of individuals, for it is not only subject to great fluctuations in value, but is at times unsalable; and the law of the United States therefore wisely prohibits investments in it.” A typical article in the new Bankers Magazine, by the renowned finance expert Charles Conant, reiterated and updated the arguments Adam Smith made earlier. Conant said that “short-term commercial paper gives the assets of a bank an essentially liquid character. Every day in times of normal business should bring into the bank

new mortgages. In the debates, Sherman elided the importance of this, and insinuated that it was only continuing the previous law.

60 Charles Clifford Huntington, A History of Banking and Currency in Ohio before the Civil War, diss., Cornell University, 1915, 370.
61 Sherman, Recollections, 237.
62 See Sherman, Recollections chapter “Abolishment of the State Banks,” 284. The House of Representatives soon formed a new Committee on Banking and Currency to manage them.
nearly as many persons having paper to pay as it brings persons asking the redemption of notes or the payment of deposits.” Yet if money was of a “less liquid character” if it was “loaned upon a mortgage” for a number of years, the bank’s funds “would be ‘locked up’ in banking parlance,” and the bank would fail.\textsuperscript{64} With the state banks for the moment pushed almost entirely into the new national system, the real bills prohibition against land and mortgage banking was stronger than ever before, to the rage of many farmers.

The New Cooperative Ideal

Because of the new national laws, the fractured mortgage system that emerged from the chaos of the Civil War was almost wholly dependent on individual lenders, not banks, as Adam Smith had argued it should be. As late as 1890, when the first national statistics on mortgage became available, 70\% of all mortgage loans in the country were made by individuals.\textsuperscript{65} For the usual lenders, wealthy neighbors or friends or relatives, a mortgage was a safe way to get a high interest rate with little risk. The investor could see the local house or farm he was loaning on, and could keep close tabs on its owner. They generally loaned no more than 50\% of the value of a home, with any higher amount provided by a more expensive “second mortgage” at higher interest. Both types of loans were generally only for five years at most, and had large “balloon payments” at the end that had to be rolled over, with extra commissions, if they were not paid off. Due to the lack of wealthy individuals or capital in the West and South, however, interest rates in these areas could approach 10\% or more. Economists at the time


The one alternative in this era to the local mortgage magnate was cooperative financing, a proposal tracing back to the Spiritual Brotherhood, which had previously made little headway. Just as William Potter two hundred years earlier had recommended that groups get together to guarantee payment of their debts and mortgages, now, in Germany, William Raiffeisen, a German burgomaster, helped create a new system of rural cooperatives using the medieval German commune. He midwifed a number of cooperative or communal “banks,” which became lauded around the globe.\footnote{Henry William Wolff, \textit{People's Banks: A Record of Social and Economic Success}, 2nd Edition (London: P.S. King & Son, 1896), 115-117.}

In America, there were similar types of small cooperative credit systems. At first these too were small and were able to examine how their members used or abused their loans. In 1890 over half of all mortgages not held by individuals were held by the two main types of cooperative groups, mutual savings banks and “buildings and loans,” which, despite their name, often loaned on farms. Due to their more stable, long-term deposits, which were kept in place for months or years, these groups often made mortgage loans up to 80% of the value of the farm, and up to twenty years, with the principal of the mortgage gradually paid off, or “amortized” by the borrower.\footnote{See David Mason, \textit{From Building and Loans to Bailouts: A History of the American Savings and Loan Industry, 1831-1995} (Cambridge: Cambridge University Press, 2004).} The other great “cooperative” source of funds in this period were life insurance companies, which at the time were largely “mutuals” owned by their
policyholders, who obviously invested for long-terms. By 1875 over half of all life insurance funds were in mortgages. Yet in the 1870s and 1880s these cooperative groups began to expand rapidly. They became more national and profit-oriented, and lost their old local and cooperative features. “National Buildings and Loans,” to many a contradiction in terms, began to lend Eastern money on new frontier farm mortgages. They often transformed these mortgages into mortgage-backed bonds, with up to a hundred different mortgages as their collateral. After Connecticut and New York allowed their insurance companies to make mortgage loans out-of-state, a host of new “mortgage brokers” sprouted up in the West to vet and send mortgages back East, to swelling insurance company balance sheets. Mortgage debt ceased to be a mere local thing, and began to be traded and moved across the country, and even sold internationally, as part of a new “mortgage market.”

By the end of the 1880s, these cooperative groups, many of which shed their old cooperative forms for corporate charters, began to seem like new and dangerous behemoths. The mortgage itself, once seen as a desperate necessity for farmers, became, in a time of postwar deflation, high interest rates, and distant Eastern money lenders, a new and terrible burden. It was around this time that some commentators began quoting a supposed quip of Louis XIV, “Credit supports agriculture, as the cord supports the hanged.” An epic poem written at the turn of the century, The First Mortgage, even analogized Adam’s sin in the Garden of Eden to a weighty mortgage: “And then a mortgage Adam gives/ On every soul that ever

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lives,” but “when that mortgage was arranged/ How quickly everything changed.” The poem contrasted Adam’s mortgage note with “Christ’s mission on Earth,” which “released [man] from the mortgage and debt.”

High-priced mortgages became a new political bugaboo, and inspired unprecedented political activism to lower mortgage costs, especially by the Populist Party. One Populist song of the era sung:

The farmer is the man  
lives on credit till the fall  
with the interest rate so high  
It’s a wonder he don’t die  
For the mortgage man’s the one  
That gets it all.

The Populists’ “sub-treasury plan,” from their Ocala Platform in 1890, demanded that the government loan money both “on non-perishable farm products,” as many have noted, but “also upon real estate." Senator William Peffer of Kansas, the most prominent Populist voice in Congress (for a while populism was even known as Pefferism) blamed Eastern moneylenders for most of the farmers’ ills, and became a tireless advocate for a new government bureau to lend money direct on land. The 1892 Populist Party Platform lamented “homes covered with

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74 California Senator Leland Stanford first proposed such a bill in Congress, and it was taken up by others such as Peffer. Leland Stanford, “Government Loans on Real Estate,” March 10, 1890, (Washington: Government Printing Office, 1890); Benjamin Tucker, “Leland Stanford’s Land Bank Plan,” Liberty, June 7, 1890; William Peffer, “Government Control of Money,” in The Farmers Alliance History and Agricultural
mortgages, labor impoverished, and the land concentrating in the hands of capitalists,” and called for a government land bank.75 As a journalist later remembered “In the political agitation it was as a debtor that the farmer chiefly figured.” The Populists and later William Jennings Bryan’s demand for inflation aimed to make “it easier for debtors in general to pay their obligations, and in particular for farmers to get rid of the burden of their mortgages.”76

Yet no significant reforms were enacted. In the Panic of 1893 and its aftermath the entire burgeoning mortgage market based on enlarged cooperatives crumbled. Mortgage-backed bonds were shown to be insufficiently backed, mortgage brokers and national building
and loans collapsed, and the nation’s faith in a new national mortgage market ebbed, it seemed permanently. After an inflation began in the late 1890s, the demand for government mortgages and cheap silver faded as well. Much of the mortgage market was captured again by individuals and smaller cooperative groups. It seemed as if attempts to make cooperatives, just like previous attempts to make pure government-backed land banks, and pure private banks, the basis for cheap mortgages across the nation, came to naught. The philosopher’s stone that would unleash the power of coined land remained elusive.

**Semi-Public Land Banking**

Americans interested in a different model for land banking needed only to look abroad again, to the newest, and seemingly most successful, iteration of the idea. It was this final variation that would provide a basis for much of American mortgages for the next century. Beginning in the early 1850s, new European land banks began to rely on the credit and support of the government, while keeping control and profits in the hands of either a small group of investors or in borrower cooperatives. The public support would provide investors and borrowers the confidence they needed to make long-term investments, while supposedly preventing the government from interfering too explicitly with operations. It seemed an obvious and fruitful compromise between earlier visions.

These new banks appeared first in France, where farmers and gentry complained about a “mortgage leprosy” that afflicted the nation. Their pleas led Emperor Napoleon III to create the *Credit Foncier* as new type of state-supported private bank. Napoleon subscribed for only a minority of the stock, but kept the right to appoint both the governor and two deputy governors of the bank, and gave a public subsidy to some of the bank’s operations. The general administration of the bank remained in the hands of a private “Shareholders’ Assembly,” whose
members provided the majority of the funds. By 1863 the Foncier had helped inspire a Boden Credit, or land bank, in Austria. This bank acquired special tax exemptions, and, as one historian said, “derived its privileged position among the Viennese banks from acting as the banker of the imperial family and the Court.” In 1870 Prussia founded the Central Bondenkredit, by royal order, with similar goals. Despite its private shareholders, its president and senior executives required confirmation by the King. Similar German land banks, such as the Central Landschaft of Prussia, founded in 1873, also helped commercialize the bonds of earlier cooperative or communal groups. As one later commentator argued, mortgage “[c]o-operation in Germany was originally founded on the principle of self-help, but the State finally came to its aid.” In some countries the government would explicitly agree to support the banks’ bonds or investors. Britain in the 1880s set up an agricultural land bank in Egypt after conquering that country, and gave its investors a state guarantee of profits.

The attraction of the new land banks was the same as in the era of the Spiritual Brotherhood, to bring agricultural interests into the new economy. As one historian said, in Germany “the domestic political appeal of the [Boden Credit] project from Bismarck’s point of

77 Sumner, A History of Banking, 111-113; Michael Carmona, trans. Patrick Camiller, Haussmann: His Life and Times, and the Making of Modern Paris (Chicago: Ivan R. Dee, 2020), 267-268. The only other institution which mimicked these “semi-public” attributes was the Banque de France, the central bank of the country. Everywhere in the Western world in this period central banks, with their special responsibility for supplying a nation’s currency, were regarded as a peculiar amalgam of public and private, but eventually, almost central banks were fully nationalized and their for-profit aspects decayed. The influence of semi-public central banking institutions on semi-public mortgage banking can be seen again and again in banking history, from the 1690s in Britain, to the 1850s in France, to the 1910s in the United States, as will be demonstrated in the next chapter.


view was obvious: here was a way to reconcile the East Elbian landowners to the new liberal era—through cheap credit.” Yet the combination of public support and private profit was original.

These semi-public banks would be the model for America’s first modern land bank, which it also instituted abroad, and for which the government would extend some of its first special guarantees to banks and bank investors. The campaign for the land bank was led by the jovial former judge William Howard Taft, who managed the United States’s new Philippine colony as head of the Philippines Commission. His first job was to create a new gold standard currency for the islands. With the assistance of several international “money-doctors,” especially journalist Charles Conant, he succeeded in replacing worn, old silver coins with a national gold standard. Yet Taft, Conant and others knew such gold currency had little use to the mass of poor peasants or campesinos. They also knew that such peasants were suffering. A virulent plague had infected their cattle, and corpses of their cows littered the island. The rebellion against the Americans by Emilio Aguinaldo and the violent repression of it had left scorched fields in its wake.

The Philippine peasants and local leaders themselves proposed a solution to the problem of degraded land, seemingly more pressing than degraded currency. Taft later said that during his first sweltering tour of the islands, the one reform that was “most strongly and repeatedly” urged was the creation of an “agricultural bank.” Indeed, “local presidents and...private citizens” said “[a]gain and again” that the government should extend aid to farmers through cheap mortgages. “[N]o public gathering of any sort...is ever held in the islands that

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emphasis is not put on the importance of an agricultural bank.” Even Aguinaldo, who had recently been captured by the Americans and then pensioned into peace, wrote to Taft that his government should create an “Agricultural Protection Bank,” which would draw funds from the U.S. Treasury and make mortgage loans at 4% annual interest.  

The money doctors and new colonial overlords were not interested in a pure government bank. Charles Conant in his “Special Report on Coinage,” not only reported on the new gold currency, but on the need for a new semi-public land bank for the islands. Conant later said that “Governor Taft was very much interested in this subject, and it was at his suggestion” that he turned to focus on the issue, since “in nearly every province the need of mortgage banks was represented to him.” While Conant attacked the idea of mortgages in regular banks and mortgage loans made by the government, he argued that a semi-public mortgage bank, similar to that in Europe, would be one of the “most influential means of promoting prosperity” on the islands.

When the U.S. government sent Edwin Kemmerer of Princeton University, another money doctor, to administer the new currency, Taft redirected him to report on mortgages as well. Kemmerer provided further support for the semi-public bank ideal. Kemmerer’s report detailed the three older models of mortgage banks. He described the possibilities of a “purely governmental institution”; an “agricultural bank conducted by private capital”; and, “Cooperative associations.” He thought a purely government institution, although most desired

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82 Subcommittee of the Senate Committee on the Philippines, Hearings on a System of Currency for the Philippine Islands, 57th Cong., 1st sess., 1902, 84.
84 Subcommittee on the Philippines, Hearings on a System of Currency, 533.
85 Conant, Special Report on Currency, 56-62
by the islanders, would “encourage the already too prevalent proclivity of the native population to depend upon the government for financial aid and support. It would tend to encourage dependence and laziness.” He believed that the “risks are at present too great for the enticement of private capital” in a commercial bank. A cooperative bank would not work, since he believed the Filipinos lacked the “intelligence, foresight, honesty, self-control” necessary to this system.  

The solution seemed to solve itself, a fourth option, which straddled these previous ones: a “private institution...with liberal government guarantees and concessions, as for example, the Agricultural Bank of Egypt.” The Egyptian semi-public, semi-private colonial hybrid (an “unqualified success” Kemmerer would say) would be his model, but Kemmerer’s report featured over 100 pages detailing the “special assistance and concessions” of the governments of “nearly all civilized countries” for new mortgage banks. He then asked how “[i]f state assistance is necessary in the more advanced countries of the world, how much more imperative is it in a backward country like the Philippines?” Kemmerer’s plans had the Philippine government (not the American) guarantee dividends of at least 4% upon any invested stock in the new agricultural bank, to entice new investors. Taft, in his annual report from the islands, made the same arguments. He said that “The commission is not prepared at present to recommend the establishment of a mortgage bank, owned and conducted by the Government, and it recognizes the danger of locking up the assets of a commercial bank in landed securities. There appears to be no reason, however, why a mortgage bank, organized according to the

87 Ibid, 8.
88 Ibid, 489. After the Philippine Commission endorsed the report, the Hong Kong and Shanghai Bank (now HSBC), one of the three major banks on the island, expressed their interest in investing in the guaranteed stock. Christopher Allen Morrison, “A World of Empires: United States Rule in the Philippines, 1898-1913,” PhD diss., Georgetown University, 2009, 175.
89 Bureau of Insular Affairs, Report of the Division of the Currency, 496.
methods which have been thoroughly tested in Europe, should not be established in the
Philippine Islands,” with similar public and private interests involved.”

In 1906 the Philippine Commission and now Secretary of War Taft officially endorsed
Kemmerer’s semi-public land bank plan and sent it to the U.S. Congress. The Chairman of the
House of Representatives Philippines’ committee said that “Secretary Taft thinks that this is one
of the most important subjects ever before the committee,” and encouraged full attendance at
the hearings. Jeremiah Jencks, the third in the triumvirate of that era’s money doctors, and
Kemmerer’s former mentor, testified in favor. The final House committee report noted that
the bank and its special supports were “a departure from the financial methods of the American
people, but conditions in the archipelago are exceptional and can not be determined by the
standards of this country.” Nonetheless, the new bank was an important step. Jeremiah Jenks

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90 Secretary Of War, Report of the Taft Philippine Commission (Washington: Government Printing Office, 1901), 109. Fortunately for Taft’s plan, the Philippines had already benefited from a similar subtle U.S. guarantee of land investments. When Congress allowed the Philippines Commission to purchase and distribute land held by the large friar’s orders on the island, Governor Taft encouraged a large bond offering on Wall Street to pay for it. When one investigator asked if the United States was “bound legally or morally to pay those bonds” in case they went bust, Taft answered that they were not officially, but he understood that many investors assumed they would. He refused to disabuse these investors and said “that the shadow of the United States in the background is very valuable.” Attorney General Philander Know likewise said that “Although the loan is not legally guaranteed by the United States, the issue is obviously made over its faith and credit.” Implicit federal guarantees and “shadows” of support were soon extended to other building projects on the islands, and then suggested for the proposed land bank. Colin D. Moore, “State Building Through Partnership: Delegation, Public-Private Partnerships, and the Political Development of American Imperialism, 1898-1916,” Studies in American Political Development, 25 (April 2011): 27-55; House of Representatives, “Construction, etc., of Wharves, etc., in Porto Rico,” 58th Cong., 2d sess., H. Report 2717, 1904, 25.


92 House Committee on Insular Affairs, “Railroads and Agricultural Bank in the Philippine Islands,” 59th Cong., 2d sess., 1907, 41.

93 When one Congressman asked if “the United States is really back of it, is it not?” not just the Philippine government, Jenks said “that raises a constitutional and legal question” that he felt he could not answer, but argued that the small government guarantee of the bank was “not, after all, a serious matter.” Ibid, 64-65. See also 41 Congressional Record 2834-2840, February 13, 1907 and 3892-3897, February 25, 1907; “Stands For Filipinos: McCreary Urges Free Trade with the Islands,” Washington Post, February 14, 1907, p 4.

94 41 Congressional Record 4551, March 3, 1907. The House bill moved only to limit the government’s liability by changing the maximum dividends guaranteed from $400,000 to $200,000, and the Senate later agreed.
had declared that the “greatest single thing” that had been done for the islands “has been done in making arrangements for the establishment of this agricultural bank.” Kemmerer later said that it was the “only piece of constructive legislation” regarding the Philippines from the recent Congress.\(^95\)

Despite the enticement of guaranteed returns, private investors were reluctant to support the new enterprise, so the government provided other benefits to the bank. Within a year the Philippine Commission, without legal authority, bought a million dollars of shares in the bank. They thought that “private capital will be more disposed to take over such an enterprise once its feasibility has been proved by the government.”\(^96\) In 1912 some provincial governments’ funds were deposited in the bank, and soon the Philippine legislature authorized deposits from all levels of government. In 1915 the legislature passed an act allowing rural cooperative associations to form the basis of new agricultural loans from the bank, but these groups remained small and ineffective. After years of frustration, in February of 1916, the agricultural bank was subsumed into a larger national bank that loaned on all types of debts, and its agricultural significance declined.\(^97\) Meanwhile, the Egyptian bank, which was declared an “unqualified success” by its Kemmerer, descended into bankruptcy.\(^98\) Despite such failures, the semi-public model would inspire America’s own mortgage bank idea, which was percolating just as the Philippine bank was faltering.


Bringing the Semi-Public Land Banking Idea Home

In his 1916 book, *The Farm Mortgage Handbook*, Kingman Robins noted that there had recently been a surge in interest among Americans in mortgage reforms and land banking. Robins said that “‘Rural credits,’” as the topic was now called, “became a ‘problem’ in the popular sense about 1910,” and ever since had occupied a prominent space in public debate. The heightened attention to mortgages was largely the work of new reformers and politicians enamored of the economic and political possibilities of cheap mortgages.99 In this era, three prominent intellectuals would attach themselves to three prominent politicians, each of whom would identify with one of the three major parties to run in the 1912 elections. Each would draw on one of three previous land bank plans (ignoring the more extreme government land-bank of the Populists). The new Republican President William Howard Taft would lean on Cleveland banker Myron Herrick, who emphasized the benefit of new purely private mortgage banks for America. Bull Moose candidate Theodore Roosevelt would rely on the prophet of Irish collectivism, Horace Plunkett, who emphasized cooperatives as a type of progressive but not state-directed reform. Democratic Senator Duncan Fletcher would rely on the peripatetic farmer-intellectual David Lubin, who advocated German state-supported banks as a new ideal. Their contrasting visions reflected the divisions between the parties, and would shape how Americans saw the new possibilities of land banking.

Myron T. Herrick was one of those few Americans who could honestly claim to be born in a log cabin, yet he worked his way up to become successful Cleveland, Ohio lawyer, banker, and governor, where he worked with the Ohio politicians, and future Presidents, William Taft

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and Warren Harding.\textsuperscript{100} After leaving office, however, he became the head of a large mutual savings bank in Cleveland which invested a significant amount of its money in farm mortgages. At the 1911 meeting of the American Bankers’ Association, he advocated the study of new farm mortgage systems and helped appoint a committee to investigate them.\textsuperscript{101} As befit a banker, he focused on the possibility of providing “ample banking facilities to farmers” through new private mortgage banks and mortgage-backed bonds.\textsuperscript{102} The short book he published on the topic was called \textit{How to Finance the Farmer: Private Enterprise – Not State Aid}.\textsuperscript{103} In 1912 Herrick accepted Taft’s offer to become ambassador to France, which Taft said, “will be a good holiday for you.” Herrick instead said he wanted to use the opportunity to study land banking in Europe, and Taft readily agreed. Myron Herrick’s advocacy helped place a crucial plank in the 1912 Republican Party Platform which stated that “It is as important that financial machinery be provided to supply the demand of farmers for credit as it is that the banking and currency systems be reformed in the interest of general business.”\textsuperscript{104} In an era when the party’s platform was described as “a covenant with the people and a sacred pledge,” this, and similar planks, would carry real weight.\textsuperscript{105}

\textsuperscript{103} Myron Herrick and R. Ingalls, \textit{How to Finance the Farmer – Private Enterprise – Not State Aid} (Cleveland: Ohio State Committee on Rural Credit, 1915).
\textsuperscript{105} “Man Who Reverses Voice of People For Free Canal Turns Toward Monarchy, Warns Representative Chandler,” \textit{Washington Post}, March 29, 1914, p. 7. The congressman who spoke these words also claimed that “the country discussed those planks, and political spellbinders frequently referred to them.” For
The Progressive or Bull Moose Party, which formed after Roosevelt bolted from the Republicans, also had its own intellectual. Horace Plunkett was a knighted landlord in Ireland, but he was a fervent believer in the possibilities of rural cooperation as a new basis for a modernized life on the farm. Partially at the instigation of Plunkett, Roosevelt had back in 1908 formed the “Country Life Commission,” whose final report lamented the “lack of any adequate system of agricultural credit” and, called for a “method of cooperative credit [that] would undoubtedly prove of great service” similar to that which had succeeded in “other countries.” With the advocacy of Roosevelt and Plunkett, the Progressive Party platform stated: “We pledge our party to foster the development of agricultural credit and co-operation” (and “to re-establish the Country Life Commission.”)

The Democratic Party, however, would have the most influence on future rural credit reforms. In 1912 the Democratic Senator Duncan Fletcher of Florida was looking for a cause to bring back to his constituents, and he found one that he would press for decades. Fletcher, who sported a broad forehead and an even broader mustache, was then a relatively new Senator. He had a few years law practice followed by a two decades of local political offices. Since arriving in the Senate, he had been carrying on a correspondence with David Lubin, the American founder of the International Institute of Agriculture in Rome. He invited Lubin to Nashville, Tennessee to talk to the April 1912 annual Southern Commercial Congress gathering about semi-public mortgage banks in Europe.

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108 Some help by the State department was needed to get Lubin permission to leave his role as U.S. delegate to the Institute for a short period, but with Taft’s and Herrick’s new interest in the subject that was easily granted.
According to one friend, Lubin, with his attractive but solemn bearing, gave the impression of a “Minor Hebrew Prophet.” The friend also celebrated the “infection (if I may use that word) of his language.”

Lubin was enamored of the German method of cooperative but state-directed credit, the Landschaften. In the Prussian tradition, the state became heavily involved in such enterprises. The officials of the Landschaften were declared “indirect public officials,” who had to take an oath of office upon appointment. A special president appointed by “His Majesty” was placed at the head of the banks, with special powers of control and examination.

Lubin celebrated the special tax and legal benefits given to the groups, and the “semigovernment officials” who ran them. He argued that “It is the safeguarding, the rigorous safeguarding, of this system by the Prussian Government that gives the bonds the high value they have in the open market...Remove this government safeguard and the bonds wills slump in price at once.” He said without such a safeguard “[s]uch a bond would not be liquid; it can not be liquid.”

Lubin was a strong believer in the political virtues of conservative farmers, and thought the Landschaften explained why “political life of Germany is more sound to the core, [and] contains within itself a greater resisting power, than the political life of other countries.”

At the Southern Commercial Congress in Nashville, Lubin gave a rousing presentation and talked to the commercial representatives of 27 states about the need for a new semi-public

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110 Bureau of Insular Affairs, Report of the Division of the Currency, 75-76. Historian Daniel Rodgers said such Landschaften “were not true cooperative associations. Rooted in the corporatist past, with the state as their managing patron,” they did not aim at the self-supported cooperative goals of other groups. Daniel Rodgers, Atlantic Crossings, 337.

111 The Landschaften System of Rural Credits, Letter from Hon. David Lubin to Hon. Duncan Fletcher, 63d Cong., 1st sess., S. Doc. 123, 1913, 4-5. Lubin denied that the government would directly guarantee the bonds, but his advocacy for the government’s “safeguards” and its management implied a more than minor responsibility for them.

112 Ibid. Lubin was enamored of semi-official organizations in other areas. When he proposed a semi-public agency for marketing agricultural produce, he said “the solution of this question is not to be found in nongovernmental agencies, nor is it to be found in a governmental agency. It is to be found in a semiofficial governmental agency.” U.S. Congress, “Statement of David Lubin on H.J. Res No. 344 by Request of Hon. William Kent, March 3, 1915” (Washington: GPO, 1915).
mortgage bank based on American landschaften.\textsuperscript{113} The conference finally agreed to help pay for a massive delegation, as many as two people from each state in the Union, to go to Europe and conduct a thorough study of the agricultural credit situation there.\textsuperscript{114} Fletcher said as part of the fundraising drive they “took the matter up with the National Grange and the Farmers’ Union and other agricultural organizations,” and received their financial support. Fletcher and Lubin also looked to state legislatures, who provided funds to get state officials into the investigation. Fletcher’s and Lubin’s desire for a semi-public bank thus led to this new semi-public investigative commission. To further press their investigation, the Southern Commercial Congress said that “[o]fficers of the Congress wrote and submitted the planks in the National Democratic platform” on the necessity for more investigation and support.\textsuperscript{115} Following the plank which called for new banking legislation, that would soon be embodied in the Federal Reserve Act, the Democratic platform stated that “Of equal importance with the question of currency reform is the question of rural credits or agricultural finance. Therefore, we recommend that an investigation of agricultural credit societies in foreign countries be made.”\textsuperscript{116}

In 1912, for the first time since the Populist era, mortgages entered the national conversation and a national political campaign. In August \textit{The New York Times} investigated “Loans to Saxon Farmers: Government Experiments in Helping Farmers and Small Industries.”\textsuperscript{117} The \textit{Richmond Times Dispatch} headlined a column: “Co-operation Among Farmers: Makes Germany and Other European Countries Prosperous.” The \textit{Washington Post} celebrated the idea


\textsuperscript{114} Joint Subcommittees of the Committees on Banking and Currency, \textit{Investigation of Rural Credits}, 63\textsuperscript{rd} Cong., 2d sess., 1914, 3-4.

\textsuperscript{115} “Southern Commercial Conference Bulletin,” November 13, 1909, Box 1, Lillian Correspondence, Record Group 103, Farm Credit Administration, National Archives – College Park.


in an editorial, while the American Bankers Association publicized its own efforts.\footnote{118 “Co-operation Among Farmers: Makes Germany and Other European Countries Prosperous.” Richmond Times Dispatch, August 25, 1912; “Farmers’ Banks,” Washington Post, July 4, 1912, p. 6; Fred Farnsworth, ed., Proceedings of the Thirty-Eight Annual Convention of the American Bankers’ Association, September 10 to 13, 1912 (New York: Trow Press, 1912), 193-203, 442.} Taft tried to make the issue a part of his campaign. A note from an assistant argued that “cheap and easy borrowing for farmers would be a thing that would appeal greatly to the agricultural vote and should be exploited in the campaign book, as it is mentioned in the party platform.”\footnote{119 Huntington Wilson to Charles D. Ellis, Secretary to the President, July 6, 1912, Series 3002, William Taft Papers, Library of Congress, Manuscript Division.} In October, Taft published Myron Herrick’s new report, finished just in time for the election, on private mortgage banking, and distributed it to all the state governors of the nation, with a laudatory foreword by himself.\footnote{120 William Taft, Foreword to Preliminary Report on Land and Agricultural Credit in Europe, by Myron Herrick (Washington: GPO, 1912), 7; “Taft Warns Farmer: Tells Him Republican Defeat Means Disaster.” Washington Post, October 25, 1912. Taft also noted that the State Department elsewhere was reporting on credit experiments and systems. “Uruguay’s Credit Scheme to Open New Market,” The Washington Times, June 29, 1912.}

After Taft lost the three-way race, he devoted some of the last days of his presidency to pursuing rural credit reform.\footnote{121 “Taft to Discuss Rural Credit Plan,” Washington Herald, November 18, 1912.} Taft called Herrick back from Paris to talk at the Governor’s Conference in Richmond, Virginia about his mortgage plans, and he convinced them to adopt a resolution demanding state laws that could charter and authorize new private mortgage banks, and to allow them to market bonds that could be sold “on the stock exchanges of the world.” The delegates said their resolution “sounds the knell of the time-honored mortgage on the farm and presages a new financial era for the farmers of the country.”\footnote{122 “Would Aid Farmers: Governors Indorse Plan for New Rural Credit System.” Washington Post, December 7, 1912; “Blease Scorns Laws,” Washington Post, December 6, 1912.} Taft then convinced the
State Department to allow Herrick a further leave of absence from Paris to testify in front of Congress on the subject.\(^{123}\)

Congress in its lame duck session also became fully involved in the rural credits enterprise. Bills were introduced that mirrored “the system proposed by President Taft,” as one representative said.\(^{124}\) Amidst the congressional discussion, for the first time, the new president-elect Woodrow Wilson spoke out for rural credits and specifically for the European investigative commission. In an open letter to his opponent’s friend Horace Plunkett he said the commission had his “entire and cordial” approval.\(^{125}\) Senator Fletcher in the Senate introduced and helped pass a bill endorsing the new rural credits commission to Europe, and invoked for it “the diplomatic consideration” of the countries it visited. In the last minutes of the session a conference committee snuck $25,000 into the Agricultural Appropriations Act to send seven officials appointed directly by the federal government to Europe.\(^{126}\) Taft signed these bills on his last day in office, and had his Secretary of State send instructions to all European embassies stating that the government was taking a “deep interest” in the forthcoming investigation.\(^{127}\)

This new Rural Credits Commission, which left for Europe just months later, would be a watershed in not just land bank history but Progressive reform. It would also be the culmination of over 200 years of trans-Atlantic discussion on mortgage banking. Its dozens of members would travel a total of 18,000 miles, and interview hundreds of state officials and private bankers about different means of providing farmers with cheap mortgages. Historian Daniel


\(^{124}\) This particular bill in fact created a special bureau in the Treasury Department for dispensing mortgages, which horrified Taft. “Bill for ‘Rural Credits’” Washington Post, Jan. 5, 1913.

\(^{125}\) 49 Congressional Record 2499, February, 3, 1913.


Rodgers, who would know, claimed the commission was the single “most extraordinary of the era’s institutions of transatlantic policy inspection.”\textsuperscript{128} Lubin and his \textit{Landschaft} ideal, however, became its guiding light, and he would subtly direct the Commission into supporting his semi-public banks.\textsuperscript{129}

By the time of the Rural Credits Commission, it seemed as if a new type of American mortgage banking, the transmogrified remnant of the old land bank ideal, was finally on its way to realization, with the crucial assistance of the government. The dreams of centuries of rural advocates for a special land bank catering towards their needs were coming to fruition, with a new model of semi-public support. The hope for liquid land and agricultural plenty seemed within reach, but even among supposed Progressives and reformist allies there were obdurate opponents.

\textsuperscript{128} Rodgers, \textit{Atlantic Crossings}, 337.
\textsuperscript{129} See David Lubin to Irwin Laughlin, London Charge d’Affairs, April 10, 1913, Box 2, Record Group 103, National Archives – College Park.
CHAPTER II

THE SPECIAL PRIVILEGES OF THE FEDERAL RESERVE BANKS AND FEDERAL LAND BANKS

In 1832, President Andrew Jackson vetoed the charter of the Second Bank of the United States, severing the connection between the American federal government and the American banking world. The veto was not only a pivotal moment in financial history, it would become a touchstone of Democratic Party ideology for almost a century. In his veto message, Jackson elaborated on his and his party’s many grievances against the Bank, but his complaints orbited around one central problem: the bank was the grant of a special privilege by the government to one group of men. Jackson used this term “privilege” 27 times in his veto. He carped especially that the charter had given these particular bankers the exclusive privilege of issuing currency anywhere across the nation, a privilege denied to all others. The central desideratum of government in Jackson’s view was to provide equal protection of the laws to all, and to abjure special privileges to any. In a soon to be famous line, Jackson said if government “would confine itself to equal protection, and, as Heaven does its rains, shower its favors alike on the high and the low, the rich and the poor, it would be an unqualified blessing.” In Jackson’s vision of American government, the President had a duty to protect the public from the grasping pleas of special interests and the congressional representatives who kowtowed to them. His veto, he said, protected “the humble members of society – the farmers, mechanics, and laborers – who have neither the time nor the means of securing like favors to themselves” from legislatures.³

³ Jackson also pointed to other “privileges” of the bank, such as its ability to acquire real estate, despite state laws forbidding “alien” ownership of land. Andrew Jackson, “Veto of the Bank Bill,” in The Evolving Presidency: Landmark Documents, 1787-2010, Michael Nelson, ed. (Washington: CQ College Press, 2011), 92.
Jackson’s veto became the defining ideology of the Democratic Party, its Nicene Creed, repeated endlessly over the years. One Democrat said that the veto “deserves to be written in letters of gold, for neither in truth of sentiment or beauty of expression can it be surpassed.”

The Democratic Party in the years to come defined itself by its support of “equal protection of the law” for economic groups, and its opposition to “class legislation,” or laws that privileged one economic group or class. The party especially became the advocate for a complete “divorce” of government and banking, what was called “the separation of bank and state.”

But by the early 20th century something changed in the Democratic Party and the ideology that animated it. Although the party in the years of Woodrow Wilson continued to celebrate Jackson and his struggle against the privileged bank, it would make two of its most important reforms the creation of two privileged, government supported banking systems, first the Federal Reserve Banks, and second the Federal Land Banks. How the ideology of Jackson and the Democratic Party, of equal protection and of opposition to any form of government privilege, especially for banks, transformed into an ideology that celebrated granting special government privileges to new semi-public banks, is the story of this chapter.

Debates about special privilege and equal protection have attracted attention from historians interested in legal and constitutional history, but these debates have not penetrated the political and economic history of the early 20th century. This chapter will show the


4 See Howard Gillman, The Constitution Besieged: The Rise and Demise of Lochner Era Police Powers Jurisprudence (Durham: Duke University Press, 1993); V.F. Nourse and Sarah Maguire, “The Lost History of Governance and Equal Protection,” Duke Law Journal 58, no. 6 (March 2009): 955-1012; Gillman by far has the most extensive discussion of class legislation, yet except for one article, his focus has been on the judicial rather than the legislative and executive debates. For politics, see Howard Gillman, “The
ideology’s centrality in political discourse, but will also show how groups of bankers, farmers, and politicians teamed together to overthrow it and replace it with a new ideology. In these years, interest groups and intellectuals advocated that the government act as a force intervening directly for the benefit of certain classes, in order to “balance” different economic sectors, most especially agriculture and industry. They claimed the best way to do this was to create government supported, or semi-public, banks with special provisions for farmers. In this vision, both farmers and bankers would be given “special privileges” in order to re-balance an economy that was already unbalanced and unfair at its core. The rapid combined growth of industry and the financial sector attached to it made the relative deprivation of farmers added urgency to their plea.

Other historians have described the shift in the Democratic Party in this period from a “laissez faire” to “activist,” embodied in a shift in legislation in the later years of Woodrow Wilson’s administration. Yet conflating the warring ideologies of equal protection and balance


As early as 1915 the New Republic began asking if Wilson was undergoing a “radical reversal” whose program now “seems to contradict every principle of the party which enacted it.” “An Unseen Reversal,” New Republic 1, no. 10 (January 9, 1915), 7-8; John Milton Cooper, Woodrow Wilson: A Biography (New York: Alfred A. Knopf, 2009), 234.

with laissez faire and activist ideas has caused continuing confusion about the changes in the party. This chapter will show that the Democratic party did not shift from an classical liberal to a modern liberal party, but shifted the manner in which they believed government could be involved. The party that once believed government intervention was legitimate as long it protected all classes, came to believe that government’s job was supporting and bolstering certain interests, balancing them in a fundamentally unbalanced world. The chapter shows newly assertive groups in agriculture and banking pushed traditionalist Democrats, including President Wilson, to compromise on their beliefs and to grant new special privileges to both farmers and the bankers who catered to them.

**Agriculture and Special Privileges**

Although both political parties attacked the supposed scourges of class legislation and special privileges in the late 19th and early 20th century, the ideal of equal protection found its most comfortable home in the Democratic Party, most especially because of its opposition to tariffs and national banks. In 1889 George Vest, Democratic Senator from Missouri, said that the Democratic Party had always been “the inveterate foe of class legislation” and would remain

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7 Of course, Democrats denied that the idea of “equal protection” applied to the “race question,” and even claimed that “race agitation” was based on a plea for special privileges. “Democratic Party Platform of 1904,” July 4, 1904, *American Presidency Project*, http://www.presidency.ucsb.edu/ws/?pid=29588
so.\textsuperscript{8} The 1892 Democratic Platform denounced the recent Republican tariff as the “culminating atrocity of class legislation,” since it was enacted to protect the manufacturing class and tax the farming class, while the 1896 platform said taxation should “not discriminate between class or section.”\textsuperscript{9} In 1900 the National Association of Democratic Cubs said one of its main objectives was “[t]o oppose class legislation...To maintain inviolate the fundamental principle of Democracy – ‘Equality before the Law.’”\textsuperscript{10} In 1904 and 1906, the Campaign Text Book of the party would put the statement “Equal rights to all, special privileges to none,” right next to the books’ title on the cover and on the first page.\textsuperscript{11} The 1910 Text Book, quoting a speech by Representative William Suzler, argued that “The Democratic party stands to-day where it always stood and were it always will stand- for equal rights to all and special privileges to none...for equal and exact justice to all men – no class legislation; no caste.”\textsuperscript{12} By the Woodrow Wilson years, according to an analysis of all texts published in that time, the terms “special privilege,” “equal protection of the laws,” and “class legislation” attained a peak in usage that they would never attain again.\textsuperscript{13}


\textsuperscript{10} \textit{National Association of Democratic Clubs} (New York: Journal Job Print, 1900), 5, 20.


\textsuperscript{12} \textit{Democratic Campaign Book for 1910} (Washington: National Democratic Congressional Committee, 1910), 286.

\textsuperscript{13} See Google N-Gram, where use of the term class legislation as a percentage of all printed terms almost doubled in the years from 1880 to the 1910s, and peaked in the latter decade. https://books.google.com/ngrams/graph?content=class+legislation&year_start=1800&year_end=2000&corpus=15&smoothing=3&share=&direct_url=t1%3B%2Cclass%20legislation%3B%20Cc0
Opposition to class legislation at first had a special appeal to farmers. The first major farm interest group, the National Grange, claimed “It has ever been the principal and teaching of the Grange to avoid anything that tends to class legislation.” The Farmers Alliance declaration of 1889 stated that its two main aims were farmer education and “to demand equal rights to all and special favors to none.” Farmers attacked tariffs as pernicious legislation benefiting manufactures and urbanites at the expense of rural exporters.\textsuperscript{14} But farmers also fought the government privilege of allowing only a limited number of national and largely urban banks to issue currency, the system Republicans had created during the Civil War. The lobbyist leader of the Grange lamented that farmers were not “treated fairly or equitably in nature of management of the money system of the country.”\textsuperscript{15} Although the Great Commoner and farmers’ advocate William Jennings Bryan is more often noted for his proposal to freely coin silver, in 1896 he ran on Democratic platform that cited Jackson’s veto to argue that national banks should not have an exclusive right to print currency. Bryan himself said that to “empower national banks to issue circulating notes is to grant a valuable privilege to a favored class.”\textsuperscript{16} These farm advocates hoped that eliminating the “special privileges” of the tariff and the banking system would be enough to restore farming to its rightful place in the nation’s economy. In 1912, these traditionalist Democrats found a champion in their new presidential candidate, Woodrow Wilson.

In Democratic Party theory dating back to Jackson, the President was the keeper of the torch of equal protection, especially for the excluded poor and farmers. In this ideal, only the

\textsuperscript{14} Frank M. Drew, “The Present Farmers’ Movement,” Political Science Quarterly 6, no. 2 (Jun. 1891); 289; John Trimble, ed. Journal of Proceedings of the National Grange of the Patrons of Husbandry Thirty Second Annual Session, 1898 (Concord, New Hampshire: Rumford Press, 1898), 164

\textsuperscript{15} Joint Subcommittees of the Committees on Banking and Currency, Investigation of Rural Credits, 63rd Cong., 2d sess., 1914, 263.

\textsuperscript{16} He also claimed it would “surrender to private corporations the control of the volume of paper money, and build up a class which will claim a vested interest in the nation’s financial policy.” William Jennings Bryan, “Letter Accepting Democratic Nomination,” September 9, 1896, in The Life and Speeches of Honorable William Jeninngs Bryan (Baltimore: R.H. Woodward Company, 1900), 358.
President could comprehend and represent the whole of the country, and protect it from the grasping pleas of the special interests. As Democratic President James K. Polk explained in 1848, the President represented “the whole people of the United States, as each member of the legislative department represents portions of them.”\textsuperscript{17} Woodrow Wilson would seem to embody those hopes for executive control and equal protection. For one, the importance of executive authority manifested itself to Wilson from an early age. Wilson’s father, a Scotch-Irish Presbyterian minister and professor of theology, forced his once recalcitrant and possibly dyslexic boy to bend to his studies, and Wilson was ever after grateful to him for it. One need not be a Freudian to assert that such a father had an impact on Wilson’s vision of authority, yet Sigmund Freud himself, in a critical study of Wilson published posthumously, argued that Wilson’s “passionate love of his father was the core of his emotional life.”\textsuperscript{18} (It was an emotionally turbulent life, and, despite his placid exterior, Wilson once wrote “I have the uncomfortable feeling that I am carrying a volcano about with me.”\textsuperscript{19}) Under his father’s spurs, Wilson tried his hand at law and then studied political science at John Hopkins University, where his dissertation, published as \textit{Congressional Government} (1884), was an extended lament on the boundless ambitions of a Congress infected with special interests against presidential administration. He dedicated the book, of course, to his father.\textsuperscript{20}

Wilson, in line with his executive, Jacksonian vision, viewed “equal protection” as the organizing principle of good government and presidential policy. Wilson argued that the “true

\textsuperscript{17} D. Appleton, ed., \textit{Abridgement of the Debates of Congress, Volume 16} (New York: D. Appleton & Company, 1861), 275
\textsuperscript{20} “The patient guide of his youth, the gracious companion of his manhood.” Woodrow Wilson, \textit{Congressional Government} (New York: G.P. Putnam, 1900), dedication.
object of government is justice; not the advantage of one class.”

He stated that in a just government “there is one rule for everybody,” and that “Government is not a warfare of interests.”

During his whirlwind 1912 campaign, Wilson said, “I understand it to be the fundamental position of American liberty that we do not desire special privilege, because we know special privilege will never comprehend the general welfare. This is the fundamental, spiritual difference between adherents” of the two parties. In his more poetic moments he imagined a future world were unborn children who would “open their eyes in a land where there is no special privilege.”

Wilson’s first task as a new President in 1913 was to attack that particular bugbear of class legislation for generations, the tariff. To implement this reform, he called Congress into a special session, and became the first President to address them in person since before Thomas Jefferson.

Wilson told the gathered representatives the tariff “had built up a set of privileges”

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21 Woodrow Wilson, *Mere Literature, and Other Essays* (Boston: Houghtin Mifflin Company, 1896), 155. Wilson tended to speak more in the language of “interests” than classes, and his focus on administration as opposed to legislation meant he rarely used the actual term “class legislation,” though many of his supporters did.


that benefited particular manufacturers, and that their task was to “abolish everything that bears even a semblance of privilege.”25 With forceful rhetoric and use of the new Democratic whips in Congress, Wilson succeeded in getting the lowest tariff rates through Congress in generations, and in passing a new income tax. It seemed to many that Congress had responded to Wilson’s bold assertion of authority, and had taken the bit in its mouth with cheerful acquiescence. The ideal of a disinterested president battling privilege was ascendant. Yet the Democratic unity in the tariff fight was to prove the exception. When Wilson stepped to the next plank in the party platform, currency reform, the splits in the party widened.

**New Special Privileges for the Federal Reserve Banks**

Woodrow Wilson did harbor one idea that was anathema to many old believers in presidential power. Unlike those who thought the President should stand above party, Wilson thought party unity was an essential function of good government, and he viewed a united Democratic Party, with their President at its head, as an indispensable instrument of reform. Although he occasionally used the threat of a veto, he was willing to forge compromises when the party was at stake. In effect, Wilson was willing to “rise above principle” when he thought it critical.26 Such compromises became necessary in the fraught debates about banking, since his beloved party was divided on what exactly special privilege meant for bankers. His willingness to compromise between these factions ended up, ironically, creating new and unprecedented special privileges for banks.

Almost all Democrats saw the current national bank note system as an invidious privilege to bankers. Yet some in the party, such as William Jennings Bryan, thought that

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25 This speech mimicked speeches he gave during the campaign on the tariff, which were collected in a chapter entitled “The Tariff, ‘Protection’ or Special Privilege?” Wilson, *New Freedom*, 132.
26 For Wilson’s feelings on party leadership, see Woodrow Wilson, *Constitutional Government In the United States* (New York: Columbia University Press, 1921 [1908]), 198-222.
creating money was an inherent duty of government. In their conception, if the government
simply printed and distributed notes without discrimination, there would be no danger of class
legislation, only a beneficent government that showered its blessings on all sellers and buyers
alike. The party had endorsed pure government paper currency in two earlier platforms, and its
farmers had long supported this position. The National Grange claimed that “the issue of
currency is fundamentally a government function which should...not be surrendered as a special
privilege to any set of individuals.”27

Other members of the party, however, were leery of government control. They fretted
about the “inflationism” that bedeviled colonial governments and the attacks on greenbacks
and on Bryan in his previous campaigns. These reformers’ solution to the currency problem was
to charter private banks that issued currency only under strict rules, and only in exchange for
bankers’ “real bills,” or short-term commercial loans. They believed that the amount of currency
in circulation would then respond only to real trade and real debts. Although the banks would
be private, they would respond naturally to changes in business conditions, and therefore
involved no special privilege. As one proposal stated, the “increase and decrease [in currency]
should be automatic,” or, as it was also called, “elastic.” Virginia Representative Carter Glass,
who would design much of the final currency bill, urged a “currency based on the sound, liquid
commercial assets of the country, responsive at all times and to the fullest extent to every
reasonable demand of legitimate business.”28

As Chairman of the powerful House Committee on Banking and Currency, Carter Glass
became the premier advocate of the “real bills doctrine” in Congress. He would shape the
currency reform bill and much of American banking for decades. J. Laurence Laughlin, the pre-

27 C.P. Freeman, ed., Journal of Proceedings of the National Grange of the Patrons of Husbandry, Forthy-
Seventh Annual Session, 1913 (Concord, New Hampshire: Rumford Press, 1913), 122
eminent real-bills theorist of the time, remembered the congressman as “very modest about his own training” in banking, but “sincerely honest” and “a good fighter for what he believed in.”

Glass admitted he “had no special qualification for the work” except for “a reasonable amount of common sense acquired as a practical paper and successful newspaper publisher” in his hometown of Lynchburg, Virginia.

The small but pugnacious Glass would also be Wilson’s bulldog in Congress, heeding towards the old Democratic faith of presidential control. Glass forthrightly called Wilson his “leader,” and remained in awe of the man for the remainder of his life. His belief in equal protection was also in line with Wilson’s. His biography, written by one of his aides, argued that a “Democrat is one who holds to the historic principle of his party, ‘equal rights to all and special privileges to none.’” Glass himself tended to rail against the “privileged classes” of the national bankers.

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31 Rixey Smith and Norman Beasley, *Carter Glass: A Biography* (New York: Longmans, Green and Co., 1939), 403. At one point in his own memoirs on the Federal Reserve Act, Glass marveled as Wilson’s intelligence and said that “This was the man...with whom the country-editor chairman of a congressional subcommittee was going to discuss a currency measure!” Glass, *Adventure*, 60, 62.
In Glass’s original currency plan, he and his assistant, H.P. Willis, also a student of Laughlin, and a former reporter for the *Journal of Commerce*, tried to create a decentralized, automatic, and private banking system.\(^{32}\) They proposed several regional “Federal Reserve Banks” (what eventually became 12), whose capital and officers would come from contributions by national and state “member banks” in their region. The Reserve Banks would be purely private banks which would operate for the benefit of these members. The 12 banks would help spread the benefit of banking more widely, away from the money center in New York City, which Glass believed had benefited from the old national banking system and become a “financial cancer.”\(^{33}\) The new notes the Reserve banks provided to banks in exchange for their “real bills” would constitute the new currency of the country. Besides chartering the Reserve Banks, the government would stay away from them. Their currency was not even legal tender; it would float on its own bottom, with people accepting it as they chose.\(^{34}\)

These private banks were an abomination to the Bryan wing of the party, but Wilson used his powers of compromise to reshape the planned banks into ones bearing important attributes of both private and public institutions. First, at a meeting in his governor’s mansion in Trenton, New Jersey on a snowy day soon after Christmas in 1912, a bed-ridden Wilson asked Glass and Willis to place a government “capstone” over the private banks, a central board to coordinate the Reserve Banks’ activities and keep at least some control over money in the hands

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\(^{32}\) Willis had acquired some little notoriety for his book *Our Philippine Problem*, which derided Congress’s policy of “slavish subservience to American special interests” in Philippine monetary issues, and which also advocated for a private agricultural banking system. In 1916 Willis would become the President of the Philippine National Bank, which swallowed up the Agricultural Bank of the Philippines in that year. H.P. Willis, *Our Philippine Problem: A Study of American Colonial Policy* (New York: Henry Holt and Company, 1905), 307, 310, 311.

\(^{33}\) Glass, *Adventure*, 63.

\(^{34}\) The notes would not be legal tender until the Gold Reserve Act of January 31, 1934, which act slipped the legal tender clause into a subsection discussing definitions. The transformation of the notes to legal tender at this late date, to the best of my knowledge, has not been pointed out by historians of the Federal Reserve System. *Gold Reserve Act of 1934*, Public Law 87, 73rd Cong., 2d sess. (January 30, 1934), 8.
of the people, as a regulator, although not a direct manager. Glass was forced to concede, and thus the Federal Reserve Board was born.\textsuperscript{35}

Other members of Wilson’s inner circle, however, wanted more government control.\textsuperscript{36} Wilson’s hyperkinetic Secretary of the Treasury William McAdoo (soon to marry Wilson’s daughter) and his new Secretary of State William Jennings Bryan would be satisfied with nothing less. McAdoo and Bryan got the crusading lawyer, and “Money Trust” investigator, Samuel Untermeyer (a Lynchburg, Virginia native like Glass) to write up a pure government currency plan.\textsuperscript{37} On the other side of the Capitol building from Glass, another government currency plan was brewing. The Senate had broken up the once omnipotent Finance Committee, and created for the first time its own Banking and Currency Committee. It appointed as its head an unreconstructed Byranite, Senator Robert Owen of Oklahoma, who, oddly, had also been born in Lynchburg, who worked with Untermeyer.\textsuperscript{38} When Glass saw their plan, he was horrified. He asked McAdoo if it was serious. “Hell, Yes!” McAdoo replied.\textsuperscript{39}

Wilson was forced to resolve the disagreement between these groups of warring Lynchburgians (he himself had grown up nearby in Southwestern Virginia).\textsuperscript{40} At a late-night White House conference with Glass, McAdoo, and Owen on June 18\textsuperscript{th}, 1913, Wilson split the difference between the groups. He promised to keep the private Federal Reserve Banks Glass

\textsuperscript{36} Glass, \textit{Adventure}, 95-96.
\textsuperscript{39} Glass, \textit{Adventure}, 100-101; Link, 209.
wanted, but to back all notes issued by the Banks with the complete faith and credit of the United States government.\footnote{“Here is the New Currency Bill,” \textit{New York Times}, June 191, 1913, p. 1. See also Link, \textit{New Freedom}, 113.}

The obligation of the federal government for the Federal Reserve notes inspired rabid conservative reaction against the bill. Some claimed it was rank “Bryanism,” and, along with the new public Board, made the banks government loan offices as in the old colonial days. The \textit{New York Sun} said that the “provision for a Government currency and an official board to exercise absolute control over the most important of banking functions is covered all over with the slime of Bryanism.”\footnote{\textit{New York Sun}, June 21, 1913, quoted in Link, \textit{New Freedom}, 216; Willis, \textit{Federal Reserve}, 274; Paul Warburg, \textit{The Federal Reserve System: Its Origins and Growth, Volume 1} (New York: MacMillan Company, 1930), 109-110, 649, 751. The future leader of the New York Federal Reserve Bank, and thus effective leader of the Federal Reserve System, Benjamin Strong, wrote in 1913 that though he was opposed to the numerous Reserve banks in the bill, “But of more importance than that, I am unalterably opposed to the United States Government lending its credit on the notes to be issued by the Federal Reserve Banks. It may somebody spell disaster to the credit of our Government.” See Lester V. Chandler, \textit{Benjamin Strong, Central Banker} (Washington, DC: Brookings Institution, 1958), 35-39.} In reality, there was little chance the government guarantee would be necessary, since all Federal Reserve notes would be backed by both pledged real bills and the capital of the member banks, but the symbolism was important. Wilson admitted as much to Glass, saying that the government liability after all “is a mere thought. And so, if we can hold to the substance of the thing and give the other fellow the shadow, why not do it, if thereby we may save our bill?” As so often in the history of American banking, the “shadows” were an important consideration. Glass, at first dismayed, saw Wilson’s political wisdom. “And this was the man they called a dreamer! This was the man they insisted had no political sense!” Glass said the actual guaranty would not be needed “in ten thousand years.”\footnote{Glass, \textit{Adventure}, 124-125, 199; Link, \textit{New Freedom}, 213. Although this prediction seemed accurate for the plan Glass designed, the changes to the Federal Reserve Banks described in this dissertation made them subject to increased interest rate and default risks from longer-term assets. Economists and lawyers today have to wrestle with the potential of the Federal Reserve going “bankrupt,” or having negative capital, and of the possibility of it being “bailed-out” by the government.}
Yet the compromise was more significant than Wilson and Glass knew. The obligation of federal credit established an important precedent. Although the government had in the pre-Jackson era invested in some private corporations, and had later lent money and land to railroads and other groups, it had never contributed its complete credit to a private or semi-private organization. More privileges for the Federal Reserve Banks followed. Wilson, in a compromise to the bankers who worried about too much government control through the Reserve Board, agreed to set up a “Federal Advisory Council,” composed only of bankers who would advise the government. It was the first of what would become innumerable industry advisory councils over the years.\(^4^4\) More importantly, Senator Owen made the Reserve Banks the first group exempt from the new income tax law, and this would an extremely powerful precedent for future semi-public companies.\(^4^5\)

Glass, however, seemed oblivious of the new privileges. He continued to attack the Republican Party’s currency proposal, which he said created a private bank with “important privileges and accorded [it] certain governmental exemptions. It was likewise invested with unusual powers for a privately owned enterprise.” This could almost perfectly describe his own plan.\(^4^6\) The Democrats had, almost unawares, taken an important step and created new and important types of special privileges for their banks. In the years to come and in the debates over agricultural mortgages, these precedents would be cited with increasing fervor by those desiring support for farmers and their loans.

\(^4^4\) Glass, *Adventure*, 116-118. I have not seen any history of the rise of such “advisory councils,” or how the Federal Reserve’s council represented the first iteration of this trend.


\(^4^6\) Glass, *Adventure*, 67-68.
Agricultural Balance and the Federal Reserve

Despite traditional Democratic opposition, special privileges had now become acceptable to large numbers of the party faithful. In the early 20th century, new intellectuals, rural Democrats, and “progressive” bankers came to believe that mere equal protection and opposition to class legislation would not revive farmers’ battered and precarious way of life. They declared the very nature of modern society unbalanced, most importantly between thriving industry and stagnant agriculture, and said that government’s job was not to remove itself from the struggle, but to rectify those inequities through “re-balancing” the economy, most especially through supporting farm finance. Under their conception, farmers and other disadvantaged groups should receive fundamentally unequal benefits from government because society as it existed was fundamentally unequal. In effect, they supported William Blake’s old observation that “One law for the lion and ox is oppression.”

The rapidly declining rural population became a particular concern for proponents of agricultural and industrial balance in the 20th century. James J. Hill, the railroad magnate and financier then trying to remake himself as a political prophet, argued in 1906 for a “national revolt” against the rushing urban migration. He thought there should be a “check administered to the city movement that [has] lowered the percentage of agricultural labor” to a third of the total work force, and that “Government ought not to hesitate” to provide special benefits for

47 William Blake, The Marriage of Heaven and Hell (Boston: John W. Luce and Company, 1906), 42. There was an old history in economic thought that emphasized the importance of balancing farm and urban sectors. Sir James Steuart, whose 1767 book was the first to use the term “political economy” said that nature “divides the society into two classes,” farmers and urbanites. He argued that such sectors could become unbalanced by too much population on one side or the other, so that “statesmen” should work “to keep a just balance throughout every part of industry.” Henry George in his 1883 article “Overproduction” argued likewise that existing problems in farming limited its prosperity, that this in turn prevented farmers from buying enough industrial products, endangering both groups. What was needed was “To secure the proper proportion of the different forms of production, the health and symmetry of the industrial organism.” James Steuart, An Inquiry into the Principles of Political Economy (London: J.J. Tounreisen, 1796), 151, 490; Henry George, “Overproduction,” North American Review 137, no. 325 (Dec., 1883): 584-593.
farmers to encourage more to stay on the land. In an address to the American Bankers Association, Hill warned of the “disturbance of the balance between one form of industry and another upon which prosperity and stability depend.” He said the bankers should focus on how to revive “agriculture; and the maintenance of a proper economic relation and balance between it and all others.”

Hill’s jeremiads were broadcast across the country, and found fertile soil. Such concerns helped motivate President Theodore Roosevelt’s Country Life Commission, since Roosevelt himself thought the then current worries about the “High Cost of Living,” especially of high-priced farm goods, were due to “the modern tendency to leave the country for the town.” President Taft’s Secretary of Agriculture, James Wilson, later affirmed that “there was a great deal of truth” in Hill’s warnings, and wondered how the government could help revive farm population.

Some thinkers pointed to other examples of unbalanced population as warnings of America’s fate. Myron Herrick, the banker advocate for rural credits, argued that England, with its already over-urbanized population and small agricultural population, was threatened with famine due to its declining number of farmers. He said the main problem was that “England is all out of balance.” Many attributed the fate of Roman Empire to urban centers sucking people and resources from the countryside, and, as always when Rome was invoked, this added further

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52 House Committee on Agriculture, Hearings on Miscellaneous Bills and Other Matters, 62nd Cong., 2d sess., 1912, 130.
urgency to the appeals. As one historian testifying before Congress on a rural credits bill lamented, “overurbanization” was a great curse. “The ablest living historians claim that this wrought the destruction of Rome,” and yet we in America “have developed our industries in a lop-sided fashion, without the proper poise and balance to insure general and permanent prosperity.”

New farm interest groups proclaimed that in the midst of this declining farm economy, they wanted more than an end to class legislation. Groups like the Farmers Union, formed in 1902, conceived themselves as advocating explicitly for the farmer class, and demanded that “legislatures and congresses do for them what they have done for others – pass laws that will be beneficial for their interests.” When they argued that government had to help “[b]ring the farmer up to the same standard as that of other classes” they were proclaiming an end to the anti-class legislation position of groups such as the Grange and a demand that the government actively balance classes. The new farmer group, the American Society of Equity, expressed in its name the desire for a new balance, and, as one historian said, became “a class organization, openly appealing for support on the basis of class interest.” These groups understood, however, that mere self-interest was not a sufficient plea to triumph in politics, and they also trumpeted the dangers of “unbalanced” development for the whole economy.

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55 Murray R. Benedict, Farm Policies of the United States, 1790 – 1950: A Study of Their Origins and Development (New York: The Twentieth Century Fund, 1953), 134-135; Robert H. Bahmer, “The American Society of Equity,” Agricultural History 14, no. 1 (Jan., 1940): 62, 39. One member of the Farmers Union told Congress that James Hill was right that the country could not “keep up the food supply” to feed the growing cities with declining numbers of farmers. He argued the farm population decline was because “as far as financial matters are concerned [the farmer] is the biggest slave that walks the earth.” They needed
The desire for financial support from the government central in farmer demands. The Farmers Union leader Charles Barrett said his organization had been created “for the avowed purpose of discrediting the mortgage system” and helping to form a new one. The popular writer and farm advocate Thomas Cushing Davis, in his book, The High Cost of Living: Cause-Remedy, said the root of economic imbalance was high-cost mortgages. He claimed that the “American farmers, if he has a loan upon his property, is kept in a continuous state of uncertainty, always apprehensive that his mortgage may not be extended.” This “depresses his spirits and robs him of that hope which is absolutely necessary to success or the proper enjoyment of life. Under such conditions, is it at all surprising that men are leaving the farm, and the cities are being overcrowded?” (Emphasis in original). He thus proposed a new semi-public “Government Bank of the United States” to make “Agricultural Loans.”

Although some farmers continued to rail against bankers, others recognized a potential ally. Many bankers in fact bristled at their exclusion from mortgage financing, and from financing farmers more generally. Although they worried that normal commercial banks, with their flighty deposits, could not supply the farmers’ needs, a semi-public mortgage bank might. A New York Times article from the period was headlined “How the Bankers and the Farmers May Get Together on Loans.” One article in the Banker’s Magazine argued that there was a need for government support to restore farm population. Subcommittee of House Banking and Currency Committee, Rural Credits Hearings, 63rd Cong., 2d sess., 1913, 188.

Barrett, The Mission, History and Times of the Farmers’ Union, 121. The rise of the “balance” ideology coincides with a rise of what Elizabeth Clemens and others have shown are more explicit and open interest group politics in this era, which contradicted earlier notions of classless representatives. This dissertation, however, shows that interest groups understood that merely articulating a group’s own interest was not sufficient for political victory. A broad ideology that could be embraced by intellectuals and non-farm representatives was important, and “balance” achieved that. See Elisabeth Clemens, The People’s Lobby: Organization Innovation and the Rise of Interest Group Politics in the United States, 1890-1925 (Chicago: University of Chicago Press, 1997).

Davis said his goal was to “increase the food supply and reduce the high cost of living.” Thomas Cushing Davis, High Cost of Living – Cause-Remedy (Washington, D.C.: Monetary Educational Bureau, 1912), 10, 13, 20.
“some form of government land bank best adapted to American conditions.\textsuperscript{58} Charles Conant, one of the founders of the Philippine land bank, told the American Bankers Association that he worried that “the demand for food products is more than overtaking supply,” and that a “central organization for the issue of mortgage bonds, recognized by the Federal Government, like the Credit Foncier, would probably be required” in order to rebalance the economy.\textsuperscript{59} The managing director of the Southern Commercial Congress in arguing for semipublic mortgage banks, stated the balance metaphor most vividly: “we are rapidly losing the balance between country and city. If we lose the balance, the country tips over; if we find a means of maintaining the balance, we strengthen the life of the country for all time to come.”\textsuperscript{60}

Both the farmer and banker advocates for balance became powerful political forces in the United States Congress.\textsuperscript{61} Despite Wilson’s pleas for executive dominance and equal protection, Congress had always thrived on weighing of different interest groups’ claims and


\textsuperscript{60} Committee on Agriculture, \textit{Hearings on Miscellaneous Bills}, 130.

\textsuperscript{61} Besides farmers and bankers, the next most important source of criticism of the idea of “class legislation” in this period came from the labor movement, which thought that inequities in the bargaining power of workers and management meant government had to intervene to “balance” this disparity. Labor worried in particular that antitrust legislation, when applied equally to businesses and unions, was unfair, and in 1914 in the Clayton Act they secured some recognition of this fact, despite complaints of class legislation from Woodrow Wilson. See George I. Lowell, \textit{Legislative Deferrals: Statutory Ambiguity, Judicial Power, and American Democracy} (Cambridge: Cambridge University Press, 2010), 122-123; Melvyn Dubofsky, \textit{The State and Labor in Modern America} (Chapel Hill, NC: University of North Carolina Press, 1994), 56-58.
catering to them. One congressman famously argued that in Congress one learns that “all major interests in society are equally legitimate,” and that “representatives of the great legitimate interests are equally honest.”

A new rambunctious, powerful, and enlarged Congress coalesced at the beginning of Wilson’s presidency, and in this new Congress special interests had new avenues to press their pleas. Under the just completed census, the House had increased from 394 to 435 members, where it has remained ever since. Many at the time considered this far too large, and worried the House’s larger size did much to “destroy its decorum” and break down the control of leadership. The Senate also expanded by four as Arizona and New Mexico were admitted as States in 1912, which size it would keep for almost fifty years, and was forced to be more responsive to its constituents by the new 17th amendment mandating direct election of senators. Congress’s increased size necessitated new and expansive architecture, which also manifested the increased importance of Congress as an independent force. Within the past four years Congress had finished two majestic, marble-faced office buildings to hold new congressional offices and committee rooms, designed by that era’s most famed neo-classical architects, Carrere and Hastings, featuring Turkish baths, lavish cafeterias, and specially-made mahogany furniture.

This empowered and enlarged Congress was also more assertive, and had recently overthrown or limited the powers of the internal leaders Wilson had hoped would corral it, including the Speaker in the House of Representatives and the President pro tempore in the Senate. The center of power in this new Congress moved from executive and congressional

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63 52 Congressional Record 4994, March 1, 1915.
leaders to the totality of the congressmen themselves. One analyst of the time said that the “unwieldy size of the house, as well as the exigencies of party,” led the Democrats to create a new organization, known as the party conference, or less euphemistically, the caucus. When either of the two chambers’ Democratic caucuses voted by two-thirds to state a party principle on legislation, the decision was binding on all members, at the threat of expulsion from the party. Unlike Congress under the rule of a solitary leader, the caucus would move at the whims of all its members. It would thus be subject to all the log-rolling and backslapping that worried old Democrats such as Wilson, who prayed that congressional leaders would “substitute statesmanship for government by mass meeting,” and the public interest for special demands. The new Congress and caucus, along with the new advocates for farm balance, offered their own vision of government, one where special interests needed to secure their just place in the political, economic, and financial world.

**Special Privileges for Farmers at the Federal Reserve Banks**

The new instrument of collective congressional power, the Democratic caucus, would decide the fate of Glass’s Federal Reserve bill. Its first meeting became a watershed in the organization of farmers and bankers for privileges, and would force concessions in Glass’s already compromised plans. Years later Glass would remember the House caucus as “lively” and “memorable...No such scenes were ever witnessed before, nor have they been enacted since.”

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67 Wilson, *Congressional Government*, xiii. Wilson, in a new foreword for the 15th edition of *Congressional Government* in 1900, celebrated the then growing power of the speaker. He thought the Speaker and the leadership “creates, in germ at least a recognized and sufficiently concentrated leadership within the House,” which “must be held responsible in all ordinary sessions for the success or failure of the session.” Ibid, ix-x.

68 Glass, *Adventure*, 133.
It was lively because, as The Wall Street Journal said at the time, “All is not harmony in the Democratic caucus.” Although intended to last no more than a few days, the caucus debate, held in the House chambers themselves, continued throughout most of a sweltering August.

The first subject that attracted farmers’ attention in the caucus was the issue of “discounting.” In Glass’s original plan, all the state and national member banks who chose to join the Federal Reserve system would get one major benefit: they could “discount” their real bills, their commercial loans with no more than 45 days until due, and receive new Federal Reserve notes for them, with a slight “discount” from the bills’ full value, in effect, the interest charge of a loan. Although the subject could seem esoteric, the ability to discount certain kinds of debts and not others with the Federal Reserve was immensely important. As H.P. Willis later wrote, the ability to define what loans could be discounted “was a power of the first magnitude,” which meant “the authority to determine the distribution of credit in the United States and in a certain sense to fix the cost of such credit. The importance of this power could not be overestimated.” Discounted loans could be easily turned into ready currency, and would be encouraged. Whichever loans could not be discounted at the Federal Reserve would become expensive and discouraged.

Limiting such discounting to only short-term, 45-day bills would seem to make the nation’s banking system even more commercial and even more divorced from farmers, even their loans for seeding and marketing crops, which often lasted for months. Farmers argued that despite any explicit rule against farm notes, the short-term rule in effect discriminated against them. One rural congressman during the currency debate said that while farmers “did not believe that agricultural paper should be allowed any special privileges, yet were of the opinion

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70 Willis, Federal Reserve, 906.
that the [Glass] bill...would in practice result in a discrimination of agricultural interests.”71 Like many critics of the ideology of class legislation, they argued that while some laws seemed to apply equally to all, in practice they had disparate effects.

In the caucus, Glass parried attacks from what he called the “corn tassel” group of “economic guerillas,” including Robert Lee Henry, who advocated Federal Reserve Banks issue currency based on already picked and stored crops.72 Glass told Henry that he would see him in hell rather than let the measure pass. With the support of Wilson and even Bryan, such attempts were beaten back.73 In the history of the Federal Reserve, written largely by Glass and his supporters, the defeat of the stored crop plan is described as the end of the rural insurgency.74

Yet after the defeat, rural congressmen pressed to allow the Federal Reserve to discount loans for the planting and selling of their produce, which could last for months. During the caucus, the rural insurgents met with their opponents in the lobby outside the House chambers, and got them to agree to a longer 90 day limit for discounting loans on planted crops, exactly double the time given to commercial debts.75 When this was accepted, one farm rebel claimed that “we have won all we have contended for,” and Robert Lee Henry even declared that this

71 53 Congressional Record 7073, April 29, 1916.
72 Glass, Adventure, 136.
73 Glass to Oscar Underwood, January 16, 1914, Box 21, Carter Glass Papers, Small Collections, University of Virginia Archives.
74 Link, New Freedom, 222; Roger Lowenstein, America’s Bank: The Epic Struggle to Create the Federal Reserve (New York: Penguin Press, 2015), 228. Glass later quoted the clerk of his committee to say that there was not a “single sentences which has altered in the remotest degree the essential provision of the measure as originally reported by the committee to the caucus,” which is an extreme exaggeration. Glass, Adventure, 147-148.
75 53 Congressional Record 7073, April 29, 1916, reprinting letter from Robert Bulkley to James Byrnes, June 29, 1914, Willis, Federal Reserve, 1604. The caucus also changed the bill to allow warehouse receipts as possible discountable paper. “No Congress Recess; Farm Credits Win,” New York Times, August 15, 1913, p. 3.
“came practically to the amendment I have advanced during the last three months.” Glass denied such claims, but he later pushed the limit of all rediscounted paper up to 90 days. Such a move was a clear example of ideology at work, since it blunted the charge of privileges for an agricultural special interest, even at the cost of longer-term and supposedly less “real” loans.

Later, in the Senate, the more radical Robert Owen increased agricultural discounts at the Federal Reserve up to 180 days, again a clear privilege, and this was retained in the final bill. 77

The rural insurgents’ second demand was allowing national banks to make mortgage loans, even if these could not be discounted at the Federal Reserve. Long before the caucus, farmers swamped the bill’s drafters with demands for allowing farm mortgages in national banks, which had been excluded from them since the Civil War. 78

The master of the Pennsylvania Grange demanded such loans, and a member of the Farmers Union complained to Congress that banks should be allowed to make “[l]ong-time loans suitable for poor men to buy land and pay for it by amortization,” so farmers like him to purchase property. 79 The Democratic Party platform had already stated “we also favor legislation permitting national banks to loan a reasonable proportion of their funds on real estate security.” 80

In contrast to some old real bills believers, many bankers themselves complained to Congress about the exclusion of farm mortgages from their banks. 81 Sol Wexler, a Southern banking magnate, testified that “[n]ational banks are almost compelled in certain sections of the

77 Willis, Federal Reserve System, 1625.
78 Ibid, 1531-1553.
79 House Banking Committee, Banking and Currency Part 9, 516; The Oklahoma legislature, still hoping for a land bank in the old style, memorialized Congress asking for a national currency based on land. For other memorials, see 50 Congressional Record 52, April 7, 1913; 50 Congressional Record 84-85, April 7, 1913; Ibid, 162, April 12, 1913; Ibid, 177, April 14, 1913; Ibid, 1730, May 23, 1913. House Banking and Currency Committee, Banking and Currency Part 9, 62nd Cong., 3d. sess., 1913, 494
81 For recent increased interest in mortgage loans for banks. Edgar Van Deusen, “Farm Mortgage Loans as Investments,” Bankers Magazine 74, no. 2 (Feb., 1907): 183.
country to lend a certain amount of money on real estate,” and that in some states like Mississippi “all the banks are lending money upon mortgages.” Wexler and others described extensive subterfuge they used to get around the existing laws, including setting up affiliates with special savings deposits. An exasperated H. P. Willis, speaking for Glass and other real bills advocates, asked one banker if “you merely want your acts legalized?” When Glass finally conceded and allowed mortgage loans on farm land for just a few months, the Democratic caucus extracted another concession, and increased the limit on farm real estate loans to 12 months. Robert Owen in the Senate again acted to further farmers’ privileges, and increased the term to five years. Glass later lamented that “There was such an insistent demand to have additional loans made on farm lands” that he agreed to the mortgage provision only as a sop “to tide over” the farmers until they could consider a full rural credits bill.

The final, and perhaps the most important, issue confronting the House caucus was the party platform on rural credits. The plank declared that reforming rural credits was of “equal importance” with currency reform, and many rural Democrats refused to let their colleagues forget it. William Murray of Oklahoma, known as “Alfalfa Bill,” proposed in the caucus to fuse a new semi-public mortgage banking system with the federal reserve system, which, to the horror of Glass and his allies, passed. This step, which would completely fuse mortgage and

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82 House Banking Committee, Banking and Currency, Part 10, 603-604
83 Ibid, 500.
84 Willis, Federal Reserve System, 1572, Revised draft of Glass Bill to May 1, 1913. The loans were limited to 25% of the bank’s capital. Glass included a provision which allowed the reserve board to add to the cities where national banks could not make loans on real estate, and demanding that all real estate loaned on be made in the same Federal Reserve district as the bank. Willis, Federal Reserve System, 357. Though the moment of this change is not mentioned in any of the available documents, the bill was debated on the floor of the House as if Section 26 for loans on real estate had already been enlarged to 12 months from Glass’s earlier 9. See 50 Congressional Record 50, September 12, 1913. Willis, Federal Reserve System, 1634.
85 Senate Committee on Banking and Currency, Hearing on Consolidation of National Banking Associations, 68th Cong., 2d. sess., 1925, 105.
86 Marvin Jones Oral History, 541, Columbia Oral History Archives, Columbia University Archives; 53 Congressional Record 7885-7886, May 12, 1916, Murray discussing previous caucus and reprinting caucus
commercial banking, was one step too far for Wilson, who waded into the swamp of the caucus and made a clear statement of his principles. He told them that, “Again and again during the discussion of the currency bill it has been urged that special provision should be made in it for the facilitation of such credits as the farmers of the country most stand in need of- agricultural credit as distinguished from ordinary commercial and industrial credits.” He admitted this had not happened because this bill “could not be made to reach as far as the special interests of the farmer required.” He promised to consider a more thorough rural credits bill if the advocates would drop the current one. Wilson’s implied veto threat ended any hope for a combined bill, but the possibility of future action was enough to placate the rebels. The caucus made a party promise to consider rural mortgage banks in the next session.

The Federal Reserve Act which emerged from the caucus and the subsequent congressional debates inaugurated a new age in American finance, one which Glass and others hoped would create an automatic or “elastic” currency, and would further cement their real bills vision of banking. Yet the bill had moved far from his original vision. It was now riddled with the very types of special privileges Glass claimed to detest. Due to earlier debates with Bryan and McAdoo, the government was directly liable for the Reserve Banks debts and exerted some control over them through the Federal Reserve Board. The farmers’ had also secured specific privileges, since the Banks had to make special allowances for farmers’ loans, and, for the first time since before the Civil War, the nation’s banks could now invest in farm mortgages. Just as

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minutes. After some opposition and parliamentary legerdemain by Glass and others, which seemed to void the vote, Murray had the amendment passed once again by a vote of 116 ayes to 66 noes. See “Win on Money Bill: Insurgents’ Farm Credit Idea Gets Caucus Support,” Washington Post, August 14, 1913, p. 1.

87 “Comments,” Farm Journal (Oct., 1915): 540-541; Woodrow Wilson, “A Statement with Regard to Rural Credits” August 13, 1913 in The Papers of Woodrow Wilson: Volume 29; “Win on Money Bill” Washington Post, August 14, 1913; “President Wilson Discusses Question of Rural Credits,” Wall Street Journal, August 14, 1913. When exactly this Wilson quote fits into the chronology of the caucus is unclear, but this is the only point that appears to make sense of his comment and the change in Murray’s stance.

88 50 Congressional Record 4846, July 12, 1913; Glass, Adventure, 141.
important, the party was on record demanding a comprehensive plan for rural credit banks.

Even Glass worried that “a lot of bunk was being handed out to the farmer” in the process of the Act’s passage. Despite the best wishes of its proponents, the nation’s banking system was already beginning to move away from real bills doctrine, and towards special privileges to bankers and to farmers.

**Privileges for the Land Banks**

In Wilson’s December 1913 State of the Union, he celebrated the Federal Reserve Act as a system fit for all classes, but lectured that for the promised mortgage bank, the farmers “should be given no special privilege, such as extending the credit of the Government itself,” despite the obvious precedent of the Federal Reserve. When the conservative Democratic Representative F. W. Moss proposed a mortgage bank plan soon after the speech, it was to Wilson’s tastes. Moss argued that “the farmers are not asking for any special privilege” in his rural credit bill, and said, “I deny that the Government has any moral right to advance public money to finance the industrial operations of any class of its citizens.” His bill allowed the government to charter any number of private cooperatives, which could make long-term mortgages, up to 40 years, in the models of the building and loans. These loans would be limited to only 50% of the value of the farm, to keep the loans safe, and would be “amortizing,” where the borrower would gradually pay off the principal of the debt as well as in the interest each

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89 Lowenstein, America’s Bank, 227. When the motion to go to a conference committee, the procedure used in Congress to reconcile the differences between the House and the Senate bills, Glass got an earful from the rural members who supported the farmer benefits. One member stood up and to great applause to complain that Glass “refused to say how he would be as regards these two propositions to which I refer, [discounting and real estate] and yet we know how he was in the Democratic caucus.” 51 Congressional Record 1305, December 5, 1913.

90 He devoted almost a fourth of his speech to the topic. In his speech, Wilson partially incorporated a letter he had received from Horace Plunkett, where Plunkett argued against government support for rural credits. Sir Horace Plunkett to Edward Mundell House, October 28, 1913 in The Papers of Woodrow Wilson: Volume 28, 115-117.

91 50 Congressional Record 4769, September 11, 1913.
year. The cooperatives would raise money by issuing mortgage-backed bonds. Guy Huston, a prominent Chicago banker interested in participating in the new law, advised Moss to also allow for-profit mortgage banks to get charters as well as the cooperatives, and Moss agreed. Moss said the charters for two types of banks made it a “purely competitive bill...not only between different institutions, but between different types of institutions.” The different types of banks also helped satisfy those such as Horace Plunkett, who wanted cooperatives, and Myron Herrick who wanted regular banks. In a letter to House Majority leader Oscar Underwood, Wilson enthused over the new bill, and said it should be the second most important bill to be pushed in the Democratic caucus for the coming year, behind the antitrust bill.

There was one part of the bill, however, that could only be construed as a special privilege. Moss claimed that “there was no feature of the bill to which so much thought was given as to the question of the exemption from taxation.” In his bill, Moss made the banks and their bonds completely exempt from any local, state or federal taxes. Moss said the exemptions were an unfortunate necessity caused by the nature of local property taxes, which in this era not only taxed farmers’ land, but also the mortgages made on that land (the debts were a kind of “property”), and finally taxed the bonds people held based on the new bank loans. If the banks and bonds were not exempt, the existing property taxes would be compounded into double or triple taxation. Moss thought no bank could sustain it, “so that the system itself rises and falls with this one paragraph of the bill.” Without it, he told Congress, “you had just as well

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92 Joint Subcommittees, Rural Credits, 62, 71. The final recommended legislation was remarkably like the regular national banking system before the Federal Reserve Act, and according to Moss was “modeled after” it. In surprising mimicry it included a clause like that of national banks which forbid them of holding any actual land, as opposed to mortgages on land, for more than five years.

93 “Memorandum with Regard to the Relation Between Guy Huston and the Guy Huston Company and Various Joint Stock Land Banks.” Box 51, Record Group 56, Central Files of the Secretary of the Treasury, National Archives, College Park.

94 Joint Subcommittees, Rural Credits, 1914, 83.

throw the bill in the wastebasket.” Moss, with his traditional inclinations, remained worried that if they included this clause, other “corporations will then ask to have their income exempted,” but in the end, “recognizing the fact that I was not creating a new precedent,” Moss copied the language exempting the banks from taxation directly from the Federal Reserve act. Yet Moss recognized that his act went much further, exempting the income of everything from the littlest cooperatives to the for-profit banks to even the bonds they both would sell.96

Such concessions spurred more demands for privileges for the banks. Representative Claude Weaver of Oklahoma asked why there could not be at least be a “contingent provision” for government aid, since, after all, the Federal Reserve Banks got exactly that in the form of the guaranty of their currency. Weaver said, “While I do not believe in giving special favors to the farms or special benefits to any class, they certainly ought to be on the same basis of Government favoritism as commercial banks, it seems to me.” Senator Henry Hollis, of New Hampshire, the co-chairman of the joint committee conducting the rural credits hearings, said, more rightly than he knew, “I imagine this Government help will turn out to be one of the fighting points of this measure.”97

Henry Hollis would become the most important legislator in the story of the federal land banks. He was only Senator for one term, during Wilson’s first six years, but he was an essential part of the new Democratic coalition. He was a dedicated progressive lawyer, with a thick brow and high forehead, who had become involved with a local mutual savings bank, from which he acquired the financial expertise that helped him get appointed to the new Senate Banking and Currency Committee, and later, after his time in Congress, to the International Bank of

96 Joint Subcommittees, Rural Credits, 97-98.
97 Ibid, 44.
Bulgaria. He was also, however, the Senator most clearly opposed to the old Democratic ideology of equal protection and class legislation. At one committee hearing he said, “I occupy a peculiar position on class legislation. I do not think there is any objection to class legislation, and I have [so] said.” When another Senator claimed he would not favor class legislation for anyone except farmers, Hollis said the whole idea of class legislation was “a bogey that is conjured up now and then by constitutional lawyers who want to scare somebody. We are passing class legislation all the time. The only question is, Is such legislation sound; is it wise class legislation?”


Joint Subcommittees, *Rural Credits*, 44.

53 *Congressional Record* 7311, May 3, 1916.
Like others, Hollis’s opposition to the idea of class legislation was tied to his hope for a balanced economy. Hollis said that “tendency to abandon agriculture and seek the larger centers of population has become a national menace in this country and in Europe. It increases the cost of living and causes a one-sided development,” which had to be halted by rural credits. He confessed to “serious alarm” at the “rapidly increasing city population, which become consumers, and the rapidly decreasing rural population lessening our producers…. we must turn the tide of population from the cities to the country, and to do so we must offer the

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101 51 Congressional Record 15615, September 24, 1914.
farmer an equal opportunity with the banker and the business man.” Equal opportunity, however, required more than equal benefits from the government.\(^{102}\)

Although Hollis discussed the benefits of attracting new families to farms, and of turning farm tenants into farm owners, he more often focused on the necessity of enticing investors to participate in the system. At the joint congressional hearings on the bill, he tried to attract witnesses who shared similar interests. One farmer from Florida, F.J.H Engelken, told the committee that “I have tried, in considering this bill, to eliminate myself as a farmer and put myself in the place of an investor, because you gentleman are really, in the last analysis, holding a brief not for the farmers but for the investor.” He said only by securing “the immediate confidence of the investor” could the farmer himself get money through sales of the bonds.\(^{103}\) When Hollis asked him “Can you think of any way in which the Government help out this system” and encourage investors, Engelken responded that the government might buy some of the bonds and establish a central board of financiers, “because the farmer must be led.” Engelken said there “considerable available funds all over this country...that are waiting for some such liquid investment of this kind,” as long as the government gave it sufficient support.\(^{104}\)

In Hollis’s committee, the interest in the measure shifted from the supposed ends, cheap loans to farmers, to the supposed means, abundant and secure bonds based on them. Many in Congress jumped at the new prospect for a new investment. Hollis himself said that in his home bank “[w]e can not get as many first-rate real estate loans...as we would like,” but “I think our bank would be very glad to have a line of these bonds.” He said they might “take half a

\(^{102}\) 53 Congressional Record 7022, April 29, 1916; See Rauchway, “High Cost of Living.”

\(^{103}\) Joint Subcommittees, Rural Credits, 341-342, 344-345, 381. He also suggested that the small cooperatives be forced to associate with the regional banks, like national banks had to associate with Federal Reserve banks, and said that the bonds would be improved by the “moral obligation of the bank with which such local is affiliated.” Ibid 351-353.

\(^{104}\) Ibid, 620, 638.
million dollars of those bonds.” More generally, he thought “a 5 per cent or even a 4 per cent bond would be very attractive to our New England savings banks.”105 Privately, Myron Herrick told Hollis that: “I fancy your ambition is my own – to have these bonds become the one universally popular investment among all the people.”106 Representative Everis Hayes of California had an even more personal response to the bill. He said that “I do not know how it will affect other people, but...I sometimes have a little money to invest, and I have made up my mind that I would buy some of these bonds in my home bank.”107 Representative Willis Hawley told the House that as a manager of the cooperative fraternal group, the “Pacific Jurisdiction of the Woodmen of the World,” these bonds looked like a worthy investment: “I would be willing to buy the bonds provided for in this system as a perfectly safe investment for trust funds,” which sentiment met with vigorous applause.108

This new financial focus was also encouraged by support in the broader American banking community for increasing mortgage loans and bonds based on them. Testimony during the Federal Reserve Act had demonstrated many banks were interested in making mortgages, and banks saw this bill as another opportunity to do so. The Bankers Magazine said that if large banks were formed with government support “the farm mortgage might be standardized and given greater currency in the investment markets.”109 Other bankers claimed that federal support was necessary to “give mobileness and fluidity to real estate mortgages,” or, in other words, easy salability and “liquidity.”110 Arthur J. Morris, of Norfolk, Virginia, the founder of the “Morris Plan” banks for workers, testified that his banks would “offer to their patrons the

105 Ibid, 393.
106 Herbert Myrick to Senator Henry Hollis, July 14, 1916, Doc. 233., Reel 183, Woodrow Wilson Papers, LOC.
107 Joint Subcommittees, Rural Credits, 1914, 410.
108 53 Congressional Record 7718, May 9, 1916; 53 Congressional Record 7827, May 11, 1916.
110 Chamberlain, “European Land and Rural Credit,” 442.
opportunity to purchase these land-mortgage debentures in small denominations,” and would provide loans based on them.111

The financial focus was evident in the redrafting of Moss’s act, when the joint-committee run by Hollis and Representative Robert Bulkley, a Cleveland lawyer who also ran a mutual savings bank, employed H. P. Willis to rewrite the bill.112 Hollis said Willis would ensure the new act was “harmonious with the Federal reserve act.” The act now mirrored it in many respects.113 There would be 12 regional Federal Land Banks, which would be owned by the local, small cooperative banks and would sell bonds based on the cooperatives’ mortgages. These 12 regional banks were necessary because, as one banker said during the hearings, “There has got to be some big organization that people will respect, not in Dakota, but that they will respect in Washington or California or Michigan or any other place- something that when it is mentioned it is not open to doubt whether a debenture [bond] is good.”114 There would also be a new Federal Farm Loan Board, not to ensure government control but to inspire “confidence” in investors, as Engelken suggested. The Board’s members would be paid $10,000 a year, since Hollis said they had to “have the salary high enough to attract at least two first-class financial men in whom the moneyed institutions of the country have confidence.”115 Most significantly, the joint committee also voted to have the federal government buy up to $50 million in Federal Land Bank bonds annually, giving a direct and clear government subsidy to the banks, but without a complete guarantee. Hollis claimed that this was a “middle ground” bill, one that had the government

111 Joint Subcommittees, Rural Credits, 725, 747.
112 The committee paid him over $2000, which, ironically, Willis used to pay down a mortgage See “Collateral Note, H. Parker Willis, April 1, 1910,” H.P. Willis to Robert Bulkley, March 12, 1914, Box 3, H.P. Willis Personal Files, Columbia University Archives, Columbia University.
113 51 Congressional Record 15615 September 24, 1914; Robert J. Bulkley to HP Willis, April 2, 1914. Box 3, HP Willis Personal Files, Columbia University Archives.
114 Joint Subcommittees, Rural Credits, 328-329.
115 53 Congressional Record 7134, May 1, 1916. Originally the banks were overseen by the Federal Reserve Board itself, although this was changed before final passage.
giving “indirect aid of a substantial character.”116 (The Joint-Stock Land Banks, the non-cooperative private banks created by Moss, would be supervised by the Board, but would be independent of this direct support.)

For older believers in equal protection, the bill was an abomination, most especially its provision for the government to purchase private bank bonds.117 T.C. Atkeson of the Grange claimed that the bill “is the rankest kind of special privilege,” since it granted such privileges to wealthy bankers and capitalists. Representative Ellsworth Bathrick said with some frustration, “I have said that this bill is not agricultural, but is financial.”118

When the committee presented their final bill to Wilson, he demanded that the section on government bond purchases be removed. Congress in turn, as the New York Times said, “in order to avoid personal responsibility for eliminating a section of the bill they considered extremely popular and to fix that responsibility on the White House,” demanded a public statement from Wilson along these lines, which Wilson refused to give. Wilson instead wrote a confidential letter to Carter Glass to ask him to explain why he was “unalterably opposed to the government aid provision.” He told Glass to kill either the section or the entire bill.119 On May 12th, Wilson sent Glass another letter to read at the gathering Democratic House caucus. He said it was his “very deep conviction that it is unwise and unjustifiable to extend the credit of the Government to a single class of the community,” and that such a conviction “has come to me, as it were out of fire.”120 The implied veto threat ended the bill in the caucus, but elicited outrage. In two different front-page stories, the New York Times called the caucus, “one of the stormiest

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118 Joint Subcommittees, Rural Credits, 1914, 883.
120 WW to Carter Glass, May 12, 1914, ibid.
meetings ever held by the majority party in Congress." Congressman Willard Ragsdale gave an
“impassioned speech” where he accused the President of “breaking faith” with the Democratic
Party and its platform for rural credits. Others hurled invective at the party and its putative
leader for denying needed benefits to farmers and their investors. ENDLESS filibusters shut
down the House chamber.

Wilson’s hold on his party and on Congress, and all the old Democratic shibboleths,
seemed ever more tenuous. After a devastating defeat in the November elections for the
Democrats, however, Wilson reiterated his existing creed. In an open letter to William McAdoo,
Wilson argued that his administration had already brought about a kind of constitutional
Arcadia. Before his administration, improper laws meant “groups and classes were at war with
one another, [and] did not see that their interests were common.” Now, “[w]ith their correction,
suspicion and ill-will will pass away.” In the same vein he celebrated the new Federal Reserve as
an “instrumentality by which the interests of all, without regard to class, may readily be served,”
a subtle poke at advocates of federal support for farmers. He soon told the lame duck session
of Congress that the party’s economic program was “virtually complete,” and required no major
new programs. Others in his party disagreed.

121 “Antitrust Bills Alone to Be Passed” New York Times, May 13, 1914; Rural Credit Plan Shelved:
123 WW to McAdoo, November 17, 1914 in The Papers of Woodrow Wilson: Volume 31; For progressive
reaction to this statement, see “Presidential Complacency,” The New Republic 1, no. 3 (Nov., 21, 1914): 7.
124 Woodrow Wilson, “Second Annual Message,” American Presidency Project
http://www.presidency.ucsb.edu/ws/index.php?pid=29555. He mentioned the “great subject of rural
credits” only in one sentence, and only to say he was sorry more could not be done.
125 Near the end of the session, late one night, North Dakota Senator Porter McCumber slipped a
government mortgage bill past five “tired and sleepy Senators,” as one news report said, who were in the
chamber but who were too unconscious to object. This bill led to the quick passage of corresponding bill
in the House, and near chaos among the bill’s opponents. But the two chambers did not have enough
time to reconcile them, to Wilson’s evident relief. “Rural Credits Bill Adopted by House,” New York Times,
conference assured reporters that federal aid was out of the bill, and when a reporter told him that the
The Public Battle for Rural Credits

The open opposition to Wilson proved how heated the mortgage bill had become in Congress. Soon people on every side of the issue, and in all parts of government, mobilized to make the debate a national one. It was a massive publicity war campaign from all sides of the issue that proved how money, organization, and mobilization mattered to the interest groups Wilson pledged to keep out of government.

The National Grange, once the bastion of equal protection, began to relent on its equal protection dogma and concede that some special privileges were allowed, as long as farmers were in the lead. They argued that if a bank “shall receive any special privileges...[it] should be composed of farmers and not by capitalists of high finance.”126 As early as January 1914, the Grange had promised to send out 60,000 letters to their members demanding more government support for farmers and their loans, and members of the Banking and Currency Committees began complaining about the flood of mail.127 Herbert Myrick, head of the largest farm newspaper publishing company in America (not to be confused with the banker Myron Herrick), with millions of subscribers, described to Wilson his “[b]itter disappointment” over the failure of the government-supported bank bill, and wrote innumerable editorials and articles on the need for a national mortgage system, which helped mobilize farm supporters across the nation.128 The

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127 “Fight Over Rural Credits: 60,000 Letters to Be Sent to Farmers Throughout the Country,” New York Times, January 31, 1914; Joint Subcommittees, Rural Credits, 103, 382.
Southern Commercial Congress, through Senator Duncan Fletcher, also continued to push for land bank legislation through meetings and publicity.  

Those opposed to the bill also organized and publicized their efforts. In May 1914, a group of fifty bankers who made and sold farm mortgages met in the Astor Hotel in New York. The group styled itself the Farm Mortgage Bankers’ Association of America, which would in time become the Mortgage Bankers of America, one of the most powerful trade associations in the country. As the New York Times said, the subject “chiefly in the minds” of these men was opposition to rural credits legislation. Although many banks and investors stood to benefit from rural credit reform, these mortgage bankers or brokers, who sold Western mortgages to Eastern insurance companies, saw the proposed system as, government-funded competition. Yet even they could support some variations on the plan, such as the purely private Joint-Stock Land Banks, which they hoped would market mortgage bonds “with the prestige attached to Government institutions.” This group helped keep larger lobbies like the American Bankers Association, along with its new magazine, the Banker Farmer, divided on the proposed bills.

In this era, however, much of the national debate took place in and through government forums and government institutions. The Government Printing Office was a central tool of Congress and rural credit supporters in shaping that debate. Though today the Government Printing Office is a little-considered appendage of Congress, in 1914, it was a behemoth, another material representation of increased congressional power. That year its appropriation, at almost

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129 Duncan Fletcher to WW, December 18, 1914, Doc 94, Reel 183, WW Papers, LOC.
131 See “Uncle Sam’s Rural Credits Measure – And Some Talks About Credit,” Banker Farmer 3, no. 10 (September 1916): 5-6; “The Federal Farm Loan Act,” Bankers Magazine 93, no. 4 (October 1916): 299, which worries about “multiplicity of organizations” but celebrates the “standardizing of the farm mortgage and of the bonds issued against such mortgages so that these securities would have the widest possible market at the most favorable prices.”
$5.5 million dollars, made it significantly larger than the Department of State, the Department of Commerce, the Forest Service, the Public Lands Service, and the White House itself. It also had more employees, at almost 4,000, then the Department of Justice, the Department of Labor, the Office of Indian Affairs and a host of other better-remembered government organizations. As Congress took ever more advantage of their “franking privilege” to send its documents free of charge through the mail, the office emerged as a powerful force in public discourse.

As Chairman of the Senate Committee on Printing, the rural credits advocate Duncan Fletcher had a particular advantage. He used his position to inundate the nation with printed material on mortgage reform. Fletcher took to the Senate floor numerous times to ask unanimous consent to print his and other’s speeches, brushing away questions about their size and cost, and continued to order thousands of copies of the European rural commission report. He said that “my office has been instrumental in building up the literature on this subject now available in government publications.” He sent President Wilson a list of 17 Senate Documents totaling thousands of pages of material that he had helped print, such as “People’s Banks in North America,” “Systems of Rural Cooperative Credit,” and “Land and Agricultural Credit in Europe.” After Hollis’s rural credits bill was delayed, Hollis too got in the act, printing 9000 copies of his proposal to distribute.

The rural credit campaign printing extravaganza provoked complaints. One Senator took the floor to demand new committees on printing in both houses since he thought the current

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133 51 Congressional Record 367, December 6, 1913.
134 Duncan Fletcher to WW, December 18, 1914, Doc 94, Reel 183, WW Papers, LOC.
135 51 Congressional Record 11135, June 25, 1914.
committees “are in danger of abusing the privilege,” citing rural credit pamphlets as example.\textsuperscript{136} A Republican Senate opponent argued that Hollis and others “have had enough matter printed to inform all the world as to the rural-credit system of every country on Earth,” and a Democratic Senator had to agree with the statement.\textsuperscript{137}

Beyond printed material, advocates were also successful in using government money to continue investigations of favored the rural credits system.\textsuperscript{138} Just as the rural credits bill was being blocked by Wilson, the Senate Agricultural Committee inserted an appropriation for $40,000 for the Department of Agriculture to study mortgage reforms, hoping to provide more empirical backing for the enterprise.\textsuperscript{139} The rural credits commission to Europe, with Fletcher still at its head, was also given funds to continue operating, studying, and publicizing the debate, and the need for government-supported land banks.\textsuperscript{140}

**The New Age of American Finance**

The combined public pressure of the bill’s supporters made the demand for a rural credits bill irresistible by 1916.\textsuperscript{141} Yet the pleas of bankers and investors attracted the most attention inside the congressional chambers. When the new Joint Committee on Rural Credits, led by Henry Hollis, introduced its bill at the beginning of the New Year, they emphasized more than ever the benefits of this legislation for investment. Their report said that of “money seeking long-term investment at low rates there is an abundant supply.” This money was “in the

\textsuperscript{137}51 Congressional Record 13765, August 15, 1914.
\textsuperscript{138}Ibid, 15615, September 24, 1914.
\textsuperscript{139}Ibid, 11135, June 25, 1914.
\textsuperscript{140}See Duncan Fletcher to WW, April 6, 1915, Reel 183, WW Papers, LOC.
\textsuperscript{141}The same year Congress would pass the first Highway Act, which was also based on similar concerns about population loss and balance. Senator Robert Owen said that good roads “would increase the value of farm land,” and that “Bad Roads Mean Loss of Population.” 53 Congressional Record 7291, May 3, 1916.
hands of widows, estates, insurance companies, benevolent societies,” and in the “endowments of colleges hospitals, museums” and other institutions, which were all supposedly crying out for a new bond to buy. The goal of their legislation, as the committee report noted in one of its headings, was to have “INVESTOR AND FARMER BROUGHT TOGETHER FOR MUTAL PROFIT.”¹⁴²

At Wilson’s insistence the new act removed Hollis’s provision for the purchase of bonds by the Federal government, but did insert a clause demanding that if all the stock of the Federal Land banks was not purchased by the private cooperatives or investors, the federal government would subscribe the remainder. The stock purchases of private corporations would be the first by the federal government since Jackson and earlier Democrats had ended the practice. Yet the investment was to be retired gradually as private cooperatives provided the remainder of the funds. Wilson conceded to this mild and temporary support.¹⁴³ Agricultural Committee Chair Frank Lever told Wilson that with this provision, “we can bring in line a lot of the radicals and pass the bill.” Those remaining farm opponents of class legislation for bankers had to agree the proposed bill and its temporary government aid was their only hope for cheap mortgages. The farm groups swung into support for the act.¹⁴⁴

Yet Hollis, against Wilson’s wishes, placed an original idea of his own into the bill in the Senate. Rather than state that the federal government had to support the banks, he drafted provisions which implied that the government would support them. Under his new bill, Hollis allowed new government trust funds, such as the Postal Savings Fund, to invest in the bonds, when they had previously only invested in government bonds. He also allowed the government to deposit money in the banks for short periods. Hollis explained that under the latter provision the government “will advance to a land bank money if it gets in temporary difficulty.” He

¹⁴² 53 Congressional Record 452, January 4, 1916.
¹⁴⁴ See Link, New Freedom, 347-348.
explained that he hoped that with these provisions the “the Government should put itself back of this system to a reasonable extent.”

A further fillip to the implicit guarantee was the fact that the banks and bonds were all declared “instrumentalities” of the federal government. The term “instrumentality” was ambiguous then as now, but to many it implied more expansive government support. Myron Herrick wrote a letter that claimed the term “instrumentalities...is mere subterfuge.” Institutions “empowered to use the cash, good faith, and credit of Government are Governments institutions to the extent that investors in their shares and bonds would have a moral, if not a legal right, to look to the United States for return of their money.” Others saw this support in a positive light. North Dakota Senator Asle Gronna, said that with such implied government backing these “farm-loan bonds will be absolutely as good as Government bonds.”

In the House, despite Wilson’s and Carter Glass’s objections, Frank Lever also pushed for government deposits in the banks. Lever supported it as a measure to protect investors, arguing “The system will be only just as strong as this connecting bridge- this bond. The system will succeed or fail just in proportion as the bond is strong or weak.” Representative James Byrnes preached on the implicit guarantee of such a clause, saying that if “Congress goes to the people of this Nation and invites them to become purchasers of these bonds... then it becomes a duty on the part of this Congress to take such action as makes absolutely sure this interest will be met annually, and this is the only way we can guarantee it, as I see it.” One opponent,

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145 53 Congressional Record 6696, April 24, 1916.
147 53 Congressional Record 6794, April 25, 1916.
149 Ibid, 7820-7821, 7823, 7826, May 11, 1916. Wilson, who had remained conspicuously silent after the introduction of the Senate bill, wrote to thank the Senate for having “perfected” the measure. See WW to
however, complained that this was the first time he heard “any real, true, honest, sincere ‘friend of the farmer’ plead for the investor. According to the gentleman from South Carolina [Byrnes] and others, we ought to pass this bill in order to protect the man whose money is to be invested in these bonds. In other words, we will drop the farmer for the moment, to look after the Rockefellers; we will take care of the Carnegies now.” Nonetheless, the tie between the farmers and their potential investors was cemented; a vote for government deposits won 80 to 66, with supporters from both parties, to great roars and general applause. One congressman noted after the vote that he heard a gentlemen state that “he would purchase these bonds since the Government would back them up.” Hollis’s demand for what he felt was “wise” class legislation had triumphed on both sides of the aisle and in both chambers of Congress.

Despite Wilson’s opposition to these provisions, he was trapped by the popularity of the bill. Buoyed as it was by publicity campaigns in a presidential election year, a year in which the farmers would most likely be the determining vote, it would have been impossible to veto. The constructive ambiguity of the government guarantee in the bill also allowed Wilson to claim he was not going back on principles. He thus made a political event of the signing. On Monday July 17th, 1916, at 10am, in a crowded White House room, with official photographer in tow, as the farm newspaper editor Herbert Myrick recommended for his papers, the President signed the Federal Farm Loan Act into law. It was a red letter day in more ways than one.

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150 53 Congressional Record 7827. 7385, May 11, 1916.

151 Ibid, 7829.

152 Ibid, 7833.

153 Ibid, 8017-8018, May 15, 1916; “Rural Credits Bill Is Passed by House,” New York Times, May 16, 1916; “Credits Bill is Passed,” Washington Post, May 16, 1916; Government deposits were limited to up to $6 million at any one time. The act also made the bonds eligible for purchase by the Federal Reserve Banks, while previous the banks could only directly purchase (as oppose to discount) government debt. See “The Federal Farm Loan Act, Approved July 17, 1916, With Marginal Notes and Index,” 64th Cong., 1st sess., S. Doc. 500, 1916, 24, 27.

154 WW to Joseph Tumulty, undated, Reel 183, WW Papers, LOC.
The Federal Farm Loan Act inaugurated a new era in American government and American finance. Most importantly, it created a new type of banking institution, one where the implicit backing of the government would help market its bonds to the investing public. Along with the Federal Reserve Banks, the Federal Land Banks also began a new era of government privileged banks. While many Democratic reformers had fought throughout Wilson’s presidency for old ideals, and continued attacking special privileges and class legislation, the Democratic Party had begun reshaping both the government and banking to move away from these ideals. The new advocates hoped government support for farm finance and for mortgages would help farmers and their banks create a new economy balanced between the rural and urban sectors. Yet in order to secure investment in these new institutions, farmers had agreed to put bankers at the helm. In the following decade, the bankers would take advantage of the opportunity.

Figure 2.3: Woodrow Wilson Signing the Federal Farm Loan Act, July 17, 1916. Source: Farm Credit Archive. http://www.farmcreditarchive.org/
CHAPTER III

THE FEDERAL LAND BANKS AND FINANCIAL DISTRESS, 1916-1926

When Secretary of the Treasury William McAdoo called the Democratic lawyer George Norris at his Philadelphia home and asked him to join the new Federal Farm Loan Board, Norris was stunned. He admitted he knew almost nothing about the Board or the Federal Farm Loan Act which created it. He had also never had any particular connection to, or concern about, farming. McAdoo, however, waxed lyrical about the importance of the new position, and claimed that its “dignity and responsibility” could be inferred by its high salary, $10,000 a year. Such a plea resonated with Norris, since he had often said that, “Public spirit can seldom do its work well on an empty purse.”¹ As a self-starting lawyer Norris had already acquired a tidy fortune through his work pitching railroad bonds, and as a current deputy chairman of the Federal Reserve Bank of Philadelphia, Norris had also been a part of the administration’s finance reforms. After reflection, Norris thought he might be of service to the farm system, “notably in the financial end.” He later said he was excited to be part of “the establishment of an entirely new governmental function.”²

The Federal Land Banks were an original government function. Although the banks were nominally private, and were supposed to be operated for the benefit of their farmer shareholder and borrowers in local cooperatives, they were also declared a federal “instrumentality” with an implicit guarantee from the government. During the first decade of

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² William McAdoo to Woodrow Wilson, July 27, 1916, Reel 183, Woodrow Wilson Papers, Library of Congress, Manuscript Division, Washington D.C. Norris had previously, however, worked on mortgage issues through his leadership in Philadelphia’s Housing Association, and had helped draft the state’s first housing code. He claimed, however, that McAdoo’s call began “four years of the most strenuous work of my life,” but that George W. Norris, *Ended Episodes*, 5, 130-133. Norris was no relation to the famous Nebraska Senator of the same name.
their existence, the government’s fixation with protecting the financial markets, and selling the Banks lucrative bonds to it, kept control out of the hands of farmers and in the new Federal Farm Loan Board, whose banking-associated members became powerful players in the American economy.

The Land Banks and their Board in this period were but one part of an increased focus by the federal government on protecting banking and finance. With the rise of the Federal Reserve Banks and the Federal Land Banks, and then the increasing financial demands of the First World War, the federal government made unprecedented efforts at directing and succoring the private investing world. Later, when the postwar deflation instigated a slew of rural bank failures, the government began to use its new financial powers to bolster the countryside’s tottering banking system, continued creating new pseudo-public financial institutions to do so. Besides just the short and long-terms of the two new federal banking systems, the government extended support to farmers’ financial needs for all types and lengths of loans. Yet the government’s focus remained protecting the financiers, not the farmers. Although politicians continued to claim such actions were necessary to maintain a balanced economy between farmers and industry, the link became ever more tenuous, and the support for bankers themselves more obvious.

The expansion of government’s responsibility for financial stability and the protection of banks represented a new and significant role for federal politicians and officials, one which continued through the administrations of both parties and throughout the next decade. While many researchers have noted the split between a reformist Wilson presidency and the supposed “normalcy” of the postwar years, this chapter will demonstrate the continuity of political support for banks and mortgage-based balancing that ran through each administration and
through their relationship to the rapidly expanding Land Banks.\(^3\) When a newly empowered farm lobby pressed the advantages of a “balanced economy,” its proposed reforms were often reshaped into measures to protect banks and investors. The result of such efforts was a continuous intertwining of politicians, appointed government officials, and bankers. Many officials, however, seemed oblivious to the new relationship. George Norris, apparently without a hint of irony, celebrated his time with the Land Banks but wrote that “If there are any two things that will not mix without the most disastrous consequences, those two things are politicians and any form of banking or moneylending.”\(^4\) That is precisely the task Norris himself, and his nation, was embarked upon.

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\(^4\) Norris, *Ended Episodes*, 149-150.
The Merging of Politics and Banking

Despite earlier pleas by farm groups to allow farmers to manage the banks, all except one of the four new Farm Loan board members appointed by the administration would be intimately attached to the banking industry. After Norris, who would become the executive head of the Board, or Farm Loan Commissioner, the most influential member was the weighty and gregarious Judge Charles E. Lobdell, its Republican standard-bearer. In a speech before the Mortgage Bankers Association he referred to “we bankers, and I use the term ‘we’ with justification.” Before joining the Board, Lobdell was President of at least three banks and one building and loan association, and had recently been President of the Kansas Bankers’ Association. He continued to own stock in at least two of those banks during his time on the Board, and rarely missed an opportunity to feather his own nest.\(^5\) W.S.A. Smith was supposedly there to placate the demand for an actual farmer on the Board, but he was also a director of the Stockyard National Bank of Sioux City, Iowa.\(^6\) (The fourth Herbert Quick was a statistician and rural credits expert.)\(^7\) When President Woodrow Wilson himself met the Board at their swearing-in ceremony, his only question was appropriate: “Do you think the bonds can be sold?” Norris told him that they had just the group that could do it.\(^8\)

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\(^5\) H.M. Hanson, ed., “Proceedings of the Fourth Annual Convention of the Farm Mortgage Bankers of America,” September 11-13, 1917, 48; McAdoo to WW, July 27, 1916, Reel 183, WW Papers, LOC.
\(^6\) William McAdoo to WW, July 27, 1916, Reel 183, WW Papers, LOC.
\(^7\) Ibid.
\(^8\) Norris, *Ended Episodes*, 167.
The titular chair of the Federal Farm Loan Board was the Secretary of the Treasury, then William McAdoo, who had formed a tight bond with the President. Like Wilson, McAdoo was also the son of a Southern Scotch-Irish Presbyterian professor, and a former lawyer. His marriage to Wilson’s daughter cemented the tie. Wilson called McAdoo “attractive and dynamic,” and came to rely on him ever more as his presidency continued.⁹

Wilson also had an immense respect for the office of the Secretary of the Treasury, and this enhanced McAdoo’s stature. In the later editions of Wilson’s most famous work, *Congressional Government*, he regretted he did not earlier “give sufficient weight, I now believe, to the powers of the Secretary of the Treasury,” whose “power has proved at many a critical juncture in our financial history - notably in our recent financial history - of the utmost consequence.”¹⁰ For years the Secretary of the Treasury had used his power to deposit money in national banks to assist banks during a financial panic. The Treasury had not tried to put

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deposits in specific failing banks, rather, the goal had been to move money into or out of the banking system in general, by taking money out of Treasury vaults and depositing it across the banking system.\(^{11}\) While Wilson typically opposed such discretionary benefits for certain groups, he claimed that historically the Secretary “has exercised, not political, but business power. He has helped the markets as a banker would help them. He has altered no policy.”\(^{12}\)

Wilson’s blind spot to the supposed political nature of such banking intervention would become more manifest as McAdoo himself took new powers, and as he pushed new policies with financial ends in mind.\(^{13}\) During the banking panic at the outbreak of World War I, McAdoo provided insurance to private shippers in order to export more crops and thus import more gold. The goal was not farmers’ earnings but monetary stability. As economist William Silber said, “McAdoo had suspected all along that the solution to the financial crisis lay in agricultural exports.”\(^{14}\) McAdoo later inaugurated the wholly-federally owned U.S. Shipping Corporation with the same ends in mind. He began to deposit government money in specific southern banks

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\(^{12}\) Wilson, *Congressional Government*, 1900, vii-viii.

\(^{13}\) William Silber argues that McAdoo’s actions in August 1914 mark “the birth of the ‘Too Big to Fail’ doctrine in American finance,” yet his main example is McAdoo’s failure to enforce reserve requirements on New York City banks during that city’s fiscal crisis. In fact, the “bail-out” of the city Silber describes was wholly private, and led by investment banks such as J.P. Morgan’s (who provided the only, self-interested, hint that the Treasury supported this move with its regulatory relief). Silber also argues that such work was primarily to support the city itself and not the banks, which are the focus of this dissertation. The use of the emergency currency provisions of the so-called Aldrich-Vreeland Act, and McAdoo’s acceptance of a broad array of collateral for this currency, does represent an early move away from short-term real bills towards providing longer loans to the bank, but these particular provisions were soon repealed. William Silber, *When Washington Shut Down Wall Street: The Great Financial Crisis of 1914 and the Origins of America’s Monetary Supremacy* (Princeton: Princeton University Press, 2008), 123, 70; J. Laurence Laughlin, “The Aldrich-Vreeland Act,” *Journal of Political Economy* 16, no. 8 (Oct., 1908): 501-508.

to help finance cotton crop movements, a stark departure from the broad government deposits of earlier years.\textsuperscript{15}

McAdoo also became a salesman for the new Federal Land Banks and their bonds. When the Board conducted hearings to decide where to place the new Federal Land Banks, McAdoo used them to celebrate the benefits of the bonds.\textsuperscript{16} The Board started their hearings in not in farming regions in the West and South, but in towns in the Northeast, because, as Norris noted, that was “where there is a large amount of capital available.” While there, he and his group felt “inclined to dwell upon advantages of those bonds as investments.”\textsuperscript{17} At one hearing McAdoo said the “Act endeavors, through the machinery it provides, to establish a sort of bridge of communication between farmers and investors,” so that investors can get “a prime character of credit, safe, thoroughly desirable, and attractive.”\textsuperscript{18}

McAdoo also emphasized the benefits of the bonds by hinting at the implicit government guarantee. To a large crowd in Augusta Maine, he noted that the bonds were “printed in the Bureau of Printing & Engraving in Washington, with the same care and skill as is exercised in printing the currency of the United States...[and] these are the only bonds issued by any bank or quasi public institutions or private institutions which are given the protection of the Secret Service of the United States.” Although these statements celebrated the hardiness of the farm loan bonds against counterfeitters, McAdoo’s point was to imply, as he would time and again, that they were just as good as U.S. currency or debt.\textsuperscript{19}

\begin{footnotes}
\footnotetext{15}{Annual Report of the Secretary of the Treasury on the State of the Finances For the Fiscal Year Ended June 30, 1914 (Washington: Government Printing Office, 1915), 25}
\footnotetext{16}{Craig, Progressives at War, 17.}
\footnotetext{17}{“Transcript of Hearings, Augusta, Maine August 21, 1916,” 9, Box 1, Entry 4, Records of FFLB, Minutes of Hearings, 1916, Record Group 103, Farm Credit Administration, National Archives, College Park.}
\footnotetext{18}{“Transcript of Hearings, Springfield, Mass., August 23, 1916,” 3-4, Box 5, Entry 4, Records of FFLB, Minutes of Hearings, 1916, RG 130, NARA II.}
\footnotetext{19}{Ibid, 5-6. McAdoo then went on to discuss the bonds’ freedom from federal and state taxation and their ability to be purchased for U.S. government trust funds, just like Treasury bonds.}
\end{footnotes}
Most of the speakers of these first hearing were bankers interested in the bonds. Even a member of the Maine State Grange, who noted that he and his organization worked hard to pass the act, thought it was “perhaps more applicable to [the] middle-west and the south than to conditions in New England,” where rates of interest on mortgages were already low and uniform. While another farmer in attendance at the Maine hearings denounced the plan as “unworkable,” the State Banking Commissioner argued for its importance.20 In the Farm Board’s Annual Report, the only section given to statements from the hearings was on “the many commendatory statements made by bankers” about the act.21

When the Board returned to Washington, they were confronted with an avalanche of mailed material from the towns they had visited, all trumpeting their benefits as a lucrative location for a new Federal Land Bank. The towns hoped the new Land Bank would be the locus of more federal and financial services. Petersburg, Virginia’s pamphlet noted it was within “easy reach of the Federal reserve bank [in Richmond] and of the largest member banks in the Federal Reserve System...through which many of the farm loan bonds will be marketed.”22

Some of the cities’ arguments, however, were explicitly political. Columbia, South Carolina, sent a package of colored maps, notes, and politicians’ letters of support. In a note entitled “Congressman Lever’s Interest” they began by stating that “We know the Board to which we address this argument is not a political body,” but “you cannot, any more than we can, be insensible to the fact that this district, of which Columbia is a part” is represented in Congress by “the chairman of the most important committee in the House of Representatives- the committee on agriculture,” and that that man, Frank Lever, had an essential part in formulating

Norris noted later that one very important “controlling influence in our decisions” on locating the banks was to avoid “locating a bank in a state capital” which is “necessarily a political hotbed.” Yet Columbia, the capital of South Carolina, got its bank. Lever himself, soon after leaving Congress, was appointed to the Farm Loan Board. He later admitted that he thought the position was “something that would let me rest a little bit, after six years of hard labor” in the House of Representatives.

Political appointments were soon made up and down the Board’s and the banks’ workforces, especially with senatorial encouragement. As Norris said, “we were a Bureau of the Treasury Department and Treasury appointments are regarded as ‘Senatorial Patronage.’” W.S.A Smith wrote to one Land Bank President that “it is extremely necessary of the Farm Loan Board to have friends in Washington, and if the Senators or Congressmen give us the names of good men capable of filling any positions which may come, we are very, very, very much in favor of obliging them in this.”

After Senator Duncan Fletcher demanded one more relative be appointed to the local land banks, the bank president complained that he wanted no more of “Senator Fletcher’s kin forced on us.” The appraisers, who evaluated the land that the banks loaned on, were a particular source of political envy.

Many appointees to the Federal Land Banks were local bankers with political heft, but appointments were not the only way to give banks favors. The Land Banks kept their money deposited in commercial banks, and these understood the necessity for political pull in attracting such funds. In one case, Secretary McAdoo received a telegram from a national bank

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23 Columbia, South Carolina Call for Federal Land Bank, October 25, 1916, Box 2, Entry 5, Correspondence Re Location of Federal Land Banks, 1916-1917, Alabama to New England, RG103, NARA II.
24 Senate Committee on Banking and Currency, Sale of Farm Loan Bonds: Hearings on S. 620 and S. 2183.67th Cong., 2nd sess., 1922, 63.
25 Norris, Ended Episodes, 150-151; W. S. A. Smith to R. H. Welch (Registrar of Columbia FLB), 12 July 1917, Box 1, Correspondence Concerning the Federal Land Banks, 1916-1926, RG 103, NARA II.
26 F.J.H. Engelken to W. S. A. Smith, 11 June 1917 and 14 June 1917, Box 2, ibid.
President in Chattanooga, the city where McAdoo had made his first fortune, who asked if his bank could be selected to hold Land Bank funds. McAdoo passed this telegram to Norris, who told one Federal Land Bank President that he “presume[d] that he is himself a friend or acquaintance of Secretary McAdoo,” and asked him to provide the bank some consideration. Three days later the Land Bank sent a check for $30,000 to be deposited in the bank.

For the first bond offering, Norris knew he needed salesmen connected to the wider financial world. “I realized that if we attempted to sell our bonds in competition with the municipal, railroad, and utility bonds offered by the established Bond Houses, we could not expect any co-operation from those Houses, but would probably have them either lukewarm or positively hostile.” He wanted to pull the country’s financial powerhouses close to his Board, and to simultaneously move his new banks into their orbit.

B. Howell Griswold, a member of the “old-established and well-regarded firm of Alexander Brown & Sons,” of Baltimore, had helped lobby for a land bank in their city with the promise that he would help sell the bonds. When Norris later asked for his help, Griswold said “I am a Democrat, Mr. Norris,” and that he wanted to help the farm banks “both for party reasons and because I believe that this is a sound and helpful measure.” Griswold cajoled what he called three of the “most conservative investment houses” in the nation to add stature to the bond sales, including such luminaries as Lee, Higginson and Company of Boston, and Brown Brothers and Company of New York. The group would underwrite and guaranty the sale of all farm loan bank bond issues for most of the

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27 George W. Norris to Walter Howell, April 4, 1917, Box 51, ibid.
28 Walter Howell to George W. Norris, April 7, 1917, ibid.
29 Norris, Ended Episodes, 168-169.
next two decades. It turned out to be one of the most lucrative deals in their history. McAdoo privately wrote the bond houses a letter noting all the special government benefits given to the banks, which they placed in their selling circular. To give the sales a bipartisan sheen, Griswold also employed former Supreme Court justice and Republican presidential candidate Charles Evan Hughes to write a capacious legal opinion asserting the constitutionality of the system. Yet Hughes also noted that the implicit guarantee of the bonds was “binding on the conscience” of Congress, and that the bonds “must be regarded as obligations having the support of the good faith and credit of the United States.”

The Board also worked to spread the benefits of the bonds to all parts of the financial system. Although the government postal savings trust fund at first refused to invest in the bonds, it had to deposit the money it did collect in local banks, and these banks had to put up collateral to protect the deposited funds. Norris wrote to the Postmaster General to ask that he allow farm loan bonds as collateral for these deposits, which was done. The Board also asked Federal Reserve Board to classify national bank investments in farm loan bonds as a normal bank loan and not as an investment in farm real estate, which was still limited, and this was done as well.

The Board campaigned in state legislatures to make the bonds eligible for all manner of financial institutions. The goal was not only to open up new sources of funds, but give the states’ imprimatur to the investment. As the Wall Street Journal reported, the Board felt that “it would be good advertising and a long step toward popularization of these securities” if states

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32 George W. Norris To A.S. Burleson, March 9, 1917, Box 1, Correspondence Concerning the Federal Land Banks, RG 103, NARA II.
allowed “insurance companies and fiduciaries,” which were limited by law to only the safest investments, could buy the bonds. Norris went to his home state of Pennsylvania, where his friend, the state attorney general, wrote bills making the bonds legal for banks, insurance companies, and trustees of widows and orphans. Norris hobnobbed and drank with the political panjandrums. As he said, the bills sailed through “both Houses unanimously, with no questions asked, or opposition voiced...It was in a perfectly proper cause, but I could not help thinking that it was a beautiful example of what Theodore Roosevelt called ‘invisible government.’” By the end of the first year, 22 states passed laws.

The Board harvested the fruits of their efforts in their first bond sale, in July 1917. Norris called it an “unqualified success.” It provided over $10 million to the banks to offer mortgages to farmers across the country. Griswold could be content that the four main bond houses, through what he called an intensive “educational program,” enlisted an ever-growing horde of smaller firms to market the bonds. Eventually almost 1,000 firms throughout the country would help sell the farm loan bonds, who together used almost 10,000 salesmen on the ground to market them. Norris and his bond salesmen and bankers created a veritable army of farm loan bond believers to market the new investment. The gains from such an investment also redounded to politicians who created it. As one Land Bank President said, the “popularity of this act” was due to the fact that “the real estate security is going to be for the first time commercialized,” or able to be sold and traded anywhere in the world by any investor.

35 Norris, Ended Episodes, 179-181.
37 Norris, Ended Episodes, 171-172.
39 “Minutes [Transcript] of the Meeting of the Presidents of the Twelve Federal Land Banks and the Farm Loan Board Held at Washington March 15-17, 1917,” Box 51, Correspondence Concerning the Federal Land Banks, RG 103, NARA II.
Investors had the government to thank for the commercialized mortgage. Through the land bank system, the government’s popularity was tied to its ability to bring financial gains.

The “Financial Front” in the First World War

While the government solicited investors to support the new semi-public enterprise, it also enlisted investors in the more pressing demands of war, and become ever-more entangled with them. On April 2, 1917, Woodrow Wilson, in a fiery speech for Congress, demanded a declaration of war against Germany, and Congress overwhelmingly obliged. One result was a demand for funds unparalleled in American, or world, history. To meet this demand, Congress gave Secretary McAdoo unprecedented discretion to offer billions of dollars of “Liberty Bonds” to the public.40 From his experience selling farm loan bonds, McAdoo realized that his bond sales had the dual advantage of raising money and eliciting political support. He argued that government bond salesmen had “to capitalize the emotion of the people,” which would both help sell the bonds at a lower rate and also help people identify with the war effort.41 McAdoo said a “man who could not serve in the trenches in France might nevertheless serve in the financial trenches at home,” in what he grandiloquently called the “financial front.”42 McAdoo argued that buying liberty bonds was not merely a financial act but “the expression of a fundamental patriotism.” In his soon-to-be infamous Liberty Bond drives, McAdoo strove to

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make the American citizen synonymous with the American investor, and he employed all the methods of propaganda and popular pressure at his disposal to do so.\textsuperscript{43}

To encourage bank investment in the war effort as well, McAdoo supported and Congress passed the War Finance Corporation act, which created a new public corporation that guaranteed bank loans to essential war industries. William McAdoo argued it “should be regarded primarily as a measure to enable the banks...to continue to furnish essential credits for industries and enterprises” needed for the war, and to prevent runs on these banks. Benjamin Strong of the New York Federal Reserve Bank argued that people would buy the new Corporation’s bonds “although the Government did not guarantee them, because of the feeling of assurance they would have due to the Government’s interest, which he thought “would have a strong sentimental effect.”\textsuperscript{44} It was another implicitly backed government corporation.

The flood of “liberties” and of bank loans to essential industries, however, posed a threat to investors who had placed money in the land bank bonds, which now had trouble finding new investors.\textsuperscript{45} To bolster the farm loan banks, McAdoo deposited hundreds of thousands of federal dollars in them, as Senator Henry Hollis had argued the government should. McAdoo understood more direct support was necessary, and would have to come through Congress.\textsuperscript{46} Norris was conflicted about the move. He wrote that “The question seems


\textsuperscript{44} Vern McKinley, \textit{Financing Failure: A Century of Bailouts} (Oakland, CA: Independent Institute, 2011), 48. According to William McAdoo, the inability to discount non-commercial paper with the Federal Reserve led banks “to discriminate against loans on ineligible paper, even where such loans were vitally necessary for war purposes,” which the War Finance Corporation would rectify. The act also contained special discount provisions for savings bank depositors and building and loan associations to prevent runs from these institutions. Senate Committee on Finance, Hearings on Establishment of a War Finance Corporation, 65\textsuperscript{th} Cong., 2d sess., 1918, 8, 14, 147-148.

\textsuperscript{45} Sung Won Kang and Hugh Rockoff, “Capitalizing Patriotism: The Liberty Loans of World War I,” \textit{Financial History Review} 22, no. 1 (Apr., 2015): 45-78. This paper also demonstrates that McAdoo’s “capitalization” of patriotism had little actual effect on the bonds’ price or yield.

to me to be whether we shall continue ...as a self-sustaining business proposition, or whether we shall appeal to Congress for help from the National Treasury.” Norris, still attached to the old Democratic creed of “equal protection,” worried that this would mean “giving to one class an advantage to which it is not fairly entitled.”

When McAdoo and the Treasury insisted on pressing a law that would allow the government to buy bonds directly, Norris complained that “I had not come to Washington to be a mere conduit for passing out Government money to farmers,” again seemingly oblivious to his task, but said “I could only bow to his decision.”

The debate on direct government support for the farm loan bonds commenced on the reconvening of Congress in 1918, and it is significant that such support was debated on the day the administration furthered its financial control of the country. Earlier that day, President Wilson stood in the House’s rostrum over a joint session of Congress and in stentorian tones exclaimed that he had taken complete control of the nation’s railroads. He claimed that protecting the “owners and creditors of the railways, the holders of their stocks and bonds,” was an essential goal of this takeover. “Indeed, one of the strong arguments for assuming control of the railroads at this time is the financial argument. It is necessary that the values of railways securities should be justly and fairly protected.” Railroad stocks and bonds “constitute a vital part of the structure of credit, and the unquestioned solidity of that structure must be maintained.” ( Appropriately, William McAdoo was placed in charge of the nationalized railroads.) Furthermore, in what could only be a subtle explanation for his abrupt shift on the farm loan bond debate, Wilson said one reason the government needed to take control of such large organizations was that “it is of the utmost consequence to the Government itself that all

47 George Norris to William McAdoo, December 4, 1917, Box 237, General Correspondence, RG 103, NARA II.
48 Norris, Ended Episodes, 175.
great financial operations should be established and coordinated with the financial operations of the Government. No borrowing should run athwart the borrowings of the federal treasury.”

The Land Bank bond measure, the administration hoped, would both secure the safety of the land bank bonds and allow the government to synchronize all its financial offerings. When Carter Glass introduced the bill, he said he would usually oppose such a measure, but the Board told him if the banks were “guaranteed reasonable assistance by the Government there will be a psychological change of attitude” from investors who would jump back into the bonds. Joseph Cannon, the erstwhile boss of the House, rose to say that this act confirmed the Charles Evan Hughes opinion that the government was “morally back of these bonds.” He asked why they should not just have it spelled out clear in “black and white”? Congressman Louis McFadden, a conservative Republican who had always claimed the farm loan system would need government aid, said in that debate he “might assume an attitude to-day of ‘I told you so.’” The bill easily passed, ending the battle around direct support for the banks, which had occupied most of Wilson’s first term.

Yet as the war ground on, the Land Banks faced another existential crisis. The Farm Mortgage Bankers Association of America, which had been formed to fight the original Federal Farm Loan Act in Congress, and which formed the one locus of financial opposition to the banks, began a legal suit against them. The mortgage association released a public explanation of the lawsuit, where it complained the banks “are purely for the farmers...That is why the law is

50 56 Congressional Record, 591, January 4, 1918.
51 Ibid, 592. Pleas for balance were not completely forgotten either. Texas Congressman Hatton Sumners argued, as did others, that the land bank bill was an “imperative necessity of helping agriculture to raise its bid for population.” Ibid, 612.
52 An Act Amending Section Thirty-Two, Federal Farm Loan Act, Public Law 95, 65th Cong., 2d sess. (January 18, 1918), 431-432.
correctly termed class legislation.” More than a mere ideological complaint; such an act of class legislation and the extension of the inherently government privilege of tax exemption made the banks, in the eyes of the association, unconstitutional. In public mailings, the associations brought up the old shibboleths and claimed that the bonds’ freedom from taxation represented “unfair discrimination in favor of a certain class.” They issued another public pamphlet in which the organization, as the Wall Street Journal said, “reiterate[d] its stand in opposition to what it considers class privilege.”

The Land Banks, in turn, hired the best legal team to make a reply, and they argued that the government had an innate and enduring responsibility for financial stability. William McAdoo had just resigned as the Secretary of the Treasury, citing, in a surprisingly forthright letter, the “inadequate compensation” of a cabinet officer and his desire to “retrieve my personal fortune.” (He was replaced by Wilson’s close ally Carter Glass.) Towards his goal, McAdoo was quickly re-hired as a “special assistant attorney general” to argue on behalf of the government in the Land Banks’ case, with an unspecified compensation. He was also paid separately by the Chicago Joint Stock Land Bank, one of the for-profit but still tax-exempt corporations that original act had allowed to be chartered, and which were just starting to organize. It was McAdoo’s first case in almost a decade, and it was to defend the system he helped organize. The farm loan system also hired George Wickersham, Taft’s former Attorney General, and Charles Evan Hughes, former Supreme Court justice and presidential candidate. Many recognized that this was one of the most powerful legal teams ever assembled. The

54 “Claim Land Banks Privileged and Exclusive,” Wall Street Journal, September 13, 1919.
55 They argued that the “principle benefit of tax exemption goes to millionaires.” “Claims Tax-Free Farm Loan Bonds Unjust,” Wall Street Journal, January 22, 1919.
58 McAdoo, Crowded Years, 440.
team’s argued that due to the constitutional provisions giving the federal government control over the currency, it had a special right to organize and direct the national financial system.  

The lawsuit did not break the banks, but it did mean the banks required more federal support. After the oral argument before the Supreme Court, the Court stalled on its decision for months. The very existence of the suit, however, made sale of the system’s bonds impossible, as the mortgage bankers association noted with glee. Congress quickly and almost unanimously granted the Treasury the ability to buy more bonds again.

When court decided in favor of the Land Banks in February 1921, stating that the government had almost unfettered authority over anything dealing with currency, the Treasury had purchased almost $180 million in federal farm loan bonds, a not insignificant sum considering that they entire federal budget before the war was barely $700 million. The end of the twin crises of the war and the lawsuit seemed to tie the Land Banks ever closer to the federal government and its increasingly less subtle indications of support, even while they and the government provided ever more explicit support to bankers and investors.

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61 Ibid, 7257-7259, 7292.

62 Smith v. Kansas City Title & Trust Company, 255 U.S. 180 (1921), by Justice Benjamin Day. Within a year the case was being cited by new war corporations, such as the United States Shipping Corporation, and other government “instrumentalities” to defend their existence, and to this day remains an important precedent for an expansive interpretation of Congress’s power to create new corporations and organizations. Sloan Shipyards Corporation v. U.S. Shipping Board Emergency Fleet Corporation, 258 U.S. 549 (1922) Brief for the United States Shipping Board Emergency Fleet Corporation, filed March 13, 1922, p. 35. U.S. Supreme Court Records and Briefs, 1832-1978. Gale, Cengage Learning. Rutgers Law Library; Gail Radford, The Rise of the Public Authority: Statebuilding and Economic Development in Twentieth-Century America (Chicago, 2013), 41-69.
Figure 3.2: Cartoon Celebrating the Supreme Court Decision Upholding the Federal Farm Loan Act. Reprinted in Literary Digest, March 26, 1921.

The New Agricultural Lobby and Republican Balance

By the time the federal farm loan system was revived, agriculture in America faced an extraordinary crisis. The wartime boom in farm commodities and land prices was ending. Numerous government agencies and public corporations formed during the war, often organized by the engineer Herbert Hoover, such as the Food Administration, Grain Corporation, and Sugar Equalization Board, had supported crop prices but were shut down in mid-1920.63 The War Finance Corporation had been modified under its new head, the stockbroker Eugene Meyer, to subsidize export credits for farmers, but it too shut down around the same time.

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Along with the efforts of the Federal Reserve to wring the wartime inflation out of the economy, and the arrival of a bumper harvest season in 1920, farmers suffered through what some referred to as a “price panic” that Fall.\(^{64}\) Mortgage debts, so freely given by the Land Banks and private banks during the boom and based on once inflated crop prices, suddenly seemed burdensome, and would continue to be so for most of the following decade. One Oklahoma farmer wrote to the Secretary of Agriculture imploring for a moratorium on such debts. “Why should we all have our homes taken from us?” he pleaded.\(^{65}\)

The new Republican administration of Warren G. Harding, along with a solidly Republican Congress, rode into office on the pleas of similar farmers oppressed by the panic. Although the Republicans had occasionally hewed to older ideas about class legislation, a progressive wing of the party had long believed in the need for balance of agriculture and industry. During the 1920s, the demands of increasingly radical rural congressmen would cause the party to fully embrace the ideology.\(^{66}\) Henry C. Wallace, the editor of \textit{Wallace’s Farmer}, and Harding’s Secretary of Agriculture, would become a prominent voice for the balance movement.\(^{67}\) In 1920 he put a plank in the party platform which argued, “[n]ational greatness and economic independence demand a population distributed between industry and the farm, and sharing on equal terms the prosperity it holds is wholly dependent upon the efforts of both. Neither can prosper at the expense of the other without inviting joint disaster.” In this vein, the

\(^{64}\) \textit{Shielder}, \textit{Farm Crisis}, 46-58.


\(^{66}\) Herbert Croly, for instance, argued that “It is not too much to say that substantially all the industrial legislation, demanded by the ‘people’ both here and abroad and passed in the public interest, has been based essentially on class discrimination.” He said particular reformers could argue that they were merely for equality “but that is an easy and thoughtless way of concealing novel purposes under familiar formulas. Any genuine measure of economic and political reform will, of course, give certain individuals better opportunities.” Herbert Croly, \textit{The Promise of American Life} (New York: MacMillan Company, 1914 [1909]), 191-19; See also Henry A. Wallace, \textit{Agricultural Prices} (Des Moines: Wallace Publishing Company, 1920).

\(^{67}\) Winters, “The Persistence of Progressivism,” 115
platform argued for furthering the new farm loan system and for placing a farmer directly on the
Farm Loan Board.68 Harding, in his first annual message to Congress, took these pleas to heart
and said he hoped Congress could help “restore the proper balance between city and
country.”69

The Republicans though, would focus just as the Democrats did on supporting
agriculture by supporting banks and other lenders. One reason for this focus was that although
the “price panic” had been disastrous for farmers, it had also been disastrous for the banks who
loaned to them. The banks’ distress, like that of the farmers, would not soon pass. In the 1920s,
more banks would fail than in any previous decade in American history, the vast majority of
them in small, rural communities. Out of 28,000 banks existing when the decade began, almost
8,000 would collapse.70 Wallace himself worried that the “effects of the agricultural depression
on business is clearly reflected by the failure of banks,” which “have been especially severe in
the agricultural sections of the country.”71 One study by economist O.M.W Sprague from the
end of the decade declared that “the great majority of banks failed,” because of the stress of
lower farm prices after the war, “stress that was particularly severe because ...[of] a large
increase in the number of farms mortgaged and the amount of mortgage indebtedness.” The
simultaneous bust in both crop and land prices meant bad farm loans would bedevil these
banks, and the entire banking system, up through the Great Depression. Bankers pled with the
government to do something about what they now termed “frozen assets,” debts that banks

68 Shielder, Farm Crisis, 34; 1920; “Republican Party Platform of 1920,” June 8, 1920. American Presidency
Project http://www.presidency.ucsb.edu/ws/?pid=29562
70 O.M.W. Sprague and Randolph Burgess, “Money and Credit and Their Effects on Business,” in Recent
Economic Changes in the United States: Volume II, by Committee on Recent Economic Changes (New York:
71 Henry C. Wallace, Our Debt and Duty to the Farmer (New York: The Century Company, 1925), 41-43, 62-
63. Wallace also had a full page map of bank failures by state and a full page graph demonstrating
increased bank failures especially in rural areas of the country after the war.
could neither collect on nor sell, most especially the new long-term farm mortgages allowed under recent reforms.72

The Land Banks, even if they had helped inflate the previous land boom, provided a potential remedy for both banks and borrowers. They could provide even more and cheaper loans to pay off the old debts.73 Thus in a special congressional session Harding called in early 1921 to address the farm crisis, his administration demanded a measure to deposit even more government funds in the land banks. The industrial and banking mogul, stiff Scotch-Irish Presbyterian, and now Secretary of the Treasury, Andrew Mellon, went before Congress in June 1921 to testify for a bill that allowed him to deposit up to $50 million more in the Land Banks.74 Mellon justified his retreat from free-market orthodoxy by stating that “If ever the situation required the aid of the Government to the Federal land banks, now is the time,” unaware perhaps that they had been receiving support almost since the moment of their founding.75 Republican congressmen who had recently denounced the Democratic interventions now saw the virtues of such support.76 One Republican banker, J.H. Allen, who would soon start his own Joint Stock Land Bank, said that “The use of subsidies has been and is an established custom or function of this government,” arguing that “Those of us who are Republicans know that for

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72 Sprague and Burgess, “Money and Credit,” 693-694.
73 For argument that the Land Banks helped inflate the land boom, see Maureen O’Hara, "Tax-Exempt Financing: Some Lessons from History," Journal of Money, Credit, and Banking 15 (Nov., 1983): 425-441. The Alston, Grove, and Wheelock article speculates that “competition” from the federal farm loan system could have exacerbated rural bank distress, but does note that there was no statistically significant correlation between bank failures and Land Bank loan in a states. On the whole the pleas of bankers for the land banks to make more loans indicate that they saw the system as a benefit not a burden. See Alston, et. al., “Why Do Banks Fail?.” For similar arguments see H.H. Smith, "Agricultural Lending: Bank Closures and Branch Banking," Economic Review, Federal Reserve Bank of Dallas (Sept. 1987): 27-38.
74 As one journalist said, “A thin, half-frightened individual, Mr. Mellon looks so esthetic, so almost spiritual, that the natural impulse of the press and even of congressional investigating committees was to protect him.” Anonymous, Washington Merry Go Round (New York: Horace Liverlight, 1931), 169 (The authors were later revealed to be Drew Pearson and Robert Allen).
75 House Banking And Currency Committee, Hearings on Amendment to the Farm Loan Act, 67th Cong., 1st sess., 1921, 3-5.
many generations we” said that manufacturers and railroads needed subsidies, now the farmer needed one too, and Republicans should oblige. Of course, this subsidy was provided through bankers.77

Charles Lobdell, the garrulous Republican Board member now appointed the new Farm Loan Commissioner, testified that concerns for rural banks, including his own, were foremost in his mind in pushing the bill. Lobdell said that new mortgage loans from the Land Banks would help farmers pay off their old borrowing from local banks. He said that “from my personal relation with the banking business” and as “the principle holder in two country banks,” he knew most farmers were “anxious to put a mortgage on his clear farm to relieve the local bank,” a somewhat surprising motive. Representative Otis Wingo asked if “the commercial banks of this country would be largely benefited by...having that loan of farm-land credits now in their portfolios cleaned up and taken care of by these farm loans?” Lobdell agreed, and the bill was passed.78

Other members of the new financial industry made the same demands on the Land Banks, asking them to use their loans to help farmers pay off other debts. Just as Lobdell was testifying, the Federal Reserve Bank of Atlanta wrote the local Federal Land Bank to say that in view of “the unparalleled need for real estate farm loans” which could help refinance local banks, the Bank resolved to “urge...upon the Federal Farm Loan Board and upon the officers and executives of the various Federal Farm Loan Banks, the necessity of acting as promptly as possible upon applications.” It promised in turn to use its power to help the Land Banks, and exert all its efforts “in developing and stimulating a market for Federal Farm Loan bonds.”79

78 House Banking Committee, Hearings on Amendment to Farm Act, 26, 30-31.
79 “Atlanta Board of Directors of Federal Reserve Bank of Atlanta Resolutions,” April 29, 1921, Box 83, General Correspondence, RG 103, NARA II.
Federal Reserve Banks themselves, although nominally devoted to only short-term loans, began discounting some loans at some endangered banks for months or years, in effect loaning for longer terms and in effect encouraging long-term mortgages. By the middle of the decade, 593 banks had been continuously borrowing from the Federal Reserve Banks for over a year.80

The vast majority of land bank mortgages had a similar effect of bailing out local banks. These mortgages were not used to purchase new land, or convert tenants into property owners, as some of the rhetoric had once argued, but to pay off other debts to banks. Over 90% of borrowers throughout the land banks’ history claimed they used their money to pay back previous mortgages or other loans.81 At one point the Farm Loan Board took a survey of all mortgage loans given by all Land Banks in a 17 day period, and was pleased to find that $3 million of the $4.3 million in loans provided went either through loan repayments or simple deposits into the funds of local banks.82

The Farm Loan Board itself encouraged their connection to the rest of the banking system. Board member Herbert Quick, in an interviewer for The Financier, said the system was “created to work with commercial banks instead of against them,” and argued that in so far as the farmer had his long time loans taken care of, “the farmer will become a better customer of the commercial banks.”83 The Journal of the American Bankers Association argued that its member banks should encourage the “greatest use of the facilities of the Federal farm land bank

82 Charles Lobdell to Andrew Mellon, June 10, 1922, Box 238, General Correspondence, RG 103, NARA II. Board Member R.A. Cooper would remember this study six years later during a deposition and cite it to explain why the banks were so generous with loans in that period. “U.S.A. Plaintiff vs. W.H Gold, et. al., Testimony taken November 11, 1927,” p. 2549, Box 59, Central Files of the Secretary of the Treasury, RG 56, NARA II.
83 “Federal Farm Loan Bonds” The Financier 60, no. 4 (August 15, 1917): 294-295
system” which could help “release funds” in rural banks that were now illiquid or “frozen.”

When the Association asked its member banks about the Land Banks, they only advocated more expansion, with headlines such as “Speed Up the Farm Loan System,” “Give Land Banks Free Reins,” “Government Should Strengthen Land Banks,” “Broaden Farm Loan System,” “Legislate to Save the Land Banks.”

Bankers saw the benefits not only from the new farm loans but from the bonds emitted to finance them. They told congressional committees that commercial banks wanted to purchase the land bank bonds as an investment, since the bonds provided perfect “secondary reserve” that commercial banks could always sell quickly in case of bank runs or falling profits. According to one bank’s analysis, the bonds had “the essential qualities of safety and liquidity” which allowed banks to achieve “diversification in their investment portfolio.” They became a growing part of banks’ balance sheets. The connection between commercial banks and the Federal Land Banks was further cemented through appointments. When there was a discussion about finding a new person to fill the “farmer” spot promised by the administration on the Federal Farm Loan Board, the debate, as Senator Charles Curtis of Kansas later explained it, revolved around whether they should appoint a “farmer banker” or a “banker farmer.”

The Republican administration’s early financial measures were insufficient, however, for a new and more powerful farm lobby that began pressuring the administration, a lobby that attained a special prominence in Congress. More demands for farm relief were pushed by the powerful American Farm Bureau Federation, which had formed at the end of the Wilson

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87 Senate Banking and Currency Committee, Federal Farm Loan Board: Hearings on Nominations of Members of Board, 68th Cong., 1st sess., 1924, 8.
administration, largely through the work of Department of Agriculture. In its Washington office, the Department’s Farm Bureau began sponsoring groups of up to 30 Senators of both parties to push more agricultural policies in that chamber. These empowered and bipartisan Senators formed the “Farm Bloc” or “Agricultural Bloc,” the first explicitly single-industry group in Congress. In the House, meanwhile, rural representatives attained disproportionate power as well. After the 1920 Census, which showed that urban areas for the first time held the majority of the country’s population, as many balance advocates warned it would, agricultural congressmen refused to reapportion the seats to meet the new population. This gave farmers continued disproportionate power through the next decade.88

To old believers in equal protection, the overweening agricultural influence and the formation of the Agricultural Bloc were profoundly upsetting innovations. One contemporary observer of Congress noted that formation of the “‘Agricultural Bloc’ was symptomatic of the striking tendency which had been observable toward the enactment of class legislation,” and worried that the “destruction of the party system and government by groups would be contrary to the basic principles of American government, a menace to the constitutional structures.”89

From the bloc’s perspective, however, equality and balance for agriculture necessitated class organization. Senator Arthur Capper of Kansas, the leader of the faction, said in his 1922 book *The Agricultural Bloc*, that they organized in order “to establish a proper balance between the agricultural and other industries” and they only desired “a policy and plan for national growth which will preserve the balance between agricultural and industry.” Capper of course noted that mortgage demands remained central, and that the “high cost of money for agriculture has been

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the cause of increasing difficulty for farmers for a number of years,” that the federal government had to remedy.90

After the special session of Congress passed only three relatively minor farm bills to relieve the farm situation, Harding and the Republicans asked Congress to adjourn, but there was a revolt. Buoyed by thousands of telegrams sent by new farm lobbying groups, and supported by the Senate’s internal Farm Bloc, the Senate voted down 27 to 24 the motion to adjourn, and pledged to pass more bills for agricultural relief. The Farm Bloc then pushed a new 1921 Highway Act focused on “farm-to-market” roads to deliver produce, and the Grain Futures Act which put a tax on short-selling grain that the dealer did not possess, in order to prevent speculation. But the bloc also encouraged more financial reforms. Another amendment to the farm loan act allowed bonds to be sold at up to the maximum of 5.5%, above the old 5% limit, in order to attract more investment, all while keeping the maximum mortgage to farmers at 6%.91 Though this reduced margin of error would squeeze the Land Banks’ income, and even threaten their solvency, it enhanced the reach of the system and the profit for bond investors, both banks and individuals.

To placate the bloc, the Harding administration also recommended extending the life of the War Finance Corporation, and allowing it to loan or discount $1 billion dollars to banks to support farm producers on one to three year loans, so-called “intermediate credit,” between the short-term offered by the Federal Reserve and the long-term offered by the Federal Land Banks. Eugene Meyer, the War Corporations head, noted that the bill was not focused on farmers, but was “intended to provide relief for banks, particularly small country banks.” Yet the


91 Shielder, Farm Crisis, 158-165; Capper, Agricultural Bloc, 66.
bloc agreed with the need and helped passed the bill.\(^{92}\) The power of the agricultural bloc soon spread to the states, and was often directed down financial avenues. The next year the *New York Times* noted that an “agricultural bloc is forming at the [state] Capitol” around a bill allowing savings banks and trust companies to buy Farm Land Bank bonds, which local competitors had once blocked.\(^{93}\) Within the first years of the new Republican regency, the political forces behind the ideal of a farm economy balanced through finance were stronger than ever.

**The Ever-Expanding Rural Credit System**

The Joint Stock Land Banks, which at first developed more slowly than the Federal Land Banks, began to expand rapidly in the 1920s under the Republican administration. Their explicitly non-cooperative and for-profit charters were thought to be more in line with Republican orthodoxy, and the Board became eager to charter them. The joint-stock banks also provided another lucrative way for bankers to benefit from the act.\(^ {94}\) To facilitate such interest, the Federal Farm Loan Board ruled that officers of Joint Stock Banks could remain in position as officers in other banks, despite federal laws excluding bank “interlocking directorships.” When Judge Lobdell announced this to the Farm Mortgage Bankers Association, he was met with wild applause. One mortgage banker said that his statement “gave me a new light and a new hope.” Another said that, after the former stormy relationship between the Board and their association, the announcement was a “ray of sunshine.”\(^ {95}\) The first Joint Stock Land Bank...
organized was in Sioux City, Iowa, by a mortgage banker, who appropriately noted that the city was the original home of two Federal Farm Loan Board members, and that “I knew them both very well and had opportunities of talking with them,” about forming his new bank. Others explicitly used the joint stock banks to support their tottering commercial banks. J.H. Allen, President of one of the new banks, told Congress that many joint-stock banks were altruistically helping local bankers: “We are willing to sacrifice our profits in order that we can relieve these country bankers who are struggling to-day to keep their doors open.” Allen did not mention that he had already taken $24,000 from his own joint-stock bank, and used it to pay off his own heavy indebtedness to his commercial bank, which was in the same building and run by the same officers as his joint-stock bank. (Allen would soon become the second most powerful officer in the joint stock bank lobbying operation.)

The joint stock banks also allowed politicians and officers in the farm loan system to cash in on their political pull. Frank Lever, one of the authors of the original act and then a member of the Board, announced he would resign his office to head the First Carolinas Joint Stock Land Bank, along with a member of the War Finance Corporation. Lever claimed that “he would have to forgo his political ambitions in order to do justice to his family by engaging in private business.” Another Joint Stock Land Bank was later organized in Little Rock Arkansas by still-sitting Democratic Senator Joseph Robinson of Arkansas, who would go on to be the Senate’s powerful Majority Leader during much of the New Deal. He was assisted in his efforts

against the Federal Land Banks said “our institution will not take an antagonistic attitude on top of the speech that Mr. Lobdell made yesterday.” Others concurred in this reassessment. Ibid, 154-158.

Ibid, 66.

97 Des Moines Joint Stock Land Bank of Des Moines, Iowa v. Allen et al, Supreme Court of Iowa, No. 42248, July 17, 1935; “To Educate the Farmer As to the Merits of the Amortized Loan,” The Economist (Chicago) 68, no 9 (August 26, 1922): 472.

by a former director of a Federal Land Bank. In 1922 M.L. Corey, a relatively fresh Republican appointee to the Federal Farm Loan Board, resigned and within four months told the Treasury he had been “retained by several bond houses” who sold Joint-Stock Land Bank bonds. W.H. Joyce, another one of the Board’s recently appointed but now former members, began to lobby for another group of joint stock banks. This growing connection between the political world and the joint stock banks made them increasingly sacrosanct. With their political connections they acquired some of the implicit guarantees that once attached only to the Federal Land Banks.

Some progressives, including those in the Farm Bloc, however, justified the more extensive benefits given to the Federal Land Banks and their investors as necessary for creating a more cooperative financial system. Many had hoped that the National Farm Loan Associations, the cooperative groups that nominally ran the banks and to which the Land Banks officially gave their loans, would form the nucleus of a new “cooperative commonwealth,” but they too became largely financially-focused. The National Surety Company, which guaranteed and sold bonds, sent a circular to its agents suggesting they wheedle their way into the associations so the company could secure more business. The associations’ secretary-treasurers, who were the “life of the farm-loan association,” according to most reports, began using their offices to push outside banking interests. Board member Herbert Quick complained that in most cases the “secretary-treasurer is the local banker. He uses the association for the purpose of making it

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100 M.L. Corey to Gerard Winston March 18, 1925; Winston to Corey, March 19, 1925, Box 238, General Correspondence, RG 103, NARA II. Permission was given for the former member to lobby the Board. A. Mitchell Palmer, the infamous Attorney General behind the 1919 “Red Scare,” moved into the Potomac Joint Stock Land Bank in Washington D.C. and while there, not coincidently, he wrote to the Farm Loan Board to note his bank’s meeting with several senators on farm loan bank matters. R.A. Cooper to President, July 2, 1927. Reel 32, Presidential Papers of Calvin Coolidge, Library of Congress, Manuscript Division; George Harris to Eugene Meyer, December 30, 1927, Box 72, Eugene Meyer Papers, Library of Congress Manuscript Division.
advisable for people to come into his bank. He is able to manipulate the matter in such a way that he can pretty nearly prevent the organization of another association, but the fellow who is not a depositor in his bank is not getting as good service as the fellow who is.” Lobdell complained that a secretary-treasurer in one local association was actually “the president of the biggest bank and he has other money to loan.” (He did note, however, another association, “where I have my own farm and have a loan under this system,” was working fine.) Many of the actual offices of the associations were located in the community bank, and run by its employees. Quick complained that it was hard to get actual farmers interested in these supposed cooperative groups, “unless you give them hoods, masks and a ritual,” which elicited a burst of laughter from congressmen who knew the resurgent power of the Ku Klux Klan.

The increasingly financial focus of the Federal Land Banks, however, meant they could no longer pretend to be operating for the benefit of the cooperative association who technically owned them. Lobdell claimed that the “farm-loan bonds are endowed with qualities that are not similar to any other instrumentality under the sun...They are the moral obligation of the United States.” The Banks should therefore not be subject to the whim of local directors and cooperatives associations. He and the Board recommended an amendment putting complete control of the banks and their directors in the government. The Board also recommended an amendment allowing a loan to be given to relieve any indebtedness whatsoever, no matter how or for what it was contracted. Lobdell noted the reasons to the Banking Committee: “Here is

102 Senate Banking and Currency Committee, Hearings to Amend the Federal Farm Loan Act, 67th Cong., 4th sess., 1922, 103.
103 Ibid, 34.
104 “How About That Maturing Mortgage – Advertisment,” Logan Republican (Utah), May 14, 1918.
105 Senate Banking Committee, Hearings to Amend, 108. W.S.A. Smith of the Farm Loan Board in fact admitted that due to the cooperative nature of the local associations “in some localities prejudice of white farmers to admit colored farmers might have prevented” them from receiving loans. “But this is a condition over which this Bureau has no control whatever.” “Federal Farm Loan Bureau Member Denies Prejudice,” New York Age, June 10, 1922.
106 Senate Banking Committee, Hearings to Amend, 19,20.
what happened in the last three years in your State, Mr. Steagall: Your cotton farmers lost money and went broke, and they had indebtedness in the bank that was incurred for every household purpose,” and now that bank was in trouble. New mortgage loans would relieve that debt from the bank.107

At the same time, the Banking and Currency Committees were engaged in hearings on another bill that could potentially reshape the farm loan system. The War Finance Corporation’s authority to discount intermediate-term loans (one to three years) to banks was about to expire, and the incongruity of a “War” corporation continuing five years after the armistice was obvious to all. The corporation’s chair, Eugene Meyer, asked Congress to create 12 Intermediate Credit Banks, attached to and run by the Federal Land Banks, and to make them permanent. The 12 banks would be capitalized at $5 million each, entirely given by the Federal government. They would have the ability to issue their own tax-exempt bonds. Fred Bixby, the head of the American Live Stock Association, which tended to need loans for up to three years to raise cattle, admitted he wrote the bill along with Meyer.108

The banking interests behind the credit bill were also clear. The bill required the new Intermediate Credit Banks to only discount loans coming from local banks. One of the authors of the act, Representative James Strong, worried that other national investments were enticing farmers to take money out of their local banks. He worried about the “draining the deposits from those [country] banks…I am trying to help them hold those deposits” with this bill. Another of the bill’s sponsors, Senator Irving Lenroot, in the magazine Banker Farmer, argued that the goal of the act was to help support “the only agency it seemed to us, that could be successfully

107 Ibid, 30. S.P. Gilbert, Undersecretary of the Treasury, noted that the Treasury “has not been enthusiastic about the creation of this additional Government agency.” S.P. Gilbert to Charles Lobdell May 13, 1922, Box 238, General Correspondence, RG 103, NARA II.
used...the local bank.” If a “bank knew that at any time it desired to do so, if it loaned money upon this kind of paper, if it needed money, it could rediscount it,” the banks would make more such loans. Politicians and bankers desire to extend bank loans further away from typical short-term “real bills” was evident.\textsuperscript{109} The American Bankers Association was fully in support of the proposal. In an argument for balance between sectors they said that “before the general business of this country can be restored to a prosperous condition the American farmer must be prosperous.” Therefore they urged the bill to assist farmers and ranchers “to establish credit through their respective banks.”\textsuperscript{110}

At the end of the first Republican Congress in early 1923, the proposed amendments to the Farm Loan Act and the Intermediate Credit act were melded together. The new bill put in place a new permanent system of appointment of bank directors at the 12 local Land Banks, with four controlled by the Board, and three elected from the associations, which assured continuing government control. The Intermediate Credit Banks were attached to the existing farm loan banks and fully and permanently capitalized by the government. Unlike the Federal Farm Loan Act, this act explicitly denied that the government had any legal obligation for the new intermediate banks, and some argued that the contrast between this and the continued silence on the Federal Land Banks made the latter’s obligation clearer.\textsuperscript{111}

\textsuperscript{109} Ibid, 143; Irving Lenroot, “Intermediate Credit,” Banker Farmer 9, no. 9 (September 1, 1922): 3-4.
\textsuperscript{110} “State Banks Committee,” Banker Farmer 9, no. 5 (June 1922): 8. They also said that “we believe the Federal Farm Loan System to be of great benefit to the American farmer.” Nonetheless, there were the usual affirmations from supporters that despite asking for specific government support, “This is not a request for special class legislation.” This was from A.C. Williams, a Southwestern livestock rancher who would go on to briefly serve as the Farm Loan Commissioner under Coolidge. House Banking Committee, Hearings on Credit Facilities, 118.
\textsuperscript{111} The bill also raised the maximum loan from $10,000 to $25,000, a long term goal of the farm lobby, and extended the justifications available for requesting loans from the Land Banks. American Farm Bureau Federation, The Loan Limit of the Federal Land Banks Should Be Increased to $25,000.00 (Chicago: American Farm Bureau Federation, 1922); “Law Department: Agricultural Credits Act of 1923,” Federal Reserve Bulletin (Mar., 1923): 303-316.
The new banks, however, demonstrated that the federal government felt a responsibility to maintain all parts of the loan market to farmers. From short-term at the Federal Reserve, to the medium term at the Intermediate Credit Banks, to the long-term loans of the Federal Land Banks, the government would be responsible for debts at every point of time in the farmers’ lending market, all nominally as an exercise in balance. One trade group argued that the advantages given to banks in these acts were part of a “liberal concession to bankers in agricultural and livestock communities, and not as class legislation,” but failed to elaborate the distinction.\textsuperscript{112} The Treasury Department adopted the language of balance to describe its financial reforms. Its annual report in 1924 noted it was “evident that with fairly balanced relations between our own industries this country may enjoy a good degree of prosperity,” and that thanks to recent financial legislation “agriculture is regaining its position.”\textsuperscript{113}

\textbf{The Political Power of the Land Bank Bonds}

The dangers of having government officials encourage private financial profits, however, manifested itself soon after the new act was passed. Judge Lobdell, never one to pass up his own self-interest, resigned his post as Farm Loan Commissioner, which paid $10,000 a year, to take up the new position of “Fiscal Agent” for the Federal Land Banks, to help sell their bonds full-time, at $25,000 a year. Lobdell asked Mellon to sign off on the deal, and Mellon said that “Men are daily leaving the public service and taking advantage of the information that they acquired in public service for private gain adverse to the Government,” but at least Lobdell was

\textsuperscript{112} “Discounting Agricultural and Cattle Paper, Before Group 7, C.B.A.” March 14, 1925, Box 201, General Correspondence, RG 103, NARA II.

\textsuperscript{113} \textit{Annual Report of the Secretary of the Treasury for the fiscal year ending June 30, 1923} (Washington: Government Printing Office, 1924), 2.
using his information to make money while still working with the government.\textsuperscript{114} Though
numerous Senators denounced the arrangement, the approbation of Mellon and former Board
member George Norris, now again a member of the Federal Reserve Bank of Philadelphia,
quieted the outrage.\textsuperscript{115}

According to land bank insiders, the new Farm Loan Commissioner, R.A. Cooper, a
former South Carolina governor, was sponsored for the position by a group of South Carolina
banks to whom Cooper owed a personal debt of $10,000, and who hoped that that
commissioner salary would be enough to pay them back.\textsuperscript{116} Cooper thus remained close with
the private banking world, and he worked closely with Lobdell to bolster the market for the land
banks’ bonds. The bond selling task was made easier, because a day after the intermediate
credit and farm loan amendments act, Congress passed another act which allowed the U.S.
Government Life Insurance Fund, which since the war had provided life insurance to soldiers
and veterans, and invested in government obligations, to now buy federal land bank bonds.\textsuperscript{117}
Although the Treasury would trumpet selling off of all the bonds bought during the war, those
bonds, almost dollar for dollar, went into the little understood and less monitored Government
Life Insurance Fund that Congress had opened up for them, so that from then until the collapse
of the system, the government would continue holding on to about $100 million of them.
Lobdell would also secure the support some other, smaller federal trust funds, such as the

\textsuperscript{114} Senate Banking and Currency Committee, \textit{Hearings on Nominations of Members of Federal Farm Loan
Board}, 68\textsuperscript{th} Cong., 1\textsuperscript{st} sess., 1924, 216-217. In a recent biography of Mellon, David Cannadine
demonstrates that, Mellon’s vigorous protestations to the contrary, he remained intimately involved in
his previous banking and business activities while Secretary of the Treasury. David Cannadine, \textit{Mellon: An
\textsuperscript{115} Senate Banking Committee, \textit{Hearings on Nominations}, 398.
\textsuperscript{116} Eugene Meyer Memoir Manuscript, unnumbered, Box 167, Eugene Meyer Papers, LOC.
\textsuperscript{117} There seemed to be no debate in either house on this provision. See 64 \textit{Congressional Record} 5196,
March 2, 1923; ibid, 5248, March 3, 1923; \textit{An Act To amend and modify the War Risk Insurance Act}, Public
Law 542, 67\textsuperscript{th} Cong., 4\textsuperscript{th} sess (Mar. 4, 1923), 1527. The earlier act only allowed all “government liabilities”
in the life insurance trust fund; \textit{An Act To amend and modify the War Risk Insurance Act}, Public Law 66-
104, 66\textsuperscript{th} Cong., 2d sess., (December 24, 1919), 376.
District of Columbia Teachers’ Retirement Fund, to place the bonds and give a further
imprimatur of federal support. 118

The greatest private market for the federal bonds, however, remained investors who
were drawn to their tax-exemption. Investors interested in the tax-exemption were also
overwhelmingly of the highest class, who saw them as a way to escape the “confiscatory” taxes
of up to 70% imposed during the war. The economist head of the Brookings Institution, Harold
Moulton, noted that a “Federal Farm Loan bond is a much better investment for people with
large incomes than is any other security,” and the “truth is that these bonds are being
purchased in wholesale quantities by men of very large means, who thereby escape the
payment of a substantial portion of their federal taxes.”119 This led many fiscal conservatives and
populists to oppose the entire idea of tax-exempt investments. As one professor of finance said,
while tax-exemption in general was “a system founded on special privilege…the weakest
stronghold of that policy lies in the tax-exemption clauses of the Federal Farm Loan, and it is
here that attacking forces should first be concentrated.”120

When Mellon proposed a constitutional amendment to ban all future issues of tax-
exempt bonds, by any state or federal agency, the constituency around the farm loan bonds
fought him with zeal. The connection between America’s wealthiest investors and its farmers
was demonstrated. Representative James Begg argued against the amendment by saying “if it
was right to create long-time securities and cheap money for the farmers, then it is wrong to

118 Ninth Annual Report of the Federal Farm Loan Board for the Year Ending December 31, 1925
(Washington: Government Printing Office, 1926), 121-122. See also Secretary of the Treasury Annual
Reports, 1918 to 1931.
688-689.
120 “Calls for a Halt in Government Tax-Exemption Poliy,” November 10, 1919, The Annalist, about George
E. Putnam. In Box 10, General Correspondence, 1916-1926, RG 103, NARA II; M. Susan Murname, “Selling
Scientific Taxation: The Treasury Department’s Campaign for Tax Reform in the 1920s,” Law and Social
vote for this, and there is no other conclusion,” which was met by much applause.\footnote{65 Congressional Record 2090, February 8, 1924.}

Representative Thomas Harrison said that if this amendment passed “the farm-loan banks are virtually doomed.”\footnote{Ibid, 2106.} After one of the sharpest debates in recent memory in the House, the amendment fell short of the two-thirds needed by just seven votes.\footnote{247 Ayes to 133 Nays. “Bond Amendment is Defeated in House: Lacks Seven Votes,” Washington Post, February 9, 1924.} The farm loan banks were a major factor in this narrow defeat, one which shaped the nature of American federalism and taxation for generations, and which kept a special privilege for certain wealthy investors.

A more specific impetus for congressional support for the farm loan act can be divined from a later confidential report compiled by the Farm Loan Board, which listed every loan that went to a senator, congressman, or one of their relatives. The report showed hundreds of thousands of dollars’ worth of such loans. Many of these individuals, including Senator “Cotton Ed” Smith of South Carolina and a few members of the prominent Bankhead family of Alabama, had multiple loans, despite restrictions on borrowing only on a primary residence. Many, again including Smith and the Bankhead family, owed thousands of dollars of delinquent payments but had not been foreclosed upon.\footnote{“Federal Land Banks: Loans by Federal Land Banks and Land Bank Commissioner to Congressmen and Relatives of Congressmen,” July 19, 1935, Box 2, Investigations of Irregularities, RG 103, NARA II.} The broad benefits provided by the Farm Loan system to the banking, farming, and political worlds made them increasingly powerful and sacrosanct.

**Collapse in the New Coolidge Administration**

When Harding died suddenly in 1923, Calvin Coolidge and his administration publicly adopted and embraced the ideology of balance, and the means used to achieve it. In his first state of the Union, Coolidge said he would ensure the government worked for the “permanent
establishment of agriculture on a sound and equal basis with other business.”¹²⁵ When Coolidge ran for re-election in 1924, the Republican Party platform made a similar pledge, promising “to take whatever steps are necessary to bring back balanced conditions between agriculture, industry and labor.”¹²⁶ The Treasury under Coolidge would also celebrate that, with their financial support, a “[m]ore complete adjustment between individual industries and economic groups has been effected, and the purchasing power of the farmer further enhanced.”¹²⁷

Privately, the laconic Coolidge was less sanguine about government’s prospects to help, but more hopeful about the prospects for investors. Coolidge told Farm Loan Commissioner R.A. Cooper that, “Well, farmers never had made money. I don’t believe we can do much about it. But of course we will have to seem to be doing something.”¹²⁸ Coolidge’s first biographer, William Allen White, however, would note that in Coolidge’s home town of Plymouth, Vermont, a “classic Plymouth reply” to any question about their economic situation would be “Twould be a hard life it ‘twa’n’t for our Iowa six per cent mortgages which help some!” White thought that Coolidge brought this perspective of farm mortgage investors into the White House.¹²⁹

The first crisis where Coolidge’s balance ideology was put to work, and where the predominantly financial and mortgage response to balancing would be enacted, was the agricultural drought and depression in the Northwestern states. As the Treasury noted, the drought was “rendered the more acute by a considerable number of bank failures in those

¹²⁹ Ibid. 21. White also noted that in Coolidge’s hometown, the only relief from hardship was that, “the farmer’s thrift had bought for him a few Iowa and Kansas mortgages.” Ibid, 51.
sections.”

The drought also happened to be important battleground states in the upcoming 1924 election. On January 23, 1924 Coolidge gave a special message to Congress asking them to allow the last remnants of the War Finance Corporation to make more loans to the livestock industry, and to assist in the “restoration or strengthening of the capital resources of the country banks and financing institutions necessary to the proper service of the farmer.” He called a conference at Washington with leading bankers and farmers, the Federal Reserve Board, and the Federal Farm Loan Board to attack the problem. At this conference he told them that “agriculture cannot stand alone. The banks cannot stand alone,” and asked them to co-operate to provide financing for local banks. Private groups with the public support of Federal Reserve and Federal Land Banks organized the Agricultural Credit Corporation to buy up the frozen assets on local bank balance sheets.

Due to the poor conditions and bank failures in the Northwest after the war, this region, and its Spokane Federal Land Bank, had already received some of the most sustained political pressure for extra federal loans. Idaho Senator Frank Gooding wrote to Secretary of the Treasury Andrew Mellon to open up the spigots of funds in his state. Good threatened Mellon by saying, “I don’t want to introduce any bills in Congress or to find any fault upon the floor the Senate with the Members of the Farm Loan Board,” but “[e]very day, I am getting appeals for relief through the Federal Farm Board, and our people out there are suffering from bank failures.” Mellon conveyed these concerns to the Board and bade them to listen. The next year an officer of the Farmers State Bank of Montana wrote the government that farmers in his

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131 Ibid, 72-75.
state could not get Federal Land Bank loans to repay back loans already due to “Eastern Investors.” The President’s office passed the letter to Cooper, who said that he hoped to expand in Montana, even though “our experience there is such as to cause us grave concern.”

The expansion of the Federal Land Banks, and specifically its efforts to help bail-out local banks with bad loans, had finally reverberated back on the land banks themselves. The system which had helped support so many banks was now itself in trouble from increasing mortgage defaults. The report of a traveling committee to the Spokane Bank brought these issues to the Board. The committee said the condition of the region “is one which must be seen to be understood,” and had “no precedent in the history of the country anywhere.” Many borrowers were “struggling to retain their homes in the face of a seventy-five per cent abandonment of the neighborhood.”

The committee also found that the financial statements of the Spokane bank were misleading. They claimed that while the “paper earnings” of the bank were “in the neighborhood of $800,000 per annum,” if the “earnings were on the basis of monies actually collected” and not just those late installments still not paid to the bank, they would be half of that. The committee complained likewise of excessive expenses on part of the bank, presumably including an elaborate new building it had constructed.

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133 William Powers, Cashier, Farmers State Bank to Senator B.K. Wheeler, November 5, 1923, Bascom Slemp to R.A. Cooper, November 13, 1923, Cooper to Slemp, November 19, 1923, Reel 32, Series 21I, Calvin Coolidge Papers, LOC.


135 Chairman Spokane Commission to Federal Farm Loan Board, July 20, 1925, ibid.

Figures 3.3 and 3.4: Exterior and Interior of New Spokane Federal Land Bank Building.

Source: “Minutes of Third Joint District Meeting, April 23, 1926,” Box 5, Investigations of Irregularities, RG 103, NARA II.

The Board put the Spokane bank in a kind of bankruptcy or receivership. A “Spokane Commission” was appointed, made up of officers of the other land banks, which would advance
about $4 million over the next three years to buy up defaulted mortgages. In exchange the other banks would receive what were euphemistically called “Spokane Participation Certificates,” which would earn whatever could be recovered from foreclosed farms. The annual report of the Federal Farm Loan Board put the situation in the most flattering light, claiming that the Commission was a “demonstration of [the Federal Land Banks’s] unity, and the fundamental soundness which that unity implies.” The report claimed, disingenuously, that the lands would be “taken over on a basis which guarantees the contributing banks against ultimate loss.”137

Another committee in the region soon afterwards was less sanguine. This committee, under Paul Bestor, President of the Saint Louis Land Bank, included photographs of bleak, desolate landscapes with little sign of vegetation or cultivation. “It seemed to be the general opinion of most of the delegates that no loans should ever have been made on these farms.” They thought that “[i]t would be unworthy of a farm loan system to even give these farms away.” One woman farmer, a former school teacher from New York, and one of the last residents of a neighborhood of abandoned farms, told the committee that the old members of the Land Banks should be “Strung Up” for their reckless behavior in providing loans and then foreclosing on them.138 The committee argued that the estimated losses on the mortgages had gone from the $4 million originally estimated, “then later to $8 million, now almost $15 million,” and that “[i]t seems evident that the contributing banks can never be repaid from the sale of farms” unless there was some “miraculous change.”139 Though the land banks’ proponents had once railed against private mortgage lenders for abandoning lands when they were no longer profitable to hold,

138 “Call of Conference” Spokane Commission, circa September 1926, ibid
139 Ibid. An estimate of total losses for the bank from these loans, at about $5.7 million, meant that, according at least to the first total individual statement of assets and liabilities of the Spokane Bank, available in March 31, 1928, the bank, with $5.2 million in capital, was insolvent. Eleventh Annual Report of the Federal Farm Loan Board for the year ending December 31, 1927 (Washington: Government Printing Office, 1928), 51. “Memorandum Re: Spokane Conference,” H. Paul Bestor, President, Federal Land Bank, St. Louis. September 27, 1926, Box 5, Investigations of Irregularities, RG 103, NARA II.
Bestor recommended “it would probably be a good policy to let about 25% of the farms go rather than pay taxes on them.”

At the same time as the Spokane bank was collapsing, the most prominent Joint Stock Land Banks were imploding as well. Guy Huston was a Chicago banker who had been the main impetus behind the creation of Joint-Stock Land Banks in the original act. Not surprisingly, he also received the fourth such charter for his Chicago Joint Stock Land Bank, which became the largest in the country, and for eight years he was President of their trade lobby, the American Association of Joint Stock Land Banks. One Wall Street firm called him “unquestionably the outstanding figure in the Joint Stock Land Bank system.” Yet the “Guy Huston Group” of banks was having problems with delinquent mortgages. Instead of writing them off as a loss, Farm Loan Commissioner Cooper encouraged Huston to set up other corporations, such as “Farmers’ Fund, Inc.” This corporation would buy up the bad mortgages, and provide new mortgages, which would then be given back to the original joint stock banks. These could then be carried on the accounts as complete, supposedly fresh assets. This shell game was necessary because, as Cooper later admitted in a deposition, the Board thought it was important that banks in trouble “continue active loaning operations,” otherwise the “impression gets out you are in liquidation and you are not operating.”

One reason Cooper was so solicitous of the banks’ needs was that the Board that was supposed to be supervising the banks was also for years either their manager or their greatest cheerleaders. It was an awkward combination, trying to be regulator, manager, and bond

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140 Ibid. A report by one of the most outspoken and distraught commission members estimated that in the future “the Federal Land Bank of Spokane would be in the same condition it is now,” and “[s]o far as the certificates of participation held by the other banks are concerned, there will ultimately be nothing back of them except worthless land.” The words “worthless land” echoed again and again throughout his evaluation, as did words like “appalling” and “disaster.”

141 “Memorandum with Regard to the Relation Between Guy Huston and the Guy Huston Company and Various Joint Stock Land Banks,” Box 51, Central Files of the Secretary of the Treasury, RG 56, NARA II.

142 Humphrey of Kissel, Kinnicutt & Co. to Andrew Mellon, November 19, 1926, ibid.

143 U.S.A. Plaintiff vs. W.H Gold, et. al., Testimony taken November 11, 1927, Box 59, ibid.
hawker all at once, and led to the Board covering up what were seen as their own or the banks’ mistakes. Cooper later said that the Board was not only required to “assist the banks, but to persuade, if I may use that word, the public to invest in the securities. That we tried to do.”  

The Board was so attentive of these needs that outside bankers investing in the bonds began to question its veracity. One investor wrote to Mellon to stay “it is commonly being said among investors that government supervision is a joke.”  

Mellon complained that the Board was not conducting the “comprehensive and independent supervision” that all had hoped.

Such subterfuge alone could not save the land bank system, and by mid-1926 Secretary Mellon wrote to President Coolidge that at least three of five joint stock land banks he investigated were probably insolvent and that Commissioner Cooper should “be held largely responsible for what appears to be a collapse” in the system. Mellon said Cooper “has been in frequent personal contact with the principal officers under investigation and has in many instances with his colleagues and assistants undertaken to set up a defense for them.” Mellon thought his activities in defending the banks were “such as to give cause for questioning the motives influencing his official acts.” The same day the letter was sent, Cooper offered his resignation under the lame excuse of his health, and Coolidge wrote back with only vague sympathy. Cooper would quickly be hired as a lobbyist for one of the joint stock land banks.

After Cooper’s retirement, the denouement of the system’s predicaments came fast and quick. Within the next year, three joint stock land banks, two of which were associated with Guy

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144 Ibid.
145 Minot, Kendall & Co. Inc. to Andrew Mellon, October 27, 1926. Box 51, ibid.
146 Andrew Mellon to Calvin Coolidge, June 16, 1926, ibid.
147 Andrew Mellon to Calvin Coolidge, June 16, 1926, Box 50, ibid.
148 R.A. Cooper to Calvin Coolidge, June 16, 1926; Coolidge to Cooper, June 16, 1926. ibid. The annual report that year mentioned none of these complaints or crises, and made no mention of the impending collapse of the joint stock banks or the renewed crisis in the Spokane District. When the Farm Loan Board sent over a laudatory early version of the annual report, however, the Treasury pared back the boasting, crossing out many sections that celebrated the progress of the federal farm loan system. “Revision of Tenth Annual Report of the Federal Farm Loan Board” March 1, 1927, Box 52, ibid; “U.S. Farm Loan System Evils Bring Shake-Up of Personnel,” New York World, December 19, 1927.
Huston, collapsed, and Huston himself was sentenced to nine years in the Federal Penitentiary at Leavenworth for mail fraud and other crimes involved with hiding assets and liabilities of his banks. Both the President and the former Secretary of the Kansas City Joint Stock Land Bank, who both were associated with Huston, were sentenced to six years and one year, respectively, at Leavenworth, and grand juries sent indictments to a number of other joint-stock officers in the Midwest. A Secretary-Treasurer of one Joint Stock bank in South Carolina committed suicide and left a note confessing to thousands of dollars of shortages in his account. As for the Federal Land Banks, an employee of the Berkeley Federal Land Bank also committed suicide when it was revealed that he had embezzled $16,000 from the bank. Even the new, and largely quiescent, Intermediate Credit Banks got caught in a scandal, when they lost hundreds of thousands on loans to insolvent local banks in North and South Carolina. Cooper testified to Congress that “I will state to you gentlemen, frankly, that the banks and the board have approved rediscounts that we knew were hazardous, because with the breaking down of banking facilities in a community, and the distress of agriculture, we have felt that we should go to the very limit.” Meanwhile states which had recently created their own government-funded mortgage banks to assist the federal land banks in their efforts encountered similar dilemmas. North Dakota’s state system collapsed after it was revealed that the state attorney general, William Lemke (later a prominent congressmen), used a loan from the system to buy a

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150 “Suicide of One Employee Who had Embezzled a Large Amount of Bank Funds,” Berkeley Daily Gazette, April 15, 1926.

$22,000 house. Other state systems, such as Minnesota’s Rural Credit Bureau, met the same fate. ¹⁵²

The insolvency and distress of these new financial systems, now all intimately intertwined with the finances of the country, threatened to bring down those structures they had helped to protect for years, and threatened to throw the entire economy they had hoped to balance into a new form of imbalance. The bonds they emitted had now been purchased by a wide variety of banks, bond houses, and investors, and, if they defaulted, the entire financial structure could be endangered. The attempt to merge government and banking, to the supposed benefit of both and of farmers, seemed to be imperiled. Coolidge and the Republican Party knew drastic action was necessary, but they disagreed among themselves about what that action should be.

In the early 1930s, after over a decade of low or falling prices for farm products, the Cornell agricultural economists George Warren and Frank Pearson divined a seeming universal truth about the differing politics of inflation and deflation. They noted that “when prices rise, the government’s activities are primarily for the protection of the consumer.” But, when prices fall, “strenuous efforts are put forth to protect producers and creditors.” Creditors especially demanded help in such a deflation. “Since debts cannot be paid, the government is called on to take over private debts of banks, railroads, farmers, and home owners.”¹ The problems of agriculture in the 1920s and early 1930s would be defined by falling crop prices, and thus, as Warren and Pearson argued, the American government made every effort to protect farm producers and the creditors who lent to them.

The decline in agricultural prices after the World War made American farmers aware of prices in a way they were not when the Federal Land Banks were created. Wheat prices, which had peaked at $2.16 a bushel in 1919, fell to 92 cents by 1923. Corn prices fell from $1.51 a bushel in 1919 to 52 cents as early as 1921. A number other crops and livestock prices followed these trends downwards, only to bump along at a lower level for most of the following decade. Agricultural prices fell faster and further than prices anywhere else in the economy after the war, and stayed lower.² While the proponents of the Land Banks thought that the imbalance between agriculture and industry could be attributed to differences in access to money and capital, in the 1920s a new movement arose claiming that the greatest difference between the

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¹ George F. Warren and Frank A. Pearson, Prices (New York: John Wiley & Sons, 1933), 4-5.
two great sectors of the economy was in the prices they received for the products they sold. In this new conception, low prices for farm goods were the root of all the ills and imbalances in the economy, and bringing farm prices up to the level of industrial prices was the only means to restore economic balance. The “price parity” movement crescendoed during the Coolidge and Hoover administrations, bringing a new language of balance into both popular and academic prominence.

Although this new price balance ideology was formed as an addition to the ideology of financial balance that motivated the Federal Land Banks, it was also understood as a means to restore financial health as well. Higher prices, its advocates understood, would help farmers pay off their farm debts and especially their burdensome mortgages, inherited from earlier, inflated times. In fact, from the mid-1920s until the Second World War, controlling the relationships of different sectors’ prices would become an important part of the overall goal of stabilizing the financial sector, including the new financial federal “instrumentalities” which supported it.

Although there is a limited literature on the “price parity” movement, previous writers have not analyzed how similar but still distinct ideas about a balanced economy shaped both that movement and the movement behind the Federal Land Banks, and how they interacted. Instead, historians have remained overwhelmingly focused on the rise of a cooperative or “associationalist” farm policy, in which the government helped organize farmers to fight for their interests, especially under Herbert Hoover.3 Historians have therefore largely ignored the

3 There is surprisingly little history on the “price parity” campaign, despite it being one of the most significant political movements of the 1920s. Gilbert C. Fite wrote one of the few comprehensive works on the subject, although he provided no discussion of the Land Banks and no discussion of a wider ideology of balance. See Gilbert C. Fite, George N. Peek and the Fight for Farm Parity (Norman, Okla.: University of Oklahoma Press, 1954). Even most modern syntheses of the 1920s slight the movement, and argue that agricultural reform movements of the period were “minimalist” and had little impact or consequence. Robert Paarlberg and Don Paarlberg, “Agricultural Policy in the Twentieth Century,” Agricultural History 47, no. 2 (Spring, 2000): 136-161. The most comprehensive analysis of Hoover’s farm plans are in David Hamilton’s work, which acknowledges significant continuity with Franklin Roosevelt’s later plans, but Hamilton too focuses on the failure of “associationalism.” David E. Hamilton, From New Day to New Deal:
importance of both the price parity movement and the Federal Land Banks in the history of this era, and have failed to show why the government remained focused, as in earlier years, on using new forms of government credit to support private creditors and restore farm balance. Even after the twin crises of a general price collapse and an explosion in farm foreclosures in the Great Depression, the government fixated on using public and private credit to rebalance and bolster the increasingly fragile farm finance system. Such efforts would culminate in the first explicit bank bailouts by the federal government, of the Federal Land Banks themselves. Although the period began with a new focus on balance through price control, it ended with the ever-increasing use of federal credit to bolster the financial system.

The Purchasing Power of the Farmer’s Dollar

At first glance, George Peek and Brigadier General Hugh Johnson might seem odd prophets of a new farm movement. Peek was a slick and peripatetic Midwesterner who climbed up the rungs of the John Deere plow company to become a wealthy executive. Johnson was a frenetic army lawyer, who began his public life as a member of the draft board in World War I
(where the New York Times said he “made a name for himself by breaking laws as fast as he thought of them”). 5 Both became protégés of the Democratic financier and panjandrum Bernard Baruch at the War Industries Board. After the war, Peek moved over to the long-suffering Moline Plow Company, and hired Johnson as his general counsel. At this company, the dangers of a depressed farm market to industrial success were painfully apparent.

In 1922, influenced by their experiences in government, finance, and industry, they wrote their manifesto, Equality for Agriculture, under the aegis of the new American Farm Bureau Federation. Their pamphlet was a plea for an economy balanced between agriculture and industry, the fulcrum of that balance being a fair price for each group’s products. They claimed that the rural population bought some “40% to 60% of domestic commerce, which is 90% to 95% of all our commerce.” Without the purchases of the farm economy, the industrial economy, that “traded” with farmers in their conception, was doomed: “Industry and labor cannot survive the absence of half the population from the market without destructive collapse.” 6

Peek and Johnson’s argued that in order to keep both sides of the economy trading, the government had to set a fair price for farm products, the later famous “parity price.” To maintain this price, the government would subsidize the shipping of any surplus crops overseas until domestic prices rose. Johnson later argued that “if only we could give the agricultural half of our population a fair price for its products, we could create – in our own backyard- one of the

6 George Peek and Hugh Johnson, Equality for Agriculture (Moline, Ill.: H.W. Harrington, 1922), 10, 25. David Lubin, who was essential in bringing semi-public rural credit to the United States, had earlier made a similar argument that “trading” between the agricultural and industrial economy was the source of prosperity, and that excess crops should be sent abroad to keep farm prices up, but the idea had gone nowhere. David Lubin, A New Political Issue: Protection to Staple Agriculture (Sacramento: David Lubin, 1894); “Protection for Farm Staples: David Lubin Wants Bounties on Agricultural Exports,” New York Times, December 6, 1894, p. 12; “Export Bounties to Farmers,” The Literary Digest 11, no. 21 (Sept. 21, 1895): 7-8
richest markets for industry in the whole world.” The Equality for Agriculture pamphlet also surreptitiously attacked previous attempts to alleviate these problems through mortgage credit. It claimed that a major cause of the crisis in agriculture was the “enormous burden for amortization of debt, caused by incurment of debt on an inflated basis and subsequent deflation” during and after the war. Since the land banks provided the only “amortized” debt plans for farmers, this squib was aimed at them. Johnson and Peek offered their price support system as a better means of encouraging balance, and a better means to help pay down the debt burden.

Ideas about the need to balance prices had already begun to percolate in this period, and were tied into attacks on the older idea of class legislation. Bernard Baruch himself, in an article The Atlantic, explained that special price legislation for farmers was necessary due to their troubled situation. “The farmers are not entitled to special privileges; but are they not right in demanding that they be placed on an equal footing with the buyers of their products and with other industries?” He said, “American democracy is unalterably opposed alike to enacted special privilege and to the special privilege of unequal opportunity that arises automatically from the failure to correct glaring economic inequalities.” As with earlier promoters of balance, he thought equal opportunity, in an unequal world, demanded more than equal benefits from government. He became an advocate of his pupils’ Peek and Johnson’s ideas, and contributed thousands of dollars to their educational campaigns.

Another popular writer, Grover Clark, also noted the shift in sentiments in this period, from concerns with class to concerns about balance. He argued that in contemporary America,

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8 They hoped their proposed plan, far from a piece of class legislation protecting just one group, would “cure a national ailment affecting every class.” Peek and Johnson, Equality for Agriculture, 7.
“[w]e condemn class legislation and special privilege as severely as did our predecessors. Modern industrial and social development, however, has forced us to a new conception” of these categories. “[R]eal equality, not only before the law, but in all men’s relations, will be secured by making sure, through legislation or otherwise, that a balance is maintained.” We now “must take active steps to achieve a balance. Negative effort for taking away the advantages from the few will no longer suffice.”

Henry A. Wallace, son of Harding’s incoming Secretary of Agriculture, who eventually, along with Peek and Johnson, attained prominence under Franklin Roosevelt, was also an early advocate of higher farm prices and balance. In Wallace’s 1920 book *Agriculture Prices*, he noted that evidence going back hundreds of years showed crop prices were very “inelastic” that is, they changed rapidly with small changes in demand or supply. These rapid price changes caused problems for farmers dealing with fluctuating returns relative to other parts of the economy. With the price rise and collapse following World War I, these price problems were more acute than ever. Wallace hoped the government would help farmers “meet the other classes of society on equal terms.”

Ideas about balancing crop prices were also broached in the highest realms of government. Wallace’s father pushed them in President Calvin Coolidge’s cabinet. As Coolidge noted disapprovingly, “At every Cabinet meeting...Secretary Henry Wallace used to be grumbling and complaining about the price of corn and was always wanting the government to do something about it.” As one historian said, in the 1920s, Secretary Wallace became “doubtful that more liberal credit for the farmer would narrow the disparity” between the two groups,

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and found price supports as a solution.\textsuperscript{13} The National Agricultural Conference, although originally called by President Harding to support his financial goals, opined that the “unequal liquidation of prices is the primary cause of the inability of manufacturers to sell their goods,” and therefore of general economic turmoil. It declared “that no revival of American business is possible until the farmer’s dollar is restored to its normal purchasing power.”\textsuperscript{14}

In the 1920s, writers and politicians described their price campaigns as an attempt to increase the farmer’s “purchasing power,” yet their understanding of the term is divorced from the modern one. In much of the historical literature, “purchasing power” is described as something analogous to the consumer’s ability to purchase goods. Historian Meg Jacobs said that in this period “‘Purchasing power’ was shorthand for redistributive economic policies designed to enable the working and middle classes to buy basic necessities.”\textsuperscript{15} Many have connected the phrase to John Maynard Keynes’s later idea of the “marginal propensity to consume,” that is, the amount of income by consumers devoted to buying instead of saving. Yet purchasing power in this era merely meant the measure of how many goods one could get in exchange for money or credit, and such purchasing power came from businesses and investors just as much as from consumers.\textsuperscript{16} When the term was encountered most often in the 1920s, it was used to refer to the “purchasing power of the farmer’s dollar” or of the “farmer’s product,” or the amount of money farmers acquired from the rest of the economy in exchange for their

\textsuperscript{16} Anna Youngman, at the time a prominent economist at Wellesley, noted the “perpetually shifting purchasing power between long and short-time investments” and described the “apportionment of the purchasing power of society between capital goods and consumption goods.” Anna Youngman, “A Popular Theory of Credit,” \textit{American Economic Review} 12, no. 3 (Sep., 1922): 430, 423; See also David Laidler, \textit{Fabricating the Keynesian Revolution: Studies of the Inter-War Literature on Money, the Cycle, and Unemployment} (Cambridge: Cambridge University Press, 1999).
The new price parity movement was not directed at increasing purchasing power on the whole, but at keeping it balanced across different producing groups. It considered the farmer as a producer rather than a consumer. Price parity advocates understood high crop prices meant increasing the prices of many goods paid for by consumers so that producers had more income. As Warren and Pearson said, during a deflation it was producers who attracted the attention.

As price balancing ideas and Peek and Johnson’s plan attracted adherents, the Coolidge administration worked to fight it. Coolidge’s aide and future vice President, Charles Dawes, scoffed that Peek and Johnson pushed their plan simply because it helped “these fellows sell plows.” The administration hewed to what was already an older idea of balance. The Treasury’s 1924 annual report argued that it was “evident that with fairly balanced relations between our own industries this country may enjoy a good degree of prosperity.” They said that although “the farmers as a class are below the workers of other industries in purchasing power,” the new Intermediate Credit Banks and their cheap credit provided the best hope for restoring them.

Others redoubled their efforts at balance through finance. A committee of the American Bankers Association “pledged ourselves, as American bankers” to assist farmers marketing their

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18 Gite, *George Peek and Parity*, 51.  
products, “the prices of which have been ruinously low for the past two years,” but in this vein trumpeted only more credit through themselves and the Intermediate Credit Act.20

After the Intermediate Credit Banks seeming failure to staunch the troubles in the agricultural economy, Peek’s and Johnson’s plan became the locus of congressional attempts to revive agriculture. The growing Agricultural Bloc and its congressional allies tried to pass a version of the plan, known in Congress as the McNary-Haugen bill, after its Senate and House sponsors, in 1924, and then again in 1926, but failed in the face of traditionalist opposition. By early 1927, however, the New York Times noted that the “[f]arm question has reached the footlight of the national stage- politically and economically. Farm relief is to be the leading question for Congress.”21 Congress and the bloc pushed the bill over the top at the end of the lame duck session of Congress that year, but the President stood in their way. In Coolidge’s veto message, he conceded that “No one can deny that the prices of many farm products have been out of line with the general price level for several years,” and he argued that he would work to afford “agriculture a just and secure place in our economic scheme.” Yet he stuck to his belief in credit.22

Political prognosticators said that if Coolidge intended to win the Presidency in 1928, he needed the farm vote. He thus had to do something that would relieve the misery of an increasingly vocal farmer class. Eugene Meyer, head of the War Finance Corporation, later said that as “an alternative to the McNary Haugen bill, [Coolidge] was brought around to the farm credit system as his chosen instrument of relief, and to the need to strengthen that instrument

20 “State Banks Committee,” Banker Farmer 9, no. 5 (June 1922): 8. Bankers also tried to organize a large credit pool, with Coolidge’s support, to “thaw frozen farm assets” and buy out bad mortgages with support from the Federal Land Banks, but little came of the effort. Arthur Sears Henning, “Draft Plan to Thaw Frozen Farm Assets,” Chicago Tribune, September 11, 1926, p. 3.
while using it.”

Yet the goal of improving the struggling farm loan system even while providing more relief for farmers, and their banks, would be daunting.

The Savior of the Land Banks

Many at the time thought that if any single individual could save the farm loan system, that person would be Eugene Meyer. Meyer, after all, had been one of the outstanding private and public actors of his generation. The first son of a successful German-Jewish immigrant and financier, Meyer made his own fortune trading on the New York Stock Exchange. While at the Exchange, he led a campaign to bring transparency to many companies’ public balance sheets, and thus made stock investing in his generation something less than a blind gamble.

Yet Meyer always yearned for public service. At an early age he had written himself a “map of life” that had him first earning a fortune, and then entering public service at age 40. In 1917, one year ahead of schedule, he went to Washington to work as a dollar-a-year man inspecting government contracts with financier Bernard Baruch at the War Industries Board, who would godfather many of Meyer’s other successes. With Baruch’s help, Meyer was soon appointed to the new War Finance Corporation, which was continuously intertwined with the Federal Land Banks, and which became incorporated in them, in a fashion, as the Intermediate Credit Banks.

As a manager and officer in semi-public corporations, Meyer became a true believer in balance through finance. He argued in the Banker Farmer magazine that “the vibrations of distress in any of the important agricultural section are promptly felt in the manufacturing and industrial centers. When the buying power of the Middle Western farmer is diminished, it may

mean the closing of shoe factories in New England or lumber mills in the South.” Therefore “Agricultural is not a sectional or class interest. It is, in the broadest sense, a national interest. Adequate financing for the farmer and stockman...would go far toward stabilizing the whole business machinery of the country.”

Personally, however, Meyer identified with the lenders rather than the borrowers. He forthrightly declared himself to be “a banker lending the public’s money.”

At first glance, Meyer could seem unassuming. He was balding and doughy, with rimless glasses perched on a fleshy face, yet he had a profound self-possession. His staffers tended to worship him, with one celebrating his “extraordinary ability...his very generous attitude...his courtesy,” and the “sort of loyalty that I can’t explain which grows up between the men who work under Meyer and Meyer himself.” Outsiders had a different reaction, with one calling him “one of the vainest people I've ever seen.” His wife, Agnes, a noted art scholar and an important Washington socialite, understood his pride and was grateful it could not go further. When someone proposed that Eugene could be President, his wife noted in her diary that “I am profoundly thankful that E is a Jew for this will effectively protect him from the lure of that fata morgana.” Others kept the prospect alive.

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26 Eugene Meyer, “We’ve Learned the Lesson: Agriculture is Truly Basis of Prosperity,” Banker Farmer 9, no. 9 (September 1922): 2.
29 Walter Wyatt Oral History, 2. Ibid.
30 Agnes Meyer Diary, March 4, 1931, Box 18, Agnes Meyer Papers, LOC. Agnes Meyer, a noted art critic, had to suffer for her husband’s ambition. At one point Eugene berated her for “your rather loud spoken reference to McAdoo at dinner the other night,” in regards to his possible involvement in the Tea Pot Dome Scandal. “You do not seem to understand the demand your position [as my wife] makes upon you,” and he felt “decidedly discouraged that you and I haven’t understanding on such matters.” He asked her finally “what use is your aesthetic sense if it doesn’t guide you in these matters?” Eugene Meyer to Agnes Meyer, March 3, 1924, Box 117, ibid.
After Coolidge had forced the resignation of Farm Loan Commissioner R.A. Cooper in 1926, Secretary of the Treasury Andrew Mellon, another financier turned government nabob, came to Meyer to ask him to lead the Federal Farm Loan Board. Mellon explained the situation of the Banks, in what Meyer remembered as “an unrelieved tale of negligence, nepotism, and outright violations of the law; of bank officers and directors who with impunity duplicated at the lower levels the same laxity they saw at the top.” Meyer said if the situation was truly as bad as
Mellon intimated, he would need to fire at least two members of the four member board.

Mellon for the moment refused. In mid-1927, the Kansas City Joint Stock Bank, which had just been declared healthy by Farm Loan Board examiners, fell into an ignominious bankruptcy. As Meyer said, with “this giant collapse momentarily silencing all voices to the contrary, I was given a recess appointment.” At his request, the administration forced out three older Board members from the supposedly independent agency.

Meyer understood that if the Federal Land Bank was going to be of service to bankers and farmers, it would first have to protect itself. If the land banks themselves became bankrupt, the whole financial system they supported could come tumbling down. Meyer began his efforts by transferring much of his successful War Finance Corporation over the banks. Floyd Harrison and George R. Cooksey, two other board members of the Corporation, were appointed as the two new members of the Farm Loan Board. Meyer’s chief secretary and general counsel Chester Morrill, who had worked briefly on drafting the original Federal Farm Loan Act, was also moved over from the Corporation. Morrill said their task at the Board was “to do a housecleaning job,” and they embarked on airing the Augean Stables with vigor. Morrill estimated that almost 80% of those employees directly under the Board were “weeded out...as fast as we could.” The chief bank examiner was kicked out, along with much of his staff, and replaced with a War Finance Corporation examiner. In the field force, which Meyer described as a “howling wilderness,” they removed examiners, land appraisers, and other officers. Forced

31 Eugene Meyer Manuscript, unnumbered page, Box 167, Eugene Meyer Papers, LOC.
33 Chester Morrill Oral History, 42, ibid. The Washington Post reported accurately that “War Finance Group Now on Farm Board,” Washington Post, May 6, 1927, in Box 59, Record Group 56, Secretary of Treasury Files, National Archives, College Park (NARA II)
34 Chester Morrill Oral History, 145.
35 Among those weeded out were the chief file clerk who had been appointed simply because she was Cooper’s wife’s seamstress, and who had left the files in what Morrill called an impossible condition. Morrill Oral History, 146-147.
36 Ibid, 148-149, 158.
resignations went down to the level of file clerks, stenographers and typists, whose seats were filled by loyal War Finance Corporation personnel, some of whom continued pulling checks from the old corporation.\textsuperscript{37}

Meyer endeared himself to Congress by admitting some failures of the federal farm loan system for the first time, and promising real reform. In his official appointment hearing he told the congressional committee that, “The system is new. Mistakes have been made.”\textsuperscript{38} (Former Commissioner Cooper used a similar passive voice in a letter to the same congressional committee, admitting that “mistakes were made” during the system’s expansion.)\textsuperscript{39} Congress increased the Board’s appropriations and the Board expanded its force of examiners and appraisers, until within two years its total cost had almost doubled. Meyer pushed the expanded staff harder. The \textit{Wall Street Journal} investigated the comings and goings in the Old Land Office Building where the Board was based and found that while once 4:30pm was the usual check-out time, now there was “an extraordinary amount of night work.”\textsuperscript{40}

With Meyer’s financial background, it was not surprising that an improved market for land banks bonds was pre-eminent in his mind. To this end, the Board began printing detailed quarterly statements of the condition of all 12 Federal Land Banks, which it noted had “met with the approval of the banks, investment bankers, and others interested.”\textsuperscript{41} Meyer also increased the “spread” between the interest rate provided on bonds and that lent to farmers to a full 1%

\begin{thebibliography}{9}
\bibitem{1} Senate Banking and Currency Committee, \textit{Hearing on Confirmation of Members of the Federal Farm Loan Board}, 70\textsuperscript{th} Cong., 1\textsuperscript{st} sess., 1927, 9; Eugene Meyer Manuscript, 12, Box 167, Eugene Meyer Papers, LOC; “Memorandum for Board FLB Columbia, June 28, 1928, Box 2, Records of Irregularities, RG 103, NARA II; See list of all resignations for first seven months at Senate Banking Committee, \textit{Hearing on Confirmation}, 36.
\bibitem{2} Senate Banking Committee, \textit{Hearing on Confirmation}, 89.
\bibitem{3} Ibid, 97.
\bibitem{4} “Reorganized Farm Board Works Well,” \textit{Wall Street Journal}, May 22, 1928, p. 3. The extremely laudatory tone of this \textit{Wall Street Journal} three-part series on the reorganization, as well as the obvious references to inside information, leads one to believe that it was crafted with the assistance of the Board, most likely by Meyer himself.
\end{thebibliography}
from ¾% before, which meant that although farmers had to pay higher interest, the land banks
themselves would have more funds. Such efforts bore fruit, and for the first (and only) time in
their history, the land banks made a public bond offering at 4%, acquiring the cheapest money
yet for the system. Coolidge even mentioned this rate as a success story in his State of the
Union.  

Not everyone was happy about Meyer’s transformation of the system. Senator Duncan
Fletcher of Florida, who had long considered himself the keeper of the rural credits flame,
accused the new members of “representing New York financial interests” instead of those of the
farmer. The Progressive Farmer called it a “[k]idnapping” that meant the Board “has now been
turned over to Wall Street.” As one farm press editor told Meyer privately, “Their accusation
is that you are trying to operate the Federal Farm Land Banks and the Federal Intermediate
Credit Banks to create a good market for bonds instead of to actually help farmers.” Meyer did
not deny it.  

Hidden Problems at the Land Banks

Within a year, the public believed that Meyer had completed the “housecleaning” job
he set out to do, and secured financial stability for the banks once again. Yet Meyer understood
that such popular and financial success rested on hiding damning facts about the banks. As he
later said about his testimony before Congress, “I had to answer the questions and charges
brought before the committee... and, at the same time, not parade in public all the weaknesses

42 Senate Banking Committee, Hearing on Confirmation, 39.
43 Senate Banking Committee, Hearing on Confirmation, 44, 64; Calvin Coolidge, “Fifth Annual Message,”
December 6, 1927, The American Presidency Project,
45 See Senate Banking Committee, Hearing on Confirmation, 74.
46 Carl Williams to Eugene Meyer, January 12, 1928, Box 72, Eugene Meyer Papers, LOC.
in the administration of the bureau and of the system that had prevailed previously.” He
understood “[s]everal of the Federal land banks were faced with real problems,” and that to
fully air the extent of damage would have been “very disadvantageous to the credit of the
system.” He asked that much of his confirmation hearings be conducted in a private session, and
“asked that material that would reflect injuriously on the credit of the Federal land banks and
joint-stock land banks be eliminated from the record.”47

The land banks accounts Meyer released to the glee of bond markets were more
extensive, but they also contained more evasions. Realizing that the losses on real estate were
much greater than they previously admitted, the board stopped “charging off” all acquired real
estate at its full cost from the land banks’ accounts. They also told its appraisers, especially
those evaluating land that backed delinquent loans, to be much more generous. Meyer wrote
that they should make their appraisals “intelligent and liberal” and told them the main danger
was that they “undervalue farm lands.”48 These moves were taken despite the Board’s own
numbers showing that its old appraisals were not overly stingy. Even with the very high 50%
“down payment” required for a Federal Land Bank loan, the banks were losing on average over
10% of its mortgage on each farm it sold after foreclosure, and this number was rising. In the
Boards’ new expanded balance sheets, however, loan defaults were no longer written off as
entire losses.49

47 Subcommittee of the Senate Banking and Currency Committee, Hearings on Nomination of Eugene
Meyer to Be a Member of the Federal Reserve Board, 71st Cong., 3d sess., 1931, 100.
48 Ibid, 105-106.
49 Eleventh Annual Report of the Federal Farm Loan Board for the year ending December 31, 1927
(Washington: Government Printing Office, 1928), 80-81, 84-85. in early 1928 the new general counsel
Chester Morrill told the land banks that “purchase money mortgages,” or those where the banks merely
recorded a debt from a new buyer after selling foreclosed land to him or her, with no actual money
exchanging hands, could be used as a backing for bonds. Records show that the Board approved such
purchase money mortgages with as little as 17% down payments, and with the very kind of big balloon
payments after just five years the system was designed to avoid. See Chester Morrill to Federal Land
Banks, August 9, 1928; E. Anthony to Mr. Morrill, May 16, 1929, Box 2, Farm Credit Administration,
Although Meyer also made some efforts to deny an explicit government guarantee of
the banks and bonds, he was not willingly to give up the benefits of some implicit backing. When
a proposed Land Bank advertisement said in clear language that the government had no
financial responsibility for the banks, Meyer had it had it nixed as too explicit. When Congress
got word of this and asked what the real relations of the bank and government were, Meyer
could only equivocate.50

Another, more politically damaging, problem was quietly swept under the rug. Although
Charles Lobdell was comfortably ensconced at his $25,000 a year job as bond salesmen for the
land banks, a confidential board investigation found that he was “juggling bonds” between
different accounts to avoid reporting losses. The report lamented these “juggling practices” and
said that Lobdell’s accounts were “failing to reflect the true facts.” More damning, the report
found that Lobdell took a $15,000 loan from one of the bond companies with which he was
negotiating, to support a Montana property scheme, and that he asked for another $50,000
from another bond house for the same lands (he told them he could double their money).51 It
seemed that one of the paragons of the system, a Board member since its inception and a
former Farm Loan Commissioner, was corrupt. He resigned under duress, but the public annual
report only stated that the Board and the banks had agreed that the position of bond salesmen
“be discontinued.”52

The reports Meyer received about other officers and banks were also more troubling
than he let on in public. One examiner of the Columbia, South Carolina Federal Land Bank said “I

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50 Senate Banking and Currency Committee, To Amend Section 16 Federal Farm Loan Act, Transferring
51 “Report on sale of bonds by the Federal Land Banks for delivery June 29, 1928”, Box 1, , Entry 7, Report
on Sale of Bonds, 1928, RG 103, NARA II.
predict untold ‘grief’ for the institution.”\textsuperscript{53} In the next year’s report, an examiner said “All seem to recognize that the bank is in a bad condition,” but none had any plans to right it.\textsuperscript{54}

The public remained oblivious to all of these cascading problems. When Meyer retired from the Board in May 1929, there was near universal praise for his work, and his political star had risen higher than ever.\textsuperscript{55} Publicly the new President, Herbert Hoover, for whom Meyer had campaigned, would accept his resignation with great thanks for all the assistance he had given the country and its banks.\textsuperscript{56}

\textbf{Hoover and the New Price Parity}

President Herbert Hoover, more than any of his presidential predecessors, was a believer in the ideal of an economy balanced between all its sectors, and he embraced both the ideals of financial and price balancing. As early as 1920, Hoover worried about “a tendency to ill balance between the agricultural and general industry.” He argued “[i]ndustry’s real market is with the farmer,” and that the country “require[d] a careful balance of general industry to agriculture.”\textsuperscript{57} The frenetic but often sour Hoover, a former engineer and then Food Administrator under Woodrow Wilson during the war, had become during his time as Secretary

\textsuperscript{53} Memorandum for Mr. Meyer Re: Federal Land Bank, Columbia, S.C., from L.H. Paulger, Special Examiner, October 29, 1927, Box 2, Investigations of Irregularities, RG 103, NARA II.
\textsuperscript{56} Herbert Hoover to Eugene Meyer, April 29, 1929, released to public, May 1, 1929. Herbert Hoover, \textit{Herbert Hoover: 1929: Containing the Public Messages, Speeches, and Statements of the President, March 4 to December 31, 1929} (Ann Arbor: University of Michigan Library, 2005), 129.
\textsuperscript{57} Herbert Hoover, “Some Notes on Agricultural Readjustment and High Cost of Living,” \textit{Saturday Evening Post}, April 10, 1920, reprinted independently, 19-22. In 1922 Hoover noted the prices of “producer’s goods- agriculture, and metals, woods, etc.” was out of line with “consumer’s goods,” and the need to raise the former. Herbert Hoover, “The Problem of Prosperity: and the Part in It Played by the American Railroads” (New York: Association of Railway Executives, 1922), 11-12.
of Commerce one of the most respected politicians and thinkers in the nation, and he used his popular elevation to push his ideas about balance.

Before ascending into the Presidency in 1928, Hoover appointed a “Committee on Recent Economic Changes,” as a proto-think tank cum transition team, led by Columbia University economist Wesley Clair Mitchell, and its final report emphasized the need to for a balanced economy. The report argued that the interdependence of all the economy’s parts was both an advantage and a threat: “All parts of our economic structure from the prime processes of making and of marketing to the facilitating functions of finance, are and have been interdependent and easily affected [by each other]. And therein lies the danger.” The report argued that if “any group develops a method of artificial price advancement which puts one commodity out of balance with other commodities...to this extent equilibrium will be destroyed, and destroyed for all.” The final section of the report was titled “Economic Balance,” and said that in order to “maintain this balance, and to extend it into fields which are not now in balance with the more prosperous elements of the nation, is clearly an important problem of leadership.” The report especially worried that many “[g]reat industries, such as agriculture” were left behind in the general prosperity, and needed to be restored to their rightful place.59

In fact, the earliest draft of the report given to Hoover was even clearer about the dangers he confronted. It argued that “With each successive advance [in the economy], there has remained a farm problem somewhere in the rear,” and noted that “there exist unbalanced...
and unbalancing elements in the present situation of the United States is fairly obvious, and that therefore the accustomed unpleasant readjustment must close these prosperous years is to be expected.” This final sentence is thickly crossed out in pencil with a heavy X mark placed next to it, and was nowhere in the published version.  

Still, the message stuck with Hoover. In his memoirs, he said that at the beginning of his presidency “Agriculture had been out of balance with the rest of the economic system for some years,” and he was determined to fix it.

Others in Hoover’s administration echoed these themes about rural and urban balance. Hoover’s Undersecretary of the Treasury, Ogden Mills, eventually to replace Andrew Mellon as the Secretary, noted that “a reduction in purchasing power [in one sector] immediately affects the market for goods produced by other groups. A nicely adjusted balance is disturbed, the movement spreads and almost before we know it we are confronted with the phenomenon known as a business depression and the most baffling of problems.” In 1930 he would argue that “Even during recent years of high prosperity, agriculture failed to advance to the high level attained by other industries. Well-balanced national economy requires the placing of agriculture on an equality with other industries.”

As the concerns of his advisors suggested, farm balance would be Hoover’s almost singular focus in his first year in the presidency. As his first significant action as President,

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60 Edwin F. Gay, “Recent Economic Changes: Confidential,” Box 135, Presidential Papers, HHPL. One of the heads of the team provided Hoover’s secretary with another draft, noting that he should particularly read the pages which “contain some references to the credit situation which I know is now prominently in his mind.” Edward Eyre Hunt to George Akerson, April 15, 1929, ibid.


62 Ogden Mills, “Speech to be Delivered by Undersecretary of the Treasury at the Annual Dinner Meeting of the American Association of Advertising Agencies” May 15, 1930, Box 52, Treasury Correspondence, Presidential Papers, HHPL. See previous chapter IV, and Committee, Recent Economic Changes in the United States, xx-xxii. The Committee also noted the immense amount of employment generated by construction. John M. Gries, “Construction,” in ibid, 222-225.

63 Ogden Mills Speech at Annual Dinner Meeting of the American Association of Advertising Agencies, May 15, 1930; Ogden Mills Speech in Mechanics Building, Boston, MA., October 24, 1930, Box 52, Presidential Papers, HHPL.
Hoover summoned a special session of Congress to pass a law that he hoped would raise farm prices. Instead of a McNary-Haugen plan that funded exports, Hoover proposed a new Federal Farm Board (Meyer unsuccessfully complained about the similarity of the name to the Federal Farm Loan Board), which would be given $500 million of federal funds. Instead of direct grants, the Federal Farm Board would loan this money to farmers’ marketing cooperatives, so that they could hold crops until better prices arrived. It was a form of credit-based price balancing.  

The use of federal credit was natural for Hoover, since he had long advocated credit as a solution for economic distress. After the war, in order to support some tottering industries, Hoover argued “the Government should consider giving the use of its superior credit. It would not cost a cent to give the Government guarantee.” During the Coolidge administration, he also advocated the government use its prestige to organize bankers to support farm cooperatives. To guide his Federal Farm Board bill through Congress, Hoover tapped a Newark, New Jersey banker, Congressmen Franklin K. Fort, who had a long history of rural credit advocacy. Fort’s father had been the head of President Taft’s committee on rural credit back in 1912, and Fort himself had already written an article on “The Decline in the Purchasing Power of American Farmers.” In Hoover’s first speech on the new act, he explained its implications for banking. When he discussed the “difficulties of the agricultural industry,” he first mentioned the

64 Of course, the act inspired the usual complaints about class legislation. The President of the New York Mercantile Exchange complained “We feel that the fundamental principles of the Constitution have been overlooked...We do not feel that it is right to create discriminatory legislation against one group or in favor of another.” Harris Gaylord Warren, Herbert Hoover and the Great Depression (New York: Oxford University Press, 1959), 150.
65 Herbert Hoover, “The Problem of Prosperity and the part in it played by the American Railroads,” Testimony Before the Interstate Commerce Commission, February 4, 1922, 5-6. (Hoover also noted that improving railroad construction would “give increased market to the produce of our farms.”)
67 Hamilton, New Day to New Deal, 43.
“heavy indebtedness...inherited by the industry from the deflation processes of the 1920s,”
which he hoped the Board’s credit and price supports would alleviate.69

The chair of the new Federal Farm Board, which was to dispense this credit, was
Alexander Legge, recently chairman and president of the International Harvester Company, like
Peek and Johnson’s Moline Plow Company, a perfect example of the interconnection of farms
and industry. Legge had also worked, like Peek and Johnson, with financier Bernard Baruch, as
vice chairman of the War Industries Board, and had negotiated with life insurers and mortgage
companies concerning Meyer’s War Finance Corporation.70

Not long after the Federal Farm Board’s creation, it confronted the stock market crash
and rapid deflation. The Board understood such deflation was not only a danger to farmers, but
also to rural banks. It moved to protect them. In November 1930, after dozens of rural banks
closed one Monday morning, the Farm Board began its most expansive loans yet to wheat
cooperatives, but they admitted their goal was not to help farmers. Legge later said that “The
day this action was announced was ‘black Monday’ for rural banking,” and without some Farm
Board help “[s]imilar disaster threatened many grain-growing sections.”71

Another member of the Board said they intervened because “Banking and mercantile credit throughout the wheat
belt was conditioned to a considerable extent on wheat prices,”72 and later claimed that

69 Hoover, Memoirs Cabinet, 253. For other examples, see “Legge Advises Farmers to go to Local Banks,” Chicago Daily Tribune, July 18, 1929, p. 9.
70 “Harold M’Cormick Quits As President of Harvest Firm,” New York Times, June 3, 1923, p. 1; Alex Legge to HH, March 6, 1924, Box 155, Cabinet Papers, HHPL.
72 “Farm Board Holds 189,656,187 Bushels of 81-cent Wheat,” New York Times, November 25, 1931, p. 1 (describing actions of previous year). This member, James Stone, also noted that they choose to buy wheat in late 1930 not only for farmers, “but for banks and merchants throughout the agricultural states” who were dependent on farmers’ credit. He reiterated this idea later, when he “cited the series of bank failures in Arkansas, Kentucky, and North Carolina” as a justification for action. “Why Farm Board Pegged Wheat,” Wall Street Journal, December 16, 1930, p. 11; “Farm Board’s Vision Lauded,” Los Angeles Times, June 13, 1931.
support “was necessary because of the ‘frozen’ condition of many country banks.”

In its Annual Report the Board said helping farmers “was only one reason for stabilization.” Another was that “[l]enders of every sort had made advances on grain...Banking and mercantile credit throughout the Wheat Belt was conditioned to a considerable extent on wheat prices.” Hoover himself later said that if the board had not stepped in “a thousand country banks would likely be closed and a general panic was possible.”

Franklin Fort, the banker behind the act, argued that although the Board had not saved farmers or prevented a wider collapse in prices, it had stopped a “complete disruption of the nation’s banking and business structure.” The Board’s wheat actions were “necessary to stabilize wheat prices or banks would have been forced to close,” while its cotton buying program had “prevented many bank failures” in the South.

The Federal Farm Board became ever more involved in supporting bankers and investors. It made a special deal with southern bankers, with the assistance of Bernard Baruch, to keep cotton off the market and thus protect the price, which the bankers understood would also protect their loans to cotton farmers.

The new chair of the Board attended the conference of the Mortgage Bankers Association to see what he could do to help mortgage lenders.

Eventually the Board gave up trying to stabilize crop prices, which continued dropping, and argued that the country should focus instead on readjusting debt. With corn prices down from 51 to 32 cents a bushel, and with wheat down from 92 to 38 cents a bushel, there seemed little

75 “Holds Farm Board Averted Disaster: Fort Says Its Stabilization Plans Prevented Ruin of Banking and Business Structure,” New York Times, May 17, 1931, p. 3. Fort also emphasized the sixty two closed as the reason the board acted in late 1930.
else they could do. In the Federal Farm Board’s final annual report, after it noted the hundreds of millions dollars lost in defaulted loans to cooperatives, it argued that “At the present level of prices, fixed-charge burdens - notably tax and mortgage debt payments – have become excessive. Some equitable means of readjustment of these burdens must be worked out.”

Hoover was forced back, like Coolidge, to the power of the Federal Land Banks and their mortgages as the best hope for solving the combined problems of farmers and bankers.

Hoover and the Land Bank Bailout

Hoover himself had a strained history with farm mortgages. In his memoirs, he recalled the “mortgage upon Uncle Allan’s farm,” where he lived after being orphaned, “which was a constant source of anxiety and a dreadful damper on youthful hopes.” In one campaign speech he remarked that due to his troubled and financially fraught childhood, “The word ‘mortgage’ became for me a dreaded and haunting fear from that day to this.” Nonetheless, he had worked during his teenage years as a clerk in his uncle’s Oregon Land Company, and continued in the Department of Commerce to try and alleviate mortgage burdens. Hoover also recognized the Federal Land Banks as perfect examples of his peculiar brand of government-led associationialism, due to supposed the cooperative groups at its base, one he hoped could help solve the mortgage problem.

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78 Historical Statistics, Table Da693-706; Table Da717-729.
81 Warren, Herbert Hoover and Great Depression, 20.
82 HH to Eugene Meyer, April 29, 1929, Public Papers, 129. The Republican Party platform of 1928 had also celebrated the system the “one billion eight hundred fifty millions of dollars for loaning purposes at a low rate of interest.” “Republican Party Platform of 1928,” June 12, 1928, American Presidency Project, http://www.presidency.ucsb.edu/ws/?pid=29637.
After the stock market crash and an adverse Supreme Court decision against the Joint
Stock Land Banks, Hoover argued that the farm loan system had to be protected. He first
proposed a bill that would force Joint Stock Land Bank stockholders to provide money to the
banks in case of bankruptcy. Yet many in Congress blanched at dunning the banks’ investors.83
Representative Henry T. Rainey of Illinois, an up–and-coming firebrand in the House who would
become Speaker in the first Congress of the New Deal, painted his rural constituents not as
borrowers of the system but as investors in it. He claimed he had “a great many farmers in my
district who have invested in the stocks as well of the bonds of these banks that are now in
receivership, and I have been hearing from them” about the danger of new payments. What
Rainey did not mention was that he himself was a stockholder in the Joint Stock Land Bank
started by former Congressman and former Federal Farm Loan Board member Frank Lever, and
that his bank too was in danger.84 Other Congressmen were more explicit about their
connections. Representative Roy Fitzgerald of Ohio testified that he was “intensely interested’ in
the bill, since “I face financial ruin in this situation.” He had bought $35,000 of Kansas City Joint
Stock Land Bank stock, which amount he would have to pay again if the new bill passed. He
described himself as a “victim of this law” and his lugubrious complaint received sympathetic
responses from an assembled committee.

Instead of more attention to enforcing debts, Congress began debating extending more
government assistance to all the banks in the system. Representative Louis Cramton of Michigan

83 “Farm Loan Liability Bill,” Wall Street Journal, February 21, 1930; “Officials Favor Letts Measure,” Wall
Street Journal, March 13, 1930. The Wall Street Journal took a keen interest in the bill, favoring “Aid for
Land Banks,” and editorializing on their front page that it was one of the few subjects “to which Congress
might profitably give attention if it could spare the time from prohibition and tariff log-rolling.” “Aid for
84 House Banking Committee, Hearings on Joint Stock Land Banks in Receivership, 12; A.F. Lever to Henry
30, 1928, Box 3. Henry Rainey Papers, LOC. Rainey was also very close with disgraced Joint Stock Land
Bank mogul Guy Huston. See, Guy Huston to Henry Rainey, December 20, 1929; Guy Huston to Henry
Rainey, April 27, 1931. ibid.
said that the “Government’s connection with these Federal joint-stock land banks” had convinced him that the “Government had some responsibility which had to be determined,” and other congressmen echoed his analysis. Others worried about the continuing threat to the Federal Land Banks, with one resolution calling for Treasury to buy $100 million dollars’ worth of the Federal Land Bank bonds (perhaps not aware that the government held about that amount in its trust funds already). Despite Hoover’s early attempt to force investors to contribute to the banks’ stability, a self-interested Congress thought that support for the banks was the government’s duty.

Although Hoover and Congress failed to pass a bill, other parts of the government tried to salvage the system. When the Land Banks could not find purchasers for their bonds in February 1930, the Federal Reserve banks bought $9.5 million dollars of them on the open market. This was a momentous step. In Federal Reserve language, buying debt in the open market, as opposed to “discounting” bank bills, was known as the “purchase of governments,” and usually involved buying federal bonds. Although a few years earlier, the Philadelphia Federal Reserve Bank, headed by former Farm Loan Commissioner George Norris, had purchased a

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85 House Banking Committee, *Hearings on Joint Stock Land Banks in Receivership* 56-60, 8. Representative Louis Cramton, Republican of Michigan, had recently called for a public investigation of the Board’s complicity in publishing and distributing “false statements of the financial conditions and earnings of the joint stock land banks, which reports deceived conservative financial institutions.” He hoped the investigation would “determine the extent of the government’s liability” for these mistakes. “Land Bank Inquiry Demanded in House,” *New York Times*, June 8, 1929.

86 “Mellon Holds Bonds Strong,” *Wall Street Journal*, January 22, 1930; “Mellon Opposes Aid to Land Banks,” *New York Times*, January 22, 1930. Mellon claimed the Federal Reserve should not use the previous purchases as a precedent, but would still not foreclose the possibility of buying the bonds at some point in the future, “as a last resort in a national emergency after a careful analysis of all the factors involved.”

nominal amount of Land Bank bonds, this was the first time the Federal Reserve had fully placed its full support behind the farm mortgage system.\textsuperscript{88}

Hoover appointed H. Paul Bestor as the new chair of the Federal Farm Loan Board, with the task of renewing the land banks. Bestor, like Hoover, had been born into a poor farm in Iowa, where he too remembered the “terrible years” when it was “impossible for us to pay the mortgage on our farm.” He had risen to become a prominent historian, Missouri politician, and then land bank official.\textsuperscript{89} Although in May 1930 he proposed rules that obscured the extent of the losses in the system, he knew this was not sustainable.\textsuperscript{90} On the same day as he publicized the new rules, Bestor went to the White House to talk with Hoover. He expressed concern about a pending visit by the leaders of several farm lobby groups, including the National Grange, which was headed by L.J. Taber, who happened to be President of his own Joint Stock Land Bank. Bestor worried these groups would lobby for even more obfuscation and even more generous Federal Land Bank loans. He warned this was the last thing the government should do. He told Hoover that $20 million of the real estate sold by the Federal Land Banks after foreclosures, which were booked as new mortgages on their balance sheets, were “not real,” and these two words were underlined in Hoover’s handwritten notes on the meeting.\textsuperscript{91} The real situation of all the banks in the system were in fact much more dire than the published reports admitted.

Bestor suggested that the government purchase Joint Stock and Federal Land Bank lands and

\textsuperscript{89} Senate Subcommittee of Committee on Agriculture and Forestry, To Establish An Efficient Agricultural Credit System, 72\textsuperscript{nd} Cong., 1\textsuperscript{st} sess., 1932, 37. After his stint in government, Bestor would go on to make farm mortgage loans at the Prudential Insurance Company, the largest private farm mortgage lender.
\textsuperscript{90} Minutes of the Meeting of the FFLB, May 19, 1930, 241-268, Box 36, RG 103, NARA II.
\textsuperscript{91} Bestor was referring to the purchase money mortgages provided to defaulted borrowers by the banks themselves which became increasingly common in the system. Walter H. Newton “Memorandum” and Handwritten notes, June 2, 1930, Dictated May 31, 1930, Box 58, Presidential Papers, HHPL.
take over bad mortgages, but Hoover was not yet ready for such a move.\textsuperscript{92} Over the next year Hoover met with Bestor at least eight more times in the White House to discuss the position of the land banks, and to debate the means of their salvation.\textsuperscript{93} He requested and received weekly statements from Federal Land Banks detailing their financial situation and the number of delinquent loans, which were kept from the public.\textsuperscript{94}

Word got out, however, that both Federal Land Banks and Joint Stock Banks were being treated with kid gloves, and the existing bonds continuing dropping in value. The bonds’ failure was in turn hurting the regular commercial and investment banks that had invested in them. One contemporary observer, the banker Raymond Goldsmith, noted that “The depression in bond values...reached foreign bonds and land bank bonds in the course of 1931, [and] began to endanger the whole bank system.”\textsuperscript{95} A Federal Reserve study of national banks closed in 1931 showed that Federal Land Bank and Joint Stock Land Banks bonds were prominent on the list of fifty bond issues “Contributing the Greatest Depreciation to the Portfolios” of the banks, and caused the banks to lose more money than almost any other investment they made.\textsuperscript{96} The ongoing collapse of the two farm loan systems was an important additional cause of the collapse of the banking system as a whole, which they had once hoped to sustain.

\textsuperscript{92} Ibid. He also told Hoover to force the federal government to pay for the expenses of his Farm Loan Board and Bureau by the Treasury, which since 1923 had been assessed against the banks.

\textsuperscript{93} See Herbert Hoover Daily Calendar, Hoover Library Online: http://www.ecommcode2.com/hoover/calendar/search_results.cfm. Several additional meetings that appear to have taken place in the correspondence are not recorded in the daily calendar.

\textsuperscript{94} “Federal Land Banks, Delinquencies, June 1931,” Box 58, Presidential Papers, HHPL.

\textsuperscript{95} He is quoted in Milton Friedman and Anna Schwartz, \textit{A Monetary History of the United States, 1867-1960} (Princeton: Princeton University Press, 1963), 355. Goldschmidt presumably included Joint Stock Land Bank bonds in his analysis, which, without the implicit guarantee, were dropping in price even more rapidly.

In September 1931, Bestor wrote the President a stilted and pained nine-page letter explaining why the government needed to bail them out. He said that 17% of all Federal Land Bank mortgages were delinquent. In the Columbia land bank 35.9% of loans were delinquent, in Spokane, 26.1%. Even when farms were foreclosed they were “usually in a run-down condition,” and impossible to sell. Bestor said they must therefore “strengthen the capital structure of the Federal land bank system.” He said they could ask Congress for $75 to $100 million to restore the banks’ capital, which would rejuvenate “confidence in the bonds of the Federal Land Bank system” without having to officially “guarantee their payment.”

Bestor’s plan proposed the first explicit bail-out of a financial institution by the federal government. Instead of merely lending money, or temporarily buying bonds, it would become a part owner of the new system in order to prevent its insolvency. The necessity of Bestor’s plan became apparent four days after his letter, when Britain’s departure from the gold standard caused a global meltdown in financial markets. Few have since noted that Hoover’s announcement of a private credit pool to support the banking system coincided with his request to Congress to pass Bestor’s land bank bill. Salvaging the tottering Land Banks system was an essential part of salvaging the banking system at large. The next day the farm loan bonds shot up in price 3 to 5 points and the New York Times reported the “strongest advance...seen in many weeks.” The National Grange, with its joint-stock connections, celebrated Hoover’s “splendid and far-reaching move” to protect the banks and, hopefully, the entire rural credit system.

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97 Paul Bestor to the President, September 17, 1931, Box 58, Presidential Papers, HHPL. Hoover soon had his Bureau of Agricultural Economics investigate total farm mortgage debt. Eric England to Nils Olsen, September 24, 1931, Box 4, Agriculture, Presidential Papers, HHPL.

98 These actions, however, were both reported at the time with banner headlines. “Hoover Urges $500,000,000 Pool to Aid Banks, With Enlarged Federal Farm Loan System; Congress Leaders Agree to Support Program,” New York Times, October 7, 1931. Originally, Hoover proposed $60 million dollars for the banks. This figure was not provided in Hoover’s own reported statement, but was widely attributed to him and may have been bandied about at the White House meeting with congressional leaders.

Bestor in the public hearings on the bill denied that the banks were truly in danger of collapse, and claimed such a bill was only necessary to “restore confidence in the market” for federal land bank bonds. Unaware of the extent of the problems in the banks, Congress passed a bill that provided $100 million in new capital, and $25 million in particular to help farmers facing foreclosure. The New York Times trumpeted “New Capital Lifts Land Banks’ Bonds.”

The government threw other supports around the land banks. The Reconstruction Finance Corporation, a new public financial corporation created by an act passed the day before the land bank bill, also came to their aid. The head of the new corporation was Eugene Meyer, and, according to law, one member of the Board was the Farm Loan Commissioner, Paul Bestor. Two of the five other directors of the corporation also had connections to the system. One was Judge Wilson McCarthy, whose first recommendation from a Senator cited his joint stock land bank experience, and who was not surprisingly supported by Senators Robinson, Fletcher and others involved in that system. The other director was Harvey Couch, an Arkansas Utility executive who also happened to be a director at Senator Robinson’s Little Rock Joint Stock Land Bank.

Prominent politicians and bankers also pushed the Reconstruction Finance Corporation to provide government largesse to the banks. Everett Sanders, Coolidge’s former personal secretary and now head of the Republican National Committee, and Angus McLean, former North Carolina Governor and friend of Meyer’s at the War Finance Corporation, and, incredibly,

support this effort was that the Grange had long invested its own excess funds in farm mortgages. John Trimble, ed., Journal of Proceedings of the National Grange of the Patrons of Husbandry, Thirty-Third Annual Session, 1899 (Columbus, Ohio: Fred J. Heer, 1899), 142-144.


both presidents of their own Joint Stock Land Banks, wrote asking for more federal support. As Sanders wrote to Hoover on his Republican National Committee letterhead, it would “be very unfortunate indeed if we should begin to have some joint stock land bank failures” so soon before the election.\footnote{Everett Sanders to Walter H. Newton, August 20, 1932, Box 279, RFC, Presidential Papers, HHPL.} The Reconstruction Finance Corporation promised to allocate money to both the Federal Land Banks and the Joint-Stock Land Banks.\footnote{See Eugene Meyer to Hoover, July 5, 1932, Box 283, ibid. And see \textit{Federal Reserve Bulletin}, August 1932.} Once again too, the Federal Reserve, now also under the Federal Reserve Board’s governor Eugene Meyer, bought millions more in Federal Land Bank bonds and Intermediate Credit Bank bonds to boost the banks.\footnote{See, \textit{Federal Reserve Bulletin}, March 1932, 182, May 1932, 293, June 1932, 353, July 1932, 422, August 1932, 485. Internal records reveal that many of the short-term Intermediate Credit Bank debentures funds’ were transferred to the Land Banks’ accounts. \textit{Federal Reserve Bulletin}, February 1933, 70. See Minutes of Farm Loan Board.}

### Foreclosed

In the early 1930s, the farm foreclosure crisis, which had attracted sporadic attention in the 1920s, emerged as a national scandal, becoming for many Americans the defining aspect of the Great Depression. Foreclosures, which had been a mere 3 per 1,000 farms in the 1910s, increased to 16 per 1,000 by the end of 1920s, and then reached almost 28 in 1932, with some states reaching almost 50.\footnote{Carrie A. Meyer, \textit{Days on the Family Farm: From the Golden Age Through the Great Depression} (Washington: George Mason University Press, 2007), 152.} As one child of the time remembered, people in the early days of the Depression would come to watch the farm foreclosure sales “partly out of morbid fascination.” These auctions would sell everything a family owned, down to their family pictures, for as little as a nickel or dime.\footnote{Studs Terkel, \textit{Hard Times: An Oral History of the Great Depression} (New York: Pantheon Books, 1970), Slim Collier, 94.} As the Depression wore on, however, the witnesses at the foreclosures became more rebellious. One foreclosing judge, working not too far down the road from Hoover’s childhood home in Iowa, was driven out of his court with a rope around his neck,
and a bystander remembered that they almost “were gonna string him up in old horse thief fashion.” Other judges were threatened or had their courtrooms disrupted by groups of angry farmers desperate to prevent sales.\textsuperscript{109}

In early 1932 the soon-to-be infamous Farmers’ Holiday Association was formed at a grand meeting in Des Moines, Iowa, as the radical wing of the traditional Farmers’ Union lobbying group, and farm foreclosures were squarely in its sites. It was led by the firebrand Milo Reno, a rangy former Populist remembered by one congressman as “a rabble-rouser de luxe!”\textsuperscript{110} Although many today emphasize the Association’s desire for farm price increases, the first of Reno’s four-point demands was state-mandated moratoriums on all farm mortgage payments.\textsuperscript{111} The Farm Holiday Association also began forcing deals on foreclosing creditors, and they used the Federal Land Banks as a tool to do so. To a lender who was trying to foreclose on a widow, a group of “Holidayers” said they could “get the money that is today equal to the purchasing power of the money you lent to her,” in Depression-era deflated dollars that is, “We’ll get her a federal land bank loan for this much. So you get as much purchasing power as you gave her.”\textsuperscript{112} Other Association members though, claimed that the Federal Land Banks foreclosures had radicalized them. One association member who faced a land bank foreclosure said the “Federal Land Banks at the time were worse than the insurance companies.” The Holiday movement began participating in the fight against foreclosures on the ground, through “direct action” taken against lenders and judges, including using “ropes under their coats,” or

\textsuperscript{109} Ibid, Harry Terrell, 215.  
\textsuperscript{110} Marvin Jones Oral History, 599, Columbia University Oral History Archives, Columbia University Library, 599. One of his associates said he was a man who was “instinctively for the underdog” in any situation, and when he got on stage he could move people “Something in the mold of [William Jennings] Bryan.” J. Bosch Oral History, 16-17, ibid.  
\textsuperscript{111} R. Bosch Oral History, 9. The questioner, agricultural historian Lowell Dyson, argued that the most important thing the Holiday Movement did was in stopping foreclosures and encouraging mortgage moratoriums, and the former Holiday member heartily agrees.  
\textsuperscript{112} A Bosch Oral History, ibid, 41.
threats of violence against foreclosing creditors and judges.\textsuperscript{113} A historian of the Holiday movement later noted that the fact “[t]hat farmer protest should take its most militant form drive to resist mortgage foreclosures was a predictable outgrowth of depression conditions,” namely, low crop prices combined with expensive mortgages.\textsuperscript{114}

Some politicians identified this farm rebellion and its fight against farm foreclosures as a historic moment, even a turning point in American history. On the floor of the House of Representatives, Fiorello La Guardia said, “When the history of this period is written...the farmers of Iowa who resisted to protect their homes will take their place in history with the Boston Tea party.” He said, “The interest rate will have to be brought down to 3 per cent save the republic.” Mere points of interest in this period attained an existential importance.\textsuperscript{115} Senator Henrik Shipstead said the attacks on farm foreclosures and judges were equivalent to the beginning of the American Revolutionary War and its “shot hear round the world.”\textsuperscript{116} Midwestern governors held a conference on farm relief in Des Moines in the summer of 1932, and some governors, such as Floyd Olson of Minnesota, expressed sympathy for Milo Reno’s plans on mortgage moratoriums.\textsuperscript{117} The governor of North Dakota ordered out the state militia in order to prevent sheriffs from conducting foreclosure auctions.\textsuperscript{118}

The press also began attacking the federal government on the farm loan system foreclosures supposedly under their control. The \textit{Des Moines Register}, a staunch Republican paper, whose publisher Hoover had just appointed as a director of the Reconstruction Finance Corporation, printed a cartoon showed two fat crows, labeled Joint Stock and Land Banks,

\textsuperscript{113} Homer Hush Oral History, ibid, 35-37.
\textsuperscript{114} Shover, \textit{Cornbelt Rebellion}, 78.
\textsuperscript{115} “Farm Mortgage Aid Urged to Avert Serious Crisis,” \textit{Los Angeles Times}, February 4, 1933, p. 2.
\textsuperscript{117} John A. Filter and Derek S. Hof, \textit{Fighting Foreclosure: The Blaisdell Case, the Contract Clause, and the Great Depression} (Lawrence, KS: University of Kansas Press, 2012), 60.
\textsuperscript{118} John L. Shover, \textit{Cornbelt Rebellion} (Urbana, Ill.: University of Illinois Press, 1965), 81.
feasting on a desolated and foreclosed farm. The national investigative magazine Collier’s also published a devastating critique of the land bank system and their foreclosures just four days before Hoover’s planned speech on farm problems, complete with a cartoon of a massive pig labeled “Federal Land Banks” uprooting a family home.

Figure 4.2: Cartoon Attacking Joint Stock Land Banks. Source: Herbert Hoover

Presidential Library

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119 See AC Williams to Walter H. Newton, October 1, 1932, Box 58, Presidential Papers, HHPL. Williams says the same cartoon was also reprinted in North Carolina.
120 The Collier’s problem was so urgent that the White House telegraphed Bestor on a railroad train and had a Pullman conductor at a stop hand him the emergency telegram. Bestor immediately turned around to travel to the Collier’s New York office to demand an apology for what he called a “despicable” attack on his system. Bestor attacked the “implications of the cartoons” that the banks were focused on foreclosures. The editor refused to change anything, but at least revealed that his principal source of the story was Democratic Congressman Henry Steagall of Alabama. Paul Bestor to Richey, October 8, 1932, ibid.; Paul Bestor to William L. Chenery, Editor, Collier’s, October 7, 1932, ibid. Walter H. Newton to Paul Bestor, October 1, 1932. White House Memo, October 1, 1932, 11:25am, Box 58, Presidential Papers, HHPL.
Besides the financial collapse of the farm loan system, Hoover thus had to contend with wave of foreclosures and growing resistance to them, especially at the semi-public banks. While once he had made a chilly response pleading constitutional inability to those who asked for more leniency from the Federal Land Banks, now he convinced Bestor to send a letter to all the these banks’ presidents to counsel leniency.\textsuperscript{121} As the 1932 campaign for the presidency heated up, the Land Banks and their foreclosures became almost an obsession. Hoover told a concerned Senator that he had already written to the Board, but was concerned that “perhaps our farmers who are in difficulty do not realize the sympathetic view and the endeavor we are making in

\textsuperscript{121} Hoover returned an early draft of Bestor’s letter with what he called “some changes in the phraseology,” emphasizing that it was “not only humane but it is better for the country in this emergency and in the interest of the banks” that all farmers be kept on the land if possible, rather than having the banks “go through the expense of foreclosure.” Hoover to Paul Bestor, October 29, 1931 with draft. Box 58, Presidential Papers, HHPL.
their interest.” He continued to hector them and Bestor to stop foreclosures.122 Others reminded Hoover of the political importance of such work. A letter to the President’s Secretary from a member of the Reconstruction Corporation from Iowa said that “nothing would be so helpful politically in Iowa at this time as a ‘softening of the arteries’ on the part of some of these institutions which are supposed to be relieving the farmer,” but “whose only activity at the present time seems to be confined to foreclosing of mortgages.”123 The Iowa governor wrote Hoover that stopping Federal Land Bank foreclosures would “swing the farm states into line” in the coming election.124

Hoover decided to make his major presidential campaign speech on the farmer in Des Moines, the navel of the farm rebellion, and he knew he had to confront the issue of mortgage foreclosures. Right before the speech he convened a conference of private mortgage lenders and got them to promise to stop “needless foreclosures” on farms. Hoover simultaneously made the land banks pledge more liberality, and received a promise from the Reconstruction Finance Corporation “that the whole power of the Reconstruction Finance Corporation is to be thrown back of the agencies who lend money and receive farm mortgages,” with a goal of stopping foreclosures.125 Nonetheless, on the train ride to his Des Moines speech, Hoover confronted crowds of Farm Holiday Association protestors who lined the route.126

Amidst the chaos and continual protests, Hoover at the Iowa Coliseum in Des Moines described how glad he was “as a son of the soil of this State, to come back to where I was born.” He also reminisced about the hard times he endured as a child, during the 1870s depression,

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122 HH to Senator Frederick Steiwer, July 15, 1932, ibid. For more pressure on banks, see HH to Bestor, August 18, 1932, ibid.
123 J.C. Hanrahan, assistant to Gardner Cowles, to Walter Newton, August 26, 1932. Box 279, Presidential Papers, HHPL.
124 Governor Dan W. Turner to HH, September 27, 1932, Box 58, Presidential Papers, HHPL.
126 Donald R. Murphy Oral History, 21, Columbia University Oral History Archives.
where there were few “resources of joy” because he was told “everything must be saved for the mortgage.” He told them “the mortgage situation—that is, long-term credits—is one of our most difficult problems,” and despite all his efforts, said “[t]here must be more effective relief.” He promised in the next session of Congress to ask once again “that we further reorganize the Federal land banks, and that we give to them the resources and liberty of action, which they do not today possess,” to refinance mortgages.127

Hoover’s opponent in the campaign, New York Governor Franklin Roosevelt, expounded endlessly on the horrors of these foreclosures. Roosevelt said that under Hoover “practically nothing was done toward removing the destructive menace of debt from farm homes,” and that Hoover only tried to protect the banks. To Roosevelt’s “sneers,” as Hoover called them, that he was just protecting banks, he said Roosevelt “knows full well that the only purpose in helping a bank is to protect the depositor and the borrower. He knows full well that the only purpose of helping a farm-mortgage company is to enable the farmer to hold his farm.”128 Despite his private efforts to stop foreclosures, this appeal to trickle-down assistance was not appealing to the public.

In the period between Roosevelt’s election and his inauguration, farmers’ battles against foreclosures crescendod to their peak. In December a national conference of all major farm organizations proposed as their first demand a national mortgage moratorium, and a refinancing of existing mortgages through the Federal Land Banks or Reconstruction Finance Corporation. The farm lobbyists told Congress that current “ruinous prices” for farm products meant these old debts simply could not be paid. Angry farmers crowded foreclosure sales and threatened to attack anyone who bid over a penny, forcing the mortgagors to relinquish their

claim. The Farmers’ Holiday Association and Milo Reno began convening “arbitration boards,”
composed of a handful of local farmers to decide what the fair interest payment would be and
demanded lenders agree. But as Reno said, “ropes under their coats” stopped more foreclosures
than mere protests. Courthouse steps were blocked by dozens Association members so
attorneys could not enter their foreclosure papers, and the mortgage holders were shunted off
to “barnyard judges” or “Councils of Defense” who would decide what the mortgagee owed.129
One lender was de-pantsed and had his tires slashed before being driven out of the area. More
seriously, a Kansas City Realtor was found murdered just after he foreclosed on a property.130

Besides direct action, the Holiday Association marched thousands of supporters through
state capitols calling for general moratoriums on mortgage debts. They demanded that as states
began passing “banking holidays” to prevent bank runs, they declare farmers’ holidays on
mortgage payments. Beginning with Iowa in February of 1932, states passed laws allowing up to
two years of late payments before a lender could foreclose on any mortgage. By March eight
states had restrained foreclosures entirely or in part.131 Several insurance companies, including
Prudential, the largest farm mortgage lender in the country, suspended foreclosures entirely
until the situation settled down.132

In Congress, the farm foreclosure crisis dominated the lame-duck session in the darkest
moment of the Depression. There were bills for a national mortgage moratorium and for
refinancing all mortgages through the Federal Reserve. Senator Duncan Fletcher, instead,
proposed a land bank bill that extended farmers’ land bank mortgage terms and lowered their

129 J. Bosch Oral History, 41-42.
130 Hof and Filter, Fighting Foreclosure, 64, 62.
131 John L. Shover, Cornbelt Rebellion: The Farmers Holiday Association (Urbana, ILL: The University of
132 Hof and Filter, Fighting Foreclosure, 64.
interest payments, which bill acquired the support of most farm groups. The summary Bestor provided Hoover of the bill was littered with his Hoover’s acerbic but tired notes: “don’t like,” “not much harm,” “Emergency only reason not object,” and for the final section, “not good but not justify veto,” ultimately agreeing that “The emergency justifies it.” The final bill passed on the second to last day of Hoover’s Congress, giving fresh relief to those undergoing foreclosure, and was soon followed by a new bankruptcy bill that allowed farmers’ to form arbitration boards to negotiate with mortgagors, similar to the Holiday’s groups but done in a legal fashion. Yet such foreclosure relief caused the land bank bonds to drop in price again, demonstrating the old dilemma of providing relief to debtors while relying on private creditors to fund them. Hoover would leave to his successor the task of continuing to sail between the Scylla and Charybdis of protecting investors while assisting the mortgaged farmer.

Hoover and his allies had made control of both prices and credit an essential part of the government’s response to economic imbalances and farm suffering. Yet the continuing deflation in the Great Depression, and the resulting foreclosure and banking crises, made such efforts inadequate, and even made earlier federal credit seem a heavy burden. The price and credit collapse led Hoover and Congress to bail-out the Federal Land Banks and extend ever more credit to other financiers. Yet Hoover understood the problems of economic and financial imbalances had spread far beyond the farms, and he had already begun using similar methods to rescue the rest of the economy.

133 76 Congressional Record 4977-4981, February 25, 1933.
134 Bestor to WH Newt on, March 3, 1933, with handwritten notes, Box 58, Presidential Papers, HHPL.
CHAPTER V

HERBERT HOOVER AND THE URBAN MORTGAGE CRISIS IN THE GREAT DEPRESSION

In March of 1930, as the depression entered its sixth month, President Herbert Hoover pondered what he could do to steer the nation out of the economic doldrums that already threatened his presidency. He had been considering one route of escape with some of his advisors, and finally he wrote to the governor of the Federal Reserve Board with a plan. Hoover, in his typical bureaucratic argot, told the chairman that if the economy was “to take up the constant stream of unemployment which comes from the perfecting of processes of production and distribution, we must have a constant increase of some major need in the population.” While once radios, automobiles, and other gadgets had provided this “need,” something else was necessary. “It seems to me that the one direction which is always economically and socially sound is in home building, in which there is a large consumption of labor directly and indirectly through both producers’ and consumers’ goods.” The problem was that the “conditions by which home building is financed today are the most backward segment of our whole credit system,” since it was difficult to find investment money for “[i]solated and small sized mortgages.”

Hoover’s concerns about home-building and mortgage finance were noteworthy, but so was the institution to which he addressed them. Thus far in its history, the Federal Reserve had had little do with long-term debts such as mortgages. From its inception, it had hewed to the belief that it should only “discount” (or loan money on) short-term debts backed by goods which could be easily sold. Hoover asked, however, if the Federal Reserve Banks would discount

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1 Herbert Hoover to Roy A. Young, March 24, 1930, Box 180, Presidential Papers, Herbert Hoover Presidential Library.
mortgages for home building. This was a radical move, but he went further, and described the benefits of the semi-public Federal Land Bank system for agriculture, wondering if the Federal Reserve could encourage a similar system for urban mortgages. After the Federal Reserve Board refused to pursue Hoover’s suggestions, he replaced two of its members with people more sympathetic, including one who would be his economic consigliere for the remainder of his time in office, the former Federal Land Bank chief Eugene Meyer. With these comments and actions, Hoover opened a new front against the Depression, one which he would push for the remainder of his presidency.

When Hoover identified home building as the single best path for economic recovery, and when he identified cheap mortgages as the best way to bolster home building, he was drawing on changes in economic thought and practice that had emerged over the previous decade, some of which he himself had encouraged. The problem, as Hoover and others saw it, was the same that had once bedeviled agricultural mortgagors. Commercial banks, where most of the nation’s wealth was located, tended to invest in only short-term loans on goods, known as “real bills,” which could always be quickly sold, and thus avoided long-term mortgages. While this problem had already been ameliorated for farmers through the Federal Land Banks, there was no equivalent system for urban mortgagors. Yet at this time many economists also came to believe that home building and attached “heavy industries” (also known as producer goods, durable goods, or fixed capital goods industries) were particularly sensitive to high financing costs, and that a weakness or imbalance in home construction relative to the rest of the economy was an essential factor in the ups and downs of the business cycle.

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2 Ibid. See also William J. Barber, New Age to New Deal: Herbert Hoover, the economists, and American economic policy (Cambridge: Cambridge University Press, 1985), 96-97.
This chapter reveals that, to an extent unrecognized by previous historians, most of Hoover’s major economic reforms during his Presidency were devoted to providing new government guarantees and support to mortgage finance. While in the first year of his presidency Hoover had attempted to support farmers, and had later used federal farm mortgages as a means of relief, for most of his presidency it was the urban mortgage that attracted his attention. With this motivation, Hoover first pressed the Federal Reserve to loosen monetary policy with the hopes of spurring more mortgage loans and construction. He later succeeded in opening the Federal Reserve to loaning on mortgages and other long-term debts. Hoover and his new Reserve Board governor Eugene Meyer pushed Congress to create the Reconstruction Finance Corporation to help finance such mortgage debts. Finally, Hoover secured the creation of the nation’s second semi-public mortgage institution, based on the Federal Land Banks, called the Federal Home Loan Banks, which would support banks’ and building and loans’ small urban mortgages. Although Hoover’s failure to secure economic recovery with these reforms was conspicuous, the American financial system was completely transformed in the attempt. Now almost every asset in the financial world had a potential public home in the Federal Reserve, the Federal Land Banks, the Federal Home Loan Banks, or the Reconstruction Finance Corporation.4

In the vast literature on Great Depression, the collapse of the banking sector, and the inadequate response by the Federal Reserve and the federal government to this collapse, has long retained pride of place as the cause of the catastrophe. Though many writers have discussed the misunderstandings behind these failures, none have analyzed how contemporaries, including President Hoover, understood the banking collapse as a result of bad or unsalable mortgages and connected failures in sectors such as construction, or how Hoover’s financial reforms were directed to solving these problems. This chapter shows how Hoover and


6 Elmus Wicker and Natacha Postel-Vinay have shown how many of the banking collapses of the Midwest were exacerbated by real estate loans. Others have shown that the real estate price increases of the 1920s were consistent with a “bubble” that damaged the economy. On the other hand, writers such as Eugene White have shown that real estate loans themselves cannot explain much of the banking collapse. Although this chapter does hope to emphasize some moments in the Depression in which real estate was a substantial cause of banking failures and economic troubles, its main purpose is to analyze how contemporary policymakers viewed the importance of mortgages in explaining the collapse, which has received little attention. Of those writers who focus on Herbert Hoover’s and the Federal Reserve’s responses to the Depression, mortgages are a distinctly secondary issue if dealt with at all. For mortgages
his administration perceived urban mortgage failures as the most pressing problem of the Great Depression, and how they hoped to revive and balance certain moribund sectors of the economy, whose collapse threatened both the banking system and the nation.

**Home Loans in the Early 20th Century**

Just as expensive farm mortgages excited farmer grievances, pricey urban mortgages elicited complaints and outrage. Upton Sinclair’s 1906 novel *The Jungle* cast its jaundiced eye not only on the meatpacking industry, but also on the woeful state of home financing. In the novel, the Lithuanian immigrant Jurgis Rudkus and his family are deceived into high-interest borrowing to purchase slum housing near the Chicago stockyards. The family admitted that they heard “cruel stories of people who had been done to death in this ‘buying a home’ swindle,” but thought they were different. After years of making oppressive payments, Jurgis returns home one day to find his family has been thrown out by their lender: “Why, they had put their very souls into their payments on that house, they had paid for it with their sweat and tears – yes, more, with their very lifeblood.” It was a climactic moment of disillusionment for Jurgis, after which he nearly loses his mind. “Ah, God, the horror of it, the monstrous, hideous, demonical

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wickedness of it! ...That first lying circular, that smooth-tongued slippery agent! That trap of the extra payments, the interest, and all the other charges that they had not the means to pay.”  

Horror stories such as the Rudkus’s meant most urban families at the time did not bother buying homes at all. In 1900, less than 40% of urban families owned their own home, and in large cities such as Chicago it was less than 30%. Those who bought often avoided the heartaches of loans by paying for most of the house out of pocket, so only one-third of homes were encumbered by any debts at all. Many of those remaining debts, like those of the Rudkuses, were not actually mortgages, but “land contracts,” which allowed lenders to avoid the legal baggage of mortgages and move for speedy foreclosures outside of courts. 

The reason most home loans were either onerous or impossible to obtain in this era was there were few sources of funds for them. Just as with farm mortgages, it was illegal for most commercial banks to make home loans, so most mortgage money came from local, wealthy individuals, who only paid the first 50% of a value of a home, while the rest had to be funded by even higher interest second-mortgages. Both types of mortgages had to be renewed or paid off in a “balloon payment” after five years. But just as farmers organized in cooperatives to fund their own mortgages, so did urban workers, into groups known as mutual banks, savings banks, or building and loan associations, all of whose main assets were loans on small houses. These cooperative groups furnished about a third of all mortgages, and many identified them as the enlightened alternative to the local mortgage lender. They generally made loans up to 20 years, with “amortizing” payments gradually paying off the principal, and loaned up to 80% of the value of the home. All these sources of mortgage funds, however, were dependent on local

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money, and were only rarely supplemented by mortgage loans from national insurance companies or other financial groups.\textsuperscript{10} Thus, despite growing income, as more Americans moved to cities, the national homeownership rate dropped from the 1890s through the 1910s.\textsuperscript{11}

Urban mortgages became a political issue at the same time agricultural debt began to attract the special solicitude of the federal government. Despite vociferous complaints about government discrimination against agriculture during the original debate on the Federal Farm Loan Act in 1916, the acts’ proponents conceded that their plan excluded urban borrowers. Not a few urban representatives brought this up in the debate. Representative William Howard of Atlanta asked if the government was going to assist farm mortgagors, “by what process of reasoning can you deprive the industrial toiler from bringing up his security, his little house and lot he owns in the city, and getting his money”?\textsuperscript{12} Although Congress did include urban mortgages in the land banks, that year it did finally allow national banks to make loans on urban homes, though with the constraint of only holding them for one year.\textsuperscript{13} While barely a toe in the door, for the first time since its creation, America’s national banking system would include home financing. It was a momentous first step, and tied the country’s banking industry into urban real estate, with all its speculations and fluctuations.

\textsuperscript{10} Bureau of the Census, \textit{Report on Farms and Homes: Proprietorship and Indebtedness in the United States at the Eleventh Census: 1890} (Washington: Government Printing Office, 1896), 174. Life insurance companies, some commercial banks, and “other institutional lenders” divided up the final 15% of mortgages. Ibid.

\textsuperscript{11} \textit{Historical Statistics of the United States: Earliest Times to the Present, Millennial ed} . (New York, 2006), 4-526, Table Dc903-928.


\textsuperscript{13} Secretary of the Treasury William McAdoo, always more of a believer in real estate loans, as the Federal Reserve’s official chair, helped push regulations which said that, “to obviate the necessity of marking a new mortgage or deed of trust for each renewal the original mortgage or deed of trust may be so drawn in the first instance as to cover possible future renewals.” “Regulation G, Series of 1917,” \textit{Federal Reserve Bulletin} 3, no. 7 (July, 1917): 546.
During the First World War, however, the government rationed credit as it rationed other goods, and urban mortgage credit was hit hardest of all, leading to stalled construction, overcrowding, rent controls, and rent riots. The demand for urban mortgage reform became more acute.  

After the war, the burgeoning United States Building and Loan League, the national organization for cooperative building and loan associations, negotiated with Woodrow Wilson to draft a housing plan, as one housing organization said, “modeled somewhat upon the Federal Farm Loan Act,” with 12 banks that could make mortgages and issue mortgage-backed tax exempt bonds to investors.  

At the next year’s Democratic National Convention, the vice presidential nominee Franklin Delano Roosevelt asked for a plank in the Democratic platform that called for the “[e]nergetic and intensive development of the Farm Loan policy and the extension of the same principle to urban home builders.” These plans and bills, however, went nowhere in the face of postwar retrenchment.

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Hoover Adopts a Cause

Herbert Hoover accepted the position of Commerce Secretary in President Warren Harding’s cabinet with the understanding that it would give him a wide berth, and one bailiwick he chose to make for himself was housing. “When I came to the Department,” he later remembered, “I was convinced that a great contribution to reconstruction and a large expansion in employment could be achieved by supplying the greatest social need of the country - more and better housing.”

Hoover requested and received appropriations for the creation of a special “Housing Division” in the Commerce Department, and he placed John M. Gries, a Harvard economist, who appropriately held the “Chair of Lumber” there, as its new head.

Hoover celebrated the importance of construction and especially home building for the whole economy. He wrote that “Construction is the balance wheel of American industry,” since “If building falls off, there is bound to be a slackening in many other lines of industry, resulting in unemployment, decreased purchasing power of employees, and further depression. The ebb and flow in the demand for construction...thus to a large degree affect our economic stability.”

Hoover’s postwar Committee on Unemployment, filled with sympathetic economists, argued that the “greatest area for immediate relief of unemployment is in the construction industry, which has been artificially restricting during and since the war. We are short more than a million homes.”

One problem Hoover saw in the construction industry was the precise opposite of the problem of farmers, who were worried about low prices for the goods they sold. In this case

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18 “Federal Activity in Promotion of Better Housing Conditions and Home Ownership,” Box 63, Commerce Department Papers, HHPL; F.T. Miller to Herbert Hoover, “Regarding Staff- Man for Bureau of Standards as head of Bureau of Construction,” June 7, 1921, Box 67, ibid.
Hoover worried excessively high prices for the goods that construction firms themselves purchased. His conference on unemployment said that while “agriculture has reached an unduly low plane...some branches of the construction industries are of the highest. If the buying power of the different elements of the community is to be restored, then these levels must reach nearer a relative plane.” In this vein, Hoover helped create the American Construction Council to standardize and lower costs. The man chosen to head it was one of Hoover’s erstwhile participants in Woodrow Wilson’s war administration, with whom Hoover had a pleasant history, Franklin Roosevelt. At the Council’s inauguration in 1922, Roosevelt, right after being stricken with what was then known as polio, wrote to Hoover thanking him for presiding in his absence and expressing the hope that the Council could make an analysis of building in the business cycle, or an “examination of over-building at certain periods and of under-building at others.” For the next decade the Construction Council assisted Hoover and the Commerce Department’s attempts to get better statistical data on the building costs and mortgage availability, and later moved into trying to standardize credit agreements for builders.

Mortgage costs loomed largest in Hoover’s mind. Although Hoover argued that many construction problems could best be dealt with locally, he told one senator, “There is one problem that has [a] distinctly national character...that is, the mobilization of finance for home

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21 Hoover, President Conference on Unemployment, 22.
23 FDR to HH, May 29, 1922, in Herbert Hoover and FDR, 10-11.
24 FDR to HH, May 17, 1923; HH to FDR, May 24, 1923, in ibid. Hoover helped make Roosevelt head of the advisory council of the “Better Homes in America” organization. HH to FDR, July 30, 1923. Ibid. For building supply dealer’s reaction, see “Dealer’s Declaration of Interdependence,” and “Roosevelt Heads Construction Body,” Building Supply News 12, no. 1 (July 4, 1922): 18-19
building. We have mobilized the commercial capital of the country through the Federal Reserve Banks. We have mobilized the farm mortgage capital through the Farm Loan Bureau...The country badly needs a mobilization of the home building capital based upon building and loan associations, insurance companies, and savings banks.**26** Hoover got into the weeds on mortgage issue, writing about individual company mortgage plans, second mortgage interest rates, and specific amortization programs.**27** As early as 1921 Hoover told Senator William Calder, who had sponsored Wilson’s earlier building and loan plan in Congress and was himself, not coincidentally, a prominent home builder: “My own thought is that we could build upon the foundation of such [building and loan] associations together with other types of mutual or limited profit institutions by organizing some method of central mobilizations of their resources,” a sort of separate Federal Reserve for home mortgages.**28**

Urban mortgage ideas were taken up by other groups with ties to Hoover. The Brookings Institution under the economist Harold Moulton, who worked on Hoover’s committees, created a committee to analyze urban real estate financing. Its Chairman was Charles Lobdell, the bond salesmen fired from the Federal Farm Loan Board due to his graft and manipulations of accounts. Lobdell’s committee argued that the country’s “experience with farm mortgages seems to indicate that in the absence of a considerable degree of organization, real estate mortgages” could not achieve low interest and easy salability. They argued that “What is needed is some institution or institutions with abundant resources, high credit, strong

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**26** “Department of Commerce Press Release, In response to a request by the President in connection with Senator King’s suggestion for a National Conference on Housing,” February 9, 1922, Box 63, Commerce Papers, HHPL.

**27** He worried in particular about burdensome second mortgages: “To my mind the center point of economic home building is to find a method of handling the second mortgage margin on home construction.” He thus believed local building and loans (B&Ls), with their low down payments, provided the best hope for cheaper mortgages. Hoover to D.E. McAvoy, February 10, 1922, Box 63, Commerce Papers, HHPL; “Is Housing a ‘Local Issue’ Brooklyn Eagle, February 10, 1922, ibid; “Federal Aid on Homes For U.S. Workers Seen,” Washington Post, May 1, 1925 in Box 64 Commerce Papers, HHPL.

**28** HH To Senator Calder, August 12, 1921, Box 67, Ibid.
business connections,” such as the land banks, to market new urban mortgage bonds for the public. 29

Despite Hoover’s failure to create a large, new mortgage corporation, new financing did help home building surge after the war. From barely 150,000 units constructed in 1918, the housing industry would expand to build over one million homes a year in the peak years of 1925 and 1926. Mortgages went from 1.7% of all commercial bank assets in 1920 to 5.4% in 1926. Real estate increased faster than any other type of banking asset in those years.30 Insurance companies increased their mortgage loans, while building and loans almost quadrupled in assets over the decade, becoming substantial banking organizations in their own right, as opposed to mere local cooperatives.31 At the same time there was an expansion in new real-estate backed bonds pitched to investors across the country. While real estate bond issues were less than $100 million a year immediately after the war, by 1925 they had soared past a billion dollars.32 The Investment Bankers Association of America, which once dealt only with financiers of large industrial companies, created a “Real Estate Securities Committee” and hyped the virtues of private mortgage-backed bonds.33 These concentrated changes in the financial system meant that for the first time in history, American mortgages held by financial institutions outnumbered


30 White, “Lessons from the Great American Real Estate Boom and Bust of the 1920s,” 28; Wicker, Banking Panics of the Great Depression, 16. These loans constituted 23% of banks’ capital, right below the legal limit of 25% of capital to mortgages. Insurance companies took mortgages from 36% of all their assets in 1922 to 43% in 1926. Ibid, 29.


33 Frederick Fenton, ed., Proceedings of the Eleventh Annual Convention of the Investment Bankers Association of America, Held October 9-12, 1922 (Chicago: Lakeside Press, 1922), 115-144. E.g., “Prior to the World War but a very small percentage of our members engaged to any extent in making and marketing loans based largely or solely upon real estate security. Such business was done mostly by local houses.”
those held by individuals. Hoover managed in press releases and his memoirs to take some
credit for this expansion in home building and financing.\textsuperscript{34}

Yet in 1926, there was a housing crash and a recession, and some blamed the previous
mortgage expansion. The first response to this collapse was not to restrict commercial banks’ or
other institutions’ access to real estate, but to expand them again, with the hopes of making
them even cheaper and thus spurring more homebuilding. In 1927 bankers and others in
Congress pushed for the passage of the McFadden Act, which allowed banks to invest in urban
mortgages for up to five years, and as a larger percentage of their assets than before. It also
gave national banks the right to openly invest in securities affiliates, which the Federal Reserve
soon permitted to market mortgage bonds.\textsuperscript{35} There were, of course, objections. Congressman
Robert Luce of Massachusetts worried that in a period “when frozen credits due chiefly to real-
estate loans have brought so much disaster to so many banks” it was “incomprehensible that
this would be extended further.” Senator Carter Glass of Virginia expressed similar concerns.\textsuperscript{36}

With the assistance of Herbert Hoover and the American Bankers Association, however, the act
further liberalizing housing finance passed.\textsuperscript{37}

After the passage of the McFadden act, the \textit{Banker’s Magazine} celebrated the “Growing
Market for First Mortgages,” and defended urban mortgages’ growing “marketability” for

\textsuperscript{34} \textit{Historical Statistics}, Table Dc 128; “Federal Activity in Promotion of Better Housing Conditions and
Home Ownership.” c. 1922, Box 63 Commerce Papers, HHPL; Hoover, \textit{Memoirs Cabinet and Presidency},
95.

\textsuperscript{35} The act more famously expanded the right of national banks to create branches, but Representative
Louis McFadden claimed the second most important part of the bill dealt with real estate mortgages in
national banks. “Minutes of Governors Meeting,” December 5, 1927, 427. FRASER. For investment
affiliates, see Eugene White, “Before the Glass-Steagall Act: An Analysis of the Investment Banking

\textsuperscript{36} Subcommittee of the Senate Banking and Currency Committee, \textit{Hearing on Consolidation of National

\textsuperscript{37} 68 \textit{Congressional Record} 2170, January 24, 1927.
regular commercial banks.\textsuperscript{38} In 1928 a committee of the Federal Reserve said it was comforted that “new financing” money from the lower interest rates it encouraged “had gone into the construction of buildings, roads, bridges and other such projects” and this was important because “[t]hese uses of credit are a factor in business recoveries from recessions.”\textsuperscript{39}

Construction spending stabilized at about 750,000 homes a year.\textsuperscript{40} It seemed as if mortgages and building were responding directly to the financial pushes and pulls of the government in the banking world, and these were helping to stabilize the business cycle.

**The Long-Term Interest Rate and the Business Cycle**

Beyond the pressure of interest groups, heightened attention to the intertwined issues of mortgages, banking, and the business cycle emerged from a new intellectual debate on the power of mortgages and long-term loans in the economy, and the ability of banks and the government to influence them.\textsuperscript{41} New economists in this era, often attached to Herbert Hoover,

\textsuperscript{38} Lawrence Eillman, “What is a Marketable Real Estate Security,” *Bankers Magazine* 114, no. 6 (June 1927): 817.

\textsuperscript{39} “Memorandum of the Chairman,” January 12, 1928, 169-170, FRASER.

\textsuperscript{40} Historical Statistics, Table Dc510-530.

\textsuperscript{41} No extensive discussions of the issue of long-term interest rates and the theories about them appear in classic books on the Federal Reserve in this period such as Milton Friedman and Anna Schwartz, Barry Eichengreen, Lester Chandler, or Allan Meltzer. Recently, a few works, such as by Lucy Brilliant and David Laidler, have explored the issue of long-term interest rates in monetary thought, but do not explore the connections between them and early institutionalist work in the field or in contemporary monetary policy, both of which subjects this chapter hopes to elucidate. Lucy Brilliant, “A reconsideration of the role of forward-market arbitrage in Keynes’ and Hicks’ theories of the term structure of interest rates,” David Laidler, *Fabricating the Keynesian Revolution: Studies of the Inter-war Literature on Money, the Cycle, and Unemployment* (Cambridge: Cambridge University Press, 1998); Perry Mehrling also discusses the rise of the “shiftability” theory at the Federal Reserve from the 1920s to 1930s, without going into the theorists who advocated it. Perry Mehrling, *The New Lombard Street: How the Fed Became the Dealer of Last Resort* (Princeton: Princeton University Press, 2011), 30-50. For background on some of the economic thought at the time, see Perry Mehrling, *The Money Interest and the Public Interest: American Monetary Thought, 1920-1970* (Cambridge, MA: Harvard University Press, 1998); Robert Skidelsky, *John Maynard Keynes: The Economist As Savior, 1920-1937* (New York: Penguin Books, 1994); Don Patinkin, “Keynes and Chicago,” *Journal of Law and Economics* 22, no. 2 (Oct., 1979), 213-232. In the recent recession, in light of the short-term interest rates reaching the “Zero Lower Bound,” more attention has been directed at how central banks can control long-term interest rates. For instance, Ben Bernanke has noted that short-term rates “imperfectly measure policy stimulus because the most important economic decisions, such as a
began to discuss the seemingly esoteric issue of long-term interest rates, especially for loans such as mortgages. These theorists tried to show that interest rates on loans for long-terms, that is, loans for years or even decades, had a significant effect on total investment, and such investment in turn was the crucial determinant of the general economy. While advocates of farm financing had argued that mortgage loans to farmers would ensure an enduring balance of sectors, these new theorists, who tended to be professional economists in university departments, argued that helping regular banks make long-term loans could help pull the economy out of its periodic depressions.

In 1913, the same year as the creation of the Reserve Banks, Wesley Claire Mitchell of Columbia University, in his magnum opus, Business Cycles, discussed the effects of interest rates on businesses. He noted that the interest rates on short-term loans that the Federal Reserve and most banks focused on were a relatively small cost of doing business. Thus an “advance of the rate by 1 or 2 per cent may make so small a fraction of the whole cost as not to deter men from borrowing.” Long-term rates, however, were significant. High interest rates on loans lasting five or ten years would cause business to “hesitate” in a way that high short rates would not, and could thus determine investment that depended on borrowing for long-terms. Especially susceptible to such a rise was “construction work,” which demanded both builders


and purchasers take out long-time loans. Mitchell seemed to imply that if long-term interest rates could be brought down in a recession, most especially for mortgages, construction work might help pull the country out of it.

Many banking theorists, still cleaving to the belief in “real bills,” however, argued that commercial banks and the Federal Reserve should continue to focus only on short-term loans. Yet Harold Moulton, soon to be president of the Brookings Institute, who worked with Mitchell at Hoover-organized economic committees, made the most sustained attack on the real bills idea in its history. He argued the banks should be allowed to make any type of loan. Moulton complained that most studies of banking hitherto were “devoted solely…to what is called ‘commercial’ banking,” and that the whole subject of permanent, long-term investment was ignored. In a series of four well-publicized articles in the *Journal of Political Economy* titled “Commercial Banking and Capital Formation,” Moulton said that despite the demands of earlier theorists and regulators, most commercial banks in practice did not adhere to the “real bills doctrine,” and lent money on both short and long terms for all sorts of uses, often by renewing short-term loans indefinitely. He argued that more than half of all loans provided by commercial banks were in fact “devoted to investment uses,” on the long-term, and that most of these were focused on creating “fixed” or permanent capital, such as buildings. This seemed to argue that even regular efforts by the government or the Federal Reserve to expand bank lending would redound in increased long-term investment by commercial banks. In a later book with the

grandiloquent title of *The Financial Organization of Society* (1921), Moulton noted that this meant the powers of the Federal Reserve were much greater than most recognized. He said that “by a policy of very low discount rates, together with the release of all restrictions on credit extension,” the Federal Reserve could ease funding for commercial banks, which would then reduce rates for long-term loans. This would “increase profits and wages, give steady employment to all who care to work, and facilitate the marketing of investment securities.”

He believed that the regular Federal Reserve could potentially affect all types of investments just through its regular methods of discounting.

Moulton’s ideas were radical for their time, but they were taken up by others. Waldo Mitchell, no relation to Wesley Clair, working closely off of ideas incipient in Moulton’s work, pioneered what he called the “shiftability” theory of commercial banking. He agreed with Moulton that commercial banks already made many long-time loans, and further argued that these loans were just as “liquid,” or capable of be turned quickly into cash, as short-term real bills. He said all loans were potentially liquid if they could be sold or “shifted” to another bank.

Waldo Mitchell quoted one of Moulton’s commercial banking pieces which said that “Liquidity is tantamount to shiftability.” Unlike Adam Smith who argued that liquidity came from short-term loans, Waldo Mitchell thought a bank could always sell its loans if it needed to. Therefore the government should feel comfortable encouraging such loans in the banking world and ending restrictions on making and selling mortgages. These ideas helped inspire the passage of the McFadden Act and the real estate liberalization in it.

In Waldo Mitchell’s “Interest Rates as Factors in the Business Cycle,” he also followed Wesley Clair Mitchell in emphasizing the

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47 Moulton, *Financial Organization of Society*, 752-753.

importance of long-term loans in recessions and recoveries, by showing how businesses were affected by changes in the long-term interest rates such as mortgages. Certain “heavy industries” such as lumber, public utilities, and construction responded most to changes in such rates, while “light industries” like textiles did not.49

These theories on the importance on long-term interest rates, on their relationship to short-term rates, and on the importance of “shifting” bank assets to ensure liquidity, were taken up by broad swath of American “institutionalist” economists, who examined the foundations or institutions that organized the economy, and who paid close attention to the nature of banking and investment structures.50 These institutionalist banking ideas were eventually synthesized by the genial Winfield Riefler, who would come to have a profound influence on U.S. monetary and mortgage policy over the next three decades. “Win,” as he was known, studied under Harold Moulton’s wing at the Graduate School of the Brookings Institute, even while he worked at the Federal Reserve’s Research Division. His work culminated in his 1930 book Money Rates and Money Markets in the United States.51 Riefler had complied years of data on both long and short-term interest rates, and he noted a striking correlation that seemed to support his advisor’s theories. The book noted that “the same monetary conditions which affect the banks”

making regular commercial loans, are reflected “also in the securities market and contribute to the similarity of rate movement in the long and short-term money markets.”52 His charts and tables furnished him with “striking evidence of the existence of a national unified money market which responds throughout to changes in the demand and supply of funds.”53 Riefler agreed with Mitchell and others that while short-term rates seemed to have little effect on investment, for loans “involving long-term commitments...such as housing and public utility projects, the cost of interest probably justified” close attention.54 From his position inside the Reserve Board, now under Herbert Hoover, Riefler seemed to show that the Reserve Banks, through their control of short-term rates, actually had more power over long-term rates, mortgages, and the entire economy, than many recognized.55

52 Winfield Riefler, Money Rates and Money Markets in the United States (Harper & Brothers Publishers, 1930), 120.
53 Ibid, 15.
54 Ibid, xv. In the literature on long-term financing, three groups were almost always described in tandem, building, public utilities, and transportation (or railroads). These were consistently mentioned as the most sensitive to interest rate costs, with building and especially residential building being the most sensitive of all. These were often described in new works dealing with the importance of investment rather than consumption in determining business cycles. See John Maurice Clark, “Business Acceleration and the Law of Demand: A Technical Factor in Economic Cycles,” Journal of Political Economy 25, no. 3 (Mar., 1917): 217-235; John Maurice Clark, Studies in the Economics of Overhead Costs (Chicago: University of Chicago Press, 1923), 389-394. Wesley Clair Mitchell himself quoted Clark and noted that the importance of “equipment-building trades” in recessions. Laidler, Fabricating the Keynesian Revolution, 202.
55 If Riefler is famous for anything today, however, it is for his supposed part in crafting what Allan Meltzer calls the “Riefler-Burgess doctrine,” the idea that the Federal Reserve was basically impotent in face of banks’ reluctance to borrow and lend during the Depression. Meltzer, and others, have argued that “Federal Reserve records suggest that the real bills or Riefler-Burgess doctrine is the main reason for the Federal Reserve’s response, or lack of response, to the Depression,” and therefore, from many indications, for the Depression itself. In fact, Riefler spends some time in his book arguing that it was a mistake to think the Reserve Banks’ discount windows are “altogether ineffective factors in the money rate situation,” and details how these affected the short-term market and therefore the whole economy. As described below, he and his allies at the Federal Reserve such as Eugene Meyer and George Harrison, worked to lower short-term rates through purchasing government debt. His wife, Dorothy Brown Riefler, who also worked at the Federal Reserve Board, was also a proponent of similar ideas. Allan Meltzer, A History of the Federal Reserve: Volume 1: 1913-1951 (Chicago: University of Chicago Press, 2003), 398; Subcommittee on Domestic Finance, House Committee on Banking and Currency, “The Federal Reserve’s Attachment to the Free Reserve Concept: A Staff Analysis,” 88th Cong., 2nd sess., May 7, 1964, p. 3-7; Winfield Riefler, Money Rates and Money Markets in the United States (Harper & Brothers Publishers, 1930), 33-35; Dorothy Brown Riefler, Money, Credit, and Banking in the United States, Syllabus (Washington: American Association of University Women, 1933), 12, 15; Ibid, 33-35
Riefler also argued that controlling banking was as an essential means of ensuring balance between different sectors, or “equilibrium” as he called it, most especially between heavy or durable goods industries and light industries. He said “In a society resting basically upon specialization of function, the primary problem of economics is the problem of equilibrium. In such a society the ability of the average individual to consume is determined by the presence of a market for his products as a producer.” Therefore the “the development of lack of equilibrium” was continuous danger for such an economy. Keeping interest rates low in a recession, especially for sectors which tended to vary with the business cycle such as home-building, would ensure producer income and equilibrium.56

![Figure 5.1: Winfield Riefler at Princeton. Source: Life Magazine.](image)

56 Riefler to Adolph Miller, “Economics of Equilibrium,” August 25, 1932, Box 1, Winfield Riefler Papers, NARA II.
The Federal Reserve, Interest Rates, and Building in the Great Depression

In 1928, the Federal Reserve began raising interest rates to prick the stock market bubble, but, influenced by the Riefler’s and others work, they worried about the affects of higher interest rates on mortgages and homebuilding. One Federal Reserve report noted that higher interest rates “had been followed frequently by a recession in business activity after an interval of six months to a year, attributable mainly to curtailment of building activity.”57 In April of 1929 George Harrison, the stolid new chief of the all-important New York Federal Reserve Bank, worried that that higher interest rates had contributed to “difficulty in obtaining second mortgage money and loans for building operations, and also difficulty in selling real estate bonds.”58 In September 1929 Harrison worried about reports that “high rates of interest are having a serious effect upon new building projects.”59

Even after the stock market bubble burst, the Federal Reserve continued to focus on the mortgage and building issues. Harrison argued they needed to act aggressively to lower rates, not to support stocks but in order to “open the bond and mortgage market” to new funds.60 A few months later Harrison worried again that “[m]ortgage money in particular is not yet freely

57 “Preliminary memorandum of Acting Chairman,” November 13-16, 1928, 248-249. FRASER. The importance of interest rates on building was not the popular consensus among other economists in this period, despite the institutionalists cited above, so the Federal Reserve was in some ways in the forefront of monetary thought. By contrast, see a Princeton University professor’s discussion of “Money Rates and Construction.” Joseph Stagg Lawrence, Wall Street and Washington (Princeton: Princeton University Press, 1929), 78-82. See also Ward Albertson to Federal Reserve Board, January 18, 1929, Box 2552, Record Group 82, Federal Reserve Board, National Archives – College Park; “Memorandum of Acting Chairman,” July 18, 1928, 218. FRASER.
58 “Preliminary Memorandum of the Chairman,” April 1, 1929, 287, FRASER. George Norris, Philadelphia Reserve Bank Governor, said Harrison was a worthy successor to Benjamin Strong, and that he combined the “enterprise” of youth with the “discretion and good judgment of age.” “G.L. Harrison Heads Reserve Bank Here,” New York Times, November 24, 1928; George Norris, Ended Episodes (Philadelphia: The John C. Winston Company, 1937), 205.
59 “Letter From Harrison to Board on Committee Action,” September 30, 1929. 352, FRASER.
available.”61 In March of 1930 the Open Market Committee of the Federal Reserve Banks, which, under Harrison, helped control national interest rates by buying or selling government debt in the open market, said that in “both 1921 and 1927 business was supported in recession by a continued substantial volume of building construction...[but] in the past few months building has continued at a low ebb without any indication of substantial recovery.”62 Harrison argued that one reason for the now global downturn was high long-term interest rates, and said central banks across the globe “should do all they can toward rehabilitating the long term money market,” where of course mortgages were central. These concerns helped inspire the reduction of the Federal Reserve’s discount interest rate from 6% to 4% in early 1930.63

In the new Hoover administration, there were similar concerns and similar ideas. Although many historians have focused on Hoover’s efforts in encouraging public construction, Hoover himself believed that homebuilding and other “heavy industries” were more crucial for recovery, since “the volume of possible expansion of construction in these private industries is about four or five times that in public works.”64 Hoover saw the Federal Reserve Banks and their control of interest rates as a worthy instrument for this effort. Besides his contacts with the institutionalist economists, Hoover had occasionally met with George Harrison at his weekend Rapidan camp in Virginia, and absorbed Harrison’s views on the importance of building and interest rates. The Reserve Banks also fit Hoover’s “associationalist” vision of government-

61 “Preliminary Memorandum from Harrison,” January 28, 1930, FRASER.
62 “Preliminary Memorandum of the Secretary,” March 24, 1930, 419. FRASER. The real problem, unnoted by even liberal Federal Reserve members at the time, was that due to the devastating deflation at the beginning of the Depression, “real” interest rates, those after including the deflation of money, were incredibly high.
63 Meeting of Federal Reserve Board, April 15, 1930, p. 351. FRASER. Harrison noted that “although their efforts must necessarily be directed to the short term money market.... The maintenance of reasonable rates for short time money will gradually affect the long time investment market.”
directed cooperation. He called the Reserve Banks “a widespread cooperative organization, acting in the broad interests of the whole people.”

After the stock market crash, Hoover explained to the nation the importance of the Federal Reserve’s efforts for spurring business recovery. One day after “Black Thursday,” October 24th 1929, Hoover made his famous statement that the “fundamental business of the country, that is the production and distribution of commodities, is on a sound and prosperous basis,” yet few have since noted the one cloud Hoover mentioned on the horizon. He said that although most of the economy was sound, “construction and building material industries have been to some extent affected by the high interest rates,” but he hoped lower interest rates by the Federal Reserve could improve the situation. A few weeks after the crash, Hoover said that due to lower Federal Reserve interest rates, “there will be more capital available for the bond and mortgage market. That market has been practically starved for the last 4 or 5 months,” but it would now lead the recovery. In a March 1930 news conference he celebrated the Federal Reserve’s “measures that were taken to ameliorate interest rates” but he worried that “[a]vailable money, however, for mortgage purposes in business and agriculture has lagged behind the other segments of credit.” He still hoped that “the measures taken by the Federal

65 Eugene Meyer Oral History, 603, Columbia Oral History Archives. One of Hoover’s assistant’s even noted that Harrison sometimes “comes mightily close to being the ‘top man’” in the administration. Theodore Joslin Diary, August 27, 1931, HHPL.
67 “Hoover News Conference,” November 5, 1929, American Presidency Project, http://www.presidency.ucsb.edu/ws/index.php?pid=21996. Of the bond market he particularly noted that “A number of States have not been able to place their bonds for construction.” He made similar comments to a conference of business and labor magnates, claiming there had “been the diversion of capital into the security market, with consequent lagging of the construction work in the country,” and also to a Chamber of Commerce meeting in December, “Much construction work had been postponed during the past few months by reason of the shortage of mortgage money due to diversion of capital to speculative purposes, which should soon be released.” Herbert Hoover, “281- Statement Announcing a Series of Conferences with Representatives of Business, Industry, Agriculture and Labor,” November 15, 1929, ibid; Hoover, “297- Remarks to a Chamber of Commerce Conference on the Mobilization of Business for Economic Stabilization,” December 5, 1929, ibid.
Reserve System should stimulate the availability of credit for mortgage purposes and enable the
resumption of residential construction, which has been lagging behind the other categories.” If
these lower interest rates helped solve the crisis, he believed that the “[w]orst effects of the
crash on employment will have been passed during the next 30 to 60 days.”68 This prediction
was again premised on a revival in mortgage lending and building. Wesley Claire Mitchell
celebrated Hoover’s efforts to stimulate downtrodden sectors with lower interest rates,
claiming, “A more significant experiment in the technique of balance could not be devised than
the one which is being performed before our very eyes.”69

The idea that the Federal Reserve could help control long-term interest rates and
therefore the economy acquired new currency on the other side of the Atlantic, and
strengthened Hoover’s case. In Cambridge, England, John Maynard Keynes, already the world’s
most famous economist, added his voice to the chorus of those demanding a reduction of short
rates in order to decrease long rates.70 In Keynes’s 1930 Treatise on Money, by far his most
extensive work to date, he said it was odd that the short-term rates, which controlled only the
next few months, “should have any noticeable effect on the terms asked for loans of twenty
years or more.” Yet “up-to-date material has recently become available in Mr. W.W. Riefler’s
Money Rates and Money Markets in the United States,” which showed that the effect of the
“short-term rate of interest on the long-term rate is much greater than anyone who argued on

68 Herbert Hoover, “The President’s News Conference,” March 7, 1930, American Presidency Project,
http://www.presidency.ucsb.edu/ws/index.php?pid=22539. Although many have since noted this failed
prediction, few have attached it to his hopes for expanded mortgage lending.
69 Barber, New Day to New Deal, 87.
70 As early as 1923 he complained about “the shortage of available capital for (e.g.) housing and many
other desirable enterprises,” and by 1924 suggested the government “devise a national scheme for the
mass production of houses which would supplement the normal activities of the building industry.”
Keynes, “The Rise in Gilt-Edged Securities,” July 5, 1923, ibid, in The Collected Writings of John Maynard
Press, 2012), 81-82; John Maynard Keynes, “Does Employment Need a Drastic Remedy?” May, 25, 1924,
ibid, 219.
the above lines would have expected.” Keynes spent several pages discussing Riefler’s work, and made clear what to do with this information. He said that “[a]lmost the whole of the fixed capital of the world is represented by buildings, transport, and public utilities; and the sensitiveness of these activities to even small changes in the long-term rate of interest...is surely considerable.” He noted that “house-building is probably larger than any other one kind of investment,” and thus most important in leading business changes. In a public lecture right before publishing his book he argued, in “the long run [at least, to note an earlier Keynes slogan, the long run in which most people were still alive] I rely on a fall in the long-term rate of interest more than any other factor” to alleviate the current slump. Keynes gave Riefler’s and the institutionalists’ ideas extra intellectual heft. One book review from the era offhandedly mentioned “the Riefler-Keynes theory of the relation between the long and short term money rates” and the possibility of controlling these as a means of alleviating depression.

It was in this period that Eugene Meyer returned to the political stage with the similar concerns. He, like Hoover, had once focused on the problems of agricultural mortgages and balance, but now became more concerned about urban mortgages. Meyer had begun talking

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72 Ibid, 362. Many commentators focus on Keynes’s desire to lower interest rates, but as Axel Leijonhufvud said in his study of Keynes “‘the’ interest rate in Keynes’ works is always the long-term rate of interest.” Axel Leijonhufvud, On Keynesianism and Keynesian Economics (New York: Oxford University Press, 1968), 41.
73 Keynes, Treatise on Money, 98.
74 Keynes, “Lecture at Royal Institution, The Internal Mechanics of the Trade Slump” February, 6, 1930, Collected Writings, 480. This lecture was reported widely and published in the Manchester Guardian. In it, Keynes claimed that “I attribute the slump of 1930 primarily to the deterrent effects on investment of the long period of dear money which preceded the stock-market collapse and only secondarily to the collapse itself.” Keynes, Treatise, 196, quoted in Temin, Did Monetary Forces Cause, 31.
76 After the crash, Meyer also told his friend Hoover that many of the current members of the Federal Reserve Board in Washington were still trying to raise interest rates, unlike Harrison who Meyer supported lower rates. Eugene Meyer to HH, July 2, 1930. Box 180, Presidential Papers, HHPL; Meyer to
to the Federal Reserve Research Division about mortgage interest rates, and he sent one of Hoover’s associates a graph, most likely from Riefler, which he said “shows the relation between money and building contracts in an interesting way,” demonstrating that there was a tight relationship between high interest rates and less building. He also reported back to the Federal Reserve Research Division on plans for an “advertising campaign to force the sales of real estate mortgages.”

Meyer began giving Hoover’s Commerce Secretary weekly statistics on building contracts from the *Engineering News-Record.* Cheaper mortgages for building were essential, he later said, because it was a mistake “to restore employment and prosperity and improve business through helping consumer activity, instead of durable goods activity, such as restoring building,” which was the only way to bring true recovery.

Hoover, already primed by Mitchell, Harrison and others to focus on construction and mortgages, was intrigued by Meyer’s ideas and efforts, and decided to enlist him in the cause of recovery. In August of 1930 he called Meyer at home and explained that the current Federal Reserve Board Governor, Roy Young, was retiring. Hoover said “I’m going to appoint you a member of the board and then governor. I won’t take no for an answer,” then hung up without waiting for one. In fact, Hoover had pushed Young and another Board member into early retirement to open spots for supposedly more understanding and activist individuals.

Adolph Miller, November 12, 1927, Box 71, Eugene Meyer Papers, Library of Congress. See also Fenton B. Turck, Jr. to EM, March 12, 1930, ibid. 77 See EM to E.A. Goldenweiser, February 3, 1930, Box 72, ibid; EM to Mark Sullivan, March 3, 1930, ibid. 78 Meyer also wrote to the President about what he hoped would be a “radical change for the better in the mortgage market,” and EM to HH, March 14, 1930; EM to Robert P. Lamont, March 15, 1930; EM to E.A. Goldenweiser, March 18, 1930. Ibid. He was also sending to the President clippings that he hoped indicated that “the rates obtainable on mortgages at last are beginning to be attractive.” EM to HH, May 13, 1930, ibid.

79 Meyer Oral History, 618
81 Mellon to HH, August 29, 1930, Box 180, Presidential Papers, HHPL; Long-time Reserve Board member, and former Chair, Charles Hamlin thought “this is the first attempt of a President at political manipulation of the Federal Reserve Board,” and it concerned him deeply. Charles Hamlin Diaries, September 1, 1930, 18-81, Index, Charles Hamlin Papers, LOC.
earlier in his Presidency, Hoover’s secretary could tell one person that the “President has refused to discuss the Board even with its members in his desire not to interfere with what must be an independent agency,” such niceties became moot in the Depression. Meyer’s appointment received shining reviews. Democratic power broker Bernard Baruch told the New York Times that “If the President had taken a thousand good men and rolled them into one,” he would not have a better individual than Meyer for the job.

Just as Meyer had moved his War Finance Corporation loyalists over to the Federal Farm Loan Board, he now moved that Board over to the Federal Reserve, and began a similar reshaping of that institution. He hoped that he could reorganize the Federal Reserve in the image of the farm mortgage system. With Hoover’s help, he placed two members of the Farm Loan Board on the Federal Reserve Board. Long-time Board member Charles Hamlin wrote in his diary that the Federal Reserve was “now dominated by Governor Meyer and two former members of the Federal Farm Loan Board,” and thought it was part of the board’s “Hooverizing.” Another official complained about Meyer’s “pets that he brought in there” from the farm system.

The new Federal Reserve Board, once a mere regulator of the Reserve Banks, acquired new power under Meyer. George Norris, of the Philadelphia Reserve Bank, worried that after Meyer’s appointment the “Board became an operating rather than a supervising authority.” Meyer also moved the Research Division, which, as he said “wasn’t even close to [the Board]

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82 Lawrence Richey to Ray Lyman Wilbur, July 29, 1929, Box 180, Presidential Papers, HHPP.
83 Pusey, Eugene Meyer, 204. Pusey insists, however, that the two previous retirements had nothing to do with Meyer taking the job. The evidence in Hoover’s library contradicts this.
86 George Norris, Ended Episodes, 199. A year before Meyer’s appointments, Harrison was already complaining that the Board was becoming “a central bank operating in Washington,” to which the previous Governor of the Board replied “I think that is so,” to Harrison’s horror. Although this was Meyer’s long-held hope, he could never fully implement it in his time in office. Allan Meltzer, A History of the Federal Reserve, 260.
physically,” closer to himself, and thus acquired even more contact with Riefler and his work.\footnote{87 Department of Commerce Division of Building and Housing, “Comparisons of Residential Vacancy Survey Reports in 42 Towns and Cities”, February 12, 1931; Julian Klein, Assistant Secretary of Commerce to EM, March 25, 1931; John R. Riggleman, Senior Economist, Division of Building and Housing, Department of Commerce, to EM, March 19, 1931, all Box 115, Eugene Meyer Papers, LOC; Meyer Oral History, 545.}

Meyer also received an advance copy of Keynes’s A Treatise on Money from the American publisher, and the Federal Reserve library ordered more copies to be made available to the staff.\footnote{88 EM to Alfred Harcourt, Harcourt, Brace, and Co., December 2, 1930, Box 117, Eugene Meyer Papers, LOC.} As Board Governor, Meyer started attending the Open Market Committee meetings, previously attended just by the Reserve Bank governors. George Norris said when Meyer went to the Open Market Committee, he “worked hard with Governor Harrison” to lower interest rates.\footnote{89 Charles Hamlin Diaries, April 29, 1931, 21, 22, Index 104.} He argued to one Open Market meeting that the “whole history of investment showed that money would go from short-term into long-term channels” and thus benefit the whole economy, most especially through encouraging building.\footnote{90 Meltzer, History of the Federal Reserve, 330. Meltzer does not pursue Meyer’s thinking on this topic.}

**Real Estate Panics and the End of the “Riefler-Keynes” Doctrine**

Meyer not only worried about the effects of high-interest mortgages on construction, but about the dangers of defaulting mortgages on banks. He felt he needed to help relieve banks who had acquired swollen mortgage portfolios during the boom. Meyer later said “I knew that over-speculation in real estate was a major problem in the country,” and as bad as the stock speculation was the “real estate speculation I think was the worse,” since there was “a sort of a ‘tulip-craze’ in the United States in real estate.”\footnote{91 Eugene Meyer Oral History, 604.} He said unlike stocks, “in real estate, when the decline comes, there is no market.” Meyer understood that mortgages and real estate were not yet fully liquid or shiftable to other banks, and therefore their default was especially
dangerous. Others noted the same problems with defaulting urban mortgages. One contemporary banker, Raymond Goldsmith, wrote that by 1930, “quite a number of bank boards had to face the necessity of large write-offs and the fall of values and the illiquidity of urban-real estate had already attained a really dangerous degree by that time.” He argued that the “[d]ifficulties in American banks have been proportionate to the ratio of real estate commitments.”

Meyer especially worried that “[s]ome of the [nation’s] banks were nothing but real estate speculation corporations, like the Bank of the United States.” The bank was actually called “Bank of United States,” with no “the.” The absence of this crucial word was required by New York state bank supervisors so as to not confuse the bank’s mainly immigrant clientele on the Lower East Side that it was guaranteed by the U.S. government, though the calculated ambiguity still had its effect, as many officially ambiguous guarantees in recent years had shown. By late 1930 bank supervisors had drawn attention to the bank’s parlous situation. The new governor of New York, Franklin Roosevelt, had received reports from a special banking commission, led by his parks commissioner and periodic nemesis Robert Moses, about the poor conditions in the bank and its bad mortgage loans. By late November Eugene Meyer was receiving confidential, almost daily reports about the bank and was working to merge it with

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92 Years later, Meyer was still shocked that with the chaos in the housing market helping to bring down the economy “nobody has ever really written up the real estate aspects of that period.” Meyer Oral History, 606, 608. Emphasis in original.
95 It was an odd example of the private market taking on some of the implicit and moral guarantees that had proliferated in the last decade. Meyer specifically said “the name never should have been permitted to be given to any bank.” Ibid. See also L. Douglas Meredith, “What’s in A Name: Public Very Sensitive to power of Suggestion of Certain Words in Bank Names and Advertising,” Bankers Magazine 123, no. 3 (Sep., 1931): 317.
another healthier institution. Meyer thought the main problem was “Bank of United States was in the real estate speculating business,” a situation made worse by its many mortgage loans to its own officers and directors. When Meyer finally traveled to New York in early December, the bank was in the midst of a chaotic run by its depositors. When no suitable financial suitor was found, the Federal Reserve reluctantly allowed it to close its doors. Some researchers have pointed to this failure and the subsequent banking panic as the most significant cause of the Great Depression, even more so than the Stock Market crash a year earlier.

The Bank of United States’s collapse inaugurated the first of five general banking panics in the Depression that would exacerbate the crisis, many of which contemporaries blamed on excessive real estate investments. Just months later, in April, when the second great bank panic of the Depression began with a series of bank failures around Chicago and the Great Lakes region, many again cited defaulting and “illiquid” real estate loans. One Federal Reserve officer said in June, “fully 95% of the bank troubles in Chicago were predicated on real estate,” and this consensus was echoed in other affected areas. Such financial chaos seemed to make the need for low interest rates and improved mortgage lending all the more pressing. In Federal Reserve meetings in April through July, Meyer and Harrison kept emphasizing the need for reducing rates. Harrison argued that for the past few months the Federal Reserve’s goal had been “to

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reduce short money rates and thus encourage the shifting of funds to employment in longer use.” He hoped this would boost the mortgage market.102

Yet the theory that reduced short-term rates at the Federal Reserve would reduce long-term rates and encourage more mortgages encountered a snag. The correlation between the short and long-term interest rates, which Riefler and Keynes had divined from statistics going back over the past 20 years, had broken down.103 While the Federal Reserve had reduced its short term discount rate from 6% to almost 2%, long-term rates barely budged.104 Construction dropped further. Housing construction in 1931 was down to 250,000 housing units, a drop of 75% from its peak, with total construction spending falling twice as fast as decrease in the rest of the economy, and residential housing falling furthest of all.105 The previous economic research had demonstrated the profound effect of long-term interest rates on building and on business, but now it seemed as if the Federal Reserve was impotent to affect them. The times seemed to demand more radical solutions.

John Maynard Keynes was one of the first to notice the changing relationships of interest rates and its importance. He worried that something had “upset the normal relations between short-term and long-term rates of interest.” Keynes argued that the continuing high long-term rates were dangerous: “It is here, therefore that I find the most fundamental

102 “Minutes of the Meeting of the Executive Committee of the Open Market Policy Conference” held at Federal Reserve Bank of New York, July 22, 1931. FRASER. See also comments on “Minutes of the Meeting of the Open Market Policy Conference Held at the Offices of the Federal Reserve Board, Washington D.C., April 29, 1931.” FRASER.
103 In 1933 an economist published an update of Riefler’s specific series showing the break. Edward C. Simmons, “Mr. Keynes’s Control Scheme,” The American Economic Review 23, no. 2 (June, 1933): 264-273.
104 Friedman and Schwartz, Monetary History, 304-305. The Federal Reserve misunderstood that in the rapid deflation, real, deflation-adjusted short-term rates remained very high.
105 Historical Statistics, Table DC510-530.
Keynes's solution was to have governments and central banks buy or loan on long-time assets directly. Keynes argued "[t]he drastic reduction of the whole complex of market-rates of interest presents central banks with a problem which I do not expect them to solve unless they are prepared to employ drastic and even direct methods of influencing long-term investments which...they had better leave alone in more normal times." 

In July of 1931, Keynes took his first trip to the United States, where he proselytized for his new belief that the government and the Federal Reserve should lend directly on long term loans and mortgages. At a lecture at the New School in New York he told the crowd that directly lowering long-term rates would stimulate building, and that "[i]t is above all of building that we must think...when we are considering how to stimulate investment." Keynes also met with members of the Federal Reserve Board in Washington including Riefler and Meyer, and found a sympathetic audience for his ideas. He reported back to the British government that "they want to reduce the long-term rate of interest...and they believe that a revival of the construction industry is probably a necessary condition of the recovery of industry in general.” He confirmed that this was his own explanation of the country’s troubles and said that in “my mind the proofs are overwhelming that the slump is primarily a slump in construction.” Riefler, Meyer, and others at the Fed were indeed convinced that they needed to take more direct action on mortgages, and no longer rely only on the old tools of the Federal Reserve and its power over real bills.

107 Keynes, “Comments on Mr. Brand’s Memorandum on the Need for a Bridging Chapter,” Collected Writings XX, 273.
108 At the University of Chicago he claimed, “We want to drive depositors off deposits into bonds,” since this would move money into long-term securities. He admitted this would mean the U.S. would “very likely ultimately have less credit outstanding than you have now, although there would be more effective credit.” Keynes, "Harris Foundation Institute Round Tables" July 1, 1931, ibid, 538.
109 Keynes, "Do We Want Prices to Rise?" June 15, 1931, ibid, 544, 553.
New Corporations for Old Mortgages

One method to directly lower the interest rates on mortgages was to organize new corporations to buy and discount them. Since Hoover’s time at the Commerce Department, he had hoped new private corporations could mimic the Federal Land Banks in the urban world, making home mortgages more secure and liquid for investors, and cheaper for builders and buyers.111

Although publicly Hoover continued to count on the Federal Reserve’s regular discounting actions to encourage the market, privately he asked them to investigate urban mortgage plans. In a long and detailed letter in March of 1930, described above, Hoover explained to the Board that it should consider discounting mortgages and work to create some sort of mortgage bank.112 In May of 1930 Hoover made a similar argument in a much-discussed public speech to the Chamber of Commerce, where he noted that “we shall find one area of credit which is most inadequately organized and which almost ceased to function under the present stress,” and that was mortgages. “From a social point of view this is one of the most vital segments of credit...Here is the greatest field for expanded organization of capital.”113

The Federal Reserve delegated Riefler to investigate the possibility. Riefler argued that “If there is to be a revival in residential building,” there would have to be a reduction in general costs. He worried that in general building material prices were still too high, but said that “[o]ne

112 HH to Roy A. You*ng, March 24, 1930. ibid.
of the largest elements in the cost of housing... is finance charges,” and the “recent credit stringency” had significantly increased these.  

Riefler told the Board that “construction is our largest industry,” and that its problems were one of the most important causes of the depression. Like the Brookings Institution where his mentor Moulton worked, Riefler hoped for some sort of company which could discount mortgages and create new mortgage-backed bonds, since he thought home mortgages on their own “will never be a good risk in the market sense unless [some] agency which grants the loan can pool these mortgages” and sell them to the public with its guarantee.  

Hoover lobbied private groups to form a mortgage bank without direct federal support. In late 1930 he announced a White House Conference on Home Building and Home Ownership, yet, despite the broad title, Hoover tried to focus the group on creating new mortgage financing. As Hoover told reporters, the most “important problem, and the one that most deeply affects the whole question today is finance.” He said that “There have been months during this depression when the shortage of capital available for home building purposes has been so acute that this branch of construction has fallen off greatly, while other forms of credit have been available throughout the depression.”  

Behind the scenes, Hoover

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114 Riefler, “Mortgage Loan Situation” April 5, 1930, Box 1, Riefler Papers, NARA II.  
115 Riefler to Adolph Miller, January 14, 1931, ibid.  
116 Hoover had pushed a “Home Financing Study” during his first months in office, and numerous assistants had noted the importance of new mortgage banks for assisting in this financing, but little was done. See “The Argument of the Outline on Home Finance Study,” January 4, 1929, Box 23, White House Conference on Home Ownership, HHPL.  
118 “Announcement of White House Conference on Housing,” August 1, 1930, Box 90, Presidential Papers, HHPL. One housing reform complained that “Criticism has been made to me from several sources that this conference may be merely an effort to tone up the building industry and improve home ownership financing,” with little interest in homeownership per se. Alfred K. Stern to French Strother, September 17, 1930, Ibid.
pushed the conference’s planning committee to study and endorse a private housing financing bank.\textsuperscript{119}

Through most of 1930 and ’31, Hoover remained reluctant to throw the federal government’s resources behind any mortgage bank except for the purposes of study. He told one writer in early 1931, who wanted his imprimatur on a plan to form a private corporation to purchase real estate bonds that the President could not appeal for investment in a private company.\textsuperscript{120} As with so many scruples Hoover brought to the office, he abandoned this one as well. After Keynes’s visit, the banking panic around the Great Lakes, and continuing fears about high mortgage rates, Hoover organized a meeting of bankers in the White House and asked them to form a company to buy up real estate bonds. As he described it in a letter to a supporter, “For your confidential information I have requested the leading financial institutions of New York to set up some kind of organization for the protection of building bond holders.”\textsuperscript{121} He noted to another that in the “flood of despairing correspondence that passes over my desk in relation to people who have invested their money in building bonds, there seems to be a great tragedy for hundreds of thousands of unprotected people.”\textsuperscript{122}

Of all the tragedies that crossed Hoover’s desk in those years, defaulting mortgage bonds was an odd one on which to focus, yet restoring real estate financing was the crux of his plan for recovery. When the story of the mortgage meeting leaked, the New York Herald Tribune called it “a far-reaching plan to lift frozen real estate off the market,” and said that Hoover knew the “real estate stalemate is a major drawback to business recovery.” The paper said that the mortgage bond corporation, “though private, would have the approval and the encouragement

\textsuperscript{120} William Chadbourne to HH, May 18, 1931, Box 183, Presidential Papers, HHPL.
\textsuperscript{121} HH to Thomas Watts, August 31, 1931, Box 191, Ibid.
\textsuperscript{122} HH to Henry Bruere, September 17, 1931, Ibid.
of the Federal government.”123 On September the 17th Hoover had another meeting soliciting funds for another mortgage bank proposal. He asked the former head of the Hoover for President Real Estate Group to create a new national mortgage bank for smaller mortgages. He hoped the new bank could be “organized by private individuals, but with a Federal charter operating along the lines of the French or Swiss mortgage banking systems.”124 Eugene Meyer began meeting with savings bankers and broaching similar ideas.125

Within days of these mortgage meetings, however, the British decoupled the pound from gold, and the corresponding run on the U.S. dollar, which many felt would be the next currency to fall, inaugurated the third, and so far greatest, banking crisis of the Depression. This one too was centered around the Midwest region where the highest proportion of bank mortgages were located, as well as the South where agricultural loans were high.126 Hoover needed a bigger plan, and one with more federal support. In another meeting with bankers in Andrew Mellon’s apartment at DuPont Circle in Washington D.C., Hoover told them they had to stop the collapse of banks in the Midwest and South, who had been faced with the “inability of farmers and homeowners to meet mortgage requirements.”127 To that end he asked that they form a large credit pool for discounting all assets, including mortgages, not now eligible for

125 EM to HH, September 15, 1931; William C. Potter to EM, September 9, 1931, Box 191, Presidential Papers, HHPL.
126 Elmus Wicker, Banking Panics, 72-74.
127 Henry Bruere to HH, September 22, 1931, Box 191, Presidential Papers, HHPL; Ray Lyman Wilbur and Arthur Hyde, The Hoover Policies (New York: C. Scribner’s Sons, 1937), 415-416. The connection between this new banking plan and the previous real estate meetings has not been described by previous researchers.
discount at the Federal Reserve.\textsuperscript{128} When bankers, who faced a widespread panic, balked at Hoover’s plan, Meyer said that if they tried and failed, he would create a government-run bank, something like the War Finance Corporation. Hoover agreed to this proviso.\textsuperscript{129} Hoover said, with some exaggeration, that the group was “shocked that our government for the first time in peacetime history might have to intervene to support private enterprise.”\textsuperscript{130} The day after this meeting Hoover met with a group of major insurance chiefs and mortgage company executives, again in Mellon’s private apartment. There he told them he needed their help more than ever in creating a federally-backed bank just for small mortgages, those not covered by the bankers’ plan, and asked them to hold off on all foreclosures until the new corporation could be organized.\textsuperscript{131}

In the President’s public announcement of his plans on October 8, he said that New York bankers had already pledged $150 million of a proposed $500 million National Credit Corporation for the “rediscout of banking assets not now eligible for rediscount at the Federal reserve banks.” That day he also proposed re-capitalizing (or bailing out) the Federal Land Banks, and creating a more permanent general mortgage bank for small urban homeowners and builders, what became the Federal Home Loan Banks. He also asked Congress to expand the eligibility of long-term assets for discount at the Federal Reserve “to give greater liquidity to the

\textsuperscript{129} Eugene Meyer Memoir Draft, 25-26, 35-36, Box 167, Eugene Meyer Papers, LOC.
\textsuperscript{130} Herbert Hoover, \textit{The Memoirs of Herbert Hoover: The Great Depression, 1929-1941} (New York: MacMillan Company, 1952), 90. Historians have not yet noted that this plan, perhaps Hoover’s most significant action in his presidency, grew out of his specific mortgage bond plan being discussed in the three weeks leading to the crisis, and the importance of this new plan for discounting mortgages specifically.
\textsuperscript{131} Hoover, \textit{Memoirs, Great Depression}, 88, 93.
assets of the banks,” which the economists in the “shiftability” tradition had long advocated.¹³²
Every one of these ideas would operate directly to lowering interest rates on mortgages.

The first part of Hoover’s plan, the private National Credit Corporation accomplished little in its short-life.¹³³ Meyer and his allies at the Federal Reserve pushed for the backup federal bank. President Harrison of New York wrote the President to say that the problem was that private banks’ faced “insolvency through depreciation of bond or real estate values.” He argued that “problem of those banks which have suffered large losses on mortgage loans is perhaps even more difficult of solution than that of those with large losses in their bonds,” and he demanded direct government support for mortgage refinancing.¹³⁴ Soon the National Credit Corporation suspended any further loans, and Hoover reluctantly gave Meyer permission to create a new kind of public corporation for buying bad banking debts.¹³⁵

New Semi-Public Corporations for Old Mortgages

With the failure of Federal Reserve to boost mortgage lending, and the failure of the private sector to purchase and support other long-term debts, Hoover asked Congress to provide funds to help take bad debts out of the banking system. In his State of the Union to the new Congress in December 1931, Hoover argued that the recent credit “paralysis has been further augmented by the steady increase in recent years of bank assets invested in long-term securities, such as mortgages and bonds,” which “tend to lose their liquidity in a depression.”

¹³² “Review of the Month,” Federal Reserve Bulletin 17, no. 10 (October 1931): 551-552.
¹³³ Meyer Oral History, 614. Both Hoover and the Treasury soon were telegramming its leaders, lamenting their procrastination. The Corporation set severe collateral requirements, and at first, almost perversely, forbid it to discount real estate loans, or any loans over 60 days, in other words it discounted loans the Federal Reserve could already reach. Olson, Hoover and the Reconstruction Finance, 29. For an apparent change in policy after pressure, but continued reluctance to discount mortgages, see Senate Subcommittee of Committee on Banking and Currency, Hearing on Creation of a Reconstruction Finance Corporation (S. 1), 72nd Cong., 1st sess., 1931, 178.
¹³⁴ EM to HH, October 7, 1931, Box 119, Eugene Meyer Papers, LOC.
¹³⁵ Wicker, Banking Panics, 109, 158; Olson, Hoover and the Reconstruction Finance, 28-29, 31-32.
Instead of forbidding banks from making such loans, in the old “real bills” tradition, he advocated making them safer and more liquid, first through Meyer’s proposed emergency Reconstruction Finance Corporation (RFC).  

Meyer had just recalled Chester Morrill, who had been his secretary at the old War Finance Corporation and the Federal Farm Loan Board, to be his new secretary at the Federal Reserve. Meyer considered Morrill, who had once worked on the Federal Farm Loan Act, “a very good bill drafter,” and told him his “first job” was to draft a new law for the RFC based on his previous experience at these agencies. This act, however, had a different focus: “We were reaching the whole economy through the agricultural economy in 1921, but this real estate thing was a huge and complication factor, involving the cities as well as the country, in 1932. It involved the whole economy and the financial structure of the country.” Democratic Senator Joseph Robinson, who had already dealt with Meyer as head of his own Joint Stock Land Bank, told him that he would “let you write the act and lead the agency.” Meyer happily penciled in his draft that the Federal Reserve Governor would be the new chair of the RFC.

Meyer told the public that the real impetus behind the RFC was not personal relief for borrowers but for banks and lenders. He told the congressional committee considering the bill that the RFC idea came from his experience in “relief work – not relief in the sense of personal subsidies to individuals but in connection with relief to banking institutions and business structures.” Meyer said the RFC would be a godsend for bankers with long-term debts, since these assets were “the best in the country. The most fundamental businesses are financed by...

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137 Walter Wyatt Oral History, 2; Chester Morrill Oral History, 170-171. Meyer Oral History, 612; House Committee on Banking and Currency, Hearings on Reconstruction Finance Corporation, 72nd Cong., 1st sess., December 18, 1931, p. 11. Many historians have connected the RFC’s program with Meyer’s previous work on the War Finance Corporation, but have surprisingly not discussed his more recent stint as head of the Federal Land Banks. Olson, Hoover and the Reconstruction Finance.
139 Ibid, 627.
securities, notes of farmers, and mortgages, all kinds of indebtedness which are at the moment called frozen.” With the proper assistance of the government, he thought these assets would “thaw out with essential speed” and thus improve the banks’ position. Others made the same argument about the RFC’s goals with less charity. Congressman Fiorello La Guardia called the RFC “a millionaire’s dole...a subsidy for broken bankers.”

Besides its connection to financial relief, Meyer emphasized the power of the RFC in increasing construction. Meyer told the committee that “unsound financing in the real estate field” was the “the most important single economic factor of an unfavorable character” in the recent slump. He promised that there had always been “a demand for construction which with easy money was remedied very quickly in new activity, which is one of the most important and fundamental in our whole business situation; i.e. construction activity.” Meyer pulled out the charts he had received from Federal Reserve Research Division which showed that in the early 1920s there was “a revival in construction that really was the basis of what proved to be a period of prolonged upward swing” in the economy. He told the gathered Congress members increasingly desperate for a solution to the Depression that “[n]othing increases the movement of goods and the employment of labor more than construction activity. It affects the mine and the forest; it employs great quantities of labor in transportation; it adds to the gross revenue of railroads. It seems to have the most general stimulating effect.”

The passage of the act creating the RFC, one day before the act bailing-out of the Federal Land Banks, would provide a specific stimulus to construction activity even as it relieved

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140 House Committee on Banking, Hearings on Reconstruction Finance, 12.
141 Olson, Hoover and the Reconstruction Finance, 35.
142 House Committee on Banking, Hearings on Reconstruction Finance, 16.
143 Ibid, 16-17. Meyer placed the Corporation’s importance to the railroad industry, often emphasized in the literature, as secondary to that of construction. He also said the Corporation would help insurance companies hold off on mortgage foreclosures, and answered many questions about whether the corporation could support the Federal Land Bank and the Joint-Stock Land Banks consistently in the affirmative. Ibid, 8, 13-14, 39-42, 54-57
banks of their bad real-estate loans. Due to Morrill’s drafting efforts, its organization was similar to that of previous federal financial corporations. It would begin with $500 million in capital from Congress; it would sell tax-exempt securities “similar to the farm loan system bonds,” Meyer noted; and its bonds would be eligible to be purchased by federal trust funds. This emergency corporation was only authorized for two years, but, for the first time since the Federal Reserve Banks, its debts would be explicitly guaranteed. The government guarantee would provide the credit needed to fund long and questionable bank assets. Unlike the stable currency of the Federal Reserve, however, the government in this explicit guarantee took a significant risk. ¹⁴⁴

Despite the new powers of the RFC, Hoover still wanted the Federal Reserve itself to help solve the real estate problem. Again Hoover asked if the Reserve Banks could discount home mortgages. ¹⁴⁵ After Meyer refused to take action, Hoover forced the issue. On the morning of February 10th, 1932, Hoover in his White House office began “talking as fast and as much in earnest as I have ever heard him talk,” according to his legislative liaison, James Maclafferty. Hoover claimed that he would take steps that were “almost revolutionary to try to avert calamity. ¹⁴⁶ That day he invited Eugene Meyer, Senator Carter Glass, Representative Henry Steagall, Republican Senate Majority Leader James Watson, and the Democratic Speaker of the

¹⁴⁴ The bonds were also discountable at the Federal Reserve, since, as Meyer said, “these are ultimately Government obligations and their eligibility in the Federal Reserve System is made practically identical with that of Government bonds.” House Committee on Banking, Hearings on Reconstruction Finance, 20.
¹⁴⁵ Despite his percolating plans for small mortgage banks, Hoover told Meyer “There is no doubt that the mortgage discount banks which I proposed would relieve a very great segment of stress in this direction but it would not cover the entire field of assurance which we gave to the public.” HH to EM, December 3, 1931, Box 181, Federal Reserve, PP, HHPL; Pusey, Eugene Meyer, 228-229. Friedman and Schwartz, Monetary History of the United States, 384-389.
¹⁴⁶ Just 10 days earlier, a group of economists meeting at the University of Chicago, including Harold Moulton and the man later known as the “American Keynes” Alvin Hansen, had written an open letter to Hoover advocating many of the steps later taken by the bill Hoover recommended, including Federal Reserve Open Market Operations, increasing the “free gold” available in the Federal Reserve, and increased use of Reconstruction Finance Corporation “loans on assets not eligible for rediscount with the Federal Reserve.” Quincy Wright, ed., Gold and Monetary Stabilization (Chicago: University of Chicago Press, 1932), 161-163
House John Nance Gardner, to the White House to discuss a bill that would temporarily allow the Federal Reserve to discount almost any asset, just as he had asked Congress in his annual address. The group reluctantly agreed to the idea, despite complaints by Glass that the plan would “make William Jennings Bryan turn over in his grave because of his delight.”

Meyer, after demanding some clauses to allow him to provide more Federal Reserve money in general, went directly from the White House conference to the Treasury building where the Federal Reserve Board was located, and, just as in the case of the RFC, delegated Chester Morrill to draft a bill. During the hearings on the act held just two days after Hoover’s meeting, House Banking and Currency Chairman Henry Steagall pointed out to Meyer that “under the broad language here, you could loan to a State member bank on real estate security if you saw fit.” Congressman Robert Luce still incredulous, asked if they would discount anything, “Even to the extent of mortgages?” Meyer confirmed that this was indeed correct. In fact, discounting mortgages was Hoover’s goal in proposing the bill.

Senator Glass, however, remained devoted to real bills and thus concerned about the reach of Hoover’s Federal Reserve plan. He succeeded in neutering it. According to Morrill, Glass had been “belly aching even since Wednesday that he had been stampeded into the agreement.” To limit the changes to his beloved Reserve Banks, he insisted on amendments that allowed discounting long-term assets only in “exceptional and exigent” circumstances, and at

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147 James MacLafferty Diary, February 11, 1932, HHPL. Among the proposals of Glass’s earlier banking reform bill was one restricting real estate loans by national banks, but this was removed from the final act so as not to conflict with Hoover’s plan. Emanuel Goldenweiser and Randolph Burgess to Carter Glass, February 7, 1932. Box 10, H.P. Willis Papers, Columbia University Library Archive.
148 House Banking and Currency Committee, Hearings on Liberalizing the Credit Facilities of the Federal Reserve System, 72d Cong., 1st ses., 1932, 9-10. Yet Senator Shipstead did try to include an amendment explicitly including real estate in the eligibility and this was voted down. Some Congressmen, however, such as A.J. Sabath of Chicago, who had been explicitly asking for the Federal Reserve to discount mortgages for months, could taste vindication. 75 Congressional Record 4332, February 19, 1932; ibid, 12193, July 7, 1932, containing Sabath’s previous letters to the Federal Reserve.
higher interest rates than the discounting of normal loans.\textsuperscript{149} Glass also limited discounting to loans from smaller banks, those with less than $5 million in capital. This was a particular blow at one bank that Hoover hoped to save with the bill, the Bank of America, then the largest bank in the nation.\textsuperscript{150} MacLafferty wrote of the California-based bank, “There are even now whisperings going on about their stability. If they were to fail it would be the hardest blow the Hoover administration could have...I fear such a failure would lose the Pacific Coast States for Hoover in the coming election.” Hoover was intimately familiar with this fear, and worried that Glass’s animus against the bank’s president A.P. Gianinni was the reason for the amendment.\textsuperscript{151}

Meyer also fretted about Bank of America, telling one potential investor that in “California the principal asset is land. That’s what people borrow on, whether they put up a mortgage or not. Everything attaches to land. I think I’d examine it very carefully from the point of [view of] liquidity. Land is not a quick asset.”\textsuperscript{152} With the Federal Reserve shut off, the RFC provided the best means for Hoover to help this beleaguered and land-laden bank. Even while Hoover claimed that that the RFC was helping many banks in small towns, in its first few weeks over half of its total funds went just to the Bank of America.\textsuperscript{153} By the end of March the bank had still received almost a third of all RFC loans.\textsuperscript{154}

\textsuperscript{149} Chester Morrill Oral History, 175-177, 200-201; Theodore Joslin Diary, February 14, 1932, HHPL.

\textsuperscript{150} As MacLafferty wrote in his diary the day the conference report on the bill was released, “I knew, of course, before I saw the President this morning that this is not what he wanted.” MacLafferty Diary, February 2, 1925. HHPL.

\textsuperscript{151} MacLafferty Diary, February 2, 1925, HHPL.

\textsuperscript{152} Eugene Meyer Oral History, 554.

\textsuperscript{153} Vickers, Panic in the Loop, 120.

\textsuperscript{154} Ibid, 120-121. The RFC tried in other ways to assist the mortgage market and the many institutions who invested in it. Over the next year, the RFC loaned more money to “mortgage companies” than to any other institutions except regular commercial banks, where it also tried to remove “illiquid” assets, especially mortgages. Independent groups formed a “Mortgage Advisory Board” for “co-operating with the loan agency of the Reconstruction Finance Corporation,” which the RFC encouraged. See Annual Report of the Reconstruction Finance Corporation (Washington: Government Printing Office, 1933); D.E. McAvoy to HH, January 13, 1933, Box 191, Presidential Papers, HHPL. A paper by Joseph Mason found no evidence that Reconstruction Finance Corporation loans were tied to political pull, but he admits he only measured the influence of politics on the geographic distribution of loans in general, and not political
Hoover, however, became concerned with Meyer’s increasing public prominence as the leader of his financial rescue efforts, and his increasing reluctance to follow Hoover’s direct orders. Hoover’s press secretary noted that “There are times when he would like to boot Meyer the length of Pennsylvania Avenue.” Meyer himself worried that “my health was breaking under the strain” of his multiple jobs and public conflicts with Hoover. With the burden of his multiple jobs fighting the financial depression, he had trouble staying awake or even walking more than a few blocks. Hoover hoped to place a new mortgage agency outside Meyer’s grasp.

155 Theodore Joslin Diary March 16, 1932, HHPL; Meyer Oral History, 638.
The Creation of the Federal Home Loan Banks and the Failures of Mortgage Reform

The greatest banking run in American cinema is of course in Frank Capra’s classic work *It’s a Wonderful Life*, but it is not a coincidence that the run deals with the problem of illiquid
mortgages. In the movie’s climatic scenes, the “Bailey Brothers Building and Loan Association”
is besieged by its depositors demanding their money. George Bailey, played by Jimmy Stewart,
explains to his customers that, “you’re thinking of this place all wrong. As if I had the money
back in a safe. The money’s not here. Your money’s in Joe’s house...right next to yours. And in
the Kennedy house, and Mr. Macklin’s house, and a hundred others. Why, you’re lending them
the money to build, and then, they’re going to pay it back to you as best they can. Now what are
you going to do? Foreclose on them?” 156 While George’s speech and some of his personal cash
managed to halt the run, other banks and “B&Ls” laden with illiquid mortgages had no George
Bailey, and bank runs caused the collapse of thousands of such institutions during the first
tumultuous years of the Depression. The best hopes for these B&Ls were not in the RFC, which
dealt typically with large mortgages and large banks, or the Federal Reserve System, of which
the B&Ls were not members, but in Hoover’s proposed banks for small mortgages.

Hoover used his old stomping ground of the Commerce Department and the former
“Professor of Lumber” John Gries to write the Home Loan Bank bill for small banks and
cooperative credit organizations. Gries incorporated suggestions from Senator Robert Bulkley,
the mutual banker and original co-creator with Henry Hollis of the Federal Land Banks, as well as
ideas of the U.S. Building and Loan League and the National Association of Real Estate Boards. 157
Hoover said the first goal of the banks was “relieving the financial strains upon sound building
and loan associations, savings banks, deposit banks, and farm loan banks” and putting “put

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156 The movie notes that these B&Ls, along with most other cooperative savings banks, had a feature
designed to halt bank runs: the 60 day withdrawal notification. Though rarely enforced, during bank runs
this could temporarily prevent everyone from removing their deposits (or “shares”) on the same day.
When “Tom” insists on his money, George says, “Okay, Tom. All right. Here you are. You sign this. You’ll
get your money in sixty days?” Tom was shocked, but George says “Well, now that’s what you agreed to
when you bought your shares.” It’s A Wonderful Life (1945).

157 Gries noted that “I have examined both the Farm Loan Act and certain features of the Act creating the
Federal Reserve Board. In practically all cases, we have followed the Farm Loan Act.” John Gries to
Theodore Joslin October 13, 1931; “Home Loan Rediscount Bank Bill Skeleton Outline.” October 13, 1931,
Box 90, Presidential Papers, HHPL.
some steel beams in the foundations of our credit structure.”

Secondly the banks would assist in a revival of construction, with Hoover noting that a “considerable part of our unemployment is due to stagnation in residential construction.” As with its progenitors, the plan called for 12 banks, which would issue mortgage-backed bonds in exchange for discounting local mortgages, mainly from local buildings and loans. As with the Federal Land Banks, the government would buy any stock not bought by the B&Ls. Hoover described the banks “as a necessary companion in our financial structure of the Federal Reserve Banks and our Federal Land Banks.”

Hoover’s White House Conference on Homeownership and Home Building in December of 1931 celebrated his plan. Like so many supposedly expert commissions created in these years, the conference largely confirmed what its organizers had always supported. Despite a final extensive report on everything from landscaping to road planning, the only resolution made by the Conference was to “heartily endorse” the mortgage system Hoover proposed just a month before the meeting. The bill thus carried a substantial though unearned patina of expertise, with Hoover calling the plan, despite emerging before conference even met and despite having little to do with “homeownership” per se, “the outcome of the national conference on homeownership.”

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158 Herbert Hoover, *Memoir, Cabinet and Presidency*, 100.
159 See also, Hoover to Glass, November 13, 1931, Box 4, Carter Glass Papers, University of Virginia, Small Collections. The line about “considerable part” was repeated almost verbatim in a news conference on Hoover’s final signing of the bill. Herbert Hoover, “238- The President’s News Conference,’ July 22, 1932, *American Presidency Project*, http://www.presidency.ucsb.edu/ws/?pid=23175
160 The real estate lobby’s President suggested that by including the word “reserve” in the banks’ name, similar to the Federal Reserve Board, the government could “make a difference of ¼ to ½ per cent in the interest rate of the bonds,” due to the even closer connection this implied. Henry S. Kissell to HH, December 6, 1931, Box 165, Presidential Papers, HHPL; Herbert Hoover, “Annual Message to Congress,” December 8, 1931, *American Presidency Project*, http://www.presidency.ucsb.edu/ws/?pid=22933
161 As Hoover said to his Secretary of Labor, who helped plan it, “I have not found that conferences are successful unless predicated on exhaustive research by special committees appointed prior to the conference.” HH to Secretary of Labor, no date, Box 89, Presidential Papers, HHPL.
162 See “President’s Final Message to Home Ownership Conference,” ibid.
As a proposed permanent part of the nation’s financial structure, Congress took more time molding the Home Loan Banks than Hoover’s other financial reforms. Massachusetts’s Robert Luce, himself a well-noted expert on congressional history and procedure, rewrote the bill and led it through the House.164 He said of the home loan bill, “When it was handed to me I was told that it had been drawn in some haste,” so he enlisted Chester Morill, the drafter of the Federal Farm Loan Act, RFC, and Federal Reserve reform bills.165 Luce said the basic outlines of the bill were “largely drawn from the farm loan and Federal reserve bills,” but “[s]omebody had to decide in the matter of a large number of minor differences between the Federal-reserve and farm-loan machinery….I had to make many decisions offhand.”166 Luce’s most important decisions was to add to the bill Federal Land Bank clause declaring the banks and bonds “instrumentalities of the United States,” thus making them tax-exempt. The would benefit the Home Loan Banks’ bottom line and make the implicit guarantee of their debts more obvious.167

The government stock purchases and tax exemptions excited complaints in Congress. When the hearings began in the Senate, James Couzens, the “irritable and risible” former Henry Ford partner, kept asking why the government should pay for the shares of the companies instead of the B&Ls and banks that benefitted from them.168 Majority Leader Senator James Watson, tapped by Hoover to manage the bill in that chamber, responded he himself had “that very question when they brought up this bill to me to introduce.” Watson, a classic Republican standpatter, admitted that the idea of such an “entirely new establishment” was “abhorrent to my old-fashioned ideas of government.” But for consummate cloakroom compromiser, and the

166 Ibid, 17.
167 Ibid, 8.
man to whom Bartleby’s credits the phrase, “If you can’t lick ‘em, join ‘em,” Watson realized the benefits. He said that once he understood the Home Loan Banks were just another version of the Federal Reserve and Land Banks, he realized the bill was not so radical. He also argued that a little government support would ensure more private sector investment.\(^{169}\)

When Senator Cameron Morrison wondered if the bill “help[s] investment banking instead of current commercial banking,” Watson said “That is it exactly.” Couzen perked up at this: “I thought it was to help the home owner; but you say it is to help the investment bankers.” Morrison hedged, “Well, to furnish investment credit, Senator.”\(^{170}\) Others were more vociferous in their attack. Congressman LaGuardia called it merely a “bill to bail out the mortgage bankers,” those “bastards who broke the People’s back with their Usury.”\(^{171}\)

The material interests behind the Home Loan bill were obvious. Robert Luce later admitted that he was a shareholder in a cooperative bank in Massachusetts and that his bank recently had become illiquid and had asked him to leave his money in the bank to prevent a run. He had also “been for many years investing a small amount of money in buildings.”\(^{172}\) Luce also testified before the House Banking Committee that in his constituency of Brookline “one of the wealthiest towns in the world,” a well-off citizen had tried to purchase a lavish $10,500 house

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\(^{170}\) “You see, under the Federal reserve system, nothing of this sort is eligible for discount,” which Glass-Steagall would soon change. Subcommittee of the Senate Banking and Currency Committee, Hearings on Creation of a System of Federal Home Loan Banks Park I, 72nd Cong., 1st sess., 1932, 17-19, 31-32. Much of the debate revolved around the nature and success of the Federal Land Banks, over which there was much confusion. Ibid, 35, 39.


\(^{172}\) House Banking and Currency Committee, Hearings on National Housing Act, 73d Cong., 2d sess., 1934, 74.
and was turned down because of the bank’s trouble getting funding. Here were the types of horror stories that hit home for many in Congress.173

Interested lobbyists mounted a massive propaganda campaign for the bill. The lumber industry, understanding that two-thirds of its products went into residential construction, became an effective advocate, while the National Association of Real Estate Boards set up a Washington D.C. “headquarters” to start what they called “a battle to save the American home.”

One real estate lobbyist complained that he got “Capitol feet” from tramping up and down “the hard floors in that building” in pressing the bill.174 Henry I. Harriman, soon to be the head of the U.S. Chamber of Commerce, contributed to the choir, claiming that releasing the “frozen real estate assets of banks,” was essential to recovery, and that “It would seem to me far better for the federal government to stimulate business by organizing a central mortgage bank than to raise by taxation huge sums for the construction of roads and public buildings.”175 Vigorous opposition to the bill did come, however, from the insurance industry, whose many speakers in the congressional hearings worried about the “cream of the business” being skimmed by the Home Loan Banks.176 When the insurance companies stalled the legislation, Hoover called the B&L leaders to the White House, and had them agree to “wage a campaign of education-propaganda, if those words seems better” to pass the law.177

This opposition failed to stop the Home Loan Bank bill, but did undermine it. As finally passed in June of 1932, the act only allowed the Federal Home Loan Banks to discount

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175 Henry I. Harriman, “The Stabilization of Business and Employment,” American Economic Review 22, no. 1 (Mar., 1932): 72. At the same time, Fortune magazine, the new flagship of the Henry Luce (no relation to the congressman) publishing empire, began a five-part series on American housing in February 1932, which argued that “the place of honor in any detailed indictment” of high housing costs “must go to financing – to the provision of credit.” Editors of Fortune, Housing America (New York: Harcourt, Brace, and Company, 1932), 64-65.
176 Subcommittee, Hearings on Creation of a System of Federal Home Loan Banks, Part IV, 667.
177 Herbert Hoover, Memoirs, Great Depression, 113.
mortgages at 50% of the value of the house, instead of the 80% Hoover had originally recommended. Thus the banks did not prevent the second mortgages Hoover so lamented. In a minor sleight of hand, the additional money for the bank stock came not directly from the government, but from the Reconstruction Finance Corporation, which seemed to comfort those concerned about direct federal contributions to banks. Hoover placed Franklin Fort, the Newark, New Jersey banker who had helped create the Federal Farm Board at the head of the Federal Home Loan Bank Board, ensuring continuity with Hoover’s earlier efforts. At the very moment of the act’s passage, however, there was a run on Chicago banks, the fourth great panic of the Depression, based again largely on frozen real estate, but the Home Loan Banks were not available in time to staunch the bleeding. The banks themselves would barely be organized before Hoover left office.

Also in June of 1932, Congress and Hoover expanded the powers of other semi-public corporations to fight the Depression through new building and lending. First Congress passed a law expanding the power of the RFC to loan to states and other government entities, especially for construction. Tucked inside that bill, they included a clause which allowed the Federal Reserve Banks to lend not just to its own member banks, but to any company in “unusual or exigent circumstances.” This clause would later be used to bail-out “investment banks” outside of the control of the Federal Reserve. Hoover meanwhile helped organize “Banking and Industrial Committees” at the individual Federal Reserve Banks to spur recovery in the building trades specifically. George Norris, Governor of the Philadelphia Bank, who was also on the board of a local mutual savings bank, said the committees tried to “do what could be done in averting

178 Despite not reaching his full hopes, Hoover admitted that, since the “The session was near to its end, I thought it better to take it in this crippled form, rather than run the risk of no bill at all.” Ibid, 114.

179 Milton Esbitt, “Bank Portfolios and Bank Failures During the Great Depression: Chicago.”

foreclosures, and reducing unemployment, particularly in the building trades, by stimulating construction and renovation.“181 Despite Hoover’s and Congress’s efforts, house building and construction continued to careen downwards in 1932, totaling only about 100,000 units. House values also continued collapsing, to 20% below what they had been at their peak, while foreclosures continued to soar.182

After Hoover’s defeat at the polls in November, he was confronted with the fifth and final banking panic of the Depression, one that almost caused the collapse of the entire American economy. All agreed the final panic, centered around Detroit, Michigan in early 1933, was caused by collapsing mortgages. Later that year, Raymond Goldsmith said “If any single cause can be held liable for the great breakdown of large metropolitan banks in the Great Lakes region…. it is their excessive commitments in urban real estate, chiefly in the form of mortgage loans.” In Detroit and other large cities in the region the percentage of bank loans backed by real estate was higher than 50%.183 As Meyer said after he went to investigate, “The Michigan situation was one of those which had many characteristics in common with others. There was a vast amount of real estate speculation in the banks.”184

The center of this storm was the Guardian Detroit Union group of banks associated with Henry Ford. Some of its banks contained over 70% of their assets in illiquid real estate. The head

181 George Norris, Ended Episodes, 211. Norris claimed that the work of the committee “Brought about several million dollars worth of building and repair work.” Hoover also had his top bank regulator force all national banks to suspend mortgage foreclosures for sixty days in the hopes that his other institutions would be ready by the end of the period. Franklin Fort, “National Conference of Business and Industrial Committees,” August 26, 1932, Box 172, FHLBB, Presidential Papers, HHPL.
182 House building dropped much more rapidly than other types of construction spending in this period. Historical Statistics, Table Dc510-530; 4-520, Table Dc869-878.
183 Raymond Goldsmith saw all of Hoover’s major efforts in his administration in light of this problem. He said due to the illiquid mortgage issue, “The activities of the Government have therefore been directed towards a de-freezing of the urban real estate loans since the time when the National Credit Corporation was constituted. It was one of the major aims of the Reconstruction Finance Corporation to advance money to banks which were overburdened with urban mortgages,” and similarly for Home Loan Banks. Goldsmith, Changing Structure, 262, 83.
184 Eugene Meyer Oral History. 678.
of the group later said that “it was our practice in Detroit to loan on real estate, on homes, and it was our mistake.”\textsuperscript{185} After Ford failed to come to the banks’ aid and the entire group collapsed, the Michigan governor declared a bank holiday to prevent any further runs. As families in other states rushed to retrieve their bank money before their governors declared similar holidays, the crisis spread.\textsuperscript{186} It seemed as if the failures of a banking system with large, illiquid mortgage holdings were obvious to all. Yet it was also obvious Hoover’s ever-expanding attempts to halt the mortgage crisis had come to naught.

In his last days, Hoover became troubled by his previous reliance on financial relief. Hoover bemoaned his fate to Meyer’s wife Agnes, saying, “Eugene and I have tried everything on behalf of the bankers but they have fought us, haven’t tried to cooperate, haven’t even told the truth. They are without ability and without character.” Agnes took sympathy with Hoover, noting that he looked “very old” and exhausted, and tried to redirect the conversation. Yet Hoover would not leave the subject. He bewailed that the entire financial focus of his presidency had been a failure. He said that “It would have been better if Gene and I had never tried to save the banks. If we had let them go, we’d be all over it now.”\textsuperscript{187}

Although Hoover’s actions failed to prevent bank failures and ensure economic recovery, they did radically re-shape the government’s relationship to the banking world. In effect, in order to encourage investment in mortgages, Hoover made the government the guarantors of much of the financial system, with a myriad of new and newly empowered semi-public institutions. While Congress and others succeeded in limiting the extent of these operations and keeping most them to the needs of the present “emergency,” the government’s

\textsuperscript{185} Senate Banking and Currency Committee, \textit{Hearings on Stock Exchange Practices, Part IX}, 73d Cong., 1\textsuperscript{st} sess., 1933, 4248. The Group also had an important Joint Stock Land Bank affiliate that had collapsed in the general rout of the Land Bank system.

\textsuperscript{186} Wicker, \textit{Banking Panics}, 118.

\textsuperscript{187} Agnes Meyer Diary, March 6, 1933.
support for financial stability was plain for all to see, as were the expanded means to accomplish this end. The government had put new “steel beams” in the nation’s “credit structure,” especially for long-term loans such as mortgages, though that structure was still unsteady and resulted in few actual steel beams going up in Hoover’s years in office. Despite Hoover’s own frustration, almost all of his ideas on the importance of financial and mortgage reform for economic recovery would be taken up and expanded upon by his successor.
CHAPTER VI

A NEW DEAL FOR FARM MORTGAGES

On a cold March day in 1932 two Columbia professors met outside their adjoining Morningside Heights apartments in New York City. They were neighbors and colleagues, but they had never talked with one another. Before now they had never had a reason.

Raymond Moley was a professor in the Columbia Law School, articulate, tidy, and self-assured, who had long hoped to leave his mark on public policy.¹ Rexford Tugwell was a debonair and radical professor in the Columbia Economics Department, who had published left-leaning books on grand themes like industrial technology and wealth distribution. His radicalism, however, had left him estranged from his colleagues, and denied the accolades he felt he deserved. Luckily for them both, Moley had begun prepping then-New York Governor Franklin Delano Roosevelt for his upcoming presidential run, and wanted to organize other intellectuals to provide advice. Moley was fed up with more orthodox economists’ nostrums, so he sought out the unorthodox Tugwell.²

When they met on Claremont Street, Tugwell said that, “Frigid drafts were blowing up from the river, lifting papers and whirling dust in the doorways and around the corners.” Children and women were milling about them and trying to catch what little winter light remained as the two professors started talking. In the midst of the dense urban jungle, Tugwell said, “We discussed the farm problem first...Their troubles, I said, were obviously involved with the country-wide depression.” He thought the “farmers’ depression had started with falling wheat and cotton prices as far back as 1921, and all during the speculators’ ‘new era’ rural problems had got worse. Finally the sickness had spread to industry, and then to finance.” As he

¹ Raymond Moley, After Seven Years (New York: Harper & Brothers, 1939), 2-5.
told Moley, he knew that Roosevelt “had a special feeling for farmers,” but did not understand how the farmer’s problems were at the root of the nation’s, both economically and financially. Tugwell could provide that explanation.³

Tugwell, whose father had made a substantial living canning farm goods, had the connection between agricultural and industrial prosperity bred into his bones. As he explained his theory afterwards, the central economic problem was that if farmers “could not sell, they could not buy….Thus, closed factories, unemployment, general paralysis!” He also said “it is necessary to note that in 1933 the economic importance of agriculture and industry, of rural and urban interests, was still about equal. This accounts for our preoccupation with the conditions farmers found themselves in.”⁴ Only by giving farmers’ better prices for their products could the economy be “rebalanced,” and “trade” between the two great sectors be resumed, thus spreading prosperity across the whole country. Moley himself later remembered that they both had no desire for exclusively industrial or urban reforms: “We merely needed to get the farms prospering again and create a market for the industrial products in the cities.”⁵

Tugwell and Moley thus embraced a similar balancing ideology based on prices that other farm advocates were demanding. They also, however, emphasized the importance of this balancing for the financial sector. Tugwell noted that “finance” was the last domino to fall from the collapsing farm economy, and claimed that price policies would help ameliorate this problem. He said that the banking system was collapsing because the “weight of accumulated debt was so heavy, and because assets were so thoroughly frozen. Nothing could lift that weight

⁴ Rexford Tugwell, *The Roosevelt Revolution* (New York: MacMillan, 1977), xv. 32. In the introduction to his published diaries he noted that their theory was that “prices had to be brought under supervision and made to have a relation to each other which would enable each to buy the others’ products.” Rexford Tugwell, *The Diary of Rexford G. Tugwell: The New Deal, 1932-1935* Michael Vincent Namorato, ed. (New York: Praeger, 1992), 291; See also Rexford Tugwell, *Industry’s Coming of Age* (New York: Harcourt Brace, 1927).
or thaw the frost but an infusion of buying power.” Thus price policies would also pay help pay farmers’ mortgage debts and improve the situation of banks and financiers, as earlier price parity advocates had noted. More directly, Tugwell argued new government credit provided to farmers and banks, especially through cheap mortgages, would both improve farmers’ purchasing power and salvage the banking systems. When Tugwell met with Roosevelt in his Albany mansion, the governor was enraptured with Tugwell’s explanation of agricultural balance and its connection to restoring financial confidence. It was then and there that the intellectual edifice of the New Deal was erected.

Most historians of the New Deal describe Roosevelt and his so-called “Brains Trust” as advocates for a new type of central “planning,” one that would smooth the business cycle and restore prosperity to the lower classes. Yet historians typically fail to explain exactly what such planning entailed or how it would operate. This chapter will try to show that from the 1932 presidential campaign through the first year of his new Presidency, the idea of economic balance shaped Roosevelt’s policy. The administration focused overwhelmingly on balancing the farm economy with the urban economy, most especially through new financial support, which balance they believed essential both for economic recovery and for restoring the financial system. In their plans, agriculture was central for recovery, and financial and price balancing were the tools to restore agriculture.  

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7 Only a few histories discuss “economic balance” as a part of New Deal ideology. Edward Bernstein described Rexford Tugwell’s embrace of that ideology, yet did not try to trace how or where this ideology was applied through policy, or how it developed beyond Tugwell. The only other work to take balance seriously is Thomas Ferguson’s article on sectoral politics, but Ferguson views the balance ideology as the superstructure emerging from new heavy industry interest groups aligned with the New Deal. (The importance of heavy industry in the New Deal’s ideology will be elaborated in the next chapter). Ferguson does not try to elaborate how this ideology emerged, and does not deal with the importance of agriculture in it. The concept of economic balance is also broached in Eliot Rosen’s work on the Brains Trust, but it is secondary to supposed concerns about “planning.” Michael Bernstein, *The Great*
The New Deal’s agricultural and financial focus have been slighted in histories of the New Deal. Perhaps the later waning of agriculture in the national economy caused historians to ignore farming in Roosevelt’s original vision. Even in those the works on farm policy in the New Deal, mortgage and banking policy receive at best a few stray mentions, even though financial recovery was a significant motivator of farm policy generally, and improving farm finance an important part of such policy. In fact, more money was given as loans to farmers than was given out in the typical grants and subsidy payments. While grants and subsidies to farmers from 1933 to 1939 totaled $3.4 billion, loans to farmers totaled $4.0 billion, and a large majority of those loans were mortgages through the Federal Land Banks. This chapter will demonstrate how

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8 Federal Land bank loans totaled $2.3 billion, more than all of the other forms of loans combined. These loans were mainly given in the first years of the administration. One possible reason for the lack of interest in this aspect of agricultural policy, has been the fact that William Myers, who led the farm credit program for most of its history, was said to be a “poor advertiser” of himself, and one congressman told him that he should “have given myself more advertising.” Another supporter of the program noted in early 1934 that the “weakest point in the present program of the Farm Credit Administration is its public
revived Federal Land Banks, and other new tools of federal farm credit, were an essential part of
the New Deal’s vision for a newly balanced economy. It will also show how the New Deal hoped
to use the tools of federal price controls and federal credit, as previous administrations had, to
prop up and restore the private banking world.

Brains Trust Credit Balancing

Moley and Tugwell were not experts in finance, and had little to say on how the
government could use agricultural credit to improve the situation of farmers, but a third member
of the Brains Trust could. Like Moley, Adolf Berle was a self-assured Columbia University law
professor, described by one reporter as a cocky “ball of energy,” but slight of form with a “thin,
boyish face.” Berle’s financial ideas emerged out of a work he was just finishing and which
Time magazine called the “economic bible of the Roosevelt administration,” The Modern
Corporation and Private Property. The book, as is often noted, argued that the divorce of
management from ownership made corporations more like quasi public entities, and that the
shares and bonds of these corporations should therefore be treated as part of a public trust. It is
little noted that the book also claimed that property owners were willing to accept the loss of

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9 Tugwell’s books, unlike those of many of his contemporaries who wrote about macroeconomics, had
very little to say about finance. Yet Tugwell and his co-authors had noted in one book that “farmers are
under a handicap because theirs is a peculiar business trying to exist within the same [banking] system”
with merchants and manufacturers. He heartily approved of the creation of the Federal Land Banks and
Intermediate Credit banks, but complained that they had been of little help because of “over-conservative
management.” Rexford Tugwell, Industry’s Coming of Age (New York: Harcourt, Brace, 1927); The
Industrial Discipline and the Governmental Arts (New York: Arno Press, 1933). Tugwell, Thomas Munro,
and Roy E. Stryker, American Economic Life and the Means of Its Improvement, 3rd Edition (New York:
Harcourt, Brace and Company, 1930), 415-418.


11 Herbert Hovenkamp, Enterprise and American Law, 1836-1937 (Cambridge, MA: Harvard University
Press, 1991), 360
direct control because their property, in the form of stocks or bonds, acquired the advantage in being made liquid and salable in public markets at all times. Berle said that the modern owner of capital “has, in fact, exchange[d] control for liquidity.”  

12 After the stock market and banking collapse, Berle argued that this dependence on liquidity meant the “whole future of the present system is inextricably bound to the successful functioning of the security markets.” There was a need for constant liquidity of financial assets, because if securities were “‘frozen,’” the entire system of liquid financing could collapse.  

13 He noted that “it should be emphasized that in ordinary times the problem of liquidity is not a problem of maturing loans so much as it is a problem of shifting assets to other banks in exchange for cash.” In extraordinary times, however, this “shiftability” theory, which he embraced, would require the Federal government to directly take up and support such questionable assets.  

14 Berle himself had already shown an interest in “frozen” securities and mortgage assets specifically. He secured title to land for the Pueblo Indians, and in the 1920s he worked in the Dominican Republic’s “Land War” to restore certainty to land titles there as well.  

15 In New York, he would help create what he called a private “institution for the purpose of affording liquidity

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12 “Most striking of all, a liquid token acquires a value purely and simply because of its liquidity. Property in non-liquid form is worth one price. Property represented by liquid tokens is worth another price.” Adolf Berle and Gardiner Means, The Modern Corporation and Private Property (New York: Harcourt, Brace, 1932), 286. Many of the ideas of loss of stockholder control had already been elaborated in economist William Z. Ripley’s Main Street and Wall Street (which gave us that now over-worn comparison), and it was Ripley who recruited Berle to work on the subject. William Z. Ripley’s Main Street and Wall Street (Boston: Little, Brown, and Company, 1927); Adolf Berle Oral History, 116, Columbia Oral History Archives.  


14 Ibid, 40-42.  

to mortgages held by savings banks,” thus implementing on a local level what he hoped to do on a national.\textsuperscript{16}

Berle’s wife recorded in her diary early in 1932 Berle had “been in a state of great ferment” over the frozen debts burdening Americans, and thought that the only way out of the Depression was “a controlled scaling down of debts...with government assistance.”\textsuperscript{17} These concerns were reflected in Berle’s first memo to the Roosevelt group, in May of 1932.\textsuperscript{18} Berle identified the credit system as the key to recovery, and argued that a type of confidence was necessary for economic revival, the confidence of individual bank depositors and investors (such a focus was encouraged by the unmentioned co-author of the memo, a friend of Berle’s at the Bank of New York.)\textsuperscript{19} The cause of the “stoppage” in credit, Berle said, was that “[i]ndividuals have not confidence in the future permitting them to believe that they can safely entrust such money or resources as they have to the banking system.” He thought that “SECURITY OF SAVINGS” was therefore the first step to recovery. The only way to ensure such security was to reform and support investments in four “Specific Credit Groups,” two of which were farm mortgages and city mortgages. He thought they all knew that a “extremely bad situation....[is] the farm mortgage group.” He said that foreclosure of farm mortgages meant more than just the “wreck of a home,” since they were tied up in banks and finance. Many of “the farm mortgages are held by banks and similar institutions, particularly in the West, [and] these banks first ‘freeze’ and then fail.”\textsuperscript{20}

\begin{footnotesize}
\begin{enumerate}
\item \textsuperscript{17} Beatrice B. Berle Diary, October 6, 1932, in \textit{Navigating the Rapids}, 50-51.
\item \textsuperscript{18} Adolf Berle Oral History 169.
\item \textsuperscript{19} Adolf Berle Oral History, 169, 174-175.
\item \textsuperscript{20} Adolf Berle, “The Nature of the Difficulty,” May 1932, in \textit{Navigating the Rapids}, 32-41. The other two credit groups were municipal bonds and railroad bonds. Berle noted that the former were tied up in the health of urban mortgages and homes, and that the latter were in fairly decent shape. Ibid, 32-41, 172, 174-175.
\end{enumerate}
\end{footnotesize}
One of Berle’s proposed solutions for the ills of these illiquid mortgages, was, as Tugwell argued at the time, raising agricultural prices, not as an attempt just to improve the farmers but as an attempt to protect the farm mortgage “credit group.” Berle also hoped new and cheaper credit would be another means to restore purchasing power to farmers. As Berle wrote to Moley later, “the feeling of most of us, myself especially, [was] that a large share of the national income ought to be steered toward the lower income levels including farmers. This we did, consciously, through lowering interest rates, credit arrangements and so forth.” As he tried to explain at the first dinner with Roosevelt, “Nobody else’s credit was good” except the federal government’s. So they could use federal credit to “undergird” the credit of everyone from “The little farmer in Iowa” to the big corporations. As his memo stated, contrary to just the short-term impact of the Federal Reserve, “Credits, both long and short term, are of necessity national in character” and therefore needed to be controlled and supported by the federal government. After his first meeting with the governor, Berle said Roosevelt’s positive reaction to his plans left him “overjoyed, relieved and happy.” His wife said that as soon as he joined the Brains Trust and implementing his credit ideas he began having a “frabjous time!”

The three happy warriors of Moley, Tugwell, and Berle were joined by the final member of the Brains Trust, who had almost invented the modern idea of price balance. Hugh Johnson was a co-founder with George Peek of the price parity movement, and he brought this vision

22 Adolf Berle Oral History, 176. One journalist from the late 1930s notes that Berle’s Memo was not so much a plea for more spending, as later historians have argued, but rather “the first suggestion for such New Deal credit looseners as the Home Owners’ Loan Corporation.” Joseph Alsop and Robert Kintner, Men Around the President (New York: Doubleday, Doran & Company, Inc. 1939), 23-24.
23 Berle, “The Nature of the Difficulty, 48. Indeed, Berle had read theorists stating the necessity of engaging in both long and short term credit going back to H.G. Moulton, and cited Moulton’s work as “a concise and relatively complete statement of the shiftability theory.” Berle and Pederson, Liquid Claims, 20, 225.
25 Beatrice B. Berle Diary, October 6, 1932, in Navigating the Rapids, 50-51.
into the incipient administration. Later, as a top official in that administration, Johnson wrote that “If we could have perfect balance among all producing segments - agriculture, capital, industry - there would be almost no limit to our consuming capacity.” He thought such a perfect balance was utopian but said that “I think the essence of the New Deal is to point toward that balance. I think the essence of what preceded the New Deal was to point away from that balance.” [emphasis in original] Of course with his background the importance of farming in this scheme was preeminent.26

Yet the hyperkinetic Johnson, advised as he was by his financier friend Bernie Baruch, also began trumpeting investor “confidence” as part of restoring balance. In July of 1932 he circulated a half-serious “Proclamation” by “Muscleinny, Dictator Pro Tem,” of the policies that should be carried out to ensure recovery. In this proclamation, he advocated government loans on projects (such as “semi-rural self-supporting” housing projects), and the writing down of private debt contracts with new bankruptcy laws. He also encouraged the purchase by the government “of any farm or home or home mortgage” at a new lower value, and refinancing it at low interest. He hoped these financial reforms would also increase the “buying power of agriculture and remove[] a considerable part of the deadly disparity between farm and other prices.”27

New York Governor Franklin Delano Roosevelt was captivated by his Brains Trust and their ideas of farm and financial balance. Despite his aristocratic upbringing, Roosevelt had

27 “A Proclamation, By Muscleinny, Dictator Pro Tem,” June 20, 1932, reprinted in Johnson, Blue Egg to Blue Eagle, 123-132. The root of Johnson’s concern for investor “confidence” can be gleaned from his description of the bankers at Chicago First National bank who helped finance his farm implement company. He said the president of the bank “was a very Ulysses of his craft - a great banker who never made any money himself because he thought the job a trust,” and said that if he “wanted the most competent, distinguished and disinterested advice and help in working out the banking problem in America,” he would have no hesitation going to them, and he didn’t. Ibid, 107. For Bernard Baruch’s increased interest in farm mortgage relief, see testimony in Senate Finance Committee, Investigation of Economics Problems, 72d Cong., 2d sess., 1933, 19-20.
acquired a type of social grace that put people of every social status at ease, and, despite the
polio that handicapped him, he developed a vitally healthy attitude and an open mind. The
theory of balance through prices and farm credit had an immediate appeal to Roosevelt. He
identified with businesslike farmers due to his long and happy residence on his mother’s Hyde
Park farm, as well as his purchase of a working farm as an investment in Georgia.28 Roosevelt
was also intimately connected to finance from a young age. His father, with his myriad inherited
interests, could reasonably be described as a banker, as could his favorite uncle, Frederic
Delano, who would soon occupy a variety of advisory positions in his nephew’s government.
One of the longest, and certainly most lucrative, jobs Roosevelt ever had was as Vice President
of the Fidelity & Deposit Company, which insured bonds and other investments. His law offices,
which he maintained at the same time, were on Wall Street itself. As he said, “The two varieties
of work seem to dovetail fairly well.”29

Most historians agree that earlier in his career Roosevelt had assumed, as one noted,
that “bankers were possessed of a morality somewhat higher than businessmen in general.” Yet
the legerdemain surrounding the collapse of the Bank of United States in 1930 under his
governorship sullied that respect.30 During the Hoover interregnum, he told Colonel Edward
House, Woodrow Wilson’s former confidant with whom he regularly corresponded, “the real
truth of the matter is, as you and I know, that a financial element in the larger centers has
owned the Government ever since the days of Andrew Jackson – and I am not wholly excepting

30 Daniel Fusfeld, The Economic Thought of Franklin D. Roosevelt and the Origins of the New Deal (New
Random House, 1979), 223.
the Administration of W.W. The country is going through a repetition of Jackson’s fight with the Bank of the United States - only on a far bigger and broader basis.”

Yet Roosevelt’s plea was not for the old Jacksonian creed of equal protection and a fight against privileged banks. In fact, when House suggested that Roosevelt give a speech demanding “equality of opportunity for all and special privilege for none,” parroting older Democratic ideas, Roosevelt ignored him. Paradoxically, Roosevelt thought the only real solution to controlling bankers was to flood them with new government cash and loans, buying their bad assets and boosting their balance sheets. As he later said to one of his advisors, “There is no doubt in my mind that you and I are being subjected to all sorts of silent pressure by some members of the banking fraternity...They are in a sullen frame of mind, hoping by remaining sullen.” Yet there was a solution, “If you and I force these funds on them they will have to act in accordance with our desires.” In Roosevelt’s mind, controlling finance meant coddling it.

Balance and Farm Mortgages in the Campaign

In Roosevelt’s campaign for the presidency, he focused his rhetoric on restoring farm purchasing power and improving farm mortgages as the means to reestablish economic balance and prosperity. Despite later arguments that Roosevelt obscured his purposes in this campaign,

33 FDR to Secretary of the Treasury, October 9, 1933, Box 77, Presidential Subject Files, FDR Library.
34 For Roosevelt, these efforts to extend and support credit had the additional benefit that they did not immediately involve increased federal expenditures, which, despite his liberal reputation, Roosevelt remained opposed to in principle in his campaign and for much of his presidency. Julian Zelizer, “The Forgotten Legacy of the New Deal: Fiscal Conservatism and the Roosevelt Administration,” *Presidential Studies Quarterly* 30, no. 2 (Jun., 2000): 331-358.
or even proposed a conservative vision of the future, he was abundantly clear about what he thought had gone wrong with the country and how he was going to fix it.\textsuperscript{35}

Moley claimed that in planning the campaign “Agriculture’ came first,” since the “obvious beginnings of our discontents in this country was the persistence of the delusion that the nation could prosper while its farmers went begging.”\textsuperscript{36} The deteriorating condition of farmers and of farm mortgages added urgency to the appeal. Besides the foreclosure of almost 3 out of every hundred farms in the nation in 1932, the incipient Farm Holiday Association and their radical actions against foreclosures attracted attention in every corner of the nation. The opposition to foreclosures in turn was making banks nervous to collect their debts, and this was exacerbating the banking panics.\textsuperscript{37}

As early as April 1932, soon after Tugwell joined the campaign, Roosevelt explained his ideas about farm balance in his famous “Forgotten Man” speech. In the speech he made clear what class that Forgotten Man came from, arguing that “approximately one-half of our whole population, fifty or sixty million people, earn their living by farming or in small towns whose existence immediately depends on farms. They have today lost their purchasing power....The result of this loss of purchasing power is that many other millions of people engaged in industry in the cities cannot sell industrial products to the farming half of the Nation.” He thought first that the “farmer’s dollar” should be raised to a fair price, but he also made connection between this reform and credit policy. “Closely associated with this first objective is the problem of keeping the home-owner and the farm-owner where he is, without being dispossessed through the foreclosure of his mortgage.” The loss of purchasing power led to shaky mortgages, and he

\textsuperscript{36} Moley also said that it was political advisor “Louis Howe’s cardinal principle to concentrate on farmers in planning a campaign.” Moley, \textit{After Seven}, 15-16.
\textsuperscript{37} \textit{Fighting Foreclosure}.
said these bad mortgages threatened the “little bank and local loan company,” which were needed to keep the nation’s credit afloat. Roosevelt explained that he had three “fundamentals” he hoped to reform as President: “restoring the farmers’ buying power, relief to the small banks and home owners,” and finally tariff reform, a campaign centered on farmers’ need for export markets.38

Roosevelt made the connection between agricultural balance and credit even clearer in his acceptance speech at the Democratic National Convention in July of 1932. Many later remembered Roosevelt’s promise that, “I pledge you, I pledge myself, to a new deal for the American people,” but the combined reforms of farms and finance were central in that new deal. Roosevelt told the teeming agents of his election in the Chicago Coliseum that their country was divided into three main groups: the agricultural, the industrial, and third, “the people who are called ‘small investors and depositors.’ In fact, the strongest tie between the first two groups, agriculture and industry, is the fact that the savings and to a degree the security of both are tied together in that third group- the credit structure of the Nation.” This Berle-inspired insight about credit groups was important because, as Roosevelt said, “never in history have the interest of all the people been so united in a single economic problem. Picture to yourself, for instance, the great groups of property owned by millions of our citizens, represented by credits issued in the form of bonds and mortgages – Government bonds of all kinds...mortgages on real estate and cities...We know well that in our complicated interrelated credit structure if any one of these credit groups collapses they may all collapse.” He said a “comprehensive planning of the reconstruction of the great credit groups” was at the heart of his plan. Roosevelt briefly discussed unemployment, but apologized that he had to “go back to this dry subject of finance; because it all ties in together.” He also apologized to his audience

that he had to “lay emphasis on the farmers,” and especially farmers’ debts: “Farm mortgages reach nearly ten billions of dollars today and interest charges on that alone are $560,000,000 a year.” He mentioned other reforms, but reiterated that “Our most immediate concern should be to reduce the interest burden on these mortgages.” In what could only be a first and a last for a presidential nomination acceptance speech, Roosevelt discussed the burden of “amortization payments” and argued that mortgage maturities should be extended as part of a general financial restructuring.  

Roosevelt continued this farm finance focus in his other campaign speeches, such as one on the “Farm Problem” in Topeka, Kansas. Here he made his famous echo of Lincoln’s House Divided speech, turning Lincoln’s fight against slavery into a fight for economic balance. He stated in no uncertain terms that “This Nation cannot endure if it is half ‘boom’ and half ‘broke,’” and made clear that the boom and bust were the city and the farm. He again elaborated on his theory of a “seamless web” of economic relations and said they had to recognize “our interdependence in order to provide a balanced economic well-being for every citizen of the country.” He thought “If we would get to the root of the difficulty, we shall find it in the present lack of equality for agriculture.” The reforms needed were obvious: “In the first place, there is the necessity, as well all know, for the refinancing of farm mortgages in order to relieve the burden of excessive interest charges and the grim threat of foreclosure.” He said,

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39 FDR, “Address Accepting the Presidential Nomination at the Democratic National Convention in Chicago” July 2, 1932, American Presidency Project, [http://www.presidency.ucsb.edu/ws/?pid=75174](http://www.presidency.ucsb.edu/ws/?pid=75174). The Democratic Party Platform stated that “We favor the restoration of agriculture, the nation’s basic industry; better financing of farm mortgages through recognized farm bank agencies at low rates of interest on an amortization plan, giving preference to credits for the redemption of farms and homes sold under foreclosure.” “Democratic Party Platform of 1932,” June 27, 1932, American Presidency Project, [http://www.presidency.ucsb.edu/ws/?pid=29595](http://www.presidency.ucsb.edu/ws/?pid=29595)
“Specifically, I am prepared to insist that Federal credit be extended to banks, insurance or loan companies...on the condition that every reasonable assistance be given to mortgagors.”

Roosevelt’s message of restoring purchasing power to farmers and rural bankers seemed to resonate with urban and industrial crowds. Roosevelt told a Boston crowd that “I am going to talk to a city audience about farming. I do not make one kind of speech to a farm audience and another kind of speech to a city audience.” He argued that “without a balanced economy between agriculture and industry, there can be no healthy national life.” He told them “You are poor because they are poor,” and blamed Hoover for failing to restore this balance, and, through his refusal to discourage financial speculation, exacerbating it. He told the urban Young Men’s Business and Professional League that “whenever income in any great group in the population becomes so disproportionate as to dry up purchasing power within any other group, the balance of economic life is thrown out of order,” and explained them “That is why I have so greatly stressed restoring prosperity to our agriculture interests.”

As the campaign wore on, and as the mortgage crisis grew more severe, Roosevelt laid ever more emphasis on the problems of agricultural credit and distress. In his September address in Sioux City, Iowa, he said. “For more than a year I have spoken in my State and in other States of the actual calamity that impends on account of farm mortgages,” and said “I do


41 FDR “Campaign Address on a Program for Unemployment and dLong-Range Planning at Boston, Massachusetts,” October 31, 1932, American Presidency Project, http://www.presidency.ucsb.edu/ws/?pid=88403. He said that “Fifty million people cannot buy your goods, because they cannot get a fair price for their products.” He claimed that “by permitting agriculture to fall into ruin millions of workers from the farms have crowded into our cities. These men have added unemployment.” Moley said later that “The Boston speech of October 31st completed the program of the New Deal.” Moley After Seven Years, 63.

42 This claim could be misidentified as a belief about restoring consumer purchasing power, but was directed at divergent producing sectors of the economy. FDR, “Radio Address to the Business and Professional Men’s League Throughout the Nation,” October 6, 1932, American Presidency Project, http://www.presidency.ucsb.edu/ws/index.php?pid=88394.
not need to tell you that….I realize to the full the seriousness of the farm mortgage situation.”

On October 21, less than three weeks before Election Day, Roosevelt even gave a specific speech on “Farm Mortgages” in Springfield, Massachusetts, home of a Federal Land Bank. Once again he noted that connection between rural and urban progress, arguing each was “dependent on the other to a degree often overlooked in American politics.” He said it was the duty of the government “to obtain for [the farmer] the very lowest reasonable rate of interest.”

He said that Wilson’s “Federal Land banks became very important units in our financial life,” but that he would propose for Congress “a compete reorganization” of the farm credit machinery to fully assist the farmer and his banker.

It could not be said that Roosevelt did not make his intentions in regards to farms and farm mortgages clear, or their importance in his overall scheme for economic revival. His landslide election was a resounding mandate for many reforms, but arguably first for creating economic balance between farms and cities, and for improving the situation of the nation’s farm creditors and borrowers.

Crafting a Farm Plan

In Roosevelt’s speeches, he and his Brains Trust gave the nation the broad outlines of his theory of economic recovery, yet Roosevelt needed to delegate the specifics of these plans. For that job, Roosevelt tapped his Dutchess County farming neighbor, Robert Morgenthau Jr.

Morgenthau was the son of a successful German-Jewish father who had made a fortune in New

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44 Franklin Roosevelt, “Campaign Address on Farm Mortgages at Springfield, Illinois,” October 21, 1932, American Presidency Project, http://www.presidency.ucsb.edu/ws/?pid=88400. Tugwell noted in his diary that he helped write this speech and proposed some of the remedies, Tugwell, Tugwell Diaries, 56, January 12, 1933.
York real estate, and then, like Roosevelt’s family, took their fortune into farming. The tall, lanky and bald Morgenthau was often described as placid, and he occasionally gave off the impression of being dull. With his funereal demeanor, Roosevelt called him “Henry the Morgue.”

Although conservative in his inclinations, Morgenthau had an intense attachment to Roosevelt himself. One of his aides remembered that, “He said I must understand the most important thing in his life was his relationship with the President,” and he meant it.

Roosevelt’s Secretary later claimed that Morgenthau met with the President more than any other member of his cabinet.

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47 Grace Tully, F.D.R. My Boss (New York: Charles Scribner’s Sons, 1949), 192-193. She goes on to note that Roosevelt “saw him frequently before he had left his bedroom in the morning and it became a custom for Henry to have Monday desk-side lunch with the President.”
With Roosevelt’s encouragement, Morgenthau took time during the campaign to visit his old college, Cornell University, a school on which Governor Roosevelt had showered uncommon largesse. One professor there attracted Morgenthau’s attention. William I. Myers was a man obsessed with the farmers’ cooperative movement and the importance of rural credit to it.48 From a poor rural childhood, Myers rose to become the nation’s first professor of

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“farm finance.” Even as a professor, he continued to work his own farm, and he received a mortgage for it from the Springfield Federal Land Bank, after which he said he felt like he was “really on the way” to success.\footnote{Ibid, 16-17.} In the spring semester of 1932, when Morgenthau began seeking his counsel, Myers was teaching a class on farm mortgages, where he argued that one of the problems with the contemporary banking system was that “many banks don’t make long term loans,” which the farmers needed.\footnote{Ibid, 41.} Myers later argued that the government’s job “is to put agriculture on a basis of credit equality with corporate industry” in attracting investment, through provision of “constant access to investment markets” for long term loans.\footnote{William I. Myers, “Important Issues in Future Farm Credit Administration Policy,” \textit{Journal of Farm Economics} 19, no. 1 (February, 1937): 92.}

At Morgenthau’s insistence, Myers began talking with the Federal Farm Loan Board and local bank officials on the subject, and, not long after Roosevelt won the election, Myers had prepared a plan. First, Myers argued for scrapping the increasingly baroque architecture of federal farm credit and creating a single agency devoted to the issue. Instead of Hoover’s Federal Farm Board for cooperatives, the Intermediate Credit Banks for livestock and medium term loans, the Federal Land Banks for mortgages, and sporadic seed loans given directly by the Treasury, there would be one farm credit agency with different branches. He wanted to reduce the rates of Federal Land Bank loans, and also wanted the government to provide supplemental cheap mortgages to farmers with older Land Bank mortgages, which he thought would help tide both the farmer and the banks over into prosperity. Thus Myers’s main solution to the problem of weighty mortgages was providing even more mortgages.\footnote{Slaybaugh, \textit{William I. Myers}, 104-112.}

At the same time as the credit plan was in the works, Tugwell, Johnson, and the Brains Trusters created the outlines of a new farm “allotment” policy, which would restrict farm
acreage and raise farm prices. The Cornell crowd of Morgenthau, Myers, and others, by contrast, thought a general monetary inflation (or “reflation,” to return prices to old levels) would benefit farmers more, and tried to push Roosevelt in this direction. Tugwell admitted that “one thing which the Cornell group and we did agree on and that was that something had to be done about the farm credit situation,” most specifically by the “Federal Government on mortgage rates.” This point of consensus created some harmony between the competing farm advisors during the campaign.

During the interregnum after Roosevelt’s election, the Farm Holiday Association revolt against mortgages reached their peak, with violence, riots, and murder bedeviling foreclosure auctions. Such actions made Roosevelt’s proposed reforms ever more pressing. Roosevelt fretted to Tugwell that the anti-foreclosure movement “was as near to rebellion as the depression had brought Americans.” For Roosevelt, who had spoken of America’s stoicism in the face of suffering, it was heartbreaking to watch revolution breaking out on the ground, and over something as seemingly mundane as farm mortgages. As Tugwell said, Roosevelt knew people had hitherto been peaceful during the Depression because they all thought “no individual could be blamed. Now, however, minds were being made up. The debtors had centered on foreclosures” as their enemy. The revolution against law and order posed a threat to the stability of the country.

Even in the tranquility of the “little White House” of Warm Springs,

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53 Tugwell in his diary in January in 1933 said such plans were only part of the wider New Deal aim of “a regulated and balanced economy. This depression is being prolonged by disparities. Groups cannot exchange for each other’s goods because some are high and some are low.” Roosevelt’s choice for Secretary of the Treasury, William Woodin, encouraged these reforms. As he said, once the purchasing power of farmers was restored, “the purchasing power of the workers would take care of itself.” Tugwell, Tugwell Diary, January 1933; “Woodin Advocate of Sound Money,” New York Times, February 22, 1933, p. 1.

54 See Richard Tanner Johnson, Managing the White House: An Intimate Study of the Presidency (New York: Harper & Row, 1974), 5-6; Rexford Tugwell Oral History, 9, Columbia University Oral History Archives; Tugwell, Tugwell Diary, 52, January 6, 1933. In a public talk Tugwell divided the administration’s plans into two parts, allotment and mortgage reforms Ibid, 54-55, January 11, 1933.

55 Tugwell, New Deal, 68.
Georgia, Roosevelt was interrupted during his final vacation by a group of marchers, who demanded a new currency based on government farm mortgages. Although Roosevelt was not willing to go that far, the marchers later declared themselves “well satisfied with the interview” and promised to support the new President in his future financial endeavors.\(^56\)

**Roosevelt Takes Financial Action**

When Roosevelt assumed the Presidency the country was in the midst of an unprecedented banking panic that began in President Herbert Hoover’s last days. Roosevelt knew that his first mission had to be restoring the financial structure of the nation. Roosevelt’s speech on his inauguration day will forever be remembered for his ringing declaration against the fear that was gripping the nation, but at the speech’s center was his continuing demand for economic balance as a solution to economic collapse. He said that “we must frankly recognize the overbalance of population in our industrial centers and, by engaging on a national scale in a redistribution, endeavor to provide a better use of the land.” He proposed two ways to do this, first “definite efforts to raise the values of agricultural products and with this the power to purchase the output of our cities,” then “preventing realistically the tragedy of the growing loss through foreclosure of our small homes and farms.”\(^57\)

After the inauguration, Roosevelt issued a series of unprecedented executive orders designed to halt the banking panic. He called a national bank holiday, took the nation off the gold standard in order to spur inflation and raise prices, and made an implicit promise to

guarantee all bank deposits. Roosevelt told the nation in his first fireside chat that they needed to renew their faith in the banks, because banks were necessary “to keep the wheels of industry and agriculture turning” through their investment in “bonds, commercial paper, mortgages, and many other kinds of loans.” His administration, along with holdovers from Hoover’s, wrote a bill which gave the Reconstruction Finance Corporation the power to purchase bank stock directly, and thus, instead of merely supporting bad loans, to fully bail-out endangered banks with new capital. Congress accepted this and also extended for one more year the Federal Reserve’s power to loan on any long-term asset during the emergency.

Roosevelt’s financial reforms worked. The end of the gold standard meant prices started rising again after three years of disastrous deflation, and the administration began reopening healthy banks. His banking actions garnered Roosevelt near universal praise, and paid some specific political dividends. California Senator William McAdoo was “overwhelmed with joy” when the administration decided to reopen the wavering Bank of America, which had been heavily involved in speculative mortgage loans and whose chief, A.P. Giannini, had been a heavy financial supporter of McAdoo. To Roosevelt, the crisis and his response further emphasized the importance of finance to the health of the nation’s economy, and the power of the federal government’s credit to support it.

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61 Rauchway, Money Makers, 58; Francis Gloyd Awalt, “Recollections of the Banking Crisis in 1933,” Business History Review 43, no. 3 (Autumn 1969): 368-369. Most historians have not noted the dangers to the Bank of America in particular. The orders gave the Comptroller of the Currency, the national bank regulator, the power to either reopen banks or close them, but as one lawyer said “There was a third category: the Bank of America, which was left open because nobody dared do anything with it.” Lochenheim, Insiders Speak, 108, Interview with Frank Watson. For Morgenthau interviews with Giannini, see Morgenthau Diaries, May 3, 1933, p. 9, Reel 1, Henry Morgenthau Jr. Diaries Microfilm.
Luckily for Roosevelt, the new Democratic Congress was filled with farmers, bankers, and investors all eager to support his new ideas of economic balance and farm finance. The congressional leadership was particularly interested in such efforts. Both John Rainey of Illinois, the speaker of the House, and Joseph Robinson of Arkansas, the Majority Leader in the Senate, were major stockholders of Joint Stock Land Banks, as well as ardent, if self-interested, proponents of federal mortgage support. On the morning of March 23, Roosevelt, Morgenthau, Rainey and Robinson, as well as nine other senators and Congressman met at the White House and agreed on Myer’s outlines for farm mortgage refinancing. According to one news report, “President Roosevelt told the conferees that there is no legislation in which he is more deeply interested than this project to lighten the mortgage load of farmers.”

Marvin Jones, the Chairman of the House Agricultural Committee, became the most important proponent of these ideas in Congress during the New Deal. Like many other actors in this drama, he had the importance of balance and farm credit instilled in him from a young age. His entire life he retained a stark memory of being a ten year old boy going to the First National Bank in Valley View, Texas with his poor father to borrow $250 for ninety days. He asked his dad why he had borrowed for so short a term if he could not pay it back for up to nine months when his cotton crop came due. His father told him that “The financial structure of this country is geared to the needs of industry and business and it is kept in what they call ‘liquid condition.’ There should be a separate credit structure suited to the needs of farm and livestock people.”

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62 “Mortgage Aid Plan Approved by Roosevelt: Program Intended to Help Farmers,” Chicago Tribune, March 24, 1933; Franklin Roosevelt, “Message to Congress on Farm Mortgage,” April 3, 1933, American Presidency Project, http://www.presidency.ucsb.edu/ws/?pid=14607; Henry Morgenthau Jr. to Marvin McIntyre, April 3, 1933, Box 1, Official Records 27, Farm Credit Administration, Franklin Delano Roosevelt Library. Although the proposed, and final, bill would provide for $2 billion in bond issues, Rainey had originally proposed as much as $30 billion in bonds, many times the total federal budget. “Rainey Explains Mortgage Aid,” Wall Street Journal, March 24, 1933.
He said his father’s explanation was “burned into my mind,” and forever after inspired his efforts.

Jones had a high forehead, pudgy face, and sad eyes. He was a former a Panhandle lawyer for poor farmers. Upon entering Congress, one of his first bills was to carry out the dream of his father and push the Federal Land Banks to extend more farm loans. He was also a vocal advocate for the balance between country and city. After his first conference with President Roosevelt, Jones celebrated the fact that Roosevelt “was one of the first men who lifted up his eyes and saw all the way across this broad, big country and, in his grasp of things, was able to visualize a well-balanced country.” He admired that the President never “stopped planning to keep the country in a balanced condition.” Jones himself said that “in order to have a well-rounded domestic market and to have an outlet for domestic products, the purchasing power of one-fourth of the people [the farmers], which had practically been destroyed, would have to be restored.”

Jones helped Myers draft an executive order for Roosevelt, which, under a new reorganization authority, the President used for the first time to centralize all rural credit programs in a Farm Credit Administration (FCA). Jones then used the reorganization to ask the House of Representatives that all future farm credit bills in the New Deal be moved to his Agricultural Committee, which would give his ideas even more heft. Farmers’ advocates, furious at the House Banking Committee for holding, or “strangling” as one said, radical mortgage relief

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64 Ibid, 641-642.
65 Ibid, 576. In his oral history, Jones spent more time talking about the mortgage refinancing and credit plans than the significantly more famous allotment plans. Marvin Jones Oral History, Columbia Oral History Archives.
bills over the past two years demanded the shift. Jones said “[i]t was about as dramatic a fight as I have ever seen on the floor of the House because people felt very deeply about it,” and he won it. In the Senate, meanwhile, the chair of the Banking and Currency Committee passed to long-time rural credit advocate Duncan Fletcher, who held onto his bailiwick over farm finance.

Jones and Myers also drafted a mortgage reform bill. Myers said that “the first and one of the most important things” in the bill, was to allow the Federal Land Banks to issue the hitherto unimaginable amount of $2 billion in bonds at no more than 4% interest, which would in turn allow for billions in cheap mortgages. This was almost double the Federal Land Banks’ previous peak of outstanding bonds and a full percentage point lower on their cost. To achieve this rate and still allow the bonds to be publicly sold, Myers had the U.S. explicitly guarantee the interest on the bonds. Myers argued that confining the guarantee to just the interest “limits the Government’s risk,” but he would later note it seemed to imply a more complete guarantee of the principal as well. Although the bill forbade joint stock banks from emitting more bonds, it did provide them $100 million loans at very generous rates to pay off their investors, such as Rainey and Robinson. (The Government itself in fact would also continue buying millions of Joint Stock bonds to support that market, at almost full price, for years.)

In order to secure political support for proposed reforms, Marvin Jones went to the farm groups. He met with members of the National Grange and urged them to proselytize their members. He noted that the Grange remained conservative in many respects, “except that they

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66 One rural Democrat said they were “sick and tired of the Federal Reserve Banks and the Federal Land Banks dictating to the Banking and Currency Committee.” 77 Congressional Record 1209-1211, 1213, 1216-1217. April 4, 1933.
67 Marvin Jones Oral History, 601-608.
68 The new bill also gave the new Farm Loan Commissioner the ability to make $200 million of direct government loans of up to 75% of the “normal value” of the farm, that value to be defined more or less as the administration wanted. House Agricultural Committee, Hearings on Farm Mortgage Relief, 73rd Cong., 1st sess., 1933, 7-9. “Aid for Rural Banks Nearer: Farm Mortgage Bill is Passed by House – Would Thaw Some of their Holdings,” Wall Street Journal, April 14, 1933.
69 T.J. Coolidge to Henry Morgenthau Jr, January 29, 1936, T.J. Coolidge Papers, Box 1, FDR Library.
had reached the conclusion that the interest rates were entirely too high. They were very helpful in the getting the interest rates down, which was a very vital part of the whole farm program.” Albert Goss, chairman of the Executive Committee of the Grange, who formerly worked with the disastrous Spokane Federal Land Bank, was consulted in the drafting and worked with the House and Senate committees. He would eventually become the Farm Loan Commissioner, before leaving again to lead the Grange. Shepherded by Jones and his lobbyists, the final mortgage reform bill made it through Congress with minimal amendments. Jones said the passage of the act was his “boyhood dream finally realized.”

In the rush of the 100 days of legislation, the mortgage reform bill was attached to the allotment and crop restriction bill proposed by Tugwell, Johnson, and others. The two bills, for price support and mortgage reform, were thus two sides of the same attempt at agricultural balance. Even the National Industrial Recovery Act, modeled after the agricultural allotment plan and passed soon after, was influenced by Roosevelt’s ideas of an overdeveloped urban sector that sapped purchasing power and hurt investors. It was in that act that Roosevelt and the Congress provided a $25 million revolving fund to loan on mortgages for the purchase of rural homesteads, as Hugh Johnson had argued in the campaign. As the act said, the purpose was “for aiding the redistribution of the overbalance of population in industrial centers.”

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70 Marvin Jones Oral History, 747.
71 Louis Taber Oral History 289, Columbia Oral History Archives; Morgenthau Diaries, May 12, 1933, p. 22, Reel 1, HMJ Diaries Microfilm.
72 The mortgage bill Myers presented was partially drafted by legislative assistant John O’Brian, who recently had helped draft the Federal Home Loan Bank bill under Hoover. Marvin Jones Oral History, 609-610.
Figure 6.2: “United” Cartoon on Farm Credit Administration. Source: Milton Halladay, *Providence Journal*, c. May 1933.
By the end of June, after Roosevelt’s famous One Hundred Days, it looked as if most of the outlines of Roosevelt’s plan for economic balance through credit were in place. In his fireside chat at the time, he told the people that his new legislation and actions were “not just a collection of haphazard schemes, but rather the orderly component parts of a connected and logical whole.” Besides restoring the government’s credit, he thought the most important reforms “concerned the credit of individual citizens themselves,” and explained “large numbers
of people were actually losing possession of and title to their farms and homes.” He reiterated his earlier metaphor of “a Nation half boom and half broke,” and said that if farmers were given more “purchasing power...we shall greatly increase the consumption of those goods which are turned out by industry.” The thought it “a vital necessity to restore purchasing power by reducing the debt and interest changes upon our people.” Roosevelt hoped the 100 days had created the instruments to make these plans a reality.

**Bolstering the Banks**

Despite much talk of benefits to farmers, many in the administration and elsewhere also emphasized the benefits of his rural reforms for bankers and investors. In fact, as in previous eras, the supposed means of helping farmers, support to banks, often became the new ends of the government. In Roosevelt’s first message to Congress urging the price support program, he noted higher farm prices would not just help farmers, but would work “greatly to relieve the pressure of farm mortgages and to increase the asset value of farm loans made by our banking institutions.” As the “Declaration of Emergency” by Congress which headed the combined agricultural act stated, price disparities of agricultural products and industrial had “seriously impaired the agricultural assets supporting the national credit structure.” At the beginning of his fireside chat right before passage of the bill, Roosevelt emphasized the effects of low farm prices not on farmers but on banks. He said that the “prices for basic commodities were such as to destroy the value of the assets of national institutions such as banks, savings banks, insurance

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companies and others. These institutions, because of their great needs, were foreclosing mortgages” and calling other loans, to the detriment of themselves and the farmers.  

Banking interests understood the benefits of farm mortgage reform, and fully supported it. Winthrop Aldrich, chairman of Chase National Bank, had earlier asked that that government “extend emergency credit relief to the farm mortgage situation,” since this relief “is to the interest of the country and to the interest of the creditors.” Now he could relish the plan’s success.  

As the Wall Street Journal explained, the farm mortgage bill, which the paper celebrated, would “enable small banks in the agricultural regions to put themselves in a more liquid condition.” Most importantly, these “banks and bank receivers [could] exchange mortgages for cash or for new Federal Land Bank bonds.” The Bankers’ Magazine argued that under the new bill “the Federal Land banks have an opportunity to be of very great service to banks at the same time they are refinancing farmers,” since for banks “located in small towns undoubtedly a liberal proportion of the frozen assets represent farmers’ debts,” which the new mortgage bill could help exchange for newly “liquid” and semi-guaranteed bonds.

Morgenthau, as the new head of the FCA, understood the need to support the credit structure. Soon after passage of the bill, he announced a special “wholesale” mortgage program, not for farmers, but specifically “for reopening closed banks that are weighted down by heavy holdings of frozen farm mortgages” on a mass basis. To this end he got the Comptroller of the Currency, the governor of the Federal Reserve Board, the Secretary of the Treasury, and a number of other notables, to discuss the plan together. He noted that the was the “first time

78 “Aid for Rural Banks Nearer: Farm Mortgage Bill is Passed by House- Would Thaw Some of Their Holdings,” Wall Street Journal, April 14, 1933.  
79 “Refinancing of Farm Mortgages,” Bankers’ Magazine 127, no. 6 (Dec.,1933): 648.
that everyone had ever gotten together who had anything to do on the part of the Federal
Government with the opening of closed banks.” The group agreed to coordinate together to
implement the program. “They were all very enthusiastic,” Morgenthau told Roosevelt. The
*Wall Street Journal* noted that the plan was “designed to bring about wholesale refinancing of
distressed farm and home mortgages and at the same time bolster weaker banks.”\(^{80}\)

Morgenthau’s bank plan would start with $35 million provided by the Reconstruction Finance
Corporation, but would soon extend to $500 million in mortgage support for closed banks with
bad mortgage assets.\(^{81}\)

Such credit supports, however, were not enough to revive the farm economy. After a
stall in price rises and in the economy general in the summer, the President decided to double
down on his goal of raising overall prices, specifically by buying gold, and agriculture prices were
once again a focus. As his Secretary of Agriculture Henry A. Wallace noted in his book a decade
earlier, agricultural commodities were the first to respond to inflation or deflation, and that was
precisely Roosevelt’s hope. His gold-buying program was pitched by two Cornell agricultural
economists, George Warren and Charles Pearson, soon to be known as the “Gold Dust Twins,”
who emphasized the benefits of the plan to still depressed agriculture.\(^{82}\) Roosevelt himself
explained the plan to the nation as an exercise in balance in his fourth fireside chat. He said his
goal “to restore a balance in the price structure so that farmers may exchange their product for
the products of industry on a fairer basis.” Privately Roosevelt was even more explicit. At one

\(^{80}\) “Bank Mortgage Relief Decided,” *Wall Street Journal*, September 15, 1933, p. 2; “The Function of Credit

\(^{81}\) This money would “consist principally of [the] purchase of first mortgages held by closed banks.”
“Morgenthau to Aid in Banks’ Reopening: 35 Millions to Cut Farmers’ Mortgage Debts; Plan to Start in
Diaries; “Plans to Thaw Over 5 Billion in Farm Liens: U.S. Studies Ways to Help Bank Depositors,” *Chicago
Daily Tribune*, July 3, 1933; “Farm Mortgages to Be Refinanced: Campaign in Wisconsin to Be Followed in
Other Western States,” *Washington Post*, July 17, 1933.

\(^{82}\) Franklin Roosevelt, “Fireside Chat,” October 22, 1933, *American Presidency Project*
meeting about gold purchases he said that “it was absolutely necessary to put up agricultural prices within the next few months, say 95 cents a bushel of wheat, in order to avoid a march of the farmers on Washington.” As with other price programs, this one was also an attempt to shore up the credit structure of the nation. Roosevelt wrote to Colonel House the he wanted “to lift the price level and therefore the debt burden under which the country, especially the West and the South, was staggering.” He later said that higher crop prices from his gold purchase program have “stopped foreclosures, saved banks and started people definitely on the upgrade.”

Even the new mortgage loans given directly to farmers by the FCA were aimed at benefiting the banks. When a public report came out stating that at least a third of all Land Bank loans had been used by farmers to repay indebtedness at commercial banks, the FCA crowed that, “When commercial bank loans to farmers were refinanced, both farmers and banks were benefited.”

One means to encourage more bank loans and more adoptions of federal mortgages was to make the loans more generous and liberal. The new mortgage act had allowed the land banks to loan up to 75% of the “normal” value of the farms, and left the definition of normal up to the administration. Myers admitted their standard for the “normal value” of the farmers the FCA enacted was “considerably in excess of the distress values which prevailed at the time the law was passed.” Roosevelt talked to Morgenthau about the connection between the then burgeoning price fixing plan and mortgages by noting, “I fixed the minimum price of cotton.

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83 A State Department economist at the time noted that the only reason for the gold purchases was to get farm prices up, to get “a pound of cotton to 10 cents, a bushel of corn to 50 cents before January,” Herbert Feis, 1933: Characters in Crisis (Boston: Little, Brown and Company, 1966), 290, 288. On farm interests pushing inflation, see Rauchway, Money Makers, 27-29, 73-74, 77-79, 86-87.
84 “FDR to Edward House, November 21, 1933, in FDR Personal Letters, 371-373.
86 House Agriculture Committee, Hearing on Federal Farm Mortgage Corporation, 73d Cong., 2d sess., 1934.
Can’t you adjust your appraisal[s] on that basis?” to which Morgenthau replied that “we were doing everything possible to be liberal.”  

The Federal Land Bank workforce, soon dominated by new appraisers infused with this liberal attitude, exploded with the growth in new and larger loans, from about 200 members to 2100 in just a few months. Myers, as Farm Loan Commissioner under Morgenthau’s FCA, worried he was like “a football coach who has just installed new system of plays and who has a team made up largely of sophomores,” but the expansions and reforms continued. Senator William McAdoo referred to new empowered and enlarged agency as a federal “super-mortgage bank.” The press regularly described the FCA as the “world’s largest bank.”

Nonetheless, selling the land bank bonds based on new liberal appraisals and continuing delinquent mortgages became a new headache. When Morgenthau met with Secretary of the Treasury Will Woodin, he asked whether the Treasury would be willing to buy some of his bonds. As Morgenthau said “I jokingly put it to him, ‘I am going to blackmail you into doing it because if you do not buy them, we will have to sell our bonds and may ruin your bond market.’” How Woodin felt about this rather strained joke is unknown, but he did promptly respond “We will buy them,” Soon, however, Woodin realized he did not have any such authority. Morgenthau then went to the Federal Reserve and told them that if they could begin buying land bank bonds as part of their open market operations that could guarantee

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87 Morgenthau Diaries, August 16, 1933, 58, Reel 1, HMJ Diaries.
92 Morgenthau Diaries, June 12, 1933, 43, Reel 1, HMJ Diaries.
their price. He told Roosevelt that “The confidence of investors must be retained if the program of refinancing is to be effective,” yet the Federal Reserve also refused to support the system.  

Despite the administration best efforts, and the hope that the New Deal could permanently support the farm mortgage “credit group,” they, much like Hoover, had trouble selling land bank bonds to the public. The revived land banks began their New Deal career in earnest by borrowing $150 million from the Reconstruction Finance Corporation, which demanded that the funds be used for refinancing mortgages in “impaired or closed commercial banks,” and also to “improve the position of open banks.”

Early in 1934, Morgenthau prepared a letter for the President explaining that the original guarantee of only interest payments on the Land Bank bonds was insufficient. “From the common sense point of view everyone knows that the guarantee of interest would, in all probability, be followed by the government making good any deficiency of the principal. This being so, we might as well be frank and provide a bond” fully guaranteed by the government. These new fully guaranteed bonds would be issued through another new corporation, the Federal Farm Mortgage Corporation, which would buy and sell mortgages from the land banks themselves.

In a press conference announcing the guarantee and the new corporation, the President told reporters that land bank bonds were now an important part of federal credit. “Now the question comes up as to whether we should not be honest and face the fact” that if the bonds ever were seriously endangered, “the public and Congress would undoubtedly feel that it was a moral obligation on the part of the Government to make good.” He noted that in his own New

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93 Sen. Arthur Capper to FDR, August 23, 1933; HMJ to FDR, September 8, 1933, Box 3, OF 27A, FDR Library.
94 Senate Agriculture Committee, Hearings on Federal Farm Mortgage, 5-6.
95 “$150,000,000 For Land banks,” Wall Street Journal, September 19, 1933.
96 Unsigned Letter to the President, with corrections, February 10, 1934, Box 3, OF 27A, FDR Library. Language and situation indicates that it was most likely Morgenthau.
York state he had created “what they called authorities or quasi public corporations,” and one had gone bankrupt. He said the state legislature recognized “there was a moral obligation - not a legal but a moral obligation - on the legislature to make good the deficiency of the bonds...Now if there is that moral obligation which might arise twenty years or thirty years from now, why, in all common sense, should we not recognize it now? The net result of doing that would actually save the Government a great deal of money.”97 When one reporter asked “do these bonds constitute a part of the regular debt of the United States?” the President had to waffle. “Yes and no. It depends on a legal decision that has never been rendered. At the present time it is certainly a moral obligation.”98 As a Wall Street Journal said after the proposed guaranteed bill passed, the act showed that “[e]ntering upon the second year of the emergency recovery program the Roosevelt Administration plans to concentrate greater attention on the liquidation of debts through federal financial assistance” and the paper said “First in this field are the farm and home mortgage debts.”99

In Roosevelt’s State of the Union address to Congress in January 1934, he celebrated his work over the past year in restoring the credit structure of the nation and creating balance between sectors. He argued he had come a long way in implementing the ideas of his campaign. He again divided the nation, as he often had in his campaign speeches, into three parts, noting “The relations of industry and agriculture and finance to each other.” He celebrated the help Congress had provided in attacking debt burdens, and in recognizing “that the most serious part of the debt burden affected those who stood in danger of losing their farms and their homes.”

After spending time telling people to contact the Farm Credit Administration or other agencies if

97 FDR Press Conference #85, January 5, 1934, 4:03 PM, 42-45.
98 Ibid, 46.
99 “To Concentrate On Debt Erasure: Administration Plans Center First on Farm and Home Mortgage,” Wall Street Journal, January 8, 1934. The article notes that the FCA has gone further in alleviating farm mortgages complaints than the Home Owners Loan Corporation had gone in alleviating urban problems.
they were in danger of losing their homes, he returned to balance: “I continue in my conviction that industrial progress and prosperity can only be attained by bringing the purchasing power of that portion of our population which in one form or another is dependent on agriculture up to a level which will restore a proper balance between every section of the country and between every form of work.”

Roosevelt’s first year contained an enduring vision.

Mortgage Moratoriums and the End of Farm Balance

Events, however, would soon push Roosevelt’s focus away from the farm. In January of 1934 pressure from traditional financiers caused Roosevelt to stabilize the dollar and thus ended hopes of increased inflation for farm prices. A Supreme Court decision in the same month also ended his plan for a revived farm mortgage system. It began when a local Minnesota court struck down that state’s mortgage moratorium as a “special law and not a general law” and a vicious form of “class legislation.” Yet on January 8, 1934, the same day that Roosevelt announced a guarantee of the Land Bank bonds, Chief Justice Charles Evans Hughes read a 5-4 decision upholding the moratorium and mortgage moratoriums throughout the nation. The case was the first major Supreme Court decision of the New Deal, and gave many Democrats hope that the court was on the side of the debtors and the activists. Following this decision, three more states passed mortgage moratoriums, while many state supreme courts moved to

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100 Franklin Roosevelt, “Annual Message to Congress,” January 3, 1934, American Presidency Project http://www.presidency.ucsb.edu/ws/?pid=14683. Even as Roosevelt’s focus changed, his story of the reasons for the original downturn were consisted. In December 1935 he said “so long as agriculture remained a dead weight on economic life, sooner or later the entire structure would crash, as it did in 1929.” Franklin Roosevelt, “Address on Receiving the 1935 Award for Distinguished Service to Agriculture, Chicago, Illinois,” December 9, 1935. American Presidency Project. http://www.presidency.ucsb.edu/ws/?pid=14995


102 Ibid, 130-139; Blaisdell v. Home Owners Loan Association, 290 US 398, 442, 467. Justice Sutherland’s fiery dissent indulged in rhetoric about setting the dangers of setting the “debtor class” against the public interest, to little avail.
uphold old moratoriums they had once declared invalid. In Congress the Frazier-Lemke act for
a nationwide farm mortgage moratorium gained new impetus.

Although these state actions and federal bills held out hope for farmers, they made the
idea of keeping up a private market for farm mortgage debt impossible, since the moratoria
ended any possibility of farmers paying off their debts and the bonds’ investors. Since these
moratoria prevented investor confidence in the farm mortgage “credit group,” they earned
Roosevelt’s ire. Roosevelt fumed to an advisor about an early version of the Frazier-Lemke bill,
which provided for moratoriums and the government refinancing of almost all farm mortgages,
“Tell them also that if this type of wild legislation passes the responsibility for wrecking recovery
will be squarely on the Congress, and I will not hesitate to say so to the nation in plain
language.” A more limited Frazier-Lemke Act was passed in June 1934, but in signing it
Roosevelt noted that the bill was “loosely worded and would require amendment.” Many
agreed that its five year timeline for farmers to avoid paying mortgage principal was too long.

With rampant delinquencies and state and federal moratoria, the government failed to
create a viable private market for the farm mortgage credit group. Relying ever more on its
explicit guarantees, the government ended up supporting an ever larger portion of the farm
credit system directly. By the end of the decade, it controlled over 50% of all farm mortgages in
the nation, while the old private and public land bank system never topped 20% in the 1920s.
No federal urban mortgage program was ever as extensive in its sphere. Yet these mortgages
operated largely as an extension of previous policies from Hoover and earlier, with only more

103 Filter and Hof, Fighting Foreclosure, 160-161.
104 Ibid, 144.
105 Stephen Early to FDR, April 9, 1934, in FDR Personal Letters, 395-397.
106 Unlike the state moratoria, Frazier-Lemke would be struck down by the Supreme Court in a 9-0
decision, as part of the Court’s famous “Black Monday” in May 1935. The case against the law was
brought by a Joint Stock Land Bank. “Roosevelt Signs Farm, Rail Bills,” New York Times, July 1, 1934;
107 Leuchtenberg, Roosevelt and the New Deal, 51.
explicit guarantees and more expansive reach. As Myers said, the New Deal’s work on the Federal Land Banks “has not been a revolution...instead it has been a process of evolution.”

Despite legislative interference, the administration of the farm system impressed Roosevelt. He was enthused enough with Henry Morgenthau’s efforts that he promised to appoint him as his new Treasury Secretary. The President told him that “you are one of the two or three people who has made an outstanding success here in Washington, so let’s you and I go on to bigger things,” As was typical for Roosevelt, he added “We will have lots of fun doing it together.” As was typical for Morgenthau, he said “I was so dumbfounded when he made this statement that I broke out in a perspiration and sort of mumbled for a few seconds.”

Morgenthau would remember his work on mortgages as the administration’s focus shifted to the cities.

The New Dealers’ attempt to use price and credit reforms to balance the farm economy with the industrial economy did have a profound effect. The reforms alleviated the mortgage burdens on farmers, and helped bolster farmers’ incomes. Yet these reforms, once again, were also used to expand the government’s responsibilities for bailing out the banking system and investors. Roosevelt himself later recognized this. He later said that in his first year in office, “the financial institutions...were being bailed out in 1933, bailed out by the Government.”

Despite Roosevelt’s efforts, the focus of the New Deal on agricultural and financial recovery in its first year brought with it similar frustrations that Herbert Hoover’s similar focus had in his earliest year in office. The inability of the revived farm economy and farm banks to fully pull the

109 Morgenthau Diary Entry, November 13, 1933, p. 100, Reel 1, HMJ Diaries. The *New York Times* said Morgenthau made the FCA “second to none of the government departments in swift and effective service,” and Morgenthau had the reputation as “one of the most effective executives ever included in the official family of a President.” “Morgenthau Made Farm Aid Record,” *New York Times*, January 2, 1934, p. 9.
industrial economy with it demanded more urgent and widespread action. Like the Hoover administration, the Roosevelt administration began supporting urban mortgages as a means to restore balance and the banking system.
CHAPTER VII

HOUSING, HEAVY INDUSTRY, AND THE FORGOTTEN NEW DEAL BANKING ACT

On Monday, May 28, 1934 President Franklin Roosevelt met John Maynard Keynes, the world famous British economist, for the first time, but their conversation in the Oval Office did not go as planned. Afterwards, Roosevelt expressed his frustration to his Secretary of Labor, Francis Perkins, “I saw your friend Keynes. He left a whole rigmarole of figures. He must be a mathematician rather than a political economist.” Keynes later told Perkins that he “supposed the President was more literate, economically speaking.”¹ Many then and since considered Keynes’s visit a failure, which indicated that Keynesianism and the New Deal would remain at loggerheads for some time.²

Yet the day after the meeting, Keynes met with the man Roosevelt called “my economist,” the gregarious and genial Winfield Riefler, who had known Keynes for years. Keynes later wrote to Roosevelt that he remembered his conversations with Riefler “vividly” and especially Riefler’s insistence on doing something for housing.³ In fact, Riefler convinced Keynes to meet with the Senate Banking and Currency Committee, which was considering the administration’s new plan for insuring banks directly against losses on individual urban mortgages. At the meeting, Keynes most likely described his belief in the need to lower long-term interest rates in order to stimulate the economy, and explained how the proposed mortgage insurance plan would accomplish this end. Keynes’s as always sterling conversations

³ Keynes’s quote is from a 1938 private letter to President Roosevelt, in which he also reiterated that “[h]ousing is by far the best aid to recovery because of the large and continuing scale of potential demand.” John Maynard Keynes to Franklin Roosevelt, February 1, 1937, FDR Library Online, http://www.fdrlibrary.marist.edu/aboutfdr/pdfs/smFDR-Keynes_1938.pdf.
seems to have had an impact. Riefler later told Keynes that “Your conversations with the Senators had a most salutary effect and may have constituted the turning point in passing the housing legislation. I can’t thank you enough for your help.” ⁴ It was perhaps Keynes’s most direct, and maybe even his most important, impact on the New Deal, and it was done to support housing and mortgages.

Just as Herbert Hoover had begun his presidency as a believer in balancing rural and urban sectors of the economy, and then moved to balancing construction and the rest of the economy, Roosevelt’s administration would trod the same path. Yet the first significant New Deal housing reform, the National Housing Act of 1934, the result of Keynes’s, Riefler’s, and others efforts, has received little attention from those describing the economic policy of the New Deal.⁵ The act intrigues mainly urban historians interested in its impact on the American landscape, who attribute its passage to the influence of suburban developers and real estate interests.⁶ When examining the act’s history, however, it is clear that the interests behind it were either in the financial industry or among manufacturers in certain heavy industries associated with homebuilding, along with those intellectuals in the Roosevelt administration


concerned about banking and balance. The act is best described, then, not as a housing act, but as a banking act, which encouraged recovery through particular types of construction financing.

As in Hoover’s time, the administration’s reforms would result in the federal government being liable for potentially billions of dollars in banking losses on mortgages. In fact, two of the institutions that emerged out of this act, the Federal Savings and Loan Corporation and Fannie Mae, would later become prominent recipients of federal bailouts totaling in the hundreds of billions of dollars. The National Housing Act was thus beginning of a sea change in the New Deal’s focus, but it was also yet another expansion of government guarantees to American banks and mortgage lenders.

**Homes Playing Second Fiddle to Farms**

Urban foreclosures, although never as salient as farm foreclosures, had become a national issue by the time Roosevelt assumed office. In 1932 and 1933, lenders foreclosed on more than half a million urban homes, with the foreclosure rate per mortgage more than four times that of the 1920s. The struggles over such foreclosures were often brutal. Groups of socialist party members or other activists restocked defaulting mortgagors’ homes after their furniture had been removed, or prevented foreclosure auctions through violence and threats. Numerous “eviction riots,” some leading to deaths, prevented sheriffs from throwing owners and renters out on the street.

Franklin Roosevelt’s efforts to save urban families from the specter of these foreclosures have been described as an essential aspect of Roosevelt’s relief program, and as

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enormously politically advantageous. Arthur Schlesinger said of Roosevelt’s first urban anti-
foreclosure program that “‘[p]robably no single measure consolidated so much middle-class support for the administration.’” Jordon Schwartz claimed, as others have, that Roosevelt himself “had a passionate interest in home ownership” that was manifest in his numerous housing programs.  

Yet Roosevelt never made homeownership itself the focus of his mortgage programs, and he began supporting urban mortgages as no more than an afterthought and appendage of his farm programs. When he first submitted his bill for refinancing farm mortgages to Congress, on which his aides had worked for months, Roosevelt included a short promise to do something for urban homeowners. His administration, however, had prepared nothing. It was only the day after that message that Roosevelt sent a hasty letter to W.H. Stevenson, Chair of the Hoover-era Federal Home Loan Bank Board, asking him to draft some sort of urban mortgage bill “immediately.” Baffled as to what the President desired, Stevenson consulted Henry Morgenthau, who showed him their worked-over bill for farm mortgages. Stevenson and his Board copied as much of the farm plan as they could. The new bill was drafted in a single day.  

As was typical in recent bills, much of this mortgage reform was aimed not at debtors, but creditors and bankers. Horace Russell, a power player in the Building and Loan, or “B&L,” world, and the general counsel of the new Federal Home Loan Bank Board, was central in drafting the new bill. Consequently, almost all of the bill’s measures were made to order for the B&L community. Its first section even removed a direct government loan provision from the

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12 Ibid. For other early influences on the bill, see William Myer to Stephen Early, April 5, 1933, Box 1, Official Files 27, Farm Credit Administration, Franklin Delano Roosevelt Library.
original Home Loan Bank Act, which competed with their loans. The act also created an emergency corporation, named the Home Owners Loan Corporation, that would refinance defaulting mortgages, but only if they were held by existing B&Ls or banks. Like earlier semi-public corporations, the new Home Owners Loan Corporation was not technically part of the government, but carried only a temporary investment of stock and an implicit guarantee. It would be managed, however, by the B&L-dominated Federal Home Loan Board.\textsuperscript{13} Despite the obvious self-interests behind the bill, one Treasury official noted the B&L people tended to win bureaucratic fights, arguing that Russell and his clique “are good talkers; [and] know more about the business than we do in the Treasury.”\textsuperscript{14} One of Senator Robert Wagner’s staff, Leon Keyserling, who helped redraft the bill in Congress, agreed that the main benefit of the act was that it “rescued the banks by taking mortgages.”\textsuperscript{15} Just ten days after Roosevelt asked for a bill, it was passed by Congress.\textsuperscript{16}

Despite later claims that the Home Owners Loan Corporation provided much-needed assistance in the depths of Depression, it was notably slow to start, and was plagued by political patronage until a change in leadership almost six months after its creation.\textsuperscript{17} It also continued to live in the shadow of Roosevelt’s farm programs. At the press conference in early 1934 where Roosevelt announced that the government would fully guarantee both the principal and interest of land bank mortgages, reporters asked if he would do the same for his new urban mortgage company. Roosevelt said he had not fully thought it out yet, but “I think the chances are” that

\textsuperscript{13} Russell, \textit{Savings and Loan Associations}, 52-55.
\textsuperscript{14} T.J. Coolidge to Secretary of the Treasury, April 16, 1935, Box 1, T. Jefferson Coolidge Papers, FDR Library.
\textsuperscript{17} The total number of foreclosures peaked at 252,000 in 1933, and was at 229,000 in 1935, still almost four times the 1920s rate. \textit{Historical Statistics}, Tables Dc1255-1270. For benefits of the act, see Price Fishback, Jonathan Rose, and Kenneth Snowden, \textit{Well Worth Saving: How the New Deal Safeguarded Homeownership} (Chicago: University of Chicago Press, 2013).
he would. Eventually, he did. By early 1934, urban mortgages still had not attracted Roosevelt’s full attention and interest.

Figure 7.1: Roosevelt’s Priorities on Mortgages. Source: Cortland Standard, c. May 1933.

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18 FDR Press Conference #85, January 5, 1934, 4:03 PM, 44. Morgenthau would help organize a syndicate of bond houses to sell these with a hefty commission because, as he said, inaccurately, “the government guaranteed bond is something new,” and it needed the full support of the financial community. One reporter asked him if “you are not selling out to the bond houses—I mean it is so absurd,” to which Morgenthau only responded “I agree with you; I think it is absurd.” But he felt that syndicate would ensure “that the public are educated,” since the bonds “are not generally understood as being the equivalent of government bonds.” HMJ press Conference, October 22, 1934, Book III, p. 109-113.
Undercutting Housing and Long-Term Investments

Not only did urban homes attract little interest in the early Roosevelt administration, many reforms in Roosevelt’s first hundred days actually inhibited homebuilding and urban mortgage loans. The National Industrial Recovery Act, which tried to organize industries to ensure a balanced production across sectors, in practice tended to reduce competition and raise prices, and building materials prices and construction costs were raised more than almost any other.¹⁹ The lumber industry, so essential to homebuilding, was one of the “Big Six” industries administrator Hugh Johnson first hoped to organize, and was the second industry in the country to conduct hearings under the act. The resulting Lumber Code cut back hours worked by 25% and raised hourly wages by 45%.²⁰ It was one of the few codes that engaged directly in price-fixing, establishing a number of “minimum prices” for lumber in different parts of the country. The Lumber Code Authority was also by far the most expensive to administer, at over $4 million a year, almost twice the next highest authority, and these fees were collected from lumber sellers.²¹ New construction came under the Construction Code Authority, which forbade submitting bids below a cost certified by the authority, and prevented contractors from offering special rebates. The authority required complicated applications for projects and a fee as a

¹⁹ When proposing the National Recovery Administration Roosevelt said that he wanted a partnership with industry, Raymond Moley handed him a description of Theodore Roosevelt’s demands for business “partnership” and Woodrow Wilson’s argument against them. He asked Roosevelt, “You realize then, that you’re taking an enormous step away from the philosophy of equalitarianism...?” To which Roosevelt said he understood and “I never felt surer of anything in my life.” It is worthwhile to note that by “equalitarianism” here obviously does not mean “egalitarianism” but was the principle that the government should treat all equally, or eschew special privileges. Raymond Moley, After Seven Years (New York: Harper & Brothers, 1939), 187.
²¹ Senate Finance Committee, Investigation of the National Recovery Administration, 74th Cong., 1st sess., 1935, 2341.
percentage of the work performed, which funded this second most expensive authority in the system.  

The resulting higher costs of building materials and construction work were particularly concerning for many interested in a revival in homebuilding. A member of one of the administration’s advisory council’s noted that due to the lumber code, “Lumber prices rose too high for the public to buy,” and this inhibited purchases and building. One potential homebuyer wrote the administration that “I have plans ready for construction of a home for myself...I will start my new home just as soon as this ‘high-jacking’ of prices of building materials has been corrected and not until then.” As the National Recovery Administration continued to ratchet up the cost of building, the voices of criticism became ever louder.

Most of the reforms that impacted homebuilding in the first hundred days, however, had to deal with the financial industry. Finance itself came under the National Recovery program, and the banking industry too used it to further restrict competition and raise prices.

The Investment Bankers Code was organized and pushed by G. Howell Griswold, the bond salesman whose Baltimore house had been the premier financier of the Federal Land Banks.

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23 One administrator in the Lumber Dealers authority noted that administration was “interested in finding out how much of a change in prices has been experienced as a result of our mode mark-up procedure.” Paul Collier, Northeastern Retail Lumbermen’s Association Administering Agency, Official Code Bulletin 9, February 27, 1934, Box 66, Miscellaneous Records, Builders Supply of Lumber, Record Group 9, National Recovery Administration, National Archives - College Park
25 M. Hadley, Consumers Advisory Board, “The Effect of Price Control and Price Stabilization on the Construction Industry,” January 9, 1935, in ibid, 889. The National Association of Real Estate Boards labored hard to remove all construction from the Code, which it claimed was “formulated by a group of architects and contractors” and inhibited homebuilding. Ibid, 2137-2139.
26 The American Bankers Association proposed a commercial banking code that limited national banking hours, along with the amount of interest banks could give their depositing customers. (The Banking Act of 1933 already limited interest charges for banks in the Federal Reserve system, but this code extended that mandate to state non-member banks.) National Recovery Administration, Codes of Fair Competition, Nos. 1-57, as Approved by President Roosevelt, June 16-October 11, 1933 (Washington: Government Printing Office, 1933), 580-581.
since their inception. While still negotiating with the Treasury on the sale of farm loan bonds (for which, the Treasury noted, his “firm receives special consideration in commissions, etc.”), Griswold pushed for higher fees and more limited bond issues of all sorts.\textsuperscript{27} The Investment Bankers Code required companies selling securities to maintain fixed prices without discounts and required large up-front down payments. At the code hearing many noted the specific dangers of mortgage bonds and the need to limit offerings of them.\textsuperscript{28}

The famed Glass-Steagall act also worked to inhibit long-term loans. This act, which separated commercial and investment, or short-term and long-term, banking, would seem to work against many of the recent moves by both Hoover and Roosevelt to allow commercial banks to invest in long-term assets, and this is precisely why Roosevelt himself did not favor it. As one historian said, “While this measure is usually considered as part of the Roosevelt recovery program, it had only the nominal support of the administration.” (Its Federal Deposit Insurance Corporation, another implicitly guaranteed banking support corporation which was created by this act, was openly opposed by Roosevelt and the bill’s sponsor, Senator Carter Glass.)\textsuperscript{29} Members of the Federal Reserve actively fought the bill. When Glass provided the Federal Reserve with an early draft version, which sharply limited national bank mortgage loans,

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\textsuperscript{27}When one sale went off without Griswold, the Treasury Undersecretary wrote to assuage his hurt feelings: “I feel that Farm Credit should not have acted as they did, and have told them so.” T.J. Coolidge Memorandum, December 3, 1934; T.J Coolidge to Secretary of Treasury, January 24, 1935; March 2, 1935; March 26, 1935. Box 1, T. Jefferson Coolidge Papers, FDR Library.
\textsuperscript{28}Investment Bankers Code Committee, \textit{Code of Fair Competition for Investment Bankers} (Washington: Investment Bankers Code Committee, 1934), 16-25, 37-41, 62. Griswold would go on to lead this into the late 1930s and discuss new regulations with the Securities and Exchange Commission. James Landis to B. Howell Griswold, June 29, 1936. FINRA Box 256-570, see in Securities and Exchange Commission Historical Website \url{http://www.sechistorical.org/}; For more on the separation, see Griswold also had other interests in the hearings. He told committee that they should keep commercial banking out of his sector.
\end{flushright}
the Federal Reserve noted its mortgages restrictions were “unreasonably severe.” The Federal Reserve’s complaints at least, caused the mortgage restrictions to be whittled down by final passage.

The final financial enactment of Roosevelt’s hundred days was a bill for regulating stocks and bonds, what eventually became the Securities and Exchange Commission, and it too seemed to inhibit long-term and mortgage investments. After the passage, Roosevelt’s assistant Raymond Moley worried that many companies “felt that the Act was excessively cumbersome. Whether or not this was true was of less moment than the fact that corporations and bankers believed that it was and consequently hesitated to float new issues.” Adolf Berle agreed with this analysis, noting especially the dangers from fewer mortgage bonds. He said that in his private capacity he was “working on a method of financing some of the major real estate” bonds, which he hoped the administration would try to encourage as well.

A New Plan for Mortgage Recovery

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31 It is little understood that the Federal Deposit Insurance Corporation even today is only implicitly guaranteed by the federal government. “This is not a government guarantee of deposits,” Carter Glass said at the time, and the government has never officially corrected him. See Alex J. Pollock, “Deposits Guaranteed Up to $250,000 – Maybe,” *Wall Street Journal*, May 28, 2013.

32 Moley, *After Seven Years*, 176-183.

Despite roadblocks to home building, new economic theories entered the administration at this point that emphasized the importance of construction and urban mortgages to recovery, which built off those theories that once influenced Herbert Hoover. Alvin Hansen of Harvard, soon to be known as the “American Keynes,” began trumpeting the need for a balanced economy and the importance of housing in that balance economy. In his appropriately titled, *Economic Stabilization in an Unbalanced World* (1932), Hansen claimed that “Housing is one of the most important aspects of economic life,” and “No industry affects more, or is affected more by, business-cycle fluctuations.” He thought only the government could encourage and stabilize this industry, most especially through cheap finance.\(^3^4\) In a similar vein, O.M.W. Sprague, the Professor of Banking and Money at Harvard, once a teacher of Roosevelt and a recent Roosevelt advisor, began a much discussed series in the *New York Times* in December of 1933 on the “Problems of Recovery.” In his first article to deal with specific policies, he focused on what could be done for housing. Sprague said that in “the past the end of long periods of depression has commonly been sparked by rapid expansion in some particular direction.” He thought automobiles had lead the boom in the twenties, and thought that housing could do the same in the 1930s. He worried the building material prices were too high, and should be reduced, but he also said that mortgages had to be made cheaper and easier to acquire.\(^3^5\) The importance of long-term finance was also emphasized by John Maynard Keynes, who wrote an open letter to Roosevelt that appeared in the *New York Times* just weeks after Sprague’s missives. As a cure for continuing ills, Keynes advocated first government loans for capital or producers goods, and in “second place the maintenance of cheap and abundant


credit, in particular the reduction of the long-term rate of interest.” Mortgages, of course, represented a special type of long-term credit for capital or producers goods that had long attracted Keynes’s interest.\textsuperscript{36}

Similar thoughts came directly into the Roosevelt administration through one of the Federal Reserve’s most important economists, who had long been a friend of Keynes and had already had a profound impact on mortgage policy during the Hoover years. Winfield Riefler became essential in advocating for the importance of mortgage finance in the new administration.\textsuperscript{37} In December of 1932, after the Roosevelt election, in a memorandum to the Federal Reserve on “Easy Money in its Relation to Construction,” Riefler noted that the recent reduction in the short-term rate of money had not led to an increase in business activity, and this was because short-term interest rates have “relatively little effect upon the total costs” of most business firms. “In the capital market, on the other hand, changes in the cost of financing play a more important part. The availability of mortgage money at 6 or at 3 per cent has an important bearing on whether new construction will prove profitable…and funds made available through mortgage money and other long-term financing have an enormous effect” on the overall economy.\textsuperscript{38}

Besides his continuing work at the Federal Reserve under Roosevelt, Riefler also became the guiding influence of the radical young lawyers at the famous “Little Red House” in

\textsuperscript{36} Keynes to FDR, December 30, 1937, in Keynes Collected Writings, 293, 297. Another group of British economists had already written to Roosevelt and argued for, first, an “increased production of capital goods” through “low interest rates, especially a low long-term rate” and then a campaign of public works. Roosevelt agreed with their sentiments. D.H. Macgregor et. al. to President Franklin Roosevelt, November 20, 1933; Felix Frankfurter to Roy Harrod, January 11, 1934, Collected Works of Roy Harrod at http://economia.unipv.it/harrod/edition/editionstuff/rfh.163.htm

\textsuperscript{37} One reason little attention is paid to Riefler was that, like William Myers, he never trumpeted his own work and never wrote a memoir on his time in the administration. One housing official said that, “Win Riefler, who in my mind was the father of FHA [Federal Housing Administration], never took any credit, never wrote anything about it.” Miles Colean, A Backward Glance: An Oral History (New York: Columbia University Press, 1975), 52.

\textsuperscript{38} Riefler, “Easy Money in its Relation to Construction,” December 1932, Folder 2, Box 1, Riefler Papers, NARA II.
Georgetown, whose inhabitants permeated the New Deal. One of the House’s residents, the attorney Frank Watson, later said, “We followed the economics of Winfield Riefler because he had a better grasp of economics than any of us. His philosophy was that we had a credit mechanism that had come to grinding halt and that it was necessary for us to get the whole mechanism going again.” More than his mere theories, the New Dealers found “Win” a fun and enjoyable presence, who lightened their interminable schedules. With broad support in the administration, Roosevelt nominated the prodigious Riefler as the chief economist of his new National Executive Council in August 1933, and it was not long before Roosevelt was referring to Riefler publicly as “my economist.”

The National Executive Council was Franklin Roosevelt’s first attempt to coordinate the myriad credit agencies and corporations created by both Hoover and himself. It became what he called a “super-Cabinet.” All of the new semi-independent corporations, such as the Federal Home Loan Banks and the Reconstruction Finance Corporation, now got a seat of the table of power with the regular cabinet, demonstrating the radically increased importance of these corporations in American government. The council, however, was also a recognition that some parts of Roosevelt’s program were working at cross purposes.

The council’s chair was Frank Walker, a rotund Notre Dame Law School graduate who had made a small fortune as a partner in a bond house. Walker became, as one official said, the ambassador to “men of means who might be persuaded to put up some money” for Roosevelt. Not surprisingly, as head of the council, he became a staunch believer in the need to encourage

private finance, and especially more mortgages to ensure recovery. Riefler’s first memo to Walker and the new group was on the “Mortgage Situation,” and the need to provide more mortgage money so that an “expansion in construction activities may help to pull us out of the depression.”

The Wednesday, December 27, 1933 meeting of the National Executive Council would take concerns about construction to heart. On that day, nineteen of the most powerful members of the administration were in attendance, including Henry Morgenthau as the acting Secretary of the Treasury, William Myers as head of the Farm Credit Administration, and Winfield Riefler. Riefler passed around a chart which showed that the price of building materials had increased more than almost any other product in the last year. All knew the danger this portended for future home construction. The minutes noted that after some discussion, the President ordered the creation of a committee to come up with a plan to encourage more building, “to be confined, as far as possible, to the financial problem without government aid.”

Roosevelt’s directive was limited, yet the ambit of the committee expanded exponentially over the next five months. Against Roosevelt’s original wishes, his administration would endorse a broad-reaching federal transformation of all private housing and of real-estate debt, one which created a bewildering array of new lending schemes.

The chair of the new committee, who would play a significant part in expanding its bailiwick, was John Fahey. As a former newspaper reporter and one of the prime organizers of

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43 In a speech the following year Walker said mortgages represent “by far the largest single block of private capital debt outstanding,” and that the failure to encourage more loans had “a bearing—very important bearing in fact—upon all of the problems growing out of the collapse of our capital markets and the attendant slump in the heavy industries.” “The Federal Housing Program: A Proposed draft of an address by Frank C. Walker before the National Mortgage Bankers Association, Chicago, October 4, 1934,” September 29, 1934, Box 1, Riefler Papers, NARA II.
44 Riefler, “Mortgage Situation,” September 1933, Box 1, Riefler Papers, NARA II.
45 “Prices in Wholesale Markets,” December 27, 1933, Box 4, Records of Executive Council, RG 44, NARA II. The only other area that was closer to the “1926 Price Level” was “Hides and Leather.”
46 “Minutes of a Meeting of the Executive Council of the United States” December 27, 1933, ibid.
the United States Chamber of Commerce, Fahey had no previous contact with the B&L industry. As the new head of the Federal Home Loan Board, however, he took the counsel of B&L players such as Horace Russell and Morton Bodfish, the hard-charging head of the United States Building and Loan League, who turned Fahey into a rabid believer in the importance of B&Ls.47

On Friday, December 29, 1933, just two days after the Executive Council meeting, Morton Bodfish presented a plan to Fahey’s Home Owners Loan Board on how they could take Roosevelt’s minor committee and expand it to accomplish some of their goals. Bodfish proposed a plan that “is intended to restore confidence in thrift and home-financing institutions and initiate a flow of funds” into them. He wanted to create a “Federal Savings and Loan Insurance Corporation” (using the new preferred nomenclature for Buildings and Loans) with $200 million of government money, to provide his institutions some sort of deposit protection that commercial banks received with the Glass-Steagall act. He also wanted the government to spend hundreds of millions of dollars providing the overhead for a campaign for home repairs, which would protect the B&Ls’ existing investments in homes by improving their collateral.48

Along with attached minor programs, Bodfish proposed a $1.45 billion plan oriented towards bolstering the B&L industry with only the thinnest sheen of public interest to justify it. It was also an impossibly ambitious in a time when the entire federal budget was only $4.6 billion dollars, and when Roosevelt himself had just asked for a home loan plan without government aid. Yet Fahey and the B&Ls soon added other proposals, such as allowing the government to

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47 For Chamber of Commerce organizing, see Robert Wiebe, *Businessmen and Reform: A Study of the Progressive Movement* (Cambridge, MA: Harvard University Press, 1962), 35-40. Bodfish himself was one of the most aggressive advocates of the industry, arguing that B&Ls had “the most perfect financial plan ever devised...the sourest assets in America...the faith and loyalty of millions of people.” He was also, however, a man who admired Congress and worked with them. “The hard work involved in being a representative or a senator is never fully understood except by those in direct contact with them.” Morton Bodfish, “FIGHT! You Building and Loan Men, We’ve Been Waiting Long Enough,” *American Building Association News* 53, no. 5 (May 1933): 206; Morton Bodfish, “Defense of the Legislative Branch of Our Federal Government,” *American Building Association News* 54, no. 2 (Feb., 1934): 55.
48 Minutes of the 131st Meeting of the Home Owners Loan Corporation, 8-12, Box 2, HOLC Minutes, RG 195, Federal Home Loan Board, NARA II.
charter any number of tax-exempt urban mortgage corporations, similar to that which “have proved successful abroad,” what would become known as National Mortgage Associations. Fahey argued that through their ability to buy and hold mortgages, these would add even more liquidity to mortgage loans as well as create “a high-grade, safe, and liquid investment instrument” through their own bonds. Unlike the Home Loan Banks, which just lent money on banks’ and B&Ls’ mortgages, these would purchase them directly. Fahey said these new institutions would stimulate housing “without increasing the burden of Treasury financing.”

The other members of Roosevelt’s committee tried to form a plan less focused on just the B&L industry, but it too went further than Roosevelt hoped. This was partially because another aggressive voice was soon added to the mortgage meetings. Marriner Eccles, a boisterous and liberal Mormon banker from Utah, recently had joined the administration as a temporary Treasury advisor. Eccles was known to be a persistent advocate in his beliefs, with one reporter said that he “[t]alks economic, monetary theories on all occasions.” Many found that persistence exhausting. John Maynard Keynes, after meeting him was supposed to have said, “No wonder that man is a Mormon. No single woman could stand him.”

Like many in the administration, Eccles once believed that a balance between agriculture and industry was necessary for prosperity. He once told Congress that “prosperity is impossible without a revival of the purchasing power of our agricultural population,” and “[r]efinancing farm mortgages on a long term basis at a low rate of interest.” Only these reforms

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49 “The Residential Construction Problem,” Fahey to Walker, February 14, 1934, Box 561, Records of the Better Housing Division, RG 44, NARA II.
50 Peter Conti-Brown, *The Power and the Independence of the Federal Reserve* (Princeton: Princeton University Press, 2016), 26; Eccles was similar to Roosevelt in that he remained wary of deficits and debt, claiming that he “felt that in a depression that proper role of government should be that of generating a maximum degree of private spending through a minimum amount of public spending.” Eccles, *Beckoning Frontiers: Public and Personal Recollections* (New York: Alfred A. Knopf, 1951), 147-149.
would restore “the balance and equilibrium necessary the operation of our economic system.”

Now, however, he too moved to the issue of housing and home mortgages.

Figure 7.2: Marriner Eccles at work, 1937. Source: Library of Congress

It is perhaps no coincidence that the urban real-estate situation was of increasing concern for Eccles. During his time at the Treasury, he remained president of a lumber company and a construction company. He also ran a bank, which, as a federal bank examiner noted on February 10, 1934, had many “criticized” and failing loans in real estate. Eccles’s own bank lent

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him tens of thousands of dollars, and the bank examiner had recently put similar loans from that bank to both Eccles’s brothers in the “slow” or questionable category due to concerns about his brothers’ solvency. His families’ large number of financial companies were also heavily involved in real estate loans, and the same bank examiner noted that a “Real Estate Finance Company,” which was “owned 100% by Eccles Investment Company,” also had a $31,500 loan from another Eccles bank which was not paying at all, but that the bank refused to write the loan off as a loss. The mortgage bill Eccles helped prepare could very well have been a matter of life and death for his family’s business.53 When Morgenthau was asked about Eccles’s connection to the bill, he said Eccles was “very much interested personally.”54

Eccles later said that when he first met Riefler at the Treasury, Riefler “opened the sluice gates on my own thoughts about housing, and after a torrent of talk lasting many hours Riefler suggested that I become associated with Walker’s committee as the Treasury’s representative.” As Eccles said, when his boss Morgenthau had asked him to come aboard with the New Deal, he “could not at that time have had the faintest idea that I was to have the Treasury assume indirectly the role of mortgage guarantor.”55

With the help of Eccles, Riefler argued to the mortgage committee that while other sectors were recovering, the “interests of a balanced recovery program require corresponding activity in the mortgage field.” Riefler thus proposed a new Mutual Mortgage Insurance Fund, what later become part of the Federal Housing Administration, which would guarantee banks’ new home mortgages up to 80% of their value and for up to 20 years in exchange for a small fee. Not surprisingly, he thought such a plan “should be thought out so as to utilize to the full

53 Examination Report Summaries from First National Bank of Ogden and First Security Bank of Utah, from September 12, 1929 to August 13, 1934, Eccles Papers, FRASER.
54 Morgenthau Press Conferences, April 12, 1934, p. 34, Book II.
55 Eccles, Beckoning Frontiers, 146. For appointment, see Morgenthau to Walker, February 17, 1934, Box 560, Records of the Better Housing Division, RG 44, NARA II.
existing [financial] institutions.” Like Fahey with his National Mortgage Associations, Riefler said the government “does not advance money under the plan but receive[s] money in a continuing trust fund. It, therefore, helps the financing problem of the Treasury during the immediate future,” that is, in the short-term.\footnote{56}

Both the B&L plan and Riefler’s, however, involved too much government support for Roosevelt. At a meeting of the National Emergency Council, a new variation on the National Executive Council, on January 23, 1934, Roosevelt was furious at what had been brought to him. Roosevelt exclaimed that people “should be told all the different things the government cannot do. That doesn’t appear here at all. You know, we are getting requests practically to finance the entire United States.” He worried that such demands “will become a habit with the country.”\footnote{57}

For the banks and B&Ls wanting more guarantees, he said they were “all squawking. It is just too bad!” Secretary of Labor Frances Perkins stated that “We have come to the point where we all want to say no” but noted that “somebody has got to formulate a plan” to help private finance make mortgages. Roosevelt acknowledged the need but asked the committee to carry on with a more circumspect vision.\footnote{58}

On February 15th Frank Walker presented a new version of a combined plan to all the administration notables with the exception of the President, and, despite Roosevelt’s pleas, it expanded the plan yet again.\footnote{59} The bill added a new program to guarantee mortgages on existing housing, not just new construction, which enraged B&Ls. They felt guarantees on existing housing, not just new construction, which enraged B&Ls. They felt guarantees on

\footnote{56 “Program to Stimulate New Home Mortgage Financing,” Winfield Riefler, January 18, 1934, Box 1, Riefler Papers, NARA II; “Mortgage Conference,” January 8, 1934, Fahey Folder 5, Box 1, FRASER.}

\footnote{57 Lester G. Seligman, and Elmer E. Cornwell, Jr., eds., \textit{New Deal Mosaic: Roosevelt Confers with his National Emergency Council: 1933-1936} (Eugene, Oregon: University of Oregon Books, 1965), 75-76. This underappreciated resource has complete transcripts of dozens of meetings of Roosevelt with his top advisors.}

\footnote{58 Seligman, \textit{New Deal Mosaic}, 77-78.}

\footnote{59 Morgenthau tasked Eccles “to draft a report on all of the plans presented and submit the report back” to the wider housing group, hoping to get them to come to a consensus. Morgenthau Press Conferences, April 12, 1934, p. 34, Book II; Minutes of the Conference on Housing held February 12, 1934, February 14, 1934, Box 561, Records of the Better Housing Division, RG 44, NARA II.}
existing homes would help other banking groups compete with their long-term loans, but the rest of the council understood it helped bring other financial industries on board with the bill. At a future council meeting in April, Walker explained that “We are going to get very serious attention from the insurance people if you confine it to new construction.” He knew that insurance companies did not want to make many new mortgages but did want to refinance their old ones with government assistance, and this program provided the means.60 Francis Perkins stated that originally “I thought we would have the insurance lobby on us,” but with this change they seemed sympathetic. She placed it in the most obvious political terms: “It is a political choice as to which group you can best cope with,” B&Ls or insurance. Due to the existing mortgage plan, and, even more enraging, the removal of the plan to guarantee B&L deposits, Fahey and his crowd were livid.61

While this squabbling continued at the April meeting, Roosevelt burst into the room with a quip that betrayed his concerns. “Well, people, how many insurance companies have you organized so far?”62 After hearing from all sides, Roosevelt summed up the situation, “Here is the point. This whole subject was started with the idea of putting people to work on new work...That was the original objective, starting what was called the heavy industries. Suppose we confine ourselves to that for the moment and get the legislation of that.” When others in the administration refused to concede to the limits, Roosevelt allowed that some financial supports might be necessary, but demanded that they all approve a final plan: “Frank [Walker], get them in a room and tell them no lunch unless they agree!”63

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60 Seligman, *New Deal Mosaic*, 213.
61 Morgenthau mentioned “If they [insurance] start lobbying, we are going to find ourselves in serious difficulty.” Ibid.
62 Ibid, 208.
Walker, Riefler, and Eccles kept pressing Fahey to sign off on the bill. Eccles offered Fahey a monetary limit on existing mortgage guarantees, and even offered to place the new Federal Housing Administration under his control, but Fahey refused such blandishments. As one assistant said, “We took John Fahey up on the mountaintop and showed him the kingdoms of the earth and he would have no part of it.” Finally, the group told Fahey that the government would insure all B&L’s deposits, and this finally brought Fahey and the B&Ls on board. To conciliate the B&L’s sole representative, they provided a guarantee of the entire industry.

Yet negotiations with Congress before the plan’s release succeeded in further expanding the scope of government guarantees. Frank Watson, the Little Red House lawyer who drafted the law, said he went through “about sixty four drafts before all the congressmen and senators were finally satisfied.” These congressmen wanted one thing in particular. Instead of only providing overhead for a home repair campaign, the bill now promised to have the Federal Housing Administration guarantee loans on almost all home or commercial building improvements up to $5000, with absolutely no cost to creditors, and to refund lenders for losses on up to 20% of all these loans. It was a massive and uncompensated expansion of government support for lending.

Heavy Industry and Finance inside Congress

The May hearings of the Senate Committee on Banking and Currency, which Keynes visited, dramatized the importance of the proposed National Housing Act for heavy industry,

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64 Miles Colean, Backward Glance, 31.
65 Eccles, Beckoning Frontiers, 153-154.
66 Loucheim, Inside the New Deal, 108-109, Interview with Frank Watson.
and the need to balance this industry with other, already resurgent sectors. Riefler argued that “the light industries, the consumption-goods industries, are now coming back to life,” but that “these heavy industries are stagnant,” and the “problem of further development and recovery lies in the heavy industries.” Only a boost to home construction by the bill could inspire such recovery. James Fahey noted that the goal of the bill was to “get the heavy construction industry back to work,” because the “[c]onstruction industry is the most important in our recovery, and it is the one that is most depressed.” Francis Perkins noted that the bill’s “stimulation of capital-goods industries.” She said “These industries are commonly known as the ‘durable goods’ and ‘capital goods’ industries,” and “are always the most difficult to bring about in recovery, as they recover after the consumption-goods industries.”

Not surprisingly, the members of the heavy industries had similar feelings. Lewis Brown of John-Manville Corporation, which made heating systems, was a member of the “Durable-Goods Committee” of the National Recovery Administration (and later founder of the American Enterprise Institute). He said that “key to the unemployment problem is found by this analysis to lie in the stimulation of the durable-goods industries.” He noted that his committee endorsed the bill and said “this is the greatest single step that can be taken toward bringing about


68 Frank Walker told the committee that while light industry had improved, “we found a great lagging in the capital goods industry. We also found insofar as the mortgage market was concerned that it was in a frozen condition,” and therefore could not assist this industry. Senate Banking and Currency Committee, Hearings on National Housing Act, 73d Cong., 2d sess., 1934, 21-22, 49; House Banking and Currency Committee, Hearings on National Housing Act, 73d Cong., 2d sess., 1934, 3.

69 House Banking Committee, Hearings on National Housing Act, 38.

Henry I. Harriman, from the Chamber of Commerce, who made his fortune in public utilities and interurban railroads, claimed “that our industries are divided roughly into two classes, those of consumable goods and those of capital goods, permanent goods, or construction.” He argued this bill “definitely is aimed at stimulating construction work, where there is today the recognized need for it rather than in consumable goods.” This focus on benefits to industry annoyed some in Congress. Representative John Hollister said that although the bill is called a “‘housing bill.’ That is really a misnomer… the main purpose of this bill is to pump money out, as soon as possible, into the building industry, because the general feeling of economists… that money is not being spent in the building industry and in the durable-goods industries which rely to a great extent on building.”

Many administration officials, however, also noted the incentives to banks and financiers in the bill. Frank Walker told Congress that many companies, such as Brown’s John-Manville Company and the General Motors Acceptance Corporation had made intermediate loans for repairs or home improvements of up to three years, but the new bill would encourage this type of financing and spread it to many banks (he did not say that these two companies wrote most of the section expanding these repair loan guarantees). The extending of government-protected intermediate term loans for repairs almost perfectly mimicked the early Intermediate Credit Banks extension of farm credit, and had similar impetus in filling out all parts of the lending market, rural and urban, short, intermediate, and long, with government guarantees. Walker said the repair guarantee allowed significant support for potential losses,

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73 78 Congressional Record 11189, June 12, 1934.  
because they “felt that in order to stimulate the average banker,” who tended to “go along the line of least resistance and follow the custom of banking in the old fashion, with 90-day paper,” the banker needed extra protection.\textsuperscript{75} The final act that the goal of the program was “to insure liquidity to financial institutions participating in the renovation and modernization program.”\textsuperscript{76}

Increased security and liquidity for the financial industry were acknowledged by both proponents and opponents as an important effect of the act. Fahey explained the benefit of B&L deposit insurance by arguing that if deposits were guaranteed, B&Ls would be even more confident making long-term loans, since they would not have to fear a bank run. “I think the insurance of deposits of any sort is the insurance of liquidity, which is what this is, and it ought to be as strong as possible.”\textsuperscript{77} Riefler explained that the insurance of existing mortgages, even if it would not help stimulate immediate construction, was essential “to get movement and liquidity into the mortgage market,” in other words, to allow mortgage debt to be bought and sold by banks.\textsuperscript{78} Republican Congressman Robert Luce argued that the bill was “for the relief of certain financial interests instead of for the relief” of workers or homebuyers.\textsuperscript{79}

Many congressman worried about the government advantages given to financiers, especially the proposed tax-advantage and “instrumentality” language of the proposed National Mortgage Associations. One claimed that after the chaos in the federal land bank system, this new act was similarly “putting the seal of official Federal approval upon a private corporation. It

\textsuperscript{75} Walker claimed that the repair and modernization programs were “a sort of bridge which will stimulate both private capital and private industry,” and that already they had helped companies “in the capital and durable goods industries” to cooperate. The bill also allowed commercial banks to make loans for the construction of homes, and to treat such loans as commercial paper, eligible for discount at the Federal Reserve. Senate Banking Committee, \textit{Hearings on National Housing Act}, 27; House Banking Committee, \textit{Hearings on National Housing Act}, 2, 69.

\textsuperscript{76} House Banking Committee, \textit{Hearings on National Housing Act}, 10.

\textsuperscript{77} Ibid, 55.

\textsuperscript{78} Senate Banking Committee, \textit{Hearings on National Housing Act}, 54.

\textsuperscript{79} \textit{78 Congressional Record} 11209, June 12, 1934.
has the potentialities for plunging us back to the depths from which we are now emerging.”

Robert Luce complained that “[t]he land banks, by those instrumentalities, were enabled to hold themselves out to the public as Federal institutions.” He thought that had one of “the most calamitous things that the Congress had had to do with in our generation.” He asked one bill drafter, “How can you ask us to repeat the scandals of the last few years?” (Luce conveniently forgot his own efforts in making the Federal Home Loan Banks tax-exempt “instrumentalities” under the Hoover administration.) Eccles reluctantly endorsed such government benefits, arguing “I personally would like to see all tax-exemptions of securities eliminated. I feel that tax-exempt securities in principle are wrong,” but he thought it essential for securing cheaper money for mortgages in this case necessitated it. When asked why private companies should be tax exempt, Eccles could only say they were, “Well, private in a sense.” After such attacks, however, the tax advantage section was removed, leaving the proposed National Mortgage Associations a dead letter for a few more years. (Eventually the tax-exemption was restored at the administration’s request.)

As the act’s proponents explained to Congress, the bill aimed to encourage not consumers or homebuyers, but financiers and heavy industry producers. This focus was affirmed after its passage by a new attempt to lower workers incomes for the sake of these producers. Although an earlier version of the plan had encouraged union construction labor to reduce their wages, the unions became alarmed when word of the program leaked in a New York Times story. The article described the “unduly high scale for construction labor” which was “out of line

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80 Ibid, 11201.
81 House Banking Committee, Hearings on National Housing Act, 163.
82 Ibid, 175.
83 Ibid, 176.
with other labor costs.” Due to union outrage this early provision was removed. Yet the month after the Housing Act passed, an “emergency” declaration by the National Recovery Administration forced the lumber industry and other building materials industries to lower their minimum prices by ten percent and to encourage cost savings in wages. It was part of a new sustained administration attack on both prices and wages in home building.

Although at first Roosevelt struggled against extending ever more federal guarantees to urban builders and lenders, he would eventually come to embrace them. In his fireside chat on the very day he signed the Housing Act, Roosevelt said he would “mention only a few of the major enactments” of his New Deal to that point. He started with “the readjustment of the debt burden” through numerous credit and bankruptcy acts, and moved to the act he just signed “to encourage private capital in the rebuilding of the homes of the Nation.” He said that he and his administration’s central desideratum was to “seek the security of the men, women and children of the Nation. That security involves added means of providing better homes for the people of the Nation. That is the first principle of our future program.” The enactment of the Housing Act was only the beginning of an increased focus on financing housing as a means to achieve economic balance in the New Deal.

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84 Arthur Krock, “Ask Cut Rate Plant to Improve Homes,” New York Times, March 2, 1934, p. 3; For Walker as possible source of the leak, see Arthur Krock to Walker, March 12, 1934, Box 562, RG 44 Records of the Better Housing Division., NARA II.
85 Senate Finance Committee, Investigation of the National Recovery Administration, 891.
86 Franklin Roosevelt, “Fireside Chat,” June 28, 1934, American Presidency Project, http://www.presidency.ucsb.edu/ws/index.php?pid=14703. Roosevelt explained how his new plans and reforms were incorporated into previous reforms by mentioning how he had also begun “a long-needed renovation of and addition to our White House office building....But the structural lines of the old Executive office building will remain.”
CHAPTER VIII

AN ECONOMY BALANCED BY MORTGAGES

By November of 1937, something dire and unexpected was happening to the American economy. A devastating recession, soon known as the “Roosevelt recession,” had just begun, and many in the Roosevelt administration worried that all the gains made during the past four years would be dissipated. Late on the night of November 3rd, Roosevelt’s Secretary of the Treasury, the dour Henry Morgenthau, phoned the Oval Office with troubling news. Morgenthau had been reviewing the incoming economic statistics and had regretfully “come to the conclusion that we are headed right into another Depression….The question is, Mr. President – what are we going to do to stop it?”¹

Roosevelt wasted no time finding out. The next day he called an emergency Cabinet meeting in the official Cabinet Room of the West Wing to discuss the administration’s response to the calamity. The dreary subject was belied by the bright day, and the cheery Rose Garden located directly outside the windows. All of the Cabinet was seated when the President burst in with his usual smile and bonhomie, giving little indication of concern. Yet soon the President turned to his fraught-looking Secretary of Labor Frances Perkins and asked, “Well, Frances, anything on your mind?” Perkins pulled out a memorandum by her statistician Isador Lubin showing that employment had just declined substantially. “This is the first real sign of a falling off in employment, which might be serious and even dangerous in view of the conditions. The report shows the falling off is greatest in heavy industries.” Postmaster General James Farley noted that “[o]thers chimed in with gloomy reports.” Roosevelt’s usual calm demeanor

breaking, he thundered that “I am sick and tired of being told by the Cabinet, by Henry and by everybody else for the last two weeks what’s the matter with the country and nobody suggests what I should do.” His outburst was met with stunned silence. When Morgenthau suggested some reassuring statements to business, he said Roosevelt “sneered at me,” and through clenched teeth said, “You want me to turn the old record on.”

Interior Secretary Harold Ickes noted that Morgenthau “looked and acted like a spanked child.”

The Cabinet proposed several solutions before finally the President stated with confidence, “There are a number of things which must be done. There’s housing and railroads and utilities.” In fact, Roosevelt focused on the housing issue and its connections to the others. The previous night, Roosevelt had asked Morgenthau to look at a memo on housing, mortgages, and economic recovery prepared by Marriner Eccles and today he continued this theme. He told the crowd that the “speeding up of housing will go a long way toward adjusting the present business situation. An increase in construction will give considerable help to the industry itself, which has been in a bad way for a long time. Its stimulation will help, naturally enough, all industries engaged in supporting materials and also will help the transportation industry,” which moved the materials.

Ickes thought that encouraging more private housing was “the best thing that could possibly be done” for recovery, especially since “It would provide employment in the producers’ goods industries.” Perkins added Lubin’s statistics which showed that the country could easily build 600,000 homes a year, more than double the current rate, and that would contribute

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2 HMJ Diary Entry, November 4, 1937, Volume 49, p. 52, HMJ Diaries.
4 Phone Conversation Transcript, HMJ and Marriner Eccles, November 4, 1937, 10:48am, p. 54-55, Volume 49, HMJ Diaries. (Describing previous night’s conversation with President.)
5 Ickes, Secret Diary, Volume II, 240.
vital to heavy industries. Those who had long supported liberalized housing and mortgage policies beamed as their plans seemed to garner wide acceptance, no minor feat in an oft-fractious Cabinet. Ickes said that he had “never seen [Roosevelt] so eager for counsel from his Cabinet. Neither have I ever seen him so anxious.” The meeting lasted for an unprecedented two and a half hours, but at the end, Roosevelt gave the Cabinet marching orders to find some program for housing that he could propose to Congress, one that would allow financial companies to yet again expand their investment in mortgages. Farley called it “one of the most interesting Cabinet sessions during my years in office.” Roosevelt told him he thought it was the best they ever had.

Roosevelt’s reaction to the 1937 recession, the third worst recession in the 20th century, is often portrayed as his “coming to Keynes” moment, when he and the New Deal gave up any lingering austere inclinations and embraced pure deficit spending as the sine qua non of recovery. Roosevelt’s actions are also said to be part of a move by the New Deal towards embracing increased consumer spending, as opposed to broader economic reforms to production and distribution, as its singular focus. The story of urban mortgages, however, suggests that Roosevelt’s reaction to the recession was the culmination of ever-increasing

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8 James Farley, *Jim Farley’s Story* (New York: Whittlesay House, 1948), 103-107. Harold Ickes at the Interior Department said “it was more like what I had always supposed a Cabinet meeting should be than any that I have attended.” Ickes, *Secret Diary, Volume II*, 240. Farley mentioned that he “dictated voluminous notes on” the meeting soon after it ended, since he understood its importance. Everyone seems confused on the date. Morgenthau had it as November 4, and since Morgenthau wrote about it that night his date seems most likely.
interest in the administration, and by Roosevelt himself, in mortgages as the centerpiece of recovery, one that emerged first in farming and continued throughout his presidency. Far from embracing pure deficit spending, the recession cemented the growing interest in the New Deal in using federal credit support and price controls to bolster heavy industries in general and home construction in particular, as a means to balance heavy and light industry and the whole economy. Far from encouraging more consumer or worker spending, the administration in this period attacked what they saw as excessive wage advances in construction and tried to limit consumer goods production to encourage mortgage loans and building.

The New Deal’s reaction to the recession was the zenith of more than 20 years of federal mortgage reforms aimed at balancing the national economy. By 1939, the New Deal had completely and permanently transformed the nation’s banking system to one devoted to lending on mortgages and dependent on federal supports. Yet, like earlier reformers, the administration remained frustrated that they had not transformed the “real” economy, or balanced the sectors they thought would ensure recovery.

**The New Economists and Officials Behind Housing**

When late in 1934 Henry Morgenthau told Marriner Eccles during a conversation in the White House, somewhat offhandedly, that Roosevelt was considering him for the post of governor of the Federal Reserve Board, Eccles was taken aback: “For once in my life I was mum.” For the garrulous, small-town Mormon banker to become the most powerful financial personage in Washington was something more than even he could have hoped.\(^\text{11}\) Chester Morrill, the legal counsel who came into the Federal Reserve under the Republicans, said “Marriner Eccles, in my opinion, has been the most potent individual factor in banking in the

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United States since the enactment of the Federal Reserve Act.” He said that although Eccles was
not formally trained in economics, he “had a fine mind, excellent in analysis.” Eccles entered
the position just as the Board was constructed a new, large office building along Constitution
Avenue in Washington, what would eventually be known as the Eccles Building.

Eccles brought to the Federal Reserve a particular concern with mortgages in the
financial system, one inherited from his time as a banker with significant (and continuing) real-
estate investments, and from his time drafting the seminal National Housing Act, where his
work impressed Roosevelt enough to give him the promotion. Eccles saw housing as essential
for the whole economy, arguing that “a program of new home construction...would act as the
wheel within the wheel to move the whole economic engine. It would affect everyone, from the
manufacturer of lace curtains to the manufacturers of lumber, bricks, furniture, cement, and
electrical appliances. The mere shipment of these supplies would affect the railroads, which in
turn would need the produce of steel mills for rails, freight cars and so on.” Despite the
continuing short-term focus of the Federal Reserve, Eccles would use his position to encourage
more mortgage loans and to enlist broad support for expanding home construction.

Eccles found good company in the Federal Reserve for his beliefs. The stolid Governor
George Harrison, governor of the New York Federal Reserve Bank since early in Herbert
Hoover’s presidency, and the second most-powerful person in the system, was interviewed by
one of Eccles’s assistants and said to be “very strongly of the opinion that a general reopening of
the mortgage market must precede any substantial revival of capital issues and commercial

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12 Chester Morrill, Oral History, p. 268, Columbia Center For Oral History, Columbia University Archives;
“Internal Memorandum: Interview at Brookings Institution in Washington with Mr. Chester Morrill,” 5,
Federal Reserve Archival System for Economic Research (FRASER) https://fraser.stlouisfed.org/; Eccles’s
father’s work as a lumberman, two-thirds of whose products eventually went into residential
construction, also encouraged this interest. Eccles, Beckoning, 18-22.
13 Morgenthau complained when the building was going up that “There isn’t a street car or lunch counter
14 “Eccles Slated as New Head of Reserve Board,” Chicago Tribune, August 22, 1934.
15 Eccles, Beckoning, 145-146.
The amiable economist Win Riefler, now of Roosevelt’s National Emergency Council, but who continued working with the Federal Reserve and Eccles, was of a similar opinion and continued pushing for more mortgages and housing, as he had in drafting the recent housing act. (At one National Emergency Council meeting Eccles said “We wanted Mr. Reifler back,” to which Roosevelt replied “We cannot let you have him back. We like him too much.”)

As chairman of the National Emergency Council, Frank Walker was alert to the need for more mortgages. Walker’s first public speech was to the Mortgage Bankers’ Association, which he said he could not refuse since “during the past year in Washington a greater proportion of my time and attention has been focused on the mortgage problem than on any other.” He said federal mortgage support was essential because “unemployment is concentrated very heavily in the heavy industries, or in the dependent service industries, and particularly in the construction industry.” Fortunately, “we find in housing the one great source of capital investment which can go furthest to absorb our productive capacity.” He thought the new mortgage and housing program would be the best means of propelling the economy forward “comparable to that which attended the development of the railroad and the automobile in the past.”

Pleas from Walker and others in the administration about the importance of housing met with banker approval. When Leonard Ayres of the influential Cleveland Trust Company wrote a report for the American Bankers Association meeting in late 1934, he argued that of

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18 “The Federal Housing Program: A Proposed draft of an address by Frank C. Walker before the National Mortgage Bankers Association, Chicago, October 4, 1934,” September 29, 1934, Winfield Riefler, Riefler Papers, Box 1, NARA II.
those issues “chiefly responsible” for current banking problems, the “existing stagnation in privately financed building construction” was first and foremost. The report celebrated the work done by the National Housing Act for helping banks get into the business of financing these loans, but worried more had to be done. These concerns were passed on, with approval, to Eccles by A.P. Gianni, head of the Bank of America.  

Paul Mazur of Lehman Brothers likewise wrote that “Unquestionably the best opportunity in terms of economic and social need lies in a major rebuilding program,” which he said would “stimulate heavy industry and thereby promote recovery,” and also “re-establish the flow of capital into mortgages and housing.” He hoped, of course that, his bank could help in re-establishing that flow.

Outside professors and intellectuals attached to the New Deal also hoped that the reforms of the National Housing Act would be used as a springboard for recovery. After the passage of the act, Adolf Berle of Columbia University sent a plan to Roosevelt on “The Program for Recovery,” where he noted the administration should focus on the “creation of capital activity, centralizing on (1) Housing.” He claimed that the mortgage “mechanism is developed, but it has not yet gone very far” to ensure full recovery. Another Columbia professor, John Maurice Clark, an economist who in the 1920s emphasized the importance of heavy industry for the business cycle, added to the harmony. In his most recent work, Strategic Factors in Business Cycles (1934), he stated that of all indicators of a recession, “The largest and some of the most

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19 “Suggestions for Report of Economic Policy Commission of the American Bankers Association, Washington Meeting – 1934,” A.P. Giannini to Leonard Ayres, September 15, 1934, Giannini to Ayres, September 22, 1934; A.P. Gianni to Marriner Eccles, September 15, 1934; Eccles to Giannini, October 12, 1934, Box 9, Eccles Papers, FRASER. Ayres said the “cause” of the slowdown in building “seems to be simply that the costs of new building are too high.” Giannini said that the reason that the government wanted a central bank such as Eccles proposed was to secure “the fullest measure of cooperation in long-term financing” from existing banks.


clearly prevailing leads are found in the construction industry,” which implied “that this industry has a peculiar casual significance” in the business cycle. He said of residential construction specifically that “the evidence of an originating casual role...is strongest for this section of the industry.” Controlling this business cycle through construction was part of what he called, as one of his chapters was titled, “The Meaning and Requirements of Balance.”

Yet the final and most important thinker in pushing the combined issues of mortgage reform and housing construction was then a little known graduate of Harvard University’s economics program named Lauchlin Currie. He was quiet, studious, and wiry, with prematurely graying hair, but he would soon become a master memo writer and Eccles’ eminence grise at the Federal Reserve. While often seen as a prominent voice for “Keynesian” deficit spending and increasing consumer income, Currie in fact emphasized the need for the balance of different sectors with cheap finance, and the need for more “heavy industry” or “durable goods” production as opposed to consumer goods in a recession. In his first memo to the administration, “Comments on Pump Priming,” in late 1934, Currie wrote that “Pump priming may be described as a process of making it profitable to increase the production of durable goods.” He said the administration’s goal should be to restore “an approximate balance or equilibrium in the economy,” such as that occurred before the Depression, where the “production of producers’ and consumers’ goods were in amounts proper to a condition of

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23 Clark, *Strategic Factors*, 165, 124. Clark’s book was published under the penumbra of the “Committee on Recent Economic Changes,” the group organized by Herbert Hoover as a transition team for his presidency. Clark said his ideas about the economy were “suggested by the use of the concept of ‘balance’ in an early report of the Committee on Recent Economic Changes. The present writer was set at once to wondering what ‘balance’ means in this connection.” Ibid, 127.

balance.” Since then, the “conditions [needed] for balance have not changed,” they just needed to be restored. The best way to restore this balance was obvious: “The most desirable type of private expenditure that should be subsidized is housing,” since it “is socially beneficial, will bring direct relief to the most depressed industries... provided the incentive is substantial.” He argued that lower mortgage rates would give profit to builders and encourage more construction. As his final section of his memo stated, “The impasse is building.”

Lauchlin Currie Memoranda, “Comments on Pump Priming,” November 30, 1934, Eccles Papers, FRASER. In Sandiland, Barber and other commentators, Currie’s seemingly anachronistic focus on certain sectors, especially building, are usually explained away as just one part of a broader interest in “active fiscal policy” or “compensatory budgets.” Most, such as Barber and Brinkley, eschew Currie’s and Eccles’s concerns about deficit spending. Perhaps Currie’s post-1930s conversion to a more typical Keynesian stance has pushed this reinterpretation. It is worthwhile to note, however, even later that Currie helped organize a housing finance system in Columbia, and when asked in 1981 what to do about combined inflation and unemployment in the United States, he suggested “monetary constraint combined with one of providing stimuli to selected sectors...take, for example, the building industry at the present time.” Roger J. Sandiland, The Life and Political Economy of Lauchlin Currie: New Dealer, Presidential Adviser, and Development Economist (Durham, NC: Duke University Press, 1990); Barber, Designs within Disorder; Alan Brinkley, The End of Reform: New Deal Liberalism in Recession and War (New York: Vintage Books, 1995); Byrd L. Jones, “Lauchlin Currie and the causes of the 1937 recession,” History of Political Economy 12, no. 3 (1980): 303-315; Meltzer finds himself puzzled that Currie seemed so focused on separate industries, Meltzer, A History of the Federal Reserve, 473. It is not insignificant in this regard that Currie brought George Terborgh of the Brookings Institute over to the Federal Reserve to investigate what he called the “producers’ goods fields of construction and equipment.” Terborgh had previously completed a Brookings Institute Study on the need for national mortgage banks to lower interest rates on housing. See Currie to Eccles, July 31, 1936, Eccles Papers, FRASER; Lauchlin Currie, “Memoir’s: New Deal,” 204. See chapter V of this dissertation.
Soon after being hired by the Federal Reserve Board, Currie wrote Eccles a letter, arguing that he should have a larger salary and direct access to his new chief, since, “I’m a better monetary theorist than anyone on the staff and...my attitude and objectives are closer to
The supremely confident Currie would become Eccles’s favorite economist, and, eventually, Roosevelt’s as well. (Currie would later be identified as a possible agent of Communist espionage, who procured secret government documents for the Soviet Union.) For the moment, it seemed as if all the major players in the Roosevelt administration’s struggle for recovery were united in one voice and one thought, the need to using housing and mortgage policy to restore balance to the economy.

Reforming the Fed for Mortgages

As the new Governor of the Federal Reserve Board, Marriner Eccles seemed to have limited powers to directly influence mortgage policy. Despite emergency reforms during the Hoover years, which later expired, the system was still dominated by the “real bills doctrine,” and could only “discount” or make loans on, short-term debts, or create more money through purchasing government debt directly, which became increasingly common as the Depression continued. Eccles, however, hoped to widen the types of loans that all banks could make, and such a task was central in his vision for the Federal Reserve. Eccles later said that the reform

26 Lauchlin Currie to Eccles, November 17, 1934, Eccles Papers, FRASER. This is mislabeled in the files as 1943.


28 The “emergency provisions” of the Glass-Steagall Act of 1932 that allowed the Federal Reserve to discount certain long-term debts under exception circumstances expired just as Congress began conducting hearings on Eccles’s plan. Eccles’s assistant noted that “banks are the largest and most widespread group of lending agencies that have such a huge surplus of funds” for lending on real estate. J.M. Daiger, “Memorandum on Proposed Regulations of Real Estate Loans,” Confidential, June 1935, Box 2552, Federal Reserve Central Subject Files, Record Group 82, National Archives – College Park.
which had long animated him, and to “which my own thoughts were drawn when I had fought to keep my banks open in the Depression…. was a need to broaden the types of paper eligible for discount the Federal Reserve Banks.” Eccles was heavily influenced by his new advisor Lauchlin Currie, whose Harvard dissertation was an extended attack on the real bills doctrine. His dissertation argued that “there would seem to be no sound theoretical basis for distinction between paper that is eligible for rediscount and paper which is not,” and said the Federal Reserve should be allowed to discount long-term assets with the same conditions as all other loans.29 Currie said such broad liberalization of lending “would cause an immediate easing of the long-term interest rates,” and this would lead to “an increase of loans for fixed capital purposes [which] is the very best way credit can be created in times of depression.”30

Currie’s and Eccles’s foremost desire in reforming discounting was encouraging more mortgages. In his dissertation Currie argued while many types of business did not respond to interest rates, in “others, such as residential and office building, they are extremely important,” and discounting mortgage loans would encourage these directly.31 Eccles privately elaborated that he viewed discounting reform in the same way, not surprisingly since illiquid mortgages had weighed on his own banks in the Depression. In a private meeting with other top federal bankers, going back to the 18th century, “ignored the fundamental legitimacy of the demand for long term credit.” Bray Hammond, “Long and Short Credit in Early American Banking,” The Quarterly Journal of Economics 49, no. 1 (Nov., 1934): 102-103. For approval of majority of Federal Reserve Board for publication of this article, see Mr. Carpenter to Mr. Smead, September 15, 1934; Smead to Federal Reserve Board, September 15, 1934, Box 424, Federal Reserve Central Subject Files, RG 82, NARA II.

29 Lauchlin Currie, “PhD Thesis: Chapter XII: Conclusion,” 257-259. It is no coincidence that a Federal Reserve researcher, Bray Hammond, who would eventually write a Pulitzer Prize winning book on banking in American history, published an article just as Eccles assumed the helm on how bankers, going back to the 18th century, “ignored the fundamental legitimacy of the demand for long term credit.” Bray Hammond, “Long and Short Credit in Early American Banking,” The Quarterly Journal of Economics 49, no. 1 (Nov., 1934): 102-103. For approval of majority of Federal Reserve Board for publication of this article, see Mr. Carpenter to Mr. Smead, September 15, 1934; Smead to Federal Reserve Board, September 15, 1934, Box 424, Federal Reserve Central Subject Files, RG 82, NARA II.

30 Lauchlin Currie “PhD Thesis: Chapter IX: Bank Assets and the Business Cycle,” 253, 247, The anti-consumer spending thrust of his theory is made clear in the next line where he says “What is needed is that consumers’ incomes should be increased with no corresponding immediate increase in finished consumption goods.” Consumer spending on immediate goods would divert spending away from durable goods.

31 Sandiland, The Life and Political Economy of Lauchlin Currie, 83. Currie elsewhere quotes Waldo F. Mitchell, claiming that “too narrow a view has been taken of the problem of securing liquidity.” He advocates Mitchell’s “shiftability” theory, whereby a bank could take any “good safe assets,” and “shift them to the central bank or to other banks.” Currie, “Chapter I: History of Theory of Bank Assets,” 243.
officials he argued that, “the problem is to refinance existing mortgages and get some new construction. These banks have plenty of funds, but they stressed liquidity. If the FRB [Federal Reserve Banks] were given broad authority to determine eligibility of paper for rediscount, the mortgages in the banks might be given the liquidity needed.” Only by allowing the Federal Reserve to treat mortgage loans the same as any other types of loans would all banks become comfortable making mortgages, since these would always be “shiftable” or salable to the federal government. Eccles knew in making the Federal Reserve itself a system for discounting mortgages, he was advocating a profound and permanent transformation of the American banking system. He said “I wanted the problem of liquidity to cease to be a concern of the individual bank and become the collective concern of the banking system,” or, more specifically, the federal government through the Federal Reserve.  

In effect, Eccles wanted to socialize “liquidity,” to make the salability of all financial assets a government-guaranteed benefit, like other, more commonly known benefits granted by the New Deal.

Eccles lamented that the current Federal Reserve’s focus on buying government debt was actually “due to the failure of the banking system” to lend more on mortgages. “If, for instance, the banking system utilized in real estate loans and other long-term investments the savings and excess funds they possessed, bank business activity could be greatly stimulated and the government would then be able to withdraw rapidly from the lending field.” He remained suspicious of more government debt, and even said that most of that “greater part of that debt was incurred in refinancing mortgages” through its numerous mortgage programs. Eccles said he wanted to encourage and support private banks to make their own mortgage loans: “Short circuit the money from where it is to where it is needed, without going through a

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33 Eccles, Beckoning, 171-172.
government bond, as is being done now. Make the mortgage in the banks as good as a
Government bond in the bank.” He hoped, in effect, to make it the implicit duty of the
government to protect all private mortgages.

In a similar vein, Eccles also pushed for reforms ending the limitations on mortgages as a
percent of all national bank loans. The nation’s top bank regulator, the Comptroller of the
Currency, objected, saying “the greatest trouble of the banks had been real estate loans and this
[proposal] would put us right back” in the same situation as before the Depression. He said the
worst banking areas in the country today all “resulted from heavy real estate loans.” Eccles
thought these were precisely the reasons that more support for mortgages was necessary, since
only if banks and the Federal government collectively supported mortgages would their value be
buoyed.34

Eccles collaborated with Lauchlin Currie and long-time Federal Reserve counsel Chester
Morrill to re-write the Federal Reserve Act to encourage more mortgage lending through
increased discounting and increased national bank mortgages. His proposed revision also
centralized power in his position of Governor of the Federal Reserve Board. When Eccles
presented Roosevelt in the Oval Office with a preliminary version of his plans, Roosevelt was
alert, interested, and encouraging. Eccles said “at last his powerful hands slapped down on the
table as he said: ‘Marriner, that’s quite an action program you want. It will be a knock-down and
drag-out fight to get it through, but we might as well undertake it now as at any other time.”35

34 Minutes of the Subcommittee on Housing of Interdepartmental Loan Committee, January 3, 1935, p. 90, Volume 3, HMJ Diaries.
35 Eccles, Beckoning, 174-175. For failed attempt in Congress to change eligibility and real estate rules before Eccles tenure, see Chester Morrill to Senator Duncan Fletcher, April 28, 1934, Box 143, Federal Reserve Central Subject File, RG 82, NARA II.
Eccles announced to the nation’s bankers the opportunities his Federal Reserve bill provided them for new fields of financing.\textsuperscript{36} In one of his Friday press conferences, Eccles said that the new act “would enable commercial banks to take an effective part in the reopening of the mortgage market, and to give their unstinted support, in a manner not now possible for them, to that branch of industry in which the opportunity for meeting both a social and an economic need is now the greatest.”\textsuperscript{37} To encourage as much banker backing of the plan as possible, Eccles also said other regulations “would be liberalized to advantage the bankers.” One that especially concerned him was a little noticed part of the 1933 Glass-Steagall Act which required bank officers to pay back loans from their own banks or risk being removed. Eccles thought excising this clause this would “give bankers relief from a harsh prospect” and enlist some of them in his reform cause.\textsuperscript{38} He had a personal interest in this change, however. A recent bank examiner report indicated that Eccles’s two brothers, who were directors of his old bank in Utah, which itself had invested heavily in mortgages, had tens of thousands of dollars in loans from the bank that looked like they were not going to be paid off anytime soon. This change would allow them to stay at the board of the family bank.\textsuperscript{39}

Many in the banking world recognized the immensity of Eccle’s proposed reforms, and they occasioned much debate in the banking world. A group of 66 conservative economists signed a memo opposing the bill. They first attacked the bill’s concentration of political power in the Board, but their other three complaints all lamented increased mortgages in commercial

\textsuperscript{36} Eccles told them that “the one proposal which I regard as the most important...the provision permitting banks to make [more] loans on improved real estate,” would expand their business. Marriner Eccles, “Monetary Problems of Recovery,” at Annual Midwinter Meeting of the Oho Banking Association, February 12, 1935, Eccles Papers, FRASER.
\textsuperscript{37} Marriner Eccles, “Press Conference of February 8, 1935,” Eccles Papers, FRASER.
\textsuperscript{38} Eccles, \textit{Beckoning}, 196-197.
\textsuperscript{39} Examiners Reports, 1934, Eccles Investment Company, Eccles Papers, FRASER.
banks, which they warned “will invite ultimate disaster for this country.”

The Bankers Magazine noted it once was said “That the art of banking consisted in the ability to distinguish between a mortgage and a [real] bill of exchange. But should the pending banking bill become a law,” this old-time distinction would evaporate. “If the door is opened to the rediscount at the Federal Reserve of mortgages, it will constitute...a revolutionary change.”

On the whole, the banking world celebrated Eccles’s revolution. Another article in the Bankers Magazine claimed “the last five years have made it clear that the methods of the more orthodox school of banking philosophy have broken down in their attempt to preserve banking liquidity,” through keeping just to short-term loans. “The beginnings of this realization lay in the formation of the R.F.C. and its development has led to the Eccles Bill.” The article’s author celebrated the rise of the “shiftability” theory behind loan changes at banks: “It seems evident that the preservation of banking liquidity in time of crisis involves the absorption by the public of assets formerly held by the banking system.” He thought that the “slow assets” that Adam Smith once discouraged in banks needed to be purchased by the public in a crisis, and to find a public home, if banks were going to lend on them. Like Eccles, he wanted to socialize financial liquidity.

When presenting his bill to Congress, Eccles argued that the discount “eligibility feature of this legislation, and the real-estate feature, one of which is the corollary of the other” were both essential. He told Congress that only through such reforms could they spur recovery.

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43 Eccles received support from House Banking Committee Chairman Henry Steagall. Though his name graced a bill just two years earlier separating short-term commercial and long-term investment banking, Steagall went out of his way to praise the importance of mortgage loans in banks, saying “there are no outlets that would serve a more useful economic purpose at the present time than real-estate loans. The restoration of building activity...is absolutely essential to further business recovery.” He went on at some
Despite some staunch opposition from remaining real bills believers such as Carter Glass, Eccles' bill passed.\textsuperscript{44} After the passage of the bill, responsibility for liquidity of the financial system had been transferred directly to the federal government, and largely to Eccles himself. Soon the Bankers Magazine was urging its readers to “Abandon Liquidity Fetish” for short-term loans, and make as many long term loans as they needed. “Governor Marriner S. Eccles and the Federal Reserve official have already done this” in their sphere, now the rest of the banks should follow through.\textsuperscript{45} The President of the American Bankers Association claimed that with new Federal Reserve promise to purchase long-term assets, “there is no longer need for the maintenance of too high a percentage of liquidity” or of short-term loans, since liquidity would always be provided by the government.\textsuperscript{46} The act represented a fundamental transformation of America’s commercial banking system, one that pushed banks into a system almost the opposite of the real bills vision of many of its founders, focused ever more on long-term loans, mortgage debts, and government guarantees. 

\textsuperscript{46} Robert Fleming, A Broader Field for Banking,” Insured Mortgage Portfolio 1 no. 3 (Sept., 1936).
The New Housing Agencies and the Housing “Mess”

After the passage of the bill, Eccles thought his foremost duty was to push more mortgage loans any way he could. He explained to one group of bankers that “I favor relatively low interest rates as a continued encouragement to capital expenditures, including housing.” Eccles told his staff that “In view of the extent to which the lag in construction continues to be the chief factor in unemployment, and also the chief factor in retarding a more general recovery among the heavy industries...particularly in the field of residential building,” they should promote mortgages in the banks. He advised other Federal Reserve Board members that they should be “encouraging the cooperation of commercial banks” in the new Federal Housing Administration (FHA), including by helping to “arrange meetings with representative bankers in the respective Federal Reserve cities.” Winfield Riefler suggested that the Reserve Banks could prepare space in their buildings for the FHA.

To lead the FHA, National Emergency Council chair Frank Walker said they should find “somebody from heavy industry,” who would encourage the business community to go along with the program, but would not be too involved with the administration itself. Roosevelt settled on a current banker and former manager of Standard Oil, James Moffet, the perfect amalgamation of banking and heavy industry. Far from a figurehead, however, Moffett became an obstreperous presence at the agency blocking liberalized mortgages. Eccles did everything in his power to push Moffett to guarantee more housing loans, since he believed that

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47 Marriner Eccles, Address at the 25th Anniversary of the Opening of the Federal Reserve Bank of St. Louis, November 9, 1939, Box 218, Papers of Thomas G. Corcoran, Library of Congress.
49 “Excerpt from the Minutes of the Meeting of the Executive Committee of the Federal Reserve Board Held November 8, 1934.” Eccles Papers, FRASER.
50 Seligman, New Deal Mosaic, 175-176.
Moffett’s obstreperousness was almost single-handedly to blame for the continuing depression. He later wrote that because of the failure of the FHA under Moffett, “mass unemployment continued, private funds remained idle, the government had to increase its lending operations, and the public debt grew.” Eccles created a special inter-Cabinet meeting on federal housing loans, and summoned them regularly to the Boardroom of the Federal Reserve to berate them, but most especially the FHA, to make more loans.

Due to the opposition of Eccles and others, Moffett soon was replaced with one of his more active assistants, Stewart McDonald, a former St. Louis manufacturer, who one employee said was “a man of large stature, rugged features, with a rather imperious swagger.” Despite his later differences with Eccles, McDonald understood his vision of encouraging bank mortgage investment. He used publications directed at banks, such as the FHA’s *Insured Mortgage Portfolio*, to tell them that under new reforms in the National Housing Act, which repealed part of the Glass-Steagall act separating commercial and investment banking, they could hold “investment securities” or bonds as long as they were backed by FHA mortgages. He explained that such loans were good as cash and could be discounted the Federal Reserve. As Eccles recommended, the FHA began “wholesale” operation at banks, placing their staff in bank buildings, and providing stenographic help and office equipment, so banks could convert their

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55 The assistant also said that “He was a person of independent means. He didn’t hesitate to let that be known to Congressional committees when he was questioned on any matter. ‘This job wouldn’t keep me in cigarettes, if I smoked cigarettes,’ he once said to a hostile questioner.” Colean, *Backward Glance*, 38.

old real-estate loans to the new FHA model mortgage. McDonald’s focus here, however, was not on new loans or construction, but on transforming old loans into new guaranteed ones for banks.

After helping to reform the FHA, Eccles turned his eye on the next largest source of housing loan funds, the massive Reconstruction Finance Corporation (RFC), run by Texas millionaire builder Jesse Jones. The tall and commanding Jones, who himself had almost been ruined by collapsing real estate bonds early in the Depression, and had been saved by having these bonds bought up by the RFC, understood the need for government support of mortgages on a visceral level. Jones claimed that that “Our nation’s greatest single asset is real estate,” and believed it was his job to support it. He and Eccles helped pass a bill in January 1935, with the help of Senator Duncan Fletcher, that allowed the RFC to create its own mortgage company to make mortgage loans directly, what became the RFC Mortgage Company. One reporter said that it was “aimed at hastening the decline in the long-term rate of interest for construction loans,” and would provide direct mortgages in areas that banks still feared to tread.

As usual, however, protecting financial interests remained paramount for the administration. One article claimed the corporation was aimed at “relieving the distress of bondholders in business building.” Real estate bond failures in particular had inspired an investigation by Congressman A.J. Sabath, and some of Jones’s own building bonds from the 1920s were in Sabath’s sights. The RFC Mortgage corporation, therefore, would help protect him

59 “RFC Will Buy Trust Company Stock, Notes,” Chicago Daily Tribune, September 28, 1934. Jones noted that a decision to buy trust company stocks was precipitated by Chase Manhattan bank’s request for help.
61 “RFC Company Approves Loans For $33,500,000,” St. Louis Post-Dispatch, April 5, 1935.
and other bond sellers from both default and more public attention.\textsuperscript{62} The RFC Mortgage Company’s head also remained at the same time a vice President at the Bowery Savings Banks, one of the largest institutions in the country specializing in mortgages.\textsuperscript{63} The focus on helping endangered financial institutions was clear in a letter the RFC Mortgage Company sent to one potential borrower: “For your confidential information, except in unusual cases it is contrary to the policy of the Board to make loans for the purpose of retiring obligations due solvent financial institutions.” Only financial institutions in trouble of collapsing could refinance their loans with the new company.\textsuperscript{64} Although this helped the lenders, it did not encourage the heavy industry and construction that Eccles hoped would accompany it.

At first President Roosevelt let Eccles and his assistants fight most of the battle for more housing loans, but he occasionally drew attention to his increasing fervor for the subject. In November of 1934 one \textit{New York Times} writer described a press conference where Roosevelt made a “reiteration of his interest in the plans to stimulate” home construction, claiming that “[l]ow-cost housing has been made the spearhead of the renewed assault on the Depression.”\textsuperscript{65} Roosevelt soon argued that the FHA would create “a safer mortgage structure for the country and will result in a much needed impetus to home construction, with a resultant tremendous

\textsuperscript{62} “RFC Goes to Aid of Bondholders: $10,000,000 Corporation Set up to Take Mortgages on Business Buildings,” March 14, 1935, Paper unknown. Box 1, RFC Mortgage Company General Records, RG 234, NARA II.
\textsuperscript{64} RFC Mortgage Company Board of Directors Minutes, July 15, 1935, Volume 2, 265 – approved letter to T.E. McClintock, Manager, Loan Agency, RFC, Denver Colorado Re: Albuquerque Hotel Company, Albuquerque, New Mexico. In a similar vein, the RFC, as one newspaper said, “joined hands” with 85 banks and life insurance companies to create a “Mortgage Certificate Loan Corporation.” Although nominally private, the RFC advanced $50 million of the cost, as opposed to $5 million of private funds, to help bail out “mortgage certificate” loans on groups of mortgages. “RFC to Help Free Mortgage Funds,” \textit{New York Times}, June 4, 1935.
demand for durable goods and labor.” As Eccles’s and other’s reforms picked up steam, Roosevelt could by March of 1935 promise the press that “an immense volume of business and employment will undoubtedly be generated” that spring, and that the “American people will clearly see that the housing act provides the Nation a way back to recovery and prosperity.” Roosevelt obliquely admitted that new home loans had been slow, but said that now everything was in place “to make the program the fountain head of American prosperity.” With increased public propaganda for mortgages and administration pressure throughout the following year, the Washington Post claimed that “Not since the Blue Eagle [of the National Recovery Administration] strutted and soared across the country has any New Deal undertaking been subjected to so much ballyhoo as the Federal Housing Administration.”

Unfortunately for Roosevelt and others in the housing camp, the much promised housing revival never happened. Part of the problem was that the vast majority of new RFC and FHA loans, like federal mortgage programs going back to the Federal Land Banks, were for refinancing, thus helping the banks but not the construction industry. Even the national banks who Eccles had encouraged with his Federal Reserve reforms invested little in new mortgages in the immediate wake of the reforms. The Federal Reserve discounted few mortgage loans even as it continued to absorb more and more government debt. It seemed that in trying to salvage the financial sector, little of the money was seeping out into the real economy the administration promised to balance.

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69 “Castles in the Air,” Washington Post, October 28, 1936. This was the fifth article in a series investigating the housing problem.
A more common complaint about the failure of housing policy centered on the increasing confusion among federal housing agencies. Roosevelt’s uncle, the banker and urban planner Frederic Delano, created a Central Housing Committee to investigate the proliferating programs. Its report in May of 1935 found over 37 federal agencies dealt with housing issues. A horrified Roosevelt asked Delano to try and corral them. Yet the Central Housing Committee itself only added to the confusion, becoming a mere 38th agency. Other housing officials sabotaged its efforts at unity. One FHA official said that the Stewart “McDonald referred to it as the Three Hours of Lost Motion Club, and left me to represent the FHA with instruction not to let anything happen.”

The struggles in federal housing became ever more brazen, even as they checked the administration’s hopes for a recovery. One of Marriner Eccles’ assistants complained to him that word had gotten around the administration that you “did not think much of Stewart McDonald.” McDonald admittedly was protective of his own turf. After being pushed by the White House and Eccles to loosen up loans again, McDonald did so only reluctantly and, as he said, as a show. He told his staff that “Well, there’s nothing to do but to tell the old girl to paint her face, pull up her skirts, and get out on the stage.” At one point he was sharing a plane ride with another housing official, when the official came over, tapped him on the knee, and asked

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71 See RG 207, Central Housing Committee, NARA II.


73 “Re: Stewart McDonald,” J.M. Daiger to Eccles, December 30, 1936, Eccles Papers, FRASER. Daiger does mention that “Mr. Jones, on the other hand, is on very close terms with him” and noted that “I am myself very fond of him,” claiming “He is now as full of ideas an egg is full of meat, and he is eager to talk with you about them.”

74 Colean, Backward Glance, 40.
“Well, Stewart, how’s everything in your shop?” To which McDonald gave him a mischievous eye and said “Does Macy’s tell Gimbel’s?” It became a popular story across Washington.75

In March of 1936 Roosevelt declared housing “to be in a mess” because of the inability of both private and public groups to organize concerted plans, and the “mess” language was oft-repeated.76 J.M. Daiger, a former Eugene Meyer assistant and now Federal Reserve researcher, reported to Eccles that “the housing mess….was unwittingly precipitated by the President himself” due to his proliferating programs. Daiger said “There is no leadership now. There is no policy and no program.”77

Nonetheless, the hope for recovery through housing continued unabated. The Democratic Party Platform of 1936 promised “every encouragement should be given to the building of new homes by private enterprise.” After Roosevelt’s landslide re-election, his 1937 State of the Union gave attention to the need for new housing. When discussing “the far-reaching problems still with us,” Roosevelt first cited the poor state of American homes and problems with new construction. The New York Times said that “Housing bulks large in President Roosevelt’s report to Congress on the state of the nation,” noting that “In this particular field Recovery and Reform would be marching hand in hand,” especially for “heavy industry.”78 In the

75 Colean, Backward Glances, 43.
76 “Housing Aid ‘Mess’ Balks President: He Voices Doubt of Early Program, and Action at This Session is in Question,” New York Times, March 11, 1936.
77 Daiger also complained that “the petty quarrels and jealousies of the housing agencies” hurt their image. J.M. Daiger to Eccles, January 7, 1937, Eccles Papers, FRASER.
President’s inaugural just weeks later he famously argued that he saw one-third of a nation “ill-housed, ill-clad, ill-nourished,” and it was instructive that housing came first. 79

The Housing Recession

Early in 1937, Eccles and his camp began to worry that forces besides agency squabbling and inadequate financing were holding back housing and thus the economic recovery. While housing had picked up from its low of 200,000 homes a year in 1933 to about 300,000, this was still 70% below its peak in the 1920s. Some worried the reason was that the costs of everything that went into homes, from lumber to cement to piping, was rising rapidly, inhibiting building. Many worried that more government support would only encourage this insidious cost inflation. 80

Several administration allies raised new concerns about building costs. George F. Warren and Frank A. Pearson, the former agricultural economists and “Gold Dust Twins” who once lamented low agricultural prices, now shifted their attention to the housing. In a public speech they declared that “building is our most important urban industry and full employment cannot occur until building is active.” They “considered the building cycle [the] most important for forecasting business decisions.” 81 Yet they worried that increasing prices would limit any boom. They released a sequel of sorts to their magnum opus Prices (1933), which had focused

80 Unlike those historians who emphasize the supposed conflict between antitrusters who were concerned about “administered prices,” and Keynesians who were concerned about spending, this chapter hopes to show the essential unity in these two approaches, which were usually carried on simultaneously by the same people, and which often involved opposition to labor as well as corporations See Theodore Rosenof, Economic in the Long Run: New Deal Theorists and Their Legacies, 1933-1993 (Chapel Hill, North Carolina University Press, 1997); Brinkley, End of Reform.
on the general price level and especially agriculture. Now their *World Prices and the Building Industry* (1937) declared that the food industry was “relatively stable” due to steady need for its products, “and is therefore less important than building in certain fluctuations of business.”

Beside the general price level, they said the “most important [indicator of the business cycle] is the building cycle.” They worried about high prices in this realm, and reiterated that “Full employment in production and distribution does not occur unless building is active.”

Lauchlin Currie was having similar thoughts about the imbalance in the building industry and its prices relative to others. In March 1937 he wrote a memo on “The Rise of Prices and the Problem of Maintaining an Orderly Revival,” where he advised against “excessive wage advances” and worried about the rising costs of building materials and construction. He discussed setting up a “National Balance Committee,” to coordinate federal policy and prices across industries. In another memo, “Our Common Responsibility for Economic Balance,” Currie pointed to the “one field that perhaps more than those in any other threaten our prospects of achieving and maintaining a period of economic balance. I refer to the construction industry.”

Leon Henderson, a soi-disant economist and new infant prodigy of the administration, who had a “long and close friendship” with Lauchlin Currie, as Currie said, also produced a report, “Boom and Bust,” that made similar arguments. Henderson worried about a “real danger of runaway prices,” as one historian described it, “particularly those producing materials for the

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82 George Warren and Frank Pearson, *World Prices and the Building Industry* (New York: John Wiley & Sons, 1937), 97, 132, 143-144. They reiterated that “[b]uilding is so important that recessions in the production of other goods usually do not bring any great economic trouble during times of active building.” Ibid, 163.


84 Currie to Eccles, March 23, 1937, Eccles Papers, FRASER. Currie mentioned that “The part played in our difficulties by residential housing developments has never been sufficiently stressed. It was the first important element in the economy that turned down,” in 1928.
construction industry...[that] might put a brake on capital spending.” New statistics seemed to show that homebuilding was declining again.85

In September 1937, just as the economy began to turn south, Currie wrote the first draft of what would become his most famous memorandum, “The Causes of the Recession.” Currie’s memo has often been cited as a predominant cause of the Roosevelt administration’s move from a focus on economic reform to a focus on Keynesian spending and support for mass consumption. Alan Brinkley claimed that for “the next six months, the memo served as a New Deal samizdat, continually revised and passed from agency to agency and official to official. It became the central document in the battle for new federal spending.”86

Yet a supposed focus on deficits and consumer “purchasing power” distorts the thrust of the memo and of Currie’s ideas. Currie remained enamored not of the new deficit spending in John Maynard Keynes’s General Theory of Employment, Interest, and Money (1936), which he reviewed unfavorably, but of Keynes’s earlier work in his Treatise on Money, which focused on financing costs and heavy industry as determining factors in the business cycle.87

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85 Lauchlin Currie, “Memoirs New Deal,” 209. For meeting with Henderson where they discussed price problems and labor, see Currie to Eccles, March 23, 1937, Eccles Papers, FRASER; William Barber, “Government as a Laboratory for Economic Learning in the Years of the Democratic Roosevelt,” in The State and Economic Knowledge, Mary Furner and Barry Supple, ed. (Cambridge: Cambridge University Press, 199), 112. Even Henry Wallace at this time, at the Department of Agriculture, worried that a “major danger spot is the housing industry.” Henry A. Wallace, “Technology, Corporations, and the General Welfare,” June 24, 1937, Eccles Papers, FRASER. A meeting of Eccles and other economists in March, according to journalists Joseph Alsop and Kintner, concluded that high prices and “the lag in housing construction were pointed to as particularly bad signs...Thereafter work on a housing measure was intensive.” Joseph Alsop and Robert Kintner, Men Around the President (New York: Doubleday, Doran & Company, Inc., 1939), 124.

86 Brinkley, End of Reform, 97.

87 Jones, “Currie and 1937 recession,” 307. Roger Sandiland said that even after 1936, Currie believed that “the Keynes of the General Theory, in contrast to the Keynes of the Treatise, was neither necessary nor altogether helpful” for solving America’s economic problems. In the General Theory, Keynes did not focus on financing and building as he did in the Treatise, but he describe “the most important class of very long-term investments, namely buildings.” He also noted that in the US, recovery had been limited because the Federal Reserve focused on “The very short-term rate of interest and have but little reaction on the much more important long-term rates of interest.” As Axel Leijonhufvud said in his study of Keynes “the interest rate in Keynes' works is always the long-term rate of interest.” John Maynard Keynes, The General Theory of Employment, Interest, and Money (London: MacMillan, 1936); Axel Leijonhufvud, On
The “Causes” memo was written originally to Marriner Eccles as he was preparing new housing financing plans, and the original draft reflects that focus. The memo said that despite a recent drop in building, economic forecasters “all are relying upon an upswing in building to start us upward again sometime next year.” It claimed that the “importance of securing a building revival next year cannot be overstressed. The continuation of recovery depends on it.” Currie admitted that either deficit spending or building would help pull the nation out of recovery. Yet, since he believed deficit spending posed dangers and difficulties in the foreseeable future, “we are by a process of elimination forced back to building as being the primary source on which we must depend for a reversal of the downward trend.” He advocated increased attacks on high prices and on unions and told Eccles that the “Federal Housing Act should be amended along the lines you suggest” and perhaps made even more liberal in order to create large-scale mechanized housing production.88

The promise of mass-produced housing became a new cynosure in the administration. Officials hoped mass-production would both lower costs and lead to more homes, allowing builders to get around the collusion of small-time unions and contractors and secure even cheaper financing. Currie in one of his earlier memos said “Somehow, in some way, the [housing] industry must be converted into a large-scale mechanized industry.” He thought easier financing especially for very large residential projects would encourage such production.89 In this

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goal Currie had the support of Stewart McDonald, who said that “putting construction of homes on a wholesale basis” was a sort of holy grail of housing reform, “the inner-tomb of the housing pyramid” as he called it, since it would lower the high costs of building.90

Roosevelt himself began expressing similar concerns about housing prices. He argued in one press conference that “I am concerned – we are all concerned – over the price rise in certain materials that go into durable goods primarily.” He called it a “danger sign,” and said “Now, that is history and I think almost all economists agreed on that.”91 For this reason, Senator Robert Wagner’s public housing act passed in August 1937 received almost no support for Roosevelt, who worried that it would encourage more building price inflation.92 Despite praising the bill in general terms, Roosevelt asked that the loaning authorization for public housing be reduced 1/5 from what was originally proposed, and, upon signing it, said it should be at least a year before any building took place.93

During Roosevelt’s Hyde Park sojourn in September of 1937, the President invited Marriner Eccles to talk with him about what he could do about the continued housing problems

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90 Winfield Riefler “Outline of a Plan to Interest Private Capital in the Construction of Low-Cost Housing,” c. October 4, 1937, Box 1, Folder 6, Riefler Papers, FRASER.
91 Franklin Roosevelt, “Excerpts from the Press Conference,” April 2, 1937, American Presidency Project http://www.presidency.ucsb.edu/ws/?pid=15383. The influence of Currie in this conference is clear from the President’s discussion of the rise in copper prices, which Currie had recently been studying, and which were used in homes for wiring, flashing, and piping. See Currie to Eccles, March 23, 1937; Currie to Eccles “The Copper Situation,” April 19, 1937, Eccles Papers, FRASER. The President made similar statements about endangered balance even in his fireside chat on the Court-packing bill, saying that he had tried “to give balance and stability to our economic system” but noted that “recovery is speeding up to a point where the dangers of 1929 are again becoming possible.” Roosevelt, “Fireside Chat,” March 9, 1937, American Presidency Project. http://www.presidency.ucsb.edu/ws/?pid=15381
92 McDonald and the FHA officially opposed the bill, but a threat to enlist the American Federation of Labor in a campaign to require union labor on all FHA projects, and therefore the dreaded specter of even higher costs, led the FHA to keep mostly silent. D. Bradford Hunt, Blueprint for Disaster: The Unraveling of Chicago Public Housing (Chicago: Chicago University Press, 2009), 15-34; Gail Radford, Modern Housing for America: Policy Struggles in the New Deal Era (Chicago: University of Chicago Press, 1996), 177-198. It is worthwhile to note that in light of “consumerist” and “purchasing power” interpretations of the New Deal, Roosevelt was an early opponent and only reluctant eventual supporter of Wagner’s collective bargaining act, which he worried would encourage struggles between workers and businesses. Peter Irons, The New Deal Lawyers (Princeton: Princeton University Press, 1982), 230-231;
and the broader economy. Currie emphasized to Eccles that he had to “impress on him [Roosevelt] the possible seriousness of the decline in residential building.”\(^9^4\) Eccles told Morgenthau that his explanation to Roosevelt of the problem “has to do pretty largely with the labor problem and the price rise that stopped our building...and got your economy out of balance.”\(^9^5\)

**A Mortgage Assault on Recession**

After Roosevelt’s seminal Cabinet meeting, described above, Eccles submitted a new mortgage plan.\(^9^6\) His draft bill claimed that the continued lag in construction work since 1933 was “the most deep-rooted retarding factor in national income, budget balancing, and full employment of labor...Since housing is both economically and socially the most important branch of the construction industry, and also the most depressed area of industrial production and employment,” it should receive the administration’s full attention. His program was “designed especially to encourage and facilitate large-scale operations in housing both for sale

\(^9^4\) Currie, “Memoir New Deal,” 212. Currie said he was “especially critical of the monopolistic practices in the skilled building trades” and said that “abuses in the labor field must not be tolerated any more than in any other field.”

\(^9^5\) Phone Transcript between Morgenthau and Eccles, 10:48am, November 4, 1937, p. 54-60, Volume 94, HMJ Diaries. See also, Eccles, *Beckoning*, 302-303.

\(^9^6\) Currie, Leon Henderson, and Isador Lubin submitted a memo soon after the Cabinet meeting which said, “The one field on which reliance can be placed for a sufficient volume of expenditures to turn the tide, if adequate stimulation is given, is residential building. It has been proven many times.” After this meeting Roosevelt announced to Congress that “As far back as last Spring I called attention to the rapid rise in many prices — a rise that threatened in particular the anticipated revival of building,” and told that housing “has failed almost completely to keep pace with the marked improvement in other industries.” Roosevelt Day by Day, FDR Library, November 8, 1937, and November 10, 1937, http://www.fdrlibrary.marist.edu/daybyday/daylog/november-10th-1937/; Lauchlin Currie, “Causes of the Recession,” November 8, 1937, Eccles Papers, FRASER; Isador Lubin Oral History, Columbia Oral History Archives, 112; “President Studies Plant to Speed Up Federal Spending,” *Wall Street Journal*, November 9, 1937 (This public account of the meeting, despite the title, only mentions the liberalizing of FHA terms.) For investigation of interest rates effects on housing costs, see Mr. Krost to Lauchlin Currie, November 3, 1937, Box 166, Federal Reserve Central Subject Files, RG 82, NARA II. Stephen B. Adams, *Mr. Kaiser Goes to Washington: The Rise of a Government Entrepreneur* (Durham: University of North Carolina Press, 1997), 55-56; Franklin Roosevelt, “167- Message to Congress Recommending Legislation,” November 5, 1937, *American Presidency Project* http://www.presidency.ucsb.edu/ws/index.php?pid=15496&st=housing&st1; Eccles, *Beckoning*, 203.
and rent – that is, building by companies or groups of companies large enough” to have economies of scale and scope in construction. The new bill liberalized FHA loans to lower mortgage interest rates to 5%, and allowed loans on some houses to go up to 90% of their value, with only a 10% down payment. It also allowed more generous terms for large rental projects, and restored tax-exemptions to the proposed National Mortgage Associations. The FHA, which originally had its guarantees limited in time and amount, was now promised an unlimited government guarantee for an unlimited amount into the foreseeable future. The press afterwards celebrated that “The New Deal is turning once more to private housing as a means of stimulating the lagging construction industry and through it industry in general,” in this they were “following a well-proved business rule: that construction, and particularly housing, should be the leader in business recovery.”

In his November message to Congress on the plan, Roosevelt said, “From the point of view of widespread and sustained economic recovery, housing constitutes the largest and most promising single field for private enterprise.” He put the recent downturn almost entirely on housing, saying that decreased construction “was one of the principle reasons why general business failed to forge ahead during the latter part of the year,” and the increase in costs, “was primarily responsible for the downturn in housing and thus recovery generally in this year.” He said that if the building industry was to lower costs “it must do it in the characteristic American

97 “Immediate Measures to Stimulate Housing Construction,” November 10, 1937. Eccles Papers, FRASER. FRASER cites the author of this piece as “Board of Governors of the Federal Reserve System (U.S.)?” Considering the date and nature of the suggested program, it is clear that this is Eccles’s and his housing group’s plan that became the 1938 National Housing Act amendments.

98 “Immediate Measures to Stimulate Housing Construction,” November 10, 1937, Eccles Papers, FRASER.

99 Delbart Clark, “Housing Viewed as Key to Recovery,” New York Times, November 14, 1937. The move was supported, among others, by the American Construction Council, the organization Hoover and Roosevelt had led in the 1920s. That same day at a cabinet meeting Roosevelt discussed housing and the minutes noted that “Secretary Wallace urged that the President should take a strong position in favor of increased housing construction,” to which the President pointed to his plans for up to 90% loan guarantees. Meeting, November 12, 1937, 2pm, HMJ Diaries; “Federal Mortgage Aid and Tax Relief Called Key to Construction Revival,” New York Times, November 23, 1937.
way. It must develop, as other great industries have developed, the American genius for efficient and economical large-scale production.” Large-scale production could only be encouraged, however, through large-scale federal mortgages.100

When Eccles came to testify before Congress, he presented the bill as yet another exercise in the balance between different sectors. He said that if they could encourage more cheap construction, “Then we would get a balance between our various elements in our economy, instead of high costs maintained by organized groups, both in business and labor.” The problem was high labor and material costs in housing, and low costs in other areas like agriculture. In the present situation, “we get a disequilibrium, so that one group of the population is unable to exchange its goods and services with the other groups. That is essential. That is at the bottom of our present difficulties today.”101

Yet the Eccles camp faced a dire threat to their entire housing plan from the labor groups many of them blamed for the recession. Senator Robert Bulkley of Ohio, once crucial in passing the farm loan act and the Federal Home Loan Bank act, was now the second-ranked Democratic member of the Banking and Currency Committee, and he demanded union wages be paid on all home construction insured by the FHA. Buckley’s plan would have unionized the entire American construction industry in one fell swoop, and it was vigorously opposed by everyone associated with the program and by private industry.102 When McDonald ran into Senator Buckley in the corridor leading from the Senate to the House chamber, according to his assistant, he “took him by the coat lapel...and said to him ‘If you pass this amendment, you can kiss my ass in Macy’s window and that will be the end of the FHA.” As the assistant said “It was

101 Senate Committee on Banking and Currency, Hearing to Amend the National Housing Act 75th Cong., 2nd sess., 1937, 174.
an example of McDonald’s type of persuasion.” A similar battle was fought and won in the House, with similar strong-arm tactics.  

Eccles told Congress he wanted to revive the National Mortgage Associations of the original National Housing Act by restoring their tax exemption, which he called “[t]he most important feature” of his proposed bill. He hoped these associations would help encourage loans especially on large scale projects. Eccles himself thought that government tax exemptions were so extensive that without them almost any corporation would have trouble attracting investors. He said the associations should be “given the same tax-free feature that the instruments used by the Farm Credit Administration have, and the instruments used by the home loan bank system, and they should not be put at a disadvantage.” When Senator Wagner objected to exemptions for a proposed private corporation, Eccles said that these associations “are instrumentalities of the Government, even though they are privately owned.” The new National Mortgage Associations would therefore be surrounded with the same implicit guarantee as previous mortgage systems.  

Soon after the bill passed, the only bill to pass to that point in the special session Roosevelt called to deal with the recession, the government’s first action was to create its own mortgage association, with RFC funds, the Federal National Mortgage Association, better known by its nickname, Fannie Mae. According to Jesse Jones, Fannie Mae would “stimulate business, more perhaps than any other thing that can be done.” He said the new company was “primarily intended to provide money for private enterprise which plans large-scale housing projects.”

103 J.M. Daiger “Statement on the Lodge Amendment,” Confidential Notes for January 10, 1938, Meeting of House and Senate conferees, Eccles Papers, FRASER.  
104 Senate Banking Committee, Hearings on Amendments, 168, 191. When McDonald advocated the same tax exemption and received the same querulous responses, he gave the typical response: “They are a Government instrumentality. I think that is the best way to describe them.” Ibid, 20.  
After the bill passed and Fannie Mae had been created, Roosevelt received a letter that further cemented his belief in the combined importance of pushing housing. John Maynard Keynes wrote Roosevelt on February 1, 1937 to say that it was obvious what was needed to cure the continuing recession, “namely increased investment in durable goods such as housing, public utilities, and transport.” Of course, as earlier, Keynes viewed the first of these as the most important. “Take housing. When I was with you three and a half years ago the necessity for effective new measures was evident. I remember vividly my conversations with Riefler at that time.” He said “Housing is by far the best aid to recovery ... I should advise putting most of your eggs in this basket, caring about this more than about anything, and making absolutely sure that they are being hatched without delay.” Roosevelt responded that the “emphasis you put upon the need for stimulating housing construction is well placed,” but noted some obstacles in the way. He claimed “I hope that our efforts will be successful in removing the barriers to the revival of this industry.”

Price Barriers and the “Splending” Administration

A month after the passage of the mortgage bill, Roosevelt gave the press a statement of what it meant for the economy, which constituted perhaps his most extensive argument about economic balance since his 1932 campaign, as well his most important discussion of the barriers he continued to see in such balance. Roosevelt said he talked to a number of government agencies and officials, including Henry Wallace, Morgenthau, Perkins, Eccles, and “economists of  

Industry Hopes to Repeat Role of ‘Moses’ Played in 1921,” Washington Post, April 10, 1938. As part of the President’s message to Congress back in November, he told them he planned to have the RFC allocate $50 million dollars, taken out of those funds planned for the RFC Mortgage Company, to support new national mortgage associations. Franklin Roosevelt, “Message to Congress on Housing,” November 27, 1937, American Presidency project.

107 FDR to Keynes, March 3, 1938, ibid.
various departments,” and together “they worked up for me yesterday a statement on which they are all agreed. That is pretty good, to get six or eight different agencies of the Government to agree. It might be called noteworthy,” especially for Roosevelt’s fractious administration. He read a memo which argued, “Prices of different groups of products must be brought into balanced relations to one another. Some prices and some costs are still too high to promote that balanced relationship between prices that is necessary for sustained recovery... This is shown by our recent experience with housing... all the major elements in housing costs advanced so sharply by the Spring of 1937 as to kill a promising expansion of activity in an industry whose restoration is vital to continued recovery.” He argued that “the decline in housing construction, laid much of the ground for the present recession.”

Roosevelt brought out several charts on the topic for the reporters assembled around his Oval Office desk, but started with one: “This chart is, I think, one of the most significant ones. It shows the price trends of certain building materials.” The President of the United States then preceded to discuss at length such issues of national importance as the cost of “board and house paint,” “plaster,” and “prepared strip shingles,” and tried to show how each had stymied housing. He hoped the “There are many elements in the recovery program which have already been directed toward a better balance of prices. That phrase, ‘better balance of prices,’ is the key to the whole thing.”

After the passage of the mortgage bill, the administration began action began on all fronts against the housing cost menace. Morgenthau and the Treasury spent an almost unimaginable amount of time trying to use the power of government purchasing, including the

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108 When reporters asked him how he could reduce prices without lowering wages, he said new volume production of housing would be key. In Roosevelt’s talk, in fact, he further elevated housing to place it on a level with the other three great sectors of the economy he had long tried to balance. “Our program seeks a balanced system of prices such as will promote a balanced expansion of production...Our agricultural, industrial, housing and monetary programs have been and will be directed toward this end.” FDR Press Conference #435, February 18, 1938, 10:40 AM, 159-169, 174.
War Department, Navy Department, and Veterans Administration, to force cement manufacturers to reduce prices, and to push them to sign non-collusion agreements, and this attempt soon spread to other building trades areas.109 As one Treasury official noted, those agencies, seemingly unrelated to any housing motive, “were in complete agreement that something like this should be done to lower the costs of housing.”110 Morgenthau kept the President updated on studies of building prices and even agreed to set up an interdepartmental group, the “Committee on Certain Uneconomic Practices in the Building Industry.”111 It recommended antitrust action and attacks on collusive bidding by subcontractors, manufacturers, jobbers, unions, and others.112 The London Embassy, under John Kennedy, Sr., began reporting on building materials prices in Britain and how that government fought the “price rings.” One embassy message on the important issue of lumber costs had in handwriting the note that it was “To be seen by the President.”113 Bankers and businessmen joined in the crusade. Winthrop Aldrich, chairman of the Chase National Bank, complained about the “failure of residential construction to respond to the stimulation of low interest rates. This failure is to be attributed to the increase in construction costs.”114

Despite these continuities in concerns about housing, most histories of the New Deal point to a fundamental shift in the administration in April 1938. They argue that in that month Roosevelt and his administration, encouraged by “Keynesian” deficit spenders as Eccles, Currie, and Henderson, permanently buried any lingering attempts at reform and embraced deficit

111 Morgenthau Diaries Entry, February 25, 1938, Book 1, HMJ Presidential Diaries.
113 Johnson to Cordell Hull, February 28, 1938, Volume 112, HMJ Diaries.
spending and mass consumption as the only solution to the ongoing recession.¹¹⁵ Yet the focus on housing financing and costs in the administration remained. For one, Lauchlin Currie’s final version of his famous “Causes of the Recession” memorandum, issued on April 1, 1938, lamented the failures of increased deficit spending and focused again on housing costs. Currie argued that much of the current deficit money was not being spent, as demonstrated by “the lag in expenditures on durable goods such as houses.” Although he thought more deficits could stimulate recovery, he also said “it is not necessary to stress the difficulties in such a course.” Instead he noted that the “petering out of the promising building revival that had gotten under way in 1936 appears to be associated with the advance in the price of new houses.” He blamed “individual strategically-located unions,” and said the “broad lesson or moral that emerges is” that there “is absolutely no assurance that another recovery will not be chocked off by excessive price and cost advances.”¹¹⁶ Far from a call for more federal spending, Currie’s final memo was a demand for cost control and again focused on housing.

When Roosevelt, after a meeting with Harry Hopkins and others at his Warm Springs retreat, unveiled his new recovery plan to his staff in Washington in April, it was more generous and extensive than any previous government plan he proposed, but it focused less on deficit spending than on encouraging construction most especially through more lending. In fact, most of his proposed programs did not spend money directly, but increased government loans or guarantees. The first part of his plan was to allow the new public housing program to make $500 million in guarantees for loan financing to local municipalities. Roosevelt then told administration notables that next was that “Stewart McDonald was to build [that is guarantee] 500 million dollars worth of housing for rent” through the FHA under the new housing act. At

¹¹⁶ Lauchlin Currie, “Causes of the Recession,” April 1, 1938, Eccles Papers, FRASER.
the same time Ickes and the Interior Department would loan money to states and municipalities, where most public construction was funded.  These proposals were more indicative of what the journalist Stewart Alsop would later call Roosevelt’s “splending” plans, or spending through lending.

In Roosevelt’s speech to Congress on the program April 14, 1938, he did not merely blame insufficient spending in the economy, but problems balancing spending and prices between different industries. He said the recession arose because “the prices of many vital products had risen faster than was warranted...In many lines of goods and materials, prices got so high that buyers and builders ceased to buy or to build.” Thus the entire chain or prices and processes had “got completely out of balance.” Roosevelt told Congress that their job was to “seek the national good by preserving the balance between all groups and all sections.” More financing help by the government was central in restoring that balance. The first new measure he mentioned to Congress was not deficit spending but the making over $2 billion of “additional bank reserves available for the credit needs of the country” through gold sales and regulatory changes to banks, the vast majority of which would go to business lending. The other lending and construction programs followed.

Far from a triumph for self-identified Keynesians such as Eccles and Currie, these advisors continued even after the speech to focus on using new powers to encourage housing. Currie soon submitted a memo on “The Necessity of Stimulating Private Housing,” where he argued that “recent amendments to the F.H.A. are not creating sufficient inducement,” and

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117 HMJ Diary, April 11, 1938, Morgenthau Presidential Book 1; HMJ Diary Entry, April 12, 1938, Volume 118, HMJ Diaries.
therefore “won’t make a dent... unless further inducements are offered to builders.” Eccles and Morgenthau provided Roosevelt their “Next Steps in the Recovery Program” memo, where they suggested “Further Stimulation of Residential Construction,” noting that “additional stimulus appears necessary” in this field.

For those supposed “conservatives” who resigned after the speech, the problem was not excessive spending but misdirected spending. They worried excessive government loans further inflated housing costs, and did nothing to control the menace of high prices. When Winfield Riefler submitted his resignation, he said he supported deficit spending, but “doubt[ed] the wisdom of directing public expenditures down construction channels during a depression that was brought about in an important measure by an utterly excessive rise in construction costs. Furthermore, partly as a result of the President’s housing program, which constitutes by far the most effective action taken to date, we appear to be again at the start of a real residential building revival. It is extremely important that this revival be allowed to gather headway without again being choked by rising costs.”

High building costs continued to occupy the administration, even after Roosevelt’s new recovery bills passed. When Roosevelt presented his antitrust plans to Congress in his next speech, the building trades were its focus. In the speech, Roosevelt explained high prices by warning what happens when a “contractor pays more for materials; the home builder pays more for his house; the tenant pays more rent; and the worker pays in lost work.” In fact, the President said “our housing shortage is a perfect example of how ability to control prices interferes with the ability of private enterprise to fill the needs of the community and provide

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122 Winfield Riefler to HMJ, April 21, 1938; “Notes on the Recent Fiscal and Monetary Program” April 21, 1938, p. 268-271, Ibid.
employment for capital and labor.” Roosevelt said attacks on certain high prices would “put our price structure into more workable balance and make the debt burden more tolerable,” again connecting the benefits of price balance to financial stability.123 Not merely an attack on large corporations, as described in many histories of Roosevelt’s struggle against “administered prices,” high prices by labor and small building contractors were squarely in Roosevelt’s sights.124

Thurman Arnold, the new head of the Antitrust Division of the Justice Department, who as a Yale law instructor in 1933 once advocated reforming farm mortgages, embraced the new ideology. After some minor skirmishes against building trades, he launched an attack on the entire housing industry. In his book, published in 1940, Bottlenecks of Business, Arnold noted that high prices inhibited building, and therefore the government “has had to step in with various kinds of subsidies and housing projects.” So far, however, these subsidies only led the “costs of construction to go still higher.” His question was “why pump-priming on the housing market failed to start the pump” and revive the general economy, and his answer was because of combinations, monopolies, and unions.125

Arnold’s drive against building prices became a national campaign, “the first of industry-wide scope ever undertaken in the history of” antitrust, Arnold claimed. He said that with over a million dollars in prosecuting funds and over 200 lawyers, “[f]or the first time anti-trust enforcement on a nationwide scale is a possibility.”126 The prosecution led to over 200

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123 In a throwback to his old house divided metaphor, Roosevelt claimed that business could not stand “half regimented and half competitive, half-slave and half-free.” Franklin Roosevelt, “Message to Congress on Curbing Monopolies” April 29, 1938, American Presidency Project, http://www.presidency.ucsb.edu/ws/?pid=15637
125 Because of these “the building boom choked itself off and the subsidies became only a bonus for inefficiency.” Thomas Arnold, The Bottlenecks of Business (New York: REynal & Hitchcock, 1940), 13-18, 36-37, 45.
126 Brinkley, The End of Reform, 112.
indictments, and lassoed several construction union members, including one of the most powerful officials of the American Federation of Labor. The use of antitrust laws against labor had been a liberal bugbear for half a century, but the Roosevelt administration was eager to use it to encourage building.\textsuperscript{127} The labor indictments, however, lead to a Supreme Court decision that once and for all exempted unions and their officials from the reach of antitrust attacks.\textsuperscript{128} The attempts to break what Arnold and others called “bottlenecks” in the housing industry caused only more frustration.

When the Roosevelt convinced Congress to commission the Temporary National Economic Commission (TNEC) to investigate monopolistic practices and continued stagnation, the housing and building industry was again in focus. In most histories, the TNEC hearings have been declared the American “showcase for Keynesian economics,” with Currie in the administration playing the role of “Mr. Inside” and Alvin Hansen from Harvard as “Mr. Outside,” and with Currie arranging for Mr. Hansen to be the first and “star witness.”\textsuperscript{129} Yet the emphasis in their testimony before the committee was on residential housing and investment. Hansen told the committee that the “prosperity of the twenties,” relied on “[f]irst, and this I regard as of quite extraordinary importance, there was residential building which reached in this decade an all time high.”\textsuperscript{130} More recently, the “most important single gap, and I would like to stress this, in the recovery of ’36 and ’37, was residential construction.” Currie repeated these themes.\textsuperscript{131}

\textsuperscript{128} \textit{United States v. Hutcheson} (312 U.S. 219) (1941) (Frankfurter, J.) An earlier attempt to ensure labor unions’ exemption from antitrust laws had been a prime example of “class legislation” opposed by Woodrow Wilson in 1914.
\textsuperscript{131} Ibid, 3514-3515, 3527. While demonstrating a chart Currie said “We observe that the point that Dr. Hansen was stressing as he closed is his testimony here. The most serious gap in these offsetting expenditures in 1937, as contrasted with the twenties, was in residential building.”
When offering suggestions for the future, Hansen would say that “Residential building, everything considered, would appear to offer the most hopeful field.” Hansen advocated more FHA loans and mortgage support.\footnote{132}

The final report of the TNEC repeated these concerns. It said the falloff in construction from 1929 onwards, “explains in large part both the disastrous depression of 1929-1933 and the halting nature of the subsequent prosperity.” It argued that the old issue of balance between producers and consumers goods was at the heart of contemporary problems, claiming “Prices of producers’ goods have been uneconomically high levels since the early 1920s,” and they hoped that the “adjustment downward of various important producers’ goods’ prices...may open up favorable opportunities for investment. To mention one example, residential construction... offers considerable possibilities.” The issue was not to revive consumer good spending, but instead to limit it to encourage more production goods.\footnote{133} The report said that “the construction industry affords the largest single unexploited outlet for investment funds – outlets for which are so necessary to maintain a proper balance in our economic system.” Of construction, it claimed “the greatest need lies in the field residential construction.”\footnote{134} When discussing interest rates, the Committee argued that while short term rates were not important, certain long-term ones which effected such investment were. “What is needed” the report argued “is to find fields where interest rates have the most important effect” and then “devise appropriate means of reducing rates in these fields” and not surprisingly the first mentioned

\footnote{132} The final report on savings also discussed housing investment and the “lack of balance in cost-price relationships,” and a “price structure out of balance.” See Oscar L. Altman, “Investigation of Concentration of Economic Power; Temporary National Economic Committee, Monograph No. 37, Saving, Investment, and National Income,” 76\textsuperscript{th} Cong., 3d sess., Senate Committee Print, 1941, 59, 102, 94, 99, 100; also 39-50, 96-97, 101..\footnote{133} Ibid, 276\footnote{134} “Investigation of Concentration of Economic Power: Temporary National Economic Committee, Monograph No. 8, Toward More Housing,” xv-xvi; Hart, Forged Consensus, 98. The report also noted that the “most serious restraints in the field of housing finance either have been eliminated or the machinery has been set up for their elimination.”
was “residential construction.” The report showed the essential continuity and comity between antitrust and the stimulation of housing finance in Roosevelt’s plans.

Despite years of frustration, and concerns that his housing policies had not ensured a stable and lasting recovery, Roosevelt continued hoping something more could done to connect the financial and industrial spheres in order to create balanced economy. In a press conference in November of 1938, he gave the reporters a brief history of his housing and mortgage plans. He said that the administration had created the FHA for financing new construction in the medium price range ($10 per room per month he said), then Wagner’s U.S. Housing Authority for new construction in the lower range (less than $5 per room per month rent he said), but “That still leaves in the nation a very large group of people who can afford to pay between five and ten dollars per room per month, who have not been taken care of by any of the existing agencies.” He said he had a talk that morning with housing officials “to discuss ways and means of getting cheaper finance for that particular group.”

The challenge Roosevelt faced was again connecting investors and builders. “What I am exploring is the fact that we have in this country an enormous pool of money belonging to the small investors who... are seeking to find investments that will bring them in a net of somewhere around 3%, 3 ¼% or 3 ½%. That machinery for bringing this type of investment to the small, individual family has never been developed. I have had studies made in a half a dozen communities, which show a surprising amount of $1,000, $2,000, $5,000 potential investments where the people do not know what to put the money into. They had their fingers burnt in putting it in stocks and debenture bonds.” Yet the money and the desire to invest in mortgages remained, which “leads me to believe that there is a pool waiting for a form of investment such

135 “It would appear that, insofar as our economic problems can be solved by increasing investment, there is no more suitable field than that of residential building.” The report cited the work of Isador Lubin, Alvin Hansen, and Lauchlin Currie. Ibid, 285, 276-277.
as this particular housing investment would be.”

After all his effort, Roosevelt was still convinced that there remained some small unexploited section of finance, and some small part of the home lending market, which could be connected with producers and thus revive housing and the economy.

The looming war and its attendant defense build-up sabotaged any hopes for more housing investment, but Roosevelt’s consistency is noteworthy. From his nomination speech in Chicago, where he had trumpeted the small depositors and investors who tied the agricultural and industrial sectors together, to his desire to find a way to bridge the divide between investors and homebuilders, all as part of an economy that balanced agriculture and manufacturing and then heavy and light industry, Roosevelt’s vision for the recovery of the American economy had been consistent. The means and targets had changed to some extent, but the goals remained the same. In fact, the goals and remained basically the same ever since William Potter and Samuel Hartlib had formulated the idea of a land bank back in the 17th century, to balance the overall economy and to make the land a more liquid part of the financial world.

136 FDR Press Conference #496, November 1, 1938, p. 201-203. The next month the President by executive fiat allowed the FHA to offer a billion dollars more mortgage loans, though this provided little for that expected group. “President Extends Housing Aid Limit in FHA by Billion: Big Building Year Seen” New York Times, December 14, 1938.

137 Alvin Hansen, “the American Keynes” who at least since 1921 had urged a federal guarantee of mortgages, continued to worry about housing construction. In his famous essay predicting a long period of “secular stagnation,” titled “Economic Progress and Declining Population Growth,” Hansen attributed low investment largely to minimal residential building caused by low population growth. He argued that population growth “affects capital formation most directly in the field of construction, especially residential building,” and that while “a rapidly growing population will demand a much larger per capita volume of new residential construction,” a stagnant population will demand more services with less capital, thus lowering the total amount of investment needed for the economy. In the 1940s and ’50s, Hansen, along with many other Federal Reserve officials such as Chester Davis and Guy Greer, would push vigorously for more residential construction programs as general solutions to economic ills. See Alvin Hansen, “Economic Progress and Declining Population Growth,” American Economic Review 29, no. 1 (Mar., 1939): 1-15; Alvin Hansen and Guy Greer, “Urban Redevelopment and Housing,” National Planning Association Planning Pamphlets, No. 10, December 1941.
In the end, however, Roosevelt and the long train of believers in economic balance who preceded him could only remain frustrated. The use of the term “balanced economy” peaked in the last year of Roosevelt's presidency, and gradually declined as an important economic concept. Yet the due to the efforts of these reformers, the financial world had been completely reformed. Commercial banks, which once eschewed mortgages, increased their residential mortgage holdings from $2.1 billion at their Depression nadir in 1934, to almost $3 billion in 1940, an increase of almost 50%, and higher even than their peak in the 1920s, while buildings and loans, insurance companies, and other financiers expanded their mortgage portfolios by 30 to 50% as well. The country was set for an even more astounding surge in mortgage debt after the war, with ever more of it in the hands of banks and building and loans and ever more of it supported by the banks’ new partner, the federal government.

Roosevelt's one time advisor Raymond Moley bemoaned that “the government of the United States was being made the greatest investment and mortgage banker in the world.” It would remain so.

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138 The term "economic balance" had a similar peak at the time, though there was some revival of that term in the 1950s. See Google Ngram: https://books.google.com/ngrams/graph?content=balanced+economy&year_start=1800&year_end=2000&corpus=15&smoothing=1&share=&direct_url=t1%3B%2Cbalanced%20economy%3B%2Cc0 ; https://books.google.com/ngrams/graph?content=economic+balance&year_start=1800&year_end=2000&corpus=15&smoothing=3&share=&direct_url=t1%3B%2Ceconomic%20balance%3B%2Cc0

139 Historical Statistics, Table Dc 903-928. Total urban mortgage debt would increase almost 270% from its mid-1930s low just by 1952. The guarantees of mortgages and deposits also changed buildings and loans and other "cooperative" financial enterprises. Due to the government guarantees of their deposits and mortgages, they became almost indistinguishable from regular banks, with short-term deposits and expectations of constant liquidity. David Mason, From Building and Loans to Bailouts: A History of the American Savings and Loan Industry, 1831-1995 (Cambridge: Cambridge University Press, 2004).

140 Moley, After Seven Years, 193; Alvin Hansen noted that “Governments all over the world are in the process of becoming intermediaries between the ultimate savers and investment outlets, but the process of production is still carried on by private enterprise,” the end result of which was that “The government is becoming an investment banker.” In this Hansen heartily approved. Perry Mehrling, The Money Interest and the Public Interest: American Monetary Thought, 1920-1970 (Cambridge, MA: Harvard University Press, 1998), 120.
CONCLUSION

This dissertation has traced the long history of an idea. That idea declared that mortgages, particular debts based on particular patches of land, could be made as easily tradable and liquid as cash, and that through that transformation, those parts of the economy that depended on mortgages and on land could be brought into some sort of balance with other parts that did not. The reforms inspired by this idea reshaped American government, politics, and economics.

The dream of liquid mortgages was touted by farmers, by bankers, by lobbyists, and by crusading intellectuals, who allied together over decades to create a host of new government corporations and agencies. They succeeded in their task beyond their wildest dreams. By 1939, government corporations and credit agencies owned or guaranteed over $12 billion in financial assets, the majority of which were based on mortgages, a larger amount than the entire federal budget.¹ Other implicit guarantees and supports to the rest of the financial world made it impossible to disentangle even the everyday business of borrowing and lending from federal subsidies to lending, which expanded to an increasingly baroque number of financial areas.

Yet even as the federal government reshaped the financial world to encourage certain types of long-term loans and to create balance between different industries, the financial sector itself reshaped the government and the understanding of its role in the economy. The means of economic balance, cheap finance, supplanted the supposed ends, bolstering certain backwards sectors of the economy. Eventually, supporting financial stability and growth, sometimes known as the “financialization” of the economy, became one of the federal government’s premier

duties. By the end of the New Deal, the government came to see as one of its most important goals ensuring the stability and profitability of American finance. The old dream of economic balance became lost in the mists of history, while the financial institutions and supports that it birthing became powerful or overweening aspects of modern American life.

Yet as government support for finance, mortgages, and housing grew ever more elaborate, the interest groups such as builders and financiers that relied on these subsidies became divorced from many of their original constituents and intellectual allies, and came to argue for ever more and ever greater support. As housing went from a depressed sector to a booming and profitable industry, many intellectuals and economists lamented that mortgage subsidies were now threatening to create new and dangerous imbalances in the economy. They warned that supports provided to successful construction and banking industries only fueled imbalances between sectors and inflation.

During the Second World War, reformers who once had tried to expand mortgage lending tried to scale it back, since they worried it drained funds and resources from the military, but met with little success in the face of lobbying pressure. Marriner Eccles, who led these fights as Governor of the Federal Reserve Board, later became convinced that government subsidies to mortgages were the root cause of the postwar inflation. At one Federal Reserve meeting Eccles said “that one of the most inflationary factors in the expansion of bank credit for some time had been the growth in mortgage credit,” and hoped that it would be pared back.² “Win” Riefler, returning to the Fed after a stint at the Princeton Institute of Advanced Study, became again chief advisor at the Federal Reserve, as one member said, “the emince grise at the board and principle policy advisor to the chairman.” Riefler also became concerned with

² Minutes of the Federal Open Market Committee, February 27, 1948, p. 14, FOMC Papers, FRASER. He specifically worried that President Harry Truman’s proposed program of mortgage support went too far, and said that “if such a program was enacted it would have seriously adverse effects on the problem of inflation and credit control.”
inflation based on excess housing credit. He even formulated a new theory that demanded that the Federal Reserve purchase only short-term government bills, known as “bills only,” a strange re-emergence of the real bills doctrine in a different form. Riefler hoped it would prevent undue amounts of long-term credit and most especially excessive mortgage debt.

Yet Eccles, Riefler, and others understood that the growth of a housing lobby made the paring back of subsidies and long-term credits difficult if not impossible. The National Association of Home Builders, founded in 1942, as well as older groups such as the now pro-federal intervention Mortgage Bankers of America, pushed for ever more federal guarantees. Besides preventing the imposing of capital constraints on housing during the war, as was done in World War I, these groups prepared for more mortgage loans afterwards. Howard Russell, who helped create the Home Owners Loan Corporation for the Building and Loan industry, crafted and helped pass the provision of the G.I. Bill that provided complete 100% guarantees to banks providing mortgage loans to veterans, inaugurating the famous Veterans Administration housing program. Despite opposition from the Federal Reserve and others, the demands of the lending and buildings industries won out over their erstwhile intellectual allies.

After the war, these housing groups further expanded mortgage guarantees during the presidencies of Harry Truman and Dwight Eisenhower. Attempts by Eisenhower and his administration to slow down housing credit, in order to staunch inflation, ran into this lobbying gauntlet, and were reversed. The administration now faced what the New York Times called

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5 “Housing Agencies Prevail on Stimulus to Building: Lower Down Payments on New Homes Will be a Mild Boost for Inflation,” *New York Times*, August 11, 1957; “Reserve Board Official Opposes Cut in Down Payments Set by FHA,” *Wall Street Journal*, March 5, 1957. Riefler noted that “I have felt very worried in the last ten years,” over the “emphasis on relaxing down payments rather than raising them.” The article also noted that Treasury Undersecretary Randolph Burgess would “recommend a Presidential veto if Congress approves measures to use National Service Life Insurance funds to purchase Government-
the “housing bloc” in Congress. The Times noted this “powerful Congressional bloc is rated by students of such phenomena as at least a full cut, in terms of efficiency, above such log-rolling groups of the past as the silver bloc and the high tariff bloc,” and of course, the agricultural bloc. A Wall Street Journal page one report on the “The Housing Lobby,” said the lobby represented “a fundamental shift in the historic custom of trying to influence Congress. From a haphazard, often crude practice, lobbying has been transformed over the years into a calculated, sophisticated science.” The housing lobby, according to one unnamed Senator, “is one of the most potent around,” and was in fact “a cluster of lobbies within lobbies” including everything from bankers to builders to heavy industry groups.

The federal agencies that reformers created themselves became powerful lobbyists for more mortgages and allied with these housing groups against older proponents of balance. The New York Times noted that the Federal Housing Administration “conceives of its role, in part, as that of a ‘representative’ within the Government of the segment of the economy it serves.” In 1957, despite a booming economy, the Federal Housing Administration pushed Congress to lower down payments on its guaranteed mortgages. The Times said the “Agency fought hard...and finally won out over opposition in the Treasury, Federal Reserve, and Council of Economic Advisers.” Winfield Rieffer himself railed against the change, claiming that “Down payments should be increased in periods of prosperity to encourage savings and stave off inflation, and reduced when there is an economic slowdown.” Yet paring back subsidies when reformers thought them unnecessary was easier said than done. Such attempts to fine-tune and

**Backed mortgages.” This was exactly the same program that was used in 1923 to purchase Federal Land Banks bonds.**


balance the economy ran into the logrolling politics that the balance ideologues once relied upon to create these new institutions. Now the reformers who celebrated the original changes had lost control of them. Housing had become a successful and well-supported part of the economy, not a backwards sector desperate for credit, yet it continually received more support. President John F. Kennedy himself promised to roll back Riefer’s “bills only” ideas at the Fed and increase mortgage credit again, and he succeeded in doing so. From this point on, there would be no more attempts at balance, only a continual increase of subsidies for mortgage credit.

The consequences of the increasing supports for mortgage lenders became clear in the 1980s. In that decade, the Savings and Loan crisis bankrupted the Savings and Loan Insurance Corporation that had been created along with the rest of the National Housing Act

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9 President John F. Kennedy, less than a month after his inauguration, told Congress that they needed to increase financial support for cities and “for residential construction. To increase the flow of credit for these purposes, long-term interest rates should decline.” He tasked the Federal Reserve with lowering such rates directly through buying long-term bonds. He also demanded even lower down payments for federal mortgages, “To make sure that general expansion of long-term credit is effective in stimulating residential construction.” These actions would become the basis of the administration’s “Operation Twist,” which, as John Maynard Keynes had advocated back in 1930, tried to decrease long-term rates even as short-term rates rose. The housing motive behind “Operation Twist,” to the best of my knowledge, has not been discussed by previous historians or economists. For Operation Twist see, John F. Kennedy, “Special Message to Congress,” February 2, 1961, American Presidency Project, http://www.presidency.ucsb.edu/ws/index.php?pid=8111&st=&st1= These plans were also mooted at the President’s News Conference the previous day, John F. Kennedy, “The President’s News Conference,” February 1, 1961, ibid, http://www.presidency.ucsb.edu/ws/index.php?pid=8089&st=&st1. See Walter Heller, “Monetary Policy and Debt Management: Draft for Message, for discussion,” January 25, 1961, Papers of Walter Heller, JFK Library, Box 19, FRASER https://fraser.stlouisfed.org/docs/meltzer/helmem610125.pdf. “President Offers Multi-Point Program To ‘Restore Momentum’ to the Economy,” Wall Street Journal, February 3, 1961; 10 In this period many states also entered into the housing finance game, and some relied on implicitly guaranteed bonds to do so, most famously the “moral obligation” bonds pioneered by Governor Nelson Rockefeller in New York State. Michael Utevsky, “The Future of Nonguaranteed Bond Financing in New York,” Fordham Law Review 45, no. 4 (1977): 860-884.

11 It is little understood that the so-called mortgage interest deduction was not enacted until 1986. Before then, all interest was tax-deductible, on the assumption that the investors paid taxes on the interest received. During the tax reform of 1986 all other forms of interest deduction were removed, yet housing groups succeeded keeping their deduction, and even acquired new tax advantages such as the Low Income Housing Tax Credit. Roger Lowenstein, “Who Needs the Mortgage Interest Deduction,” New York Times, March 6, 2006.
infrastructure. The Corporation was bailed-out with $125 billion from the federal government. This bailout was so massive that few recognized that at almost the same time, the old Federal Land Banks were bailed-out for the second time in their history, this time with $4 billion from the government.\textsuperscript{12} After the Savings and Loan industry imploded, regular commercial banks, granted increased powers and guarantees to make mortgages from back in the 1930s, absorbed them and became the biggest mortgage lenders in the country. Commercial banks went from having about 25% of their loans as mortgages in 1980 to 60% in the early 2000s. Loans by banks to traditional commercial and industrial companies, by contrast, went from 40% to less than 20% of their portfolios.\textsuperscript{13} The “commercial” bank had almost become a complete inversion of its previous self. While once such banks were defined by their opposition to mortgage debts, they were now defined precisely by their focus on such mortgages.

Yet the problems with illiquid mortgages continued. In 2008 numerous banks had to be bailed out by the government, often using the Federal Reserve’s lending powers from the 1930s, due to faltering or unsalable mortgage debts. Fannie Mae and its newer cousin Freddie Mac, also products of the National Housing Act, were bailed-out by the federal government, this time with about $150 billion dollars.\textsuperscript{14}

These bailouts all had their roots in the old idea of balance through cheap mortgages that emerged in the 1910s through the 1930s. This idea helped create a new financial system where home and farm mortgages were cheaper and more easily tradable than ever, but they


\textsuperscript{13} Alex J. Pollack, “‘Commercial’ Bank is a misnomer. ‘Real Estate’ Bank is More Apt,” American Banker, August 8, 2016. At the same time, new securitization procedures made mortgages the keystone of the interbank repurchase or “repo” market, which provided short-term cash loans to investment banks. The transformation of mortgages into “cash-like” financial instruments demonstrates the profound transformation of mortgages precipitated by government supports. See Gary Gorton, Slapped by the Invisible Hand: The Panic of 2007 (Oxford: Oxford University Press, 2010).

also created a financial system that relied on constant solicitude and support of the federal government. The ideal of a balanced economy itself was eventually forgotten. A true and stable balance between all sectors was shown to be a will-o-the-wisp, changing as sectors themselves changed, and subject always to political pressure and influence. Yet the country continues to deal with the consequences of the idea of balance and of the financial revolution it inspired.
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