

A..P. GIANNINI, MARRINER STODDARD ECCLES,  
AND THE CHANGING LANDSCAPE OF  
AMERICAN BANKING

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Dissertation Prepared for the Degree of  
DOCTOR OF PHILOSOPHY

UNIVERSITY OF NORTH TEXAS

May 2000

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Weldin, Sandra J., A.P. Giannini, Marriner Stoddard Eccles, and the changing landscape of American banking. Doctor of Philosophy (History), May 2000, 240 pp., references, 71 titles.

The Great Depression elucidated the shortcomings of the banking system and its control by Wall Street. The creation of the Federal Reserve System in 1913 was insufficient to correct flaws in the banking system until the Banking Acts of 1933 and 1935.

A.P. Giannini, the American-Italian founder of the Bank of America and Mormon Marriner S. Eccles, chairman of Federal Reserve Board (1935-1949), from California and Utah respectively, successfully worked to restrain the power of the eastern banking establishment. The Banking Act of 1935 was the capstone of their cooperation, a bill that placed open market operations in the hands of the Federal Reserve, thus diminishing the power of the New York Reserve. The creation of the Federal Housing Act, as orchestrated by Eccles, became a source of enormous revenue for Giannini. Giannini's wide use of branch banking and mass advertising was his contribution to American banking. Eccles's promotion of compensatory spending and eventual placement of monetary control in the hands of the Federal Reserve Board with Banking Act of 1935 and the Accord of 1951 and Giannini's branch banking diminished the likelihood of another sustained depression.

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## INTRODUCTION

### BACKGROUND OF AMERICAN BANKING AND THE CATALYSTS OF CHANGE

Associating a national bank with the Bank of England, early Americans balked at Alexander Hamilton's proposal for the Bank of the United States in 1791. Constitutional questions and fears of elitism pervaded the controversy of the Bank's establishment. Although the Bank of the United States existed until 1836, Westerners and Southerners always believed that the bank was the cause of their economic downswings. The traditional fear of the South and West toward the eastern banking establishment predated the bank war of Andrew Jackson's second administration. Always short of currency and dependent upon the East for funds, the South and West perceived Wall Street as the source of both foreign and domestic financial chicanery. Although there were numerous state banks in the South and West, these banks, unable to issue currency, depended upon the eastern banks for loanable funds, often rediscounted at high interest rates. By 1910 the top six New York City banks made 46 percent of all loans in the South and West.<sup>1</sup> After the demise of the second Bank of the United States, independent treasuries held federal deposits, thus completely divorcing public funds from private control. State banks served the consumers' needs, although insolvency and weakness punctuated their profile.<sup>2</sup>

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<sup>1</sup>Benjamin K. Klebaner, American Commercial Banking: A History (Boston: Twayne Publishers, 1990), 81-82.

<sup>2</sup>Ibid., 82.

During the Lincoln administration in 1862, the National Bank Act created a system whereby national bonds could be redeemed with currency. State banks could become members by giving Treasury one-third of its assets in the form of national bonds. In 1865 an amendment to the act placed a 10 percent tax on the currency issue of state banks, thus diminishing the state banks' capacity to issue bank notes.<sup>3</sup>

The depressions of 1873 and 1893 exacerbated the farmers' discontent and their suspicion that the eastern bankers dictated their lives. The pitfalls of an inelastic currency, manifested by the Panic of 1893, seemingly validated the fears of the West and South. The failures of a powerful financial house in England and the Philadelphia and Reading Railroads fed into declining agricultural prices and state bank failures to produce a militant discontent in the West and South. Suspicions of the "monstrous" eastern banking firms further increased in 1895. The U.S. Treasury and the American public believed that the soundness of the economy rested upon on a minimum of \$100 million in federal gold reserves. When reserves dropped to \$41 million in February 1895, President Grover Cleveland borrowed 3.5 million ounces of gold from J.P. Morgan and other New York bankers. When the market value of the securities rapidly increased, critics accused Cleveland of consorting with Wall Street.<sup>4</sup>

The election of 1896, the watershed of bimetallism and agrarian discontent, resulted in a Republican and gold standard victory. Gold entered the market as hoarding

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<sup>3</sup>Michael Martin and Leonard Gelber, Dictionary of American History (Totawa, N.J.: Littlefield Adams Quality Paperbacks, 1978), 432-433.

<sup>4</sup>Arthur Cecil Bining and Thomas C. Cochran, The Rise of Economic Life (New York: Charles Scribner's Sons, 1964), 415-416.

abated. New gold discoveries in Alaska and Australia added to the increasing pool of reserves, and the gold standard became a symbol of increasing prosperity. The banking situation, however, remained fragile. Most reserves remained on deposit in New York banks, and when New York bankers, in turn, loaned to those investing in the stock market, the system buckled under the weight with a panic. With the eastern banks closely tied to the stock market, and the New York banks enjoying the lenient banking laws of the state, any fluctuation in Wall Street had pronounced repercussions for the banking system. The Panic of 1907 validated the existing suspicions of those desiring an elastic currency.<sup>5</sup>

When the House of Morgan once again rescued the banking system with an injection of large loans, Wall Street bankers became a symbol of the seemingly incestuous relationship between the federal government and eastern bankers. J.P. Morgan, Jr., the "Napoleon of Wall Street," singlehandedly averted disaster for the banking industry when he ordered the New York banks and trust companies to pool their resources to bolster the failing banks. It appeared that without his financial genius and support, the serious flaws of American banking would undermine the national financial structure. That there were no emergency funds available for those periods when depositors withdrew large amounts of deposits led to the momentum to create an American central bank with the powers to determine monetary and fiscal policies.<sup>6</sup>

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<sup>5</sup>Ibid., 418-419.

<sup>6</sup>Robert C. Puth, American Economic History (Chicago: The Dryden Press, 1982), 285.

When Morgan received heavy criticism in 1895 and 1907, his antagonists actively sought investigation and reform. For many, especially southern Democrats, the control of the nation's economy by Wall Street would be no longer tolerated. With the passage of the Aldrich-Vreeland Act of 1909, a more elastic currency allowed banks to issue notes on approved state and municipal bonds, and, in times of emergency, loans made to businesses.<sup>7</sup> Moreover, the act sanctioned the establishment of the National Monetary Commission, an investigating team of eighteen senators and congressmen, an agency designed to improve the America banking system. Led by Senator Nelson Aldrich of Rhode Island, they investigated the banking systems of European countries with firsthand experience. Their final report, issued in 1912, recommended a National Reserve Association that would monitor fiscal policy as well as oversee other banks. To bypass the protests against a central bank, the organization recommended independent district banks.<sup>8</sup>

The Pujo Committee, headed by Representative Arsene Pujo (D-LA) investigated the money trusts in 1912. The committee reported that the worst suspicions about Wall Street were true. After interviewing J.P. Morgan and other presidents of the larger banks, the Pujo Committee revealed the financial manipulations and control exercised by the those banking combinations.<sup>9</sup>

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<sup>7</sup>Ibid., 287.

<sup>8</sup>Bining and Cockran, The Rise of Economic Life, 422-423.

<sup>9</sup>Pujo Commission Report, Report of Committee Appointed Pursuant to House Resolution 429 and 504 to Investigate the Concentration of Control of Money and Credit (Washington, D.C.: Government Publications Office, 1913).

The findings of the National Monetary Commission and the Pujo Committee, along with the enactment of the Aldrich-Vreeland Act culminated in the Federal Reserve Act of 1913. This act attempted to curb the domination of Wall Street and, at the same time, provide a safety net for banks that experienced "runs." Fearing that one central bank would come under the control of New York, the federal government established twelve regional banks. The commercial banks now had a lender of last resort. The purpose of the act was "to provide for the establishment of Federal Reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial papers, to establish a more effective supervision of banking in the United States, and for other purposes."<sup>10</sup> Member banks could borrow notes issued by the Federal Reserve (FED) if they provided the security of either gold or commercial paper. The member banks, primarily larger banks, funded the Federal Reserve Bank by purchasing stock equal to 6 percent of their capital.<sup>11</sup>

The loopholes of the original act became apparent a few years later. The lines of authority were confusing. The Reserve Board, by statute, was the controlling entity; however, the twelve District Federal Reserve Banks exercised the greater authority. Monetary policy was limited to varying the rediscount or prime rate, the rate at which the Federal Reserve loaned funds to members banks.<sup>12</sup> Control of the financial market did

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<sup>10</sup>Board of Governors of the Federal Reserve System, The Federal Reserve System: Purposes and Functions, (Washington, D.C., Division of Support Services, Board of Governors of the Federal Reserve System, 1994), 2.

<sup>11</sup>Ibid., 27-31.

<sup>12</sup> Ibid.



not, however, pass to the federal government. New York City controlled 25.4 percent of the total bank assets in 1900. By 1930 Chase National was the world's largest bank. Lower Manhattan housed two-thirds of the nation's largest banks.<sup>13</sup>

Following the Great Depression, Elliot V. Bell, a member of the financial news staff of the New York Times, observed that the "Federal Reserve Bank of New York . . . had been for years the tail that wagged the dog in the Federal Reserve System." Despite the intent of the Federal Reserve Act of 1913 to place control of banking in private and public hands, the federal system became the servant of private banking. The hub of the banking industry was, as it always had been, New York. As leader of the commercial bankers, the New York Reserve orchestrated the actions of the twelve member banks and dictated policy to the Board in Washington. The weaknesses of the Federal Reserve Act of 1913 became glaringly evident after the 1929 stock market crash. The struggle for the volume of control of currency via the buying and selling of government bonds focused upon the competition between Washington, D.C., and New York, as each vied for the seat of financial authority.<sup>14</sup>

The boom and bust of the business cycle following World War I indicated that the rediscount rate was inadequate for maintaining economic stability. A small, informal committee, headed by the governor of the Federal Bank of New York, Benjamin Strong, found ways to compensate for the inadequacies of the original Reserve Act. The

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<sup>13</sup> Klebaner, American Commercial Banking, 129.

<sup>14</sup> Elliot V. Bell, "The Decline of the Money Barons," in We Saw It Happen, eds. Hanson W. Baldwin and Shepard Stone (New York: Simon and Schuster, 1938), 142 ; Marriner S. Eccles, Beckoning Frontiers (New York: Alfred A. Knopf, 1951), 166.

Governor's Committee on Centralized Execution of Purchase and Sales of Government Securities bought and sold government securities either to supplement or deplete their earnings when the rediscount rate proved inadequate. Member banks had the right to refuse to buy or sell government securities. The New York Federal Reserve, strategically located and well-managed, owned one-third of the nation's banking resources. Though from a legal standpoint the actions of New York Reserve Bank were subject to the approval of the FED, the New York Reserve Bank maintained dominance. When the New York Reserve bought and sold government securities, the member banks felt the ramifications, and thus it affected market conditions.<sup>15</sup>

When the public debt rose to \$27 billion after World War I, actions on the open market by the New York Reserve were more pronounced. Years later, economists Milton Friedman and Anna Schwartz concluded that the bankers' behavior played a determinant role in the stock market crash and the depression. In early 1929, the New York Reserve wanted to raise its rediscount rates contrary to the needs of business. Excess supply outstripped purchasing power, but it was also obvious that speculation in the stock market was rampant. The proper corrective measure would have been to limit funds available for stock market speculation and, at the same time, provide more funds for the purchase of goods and services. The New York Reserve Board and the Federal Reserve Board offered opposite solutions. In February 1929 the Federal Reserve Board issued a "warning" to its member banks that they were not to borrow money for speculative loans.

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<sup>15</sup> Marriner Eccles, Beckoning Frontiers 168-169; Eliot V. Bell, "Who Shall Rule the Money Market?"; Current History 42 (July 1935): 359.

The New York Reserve continued, however, to seek permission to increase its rediscount rate. The power struggle between the New York and Washington Reserve Banks crested on October 29, 1929. Morgan and his Wall Street colleagues injected \$240 million into the market, but failed, unlike previous efforts, to rescue the economy. The prestige and power of Wall Street was in decline.<sup>16</sup>

The struggle between the New York and Federal Reserve banks continued after the stock market crash. When Mid-western banks failed in the 1930s and the public attempted to convert deposits into cash, a shortage in the money supply occurred. The Federal Reserve System should have expanded the money supply by lowering the prime interest rate. When the Federal Reserve failed to provide this countercyclical measure, prices began to fall, and there was a slowdown in economic activity. What should have been a mild recession became much more serious. Improper actions by the Federal Reserve were due to several factors: the inability to determine the intensity of the depression, an inadequate understanding of the role of the central bank in the domestic economy, and a lack of strong leadership. Benjamin Strong, Governor of the New York Federal Reserve, known for his singularly heavy influence on monetary policy, died in October 1928, and his successor, George Harrison did not expand the currency as needed. Strong, predicting upon past actions, would probably have increased the amount of currency in circulation.<sup>17</sup>

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<sup>16</sup>Milton Friedman and Anna Schwartz, The Great Contraction (Princeton, N.J.: Princeton University Press, 1963), 299; Bell, in We Saw It Happen, 142-148.

<sup>17</sup>Ibid.

Public confidence in Wall Street plummeted. Investigations by the Nye Committee, a Senate investigation, revealed that the House of Morgan allocated funds for stock market speculation, at favorable prices, to the directors of the Federal Reserve Bank of New York. Public distrust deepened when it was revealed that J.P. Morgan and his nineteen partners failed to pay income taxes for two years. Then the Committee confirmed that Benjamin Strong consulted with and represented the Wall Street bankers both to the Federal Reserve Board and Treasury. The public's suspicion of Wall Street and bankers in general created an atmosphere that permitted the federal government to grant greater power to the Federal Reserve Board in Washington.<sup>18</sup>

Carter Glass (D-VA) spent most of his career involved with questions of banking and currency. As secretary of the treasury during Woodrow Wilson's administration, Glass was the primary architect of the Federal Reserve Act. He served as chairman of the House Banking and Currency Committee and later, during Roosevelt's administration, as chairman of a subcommittee of the Senate Banking and Currency Committee. Historian Arthur Schlesinger, Jr., reported Glass as saying that "Next to my family the Federal Reserve is nearest to my heart."<sup>19</sup>

Decentralized and powerless to stop falling prices, the Federal Reserve Board could not react until the spring of 1932 when the Glass-Steagall Act of that year decreased the requirements for "eligible paper," loans, or paper that member banks could turn into the Federal Reserve for funds. The eligibility of commercial loans held by

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<sup>18</sup>Bell, "The Decline of the Money Barons," 152, 161.

<sup>19</sup>Arthur Schlesinger, Jr., The Politics of Upheaval, vol.3, The Age of Roosevelt (Boston: Houghton Mifflin Company, 1960), 296.

banks for securing funds from the Federal Reserve Bank in Washington expanded. The following year the second Glass-Steagall Act of 1933 separated investment and banking houses, allowed stricter supervision of member banks by the Federal Reserve Board, and created the Federal Deposit Insurance Corporation (FDIC). For the first time, the Federal Open Market Committee (FOMC) was recognized by law. The FOMC was responsible for the buying and selling of government bonds. Still, the banking act did not address the central issue: bankers could still refuse to buy government securities when the Federal Reserve Bank in Washington wanted to decrease the money supply through federal open market operations.<sup>20</sup>

Senator Elmer Thomas (D-OK), always an advocate of currency expansion, attached an amendment to the Agricultural Adjustment Act in 1933 that permitted the president, during emergencies, to allocate up to \$3 billion of United States notes to the Federal Reserve Board and a return to bimetallism in order to expand the currency. Wall Street believed this amendment threatened the soundness of the banking system, and financiers were further shocked by the suspension of the gold standard in 1933. Jackson Reynolds, president of the First National Bank of New York, spoke for the American Bankers' Association when he said: "Mr. President, I feel that the banking fraternity in the last two years has endured enough mass punishment so that it is now in such a chastened and understanding mood that you can accept with hospitality any overture of cooperation on the part of the leaders."<sup>21</sup>

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<sup>20</sup>Elliot V. Bell, "The Bankers Sign a Truce," Current History 41 (December 1934): 257.

<sup>21</sup>Ibid.

The public, the newly elected president, and Congress chastened the money-changers when the Pecora Investigation revealed corruption within the stock market and investment houses coupled with banks. The result was the Banking Act of 1933 and the Truth-in-Securities Act. In his inaugural address of 1933, Franklin Delano Roosevelt proclaimed that the "rulers of exchange have failed through their own stubbornness and their own incompetence," and "their efforts have been cast in the pattern of an outworn tradition." FDR also forewarned the bankers of impending changes in the Federal Reserve System when he talked to the nation on September 28, 1934. The president set a schedule to "re-establish public confidence in private banking." Amendments to the Federal Reserve Act required "prompt and favorable action by the Congress" and were necessary for the "protection of the weak against the strong." The "understanding" mood of the bankers would be tested.<sup>22</sup>

Two powerful bankers did not ally themselves with the New York banking fraternity. As the American population moved West, so had power in the banking community. The inevitable rise of a western counterpart to Wall Street occurred during the 1920s, but did not become noticeable until the first Roosevelt administration. Both these authoritative bankers in the West were iconoclasts, and together they focused upon new ideas: branch banking, the democratization of banking, and compensatory government spending. Though often at crosspurposes, they managed to work for a common goal: recognition of the West as a powerful financial center, frequently at the

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<sup>22</sup> Samuel Rosenman, ed., The Public Papers and Addresses of Franklin Delano Roosevelt (13 Vols., New York, 1938-50), II, 11-15; New York Times, 29 September 1934.

expense of the ensconced power of Wall Street. Remarkably different in ethnic background, religion, personality, and public image, they nevertheless worked in tandem to erode the power of the Wall Street banking community. One was well-known to the banking community in 1932; the other seemed to have come quietly into the New Deal enclave from a distant land. But, driven by their common experiences of the "self-made man," they used their frontier mentality to change the landscape of American banking. Marriner S. Eccles of Utah and A.P. Giannini of California set the format for modern American banking. Eccles strengthened the role of the Federal Reserve, and Giannini established the practice and significance of the role of branch banking and opened up banking to the small depositor.

## CHAPTER II

### AMADEO PETER GIANNINI:

#### "BIG BULL OF THE WEST"<sup>1</sup>

America's first powerful banker representing the West Coast, Amadeo Peter Giannini (1870-1949), was innovative, idealistic, and opportunistic. His beginnings as a fruit and vegetable vendor culminated in his ownership of one of the largest private banks in the world, the Bank of America. By 1953, the San Francisco-based bank controlled 528 branches in 317 California and nine international affiliates. Never one to seek enormous personal wealth - - he once complained that he was in danger of becoming a millionaire- - his estate at his death was \$489,278. Giannini nevertheless sought to expand the Bank of America until it became a multinational corporation. The aggressive Transamerica Corporation, Giannini's bank holding company, antagonized the federal regulatory agencies and provoked competition between East and West Coast banking institutions.<sup>2</sup>

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<sup>1</sup>Matthew Josephson, "Big Bull of the West," Saturday Evening Post (6 September 1947): 15.

<sup>2</sup>Marquis James and Bessie Rowland James, Biography of a Bank: The Story of Bank of America (New York: Harper Brothers, 1954), 1-2, 502. The Jameses were the first to organize and catalogue the papers held in the Bank of America Archives. Since then, Gerald Nash and Felice Bonodio have accessed the Archives and published the works A.P. Giannini and the Bank of America and A.P. Giannini: Banker of America respectively. Because the Bank of America Library is a private institution and access is very limited, this author could obtain only a minimum of information. The Jameses frequently do not reference information, and this author must assume they gained the information from the Bank of America Archives.



Recent rural Roman Catholic immigrants from Genoa, Italy, Giannini's parents, Virginia and Luigi, began their new lives in San Jose, California. Their first child, Amadeo Peter (A.P.), was born on May 6, 1870, in a hotel room.<sup>3</sup>

Ten years later, following the death of her husband, Virginia Giannini married Lorenzo Scatena, a fruit hauler. The emotional security provided by Scatena was not matched by financial certainty. The economic instability of the 1870s resulted in the sale of the farm and a move to San Francisco, where Scatena entered the fruit and vegetable commission business in his newly adopted city.<sup>4</sup>

A.P., challenged by his stepfather's feverish work, was more interested in the family business than his education. During his teenage years, he rapidly learned the skills of the trade, from delivery of the produce to bookkeeping. He traveled the countryside searching for the best produce, advising farmers of agricultural improvements, and making loans to farmers with the Scatena savings. Every grower became his personal friend. Working longer hours than his competitors, A.P., now seventeen, generated so much business that Scatena made him a partner with a one-third interest. Two years later, A.P. controlled 50 percent of the business. His financial security established by the age of nineteen, A.P. married Clorinda Cuneo, the daughter of a successful real estate agent in North Beach.<sup>5</sup>

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<sup>3</sup> James and James, Biography of a Bank, 1-2. All subsequent quotes from James and James derive from their research at the Bank of America Archives unless otherwise noted.

<sup>4</sup>Ibid.

<sup>5</sup>Ibid., 8-9.

Nine years later, A.P. sold his shares of Scatena & Company and began investing in real estate. Living comfortably at the age of thirty-one, Giannini asserted: "I don't want to be rich. No man actually owns a fortune: it owns him."<sup>6</sup> Following the death of his father-in-law in 1902, Giannini inherited over half-a-million dollars, the executorship of the Cuneo estate, and a banking business. Giannini's former father-in-law owned shares in the Columbus Savings & Loan Society in San Francisco, a conservative institution that prospered by lending primarily to home builders and merchants. Replacing Cuneo on the board of directors, Giannini soon became exasperated by the bank's large amount of inactive funds and its unwillingness to make small loans to those of low income, particularly immigrants. Indicative of local banking policy, the Columbus Savings & Loan refused small loans to the newer immigrants. For many persons of low income, the only source of credit was the loan shark. Unsuccessful at persuading the board of directors that the small depositor was an untapped source of profit, Giannini resigned.<sup>7</sup>

Convinced that a market existed for the small depositor and that the community needed a bank that would support its development, Giannini decided to open his own bank. By selling small amounts of stock to a large number of people, Giannini created the ambience that it was a "people's bank." On October 17, 1904, a renovated saloon opened its doors to the public as the Bank of Italy. It was Giannini's keen insight that the

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<sup>6</sup>Ibid., 9.

<sup>7</sup>James and James, Biography of a Bank, 10-13.

immigrant public needed instruction on the value and practice of banking to convince them to move their money from the mattress to the safety vault. With Italian-speaking tellers who helped the depositors with the paperwork, the Bank of Italy became the bank of the small tradesmen. Refusing to allow money to lie idle, Giannini lent 135 percent of his assets during his first year of banking. Most of the advances, both large and small, were for individual real estate purchases. Canvassing the surrounding neighborhoods, much as he had done as a produce agent, Giannini recruited customers who had never entered a bank. By the end of 1905, assets were above \$1 million, and, true to Giannini's prediction, the number of small accounts grew at a rapid pace.<sup>8</sup>

Giannini's penchant for risk-taking behavior and his genius for prediction, so common to successful entrepreneurs, emerged during the San Francisco earthquake of 1906. At his home in San Mateo on April 18, he felt the first tremors of the impending earthquake. Rushing to protect his interests, Giannini spent five hours traversing jammed roadways, trying to get to his bank. Though the bank appeared little affected by the early tremors, Giannini realized that fires and looters might engulf the business district. Using two of his stepfather's produce wagons, he and his staff loaded all the cash, gold, and bank records that the wagons would hold. Panic-stricken citizens, fires, floods, and debris impeded their all-night journey home to San Mateo.<sup>9</sup>

Within two days fire leveled most of the financial district. Most bank safes were lumps of molten iron; it was estimated that it would be several weeks before they could

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<sup>8</sup> James and James, Biography of a Bank, 16-20.

<sup>9</sup> *Ibid.*, 22-25.

be opened. Most bankers determined November to be the earliest possible time to reopen their banks. Giannini, however, opened office on the Washington Street wharf by simply putting a plank of wood upon two barrels with the Bank of Italy sign that the bank was open. He generated new customers and reclaimed old ones. Reconstruction of the city was difficult. Most bankers awaited insurance compensation before issuing new loans. Sensing the potential for profit and new customers, however, Giannini lent cash to ship captains for the purchase of lumber in Washington and Oregon. He also made rebuilding loans long before other bankers felt financially comfortable doing so. Giannini's foresight and fortitude earned him recognition both as a reputable, innovative banker and hero of the disaster. According to Giannini, "the response he got from the people of North Beach [in San Francisco] in return for his labors after the earthquake and fire made him decide to become a banker for life."<sup>10</sup>

With a full-fledged commitment to banking and plans to build a nine-story bank building, Giannini traveled to the East Coast to familiarize himself with New York banking policies. Before he arrived in New York, however, the stock market suffered a serious decline. Speculation in European banks, rising prosperity, the rapid acceleration of small banks, an inelastic currency, and the lack of emergency reserves were immediate contributors to the oncoming panic.<sup>11</sup> New York banks, though maintaining sound assets, were short of cash. Giannini returned home to fortify his bank against the

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<sup>10</sup> A.P. Giannini to B.R. James, n.d., as quoted in James and James, Biography of a Bank, 32.

<sup>11</sup>Robert C. Puth, American Economic History (Chicago: The Dryden Press, 1982), 285.

suspicioned Panic of 1907.

Campaigning to increase deposits, issuing the medium of exchange paper instead of hard specie whenever possible, and raising the interest rates on real estate loans, the Bank of Italy weathered the run on gold during the panic. Perhaps just as significant, at least to Giannini, he found a solution that permitted greater currency elasticity. In his efforts to increase deposits, he decided to open his first branch bank in the Mission District of San Francisco. New businesses moved into the Mission area because it was untouched by fire during the earthquake. Two other banks established successful branch banks in the district, and Giannini decided to enter the expanding market of branch banking.<sup>12</sup>

Branch banking is a one-office entity that operates more than one banking outlet. With one board of directors and a single corporate charter, branches operate semi-independently. A banker found many reasons to expand by branching as opposed to starting an entirely new bank. The ability to transfer funds allowed an efficient use of resources so that seasonal demand could best be attended. For example, agricultural regions could borrow funds during those times of the year while they waited for the harvest to come in, and when the smaller rural banks no longer needed loans, the money could be sent to those areas of higher demand. Ordinarily, the country, or smaller banks, could not lend large amounts, but with the branching system, the small banks could borrow from the city bank to meet the increased demand. Because money is not money unless it is in circulation, the flexibility of moving funds rapidly allowed money to be

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<sup>12</sup>James and James, Biography of a Bank, 36.

used efficiently and with the maximum return. The decreased personnel and the rationalization of record keeping and loan decisions reduced overhead costs. The branch banks saved money by wielding the name of a prestigious city bank and reducing their costs on physical improvements. The efficient allocation of reserves allows one branch to transfer funds to another. The diversification of assets and the mobility of credit provide superior services to patrons. Many states, fearing competition, prevented branch banking or limited its growth to certain geographical areas, by using the state banking association's political clout in the state legislature.<sup>13</sup>

California, with the most lenient state banking laws in the nation, neither permitted nor restricted branch banking. The earliest legal ruling in 1903, required that any company with branches had to use the name of the parent company.<sup>14</sup> The capital requirement for opening a bank ranged from \$25,000 to \$200,00, depending upon the size of the town. The capital constraints, the rapidly increasing population, and the lack of definitive legislation spawned the growth of branch banking from 1903 to 1909. Since a branch was not considered a de novo (new) bank, branching became a means of avoiding new capital outlays. As the population of California increased 60 percent between 1900 and 1910 and there was a decided move toward urbanization, many bankers took advantage of the liberal banking laws. In 1909 California passed the Bank Act of 1909, a comprehensive law very favorable to the banking industry. The legislation permitted

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<sup>13</sup>Ralph Lamb, Group Banking: A Form of Banking Concentration and Control in the United States (New Brunswick, New Jersey: Rutgers University Press, 1961), 45-48.

<sup>14</sup>Lynne Pierson Doti, "Banking in California: The First Branching Era," Journal of the West 23 (April 1984): 65.

branches to be formed outside their home cities with merely a decision by the state superintendent that the expansion was in the public interest. Branching became a political issue as banks competed for the right to expand.<sup>15</sup>

Soon after the Bank Act of 1909 passed, Giannini opened a second branch in San Jose. Rich with recent Italian immigrant farmers from northern Italy, the Santa Clara Valley housed the wealthier Italian immigrants. Already familiar with the farmers in the area from his years as a produce agent, Giannini experienced much success. Using the techniques of his former career, he "walked in rows beside farmers engaged in plowing or went to local merchants advertising the future benefits that the Bank of Italy would bring."<sup>16</sup>

In San Jose, Giannini established a model for future acquisitions. Using the existing bank officers as well as employing locally prominent Italians or Anglo-Saxon Protestants, he tied the Bank of Italy to the power base of the area. All employees were required to speak Italian or another appropriate foreign language. Banking policies addressed the needs of the small depositors, most generally the small farmer. The bank was open on evenings and Saturdays, providing the farmer convenient access, and interest rates for new and established loans were lowered 2 to 5 percent.<sup>17</sup>

Between 1916 and 1918 eight more mergers took place. The Bank of Italy started to

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<sup>15</sup>William Hively, "The Italian Connection and the Bank of America's First Billion," Journal of the West, 23 (April 1984): 58.

<sup>16</sup>Lynne Pierson Doti and Larry Sweikart, Banking in the American West (Norman: University of Oklahoma Press, 1991), 103.

<sup>17</sup>Gerald D. Nash, A.P. Giannini and the Bank of America (Norman, OK: University of Oklahoma Press, 1992), 43; Doti and Schweikart, "Banking," 58.

employ a technique that proved profitable. It created a sales force with the expressed purpose of generating business by going from door to door in the Italian enclave of San Francisco. They attended all Italian social events and worked to exhaustion. Within two years, the number of accounts doubled. Giannini also created a network to discover the weakest banks in California for possible takeovers. Using tactics considered unprofessional and not befitting a conservative banker, Giannini established a reputation among other bankers for his unconventional marketing techniques.<sup>18</sup>

The Bank of Italy spread into the San Joaquin Valley just as the region experienced a revolution in farming. Loans for land, machinery, irrigation, the new refrigerated truck, and new marketing techniques were in high demand. Few bankers understood the needs of the farmers as did Giannini. And, of greater significance, few rural banks had funds available to issue large loans. Giannini, however, could simply transfer funds from the Bank of Italy in San Francisco to one of his branches in the Valley. The grower also benefitted from bank services such as property assessment, insurance brokerage, and commercial advice. The branch could also offer lower interest rates than its rural competitor. While this was beneficial to the farmers and to the Bank of Italy, the independent small bankers complained vociferously of unfair competition. The breakup of their local monopoly threatened the rural banker.<sup>19</sup>

With his mass appeal approach to banking, Giannini maintained control of the stockholders. Appealing to those of lower incomes and to his employees, the prices of

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<sup>18</sup>Nash, A.P. Giannini, 44-45.

<sup>19</sup>Hively, "The Italian Connection," 58-59.



bank shares were low. Monitoring the number of stocks issued to a given shareholder, Giannini generally sold less than ten shares to a stockholder. The naivete of most stockholders usually allowed the bank's directors to make the final decisions.<sup>20</sup>

With the oil boom and the opening of the Panama Canal in 1914, Giannini cast about for weak banks in Los Angeles, keenly aware of California's economic and commercial potential. Within the year, the Bank of Italy established four branches in the area. Still using mass advertising to offer small loans to homebuilders and employing locally prominent citizens to advisory boards, Giannini found that his ethnic bank did not have the same appeal in Los Angeles as it did in San Francisco. The immigrant Midwesterners of southern California did not necessarily find the Italian-speaking bank attractive.

Another obstacle to success was Joseph Sartori, president of Security Trust and Savings, an entrepreneurial branch banker in southern California. Sartori sought his own sphere of interest and quite naturally tried to protect his own bank. Unable to prevent infiltration by the San Francisco-based bank, Sartori turned to someone who could help: Jonathan S. Dodge.<sup>21</sup>

Jonathan S. Dodge, a friend of the Los Angeles bankers, became the banking superintendent of California in 1921. His ruling against de novo branches essentially prevented the Bank of Italy from further expansion in southern California. Dodge permitted the opening of new branches only within the home cities of the bank. San

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<sup>20</sup>Ibid., 60.

<sup>21</sup>Nash, A.P. Giannini, 45; Doti and Sweikart, "Banking," 103.

Francisco, already permeated with Bank of Italy branches, provided no opportunity for Giannini, and the Los Angeles bankers blocked Giannini's efforts to enter their city. Thus began a conflict between Giannini and the state which would continue through three successive superintendents of banking, each trying to curb the growth of the Bank of Italy into a statewide system.<sup>22</sup>

The Bank of Italy joined the Federal Reserve System in July 1919. Two years earlier, John Perrin, chairman of the Twelfth District (California, Oregon, Washington, Nevada, Utah, Idaho, and most of Arizona), tried to persuade the Bank of Italy to join the system. Giannini countered with a request that he would do so if "the Federal Reserve Board approves of the branch system as operated by us."<sup>23</sup> W.P.G. Harding, governor of the Federal Reserve Board (1916-1922), approved Giannini's request, and the Board responded that: "it would be a great pleasure personally to see your bank blazing the way in your state and setting a much needed example by taking membership in the Federal Reserve."<sup>24</sup> For Giannini, membership in the Reserve solved a number of problems concerning expansion.

Charles F. Stern, the California superintendent of banking in 1919, clearly disapproved of the Bank of Italy's expansion. Complaining that the bank was operating branches in geographical areas "without close economic relationship to your home

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<sup>22</sup>Hively, "The Italian Connection," 59; Russell M. Posner, "State Politics and the Bank of America, 1920-1934," (Ph.D. diss., University of California, 1956), 353.

<sup>23</sup>The Financier (1 January 1918), as quoted in James and James, 95.

<sup>24</sup>W.P.G. Harding to John Perrin, 23 October 1917, Federal Reserve Bank of San Francisco Archives, as quoted in James and James, Biography of a Bank, 95.

office," Stern declared that the branches were neither "absorbed nor assimilated." Stern cited the reasons for his concern for the solvency of the bank: (1) inconsistent bookkeeping methods and omissions; (2) past due unsecured loans; and (3) the payment of dividends based upon inflated assets. Stern demanded immediate reforms and suggested the Bank of Italy restrict its acquisitions.<sup>25</sup>

Since Stern refused new branches to the Bank of Italy, Giannini decided to join the national banking system. By so doing, the Federal Reserve Board granted the licenses that were refused by Stern. Giannini could now assimilate banks with national charters.<sup>26</sup> Using the Stockholders Auxiliary, a corporate affiliate formed in 1917, Giannini embarked upon a methodical acquisition frenzy. The new company completed transactions prohibited to the Bank of Italy. It could purchase the stock of other banks and hold foreclosed real estate that was more than five years old. By 1921 Giannini acquired ten more banks, \$42 million in additional deposits, and acquired a total of 200,000 depositors. By 1922 the Bank of Italy had sixty-one branches in forty-two communities, making it the largest bank in the West in assets and the largest in the country by number of depositors.<sup>27</sup>

Giannini's success, however, gained him a reputation as a ruthless banker with a relentless driver for power. His explosive temper, willingness to circumvent the law, and drive for financial domination added to the legendary hero of the 1906 earthquake.

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<sup>25</sup>James and James, Biography of a Bank, 96-97.

<sup>26</sup>*Ibid.*, 100.

<sup>27</sup>Nash, A.P. Giannini, 58.

Independent bankers accused him of trying to monopolize banking in California, and his “unprofessional” behavior appalled East Coast bankers. Advertising, the issuing of car loans, exceptionally high dividends on bank stocks, and his ethnicity and religion became fodder for the Wall Street conservative bankers. As the symbol of his success and nouveau riche attitude, the Bank of Italy moved into its new building at One Powell Street in the heart of San Francisco's financial district in June 1921. Marble floors, a fifty-ton steel vault, and an open lobby filled with bank officers epitomized the solvency and accessibility of the banking titan.<sup>28</sup>

Giannini continued, however, to make enemies. The California League of Independent Bankers, established in 1922, joined in opposition to the vast acquisitions of the Bank of Italy. Each member took an oath never to sell their stock to Giannini, and the group launched an advertising campaign against branch banking. In addition, John Perrin became enraged when Giannini opened a national bank without prior approval of the Federal Reserve. Appealing to Washington, D.C., authorities, Perrin elicited a warning from Governor W.P.G. Harding that new acquisitions would not receive sanction until the Bank of Italy determined and advised the Federal Reserve as to how many takeovers it anticipated.<sup>29</sup>

Increasingly, Giannini employed political maneuvering to achieve his goals and often employed ex-employees of the California state government. Realizing the value of a government employee's contacts in Sacramento, Giannini hired William R. Williams,

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<sup>28</sup>Ibid., 60.

<sup>29</sup>Nash, A.P. Giannini, 62-64.

California's former superintendent of banking, and several of Williams's associates. A symbiotic relationship thus began, which enabled his bank aid in its acquisition strategies and the ability to provide state agencies with advice from the Bank of Italy.<sup>30</sup>

When Governor Harding began to monitor the Bank of Italy's acquisitions, Giannini extended his activities to the national level. William Gibbs McAdoo, former secretary of the treasury under Woodrow Wilson, and ex officio member of the Federal Reserve Board, joined the Bank of Italy as special counsel. After negotiating with Perrin and the Federal Reserve Board in Washington, McAdoo reached an agreement whereby the Federal Reserve would issue licenses for approximately twenty branches that Giannini acquired during the last two years.<sup>31</sup> Giannini agreed that neither his bank nor any of its affiliates would purchase other bank stock in excess of 20 percent without permission from the Federal Reserve Board.<sup>32</sup> That year, 1922, the total of Bank of Italy's branches was 61 in 42 communities. Of every thousand Californians, 73.9 held deposit accounts at the Bank of Italy.<sup>33</sup>

In 1924 Giannini found a way to circumvent his 1922 agreement with the Federal Reserve. Contending that neither the Bancitaly, a small holding corporation, nor the Americommerical Corporation was an affiliate of the Bank of Italy because the stockholders were not isomorphic, he acquired the Liberty Bank and the Bank of America

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<sup>30</sup>Hively, "The Italian Connection," 59.

<sup>31</sup>James and James, Biography of a Bank, 142.

<sup>32</sup>Federal Reserve Committee on Branch, Group, and Chain Banking, Branch Banking in California, (Washington, D.C.: Board of Governors of the Federal Reserve System, 1932), 74.

<sup>33</sup>James and James, Biography of a Bank, 142.

of Los Angeles. By using the Bancitaly Corporation, he assumed control of the East River National Bank in New York.<sup>34</sup>

Using the shelter of a New York-chartered holding company, Giannini added \$9 million in deposits from the East River National Bank to his holdings. Bancitaly further expanded by acquiring a branch banking system in Italy, the Banca dell' Italia Meridionale. Within a year, Bancitaly moved into southern California and acquired eleven banks within Los Angeles. With the highly successful Bank of America of Los Angeles, Giannini acquired an institution that would generate enormous profits during the Los Angeles real estate boom. When Bancitaly orchestrated the merger between Commercial National and the Bank of America, it acquired assets of \$27 million and eleven branches.<sup>35</sup>

Giannini's latest ploy alarmed the bankers of southern California as well as the state superintendent of banking, John F. Johnson. Between 1923 and 1925, Johnson issued fifty-four permits to southern California bankers and only one to the Bank of Italy. Infuriated, Giannini embarked upon a political drive to overturn the de novo rule. He wanted a bill allowing new branches if 20 percent of the voters in the area of the proposed bank approved. He failed. Still not admitting defeat, Giannini tried to have a writ of mandamus ordered to impel Johnson to issue a permit in Los Angeles. When this legal tactic failed, Giannini simply used the Liberty Bank of San Francisco to sustain the

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<sup>34</sup>Federal Reserve Committee on Branch, Group, and Chain Banking, Branch Banking, 75.

<sup>35</sup>James and James, Biography of a Bank, 142.

acquisition.<sup>36</sup>

By 1925 Giannini controlled four branch banking systems: the Bank of Italy, Bancitaly, the Liberty Bank of San Francisco, and the Bank of America of Los Angeles. Attempting to consolidate his banking empire, Giannini requested that the two state banks, Bank of America of Los Angeles and the Liberty Bank, be merged. When Johnson refused, Giannini re-entered California politics with vigor and intent. With assurances that C.C. Young, the Progressive gubernatorial candidate in the 1926 election, would be more amenable to Giannini's needs, he donated \$150,000 in campaign funds to the candidate. Giannini also instructed his employees "to bend all efforts to elect Young," and within a short while thousands of employees were on the campaign trail.<sup>37</sup> Young won by a slight margin, but his victory permitted Giannini "to press [his] claims for 'justice' even more effectively." The outcome of the 1926 election served Giannini well. "The next year, under a new banking superintendent, the restrictions on branch banking were dropped, and the Bank of Italy attained its goal of a unified, statewide system."<sup>38</sup>

With his state banks now unified, Giannini addressed the problem of Federal Reserve restrictions against the unification and expansion of his holding companies. Approval partially depended upon the consent of the Comptroller of the Currency Joseph W. McIntosh. Fortunately for Giannini, McIntosh looked upon branch banking favorably. The Federal Reserve Board favored Giannini's requests, and in 1925 it approved fourteen

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<sup>36</sup>Nash, A.P. Giannini, 65-66; Doti and Schweikart, "Banking," 70.

<sup>37</sup>Nash, A.P. Giannini, 68.

<sup>38</sup>Posner, "State Politics," 354.

new branches in California, eleven of them in the southern part of the state. The following year the FED not only approved of consolidation of existing branches but permitted the opening of twenty-eight new branches as well.<sup>39</sup>

Giannini's lobbyists sought legislation in Washington, D.C., permitting the branching of national banks. With the help of Giannini's pressure groups, the McFadden Act of 1927 passed. This legislation gave national banks sanction to make real estate loans for five years instead of one, expanded their lending population to include farmers, and added savings departments and deposit facilities to their banks. That year, Giannini created the Bank of Italy National Trust and Savings Association, and his acquisitive tendencies grew larger as he succeeded with the Federal Reserve. Using a loophole in the McFadden Act that allowed mergers of branches in existence before the act went into effect, Giannini consolidated his system as the Bank of America of California, resulting in 138 branches and \$358 million in deposits. Now, it became the second largest chartered state bank in the United States.<sup>40</sup> By late 1930, the state chartered Bank of America and the nationally chartered Bank of America N.T. & S.A. existed. Though of different organization, both had the same board of directors and they operated in tandem.<sup>41</sup>

Now it was possible for Giannini to challenge another adversary, the financial elite of the East Coast. With a vision of a nationwide system of branch banks, Giannini

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<sup>39</sup>Nash, A.P. Giannini, 70-71.

<sup>40</sup>James and James, Biography of a Bank, 222-223; Nash, A.P. Giannini, 72.

<sup>41</sup>James and James, Biography of a Bank, 320.



searched for a large, reputable, and an obtainable bank in New York. In 1925 he purchased the Bowery National Bank and merged it with the East River National Bank. His brother, Dr. Attilio H. Giannini, while president, acquired twelve city branches.<sup>42</sup> Dr. Giannini, a physician, was also a banker. He was one of the first bankers to provide financial support for the movie industry, including Twentieth Century Pictures, Columbia Pictures, United Artists, and Walt Disney's first full-length cartoon, "Snow White and the Seven Dwarfs." Hollywood sought his funding, for he took financial risks that no one else would. He was the chairman of the general executive committee of Bank of America in California and also head of United Artists. Having an impeccable reputation as a physician and respected by Hollywood producers, A.H. Giannini earned the title of "the Prima Dona," by his brother.<sup>43</sup>

With his Italian heritage and history of attending to the needs of small depositors, A.P. Giannini found considerable roadblocks in 1928 from Wall Street. The bastion of Wall Street, J.P. Morgan, Jr., impeded Giannini's expansion efforts. Assured that the Bank of America at 44 Wall Street was his entree into the New York financial world, Giannini arrived at a most unpleasant realization: Morgan would have to give permission for the acquisition. Several meetings with "the Corner" led Giannini to believe "that his [Giannini] control of the Bank of America would . . . [have to] have the blessing of J. P.

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<sup>42</sup>Ibid, 271.

<sup>43</sup>Frank J. Taylor, "He's No Angel," Saturday Evening Post, 14 January 1931, 23, 45-48.

Morgan & Company."<sup>44</sup> Giannini achieved Morgan's approval, and when Giannini left New York, the Bank of America N.T. & S.A. incorporated the Bowery and East River National and the Commercial Exchange.<sup>45</sup>

The cost of Morgan's cooperation with the Bank of America escalated. Morgan demanded \$1 million in deposits to one of his own banks; he complained about Giannini's reduction of stock prices to \$25 (\$100 by Wall Street tradition); and he determined the selection of the Bank of America's board of directors. Morgan's packing the board with Wall Street colleagues alarmed Giannini. Attilo Giannini was the chairman of the board by title only, Morgan shifted most of Giannini's appointees to the advisory board. Giannini, still seeking nationalization for the Bank of America, allowed Morgan, a powerful influence on the Federal Reserve Board, to dictate policy. The Federal Reserve demanded that the Bancitaly Corporation turn its shares over to individual ownership. Otherwise, trust powers would not be allocated to the Bank of America. Trust authority was paramount to the Bank of America, and the transfer of shares took place.<sup>46</sup>

For two years there was rampant speculation of Bank of America shares. Ill in a hotel room in Rome, Giannini decided to forestall any further harassment. Returning to the United States in September 1928, Giannini prepared for the creation of the Transamerica Corporation. Incorporated on January 1, 1929, Giannini's Transamerica Corporation regained control of the Bank of America from Morgan. Giannini withdrew

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<sup>44</sup>R. Jones to A.P. Giannini, June 10, 1941, memorandum, as quoted in James and James, Biography of a Bank, 273.

<sup>45</sup>James and James, Biography of a Bank, 274.

<sup>46</sup>Ibid., 274.

his funds from Morgan's banks and decided to endure the consequences of his actions.

Transamerica successfully procured 63 percent of the outstanding shares of the Bank of America, and it absorbed the Bancity Corporation and all Giannini holdings.<sup>47</sup>

Looking for Wall Street “insiders” to represent his interests, Giannini chose Elisha P. Walker as chief executive of the Transamerica Corporation. As president of a highly reputable private investment house, Blair & Company, Walker did not appear as “cold and aloof” as most Wall Street bankers to Giannini. With his son, Lawrence Mario (L.M.) Giannini as the president, A.P. Giannini left for Europe, confident that his son could manage Transamerica and Wall Street. Walker's directorship became increasingly conservative, however, as the depression gained ground. Using the currently decreasing Transamerica stock prices as an index, Walker reduced dividends and slashed employee payrolls. Upset by Walker's policies, Mario Giannini resigned as president, so Walker now had complete control of Transamerica. When A.P. Giannini returned to the board in 1931, he realized that regaining control would require drastic measures.<sup>48</sup>

A.P. Giannini took his campaign to the stockholders. He bombarded the 200,000 California shareholders with pleas for reinstatement. His issue was East versus West Coast banking.

Do these two or three Wall Street bankers imagine we are a bunch of fools-- 200,000 California investors who will sit still in the face of a financial ‘clean out’ carrying the economic and political control of California to two or three persons in New York? Do they think they can get away with Russian methods in giving orders to their employees that if they do not dissuade stockholders from joining our

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<sup>47</sup>Ibid., 273-274; Committee on Banking and Currency, 78.

<sup>48</sup>James and James, Biography of a Bank, 297.

organization they will be fired?<sup>49</sup>

For three days Giannini visited his California banks. Each stop involved a visit to the branch bank, a speech reassuring the stockholders of the soundness of Transamerica assets, and campaign rhetoric. He revealed the salaries of Walker and other members of management to the San Francisco News. Wall Street's responded quickly, accusing Giannini of receiving \$7 million in bonuses and attempting to support Transamerica shares in the market. As Walker increased his attacks and pressured Transamerica proxies, public sentiment eventually swayed to Giannini. On February 15, 1932, Giannini secured a decided victory against the Walker regime.<sup>50</sup>

After regaining control of Transamerica, Giannini addressed the problems of the declining financial fortunes of the corporation. By December 1931, under Walker's chairmanship, Transamerica deposits dropped 18 percent, cash reserves 37 percent, and U.S. bond holdings 9 percent. Transamerica borrowed \$40 million during the last half of 1931 with most of the credit being supplied by a pool of New York bankers at Walker's request. Layoffs were common, and for the first time in the bank's history, dividends were not paid in December 1931.<sup>51</sup> Immediately after returning to the Bank of America headquarters, Giannini appealed to the Reconstruction Finance Corporation (RFC) for a loan. The RFC, a federally chartered corporation formed in 1932, loaned funds to banks, railroads, insurance companies, and mortgage companies to revive failing large industries

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<sup>49</sup>As quoted in Nash, A.P. Giannini, 108.

<sup>50</sup>James and James, Biography of a Bank, 343.

<sup>51</sup>J.P. Kennedy to A.J. Mount, as quoted in James and James, 316.

during the depression. The RFC awarded Giannini an initial loan of \$15 million on February 15 and a second loan of \$64,488,644 on July 15. Jesse Jones, director of the RFC, reported that the full amount was repaid on 28 June 1932.<sup>52</sup> Jones and Giannini formed a close relationship, enough so that the California banker successfully called upon Jones for help several times.<sup>53</sup>

Claiming that had it not been for the RFC, the Bank of America would have failed, Giannini's critics indicted him for overexpansion and unwise investments during the 1920s. The critics however, did not understand the overall impact of branch banking. The liquidity and ease of transferring funds by branch banks fostered greater security than that of the single unit bank. The Bank of America did, however, lose one-third of its loans and deposits in a matter of two years. By 1933, the Bank of America rallied. Deposits climbed, dividends resumed, and the number of branch offices increased. By 1935 the bank showed a profit.<sup>54</sup>

With Giannini's power and reputation now on the rise, politicians became interested in his endorsement for the presidential campaign of 1932. Though previously a supporter of Herbert Hoover, Giannini, like many citizens believed the president's inactivity badly affected the morale of the country. Moreover, as a West Coast banker, Giannini found the greatest fault with Hoover to be his selection of RFC personnel, for he was incensed by the "Walker men" who permeated the RFC. Also, Hoover's refusal to

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<sup>52</sup>Jesse H. Jones and Edward Angly, Fifty Billion Dollars: My Thirteen Years with the RFC, (New York: The Macmillan Company, 1951), 19-20.

<sup>53</sup>James and James, Biography of a Bank, 375.

<sup>54</sup>Jones and Angly, Fifty Billion, 19.

remove John U. Calkins of the San Francisco Federal Reserve angered Giannini.<sup>55</sup>

During the Walker battle, Calkins supported Wall Street, and during various other episodes Giannini believed that Calkins was "discriminating against the Bank of America." An additional advantage for Giannini of the election of Roosevelt was the rumored appointment of Senator Carter Glass as secretary of the treasury. Known to be favorable to branch banking, Glass might also be disposed to replace Calkins in San Francisco. McAdoo, once counsel to Giannini, was running on the California Democratic senatorial ticket. All in all, the election of Roosevelt promised to be more attractive both for national and personal reasons<sup>56</sup>

Giannini communicated with Joseph P. Kennedy, one of the few members of Wall Street supporting Roosevelt, for information about the Democratic candidate. Kennedy agreed to arrange a meeting among the three of them in an upcoming campaign stop in California. After the meeting, Giannini still refused to proffer a public endorsement of either candidate. The Republicans pressed their case through a personal call from Hoover to Giannini. When Giannini declared himself politically unaffiliated, Hoover abruptly hung up<sup>57</sup>

Giannini's tacit support of Roosevelt in 1932 earned him an influential position within the administration. As a powerful banker and a Californian of Italian descent, Giannini wielded considerable clout among Democratic politicians. The lines of

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<sup>55</sup>James and James, Biography of a Bank, 359, 361.

<sup>56</sup>*Ibid.*, 359-360.

<sup>57</sup>San Francisco Examiner, 5 November 1932.

influence were powerful and direct between Giannini and Washington, D.C. For instance, Roosevelt called Giannini to New York on February 21, 1933, prior to his inauguration, to discuss the worsening economy. For one hour, Roosevelt and Giannini spoke privately.<sup>58</sup> Meanwhile, McAdoo was elected as senator, and his former law partner, J.F.T. O'Connor, was appointed controller of the currency. Giannini had other influential friends in Washington, D.C. With Jesse Jones of the RFC, Giannini had previously established a cordial and cooperative relationship. Marriner S. Eccles, a fellow western banker and friend, became an aide to Henry Morgenthau, Jr., secretary of the treasury. Carter Glass, the powerful chairman of the House Banking and Currency Committee, was in a position to ease the way for pro-branch banking legislation. Marvin H. McIntyre, secretary to the president, was also Giannini's friend. The incoming administration promised an answer to Giannini's ambitions for his national banking system with a minimum of pressure from federal regulation and rival bankers.

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<sup>58</sup>Nash, A.P. Giannini, 110; James and James, Biography of a Bank, 365.

## CHAPTER III

### MARRINER STODDARD ECCLES:

#### THE MORMON RADICAL

Marriner Stoddard Eccles (1890-1977), chairman of the Federal Reserve Board from 1935 to 1947, began his banking career in Ogden, Utah. His entry into the national arena was rapid and powerful. Just as his father, David, catapulted the Eccles's family from poverty in the Kucaden slums of Glasgow to power and wealth as a Utah millionaire, so did Marriner Eccles leap from relative obscurity to the national arena. Leaving the presidency of the First National Bank of Ogden, Eccles entered the inner circle of New Dealers and soon earned the confidence of Franklin Delano Roosevelt.

William and Sarah Eccles of Glasgow, the grandparents of Marriner, lived in the most poverty-stricken slums in Scotland. William Eccles, blind in one eye, unsuccessfully attempted to support his family by lathing wooden utensils. David, the second of their eight children, soon provided the primary family income. He sold his father's utensils and trinkets and worked as a porter. In the early 1860s, the family converted to Mormonism, a faith that provided them food and a means of leaving Scotland.. The family's affiliation with the church provided the vehicle for their emigration to the United States.<sup>1</sup>

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<sup>1</sup>Register of the Papers of Marriner Stoddard Eccles, 7, Marriner S. Eccles Papers, Manuscripts Division, J. Williard Marriot Library, University of Utah, Salt Lake City, Utah.



Financed by the Perpetual Emigration Fund of the church, the Eccles family sailed for America and arrived in Salt Lake City during the Civil War. Since the Mormon "calling" dictated how the population would disperse to open the land, the church sent the Eccleses to Eden, just outside of Huntsville, Utah. Eden, located in a canyon, was virtually unpopulated. While living in a lean-to, the Eccleses eked out an existence. Even poorer than in Scotland, the family once again earned an income by producing and selling wooden kitchen utensils. His eyesight worsening, William Eccles resorted to digging potatoes for a living. To augment the family income, David, now fourteen, left for Oregon to chop wood, a profitable enterprise since the end of the Civil War. During his absence, the Eccleses made friends with several Huntsville citizens, later significant to the future building of the Eccles empire. John Moses Browning, the son of Jonathan Browning, inventor of the Browning rifle, became a partner in the Browning-Eccles banking interests, and W.H. Wattis and his brother, O.H., financial advisors and partners.<sup>2</sup>

After his return from Oregon, David Eccles became a logger in the mountains above Huntsville. During his absence the family moved to Ogden. Despite his inability to read or write, David Eccles became the financial leader of the family. He used his earnings of \$400 from Oregon to capitalize as a lumber contractor in Spencer, Idaho. After buying out one partner and then another, David Eccles started the Eccles Lumber Company in Ogden. His son, Marriner, recalled that his father never borrowed money

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<sup>2</sup>Marriner S. Eccles, Beckoning Frontiers, (New York: Alfred A. Knopf, 1951), 144.

after that and "took special pride in the fact that, unlike most men, he never had to look to the East for capital."<sup>3</sup>

David Eccles epitomized his Scottish heritage and Mormon teachings. Piety, thrift, perseverance, relentless work, and a sense of responsibility for the theocratic community dominated his life. In Glasgow, he grew up in the same environs in which Adam Smith published The Wealth of Nations. David Eccles accepted Smith's theory, particularly the tenet that decried government interference in the economy. A firm believer in Say's Law, that the market would attend to itself by rendering the demand for the created supply, he and his generation did not concern themselves with the cruelty of the marketplace.<sup>4</sup>

His belief in Mormonism resulted in two concurrent marriages. His first marriage to Bertha Jenson of Huntsville resulted in twelve children, and his second, to Ellen Stoddard, bore nine children. Ellen Stoddard, the mother of Marriner and the daughter of a Scottish-Mormon businessman, married David Eccles in 1885. Their first child, Marriner, named after the minister who officiated their wedding, was born on September 9, 1890. By this time, David Eccles mastered numerous businesses: lumber, banking, construction, and the sugar beet industry. Upon Marriner's birth, his father's estate was worth \$7 million.<sup>5</sup>

Neither David Eccles nor his wife Ellen believed in idleness, so at the age of eight

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<sup>3</sup>Ibid., 19.

<sup>4</sup>Ibid., 4.

<sup>5</sup>Ibid.; Register of the Papers, 7.

Marriner started work in his father's lumber company for five cents an hour. At his father's suggestion, Marriner began his capitalist endeavors by purchasing one share of stock in the Ogden Lumber Company for \$100. Earning a rare compliment from a father he feared, and enjoying the earnings, the benefits of capitalism entranced Marriner. Marriner spent every summer working until his graduation from high school in 1909; his mother likewise promoted the work ethic and instilled the drive for material gain.<sup>6</sup>

Hard work was not all that was expected of Marriner. Soon after leaving school, he departed for Scotland as a Mormon missionary. The church, attempting to expand and concurrently offer higher education to its male membership, required all young men to serve as missionaries for two years. Marriner spent more than two years in Scotland, primarily in Glasgow, preaching the doctrine of the Latter-day Saints. Admitting that he converted few souls, Marriner believed the time to be "interesting and instructive." Pre-World War I Europe led some of the missionaries into the French underground, and Marriner met many of the members at a conference in Rotterdam. Several members later became business allies. Despite the coming of war, Marriner felt outside it. He observed ". . . we are too much our fathers' sons to doubt their belief in perpetual progress, the miraculous power of laissez-faire, or their optimistic trust in the liberating powers of an advancing science and technology."<sup>7</sup>

After arriving home in May 1912, Marriner joined his father in the construction of a hydroelectric power plant at Blacksmith Fork Canyon, Utah. While living at the

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<sup>6</sup>Ibid., 27; Register of the Papers, Eccles Papers, 7.

<sup>7</sup>Eccles, Beckoning Frontiers, 32.

construction site, on December 5, 1912, Marriner received news of his father's death. Marriner, staggered by the death of his father, was equally shocked by the responsibility of managing his father's inheritance. With little experience, he thus oversaw large enterprises in lumber, utilities, coal-mining, construction, banking, and the sugar beet industry.<sup>8</sup>

The now senior Eccles inherited more than financial holdings from his father. Imbued with a sense of "courage, hard work, self-denial, [and] thrift," he also accepted his father's belief in the value of unbridled competition. Repelled by government regulation of the economy as suggested by Woodrow Wilson and Theodore Roosevelt, David Eccles preferred to rely upon the creed of the "self-made man," and his son mirrored his father's world view. According to Marriner Eccles, his father::

. . . had built his works by himself, owned many of them outright, and ran them all in a direct and personal way. He saw no reason why other men could not or should not re-create themselves in his image, providing, of course, they were left free to use their wits and will without government interference.<sup>9</sup>

Marriner Eccles had no reason to disclaim his father's economic faith until much later, for his immediate problem after his father's death was the resolution of the inheritance dispute between the families of his father's first marriage to Bertha Jenson and that of the second, Ellen Stoddard. The patriarch left no will, and under Utah law, the first wife inherited one-third of the estate and her adult children various shares. Ultimately, the Stoddard Eccleses received two-sevenths of the estate. The Jenson Eccleses incorporated

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<sup>8</sup>Ibid., 36.

<sup>9</sup>Ibid., 37.

their shares into the David Eccles Company. Using the stock given to Ellen Eccles before the death of her husband and that left to her children by law, Marriner incorporated the Eccles Investment Company. Marriner managed to keep the Logan Eccleses together, but the Ogden Eccleses virtually splintered. It was during this time of insecure transition that Marriner married May Campbell Young, a woman he met during his missionary duty in Scotland; they were to remain married until their divorce in 1948.<sup>10</sup>

Knowing little about his father's businesses, Eccles, with strong support from his mother, took over the empire. Only twenty-three years of age, Eccles absorbed all that he could of the management of his inherited businesses. He assumed the presidency of the Hyrum State Bank and vice-presidency of the Thatcher Brothers Banking Company. Both were small banks, but through them he learned the skills that would serve him well during his years in Washington, D.C. With the growth and management of the lumber and sugar companies hampered by the Jenson Eccleses controlling interests, Eccles focused on the gaining of control of the governing stock. After Marriner Eccles purchased Sego Milk Products, he used the profits to gain control of the heavily indebted David Eccles Company.<sup>11</sup>

As a result of the buyout, Marriner Eccles became president of the Ogden First National Bank and the Ogden Savings Bank. M.L. Browning, a representative for the business interests of the family and president of the Utah National Bank in Ogden, suggested that the three banks merge. Dissatisfied with the operation of his own bank,

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<sup>10</sup>Ibid., 39-41; Hyman, Marriner Stoddard Eccles, 56.

<sup>11</sup>Eccles, Beckoning Frontiers, 41-46.

Browning proposed that he become chairman of the board, and Eccles, president. Eccles complied, and in 1922 the Eccles Investment Company headquarters moved to Ogden. The sale of the Sego Milk Products Company in 1925 provided the funds that Eccles used to establish the Eccles-Browning Banking Group. Between 1925 and 1928, the company acquired a total of seventeen banks, all located within the distance of a one-day train ride from Ogden. Seven of the new banks were in Idaho, two in Wyoming, and the remainder in Utah.<sup>12</sup>

None of the states permitted branch banking in the early 1920s, and, consequently, various umbrella organizations consolidated management.<sup>13</sup> The Eccles-Browning Banking Group was designed “. . . to operate . . . multi-bank holdings . . . and provide efficient and expert services for all the banks which each of them performed separately---auditing, advertising, purchasing, credit inspection and so on.<sup>14</sup> The Eccles-Browning Banking Group provided the necessary vehicle for the expansion to form the First Security Corporation in 1928. With opening assets of \$28 million, the bank holding company maximized the use of economies of scale,<sup>15</sup> separated of commercial and savings deposits, centralized audits, diversified credit, and created a centralized management training program. Cushioned by these innovative techniques in banking, the

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<sup>12</sup>Ibid., 49-50.

<sup>13</sup>Ibid., 48.

<sup>14</sup>George Eccles, The First Security Corporation, (New York: The Newcomen Society in North America, 1978), 8-10.

<sup>15</sup>Economies of scale are reductions of cost resulting from improved technology or organization at rising levels of output.

First Security Corporation coped with the upcoming depression.<sup>16</sup>

As the Eccles companies grew at a rapid pace, Marriner Eccles assimilated men of talent into the corporation. His brother, George, a graduate of Columbia University Business School, joined the organization in 1923 to investigate proposed mergers. Later he became vice-president of First Security Corporation, and in 1933, the president. Marriner Eccles drew upon the talents of Orval Adams, W.H. and E.D. Wattis, and J.M. and M.S. Browning, friends from his early home in Huntsville. Confident of his expert staff and secure in the sound capitalization of his business holdings, Marriner Eccles faced the upcoming depression with the idealism his father previously enjoyed.<sup>17</sup>

On the eve of the depression, Eccles served as president of the Eccles Investment Company, First Security Corporation, First National Bank and First Savings of Ogden, the Eccles Hotel Company, Stoddard Lumber Company; vice-president and treasurer of the Amalgamated Sugar Company; and director of the Utah Construction Company, the Utah-Idaho Central Railroad, the Lion Coal Company, the Anderson Lumber Company, the Mountain States Implement Company, the Utah Power and Light Company, and other enterprises<sup>18</sup> Although believing that panics and depressions could be forestalled by the Federal Reserve System, when questioned on finance or economics, Eccles "bowed to the East and paraphrased the latest statement of conservatives such as Ogden Mills, [secretary of the treasury, 1932] or Andrew Mellon [secretary of the treasury, 1921-1932] in the

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<sup>16</sup>Eccles, First Security Corporation, 14-15.

<sup>17</sup>Eccles, Beckoning Frontiers, 48-50

<sup>18</sup>*Ibid.*, 53.

government or . . . J.P. Morgan of Wall Street.”<sup>19</sup>

By 1930, Eccles began to question the values of Adam Smith's competitive marketplace. His unshakable Mormon belief that he was his "brother's keeper" conflicted with the cruelty of the supply and demand marketplace and with his father's devotion to hard work and thrift. Eccles confided:

Friends, whose estates I managed, my family, whose interests I represented, and the community at large, in whose economic life I played a sensitive role, all expected me to find the way out of the pit. Yet all I could find within myself was despair. Having been reared by my father to accept the responsibilities of wealth and having been placed by circumstances at the helm of many enterprises, there were times when I felt the whole depression was a personal affront.<sup>20</sup>

Although Eccles managed to keep open the doors of his own banks, he had to also ensure that neighboring banks did as well. A run on a nearby bank could initiate runs on those around them. Once the public questioned the solvency of one bank in a community, people generalized their fears to the remaining banks. Fortunately, Eccles's cunning and sound capitalization prevented runs on his banks and those nearby. By lending funds to his competitors and setting operating hours in tandem with them, Utah banking institutions avoided closings and concomitant panics.<sup>21</sup>

Nevertheless, these stopgap measures did not satisfy Eccles. He continued to question economic dogma and, most particularly, Say's Law. Although uneducated in the theories of John Maynard Keynes, Eccles was familiar with The Road to Plenty by

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<sup>19</sup>Ibid., 51.

<sup>20</sup>Ibid., 54.

<sup>21</sup>Ibid., 55-62.



William Trufant Foster and Wadill Catchings. Foster and Catchings contended that Say's Law did not allow for the lag between increased production and increased wages. Neither did it take into account the "dilemma of thrift." The authors conjectured that an economy with high levels of supply and an insufficient supply of money could only be revived by the injection of government spending to replace decreased demand. The problem was not one of insufficient supply, they argued, but rather one of underconsumption. An unbalanced budget was a symptom of the depression, not the cause.<sup>22</sup> Accordingly, Eccles believed that "the main concern of our economy is to assure maximum employment to all its members."<sup>23</sup> Although private enterprise was the primary means of attaining this goal, the government was ultimately responsible for the maintenance of the minimum standards of living. When reflecting upon his father's faith in laissez-faire economics, the son realized his father never grasped Smith's contention that:

The . . . duty of the sovereign . . . is that of erecting and maintaining those public institutions and those public works, which while they may be in the highest degree advantageous to society, are, however, of such a nature that the project can never repay the expense to any individual or small numbers of individuals, and which it cannot therefore be expected that the individual or small number of individuals should erect or maintain.<sup>24</sup>

Having formed an economic creed after exhaustive questioning of the causes of the depression and possible solutions, Eccles proselytized with the assertiveness of a new

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<sup>22</sup>Sidney Hyman, Marriner S. Eccles, (Graduate School of Business, Stanford University: Stanford, CA: 1976), 71; Eccles, Beckoning Frontiers, 77-81.

<sup>23</sup>Eccles, Beckoning Frontiers, 81.

<sup>24</sup>Adam Smith, An Inquiry into the Nature and Causes of the Wealth of Nations, (The Harvard Classics, Grolier Enterprises Corporation: Danbury Ct, 1984), 452

religious convert. Speaking before the Utah State Bankers Convention in June 1932, he stated:

There is only one agency in my opinion that can turn the cycle upward and that is the government. The government, if it is worthy of the support, the loyalty, and the patriotism of its citizens, must so regulate, through its power of taxation, through its power over the control of money and credit, and hence its volume and use, the economic structure as to give men who are worthy, and willing to work, the opportunity to work. . . .<sup>25</sup>

Clearly, Eccles was not alone in his conjectures. The connection between Cambridge, Massachusetts and Cambridge, England was powerful and direct. Graduates of Harvard University who espoused Keynesian economics began to fill the roster of the new recruits for the Roosevelt administration. But, for the general public, an unbalanced budget was an anathema to the prosperity of the 1920s and certainly so to laissez-faire. Finding few compatriots in Ogden, Eccles managed to become a member of the Freidenkers discussion group. The Friedenkers employed a non-doctrinaire approach for the truth and met bimonthly to discuss the causes and cures for the depression. Impressed with Eccles's debate at one of the meetings, Robert Hinckley, a member, arranged for Eccles to be a witness at the Senate Finance Committee hearing on the causes and cures for the depression scheduled for the last week in February 1933.<sup>26</sup>

Hinckley, also a regent of the University of Utah, invited Eccles to attend a lecture delivered by Stuart Chase. Chase, then a journalist and the author of A New Deal, contended that prosperity could only be achieved by more government spending. When Eccles attended the talk, he was asked to speak extemporaneously until Chase's arrival.

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<sup>25</sup>Eccles, Beckoning Frontiers, 83-84.

<sup>26</sup>Register of the Papers, 8-9; Hyman, Marriner Eccles, 100.

More important, his discussion with Chase afterward gained him an admirer. Chase asked if he would visit with Rexford Tugwell, an economist from Columbia University and a member of Roosevelt's "Brain Trust," in New York before attending the Senate Finance Committee hearings.<sup>27</sup> Likewise, Hinckley, the nephew of Senator William H. King of the Senate Finance Committee, (D-UT), procured an invitation for Eccles to testify before the committee.<sup>28</sup>

Eccles's views stood out among the 200 who testified either in person or by written statement before the Senate Finance Committee, and the banking community came to associate him with Keynesian economics. Because Eccles was a banker from a conservative western state, the committee considered him an unlikely candidate to espouse deficit financing. Going beyond theory during his testimony, however, Eccles suggested a five-point program for recovery through "compensatory spending" and an overhaul of the Federal Reserve System. His primary concern was the new role that the government should take.

I believe that in order to avoid future disastrous depressions and sustain a balanced prosperity, it will be necessary during the next few years for the Government to assume a greater control and regulation for our entire economic system. There must be a more equitable distribution of wealth production in order to keep purchasing power in a more even balance with production.<sup>29</sup>

Eccles presented the following five-point program: (1) giving each state \$500

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<sup>27</sup>Hyman, Marriner Eccles, 100-102.

<sup>28</sup>Register of the Papers, 8-9.

<sup>29</sup>Congress, Senate, Committee on Finance, Investigation of Economic Problems, 72<sup>nd</sup> Cong., 2<sup>nd</sup> sess., 16 February 1933, 730.

million to care for the destitute and unemployed; (2) increase government funds to \$2.5 billion dollars; (3) a domestic allotment plan to regulate agricultural production and raise prices; (4) refinance farm loans at lower interest rates and for longer periods of time; and (5) cancellation of war debts.<sup>30</sup> Questioned intensely by the chairman Reed Smoot from Utah and Thomas Gore from Oklahoma, particularly concerning the forgiveness of Allied war debts, Eccles replied that: "We must either choose between accepting sufficient foreign goods to pay the foreign debts . . . or cancel the debts. Foreign debtors would, no doubt, be delighted to pay their debts if . . . if we would make it possible . . . by reducing our tariff."<sup>31</sup> His only supporter on the committee was Democratic Senator Robert M. La Follette, Jr., of Wisconsin. Eccles's meeting with Tugwell in New York seemed to mirror his ambivalent reception before the committee. Though they disagreed on the benefits of compensatory spending, Tugwell at least read the text of Eccles's testimony. Convinced that neither his testimony before the committee nor his conversation with Tugwell was effective, Eccles returned to Utah.<sup>32</sup>

Viewing the relative lack of compensatory spending at the beginning of the New Deal with alarm, Eccles corresponded with various acquaintances at the Capitol. Writing to the Secretary of War George Dern, Eccles complained that he saw "fundamental little change in the methods they are pursuing and those pursued by the Republican Administration," and he noted that "New York, as usual, seems to be in the saddle,

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<sup>30</sup>Ibid., 712-713.

<sup>31</sup>Ibid., 729.

<sup>32</sup>Eccles, Beckoning Frontiers, 105-107.

dominating fiscal and monetary policy.<sup>33</sup> To Senator John G. Townsend, Jr., Assistant Counsel for the Federal Reserve Board, Eccles recommended that the Federal Reserve purchase a \$5 billion government bond issue, that \$500 million unemployment relief be granted, and that the federal government refinance home and farm mortgages.<sup>34</sup> Eccles also warned Senator La Follette that "the economy bill has launched an engine of inflation which . . . will create a crisis in the near future unless a program is launched to counteract it."<sup>35</sup> The National Industrial Recovery Act (NIRA), Eccles believed, caused an "inventory boom," and, as a result of excess supply, the bank failure rate was increasing again.<sup>36</sup>

During late 1933, Tugwell asked Eccles to visit several of the New Dealers to discuss "a number of things which are rather pressing problems at the moment."<sup>37</sup> When Eccles arrived in Washington in November 1933, he joined the groups trying to formulate a coherent platform to convince the president that "deficit financing could serve humanitarian objectives," provide production and employment, and, ultimately, balance the budget and end the depression. Eccles met with Tugwell; Henry Wallace, the Secretary of Agriculture; Harry Hopkins, then the Federal Administrator of Emergency Relief; Jerome Frank, General Counsel for the Agricultural Administration; and George Dern, the Secretary of War; Harold A. Ickes, Secretary of the Interior; and later, Henry

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<sup>33</sup>Ibid., 125.

<sup>34</sup>Ibid., 122-123.

<sup>35</sup>Ibid., 118.

<sup>36</sup>Ibid., 126.

<sup>37</sup>Ibid., 128.

Morgenthau. Jr., .<sup>38</sup>

During the meeting Eccles espoused his "logical radicalism" of deficit spending. After a member who concurred with Eccles spoke on behalf of the group, he followed with a question: "But how are you going to get around Lew Douglas over in the Bureau of the Budget and Will Woodin, who are holding Roosevelt to a balanced budget policy?"<sup>39</sup> Aware of the impending problems, members sought concrete answers. While obvious to Eccles that some members of the "Brain Trust" were trying to effect the transformation from a balanced budget to deficit financing and that though they sought his advice, he left Washington believing his role merely that of a temporary consultant.<sup>40</sup>

Eccles's first and second conversations with a distracted and ambiguous Morgenthau left the Utah banker wondering why they had spoken. Henry Morgenthau, Jr., a lifelong friend to the president replaced William Woodin at Treasury in November 1933. A month later, Eccles received a telegram from Morgenthau's assistant, Tom K. Smith, requesting his appearance in Washington, D.C. During their third meeting, Morgenthau, more to the point, asked Eccles to become his special assistant as a monetary and credit consultant.<sup>41</sup> Eccles credited his appointment to his meeting with the New Dealers two months earlier. Morgenthau, previously serving as the director of the Farm Credit Bureau, entered Treasury relatively inexperienced. Finding too many vacancies in the currently

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<sup>38</sup>Ibid., 131-139; John Morton Blum, From the Morgenthau Diaries, Years of Crises, 1928-1938, (Houghton Mifflin Company, Boston, 1959), 171.

<sup>39</sup>Eccles, Beckoning Frontiers, 134.

<sup>40</sup>Ibid., 133-134.

<sup>41</sup>Ibid.

expanded the Department of the Treasury, Morgenthau eagerly sought recruits.

Morgenthau wanted Eccles, upon the advice of Jacob Viner, a Keynesian from the University of Chicago,<sup>42</sup> to aid him with various relations with government agencies such as the Reconstruction Finance Corporation, the Federal Farm Mortgage Corporation, the Home Owners Loan Corporation, and the Emergency Committee on Housing.<sup>43</sup>

While working at Treasury, Eccles became an active member of the Emergency Committee on Housing, a group that generated the Federal Housing Act of 1934 (FHA). Addressing the decline in the building and trade industries, the committee members discussed various ways of boosting those industries and, at the same time, furnishing housing to those who had lost their homes during the depression. While some members believed that the proper solution was government funding of "public housing," Eccles promoted a government-guaranteed loan agency. He maintained that the secured loans for new homes would not only reduce unemployment in the building industry but would "act as the wheel within the wheel to move the whole economic engine"<sup>44</sup> In this way, the federal government could "prime the pump" of private industry by having "all financing done on the grass-roots level by credit institutions of the community for the individuals who lived there."<sup>45</sup> This plan would neither increase the public debt nor antagonize real estate or financial institutions.

Eccles became the head of a subcommittee responsible for drafting the legislation.

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<sup>42</sup>Blum, From the Morgenthau Diaries, 237.

<sup>43</sup>Eccles., Beckoning Frontiers, 142.

<sup>44</sup>Ibid., 144.

<sup>45</sup>Ibid., 149.

Title I concerned the modernization of homes and businesses. Based upon the owner's reputation and his expected income as determined by a local lending institution, a home owner could receive up to \$2,000 for improvements of his property. The federal government would offer some support; it would underwrite 20 percent of aggregate loans made by any one institution. The net effect would be the entry of \$1 billion in private funds with a minimum of government spending.<sup>46</sup>

Eccles promoted the inclusion of Title II, an unprecedented and unique concept. Title II, the heart of the entire bill, allowed the federal government to guarantee up to 80 percent of the appraised value of a home. Until 1916, banks did not have the sanction to use real estate as collateral. Later, when banks could use real estate as security, only a maximum of 50 percent of the value was permitted. High interest rates and second and third mortgages were used widely since few could afford a down payment of 50 percent. The depression, of course, resulted in massive foreclosures. With the new law, 80 percent of the appraised value (\$16,000 maximum) could be secured by the Federal Housing Authority, and a homeowner would have one mortgage, amortized over a longer period of thirty years and at a lower interest, usually at 6 percent.<sup>47</sup>

Title III created the National Mortgage Association, which could purchase mortgages and issue bonds against them. Title IV was included to appease the building and loan associations. This section created the Federal Savings and Loan Insurance

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<sup>46</sup>Hyman, Marriner Eccles, 145.

<sup>47</sup>*Ibid.*, 144-146.



Corporation (FSLIC), a federal insurance agreement to insure all accounts up to \$10,000.<sup>48</sup>

Under the tutelage of the Federal Housing Act of 1934, Eccles began his education in federal politics. With his first appearances before congressional committees, his initiation into the network of the semantics and protocol of political pragmatism began. He also realized the personal benefits of promoting federal legislation. His brother, George Eccles, now the president of First Security Corporation, aggressively sought the available FHA loans. Between 1936 and 1939, the First Security Corporation, realized substantial increases in lending. Ranking ninth in the nation, Utah progressed from \$16 million in loans to \$25 million in 1939.<sup>49</sup>

The Bank of America also profited from the Federal Housing Act of 1934 by immediately taking up the FHA offer. Using Title I, the Bank of America led all banks in the country in the number of loans made during the first year. The progress under Title II of the act reveals the same success. Growing California led all the states in the number and amount of these home loans, and the Bank of America led all banks.<sup>50</sup>

Thus began the symbiotic yet antagonistic relationship between A.P. Giannini and Marriner Eccles in 1932, a relationship that continued years beyond the death of the senior Giannini in 1949. Both, presupposed to advance the power of western banking, fought the federal government, sometimes in tandem, sometimes at odds. Despite their later disparate agendas, together they created a banking system more responsive to the needs of

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<sup>48</sup>Eccles, Beckoning Frontiers, 152-154.

<sup>49</sup>Lynne Pierson Doti and Larry Scheikart, Banking in the American West. (Norman: University of Oklahoma Press, 1991), 146.

<sup>50</sup>James and James, Biography of a Bank, 417.

an expanding economy. The Federal Reserve System ultimately became their vehicle in monetary policy, a web of bank holding companies dotted the United States, the federal government exercised oversight on the bank holding companies, and the status of western banking threatened the eastern banking establishment. Their first mutual endeavor was the passage of the Banking Act of 1935, legislation that vastly increased the power of the Federal Reserve and helped Giannini expand his empire.

## CHAPTER IV

### THE NATIONAL ASCENDENCE OF MARRINER S. ECCLES

Marriner Eccles worked briefly with Henry Morgenthau at Treasury. Eccles arrived at Treasury on February 1, 1934, but by November 16, he was a recess appointee to the Federal Reserve Board. This rapid ascendance resulted from the resignation of Eugene Black as governor of the Federal Reserve Board in June 1934 and Morgenthau's recommendation. Recognizing Eccles's talent, Henry Morgenthau recommended to President Roosevelt that Eccles replace the departing governor.<sup>1</sup> Morgenthau told Eccles: "Marriner, I've been talking to the President about your filling Eugene Black's place."<sup>2</sup> Morgenthau and the president enjoyed a close relationship. As neighbors in New York born to wealthy fathers and sharing a love of the environment, the Roosevelt and Morgenthau families developed a strong personal and social relationship. The two men complemented each other in their affinity for practical solutions and a desire for public service. Whereas Morgenthau appeared cold and aloof, Roosevelt's warm and inviting personality rounded out their relationship. Roosevelt once referred to

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<sup>1</sup>John Morton Blum, From the Morgenthau Diaries, (Boston: Houghton Mifflin Company, 1959), 279; Arthur Schlesinger, Jr., The Politics of Upheaval, vol 3, The Age of Roosevelt (Boston: Houghton Mifflin Company, 1960), 240.

<sup>2</sup>Marriner Stoddard Eccles, Beckoning Frontiers (New York: Alfred A. Knopf, 1951), 165.

them as “one of two of a kind.”<sup>3</sup>

In September, when Roosevelt told Eccles he was being considered for the governorship of the Federal Reserve, Eccles replied that "the post would be an appealing one only if fundamental changes were made in the Federal Reserve System."<sup>4</sup> Eccles explicitly stated the reasons for his proposed reforms. Prepared by himself and his assistant, Lauchlin Currie, a Keynesian import from Harvard University, Eccles presented a memorandum to the president. This document was the nucleus of the Banking Act of 1935. The detailed memorandum of November 4, 1934, stated: "If the monetary mechanism is to be used as an instrument for the promotion of business stability, conscious control and management are essential." The missive recommended that the Federal Open Market Committee (FOMC) be consolidated into an organization that reflected more the public interest and less the private interests of the eastern banking establishment. Eccles wanted the abolition of the twelve governors of the member banks to effect the sale and buying of government bonds. In its place, he advocated a Federal Open Market Committee consisting of members of the Federal Reserve Board and a few public bankers.<sup>5</sup>

Eccles believed the power of the Federal Reserve should be centralized in the

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<sup>3</sup>John Morton Blum, Roosevelt and Morgenthau: A Revised Condensation of From the Morgenthau Diaries (Boston: Houghton Mifflin Company, 1970), 24-25.

<sup>4</sup>Eccles, Beckoning Frontiers, 166,188.

<sup>5</sup>Ibid., 173; Sidney Hyman, Marriner Stoddard Eccles (Stanford : Stanford School of Business, 1976), 157-58.

nation's Capitol. Without permission of the Federal Reserve Board, member banks created the position of chairman of the board of directors, an appointment lacking statutory authority. The chairman acted as the chief executive officer, and the power of the governor, selected by the Federal Reserve Board, was subordinate. The chairman reflected the interests of private banking, and the governor, public interest. Eccles wanted to combine both offices and make the new governor subject to the approval of the Board in Washington.<sup>6</sup>

Roosevelt and Eccles also discussed the reliance of commercial banks on the government to provide funds to bolster the income of member banks. The Federal Reserve Act limited the banks to short-term commercial loans and investments as securities for borrowing from the Federal Reserve. If "paper eligibility," or those loans available as security to the Federal Reserve, could be expanded to include long-term investments, real estate loans, and excess funds ("sound assets"), business activity would be stimulated and the government could retreat from its role as the primary lender.<sup>7</sup>

According to Eccles, at the end of the conversation Roosevelt slapped his hands down on the table, and with his characteristic decisive demeanor asserted:

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. It seems to be necessary. Gossip has gotten around about my considering appointing you as the new Governor. It is only fair that you should know that formidable opposition has developed as a result. However, I don't give a damn.

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<sup>6</sup>Eccles, Beckoning Frontiers, 174.

<sup>7</sup>Ibid., 171-73.

That opposition is coming from the boys whom I am not following.<sup>8</sup>

On November 10, six days after their meeting, Roosevelt announced the appointment of Eccles as Governor of the Federal Reserve Board. The New York Times and the Washington Post reacted critically. The Times reminded the public of Eccles's appearance before the Senate Finance Committee in 1933 and expressed a hope that he would undergo a "cooling process," since he suggested compensatory spending, an unorthodox Keynesian idea, and an overhaul of the Federal Reserve System.<sup>9</sup>

The announcement of Eccles's appointment invoked the animosity of New York bankers as well as that of one of the most powerful senators in Washington, D.C., Democrat Carter Glass of Virginia. As the power behind the Senate Banking and Currency Committee, the chairman of its subcommittee, and significant to formulation of the Federal Reserve Act of 1913, Glass was protective of all matters concerning banking and currency. George L. Harrison, governor of the Federal Reserve Bank of New York, encouraged Glass's hostility. Carrying on the tradition of Benjamin Strong, the first chairman of the Federal Reserve, Harrison regarded the New York Reserve as the hub of the nation's supply of money and credit. Harrison was head of the Committee on Legislative Programs for the Federal Reserve System, the committee responsible for initiating and writing legislation for the Reserve. All of its members, save one,

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<sup>8</sup>Ibid., 138.

<sup>9</sup>Ibid., 161; Arch O. Egbert, "Marriner S. Eccles and the Banking Act of 1935": (Ph.D. dissertation, Brigham Young University, 1967):10 as quoted in Hyman, 161.

represented private banking.<sup>10</sup>

A.P. Giannini, unlike the East Coast bankers, derived much satisfaction in the appointment of a fellow western banker to the chairmanship of the Federal Reserve. Writing from the Breakers Hotel in Palm Beach, Florida on January 20, 1935, Giannini assured Lawrence Clayton, assistant to the governor of the Federal Reserve, of his full support: “At last, the Federal Reserve Board has, in Mr. Eccles, a real banker at its helm. May I ask you to please convey to him my sincerest congratulations on this very constructive piece of work. More power to him!”<sup>11</sup>

The administration’s bill, H.R. 7617, as introduced into Congress contained three titles, only one of which reflected Eccles's memorandum. Two of the modifications liberalized existing regulations, generally advantageous to the banks. The most radical and controversial amendment in the bill was Title II, which effected changes in the administration of the Federal Reserve and its authority to determine monetary policy. This was the section that evolved directly from Eccles's original memorandum and became the casus belli to the banking community. Centralization of the Federal Reserve Board occurred through several measures. Member banks were to select a governor and vice-governor, but, unlike previously, the elected persons were subject to the approval of the Federal Reserve Board. The Federal Reserve Board would come under greater control of the president since the chairman, a new designation for the head of the Board,

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<sup>10</sup>Hyman, Eccles, 162; Eccles, Beckoning Frontiers, 191.

<sup>11</sup>Giannini to Clayton, Marriner S. Eccles Papers, Manuscript Collection, J. Williard Marriott Library Special Collections, University of Utah, Salt Lake City, Utah.

would be selected and dismissed by the president. This provision inspired critics to complain of the Reserve becoming a political instrument.<sup>12</sup>

The section concerning open market operations received the most serious censure. The Open Market Committee was to consist of the chairman and two other members of the Board and two governors of the twelve reserve banks. Under the supervision of the Federal Reserve Board, the Open Market Committee would determine monetary policy and its decisions were binding for the member banks. The committee would decide whether it would sell or buy government securities, and the member banks had to comply. The Reserve Board also would have the power to regulate reserve requirements, the percentage of outstanding loans that a bank must keep on reserve.<sup>13</sup>

For two weeks in March, Marriner Eccles testified before the House Committee. Precise, cool-headed, and convincing, Eccles presented the bill with detail and clarity. Speaking before the House Committee on Banking and Currency, Eccles pointedly elucidated the role of monetary policy.

From the long-time point of view the recommendations dealing with changes in the machinery for determining and carrying out the open-market policies of the Federal Reserve System are essential. Open-market operations are the most important single instrument of control over the volume and the cost of credit in this country. . . . Authority over these operations, which affect the welfare of the people as a whole, must be

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<sup>12</sup>Elliot V. Bell, "Who Shall Rule the Money Market?," Current History 42 (July 1935): 359.

<sup>13</sup>Frederick A. Bradford, "The Banking Act of 1935," American Economic Review 25 (December 1935): 666-668.



vested in a body representing the national interest.<sup>14</sup>

Arthur Krock, financial reporter for the New York Times, reported:

Eccles has established himself in this trial by fire as a man of first rate capacity. . . . without giving ground . . . , he traced a middle course between such committee radicals as Representatives Goldsborough and Cross and such conservatives as Representatives Hollister and Gifford.<sup>15</sup>

During the House hearings many who did not testify expressed their opinions to the public. On February 10, the day following the introduction of the bill into the House, the Wall Street community issued a statement. Comparing the revised reserve system to the "European central banks," the New York bankers feared that the loosening of the paper eligibility requirements would abolish the "automatic adjustment" feature of the current system. The most severe critics were "those who feel that control of the Federal Reserve from Washington will become political control eventually in practice and that political control of banking is always dangerous."<sup>16</sup>

Glass's subcommittee held up Eccles's appointment for three months. Glass, considered the "father" of the Federal Reserve Act, jealously guarded any changes of the original act. Not until after the passage of the bill in the House on May 9 did Glass address the issue. Glass claimed that he was previously heavily involved with the Senate Appropriations Committee. He launched the hearing with fifteen pages of testimony on Eccles's banking connections. The senator from Virginia questioned Eccles intensely for

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<sup>14</sup>House Committee on Banking and Currency, Banking Act of 1935, Hearings on H.R 5357, 74<sup>th</sup>. Cong., 1<sup>st</sup>. sess., 1935, 181.

<sup>15</sup>New York Times, 21 March 1935.

<sup>16</sup>*Ibid.*, 2 February 1935.

one hour. Three committee members were favorable to confirmation, two opposed it, and two were outstanding. One undecided member was absent, and Senator James Couzens (R-MI) cast the deciding vote. After seeking the opinion of Charles L. McNary (R-Or), liberal Republican leader of the Senate, James Couzens decided to vote for Eccles, and the committee secured confirmation. When the full Senate met on April 25, Glass cast the only dissenting vote.<sup>17</sup>

The bill went to the Senate subcommittee on April 19 and remained there until June 3.<sup>18</sup> Glass's approach allowed the opposition to seize the initiative. Prior to allowing Eccles to testify, the subcommittee listened to the testimonies of Leo T. Crowley, J.F.T. O'Connor, and J.P. Warburg, all strongly against the bill. Crowley of the FDIC and O'Connor, Comptroller of the Currency, feared that Eccles would diminish their relative power. O'Connor offered nineteen amendments to the bill. Warburg, vice-chairman of the Bank of Manhattan of New York, criticized Title II, which was not acceptable "with or without modification." Warburg assigned the "bankers' reticence" on the bill to a lack of "understanding or to lack of courage." Glass and Warburg symbiotically nurtured their cause. Warburg described the monetary policy of Eccles as "Curried Keynes, for it is in fact a large lump of J. Maynard Keynes . . . liberally seasoned with the sauce prepared by Professor Lauchlin Currie."<sup>19</sup>

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<sup>17</sup>Eccles, Beckoning Frontiers, 174.

<sup>18</sup>New York Times, 28 April 1935.

<sup>19</sup>Ibid., 25 April 1935; U.S. Congress, Senate, Subcommittee on Banking and Currency Act, Banking Act of 1935, Hearings before the Subcommittee on Banking and Currency on S.1715, 74th Cong., 1st sess., 1935, 71-72, 74, 82.

The only banker to support publicly both the Banking Act and the appointment of Eccles was A.P. Giannini. The New York Times reported: "The cleavage of opinion between eastern and western bankers over the Banking Act of 1935 . . . flamed out in the open yesterday when A.P. Giannini, leading West Coast bankers, issued a statement here strongly attacking the stand of James P. Warburg. . . ." <sup>20</sup> Giannini said that Warburg's testimony did not reflect those of the bankers outside of New York. While noting that the purpose of the bill was indeed to lessen the authority of bankers to determine monetary policy, Giannini pointed out that it was not the entire banking community that historically dictated policy but only the New York bankers. After declaring his preference for public control, he remarked that:

Mr. Warburg attacked the banking bill by suggesting that it tended to 'undermine the American order' and was an important step toward communism. Perhaps Mr. Warburg understands by the 'American order' the inalienable right of the New York bankers to issue money and to regulate the value thereof.<sup>21</sup>

Glass allowed the first month of hearings only for the statements of the opposition. Finally, on May 10, the day after the House passed the bill, he permitted Eccles to speak. Eccles addressed the issue of political control candidly: "Government control . . . recognized by the Federal Reserve Act of 1913, is the guiding principle of the legislation now considered." Glass retorted that the Federal Reserve was to be "supervisory, altruistic in nature." Senator Couzens asked Eccles if he could distinguish between "supervisory and control." Before Eccles could answer, Glass responded:

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<sup>20</sup>New York Times, Ibid.

<sup>21</sup>Ibid.

"Evidently not, but I do . . . inasmuch as I wrote the report." Eccles promptly produced Woodrow Wilson's message before Congress and read: "The control of the system of banking and the issue which our new laws are to set must be public, not private . . ." Couzens asked Glass if he had written the passage, and Glass replied: "No. Woodrow Wilson wrote that." Eccles continued reading: ". . . must be vested in the government itself, so that the banks may be the instruments, not the masters, of business and of individual initiative and control." Glass quickly rejoined: "I agree to all of that. Pardon me for the interruption, go ahead."<sup>22</sup>

Trying to deflect Eccles's testimony, Glass called upon Winthrop W. Aldrich, chairman of the Chase National Bank of the City of New York, to testify directly after Eccles. Aldrich compared the Federal Reserve to the central banks in Europe and observed: "I find nowhere among the central banking organizations abroad so complete a control as the present bill provides for." The bill under consideration would make the Federal Reserve System "over into an instrument of despotic authority." Aldrich expressed the fear that many bankers felt when he addressed the possibilities of the administration using the system "for the purpose of creating a boom at the time when an election approaches" and the Treasury using ". . . the Reserve banks as a means of finance."<sup>23</sup> Suddenly bankers dominated the news. When not testifying in the subcommittee, they made statements to the press. Almost on a daily basis, America's bankers assessed the impending bill. The National Association of Mutual Savings Banks

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<sup>22</sup>Eccles, Beckoning Frontiers, 214.

<sup>23</sup>Senate Subcommittee, Banking Act of 1935, 385, 389, 403.

declared that "Title II . . . would open the way for 'unorthodox methods of obtaining new money.'" George C. Cutler of the State Trust Companies Association suggested either deleting Title II or providing a system of checks and balances for political control. The Guaranty Trust Company of New York assaulted the bill because it "opened the road to inflation" and would "make inflation more inviting, more dangerous, and more imminent." S. Sloan Colt of the Bankers Trust Company insisted there was no current emergency requiring legislation, that the act "reflected neither the views of bankers nor the result of banking experience."<sup>24</sup>

The New York State Bankers Association sent letters to its member recommending changes in the act. Seeking "immunity from political influence," the association recommended that members of the Federal Reserve Board should not be removable from office except by impeachment and that governors of the member banks not be subject to approval of the Board. The Massachusetts Bankers Association joined the onslaught by adding that the Federal Reserve Board should consist of only five bankers. The resounding complaints of most of the bankers rested upon the: (1) fear of political control of the Federal Reserve; (2) concern that the government would engage in deficit spending and inflationary measures; and (3) apprehension over the loss of private control of open-market operations.<sup>25</sup>

Giannini fortified his assault against Wall Street by granting interviews with magazines and speaking publicly. In a June 1935 popular publication, Giannini

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<sup>24</sup>New York Times, 11 May 1935, 13 May 1935, 3 June 1935.

<sup>25</sup>Congressional Record, 74th Cong., 1st sess., pt. 8: 9256.

explained in laymen's terms the values of the Banking Act in an article entitled "I Favor the Banking Bill." Claiming that monetary and credit control policies had in the past been a sham because they were in the hands of the private banks of New York, Giannini contended their allegiance "was neither to the public nor to other banks, but to their stockholders." Comparing the American system of monetary policy to that of other countries, Giannini concluded that "the assumption by private bankers of the responsibility for functions . . . of public concern would be dangerous to the future of private banking in this country." Clearly the target of Giannini's attack was the New York banking community.

There is much irony in the fact that those big city banks which are now righteously insisting that loans should be restricted to commercial borrowers are the very ones who have most widely departed from this principle and have for years placed the bulk of their funds in security loans and investment.<sup>26</sup>

After Roosevelt called Glass for a private meeting, Roosevelt offered Glass the opportunity to choose three names from a list as new governors of the Board. Unbeknownst to Glass, Eccles prepared the list. A more pliant Glass emerged inspired to expedite the work of the committee. Congress received the conference report on August 19, and H.R. 7617 passed both houses that day. On August 21, President Roosevelt signed the Banking Act of 1935. When Roosevelt handed Glass a pen that he had used to sign the bill, a member of the audience noted: "He should have given him an eraser

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<sup>26</sup>A.P. Giannini, "I Favor The Banking Bill," Today (1 June 1935): 8-9.

instead."<sup>27</sup>

Glass gloated that day by saying: "We did not leave enough of the Eccles bill with which to light a cigarette." The Banking Act of 1935 incorporated many changes from the original bill, and for years Eccles attempted to amend the bill. Though clearly not all that Eccles wanted, the legislation contained significant reform measures. The act established the federal government's responsibility for maintaining economic stability through monetary policy. Open market operations came under the control of a Federal Open Market Committee consisting of seven members of the new Board of Governors (formerly the Federal Reserve Board) and five representatives of the member banks. The decisions of the FOMC committed the individual reserve banks to comply. The Board of Governors gained control of the discount rate and member bank reserve requirements. The fear of injurious credit expansion dictated that reserve requirement changes be restricted in that they could not be reduced below their current amount and could not be increased to more than double the current amount.<sup>28</sup>

In response to the pervasive fear of political control of the Board of Governors, the original bill contained several changes. The Board no longer accepted the Secretary of the Treasury and the Comptroller of the Currency as members. The chairman could serve a lengthened term of fourteen years, but reappointment was no longer permitted.

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<sup>27</sup>Hyman, Eccles, 198; Eccles, Beckoning Frontiers, 219; Schlesinger, The Politics of Upheaval, 301.

<sup>28</sup>William E. Leuchtenburg, Franklin D. Roosevelt and the New Deal (New York: Harper & Row, 1963), 160; Board of Governors of the Federal Reserve System at Washington, Federal Reserve Bulletin (September 1935) Washington, D.C.,: U.S. Government Printing Office, 559-560.

To strengthen the independence of the Governors, their salaries increased from \$12,000 to \$15,000 annually. The president selected the chair and vice-chair of the Board for a four-year period. The Board of Governors had to approve the offices of president and vice-president of the member banks, appointed for five-year terms by the local board of directors.<sup>29</sup>

The original version of the bill included a section that permitted branch banking on a regional basis and removed some state lines as a barrier to trade. Certainly this would have benefitted Transamerica by allowing it to absorb its banks in Oregon and Nevada. Morgenthau, who was to become Giannini's future antagonist, removed this section from the legislation, believing that it might jeopardize passage of the entire bill. Expanded loan eligibility on real estate clearly served the Bank of America. Historically, the Bank of America issued loans using real estate as collateral; now it might lend up to 60 percent of the land value for ten years. So, like Eccles, Giannini did not gain all that he wanted from the bill, but he profited significantly.<sup>30</sup>

Walter Lippman noted that the Banking Act of 1935 constituted a victory "dressed up as defeat." The Banking Act was a victory for Eccles, Roosevelt, and Giannini. Eccles achieved the reform of the Federal Reserve, and Roosevelt, government control over currency and credit. As the largest of the West Coast bankers, Giannini gained power within the banking system. The struggle of spawning such an act elicited changes

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<sup>29</sup>Board of Governors, Federal Reserve Bulletin, 561.

<sup>30</sup>Marquis and Bessie Rowland James, Biography of a Bank: The Story of Bank of America (New York: Harper & Brothers, 1954), 387-388.



from the original bill that indicated the temper of times and were, on the whole, essentially beneficial. Most of the changes came from the Senate subcommittee and were attributable to Carter Glass. Several revisions reflected the desire of the bankers to limit administrative control of monetary policy. To the question as to who would rule the money market, the answer was not as clearly resolved as perhaps Eccles would have liked. Undoubtedly, the New York Reserve lost some power, but as an indication of its assets, prestige, and significant role in open market operations, it remained a permanent member of the FOMC and continued to serve traditionally as the vice-chairman of the committee.<sup>31</sup> Eccles thanked Giannini for his support of the bill and concluded:

It turned out better than I had reason to expect and we gained not all the essentials which we desired but, especially with respect to eligible paper, much more than I imagined would be conceded. That, together with the real-estate provision, ought to be very helpful at this time. I doubt if we would have been successful against the great weight of banking opinion but for the fact that a few voices---all too few---and yours most notably were raised in behalf of this bill.<sup>32</sup>

By the close of 1935 the banking community and big business drifted away from the common cause of the early New Deal. Giannini continued to support the administration, and Roosevelt rewarded him by a visit to California and a message of praise.

It is refreshing to know that some who occupy high places in the business and financial realms can remember conditions as they existed several years ago and today can realize the changes for betterment that have come to us

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<sup>31</sup>Board of Governors, Federal Reserve Bulletin, 561; Hyman, Eccles, 187.

<sup>32</sup>James and James, Biography of a Bank, 389.

a Nation. I expect to be in your State within a week or so and hope very much that it will be possible for us to meet once again.<sup>33</sup>

The rumor that Giannini might become a member of the administration indicated the growing relationship between Giannini and Roosevelt. In December 1935, just four months after Roosevelt signed the Banking Act, news reports hinted that, during a dinner at the White House, Roosevelt offered Giannini a position in the federal government. Although Giannini vehemently denied the reports, the correspondence of Marvin McIntyre, assistant secretary to the president, indicates otherwise. In a copy of a letter addressed to Ben DuBois of the Independent Bankers Association, McIntyre included an addendum for Marriner Eccles stating that DuBois opposed the appointment of Giannini to the Federal Reserve Board because it would "be generally distasteful to the independent bankers of the country."<sup>34</sup>

The ties that bound Giannini to Eccles as well as the Roosevelt administration did not weaken with the refusal to endorse his appointment. Never one to issue political endorsements, Giannini broke his silence in the 1936 election. Alarmed at the declining support of big business for the New Deal, Giannini advised business to: "Stop and consider before going on with the anti-Roosevelt campaign! It would be worthwhile to take inventory and compare conditions as they were at the time Mr. Hoover left office

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<sup>33</sup>Ibid., 390.

<sup>34</sup>San Francisco Chronicle, 17 September 1935; The Franklin D. Roosevelt Library, Selected Material from the Papers of Franklin D. Roosevelt Concerning A.P. Giannini (Hyde Park, New York, 1955, text-microfilm), reel 6.

with the times as they are today.”<sup>35</sup>

The underpinnings of Giannini’s support for Roosevelt reflected his own attitudes about banking. The president of the Bank of America often boasted that his bank was built for the small investor: “The day of concentrated wealth in a few hands is past. The people will no longer stand for a rule that makes the poor poorer and the rich richer.”<sup>36</sup> Giannini also wrote to Lawrence Clayton that: “Until Mr. Roosevelt’s candidacy in 1932, when I gave my whole-hearted support to him, I was listed as a Republican,”<sup>37</sup> The banker developed close contact with Marvin McIntyre and Lawrence Clayton. By this means he could obtain inside information and cooperation with both the president’s office as well as that of the Federal Reserve. But, the 1936 election would be the last time Giannini would support Roosevelt and Eccles. The high tide of cooperation passed before the 1940 election. In 1940 Giannini supported the Republican candidate, Wendell L. Wilkie, and he began referring to Eccles as “that son-of-a -bitch, two-faced Mormon,” and a “sham and hypocrite.”<sup>38</sup>

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<sup>35</sup> San Francisco News, 25 June 1936.

<sup>36</sup> *Ibid.*

<sup>37</sup> Giannini to Frank E. Ganet, 21 November 1935, Marriner S. Eccles Collection, Manuscripts Division, J. Willard Marriott Library, University of Utah, Salt Lake City, Utah.

<sup>38</sup> FBI, Memorandum 15 November 1945, Federal Bureau of Investigation Files, Washington, D.C., as quoted in Felice A. Bonadio, A.P. Giannini: Banker of America (Berkeley: University of California Press, 1994), 289.

## CHAPTER V

### THE HIGH TIDE OF COOPERATION:

1933-1938

Early in 1933, A.P. Giannini visited President-elect Roosevelt in New York City. The discussions concerned upcoming appointments and the country's recovery. Having met with William H. Woodin, Secretary of the Treasury, Norman H. Davis, financier and diplomat, and Jesse H. Jones of the RFC, Giannini was optimistic about the discussions. On February 23, 1933, Giannini telegraphed L.M. Giannini, his son, the following:

Jones is very friendly and boosted us to the Governor [Roosevelt]. [The] Governor is going to propose legislation [to] take care of farmers and home owners. . . . There is [a] likelihood of reorganization [of the] FRB [Federal Reserve Board], with new memberships . . . in about five or six months. I was so encouraged. Of course, this should mean elimination of our friends Calkins [Chairman of the San Francisco Federal Reserve] and [Federal Reserve Bank Chairman Isaac B.] Newton.<sup>1</sup>

The situation was critical. In February the banking industry experienced the sharpest relative decline of deposits compared to loans in American banking history. The Bank of America N.T. & S.A. lost \$22,376,000. Despite the repayment of the RFC loan, the Bank of America N.T. & S.A. experienced difficulties during the first half of 1933. Comparing loan and total losses to the previous first quarter, the bank lost 47.31 percent and 26.56 respectively. Giannini's bank crises were similar to those of most western

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<sup>1</sup>R.G. Smith to W.F. Morrish, 1 March 1933, A.P. Giannini to C.A. Miller, 3 March 1933, as quoted in Marquis James and Bessie Rowland James, Biography of a Bank: The Story of Bank of America N.T. & S.A. (New York: Harper Brothers, 1954), 365-366.

banks, particularly the country banks that suffered as farmers defaulted on their real estate loans.<sup>2</sup> When eastern banks and commercial depositors withdrew \$21,000,000 from the Bank of America N.T. & S.A., Giannini's hostility increased. Certainly this must have antagonized the banker's existing hostility toward the eastern banking establishment. Not knowing what Roosevelt planned for the banking crisis, Giannini immediately applied for two new RFC loans.<sup>3</sup>

To protect his banking interests and garner any future federal aid, Giannini established a network of powerful allies and informative cohorts in Washington political and financial circles. Democrat William G. McAdoo of California, always a friend to Giannini's interests, was elected to the Senate in 1932. McAdoo's former law partner, James F.T. O'Connor, became the controller of the currency. Both men became significant promoters of the growth of the California banker's empire. A longtime confidante of Giannini, Joseph P. Kennedy became the chairman of the Securities and Exchange Commission. The banker maintained close contact with the president's secretary, Marvin H. McIntyre, and Lawrence Clayton, assistant to Marriner Eccles. Giannini's relationship with the McIntyre and Clayton was one of mutual friendliness and admiration as demonstrated in the Roosevelt papers. A typical missive included the use of nicknames; McIntyre was the "Colonel" and Giannini, "A. P." As evidence of their growing relationship, Giannini wired McIntyre:

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<sup>2</sup>William Loren Sessions, "California's Innovative Banker: A.P. Giannini and the Banking Crisis of 1933" (Ph.D. diss., University of Southern California, 1979), 108-109.

<sup>3</sup>Ibid.

I don't blame you Colonel if this wire prompts you to say what a darned nuisance that fellow Giannini is but I'm so much wrapped up in the success of the president who proved himself a friend indeed at the time of the reopening of the banks that I can't stand idly by when I note attempts to put something over on him or his friendly congress.<sup>4</sup>

The early support of the Roosevelt administration to Giannini's interests began on March 5, 1933, when Roosevelt declared a banking holiday during his inaugural address. Congress passed the Emergency Banking Act on March 9, 1933, and several hours later Roosevelt declared a four-day banking holiday. The act gave the president the emergency power to regulate credit, currency, and foreign exchange. William Woodin, the Secretary of the Treasury, had the power to call in all gold and gold certificates, and the Federal Reserve System had the authority to determine which banks would reopen and could provide funds to improve the bank's financial position by allowing the RFC to use the bank's preferred stock as collateral.<sup>5</sup>

Considering his bank "the cleanest bank in the country," and aware that the banks in cities housing Federal Reserve branches would be the first to open, Giannini believed that his bank would be considered safe enough to open on March 13, the first day after the banking holiday ended. He immediately wired Secretary Woodin seeking permission to reopen. Worried that Chairman Calkins would not support his request, the banker contacted Senator Hiram Warren Johnson ( R-CA), Senator William McAdoo, and C.W.

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<sup>4</sup>A.P. Giannini to M.H. McIntyre, 7 May 1932, Franklin Delano Roosevelt Papers, Franklin D. Roosevelt Library, Hyde Park, New York (microfilm, Bancroft Library, University of California at Berkeley).

<sup>5</sup>Michael Martin and Leonard Gelber, Dictionary of American History (Totowa, N.J.: Littlefield Adams Quality Paperbacks), 1978, 200.

Collins, the bank's representative in Washington, D.C. Assured by all that his petition for reopening was a certainty, Giannini turned to other affairs.<sup>6</sup>

Disturbed by the lack of formal permission to reopen on Monday, Giannini took further action on Saturday evening. He telegraphed McAdoo, Johnson, Jones, McIntyre, and Collins to determine the cause of the delay. Assured by Collins that the opening was already approved, Giannini continued to wait for official approval. By 3:00 P.M. E.D.T the following day, the banker still received no word from Washington, D.C. Giannini called his connections at the Capitol again and received the same assurances as before. Suspecting otherwise, the banker contacted John Francis Neylan, counsel for William Randolph Hearst, and Neylan confirmed the administration's permission to open the bank on Monday. Shocked and surprised, Giannini, learned from McAdoo and Johnson that Woodin reversed his opinion based upon a year-old report forwarded by John Calkins.<sup>7</sup>

By telephone Giannini unsuccessfully attempted to convince Woodin that the figures were outdated and misleading. Once again the banker contacted Neylan and asked that he, in turn, contact the California publisher, William Randolph Hearst, a supporter of the Roosevelt administration. Agreeing that the failure of the bank to reopen would be calamitous, Hearst instructed Neylan to seek a personal interview with Roosevelt himself. Though unable to see the president, Neylan met with Woodin, Raymond Moley, a member of the "brain trust," the two senators from California, and Acting Comptroller of the Currency F. W. Awalt. All through the night the group

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<sup>6</sup>James and James, Biography of a Bank, 368-369.

<sup>7</sup>Ibid., 370.

discussed and debated the issue of the reopening of the Bank of America N.T. & S.A. on Monday. Finally, Neyland called Giannini requesting updated figures that were more reliable and current than those provided by Calkins. As Raymond Moley recalled the event:

The most dramatic decision we made involved the opening of A.P. Giannini's Bank of America's National Trust and Savings Association. The first opinion of the responsible officials in California was that the bank should not be permitted to open. But it would soon become apparent that it would be unwise to accept this judgment. We were aware that the Bank of America N.T. & S.A. was in a very real sense the bank of the common people of California.<sup>8</sup>

Woodin and Awalt reviewed the figures forwarded by Giannini and declared the Bank of America N.T. & S.A. sufficiently solvent to reopen. Woodin called Calkins, and after a lengthy conversation, Woodin asked Calkins if he were "willing to take the responsibility for keeping the institution from being opened?" After Calkins said "no," the Bank of America N.T. & S.A. officially received notification of a Monday opening.<sup>9</sup> Moley recalled: "I shall never forget the look of joy on the faces of Hiram Johnson and William McAdoo . . . ."<sup>10</sup>

A.P. Giannini increased his contacts with key members of the administration. One Californian remarked: "A.P.'s name was magic in Washington. When California

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<sup>8</sup>Raymond Moley, "Bank Crises, Bullet Crisis- Same Smile: Five Years of Roosevelt and After," Saturday Evening Post, 29 July 1939, 55.

<sup>9</sup>Ibid.

<sup>10</sup>Ibid.



wanted something from the New Deal, he was asked to get it.”<sup>11</sup> The banker’s close relationship with Jesse Jones proved helpful to the California grape growers, for Giannini’s bank loaned \$6 million to the vintners. With the repeal of prohibition in 1933, the loan promised to be profitable. As the grape crop ripened, the RFC hesitated about the upcoming loan, but Giannini expedited matters. Within twenty-four hours of the growers’ request for aid, the banker contacted Jones and obtained the loan.<sup>12</sup>

Designed to stabilize the nation’s banking system after the initial reopening of the banks, the Glass-Steagall Banking Act of 1933 required the separation of banking institutions with investment houses. The act also created the Federal Deposit Insurance Corporation. The Federal Reserve could control speculative loans, and national banks were permitted branch banks in those states allowing branch banking by state law.<sup>13</sup>

The McFadden-Pepper Act of 1927 had limited the growth of branch banking for state institutions; however, the Great Depression caused bankers to consider the benefits of branch banking for the transfer of funds among sister banks allowing greater flexibility

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<sup>11</sup>James and James, Biography of a Bank, 375.

<sup>12</sup>Ibid., 278.

<sup>13</sup>John M. Chapman, Concentration of Banking (New York: Columbia University Press, 1934), 146.

in the ability to offset runs on any given bank.<sup>14</sup> The Bank of America N.T. & S.A. benefitted from the bill's permission to allow the state Bank of America to merge with the Bank of America N.T. & S.A. By 1934, the Bank of America N.T. & S.A. controlled 61 of the bank's 70 branches, thus granting the Bank of America N.T. & S.A. 423 branches in 255 California towns. The same year, Transamerica spread into Nevada with the First National Bank of Reno. This meant that Transamerica Corporation would become subject to federal supervision just as if it were a national bank.<sup>15</sup>

Giannini found that the provision allowing minority stockholders to hold voting privileges in proportion to their stock favorable to his position with the National City Bank of New York. Transamerica owned one-tenth of the National City Bank, and, though previously permitted representation, the corporation lost those rights when Elisha Walker sold Transamerica to the National City Bank of New York. Giannini now had a degree of control of the voting stock.<sup>16</sup>

Giannini's gratitude for his fortunes gained by federal legislation proved particularly valuable to the Roosevelt administration in the election of 1934. Muckraking novelist Upton Sinclair's candidacy for governor of California alarmed Roosevelt. Giannini wanted Jefty T. O'Connor to leave his post as comptroller of the currency and run for governor of California, but Sinclair received the Democratic gubernatorial nomination. Giannini turned to Washington, D.C., in his campaign against Sinclair. The

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<sup>14</sup>Ibid., 17-18.

<sup>15</sup>Ibid.

<sup>16</sup>James and James, Biography of a Bank, 377.

national Democratic party never endorsed Sinclair, and the Roosevelt administration wanted Raymond Haight, a third party candidate, to replace Sinclair. Acting as a liaison between Haight and the administration, Giannini wired O'Connor that there were rumors of Sinclair's withdrawal in favor of Haight. O'Connor wanted support for Haight from the administration. He reminded them that "Mr. Giannini has 200,000 stockholders . . . and several hundred banks and is waiting for word of our decision."<sup>17</sup>

Running out of money, Sinclair petitioned Giannini for \$10,000 for the remainder of the campaign. Giannini suggested that the candidate seek the administration's financial support by contacting O'Connor. Hoping for a political and financial endorsement by the administration, Sinclair requested that O'Connor come to California. O'Connor arrived with a plan to merge the political forces of Haight and Sinclair by persuading Sinclair to withdraw. O'Connor's oblique plea that Sinclair withdraw from the race fell upon deaf ears, but the administration's unwillingness to provide political and financial support did not. Sinclair's final appeal for \$5,000 to Giannini received a cold and definite "no."<sup>18</sup>

Meanwhile, O'Connor met with the other gubernatorial candidates. He determined that the incumbent Republican candidate, Frank F. Merriam, should receive support from the national Democratic organization. Giannini publicly supported Merriam because he feared that Sinclair's "hazardous experiment" would damage

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<sup>17</sup>Russell M. Posner, "State Politics and the Bank of America, 1920-1934 (Ph.D. diss., University of California, 1956), 311, 317, 322, 325-328.

<sup>18</sup>Ibid., 329-332.

California's business interests.<sup>19</sup>

For Giannini, Merriam's narrow victory was a solemn occasion. Sinclair's victory would have indicated a demand for social services. Accordingly, Giannini's public statements supported the New Deal. He declared that critics and opponents of the New Deal must "let up on President Roosevelt and let him put through his social reform . . . ." He realized 'more and more' the need for reforms such as unemployment insurance and old age pensions, and that "Social Security has got to come." We would have some of these reforms already if businessmen had cooperated with the President in the last Congress."<sup>20</sup> These pronouncements for social reform undoubtedly pleased the Roosevelt administration.

After Giannini's "victory" in the governor's election, his support for Roosevelt was well-received in Washington, D.C. A White House dinner conference soon led to the rumor that Giannini would join the Roosevelt administration. Giannini vehemently denied the reports, but records indicate otherwise. In a letter addressed to Ben DuBois of the Independent Bankers Association, McIntyre stated that Eccles opposed the appointment of Giannini to the Federal Reserve Board because it would "be generally distasteful to the independent bankers of the country."<sup>21</sup> The taciturn reply by Eccles indicated no dislike for Giannini; it was simply a demonstration of his pragmatic

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<sup>19</sup>Ibid., 334-335.

<sup>20</sup>San Francisco Examiner, 9 November 1934.

<sup>21</sup>San Francisco Chronicle, 17 September 1935; McIntyre to DuBois, 18 September 1935, Roosevelt Papers.

assessment.

Giannini and the Roosevelt administration nevertheless maintained a cordial and symbiotic relationship during the first New Deal. He was twice a dinner guest at the White House and publicly supported the administration. Unlike the 1932 presidential election campaign, Giannini announced his support for the incumbent president in 1936. The reelection of FDR was good for banking. Giannini declared that: “I have just returned from a tour of inspection of our branches in the south. . . . I am happy to say things are good and getting better.”<sup>22</sup> As he did in 1934, the banker urged patience in dealing with the Roosevelt administration.

Stop and consider before going on with this anti-Roosevelt campaign! It would be worthwhile to take inventory and compare conditions as they were at the time Mr. Hoover left office with times as they are today. Give Mr. Roosevelt four more years and he'll cure the errors — errors have been made — and leave the office with a record that will stamp him as the greatest man of our times.<sup>23</sup>

Giannini also held news interviews, gave speeches supporting the administration, and contributed \$2,500 to Roosevelt's 1936 campaign.<sup>24</sup>

The West Coast banker, however, complained to the administration about alleged regulatory mistreatment toward the Bank of America N.T. & S.A. Also, in 1935, when Giannini made recommendations about appointments, McIntyre received a complaint that William Woodin was “busy with others and would not see him or even speak to him as

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<sup>22</sup>San Francisco News, 25 June 1936.

<sup>23</sup>*Ibid.*.

<sup>24</sup>Posner, “State Politics,” 299.

they passed . . . in the corridor.”<sup>25</sup> Later Giannini vociferously complained about the national bank examiner, one Mr. Price.<sup>26</sup> Claiming that Price was “maliciously destructive,” the banker complained that the examiner left the bank with no choice except to charge off good loans and estimated losses. Giannini quoted Price as saying: “The reason that the bank is in such damn rotten shape is because you have refused to take the losses as classified by our department.”<sup>27</sup> After the banker continued his diatribe for “fair treatment,” a new federal auditor replaced Price, and the bank assumed more control over which loans would be charged off.<sup>28</sup>

Giannini hoped that John U. Calkins, the governor of the Twelfth District Federal Reserve Bank, would be removed early in the New Deal. Giannini unsuccessfully pressured McAdoo to find a way to have Calkins replaced, and the banker also wanted William A. Day, Calkins’s chief deputy removed. In March 1936, Calkins’s appointment was not renewed. With high expectations the West Coast banker telegraphed Lawrence Clayton:

Please convey to your good chief [Eccles] my sincerest thanks and appreciation for the Board’s disapproval of Calkin’s appointment and may I say that substitution of First Vice-President Day in his stead would almost be the equivalent of Calkins still being at the helm. Day and Calkins both refused in nineteen eleven to continue with the Bank of Italy

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<sup>25</sup>Giannini to Marvin McIntyre, 16 March, 1933, Bank of America N.T. & S.A. Archives, as quoted in Sessions, “California’s Innovative Banker,” 133.

<sup>26</sup>In the documentation, Mr. Price’s first name does not appear.

<sup>27</sup>Giannini to James F. T. O’Connor, 15 August, Bank of America N.T. & S.A. Archives, as quoted in Sessions, “California’s Innovative Banker,” 134.

<sup>28</sup>Sessions, “California’s Innovative Banker,” 136.

when their Mechanics Bank of which they were both managing officers was taken over after stockholders made good to Bank of Italy their bank's deficit. Cordial regards.<sup>29</sup>

The subsequent appointment of Day as president of the Twelfth District Federal Reserve Bank clouded Giannini's apparent victory.

Although addressed to Lawrence Clayton, another appeal to Eccles arrived on November 2, 1936. Giannini wanted A.O. Stewart, a member of the Board of Governors, to become the director of the California Democratic party organization. The end of the letter offered aid to Clayton and Eccles in securing this post for Stewart. "If you feel that it would be helpful for me to back you by personally contacting some of the 'powers that be', I shall be only too glad to do so."<sup>30</sup> Clayton replied that matters of the Democratic party organization were handled by the organization itself and that Stewart would have to resign as chairman, a definite loss to the West Coast banking fraternity.<sup>31</sup>

Never hesitant in defending his banking interests, Giannini complained to Roosevelt that the RFC and the Department of the Treasury were unfair in their complaints of the Bank of America N.T. & S.A.'s liberal dividend policy. Using McIntyre as a vehicle to the president, Giannini wrote: "I feel I should let you know, and through you the President, of the unfair treatment we are being accorded by certain

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<sup>29</sup>Giannini to Lawrence Clayton, 4 March 1936, Marriner S. Eccles Papers, Manuscript Division, J. Willard Marriott Library, University of Utah, Salt Lake City, Utah..

<sup>30</sup>Ibid., 2 November 1936.

<sup>31</sup>Ibid., Clayton to Giannini, 11 November 1936, Eccles Papers.

departments of the Government.”<sup>32</sup>

When Giannini did not support an upcoming candidate for an appointment that might threaten the well-being of his bank, he communicated with a Washington, D.C. contact to try and persuade them to reconsider the appointment. Giannini, distraught by the possibility of Henry Machen becoming a Federal Reserve agent for the Twelfth Federal Reserve district, wrote Eugene T. Black, a Governor of the Federal Reserve Bank in the nation’s Capitol:

I am sure that your Board cannot fully appreciate the significance of such an appointment. Mr. Machen is a close personal friend of Mr. Calkins and has shown his prejudices against our institution in many ways. In view of the unfriendly attitude heretofore shown by Mr. Calkins, to which I have called your attention on several occasions, the appointment of Mr. Machen would serve to perpetuate and fortify the antagonistic attitude of the higher executives in the San Francisco Federal Reserve Bank and would be an unwarranted affront to our institution.<sup>33</sup>

As a rule, Giannini’s complaints indicated his suspicions and mistrust toward the East Coast banking establishment centered in New York City. L.M. Giannini’s secretary, Mary McGoldrick, described the Gianninis’s attitude about the New York banks.

You see, out here California was just one of the outposts, as far as Eastern banking was concerned. All of a sudden, this little Bank of America N.T. & S.A. starts becoming a big competitor. I thought they really and truly ridiculed the Giannini theory of banking in the beginning, because the New York banks, the Eastern banks didn’t have branch banking. . . . There was that harassment going on all the time. I think it was probably

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<sup>32</sup>A.P. Giannini to Marvin McIntyre, 24 June 1933, Bank of America N.T. & S.A. Archives, as quoted in Sessions, California’s Innovative Banker,” 137.

<sup>33</sup>Giannini to Black, 12 July 1934, Ibid.



perpetrated by the Eastern banking concerns and the Federal Reserve.<sup>34</sup>

The origins of Giannini's diatribe against the "eastern establishment" echoed the past. In 1919, A.P. and Dr. A.H. Giannini purchased the East River National Bank in New York.<sup>35</sup> Later, in 1929, the Giannini brothers broke with J.P. Morgan, the king of Wall Street. They believed Morgan tried to kill their bank. When Elisha Walker of New York tried to sell Transamerica, A.P. Giannini surmised that Wall Street orchestrated the move.<sup>36</sup>

A representative sample of the banker's attitude about Wall Street appeared in a telegram sent by Giannini in 1930:

The same old gang [Wall Street] has been at work waiting for use to stand or fall together and there is no chance of their putting anything over otherwise. . . . We are in this fight to a finish and if we do go down, it will be with flying colors knowing full well the powerful forces that have been back of this diabolical conspiracy.<sup>37</sup>

The phrase "diabolical conspiracy" frequently appeared in Giannini's defense against the Securities and Exchange Commission (SEC), the Department of the Treasury, and the Federal Reserve's investigation of Transamerica Corporation. While Giannini fully

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<sup>34</sup>Claire Giannini Hoffman, "The Giannini Family in Banking and Public Service," interviews by Ruth Teaser: Interviews with Mary McGoldrick, Margaret Mallory Dickson, and J. M. Fischer," 1976, Regional Oral History Office, Bancroft Library, University of California, Berkeley, CA..

<sup>35</sup>James and James, Biography of a Bank, 108.

<sup>36</sup>Sessions, "California's Innovative Banker," 133.

<sup>37</sup>A.P. Giannini to Charles W. Wallace, 20 March 1930, Bank of America N.T. & S.A. Archives, Ibid.

supported the Roosevelt administration, he voiced his opinion of the eastern banking establishment in more moderate tones than he would later. In 1936, when the banker publicly announced his full support for the incumbent president, Giannini remarked: “The day of concentrated wealth in a few hands is past. The people will no longer stand for a rule that makes the poor poorer and the rich richer.”<sup>38</sup>

Beginning with the reopening of the Bank of America N.T. & S.A. in March 1933, Roosevelt’s first administration benefitted the Giannini empire. Some critics believed that Giannini created the substandard condition of his bank by declaring excessive dividends and overzealous lending practices. Nevertheless, the federal government allowed the bank to reopen despite the opposition of John Calkins. The Banking Act of 1933 permitted the Giannini empire enormous growth and allowed Transamerica voting privileges in the National City Bank of New York. Giannini had allies in Washington, D.C., and he used his influence in government appointments. Nearly alone in the banking fraternity, he publicly made his admiration and support for Roosevelt known.

By 1938, however, the power of the Gianninis in the Roosevelt administration began to wane. The administration’s antimonopoly campaign and the stratagems of Henry Morgenthau, Jr., the comptroller of the currency, and the FDIC provided obstacles to the Gianninis’s spreading empire. A.P. Giannini’s fear of the “diabolical conspiracy” became manifest. As government agencies tried to check the growth of the Bank of America N.T. & S.A. and Transamerica Corporation, the Gianninis and Eccles found

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<sup>38</sup>San Francisco News, 25 June 1936.

their causes closely linked. Eccles and the Gianninis worked well together, bounded by a common cause and a common enemy. They wanted decreased power of the eastern banking elite and at the same time, to achieve their individual goals. Their cooperation, however, did not endure.

## CHAPTER VI

### THE “DIABOLICAL CONSPIRACY” UNFOLDS:

1938-1940

Henry Morgenthau, Jr., frustrated the attempts of both Eccles and Giannini to create a unified banking system with a standardized system of bank examinations. When Giannini attempted to expand branch banking and use real estate as collateral, Morgenthau and the comptroller of the currency refused to issue permits for new branches. Morgenthau's efforts to control national banking under the aegis of Treasury became evident during the fight for the passage of the Banking Act of 1935, popularly known as the “Eccles bill.”

Monetary and fiscal policies constituted a symbiotic relationship, but competition between Morgenthau and Eccles for the control of banking precluded constructive consultation and cooperation. Whether the conflict was the result of doctrinal differences, institutional restraints, or personal pride, the result was a troubled relationship. Also, their divergence of beliefs concerning a balanced budget and compensatory spending, a Keynesian policy, naturally pitted Morgenthau and Eccles against one another. While Eccles expounded the virtues of government spending to the president, Morgenthau appealed to Roosevelt's inherent desire for a balanced budget. Eccles blamed Morgenthau's personality quirks, and Morgenthau charged Eccles with megalomania. A telling assessment of the secretary of the treasury came from Lauchlin Currie, a fellow Keynesian and aide to Eccles, who advised his chief:

He is a person intensely loyal to the President and extremely jealous of the prerogatives of his office. . . . Make overtures to the Secretary. Tell him that you hope that he will not misinterpret your memo; that it was worded for the sake of the record and in view of your own position on the Board; that you do not question his authority, ability, or disinterestedness in connection with monetary control; and that your only wish is that action be postponed until possible Board actions re[garding] reserve requirements and Congressional action re[garding] capital inflows are first disposed of.<sup>1</sup>

After a perusal of the literature, the reader determined that Eccles exhibited a self-righteous attitude, a penchant for offering unsolicited opinions, a taciturn manner of speaking, and a devout persistence to his cause. From the outset cooperation was difficult.

The first serious breach between Eccles and Morgenthau following the Banking Act of 1935 evolved from the undistributed profits tax bill of 1936. The following year it was Eccles's bank unification plan and his plea to FDR to engage in government spending, and in 1938 it was Eccles's plan for the easing of credit and standardization of bank examinations. The rivalry continued until Morgenthau's resignation soon after Roosevelt's death in 1945.<sup>2</sup>

Morgenthau, with the typical attitude of a conservative banker, predictably opposed wide-scale branch banking and resented Giannini's banking practices. To the secretary of the treasury, Giannini's dominance in western banking violated the administration's antimonopoly campaign. Morgenthau perceived the banker's actions as

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<sup>1</sup>Currie to Eccles, 12 December 1936, Marriner S. Eccles Papers, Manuscripts Division, J. Willard Marriott Library, University of Utah, Salt Lake City, Utah.

<sup>2</sup>Sidney Hyman, Marriner S. Eccles (Stanford: Graduate School of Business, Stanford University, 1976), 207-208.

freewheeling and his issuance of dividends during the depression suspect. Morgenthau also thought Giannini's collateral for loans and bookkeeping practices unsound. Jesse Jones remarked that "as time went on, there was no love lost between Mr. Giannini and Secretary Morgenthau of the Treasury."<sup>3</sup>

The sudden federal attacks against the Bank of America N.T. & S.A. and Transamerica Corporation in 1938 inflamed Giannini's perception of a "diabolical conspiracy" by the eastern banking establishment. Actually, the censures were neither sudden nor unexpected. For many years the conservative members of the banking community mistrusted Giannini's banking practices. Just as the Bank of the United States tried to exert a stabilizing influence upon the unsound banks in the West, so did the East desire to control Giannini's empire in the West. Since its recuperation in 1932, the Bank of America N.T. & S.A. and Transamerica Corporation's sweeping and rapid expansion invited misgivings about the soundness of their institutions.

A.P. Giannini and L.M. Giannini aggressively employed unorthodox banking practices. They used every opportunity to increase business, many appearing unprofessional and unsound to others. After A.P. Giannini resigned as president of the Bank of America N.T. & S.A. on January 14, 1936, his son, Lawrence Mario, continued his father's tradition as an unconventional pioneer. Some of the problems faced by L.M. Giannini were dramatically different from those of his father in earlier years. First, deposits were very high in comparison to borrowing. Likewise, the nature of deposits

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<sup>3</sup>Gerald D. Nash, A.P. Giannini and the Bank of America (Norman, OK. and London: University of Oklahoma Press, 1992), 122; Jesse H. Jones with Edward Angly, Fifty Billion Dollars (New York: The Macmillan Company, 1951), 37.

changed. Before the depression, most were savings deposits, and the loans were long-term, particularly real estate loans. As the nature of deposits changed to demand deposits and lending became more imperative, the bank's lending practices and loan clientele required adjustment.<sup>4</sup>

L.M. Giannini targeted two groups of potential borrowers: small business owners and individual depositors. With the revitalization of small businesses in California and the numerous individuals seeking loans for automobiles and household items, L.M. Giannini capitalized upon the small, yet numerous, borrowers. Keeping overhead and interest to a minimum, the bank's deposits and loans increased rapidly. By 1939, the Bank of America N.T. & S.A.'s loans outstripped those of every other bank in the country.<sup>5</sup>

By enlarging a personal loan department, Giannini captured that market that normally used finance companies with higher rates than the 13 percent offered by the Bank of America N.T. & S.A.. Using an installment credit service, "Timeplan," and a massive advertising campaign, the bank threatened the monopoly of the automobile finance companies. Paying 15 to 30 percent annually to finance companies, automobile purchasers happily turned to the new program offered by the Bank of America N.T. & S.A.. The bank issued a letter of credit to the dealer to cover the necessary down payment. The bank accepted the car as collateral, and the borrower repaid the bank with

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<sup>4</sup>Marquis and Bessie Rowland James, Biography of a Bank: The Story of Bank of America N.T. & S.A. (New York: Harper & Brothers, 1954), 415.

<sup>5</sup>James and James, Biography of a Bank, 417.

monthly installments. By using massive advertising and undercutting the interest rates of the car finance company, the Bank of America N.T. & S.A. ran a close second in the number of loans to the General Motors Acceptance Corporation in California by the end of 1936. Later, the bank contacted insurance agents and offered them a reciprocal agreement in return for the names of their patrons, likely prospects for the “Timeplan.”<sup>6</sup>

The Bank of America N.T. & S.A. was the first financial institution to invest in the motion picture industry. Dr. A. H. Giannini moved to Los Angeles following the Walker closing of the Bank of America N.T. & S.A. in New York. He realized the potential of the motion picture industry and loaned Samuel Goldwyn more than \$1 million for the production of The Kid From Spain. Using movie negatives as collateral, A.H. Giannini financed such movies as Forty-Second Street and Walt Disney’s first film, Snow White and the Seven Dwarfs. By 1952, the Bank of America N.T. & S.A. successfully financed five-hundred feature films.<sup>7</sup>

Federal regulatory agencies looked at the above practices, the growth of branch banks, and the issuance of dividends of the Bank of America N.T. & S.A. with skepticism. Alarmed at the unprofessional tactics of the bank and concerned about the bank’s solvency, the Department of the Treasury and the FDIC believed the Giannini empire used unsound banking practices. The agencies knew of efforts to pass favorable legislation for the Bank of America. Representing Giannini, Senator McAdoo with the aid of Senator Carter Glass and Representative Henry Steagall ( D-AL ) crafted two bills

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<sup>6</sup>Ibid., 419-420.

<sup>7</sup>Ibid., 429.



allowing the expansion of national banks to form branches anywhere within their Federal Reserve District. The second bill prevented a holding company from owning more than 10 percent of the stock of a bank that belonged to the Federal Reserve. The first bill would have allowed the Bank of America N.T. & S.A. expansion into every state in the Twelfth Federal Reserve District, and the second would have prevented a majority<sup>8</sup> of the shares of Bank of America N.T. & S.A.'s stock from being held by Transamerica stockholders.<sup>9</sup> Neither of the bills passed.

Meanwhile, President Roosevelt and Marriner Eccles pushed for a legislative exemption of Transamerica from the controls contained within the bills. Eccles, Roosevelt, Morgenthau, and Leo T. Crowley of the FDIC held numerous meetings regarding the bills. Clayton believed that the bank holding bill "had meanwhile been crowded out by the development of the recovery program."<sup>10</sup>

The two bills promoted by Giannini and McAdoo disconcerted Morgenthau. By 1937, the secretary of the treasury had worked to restrict Gianninis' banking plans, and he had prepared the way to crack down on the Gianninis. The secretary replaced Jefty T. O'Connor, comptroller of the currency, with Marshall R. Diggs, an employee definitely within the Morgenthau camp. Historically the comptroller of the currency operated

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<sup>8</sup>This figure does not comport with a statement made by A.P. Giannini to the press. He declared that Transamerica owned only 42 percent of the stock of Bank of America N.T. & S.A. See Julian Dana Papers, Bancroft Library, University of California at Berkeley (n.d.).

<sup>9</sup>James and James, Biography of a Bank, 436.

<sup>10</sup>Diary of Lawrence Clayton, 5 January 1938 to 12 April 1938, Eccles Papers.

independently of Treasury, but with Diggs as the comptroller, Morgenthau gained control of the agency.<sup>11</sup>

It was the duty of the comptroller to officiate national bank examinations. The FDIC and the Federal Reserve Board also conducted bank examinations. The overlapping duties of the three agencies resulted in confusion and the inability of the Federal Reserve to control monetary policy. Generally, Treasury and the FDIC conducted bank examinations without consideration of overall economic conditions. The Federal Reserve examinations tended to be more flexible with regard to current economic needs.<sup>12</sup> Eccles wanted to unify the banking system so that any state bank choosing to be a member of the FDIC would be subject to the same oversight and credit restrictions as member banks of the Federal Reserve.<sup>13</sup> The issue of bank examinations by the Department of the Treasury and the FDIC drew Eccles and Giannini into the same camp.

Early in 1938 Crowley sent a memorandum to Morgenthau stating that Transamerica's expansion should be checked. Before the departure of O'Connor, the comptroller approved applications for two new branches in Gonzales and Pinole , California. Although one of the buildings was completed in March 1938, Diggs refused to issue the necessary permit. Diggs observed that due to the most recent examination of the Bank of America N.T. & S.A., "the permits would not be forthcoming until some \$6

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<sup>11</sup>James and James, Biography of a Bank, 437.

<sup>12</sup>Marriner Stoddard. Eccles, Beckoning Frontiers (New York: Alfred A. Knopf, 1951), 267.

<sup>13</sup>Ibid.

million in 'losses' were charged of."<sup>14</sup> Although these accusations were eventually reconciled, the 1938 bank examination, completed on April 20, brought new problems for the Bank of America N.T. & S.A. William Prentiss, the chief examiner of the Twelfth Federal Reserve District, drew attention to "the bank's 'frozen' real estate loans, its large lines of credit to Transamerica and its subsidiaries, its dividend policy, and much more."<sup>15</sup> When Giannini complained to Diggs, the comptroller declared real estate loans unlawful "regardless of the reduction in an amount, improvement in security value, or any other changes which should make the loans conforming. This ruling appears to us to be further evidence of the lack of cooperation of your office."<sup>16</sup>

Clayton remarked in his correspondence to Diggs that "A. P. is not pulling any punches," and he verified this assessment by including the following statement made by Giannini:

While I attribute certain gross errors appearing in examination reports to the lack of understanding on the part of the examiner, it has become increasingly apparent to me that the management of this bank is being subjected to undue criticism, and malicious and slanderous harassment.<sup>17</sup>

The same day Clayton forwarded the office correspondence to Eccles, the chairman received a note from Giannini that included a copy of the text the banker sent to

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<sup>14</sup>A.P. Giannini to M.H. McIntyre, 5 and 11 June 1938, Bank of America N.T. & S.A. Archives, as quoted in James and James, Biography of a Bank, 438

<sup>15</sup>Nash, A.P. Giannini, 123; James and James, Biography of a Bank, 439.

<sup>16</sup>Office correspondence from Mr. Clayton to Mr. Eccles, 12 May 1938, Eccles Papers.

<sup>17</sup>Ibid.

Diggs. On May 20, Eccles responded that although he did not have access to the results of the bank examination,

. . . [it] seems to me that you have made an excellent, if not devastating, answer to the criticisms in the examiner's report, as set forth in your letter. . . . Since your letter involves certain questions of examination policy. I wanted it to get to the attention of the responsible heads of at the Treasury. Therefore I called up Wayne Taylor, Assistant Secretary of the Treasury, who represents the Secretary in banking matters. . . .<sup>18</sup>

On May 26, Giannini's response indicated the continuing positive relationship between them, and the West Coast banker thanked Eccles for his letter. After inquiring about Eccles's ability to withstand the problems in Washington, D.C., he remarked, "You have done some constructive work back there and deserve a lot of credit."<sup>19</sup>

Again, in July 1938, Diggs refused to issue the permits for the banks in Gonzales and Pinole.<sup>20</sup> The full impact of Diggs's power became apparent on September 13, 1938, during a board of directors meeting of the Bank of America N.T. & S.A. A telegram from Diggs shocked the board with the following message:

In view of the unsatisfactory asset condition of the bank, of real estate in excess of forty million dollars carried in loans and discounts . . . of other items carried in assets of questionable value and of the aggregate of assets classified as doubtful and loss, it is imperative that the earnings of the bank be used to write off and reduce the book value of such assets. Notwithstanding the condition as outline above and the fact that the dividend policy has been repeatedly criticized, the dividend rate has been repeatedly increased . . . [since] nineteen thirty-three. . . . In the opinion of the comptroller of the currency the declaration of any dividends at this time would, unless proper provisions for such criticized assets were first

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<sup>18</sup>Eccles to Giannini, 20 May 1938, Eccles Papers.

<sup>19</sup>Giannini to Eccles, 26 May 1938, Ibid..

<sup>20</sup>Nash, A.P. Giannini, 123; James and James, Biography of a Bank, 439.

made, be and continue to be an unsafe practice. . . . Accordingly the comptroller of the currency pursuant to section thirty of the Bank Act of Nineteen Thirty-Three hereby warns the bank, its officers, the board of directors and the members thereof to discontinue such unsafe and unsound practices.<sup>21</sup>

Because Section 30 of the Banking Act of 1933 permitted the comptroller to charge bank officers with violations and bring them before the Federal Reserve Board, Giannini immediately seized the moment by requesting the earliest possible hearing by the board. Lawrence Clayton replied that “there is no way in which the Board itself can initiate such a move since the citation must come from the Comptroller.” Clayton expressed the mood of the Roosevelt administration by stating: “that it is much preferable that the issues be composed through an agreement between the bank and the three banks supervisory agencies so as to put a stop to the injurious effects which inevitably flow from the public discussion.”<sup>22</sup>

Meanwhile, Morgenthau, upon hearing of the Bank of America N.T. & S.A.’s Board of Directors response to Diggs’s telegram, threatened to withdraw the government’s deposit of several million dollars; apparently he was unaware that bonds secured the government’s deposits.<sup>23</sup>

Before Marshall Diggs transferred to the FDIC and Preston Delano became comptroller of the currency, Diggs issued two detrimental statements regarding the Bank

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<sup>21</sup>Diggs to R.E.A. Palmer, 23 September 1938, as quoted in James and James, Biography of a Bank, 440.

<sup>22</sup>Lawrence Clayton to A.P. Giannini, 20 February 1940, Eccles Papers.

<sup>23</sup>James and James, Biography of a Bank, 441.

of America N.T. & S.A., both issued on September 23, 1938. One declared dividends were issued after the official warning in September, and the other discredited the bank's assets in deficit of \$76 million transferred to Transamerica and other subsidiaries as well.<sup>24</sup>

Giannini called a board of directors meeting on September 30 to consider Diggs's accusations. The board claimed that, as a national bank, its net capital was worth twice the amount required by law and that the real issue concerned real estate as collateral. An exchange of letters followed, but the net result was harmful to the Bank of America N.T. & S.A.. First, a rumor emanated that the bank was under investigation by the federal government. When several banking newsletters reported the information in late October, large depositors queried Giannini about the rumors. Suspicious that Morgenthau planted the leak, Giannini sent him a scathing telegram. "Don't you think . . . that your continued and unwarranted and unjustifiable smearing has gone far enough?" Morgenthau denied the accusation and ended with an appeal, "let us not muddy the waters by personal animus."<sup>25</sup>

Historian Gerald Nash reported that the dispute acquired a new patina when, before a board of director's meeting in Los Angeles, Giannini "screamed and shouted about the Jew sonofabitch Morgenthau," and promising that "this was one goddam Jew who [is] in a fight to the finish." Subsequently, two Jewish members of the board

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<sup>24</sup>Ibid., 442.

<sup>25</sup>Ibid., 447.

resigned, and the press cast the banker as anti-Semitic.<sup>26</sup>

A distant relative of the president, Preston Delano, became the comptroller of the currency in late September, 1938. He tried to ease the passage of a negotiated settlement between Treasury and Giannini. At a meeting in Washington, D.C., all the interested parties except for Morgenthau agreed to a seventeen-point program. By December 15, the California banker agreed to an increase of the bank's capital stock and to reduce dividend payments. The new capital funds would be provided by the RFC, and after Jesse Jones approved the loan, he forwarded it to Morgenthau.<sup>27</sup> The secretary of the treasury, however, did not approve the loan.

Morgenthau sent the bank examiner's reports of the Bank of America N.T. & S.A. to the Securities and Exchange Commission (SEC). The day before the sessions of December 1938 began, the SEC filed a suit against Transamerica for fraud in its stock issuances of 1937. Claiming that the declared profits in 1937 were fictitious, the SEC launched an investigation not settled until 1947. Meanwhile, the federal "freeze" policy checked the growth Transamerica's acquisitions of new branches.<sup>28</sup>

On December 7, 1938, Drew Pearson and Robert S. Allen, nationally syndicated columnists, reported that the feud between the SEC and Transamerica was the tip of the

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<sup>26</sup>Nash, A.P. Giannini, 124-125.

<sup>27</sup>James and James, Biography of a Bank, 449.

<sup>28</sup>Russell M. Posner, "State Politics and the Bank of America, 1920-1934," (Ph.D. diss., University of California, 1956), 346.

iceberg of a larger conflict within the federal government. The problem was an intra-departmental feud among William Douglas, the uncompromising director of the SEC, Eccles, Morgenthau, ex-Senator McAdoo, Jefty T. O'Connor, and President Roosevelt. Douglas sent investigators to the Bank of America and informed Eccles and O'Connor of the negative results. Later Douglas informed Eccles and of the SEC's intent to proceed against the Gianninis. Eccles was the only person of the group to disagree with Douglas's decision; he visited Roosevelt in Warm Springs to advise the president that the SEC's case was "precipitate, ill-advised, and immature."<sup>29</sup>

The Gianninis faced formidable odds in early 1939. The breakdown of peace negotiations with Treasury, the SEC, and the freeze on branch expansion left them with few alternatives. The SEC hearings demanded that the top officers of the Bank of America N.T. & S.A. appear in Washington, D.C., in January 1939. The attorney for Transamerica argued that Treasury unfairly released information to the public and the SEC. Although the court ruled that Treasury's release of information to the bank examiners was within the law, it found that the SEC in violation of the National Banking Act because of the circulation of pretrial information to the public and declared the subpoenas calling the bank officers to Washington, D.C., invalid and unenforceable.<sup>30</sup>

Frustrated by the seeming endless impasse, A.P. Giannini turned to the press, the very institution he criticized. Upon his return to San Francisco, in a Bank of America N.T. & S.A. news release of February 14, 1939, the banker alleged:

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<sup>29</sup>San Francisco Chronicle, 7 December 1938.

<sup>30</sup>James and James, Biography of a Bank, 451.



Government by headlines, that is the regime we are living under today. I am cured and disillusioned. A wild scramble for the headlines seems to be the governing passion of those in government positions today. Every bureau has its propagandist, every department has its myriads of publicity men, hand-outs reign supreme, and when hand-outs don't meet the response expected of them, there are always the "inspired" columnists whose ears are always open for rumor-mongering and who pass the material out as inside dope through syndicated columns misinforming millions throughout the country.<sup>31</sup>

Mario Giannini requested and received a replacement of the bank examiner, but the result was that the replacement presented an even worse evaluation. The new examiner, H.C. McLean, claimed that the previous examiner had overvalued the bank's physical property by \$10 million. The examiner also demanded that the bank increase its capital and reduce its dividends.<sup>32</sup>

Matters worsened for the Gianninis when they received yet another poor evaluation from Preston Delano. Completed on July 21, the bank examination resulted in a reprimand from the comptroller, who criticized the "wholly unsatisfactory capital and asset condition of . . . [the] bank." He attributed the weakness to a refusal of management to recognize asset problems, their inordinate concentration in real estate, and excessive dividend payments.<sup>33</sup>

Throughout 1939 several efforts were made to come to a settlement between the Gianninis and Treasury, the FDIC, and now Roosevelt himself. Eccles, representing the Gianninis's interests, and various officials met in Washington, D.C., in the fall of 1939 to

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<sup>31</sup>Bank of America News Release, 14 February 1939, Eccles Papers.

<sup>32</sup>James and James, Biography of a Bank, 452

<sup>33</sup>Ibid.

work on a reconciliation. The meetings resolved nothing, and by December the prospects for a settlement appeared dimmer than a year before.<sup>34</sup>

Harold Ickes reported on December 3, 1939, that upon meeting the president, “he [the president] was very critical on the failure on the part of the Justice Department to prosecute the Giannini case in California. He told me that he had given specific instructions to go ahead with this matter even if nothing could be done criminally.”<sup>35</sup> Ickes added that rumors indicated that Jimmy Roosevelt, the president’s son and California Democratic state chairman “is moving heaven and earth to save Giannini.” Supposedly Jimmy Roosevelt arranged an interview between Giannini and U.S. Attorney General, Frank Murphy. Giannini’s attorney, a William Randolph Hearst employee, suggested that if the president’s son “called off the dogs of war it would be all to the good.” Later, FDR remarked to Ickes that Jimmy Roosevelt was “too trusting.” The President told Ickes that Giannini’s attorney suggested that Giannini’s income tax difficulties might be reconciled if he contacted the president’s son. The president believed that his son received no money for his interest in Giannini.<sup>36</sup>

The Gianninis requested another conference in Washington, D.C., in early December regarding Delano’s criticisms and recommendations. L.M. Giannini provided information and explanations, clearing away, he thought, any ambiguities. Delano,

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<sup>34</sup>Ibid., 452.

<sup>35</sup>The Secret Diaries of Harold Ickes, 3 December 1939 ( 3953), 15 March 1940 (4263), Harold Ickes Papers, Madison Library, Library of Congress, Washington, D.C.

<sup>36</sup>Ibid.

however, did not change his evaluation of the bank. On December 12 he wrote to L.M. Giannini that: “In my opinion they [the explanations] fail to meet in any important particulars the criticisms made of the unsafe and unsound banking practices and violations of law pursued by your Bank in the face of long continued and persistent warnings.” After reiterating the weakness of the bank, he threatened to: “to take such action as the law authorizes and requires to act in the interests of the depositors and stockholders” unless the required changes were made by December 13, 1939. He also asked that copies of his letter be mailed to all the directors of the bank.<sup>37</sup>

A.P. Giannini’s response was hostile and direct. “Upon advice of my counsel, I have to advise you I will decline to comply with your request, inasmuch as your letter contains much that is grossly defamatory and libelous.” Giannini believed that Treasury singled out the Bank of America N.T. & S.A. for abusive treatment. The banker stated that “I shall have to ask you to use someone else for this purpose.”<sup>38</sup>

On December 29, Charles W. Collins, counsel for the Bank of America N.T. & S.A. reminded the Board of Governors of the Federal Reserve that the bank, in full compliance with the December 15 agreement between Treasury and the bank, claimed that the comptroller “has in his treatment acted as though no such conference had ever

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<sup>37</sup>Preston Delano to L.M. Giannini, 12 December 1939, Franklin D. Roosevelt Papers, Franklin Delano Roosevelt Library, Hyde Park, N.Y. (Microfilm, Bancroft Library, University of California at Berkeley).

<sup>38</sup>Giannini to Delano, 22 December 1939, Ibid.

been held.”<sup>39</sup> The comptroller’s letters, he charged, “have become more and more threatening, captious, and discourteous in respect to the very items of the program of December 15<sup>th</sup> . . . .”<sup>40</sup> Morgenthau also drew Collin’s attention. “Personalities have entered into the situation,” and Collins insisted:

Contrary to tradition and practice, [Morgenthau] has personally taken over from the Comptroller of the Currency the supervision of our bank and the unusual and extraordinary . . . procedures which have been adopted are due to this situation. We have thus been put into a class to ourselves alone and our bank is not being examined and supervised as are other national banks.<sup>41</sup>

Collins criticized Morgenthau’s discussion of the bank’s confidential affairs with bankers not involved in bank examinations. After a full description of all the allegedly unfair methods used by Treasury, Collins requested that the Federal Reserve of San Francisco make an examination of the bank to clear up any inconsistencies with Treasury reports to resolve the impasse.<sup>42</sup>

Ultimately, the Gianninis’ bravado and persistence provided the catalyst for resolution between Treasury and the Bank of America N.T. & S.A.. At the annual stockholders’ meeting on January 9, 1940, L.M. Giannini announced that the Bank of America N.T. & S.A. could revert to the status of a state bank, thereby avoiding the oversight of Treasury. The bank would remain a member of the Federal Reserve and the

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<sup>39</sup>Charles W. Collins to the Board of Governors of the Federal Reserve System, 29 December 1939, Eccles Papers.

<sup>40</sup>Ibid.

<sup>41</sup>Ibid.

<sup>42</sup>Ibid.

FDIC.<sup>43</sup> Three days later, L.M. Giannini informed Preston Delano that “we find a preponderance of opinion of those consulted favoring the conversion of this bank into the state system.”<sup>44</sup> Journalistic sensationalism and Morgenthau’s reckless response to L.M. Giannini’s statement indicated that the Gianninis found precisely the weapon to influence Treasury. Morgenthau commented that he would “protect the interests of depositors of all national banks. . . . just so long as I have breath in my body.” His statement implied that the Gianninis would cast aside the welfare of their depositors in order to save the bank.<sup>45</sup>

In February 1940, Mario Giannini traveled to Washington, D.C., for a reconciliation between the bank and Treasury. He conferred with the same officials responsible for the December 15 agreement and spoke with Eccles on four separate occasions, presumably concerning the purpose of his visit to the capital.<sup>46</sup> Upon his return to San Francisco, Mario Giannini wrote to Eccles:

As a result of the conferences I feel that I came to know you and John McKee better and to appreciate the breadth and soundness of your views and the fact that no personalities entered into the formation of your opinion and the rendering of your judgments. I know that both of you did very constructive work in bringing about a solution to the perplexing

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<sup>43</sup>James and James, Biography of a Bank, 453.

<sup>44</sup>L.M. Giannini to Delano, 12 January 1940, Eccles Papers.

<sup>45</sup>Wall Street Journal, Pacific Coast edition, 12 January 1940.

<sup>46</sup>"Appointments and Telephone Calls with Mr. Eccles," (record kept by the Bank of America N.T. & S.A.), Eccles Papers.

problem that had developed.<sup>47</sup>

On March 15, Mario Giannini announced the terms of the new agreement between Treasury and the Bank of America N.T. & S.A. The Bank of America N.T. & S.A. could claim dividends as it saw fit, and it also agreed to increase its capital by \$30 million. Additionally, the 10 percent limit on the obligations of the Bank of America N.T. & S.A. to Transamerica and its subsidiaries would start on July 15, 1942, and terminate exactly three years later.<sup>48</sup> Morgenthau's brief response expressed satisfaction with the agreement. Obversely, Marriner Eccles offered congratulations to Mario Giannini that: "The problems between the Bank of America N.T. & S.A. and the Comptroller of the Currency were successfully negotiated."<sup>49</sup>

The battle between Morgenthau and Eccles paralleled and overlapped the Gianninis' conflict with Treasury. Eccles's and Giannini's concomitant ambitions concerned bank examinations, although for different reasons. Giannini disagreed with specific bank examinations by the comptroller of the currency, and with Eccles it was a matter of unifying the banking examination system so that monetary policy would be more effective. As the recession of 1937-38 deepened, the chairman of the Federal Reserve sought a means of using interest rates and reserve requirements for countercyclical spending.

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<sup>47</sup>L.M. Giannini to Marriner Eccles, 1 April 1940, Bank of America N.T. & S.A. Archives.

<sup>48</sup>Eccles, Beckoning Frontiers, 276.

<sup>49</sup>Eccles to Mario Giannini, 22 March 1940, Bank of America N.T. & S.A. Archives.

Although Roosevelt listened to Eccles's unification plan, he did not overtly support it. Eccles believed that FDR did not seek the destruction of the state banking system because of the possibility that any forced entry of the small banks into the Federal Reserve system might destroy them. Bankers in general disliked the unification plan because, as Eccles believed, they adhered to a policy of "divide and conquer." Believing that the more splintered the governmental banking agencies, the less likely would be the possibility of regulatory legislation providing for federal oversight, most bankers opposed Eccles's plan.<sup>50</sup>

At Eccles's request Roosevelt arranged a meeting among the Treasury Department, the comptroller of the currency, the FDIC, and the Federal Reserve to "coordinate and liberalize their banking policies." Although the meetings lasted for several weeks, they accomplished nothing due to total opposition by the banking coalition to Eccles's plan.<sup>51</sup>

Not finding support within the administration, Eccles turned to a powerful member of the Republican party. Senator Arthur Vandenberg of Michigan, a potential Republican presidential nominee for the 1940 election, wrote to Eccles and suggested that, because of criticism against the Federal Reserve, Eccles should prepare "an authentic answer to these attacks upon its [Federal Reserve System] foundations and its

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<sup>50</sup>Eccles, Beckoning Frontiers, 269-270.

<sup>51</sup>Sidney Hyman, Marriner S. Eccles (Stanford School of Business: Stanford, CA, 1976), 17; Eccles, Beckoning Frontiers, 249.

own existence.”<sup>52</sup>

Knowing that he now had an influential supporter in the Republican camp, Eccles took full advantage of this opportunity. On June 14 Eccles mailed a long, detailed analysis of the financial structure of the banking system to Vandenburg. Eccles explained:

I reached for support in any quarter I could find. The need to do so was distasteful, and the fact that I did so must have troubled the President. Nevertheless I was so immersed in the effort to check the recession that I was blind to personal niceties whose observance represented obstacles to recovery.<sup>53</sup>

The letter contained criticism of bank examinations, and hence the Department of the Treasury, and their negative effects upon the availability of credit. Vandenburg entered Eccles’s letter into the Congressional Record, and the press capitalized upon the feud for bank control between the Federal Reserve and Treasury. For six days the press emphasized the conflict within the administration. The New York Times reported on June 17 that Eccles saw an “urgent need for amendment to the banking laws to insure correlation of policies among the various banking and other financial supervisory authorities.”<sup>54</sup> Claiming that examination and investment policies denied credit to the small businessman, Eccles contended that the FDIC and the comptroller favored big business with their excessively strict examination procedures.<sup>55</sup>

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<sup>52</sup>Eccles, Beckoning Frontiers, 249.

<sup>53</sup>Ibid., 273.

<sup>54</sup>New York Times, 17 June 1940.

<sup>55</sup>Hyman, Marriner Eccles, 249-250.



Morgenthau also publicized the conflict. He reported to the press that unless Eccles agreed with Treasury and the FDIC on the bank examination policies, he would send the committee report to the president immediately. As previously mentioned, Morgenthau reported to the press that his primary concern was “the protection of the depositor.” Ironically, Eccles interpreted the remark as a personal criticism just as Giannini had.<sup>56</sup>

Ultimately, Treasury and FDIC agreed with many of Eccles’s requests. The system of loan classification became more liberal and bank investment ratings, more realistic. Numerical ratings replaced verbal ratings on loans, and bank investments were averaged over a period of months and not based upon daily fluctuations. Overall, bank examinations evaluated the long term soundness of the bank, not immediate liquidity.<sup>57</sup> Still, Eccles did not achieve complete success with his bank unification plan. “With the exception of changes in the examination procedures, nothing had materialized in the way of banking unification except a substantial amount of sound and fury.”<sup>58</sup>

Between 1938 and 1940, A.P. Giannini, Mario Giannini, and Marriner Eccles had common enemies. Henry Morgenthau, the comptroller of the currency, and the FDIC reacted in a hostile manner to every measure sought by the Gianninis and Eccles. Joined by common enemies and goals, the western bankers successfully achieved some of their aspirations. A.P. Giannini and Eccles used common techniques to realize their

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<sup>56</sup>Ibid.

<sup>57</sup>Eccles, Beckoning Frontiers, 277.

<sup>58</sup>Ibid., 286.

objectives. Both were verbally direct, persistent, headstrong, willing to sidestep protocol, and, above all, convinced of the virtue of their convictions. While working in tandem, these personality characteristics served them well, but when not, their animosity would be as intense as had been their support for one another.

Both bankers inspired the hostility of the East Coast financial establishment. Viewed as iconoclasts, although for different reasons, the Gianninis appeared freewheeling in their banking practices, and Eccles, radical, in his promotion of countercyclical spending. Their relationship with President Roosevelt floundered and fluctuated. Certainly Giannini felt betrayed earlier by the administration in 1938 when the SEC began its eleven-year investigation of Transamerica Corporation. Eccles received support from Roosevelt, though often behind-the-scenes. Eccles's bank unification plan received only a modicum of support from the president, and in November 1938, Eccles told Roosevelt:

I would not wish to continue in the Chairmanship of the Federal Reserve Board, to which in the minds of the public and of Congress is charged with great responsibility for exercising controls over domestic credit and monetary conditions, when, in fact, as it exists today, the Board's power and authority are largely limited to the performance of technical functions.<sup>59</sup>

Eccles reminded the president that his term as chairman expired in February 1940, and he wanted to give the president sufficient time to look for another candidate.<sup>60</sup>

Roosevelt's reply came on January 31, 1940. He would prefer to reappoint Eccles for

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<sup>59</sup>Ibid., 279.

<sup>60</sup>Ibid.

another four-year term.<sup>61</sup> Eccles accepted Roosevelt's offer, but the interchange indicated a growing disenchantment between the two men.

Quite naturally, the war placed many of Eccles's and Giannini's problems in the background. Nevertheless, issues arose during the war years that resulted in a collision course between the Gianninis and Eccles. As the Giannini empire tried to spread and the Federal Reserve Board checked its expansion, Eccles and the Gianninis turned their powerful personalities against each other. When the Federal Reserve Board launched an investigation of Transamerica Corporation in 1943, the ties were permanently severed. Giannini's siege mentality of the "diabolical conspiracy" magnified as did Eccles's disagreements with the administration over monetary policy. While their battles within the administration did not end, they would soon face the power and rancor of one another.

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<sup>61</sup>Roosevelt to Eccles, 31 January 1940, Roosevelt Papers.

## CHAPTER VII

### FOMENTING DISCONTENT AND THE DOMESTIC REWARDS AND FRUSTRATIONS OF WAR: 1941-1945

On December 9, 1941, A.P. Giannini laid the cornerstone for the new modern Bank of America N.T. & S.A. at the corner of Montgomery Street between Pine and California Streets. The twelve-story edifice in the heart of San Francisco's financial district loomed as an icon to Giannini's success. By 1945, the Giannini bank was the largest in the world, superceding Chase National of New York.<sup>1</sup>

During this phenomenal growth, both Giannini and Eccles experienced the rewards and problems of the wartime economy. As chairman of the Federal Reserve, Eccles wanted a stable economy preventing postwar inflation, while the Gianninis struggled with the federal government over the expansion of branch banking. The long battle between Transamerica Corporation and the SEC continued; Treasury halted the expansion of the Giannini empire and executed bond-drive policies that fueled inflation.

Morgenthau's wartime financing plagued Eccles. During the war Eccles addressed the need for providing the military with sufficient funds to wage war yet check inflation on consumer goods. Between Pearl Harbor and V-J Day, the national debt

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<sup>1</sup>Marquis James and Bessie Rowland James, Biography of a Bank: The Story of Bank of America N.T. & S.A. (New York: Harper Brothers, 1954), 456-457, 477.

increased from \$48 billion to \$280 billion. Roosevelt's earlier concerns about spending paled before the need to provide sufficient aid to the Allies. Eccles's advice about compensatory spending to a president determined to balance the budget seemed a distant and irrelevant memory. Eccles sought maximum war funds without jeopardizing economic stability. The chairman addressed this issue by seeking to raise as much money as possible by taxation, supporting war costs through nonbank investors, assuring stability in prices and dividends for government securities, and rationing and price controls to check inflation.<sup>2</sup> Eccles attempted to employ the Keynesian policies of a balanced budget and reduced purchasing power during times of economic boom. Morgenthau's war bond policies, his treatment of the Federal Reserve presidents, and his approaches to taxes and controls provided Eccles with constant reasons for conflict with the Treasury. According to Keynes and Eccles, the government engaged in deficit spending when it should have decreased the currency in circulation. Finding little support from the president or Morgenthau, Eccles continued his efforts for the creation of a unified banking system, again with little support from the president. Later Morgenthau remarked that deficit spending "would impair the government's credit, force Congress to start the printing press, precipitate runaway inflation, and national disaster."<sup>3</sup>

The Transamerica hearings of January 16, 1939, in Washington, D.C., resulted in subpoenas issued to the officers of the bank, a requirement that the Court of Appeals in

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<sup>2</sup>Marriner S. Eccles, Beckoning Frontiers (Alfred A. Knopf: New York, 1951), 344-350.

<sup>3</sup>John Morton Blum, From the Morgenthau Diaries: Years of Crisis, 1928-1938, 280.

Washington, D.C. decided “would practically have closed the bank.” The Court of Appeals also found that the accounting procedures of the Bank of America “was a matter solely for the Comptroller” and that “it was unlawful to make public data from reports of the National Bank Examiners.”<sup>4</sup>

The SEC case against the Bank of America N.T. & S.A. and Transamerica Corporation extended into the decade of the forties. L.M. Giannini hired Thomas G. Corcoran, former presidential legal aide turned lobbyist, to represent the Gianninis. The younger Giannini sent an extensive history of the SEC case to Corcoran on February 4, 1941, and claimed that the SEC case was a personal attack upon his father.<sup>5</sup> According to L.M. Giannini, any past misunderstandings with respect to the Bank were resolved, and that a continuation of the case would hamper the Bank’s honest and effective management.<sup>6</sup>

More complications arose, however, when the 1940 agreement between Mario Giannini and Preston Delano occurred concerning expansion of the Gianninis’s banking interests. The growth of Transamerica Corporation discomfited Secretary of the Treasury Morgenthau. Although admitting that it allowed the western banks to drain power from Wall Street, he believed that they did not sufficiently help the farmers and homeowners

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<sup>4</sup>James and James, Biography of a Bank, 456.

<sup>5</sup>L.M. Giannini to Thomas G. Corcoran, 4 February 1941, Thomas G. Corcoran Papers, Madison Library, Library of Congress.

<sup>6</sup>Ibid.

and that the holding companies held monopolistic control in various communities.<sup>7</sup>

Between 1940 and 1943, Delano refused to approve any expansion of the Bank of America N.T. & S.A. and Transamerica Corporation. Under pressure from the secretary of the treasury, Delano rejected attempts by the Gianninis to expand their empire. The comptroller of the currency admitted that he was “taking orders from the Secretary.”<sup>8</sup>

In the spring of 1942, Transamerica purchased a bank in Pasadena and applied for two more branches in Alhambra and Temple City, California. The Federal Reserve promptly rejected their request. Eccles phoned Mario Giannini and told him: “I was very much disappointed and disturbed at the attitude of Transamerica in undertaking further expansion, this having been the first expansion since the agreement had been made in the spring of 1940.”<sup>9</sup> Eccles referred to meetings held in the office of the Undersecretary of the Treasury Daniel W. Bell, and attended by Ed Foley, attorney for Treasury, Preston Delano, Cyrus Upham, deputy comptroller, Leo Crowley, and Jesse Jones. Governor John McKee and Eccles represented the Board. Eccles contended that:

There was an understanding reached that any further expansion would not be undertaken without approval by the regulatory agencies, those charged with responsibility, and that was primarily the basis for the agreement of settlement that was undertaken. Without such understanding, it would have really been somewhat meaningless.<sup>10</sup>

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<sup>7</sup>Blum, Morgenthau Diaries, 426-427.

<sup>8</sup>Memorandum of R.G. Smith, reporting E. Kelley’s interview with Comptroller Delano, 1 September 1941, as quoted in James and James, Biography of a Bank, 495.

<sup>9</sup>Before the Boards of Governors of the Federal Reserve System in the matter of the Transamerica Corporation, GPO: Washington, D.C., 7 February 1949, Vol. VII., 545.

<sup>10</sup>Ibid.

Mario Giannini denied that the meeting resulted in a “freeze agreement” with the federal agencies. Giannini recommended that Eccles consult the records of the meeting, because he recalled only the request that capitalization be increased.<sup>11</sup> Giannini said that “he did not think they were going contrary to the understanding. . . .” Eccles “recalled the telephone conversation quite distinctly because it was such a shock to him and so unexpected. . . .”<sup>12</sup>

A.P. Giannini quickly informed Eccles that he “found it difficult to reconcile the position taken by you and your associates with the assurances given to us when we had occasion to discuss the possibility of converting the Bank of America from the national to the state system.” Giannini referred to a letter received from the Federal Reserve Board on February 14, 1942 in which the Board declared that:

Regardless of its merits, an application from any institution in the Transamerica group . . . would receive an adverse ruling from the Board, this decision as to procedure having been reached in collaboration with the Comptroller and the Federal Deposit Insurance Corporation.<sup>13</sup>

Claiming that the bank was the recipient of discriminatory treatment, Giannini inquired: “I should like to know what is the cause, imaginary or otherwise, of this discrimination, whether it be the conditions of our institutions, their managements, or any other circumstances.” After defending the bank’s dividend policy and its holdings of small investors, Giannini conjectured that the Board’s continual refusal “is because it

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<sup>11</sup>James and James, Biography of a Bank, 496.

<sup>12</sup>Before the Board of Governors, 7 February 1949, Vol. VII, 546.

<sup>13</sup>Giannini to Eccles, (n.d.), Marriner S. Eccles Collection, Manuscript Collections, Willard F. Marriot Library, University of Utah, Salt Lake City, Utah



does not like the management.” The banker claimed that his institutions sold the most individual defense and war bonds of any bank, financed war industries, and led the nation in FHA loans. He concluded:

I do not think any bank in the history of this country has been more persistently persecuted than the Bank of America. Can it be due to the fact that we do not represent the vested interests, and that throughout its history it has been the bank of the people, owned by many thousands of small stockholders? Or can it be that there is a more sinister motive? <sup>14</sup>

Never one to miss the opportunity to advance the cause of his bank or his reputation, Giannini closed his letter to Eccles with the following plea:

I think that in justice you should exert your influence to have the Federal Reserve Board subscribe to the spirit of fair and impartial treatment to which you have so frequently subscribed in the past. Won't you please let me know what you can do about it? <sup>15</sup>

Eccles's reply to the former letter from Giannini was pointed and clear. Eccles reminded Giannini of the 1940 verbal agreement and that the supervisory agencies hoped Giannini's organization would comply with the decision.

As you well know, since the date of that agreement, the actions you have attempted to take have been geared to a process of mechanical adjustments to play one supervisory agent against another. You led us to believe that all contemplated transactions would be presented in advance for prior approval of the respective Federal supervising agency interested. It is with the deepest regret that you have not seen fit to carry out this promise.<sup>16</sup>

During 1942 the correspondence between the Gianninis and Eccles increased.

Giannini's pleas tended to center upon the mistreatment of his bank by federal agencies,

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<sup>14</sup>Ibid., 5-6.

<sup>15</sup>Ibid., 7.

<sup>16</sup>Eccles to Giannini draft letter, (n.d.) , Eccles Papers.

and Eccles continued to reiterate the reasons why the Board of Governors found Giannini's expansion unacceptable. On August 18 Eccles received another complaint from A.P. Giannini protesting the Board's disapproval of the First Trust and Savings Bank of Pasadena acquiring branches at Temple City and Alhambra, California. Giannini's continual complaints and harping that Transamerica Corporation or Bank of America had been treated unfairly elicited an unreassuring response from Eccles. Eccles replied that:

It was clear to us at the time to referred in your letter that the management of Transamerica Corporation was not willing to take the necessary steps to effect obviously necessary corrections. It was equally clear that Transamerica Corporation was not in financial condition to render the necessary assistance to Bank of America . . . . The record clearly indicates that many of the unsatisfactory assets and other situation in the Bank of America case resulted from the policies and practices of the management during its rapid expansion program.<sup>17</sup>

Eccles methodically listed the times that Transamerica sidestepped the advice of the Board, particularly with regard to the acquisition of Temple City National Bank. Although the Board did not endorse the acquisition, Transamerica purchased most of Temple City National Bank's stock. With regard to this infraction, Eccles met with Mario Giannini and Governor McKee on June 13, 1942, in Washington, D.C. The result was that Transamerica dropped the purchase of the Temple City National Bank. Nevertheless, the First Trust and Savings Bank of Pasadena acquired the controlling stock of the branches in Temple City National Bank and Alhambra.<sup>18</sup>

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<sup>17</sup>Eccles to Giannini, 29 August 1942, Ibid..

<sup>18</sup>Ibid.

The Board advised Transamerica against this expansion and learned that the Pasadena Bank had no prior plans to acquire the two branches until their acquisition by Transamerica. Contending that the other federal agencies fully agreed with the Board's decision to withhold permission for the acquisition of the Pasadena Bank, Eccles added that the Board would be happy to discuss the entire issue if Giannini came to the Capitol.<sup>19</sup>

The drafts of two letters by Eccles very critical in tone were not mailed. Instead, Eccles forwarded a milder and less critical letter to Giannini on November 13. His long delay in responding, Eccles claimed, resulted from his focus on wartime fiscal issues. His criticism was restricted to the following statement:

As for the Board's position, until it is satisfied that the financial policies pursued by Transamerica Corporation and its affiliated institutions are consistent with the public interest, it will consider as unsound their efforts to continue an expansion program by whatever means, including the organization of new state banks, the acquisition of control of existing state banks, or the conversion of national banks to State banks, and the establishment of branches thereof.<sup>20</sup>

Eccles invited the Gianninis for a face-to-face meeting in Washington, D.C., but A.P. Giannini responded defensively by forwarding a copy of a letter from a very satisfied patron of the First Trust and Savings Bank of Pasadena.<sup>21</sup>

The FDIC also refused deposit insurance to the Bank of Nevada at Las Vegas, Nevada because it was a branch of the Bank of America. Leo Crowley wrote to

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<sup>19</sup>Eccles to Giannini, 13 November 1942, Ibid.

<sup>20</sup>Ibid.

<sup>21</sup>Lloyd Brook to A.P. Giannini, 30 December 1942, Ibid.

Democratic Senator Pat McCarran of Nevada:

We already have a tremendous risk concentration in the Bank of America and we have tried from time to time to secure the cooperation of this group in the matter of ceasing further expansion of its already extensive branch banking system. I am sure you will agree that we must concern ourselves now with the uncertainty of post war conditions and we certainly know from experience that depositors can suffer tremendous loss from over expansion of credit and from loose bank management and bank supervision.<sup>22</sup>

Admonitions from the federal agencies, and the temporarily halting of expansion of Transamerica, proved futile. Eccles reported: “In 1942 it was evident to these three government agencies that only their joint resistance could prevent Transamerica from monopolizing a good part of the banking business on the western seaboard.” The Bank of America N.T. & S.A. and the First National Bank of Portland, Oregon, attempted to assume Transamerican acquisitions and convert them into branches. These applications only remained on file, and Preston Delano refused Giannini’s requests.<sup>23</sup>

In the following year the Board drafted a letter, assumably to the Gianninis, defending the Board’s position. The Board concluded that “he [A.P. Giannini] is the real issue,” and it accused Giannini of inadequate capital resources, resistance to supervision, a bloated dividend policy, resorting to the government twice for financial aid, acquiring large investments in unrelated businesses, and using Transamerica to allow the banks to engage in otherwise illegal activities. The report criticized the banks’ management for its “almost continual controversy with them [Federal supervisory agencies] and has

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<sup>22</sup>Crowley to McCarran, 29 December 1942, Ibid.

<sup>23</sup>Eccles, Beckoning Frontiers, 443-444.

stubbornly resisted all supervisory efforts.” The Bank’s commitments to informal agreements were not honored. The letter closed with the following:

The cumulative effect of all of this leads to the conclusion that the management has a tendency to be more interested in creating an empire than operating a banking institution and more interested in the market price than the soundness of the bank stock. . . . ‘It is inconsistent with purpose and policy of the banking act that its vital interests should be committed to one man, without oversight and control.’<sup>24</sup>

On February 18, 1943, A.P. Giannini met with Chairman Eccles and four other members of the Board for approximately four hours. Giannini’s opening statement questioned why the federal agencies halted Transamerica’s expansion and a declaration that “[Giannini] was entirely out of sympathy with their view.” According to an informal report of a conference with Giannini and the Board, Giannini believed that it was the management that the agencies mistrusted and “in typical A.P. fashion he wanted to know why, under such circumstances, we didn’t take over the banks and run the outfit.” Although protesting discrimination against his bank, Giannini allowed that he would abide by any regulations that were applied to all banks, not just his own. Several times he alluded to the critical nature of the agency’s correspondence that he believed directed entirely against himself.<sup>25</sup>

According to the Board, the comptroller of the currency completely concurred with their actions concerning the prevention of new acquisitions, and declared that they

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<sup>24</sup>Draft of letter by the Federal Reserve Board of Governors, 13 February 1943, Eccles Papers.

<sup>25</sup>Morrill Memorandum, Draft of Confidential Draft of Report of Informal Conference with A.P. Giannini on 18 February, 1943, Ibid.

would support legislation “freezing” the activities of bank holding companies. Giannini supported such legislation but preferred to have branch banking permitted within the boundaries of any given Federal Reserve District. The Board offered several alternatives but fully agreed upon the necessity of preventing a bank holding company using its powers to avoid regulation by government agencies.<sup>26</sup>

Giannini appeared most concerned about completing two upcoming Transamerica actions. For him, they presented a moral obligation. He accepted a plan that prevented any further expansion but first wanted to transfer any banks held by Transamerica to the Bank of America, although he would have to “clear it up with my boys first.” Secondly, he asked the Board to contact Crowley and consult with Morgenthau and Delano. Because of a letter the banker wrote to Crowley, Giannini chose not to consult with him personally nor did he want to see Morgenthau and Delano<sup>27</sup>

The Board concluded that: (1) Giannini desired “untrammelled freedom of expansion, (2) the banker was aware “that he and ‘his boys’ had nowhere to go,” and (3) he was willing to accept some sort of “freeze” on expansion provided that other holding companies met that obligation as well. Out of the meeting came an agreement that nothing would be done until Giannini divested Transamerica of its “non-banking interests and be nothing more than a bank holding company.” The “freeze” agreement, merely a verbal arrangement would later be denied by Giannini.<sup>28</sup>

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<sup>26</sup>Ibid.

<sup>27</sup>Ibid.

<sup>28</sup>Ibid.

On March 3 Eccles sent Giannini a letter pointing out that the banker should reduce dividends to increase capital funds, but since this was unofficial and unsolicited advice, Eccles closed with: “The foregoing are personal observations that have not been discussed with the other Members of the Board. I felt at liberty, however, to pass on these thoughts, feeling sure you take them in the spirit in which they were given.”<sup>29</sup>

When Transamerica bought controlling stock in the Citizens National Trust & Savings of Los Angeles, a bank with thirty branches, a month after the verbal truce, the Board reacted very unfavorably. The Board contended that the banker ignored the February 18, 1943 agreements. Giannini insisted that the Board never sought details on the two acquisitions. Eccles testified, however, that: “We asked him about whether they were substantial institutions. . . . we were trying to ascertain the importance of the commitments. and he said that he didn’t feel he was at liberty to tell us and we didn’t press him any further.”<sup>30</sup> The Board demanded that Giannini purchase no more banks without its permission, but the banker ignored their demands.<sup>31</sup>

Using his first line of attack, Giannini appealed to Eccles on March 3, 1943: “I would have been pleased to have discussed with you and all those present at our February conference in Washington.” But the pleas became sour when the banker stated:

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<sup>29</sup>Eccles to Giannini, 3 March 1943, Ibid.

<sup>30</sup>Before the Board of Governors, 11 February 1949, Vol. XI, 861.

<sup>31</sup>James and James, Biography of a Bank, 497.

If you are inclined to make comparisons, I would suggest that you go a little deeper into the picture. Starting, let's say with the capital structure of the five largest banks in the U.S. . . . In other words, it would still have been the Number One bank in the country with respect to the dollar increase in its capital account and, percentage wise it will still have exceeded any of the other four large national banks.<sup>32</sup>

Giannini's correspondence to Eccles became increasingly hostile during 1943. On June 16, the banker accused Eccles of initiating a rumor that Giannini "had broken his word" given during the February meeting. Giannini continued: "This statement is absolutely untrue and I resent it, . . . . When I was not asked to identify the banks, I assumed the Board realized that business confidences were involved." Again, the banker complained that the Board discriminated against him by enacting a "freeze" policy for Transamerica but not for other holding companies. Giannini's closing was a precursor of future communications with Eccles.

I am not concerned with threats, which I have been informed have been made by you, but your intrusive activities in transactions affecting Bank of America are highly detrimental and will be vigorously challenged. You are advised that you will be held accountable for your acts outside the scope of your official duties.<sup>33</sup>

Giannini disputed the Board's position concerning his acquisition of branch banks in Los Angeles, and John McKee replied to the banker that: "this was going to be an all-out fight, through federal legislation, through executive action, through acts of organized banking and building up of public opinion against these institutions and the Gianninis."<sup>34</sup>

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<sup>32</sup>Giannini to Eccles, 3 March, 1943, Bank of America, N.T. & S.A. Archives.

<sup>33</sup>Telegram from Giannini to Eccles, 16 June 1943, Eccles Papers.

<sup>34</sup>Collins to A.P. Giannini, 13 May 1943, Bank of America N.T. & S.A. Archives, as quoted in James and James, Biography of a Bank, 498.



Following this combative exchange, the Gianninis hired Wendall Willkie as legal counsel. Willkie's firm advised Transamerica that there was legally "nothing . . . that would preclude Transamerica Corporation from entering into transactions such as those referred to in the Board's telegram." Quickly thereafter, J. D. Dreibelbis, the general counsel for the Board, visited Transamerica to determine if anything could be done to halt expansion. Dreibelbis suggested that the Clayton Act might be the means for prosecution.<sup>35</sup>

Dreibelbis prepared a July 26 memorandum for the Board describing the responsibilities and powers of the Board under the Clayton Act.<sup>36</sup> A memorandum from Dreibelbis to Eccles referred to Eccles's inquiry about checking the income tax returns of the Gianninis. Dreibelbis advised Eccles on August 30 that "income tax returns may be inspected only upon order of the President . . . and the Secretary of the Treasury." Dreibelbis offered to speak with a member of Treasury if Eccles would arrange a meeting. A postscript by Eccles indicated that he arranged such a meeting, and the general counsel was so advised.<sup>37</sup>

In July Eccles received a letter from Giannini's attorney, G.L. Merrick of Los

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<sup>35</sup>The Clayton Anti-Trust Act of 1914 forbade corporations from purchasing the securities of other corporations for the purpose of eliminating competition. It provided that corporation officers be held personally liable for violating the anti-trust laws. See Michael Martin and Leonard Gelber, Dictionary of American History (Totawa, N.J.: Littlefield Adams Quality Paperbacks, 1978), 124.

<sup>36</sup>Before the Board of Governors, 8 February 1949, Vol. VIII, 591-592.

<sup>37</sup>Office Correspondence from Dreibelbis to Eccles, 30 August 1943, Eccles Papers.

Angeles, asking why the Bank of America N.T. & S. A. was not permitted to expand into Utah. “As a Utah banker and the head of the Federal Reserve it is entirely possible that you may not only know but may be unwilling to the state the reason. . . . Shall I take your refusal to reply indicated that there is something ‘rotten in Denmark.’”<sup>38</sup>

At the suggestion of the Federal Reserve in October 1945, Attorney General Thomas C. Clark investigated prosecuting Transamerica under the Sherman Act for alleged monopolistic practices as a holding company.<sup>39</sup> Clark, however, could not establish just cause for Transamerica being prosecuted under the Sherman Act.<sup>40</sup> There was no evidence that Transamerica monopolized the commercial banking field through “illegal trade practices as those terms are defined in court decisions interpreting the Sherman Act, or that it abused its dominant position once it was achieved.”<sup>41</sup> Meetings with the attorney general, the FDIC, the Comptroller’s Office, and Board of Governors agreed that though the Sherman Act could not prevent the expansion of Transamerica, legislation could. Accordingly, a bank holding bill was prepared.<sup>42</sup>

Despite his problems with the federal government during the forties, Giannini’s

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<sup>38</sup>G.L. Merrick to Eccles, 19 July 1942, Eccles Papers.

<sup>39</sup>The Sherman Anti-Trust Act of 1890 provided that every contract, combination in the form of trust or otherwise, or conspiracy in the restraint of trade among the several states or with foreign nations was illegal. See: Martin and Gelber, 577.

<sup>40</sup>Sidney Hyman, Marriner S. Eccles (Stanford: Graduate School of Business, Stanford University, 1976), 445.

<sup>41</sup>Eccles, Beckoning Frontiers, 455.

<sup>42</sup>Ibid., 446. Introduced by Senator Carter Glass in 1941, S.310 never passed. See Before the Board of Governors, 10 February 1949, Vol. X, 771.

empire experienced incredible growth. Wartime provided a multitude of opportunities for the banking industry, and the Gianninis availed themselves of every opportunity to do so. The population of California boomed as military camps, defense plants, and troops prepared for operations in the Pacific Theater. The profiles of the California laborer changed from one of agricultural to industrial worker. Housing for the workers, the building of plants, and government contracts for airplanes and ships made bankers wealthy. The Bank of America profited not only from the growth of California but from national contracts as well.<sup>43</sup>

Giannini's bank did not ignore the small borrower for war contracts. Many of the small industries that the Gianninis supported needed defense contracts to pay off their loans. The boom towns of California - - San Francisco, San Diego, and Los Angeles - - fed off small industries that Giannini's banks financed. The Bank of America's slogan was "Convert Your Plant to National Defense." Mario Giannini contacted the War Production Board and aided in the crafting of the Small War Plant Corporation, a loan-granting agency to smaller war industries. The Federal Reserve offered a plan, Regulation V, to increase war production. Almost any contractor or bank could qualify for a loan guaranteed by the federal government up to 100 percent with the maximum interest rate set at 5 ½ percent and the minimum, 1½ percent.<sup>44</sup>

California profited more than any other state from the V loan when it became the center of aircraft manufacturing. The Bank of America reaped enormous profits by

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<sup>43</sup>James and James, Biography of a Bank, 458-462.

<sup>44</sup>Ibid., 462-465.

lending \$200 million to Lockheed Aircraft, \$54 million to Solar Aircraft of San Diego, \$15 million to Consolidated-Vultee Aircraft Corporation of San Diego, and loans totaling more than \$54 million to other borrowers. The Bank of America financed subcontractors as well. The “bits and pieces” industries allowed the small producer a share in the profits of the V loans. It permitted the Bank of America to extend loans to small industries throughout the United States. This financing allowed the bank to “break the isolation and sectionalism that had characterized its past. “This was all a part of what was happening to California, where barriers to the eastward were falling before the Golden State’s new found industrial strength.”<sup>45</sup>

The California shipbuilding industry, though smaller than the aircraft industry, reaped greater profits for the Bank of America. With the support of A.P. Giannini, Henry J. Kaiser, a builder of highways, piers, and the Grand Coulee, Parker, and Bonneville dams, received a loan of more than \$43 million to build ships. Years earlier, Kaiser met A.P. Giannini when he borrowed from the Bank of Italy for road construction. Never having built a ship before, Kaiser eventually produced a ship within eleven days by using innovative techniques such as prefabricated ship sections and the assembly-line technique. Kaiser was the largest borrower of the Bank of America.<sup>46</sup>

With the exception of the government-guaranteed loans, California bankers financed most of the shipbuilding industry in California. In this manner, as with the aircraft industry, West Coast bankers achieved long-sought independence from the

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<sup>45</sup>Ibid.

<sup>46</sup>Ibid., 467- 468.

eastern banking monopoly. With the influx of industrial workers into California, the Bank of America reaped additional profits. Under the terms of the Federal Housing Authority, another Eccles program, the Bank made 99,624 residential loans for a total of \$444,992 million in outstanding paper. Returning veterans also needed homes, and Giannini wanted to expand its branch offices to the “boom” towns. Each existing branch needed larger amounts of currency. The Bank also handled 60,000 food coupons, and this required additional cash funds. The branches extended their hours of operation and increased personnel. When the federal government refused to approve new branches, the Bank closed branches in the less populated areas and rechartered them in areas of greater need.<sup>47</sup>

With funds pouring in from the military camps in California, the Bank of America handled accounts from twenty-five military bases. When the Bank requested three more additional branches in 1941, the comptroller of currency refused to issue the permits, but A.P. Giannini discovered a loophole in the Banking Act of 1935 allowing for the creation of “seasonal agencies.” When presenting his request to Deputy Comptroller Upham under the auspices of this clause, Giannini received a negative response. When Upham received requests from various commanding generals, he did not respond, and Giannini established limited banking services on the military posts with the permission of the responsible officers. When questioned by bank examiners, the Santa Ana branch managers responded that they had permission to offer a weekly two-day banking service,

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<sup>47</sup>Ibid., 470-471.

though they did not mention that it was from the camp commanders.<sup>48</sup>

Secretary of State Morgenthau announced that Fort Sill, Oklahoma, received services from an Oklahoma bank, and that Treasury would consider opening up banking installations for other military posts. Although such facilities opened up in many states, California received no permits. Giannini complained to Eccles, and after seven months of being ignored by Treasury, the department issued authorization for the Bank of America's servicing of the California's military camps in 1943. Wasting no time, the Gianninis' opened up so many new military branches that, by the end of 1944, they operated forty-four "seasonal branch banks" for military installations.<sup>49</sup>

By V-J Day, the Bank of America's deposits totaled \$4.6 billion compared to \$2 billion during the Pearl Harbor attack. Certainly federal support, especially via the Federal Reserve's Regulation V, offered enormous opportunities for the issuances of loans to banks and contractors, and the Bank of America took full advantage of these opportunities. When the threat of postwar reconversion loomed, Giannini contended that the country's finances were on a sound basis, most particularly in California. He explained, "The West Coast hasn't even started yet."<sup>50</sup> All the wartime innovations such as electrons, television, and light metals, he predicted, would be put to peacetime use. California would now have a diversified economy. For the Gianinnis the significance of wartime profits paled in comparison to their satisfaction that "The West has all the money

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<sup>48</sup>Ibid., 473-474.

<sup>49</sup>James and James, Biography of a Bank, 475-476.

<sup>50</sup>San Francisco News, 14 September 1945.

to finance whatever it wants to. We no longer have to go to New York for financing and we're not at its mercy. Wall Street used to give a western enterprise plenty of rope, and when it broke it took over. That day is past."<sup>51</sup>

When the Bank of America surpassed Chase National of New York in assets and deposits and earned the title of the largest bank in the world in 1943, A.P. Giannini resigned as chairman of the board of the Bank of America N.T. & S.A. Although Alfred J. Gock became the new chairman, Giannini remained directly involved with the Bank. Until his death in 1949, he contributed to major decision-making. Interested in the postwar situation, he planned to make a place in international banking.<sup>52</sup>

Eccles's problems with the Department of the Treasury concerning wartime spending resulted in an evaluation of the wartime economy, and he issued an overview of the problems he faced.

Unfortunately, as things turned out, a weak fiscal policy—plus laggard buying of government securities by nonbank investors—plus Treasury policies that induced excessive security buying by banks produced a situation in the direct controls were rushed to the fore to save an economy torn by too much money and too few goods. If serious inflation was curbed during the war years . . . we owe the fact to the rationing system and direct controls that were used. . . . It became evident that when the fiscal, monetary, and credit policy was inadequate and thus encouraged a great expansion in the supply of bank deposits and currency, direct controls only postponed and did not prevent inflation.<sup>53</sup>

Although the Federal Reserve offered help with Regulation V, Eccles believed

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<sup>51</sup>Ibid.

<sup>52</sup>James and James, Biography of a Bank, 476-478.

<sup>53</sup>Ibid., 351.

that the Treasury Department dictated federal fiscal and monetary policies. Eccles remarked that “under the existing division of responsibility for monetary and credit policies I had reached a dead end in what could be accomplished by the Federal Reserve.”<sup>54</sup> Often Eccles frequently discovered in the press fiscal changes made by the Treasury. Obviously there was little, if any, coordination between the two agencies. Appalled at the lack of coordination concerning reserve requirements, the Federal Reserve asked that it be permitted to raise reserve requirements. This monetary policy would allow taxes and borrowing based upon savings to cover major expenses.<sup>55</sup>

After the report was made public, Eccles received little, if any, support. With no signs of inflation, Leo T. Crowley and Jesse Jones, now head of the Federal Loan Administration, rejected the report. Since the bill would have placed all state banks under control of the Federal Reserve, Treasury remained silent. Eccles found this condition unusual since excess reserves offered Treasury a means of issuing government bonds. Finally, on January 9, 1941, after the prices of bonds dropped, Morgenthau issued a public statement indicating that the date of Eccles’s proposal coincided with the decline in the price of government bonds.<sup>56</sup>

Requesting a meeting with Roosevelt, Eccles realized that despite assurances by the president that: “it is going to work out all right,” the wheels of the bureaucracy moved very slowly. Despite his meeting on January 29, 1941 with Roosevelt, changes

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<sup>54</sup>Ibid., 285.

<sup>55</sup>Ibid., 354.

<sup>56</sup>Ibid., 355.



occurred very slowly that year. Eventually, the Federal Reserve reduced excess reserves by one-seventh for member banks and restricted consumer purchases of durable goods by making installment buying tighter. Morgenthau and Eccles publicly, and uncomfortably, stated that they pledged their “cooperation with each other and with other government agencies in meeting the economic problems ahead.”<sup>57</sup>

Using the Keynesian model to counteract inflation, Eccles fought for a reduced budget. During times of excess funds, Keynes recommended a balanced budget and little government spending. The primary problem between Treasury and Federal Reserve, as Eccles determined, was a consistent model for interest rates and taxation. Eccles thought that greater taxation would drain off excess spending and investment, while Morgenthau continued to increase purchasing power by offering high interest rates on government bonds. The Treasury’s policy of the excess buying of government securities led to deferred demand much as price and wage controls would.<sup>58</sup> Morgenthau, disgusted with the Keynesian economists, complained:

First they want inflation and they don’t want any rationing or anything sensible about finances. They think that the Government can do the thing one day by pumping money in, and the next day they think the Government can do the thing by putting the brakes on the lower income groups, but I have yet to see a single one of them make a success of anything that they have undertaken. . . . I am sick and tired of the whole thing.<sup>59</sup>

After thirteen years of abstinence of consumer spending, many levels of the

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<sup>57</sup>Ibid., 357.

<sup>58</sup>Hyman, Marriner Eccles, 280-281.

<sup>59</sup>Blum, Roosevelt and Morgenthau, 432

economy experienced the relief of increased purchasing power in 1942. Although Roosevelt believed voluntary controls sufficient to stem the tide of inflation, Eccles desired statutory constraints. As a result of conferences held among Eccles, Price Administrator Leon Henderson, and Budget Director Harold D. Smith, President Roosevelt assembled a committee to develop an anti-inflation program. Though invited to the committee meetings, Morgenthau refused to attend. Eccles believed that the secretary opposed a wage freeze and a decrease on income tax exemptions, both essential ingredients to an anti-inflationary program. The committee recommended the control of mass purchasing power through price and wage stabilization and tax and savings programs. Finding Morgenthau's voluntary savings program inadequate, the committee advocated compulsory universal savings and the reduction of exemptions on individual income taxes. Morgenthau embraced price ceilings but not wage controls, and Roosevelt's address to Congress on April 27 reflected Treasury's preference. The president placed heavy emphasis upon price ceilings but not wage controls. Only after the passing of the 1942 election year, did FDR deliver a precise message on the committee's goals.<sup>60</sup>

Although Eccles met Keynes only briefly in 1943 and had never read The General Theory of Employment, Interest and Money, he expounded the same countercyclical programs as Keynes. Eccles's program to prevent postwar inflation mirrored that of the British economist. He sought induced savings and tax increases to offset the enormous volume of circulating currency. It was precisely here that the chairman ran into

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<sup>60</sup>Hyman, Marriner Eccles, 285-287.

difficulties with Morgenthau and FDR. Aware that he could not enact his program with the dual banking system intact, Eccles continued to promote a unified banking system whereby both national and state banks would be regulated by one agency. In an address before the National Association of Supervisors of State Banks in Cincinnati on September 17, 1943, Eccles criticized the faults of the dual banking system. Claiming that the government's role was "to create a climate and condition conducive to a maximum of sustained private production and employment," and that "the government should be an economic balance wheel" of inflation and deflation, Eccles suggested the coordination of fiscal and monetary policies. The maintenance of economic stability would be difficult.

. . . so long as the nation's banking machinery is a hodgepodge of some fifty-two different jurisdictions, laws, and supervisory agencies, so long as approximately half of the banks of the country are subject to uniform central banking policy and half are not, so long as these multiple agencies, State and Federal, with their different philosophies, divided and conflicting policies, dominate the banking picture.<sup>61</sup>

The chairman noted the inequity of the reserve requirements and the bank examinations required of national banks, but not state banks. State banks, not subject to the control of currency, ameliorated the effects of the national banks under the control of the Federal Reserve. The lack of uniform bank examinations resulted in lending and investment policies that did not coincide with national monetary policy.<sup>62</sup> "We have

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<sup>61</sup>Marriner S. Eccles, "The Dual System of Banking" (presented at the National Association of Supervisors of State Banks, Cincinnati, OH, 17 September 1943, 2-3, Board of Governors of the Federal Reserve System, Washington, D.C.

<sup>62</sup>*Ibid.*, 3.

expended more in time and money on banking examination and supervision, conducted by at least 52 separate state and Federal agencies, than any nation in the world.”<sup>63</sup>

Remarking upon the density and diversification of banks in the East, Eccles proposed branch banking limited to trade areas, or within a given Federal Reserve District. The small unit banks, particularly in the West, that tried to provide services for a large area experienced a high rate of failure due to a lack of diversified services and a dependence upon a single industry or agriculture. “I believe that the independent bank should be protected, however, by a statutory provision prohibiting establishment of any bank in a community already served by a unit bank or a branch of another bank.”<sup>64</sup> Eccles believed that small unit banks lacked ability to diversify their lending capacity as compared to branch banks. The non-specialization and stability of management of the branch banks should therefore be protected against unfair competition.<sup>65</sup>

National banks that established branch banks within states permitting branch banking suffered comparatively more than state banks. A national branch bank had to provide the same capitalization as if it were a de novo bank, whereas the branches of a state bank did not. Eccles’s recommendations included the requirement that all banks be members of the Federal Reserve with the same regulatory and supervisory responsibilities of national banks and that branch banking be limited as previously mentioned.<sup>66</sup>

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<sup>63</sup>Ibid., 4.

<sup>64</sup>Ibid., 7.

<sup>65</sup>Ibid.

<sup>66</sup>Ibid., 8.

Whether Eccles's plan for a unified banking system was in preparation for inflation control after the war in the Keynesian vein is unknown. However, Eccles wrote to Senator Harry F. Byrd (D-VA) that:

Until comparatively recently, I had never met Keynes, nor had I ever, so far as I can recall, read or studied any of his works. We came out about the same place in economic thought and policy by two different roads, and we have had the common experience of being highly unpopular in orthodox circles.

When the war is over the debate will no doubt be resumed as to whether we can afford full production and full employment in peace as we do in war—whether we can manage it, as I believe we can, without continued deficits and growth of the public debt, though not without heavy taxation and government expenditures.<sup>67</sup>

On October 2, 1942, Congress created the Office of Economic Stabilization, an agency designed to stabilize farm prices and wage levels. Eccles, when asked to speak to the agency's advisory committee, pointed out that in November 1942, expendable income reached \$40 billion, an amount that the chairman thought would lead to increase in the cost of living by one-third. Because America financed the war one-fourth by taxation and three-fourth by borrowing, Eccles recommended a "hard-boiled" fiscal policy. By increasing taxation to one-half of the total financing, purchasing power would drop.<sup>68</sup>

Though the committee did not react positively to the plan, Eccles carried his message to the public during a nationwide broadcast on April 14, the same day that Morgenthau launched another war bond drive. Because of heavy purchasing during the second war bond drive, the idea of increased taxation appeared unnecessary to most.

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<sup>67</sup>Eccles to Byrd, 11 June 1942, Eccles Papers.

<sup>68</sup>Hyman, Marriner Eccles, 290-291.

Unfortunately, observed Eccles, most of the war bonds were purchased by banks, not individuals, and thus purchasing power lessened only slightly. If the war bond drives focused on the individual purchaser, perhaps this would serve the economy more effectively.<sup>69</sup>

Naturally, Eccles's public speech antagonized an already tenuous relationship with Morgenthau. The secretary's retort came during a meeting between Treasury and the Federal Reserve on May 14 concerning reorganization of the bond drive program. After consideration of Eccles's new proposal, members of the Federal Reserve made what they considered appropriate changes. After reading the Reserve's suggestion, Morgenthau's mood became combative. Remarking that he felt humiliated during his recent bond drive due to Eccles's broadcast, he emphatically refused to allow the Federal Reserve to wrest control of government financing from Treasury. He viewed the Reserve's changes in the proposal as "an attempt to take control away from him and that he would not wait for Roosevelt to ask for his resignation if he [Roosevelt] should accept this proposal." Becoming overwrought, Morgenthau continued:

You think I am incompetent to handle my job and that it should be turned over to you. You think I haven't learned anything in the years of experience I have had as Secretary. . . . I can do this job with you on my terms, or without you. I am not going to turn it over to you when I have a responsibility to the President for it. That is the way I feel about it. You can take it or leave it.<sup>70</sup>

Later, Eccles remarked that many in the government engaged in a civil war as well

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<sup>69</sup>Ibid., 292.

<sup>70</sup>Eccles, Beckoning Frontiers, 340-341.

as an international one. He accounted for his war with Morgenthau as the result of differing methods to attain common goals. “And this, in turn, in the tense and nervous war atmosphere, invited charges and countercharges, suspicions and quarrels which I, and, I am certain, Morgenthau later regretted.”<sup>71</sup>

The continuing conflict between Morgenthau and Eccles centered primarily upon war finance. Responsibly supporting the bond market created by Treasury, the Federal Reserve grew concerned about the possibility of excess reserves. Because the interest rates on short-term bonds were low, the Open Market Committee was flooded with returned bonds. This created excess reserves and further inflation. Although several victory loan drives tried to limit the number of bonds a bank could purchase to prevent excess reserves and increase investment by individuals, bankers loaned money to their patrons to purchase bonds and then later purchased the bonds from them. This practice negated the regulation and generated more excess reserves and greater inflationary pressures.<sup>72</sup>

Eccles’s suggested remedies for this situation were never adopted, and, in fact, Treasury seemed to dominate war financing. A memorandum from the president on July 15, 1943 precluded any public battles among federal agencies. Roosevelt threatened that if any information were leaked to the press concerning inter-agency disputes, the person responsible should immediately offer the president a letter of resignation.<sup>73</sup> Without a

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<sup>71</sup>Hyman, Marriner Eccles, 292.

<sup>72</sup>*Ibid.*, 293-294.

<sup>73</sup>Hyman, Marriner Eccles, 300.

public forum for debate and with the president concentrating on the war, Eccles believed that “By the fall of 1943, my work in Washington had largely settled down to a routine administrative job. The pattern of war finance had been firmly established by the Treasury; the Federal Reserve merely executed Treasury decisions.”<sup>74</sup> Eccles’s attitude about the Treasury reflected that of John Maynard Keynes. Keynes wrote in October 1943 that:

Thus far during the war, I have altogether spent five months in close negotiations with the United States Treasury and on not one single occasion have they answered any communication of mine in writing or confirmed in writing anything which has passed in conversation. In this, my experience is not unusual.<sup>75</sup>

Further disappointments occurred when Eccles sent a proposal of his bank unification plan to Roosevelt. The president failed to perceive a problem of overlapping bank examinations and stated: “As it stands, I cannot discover any great savings except possibly a little in overhead in government agencies.” When Eccles requested a reevaluation of his plan in July 1944, the president replied: “Let’s put it on the shelf for the rest of this year, at least.”<sup>76</sup>

While Eccles’s frustrations mounted with the government, so did those of Giannini. The wartime years yielded profits and reprimands for the Bank of America N.T. & S.A. and the Transamerica Corporation. The federal government, via the FDIC, the

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<sup>74</sup>Eccles, Beckoning Frontiers, 382.

<sup>75</sup>R.F. Harrod, The Life and Times of John Maynard Keynes (London: Macmillan and Company, 1951), 510-511.

<sup>76</sup>Hyman, Marriner Eccles, 306.



Treasury, and the Federal Reserve attempted to quell the expansion of the Giannini empire. Giannini sidestepped the federal agencies and managed to increase branch banking for the Bank of America. The relationship between the Gianninis and Eccles deteriorated as did that among Morgenthau, Eccles, and the Gianinnis. Giannini's support of Thomas Dewey in the 1944 election further confirmed his dislike for the administration. Apparently this was of some concern to the administration, for J. F. T. O'Connor wrote a note to Grace Tulley, the president's secretary, that Giannini's support for the Republican "is unfortunate. Will not hurt much if he does nothing else—Bad for us if he should later take an active part with his 500 banks."<sup>77</sup>

Both Eccles and Giannini fought the federal government. Giannini's problems continued with the SEC investigation, and new problems arose when the Federal Reserve attempted to find a means to limit their banking interests. Eccles fought Morgenthau and the president by trying to execute the Keynesian antidotes to wartime and postwar inflation. Thwarted by his inability to obtain a balanced budget, the decrease of purchasing power, an increase in taxation and a redirection of bond purchasing from banks to individuals, Eccles felt powerless. His attempts to unify the banking system faced similar obstacles from the president and Morgenthau.

The postwar years thus became more troublesome for the Gianninis and Eccles. After the death of Franklin Roosevelt and the administrative changing of the guard, both would suffer. Eccles and President Truman engaged in a combative relationship. The new

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<sup>77</sup>J.F.T. O'Connor to Grace Tulley, (n.d.), Franklin Delano Roosevelt Papers, Franklin D. Roosevelt Library, Hyde Park, New York (microfilm, Bancroft Library, University of California at Berkeley).

president and the appointment of John Snyder as Secretary of Treasury ultimately led to Eccles's resignation. The Federal Reserve launched its own investigation of Transamerica Corporation, and the opportunistic and tenuous relationship between the Gianninis and Eccles disintegrated.

Although Mario Giannini thought he achieved accord with Preston Delano on the 1940 "freeze" agreement concerning expansion of the Giannini's banking interests, Secretary Morgenthau continued to deny new branches to the Bank of America N.T. & S.A. and Transamerica Corporation until 1943. Delano, under pressure from the secretary of the treasury, turned down attempts by the Gianninis to expand their empire. The comptroller of the currency admitted that he was "taking orders from the Secretary."<sup>78</sup>

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<sup>78</sup>Memorandum to R.G. Russell, reporting E. Kelley's interview with Comptroller Delano, 1 September 1941, Bank of America N.T. & S.A. archives, quoted in Marquis and Bessie Rowland James, Biography of a Bank N.T. & S.A. (New York: Harper Brothers, 1954), 495.

## CHAPTER VIII

### CLOUDBURST:

1945-1948

Following the death of President Franklin D. Roosevelt on April 12, 1945, recurring problems plagued Marriner Eccles and A.P. Giannini. Attempting to check postwar inflation, Eccles found the same lack of enthusiasm for Keynesian remedies then as he did during the war. Meanwhile, still under the onus of the SEC charges against Transamerica Corporation initiated in 1938, the Gianninis detected a new enemy within the federal government. The Board of Governors of the Federal Reserve initiated an investigation of Transamerica on November 7, 1947. Acting upon the advice of Secretary of the Treasury John W. Snyder and Preston Delano, comptroller of the currency, issued permits for expansion. After learning of the continued growth of the Giannini empire with the endorsement of Preston Delano,<sup>1</sup> the Board notified the FDIC, and the attorney general of the inauguration of an investigation of the Gianninis' holding company under the directives of the Clayton Act.<sup>2</sup> What followed was a three-way battle of the two banking titans and the federal government.

After the 1944 election, the president's "haggard and drawn" appearance, his difficulty in speaking, and preoccupied manner alarmed Eccles. The chairman

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<sup>1</sup>Sidney Hyman, Marriner S. Eccles (Stanford: Graduate School of Business, Stanford University, 1976), 331.

<sup>2</sup>Ibid., 331-332.

concluded:

I felt it would have been inhuman to harass him with my problem. I had never been restful to him in previous years. . . . I had continually ragged him to do what I felt should be done. . . . In his obviously desperate physical condition the very least I could do to help him was to take my arguments and goals to other quarters.<sup>3</sup>

Concerned with postwar inflation, Eccles turned to Senator James F. Byrnes (D-SC), a White House favorite, and Fred Vinson, chairman of the Economic Stabilization Board. To Byrnes, Eccles predicted the likely possibility of a postwar inflationary spiral. Eccles's report to the Economic Stabilization Board suggested that because of rampant inflation rates, the penalty rate on capital gains should remain intact to check speculation. Pointing to the GI Bill of Rights, the chairman reminded Vinson that a considerable rise of 33 to 55 percent in real estate values diminished the purchasing power of returning veterans buying new homes. Eccles's suggested that "the penalty rate on capital gains would strike effectively at the speculative buyer without interference with legitimate sanctions." His pleas with Byrnes and Vinson issued no results."<sup>4</sup>

Methodically but uselessly, Eccles pleaded for the continuation of postwar price and wage controls. The Office of Price Administration removed rationing on gasoline, processed food, and heating stoves, and President Harry S. Truman, only three days after V-J Day, ordered the removal of wage, price, and production controls. To counteract the lifting of price controls, again Eccles sought a continuance of the excess-profits tax to

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<sup>3</sup>Marriner Stoddard Eccles, Beckoning Frontiers (New York: Alfred A. Knopf, 1951), 401.

<sup>4</sup>Ibid., 404-405.

ameliorate the demand for price and wage increases. In late 1945, however, Truman removed the excess-profits tax, and the chairman turned to an argument for a balanced budget. An unbalanced budget, contended Eccles, would lead to the creation of new money by banks and further inflation of the currency<sup>5</sup>.

Eccles accounted for the postwar wage-price spiral because labor, without any incentive to continue the “no strike pledge,” and with its wages reduced because of the elimination of overtime work, wanted wage increases. In late October, Truman announced that industry could increase wages, yet prices should be stabilized. In the winter of 1945-1946, strikes proliferated. By February 1946, the average wage increase was 18 percent, but because of decreased production, the blackmarketeers reaped enormous profits. Because of the termination of the National Wage Stabilization Board by Truman, there remained only the Office of Price Administration to halt spiraling prices.<sup>6</sup>

Receiving little, if any, support from the administration, the Board of Governors increased the margin requirement on stock purchases to curb speculation with borrowed funds. By January 1946, the margin requirement was 100 percent. Never one to allow political considerations to interfere with his crusade, Eccles released a statement to the press that, while appearing to defend the margin requirement, was really a forum for other inflationary curbs he unsuccessfully sought. Eccles’s press release, though never

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<sup>5</sup>Eccles., Beckoning Frontiers, 409.

<sup>6</sup>Ibid., 415-417.

explicitly condemning the administration, contended that the basic problem was not stock market speculation, but the need for an increase in the capital gains tax, a balanced budget, and the funding of the public debt with government securities.<sup>7</sup>

At the request of several of Truman's advisors also concerned with inflation, Eccles forwarded a letter to the president on July 19, 1946. Claiming that consumer income was now above the wartime peak, and that savings declined significantly with no compensatory fiscal policy, Eccles recommended that production be increased to meet the excess demand. Most of the report, devoted to fiscal policy, advocated a budget surplus by means of: (1) the reduction of expenditures, particularly those for national defense; (2) an increase in taxes; (3) the reinstatement of the excess-profits taxes; (4) the elimination of unnecessary expenditures for states, localities, business, and consumers; and (5) the curtailment of credit by public agencies.<sup>8</sup>

When Fred Vinson left Treasury to become Chief Justice of the Supreme Court in June 1946, John W. Snyder replaced him. Snyder, a friend of Truman's since World War I, described their relationship during an oral history interview. During training camps they would discuss their private lives and "in everything that we would do, we would work together." Snyder stated that when he was administering the Defense Plant Corporation, "if I'd have a little trouble here or there, I'd go to the Truman Committee and get help . . . things of that character. So, we had just become the very closest of

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<sup>7</sup>Press Release by Eccles, 17 January 1946, Papers of Harry S. Truman, Official File, Harry S. Truman Library, Independence, Missouri.

<sup>8</sup>Eccles to Truman, 19 July 1946, Ibid.

friends . . . Our families were also close. . . . We went on trips together.”<sup>9</sup>

When Truman became president, Snyder’s advancement within the federal government was meteoric. First, Truman made Snyder a federal loan officer (April to July 1945), and quickly thereafter, director of the Office of War Mobilization and Reconversion from July 1945 to June 1946. When Fred Vinson resigned as secretary of the treasury, the president appointed Snyder as his replacement on June 6, 1946.<sup>10</sup> Snyder’s approach to fiscal policy hardly varied from that of Morgenthau. He insisted that the Federal Reserve back government securities at fixed prices. Historian David McCullough assessed Snyder’s appointment as an “uninspiring choice” and his appointment as an example of “government by crony.” McCullough believed Snyder “. . . hardly adequate for the second highest ranking position in the Cabinet. . . .an uninspiring choice, one that seemed to be made too hurriedly by Truman.” The press described him as a “dour little St. Louis banker.” Liberals and New Dealers labeled him as a “repressed” person and a “pathetic choice.” Reporters declared him as a “repressed man” who occasionally tries to loosen up with a hefty intake of bourbon or by telling a dirty story.”<sup>11</sup>

Historian Alonzo L. Hamby validates McCullough’s assessment of Snyder.

Finding him with few qualifications to fill his post, Hamby declared Snyder “as well

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<sup>9</sup>John W. Snyder, “Oral History Interview with John W. Snyder,” interview by H. Schick , 8 November 1967 to 3 September 1969, Harry S. Truman Library, Independence, Missouri.

<sup>10</sup>David McCullough, Truman (New York: Simon and Schuster, 1992), 357, 302.

<sup>11</sup>Ibid., 505-506.

qualified as his predecessor, Henry Morgenthau, Jr. An ideological conservative, he became a bete noire of the liberal-left wing of the Democratic party.” But Truman valued the friendship and loyalty of Snyder.<sup>12</sup>

Far kinder, Eccles insisted that the clashes between Treasury and the Federal Reserve were not due to a “clash of personalities,” but rather “a conflict of responsibilities.” Treasury’s role of financing government borrowing at the lowest possible cost for the longest possible time often collided with the Reserve’s commitment to maintaining economic stability through monetary policy.<sup>13</sup> As a creation of Congress, the organization and authority of the Federal Reserve can be changed. When the goals of the Federal Reserve conflict with Treasury, the president can seek changes in the Federal Reserve’s power by appealing to Congress. Generally, the Federal Reserve will limit its conflict with Treasury to small issues to insure that Treasury and/or the president will not go to Congress. Eccles recalled:

Throughout the whole of this period, Treasury Department under Secretaries Morgenthau, Vinson, and Snyder took a consistent line in the opposition of the Board of Governors of the Federal Reserve System both in my own day and as Chairman and in the days of my successor, Thomas B. McCabe.<sup>14</sup>

Almost immediately after Snyder’s new appointment, Eccles informed the secretary of suggestions that he was going to forward to the president for Truman’s

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<sup>12</sup>Alonzo L. Hamby, Man of the People: A Life of Harry S. Truman, ( New York: Oxford Press, 1995), 302.

<sup>13</sup>Herbert Stein, The Fiscal Revolution in America (Chicago: The University of Chicago Press, 1969), 250.

<sup>14</sup>Eccles, Beckoning Frontiers, 421.



upcoming speech on the OPA. Again, the chairman suggested the restoration of the excess-profits tax to offset the removal of price controls. Eccles recommended:

It is entirely possible that with price ceilings destroyed, corporate and business profits, before taxes, will by the end of the years exceed the wartime peak in many lines. If that should turn to be the case, would not the Government be open to criticism if it failed to anticipate such a result and to guard against it by reimposing the excess profits tax?<sup>15</sup>

Despite the inherent antagonism between Treasury and the Federal Reserve, Eccles pursued the realization of his remedies for the inflationary spiral. After conversing with Snyder, Eccles verified the contents of their discourse by mail. The chairman reminded Snyder of the case presented by himself that, due to existing tax rates, a high level of production was necessary. Eccles placed the onus of inflation control on Treasury by contending that there was little that monetary control could contribute toward halting inflation.<sup>16</sup>

On November 9, 1945, President Truman removed most price controls. A year later, an economy beset with spiraling prices caused Truman to call a special session of Congress to address the issue. At the request of Clark Clifford, the president's general counsel, Eccles prepared a statement for Congress concerning an inflation-control program, and the Federal Reserve also constructed a report devoted to curbing bank and consumer credit. Referring to the 1945 "special-reserve credit plan," Eccles reiterated his program. All banks, except exclusively savings institutions, whether within the Federal

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<sup>15</sup>Eccles to Snyder, 26 June 1946, Truman Papers.

<sup>16</sup>Eccles to Snyder, 22 August 1946, Marriner S. Eccles Papers, Manuscript Division, J. Willard Marriott Library, University of Utah, Salt Lake City, Utah.

Reserve System or not, would be required to hold reserves beyond the normal requirement to cover government obligations such as Treasury bills, certificates, or securities. Controlled by the Federal Open Market Committee, special reserves would be demanded according to credit conditions. The goal of this plan would be to control bank credit expansion and support government securities.<sup>17</sup>

Forwarded to Snyder by Clifford, the report then went to Truman. When the president delivered his public message on anti-inflation controls, the special reserve plan was not included because Snyder deleted it.<sup>18</sup>

When the Joint Committee on the Economic Report held hearings on the president's address on November 25, 1947, Eccles was the first witness. The chairman of the committee was Senator Robert Taft (R-OH.), a conservative leader of the Republican party who aspired to the presidency. At least Eccles succeeded in presenting a plan of action to control inflation. He suggested: (1) increased productivity; (2) suspension of future demands for wage increases; (3) a fiscal policy to increase federal income; (4) legislative authority of the Federal Reserve to restrict bank credit; and (5) approval of the Board's special reserve plan. While promoting his own plans, he criticized the administration for the removal of wage and price controls, the reduction of taxes, and the failure to build a budget surplus. He advised "that the need for action on the monetary and credit front would be reduced to the extent that needed action [was] taken on the far

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<sup>17</sup>Eccles, Beckoning Frontiers, 427.

<sup>18</sup>Hyman, Marriner Eccles, 328.

more important front of fiscal policy.” Eccles recalled: “Had I been in any way sensitive to political currents, I suppose I would have softened my words.”<sup>19</sup>

The press gave wide coverage to Eccles’s testimony and the support offered by Senator Taft. During the hearings, Taft grilled bankers who did not endorse the plan and pointedly noted that while they were critical of the plan, they could offer no alternatives. When the House Banking and Currency Committee held hearings and Snyder did not support the special-reserve plan, the press combined Eccles’s testimony with the positive reception of the plan by a Republican presidential pretender and reported headlines indicating a break between Eccles and Snyder.<sup>20</sup>

Whether from legitimate support of the plan or fear of a split within the administration prior to the 1948 election, Truman endorsed the special reserve plan in the President’s Economic Report for 1947 delivered to the Congress in January 1948. He recommended that the current proposals for credit control, especially those which had been presented by the Board of Governors of the Federal Reserve System for the increase of bank reserve requirements, “should be given close study by the Congress, and legislation should be enacted of a sufficiently comprehensive character to make available

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<sup>19</sup>The Current Inflation Problems—Causes and Controls, Statement by Chairman Eccles before the Joint Committee on the Economic Report, Special Session of Congress, 23 November 1947 ; Eccles, Beckoning Frontiers, 431.

<sup>20</sup>Eccles, Beckoning Frontiers, 432 ; Hyman, Marriner Eccles, 329.

all the powers that may be needed.”<sup>21</sup>

John Snyder, who arrived in Washington in 1943 as the executive vice-president of the Defense Plant Corporation (DPC), was a close friend of Sam Husbands, president of the DPC. He and Snyder previously worked together in the RFC, Snyder in St. Louis and Husbands in Washington, and maintained their close personal friendship. Husbands remained with the DPC until the spring of 1944, when he became an executive vice-president for the Transamerica Corporation. Transamerica also employed Sam Stewart, former counsel for the Truman war investigating committee, as the general counsel for the Bank of America. The network from Washington to San Francisco had its advantages. Felice Bonadio, a descendant of the Giannini family, claims that, “With Snyder’s elevation to Treasury, Giannini acquired his most important connection to the inner circle of the administration since J.F.T. O’Connor’s tenure as comptroller of the currency in the early 1930s.” Shortly after Snyder came to Treasury, the “freeze policy” was lifted, and Transamerica acquired a total of 574 branch offices.<sup>22</sup>

On August 31, 1945, Preston Delano sent a memorandum to the Board. Apparently, and despite orders from Snyder to issue permits to Transamerica, Delano informed the Board of the holding company’s unbridled growth. Claiming that twenty-six applications from the Bank of America N.T. & S.A. were pending, Delano pointed out

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<sup>21</sup>U.S. Congress, Senate. Economic Report of the President, 80<sup>th</sup>. Cong., 2<sup>nd</sup>. sess., 1948, Vol.I , Pt.1, 609-610; Eccles, Beckoning Frontiers, 433.

<sup>22</sup>Felice A. Bonadio, A.P. Giannini: Banker of America (Berkeley: University of California Press, 1994), 289-290; Russell Posner, “State Politics and the Bank of America,” (Ph.D. diss., University of California, 1956), 346.

that 40 percent of the bank's total assets came from California. In 545 branches, located in Arizona, California, Nevada, Oregon, and Washington, more than one-third of the banks located in those states belonged to Transamerica. For example, Transamerica held 79 percent of all banking deposits in Nevada. Delano summarized his perception of the history of Transamerica and the Bank of America N.T & S.A.:

Throughout their history, Bank of America and Transamerica Corporation have been dominated by a small group of men who have pursued an aggressive and ruthless policy of expansion, and have engaged in a variety of banking and non-banking activities, some being of a highly speculative character. The management of the bank has been of a promotional type, and the results of its lack of conservatism became apparent in the early 1930's, when its condition was such as to create considerable doubt as to whether it should be permitted to resume banking operations after the banking holiday. It was only consideration of the serious effect in the whole West Coast which forced a reluctant decision to permit the Bank of America to reopen at that time.<sup>23</sup>

Eccles asked J.P. Driebelis, general counsel to the Board, for an opinion on the prospects for legal prosecution of Transamerica for engaging in monopolistic practices in the banking industry. Driebelis responded that issues of anti-trust concerns were present. In October 1945, Eccles asked Attorney General Tom C. Clark for an inquiry regarding Transamerica's growth. Clark's negative response indicated that "the lack of proof of any sustained policy of abuse of power, either in attaining its dominant position or in perpetuating it, made the outcome of such a suit decidedly dubious."<sup>24</sup>

Meetings among the FDIC, the comptroller, the Board of Governors, and representatives of the Department of Justice concluded that bank holding legislation was

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<sup>23</sup>Delano to Eccles, 31 August 1945, Eccles Papers.

<sup>24</sup>Eccles to Clark, 26 February 1947, Ibid.

the antidote to further expansion by Transamerica. Consequently, the Board prepared a bank holding bill that was forwarded to Congress in 1947.<sup>25</sup>

On February 26, 1947, Eccles contacted Clark regarding the implications of the Supreme Court's decision in American Tobacco Company V. United States (1946) for an anti-trust suit against Transamerica. The American Tobacco case set a precedent that required less proof of monopolistic power in antitrust proceedings. Eccles noted that:

the problem of how to deal effectively with the Transamerica situation has continued to trouble and concern the Board. Legislation alone will not solve the problem, unless it be of the "death sentence" variety [the prevention of all expansion], and the Board is convinced that the passage of such a bill is neither desirable nor possible.<sup>26</sup>

Clark sent the letter to Homes Baldrige, special assistant to the attorney general for his review. Baldrige believed that the "statistical picture of Transamerica expansion over a period of twenty years, . . . coupled with its percentage position in the commercial banking field in the five-state area, would be sufficient to prove an intent by Transamerica to exclude competing banks."<sup>27</sup>

For a month, Clark did not reply to Eccles. During a chance meeting, Eccles quizzed Clark about the letter. Clark replied that "the Secretary of Treasury had asked that he be advised of any matter pertaining to Transamerica that came to the attention of

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<sup>25</sup>Eccles, Beckoning Frontiers, 445-446.

<sup>26</sup>Eccles to Clark, 26 February 1947, Eccles Papers.

<sup>27</sup>Baldrige to Clark, 19 March 1947, Papers of Tom C. Clark, Harry S. Truman Library, Independence, Missouri.

the Attorney General. Upon receipt of your letter, I felt obliged to send it to him.’<sup>28</sup>

Eccles immediately contacted Snyder. On April 15, 1947, Eccles posted a letter to Snyder about a possible Justice Department action against Transamerica. Snyder never answered or acknowledged Eccles’s letter, and later Snyder denied that he received it.<sup>29</sup>

During this time, the Senate Committee on Banking and Currency reviewed the Board’s bank holding bill. Introduced in the Senate by Charles Tobey (R-NH), S. 829, called the “anti-Giannini” bill by the San Francisco Chronicle,<sup>30</sup> proposed placing bank holding companies under the supervision of the Federal Reserve Board. Giannini reacted by saying that he was not opposed to the bill so long as it was applied evenly to all bank holding companies.<sup>31</sup> Giannini privately stated that:

‘I have a letter that if I ever appear before a banking and currency committee, [Eccles has] probably forgotten about it, we were going to be all together. The arrangement was, if he wanted to be in the picture, that I would buy him out and pay him \$250,000 and he would go out. . . . Now, he’s the guy who says we mustn’t expand, and yet he was anxious to have us buy the Bank of California, which he was to head, and then come into our picture with it. Mind you, come into our picture if we could get it through Morgenthau’s office.’ To Giannini, the ‘two- faced Mormon,’ as he began referring to Eccles, was a sham and a hypocrite—‘a dirty son-of-a-bitch.’<sup>32</sup>

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<sup>28</sup>Eccles, Beckoning Frontiers, 447.

<sup>29</sup>Ibid., 448; and Eccles to Snyder, 23 May 1947, Eccles Papers..

<sup>30</sup>San Francisco Chronicle, 31 March 1947.

<sup>31</sup>Bonadio, A.P. Giannini, 289.

<sup>32</sup>Federal Bureau of Investigation Memorandum, 15 November 1945, Federal Bureau of Investigation Files, Washington, D.C., as quoted in Bonadio, 289. Note: This letter was never produced for the committee, nor could this researcher find it at the Bank of America N.T. & S. A. Archives.

Appearing before the committee, Eccles described the threefold purpose of the bill: (1) to bring all bank holding companies under the supervision of the Federal Reserve; (2) to restrict the further expansion of bank holding companies; and (3) the separation of investment operations from bank holding companies.<sup>33</sup> Eccles read a statement specifically concerning Transamerica Corporation. Claiming that the corporation “openly defied the Board in its unbridled bank expansion program,. . . . the Transamerican management has publicly sought to justify itself on the grounds that Congress, by withholding from the Board, the direct power to curb such expansion, has therefore indicated its approval of Transamerican policies.” Citing statistical evidence of the growth of Transamerica, Eccles concluded that S. 829 could prevent any further growth without the approval of the federal government.<sup>34</sup>

Although the Gianninis did not ask to appear before the Senate Banking and Currency Committee hearings on S. 829, L.M. Giannini forwarded numerous correspondence to the committee and other federal agencies. Following the committee hearings on May 26, June 2, and June 11, Mario Giannini dispatched correspondence concerning S. 829 to the Board of Governors, the FDIC, the Senate Committee on Banking and Currency, the comptroller and the secretary of the treasury.<sup>35</sup>

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<sup>33</sup>U.S. Congress, Senate, Committee on Banking and Currency, Confirmation of Nomination of Thomas Bayard McCabe, of Pennsylvania, to Be a Member of the Board of Governors of the Federal Reserve System: Hearings Before the Committee on Banking and Currency, 80<sup>th</sup> Cong., 2<sup>nd</sup> sess., 26 May 1947, 19.

<sup>34</sup>Ibid., 26 May 1947, 19, 22-23.

<sup>35</sup>L.M. Giannini to the Board of Governors of the Federal Reserve, 28 June 1947, Ibid.



To the members of the committee, Giannini complained that Transamerica was not asked to appear before the committee and that Eccles gave misleading evidence. The bill, he contended, would not affect the Eccles Investment Company. Since the Eccles family owned 44 percent of the voting stock of the First Security Corporation, he suggested they should be investigated.<sup>36</sup>

To Charles Tobey, Mario Giannini clarified his father's attitude about the bill. "It is his view that the Eccles program is not in the public interest and that it is an attempt by a bureaucratic despot to suppress free institutions through the exercise of dictatorial powers masquerading as administrative discretion." L.M. Giannini again suggested that the committee investigate Eccles's holdings as well.<sup>37</sup>

In a letter of June 13 to Tobey, Eccles defended his position. The chairman declared that the Transamerican empire consisted of 41 banks operating 619 offices in 379 cities with total deposits exceeding \$6.5 billion. He was not surprised that Giannini found the bill "not in the public interest," and believed Giannini used a personal attack upon himself as a diversionary tactic. As far as his holdings in the First Security Corporation, Eccles claimed that his family did not hold controlling interests in it and that it "will be subject to each and all of its (S. 829) regulatory provisions, the same as any other holding company." Eccles protested that the Giannini's contention that "I caused these charges to be made in order to protect the interests of Eccles family investment

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<sup>36</sup>L.M. Giannini to members of the Senate Committee on Banking and Currency, 28 June 1947, *Ibid.*

<sup>37</sup>L.M. Giannini to Tobey, 10 June 1947, Eccles Papers.

company” was “a deliberate and malicious falsehood.”<sup>38</sup>

The Gianninis closely monitored the committee proceedings. Tobey read Giannini’s telegram to the committee and upon obtaining a transcript of the proceedings, L.M. Giannini again contacted Tobey to point out errors in J. Leonard Townsend’s interpretation of the Public Utility Holding Company Act, a misinterpretation unfavorable to the Giannini interests. Townsend was the assistant general counsel to the Federal Reserve. Again Giannini urged Tobey to investigate the First Security Corporation.<sup>39</sup>

L.M. Giannini obtained a copy of the transcripts of the June 11 session during which Tobey read Eccles’s letter before the committee. In response, Giannini insisted that his telegram was not a personal attack upon Eccles. He urged that Eccles represent the facts known to him about Transamerica Corporation truthfully. The banker complained that Eccles’s statement that Transamerica fought off public regulation for many years was false. “This is an astounding statement considering the source from which it comes.” Contending that Transamerica tried to fight “a long siege of malicious persecution, I think such resistance was highly credible. . . .” Again, Giannini accused Eccles of his execution of “dictatorial an despotic powers with respect to the membership in the Federal Reserve System of one small bank in California.” The six-page, single-spaced letter was a repeated litany of earlier complaints.<sup>40</sup>

Concurrent with Eccles’s problems with Snyder, Truman, and the hearings of S.

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<sup>38</sup>Eccles to Tobey, 13 June 1947, Ibid.

<sup>39</sup>L.M. Giannini to Tobey, 18 June 1947, Ibid.

<sup>40</sup>L.M. Giannini to Tobey, 28 June 1947, Ibid.

829, articles appeared in the New York American Journal, a Hearst publication, that vociferously criticized Eccles. William Randolph Hearst, West Coast publisher and a friend to the Gianninis, permitted Leslie Gould, the financial editor of the paper, continuously to print pointed and scurrilous attacks upon the chairman from October 1946 until 1949. Gould's articles, smacking of yellow journalism, attacked Eccles almost on a daily basis. Indicative of his barrage are the following headlines; "100% Margins Should Go---And Marriner Eccles, Too," and "Truman Decision Overdue in Eccles-Snyder Bout." Following Eccles's demotion, the articles became more vitriolic. Gould attacked Eccles's conduct of the nation's banking system as well as his private business connections. Gould claimed "if he had the characteristics of a true westerner he wouldn't stick around. But then he is a New Dealer, and those fellows never quite their boring." When Tobey questioned the demotion of Eccles, Gould replied that "Publicity was Anti-Eccles Force." Gould accused Eccles of "one-man bossing of the national banking system" whose ownership of the Utah Construction Company that received government contracts accounted for his demotion.<sup>41</sup>

Apparently, A.P. Giannini delighted in the tone of Gould's articles. The Bank of America Archives holds a personal scrapbook of A.P. Giannini's that contains all of Gould's editorials. On September 9, 1947, Giannini wrote to Gould that: "I think you hit the nail on the head. It would be a very wholesome thing to have an investigation of the activities of the chairman of the Federal Reserve Board. I subscribe to your opinion of

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<sup>41</sup>New York American Journal, 26 October 1946 and 26, 28, 29, 30 January, 1948.

him.”<sup>42</sup>

President Truman and Eccles met in mid-December 1947 and discussed the press’s treatment of the split between Treasury and Eccles. Earlier, on December 10, Eccles attempted to minimize the growing distance between them by issuing a statement to the press. The chairman allowed that while they differed on the effectiveness of the special reserve plan, their areas of agreement were more numerous. Eccles concluded that their disagreement focused on “whether the special reserves would be appropriate” if additional measures were employed to limit bank credit.<sup>43</sup>

At the same meeting, Truman and the chairman conferred about an upcoming replacement on the Board, and Truman assured Eccles that he would not fill the vacancy without an affirmation by Eccles. Eccles departed for the Christmas break after his cordial conversation with the president along with the following memorandum from John Snyder:

The fine understanding between the Federal Reserve System and Treasury Department which has made possible such a splendid record of cooperation during the past year, is a source of much gratification to me. I am indebted to you for setting the tempo.<sup>44</sup>

Upon his return to the Capitol in January, John Steelman, Truman’s secretary, phoned Eccles and asked him to visit the president as soon as possible. On January 23,

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<sup>42</sup>Giannini to Gould, 9 September 1947, Bank of America Archives.

<sup>43</sup>Statement by Chairman Eccles as Result of Conference with Secretary Snyder, 10 December, 1947, Eccles Papers.

<sup>44</sup>Snyder to Eccles, 22 December 1949, Truman Papers.

1948, only nine days before the expiration of his chairmanship of the Board of Governors, Eccles received notice from Truman that his appointment would not be renewed. Four days later Truman wrote to Eccles that “it is now my preference to appoint a new member of the Board to fill the vacancy created by the death of Vice-Chairman Ronald Ranson and when confirmed by the Senate, to designate him as chairman.”<sup>45</sup> When questioned as to why the president requested a resignation, Truman replied that “the change was for reasons that had nothing to do with me [Eccles]” and “that the reasons were best known to himself.”<sup>46</sup> Yet, Truman requested that Eccles remain on the Board of Governors as vice-chairman, or if there were some other position in government available, “he would be glad to give it to me; he had every confidence in me and completely approved of my actions and those taken by the Board of Governors during my chairmanship.”<sup>47</sup>

Eccles found this development inconsistent with his previous discussions with President Truman. Although he had three years remaining for his term when Truman became president, Eccles offered to resign because he believed that every president had the prerogative to appoint the governor of his choice. Truman claimed that “he had nobody in mind whom he wanted to appoint in my place; that he fully approved of my work and expected me to stay on at my post and help in any way I could.”<sup>48</sup> When Truman requested that Eccles remain on the Board as vice-chairman, the chairman

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<sup>45</sup>Truman to Eccles, 27 January 1949, Ibid.

<sup>46</sup>Eccles, Beckoning Frontiers, 437.

<sup>47</sup>Ibid.

<sup>48</sup>Eccles, 434.

requested time to think about it and agreed to see the president again on Tuesday, January 27.<sup>49</sup>

The following week Eccles agreed to remain on the Board of Governors “on the advice of friends, including several Senate leaders.”<sup>50</sup> He believed “that the President had been placed under great political pressure by certain interests that wanted to get me out as Chairman and off the Board and thought that if I were not redesignated as Chairman, I would promptly resign from the Board.”<sup>51</sup> Eccles asked the president to compose a letter stating the facts of the conversation to accompany Eccles’s letter to the Board. Truman agreed and wrote a letter stating that “I urge you to remain as a member of the Board and to accept the Vice-Chairmanship so that the benefit of your long experience and judgment will continue to be available and so that you may carry-forward legislative proposals now pending in Congress dealing with the important problems of bank credit as outlined in the President’s Economic Report to Congress. . . .”<sup>52</sup>

Following the press releases, the newspaper reporters pointedly grilled Truman as to why the changes in the Board of Directors occurred, and the president responded ambiguously. The press filled in the gaps by reporting that Eccles was “too much for Wall Street to swallow,” and that “the President at last bowed before banker pressure.” They accused the chairman of abandoning his earlier stance against a balanced budget and

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<sup>49</sup>Ibid., 438.

<sup>50</sup>Ibid.

<sup>51</sup>Ibid.

<sup>52</sup>Eccles, 439-440.

loose credit policies and that he had joined the reactionary community.<sup>53</sup>

Furthermore, Eccles's communications with leading Republicans Robert Taft, Arthur Vandenberg (R-MI), and Charles Tobey caused the "... Administration considerable political embarrassment by implying that it [the administration] had a full share of responsibility for failing to curb inflationary development."<sup>54</sup> Eccles's testimony before the Joint Committee on the Economic Report on November 25, 1947 probably prompted this conclusion.

Truman announced Eccles's replacement on January 26, the same day the press reported Eccles's demotion. Thomas B. McCabe, former president of Scott Paper Company of Chester, Pennsylvania, was a Republican expected to promote a conservative fiscal policy. During World War II, McCabe was the head of the Advisory Commission to the Council of National Defense, the same organization in which John Snyder served as executive vice-president.<sup>55</sup>

The differences between Eccles and Snyder received wide attention in the press. Snyder's dislike of Eccles's special reserve plan and the unification of the banking system intensified. Thomas McCabe was not expected to support the special reserve plan. The banking community, and particularly Allen Sproul, president of the New York Federal Reserve, believed Eccles's plan unsound. An unnamed banking spokesman

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<sup>53</sup>Ibid., 441

<sup>54</sup>Ibid.

<sup>55</sup>New York Times, 28 January 1948.

declared that Eccles “maintained a dictatorial position, sponsoring such radical proposals as the special secondary reserve plan, and neglecting to consult with the leaders of the banking community.”<sup>56</sup>

Charles Tobey of the Senate Banking Committee initiated a congressional hearing of the Eccles’s demotion on January 28, 1948, to determine “who got Eccles fired.” Despite the reports of Snyder’s and Eccles’s battles, Snyder denied the allegation: “To my knowledge, Mr. Eccles and I have never had any scrap or argument. . . . and I think he will tell you the same thing.” During hearings on an anti-inflation program, Tobey criticized the administration for the demotion of Eccles. When questioning Seymour E. Harris of Harvard University, Harris endorsed some of Eccles’s monetary policies but allowed that the banking community did not support Eccles. When questioned why, Harris replied: “Eccles is unpopular with bankers because he is unorthodox: when a man like Eccles comes along and urges unorthodox methods, they get annoyed.” Another article described Eccles as “stepping out of character” by holding positions contrary to the administration’s and his “inordinate desire for power.”<sup>57</sup>

Despite the protestations of Truman and Snyder, Drew Pearson, columnist for the “Washington Merry-Go-Round,” a nationally syndicated column, reported that:

Truman admitted that someone else (not Snyder) had tipped the scales against Eccles but refused to tell who it was. Later it was reported that Lewis Douglas, United States ambassador to Great Britain and head of Mutual Life had put in the final stab, while the knife was turned by

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<sup>56</sup>Ibid, 4 February 1948.

<sup>57</sup>San Francisco Chronicle, 29 January 1948; New York Times, 29 January 1948.



George Harrison, president of New York Life.<sup>58</sup>

Director of the Bureau of the Budget from 1933 until 1935, Lewis Douglas's conservative approach toward fiscal and monetary policy placed him in direct opposition to Eccles. While Eccles proposed government spending, Douglas adhered to the pre-Keynesian view that a balanced budget was necessary to counteract the depression. Douglas abhorred public spending, and this position naturally placed him against the Public Works Administration and the RFC. He attempted to place federal spending under the control of the Bureau of the Budget and successfully accomplished this for a short while. By the time of his resignation, Roosevelt and Douglas, disenchanted with one another, mutually agreed that the time had come for his departure.<sup>59</sup> Certainly Douglas might have sought the demise of Eccles, who proposed Keynesian fiscal and monetary policy and disagreed the SEC's investigation of Transamerica. Truman's appointment daily file sheets indicate an off the record meeting between Douglas and the president on January 17, 1947, during the period when Truman changed his mind about Eccles.<sup>60</sup>

Legal counsel to the Federal Reserve Board in New York from 1914 to 1928, George L. Harrison replaced Benjamin Strong as governor. Naturally protective of the power of the New York Reserve, Harrison fought the passage of the Banking Act of

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<sup>58</sup>Palm Beach Post Times, 1 February 1948.

<sup>59</sup>Arthur M. Schlesinger, Jr., The Coming of the New Deal, vol.1, The Age of Roosevelt (Boston: Houghton Mifflin Company, 1958), 289-292.

<sup>60</sup>Appointment File Daily Sheets, 17 January, 1947, Truman Papers.

1935, and he arranged for witnesses to testify against the bill.<sup>61</sup>

On February 6, 1948, Pearson's column, entitled "New Clue in Eccles Mystery?", blamed A.P. Giannini for Eccles's demotion. Pearson claimed:

It now looks as if big, bluff A.P. Giannini . . . fired the fatal shot. In fact, friends of A.P. say that when he got word Marriner Eccles was out as chairman of the Federal Reserve Board, he put his large thumbs in the large armholes of his large vest, and boasted, "Well, I did it."<sup>62</sup>

After relating the history of the Giannini-Eccles feud, Pearson concluded that:

It was the question of campaign contributions to the Democratic Party which finally tilted the scales against Marriner Eccles. Sam Husbands, former vice-president of the Trans-American Corporation, is credited with doing part of the meat-axing. Husbands, a former member of the RFC, is a close buddy of Secretary of Treasury, John Snyder.<sup>63</sup>

On the same day the second Pearson article appeared, A.P. Giannini sent two telegrams, one to Pearson and one to Mario Giannini. To Pearson, he wrote that the charges were unfounded: "Marriner, I believe, is the inspiration for story which is not bad but definitely untrue especially to charges that I boasted."<sup>64</sup> Another telegram to his son Mario, defensive in tone, stated that:

Best proof that "we did it" are the ads appearing in press such as first national willows [a newsletter published by a branch bank unfriendly to the Gianninis] and at this very time in wall street journal of yesterday under the bank's name. Don't worry about this kind of stuff am satisfied

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<sup>61</sup>Hyman, Marriner Eccles, 113, 174.

<sup>62</sup>Ibid.

<sup>63</sup>Ibid.

<sup>64</sup>Telegram from A.P. Giannini to Mario Giannini, 6 February 1948, Bank of America Archives.

even the big chief [Eccles] won't fall for it.<sup>65</sup>

A day later, A.P. Giannini telegraphed Roland Pierotti, Transamerica's lobbyist at the Capitol. He protested the claims that the Gianninis were responsible for Eccles's demotion "are so absurd that they should not call for comment." Giannini furthered argued that:

If we have any influence with the administration it is news to us. The administration has not favored us since the days of Henry Morgenthau especially. The whole thing would be humorous if it were not so obviously intended as propaganda to influence impending legislation [S. 829]. . . .

My son and I didn't support the Democratic party and I was then a registered Republican and am still.<sup>66</sup>

Eccles concluded, however, that when Truman demoted him, "the President's decision came not from Wall Street but from the west coast, and more particularly from within the inner citadel of the Giannini Banking interests."<sup>67</sup>

Senator Tobey agreed with Eccles's conjecture and requested any correspondence the chairman pro tempore had concerning permits for branches or pending legislation affecting the interests of Transamerica Corporation or the Bank of America N.T. & S.A.<sup>68</sup> Eccles forwarded materials of a current nature, and Tobey restated his request by asking for any relevant material since January 1, 1942. The senator explained that the confirmation hearings of McCabe required the information, so Eccles promptly forwarded

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<sup>65</sup>Telegram from A.P. Giannini to Mario Giannini. 8 February 1948, Ibid.

<sup>66</sup>Giannini to Pierotti, 7 February 1948, Ibid.

<sup>67</sup>Eccles, Beckoning Frontiers, 443.

<sup>68</sup>Tobey to Eccles, 24 March 1948, Eccles Papers.

those items.<sup>69</sup> Tobey privately told Harold Ickes that he was “very much disturbed” by the demotion of Eccles and that he “was into the matter very thoroughly.” Ickes recommended that Tobey question Eccles fully, for Ickes believed that Eccles would be forthcoming since he “had a very full conversation by telephone personally with Eccles, who was frank and aboveboard.”<sup>70</sup>

Soon afterward, a rumor emerged that John Snyder would accept a position within the Giannini empire and that Eccles’s demotion was part of the bargain. During the confirmation hearings of Thomas McCabe on April 30, Tobey questioned Snyder closely, and the secretary answered evasively and with careful ambiguity. Armed with correspondence from the Board of Governors, the comptroller of the currency, and the Senate Committee on Banking and Currency, Senator Tobey questioned Snyder about his relationship with Sam Husbands, president of the Transamerica Corporation. While Snyder acknowledged his prior friendship with Husbands during their employment with the RFC, Snyder was not certain about the position held by Husbands at Transamerica. When asked whether he had been offered a position with the Gianninis, Snyder replied: “I have no intention of discussing what I have been offered or not have been offered.” The chairman began the next line of questioning by contending that:

The bank holding bill [S. 829] which is now before the Senate, reported by this committee, which was introduced by me at the request of the Federal Reserve Board, is an outstanding and vital piece of legislation. The bank holding company bill is aimed directly at the Gianninis. The fact remains

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<sup>69</sup>Tobey to Eccles, 29 March 1948, Eccles to Tobey, 29 March, 1948, Ibid.

<sup>70</sup>The Secret Diary of Harold Ickes, 14 February 1948, Manuscript Division, Madison Library, Library of Congress, Washington, D.C.

also that they made representations to people high in the administration to get him [Eccles] removed. The fact remains that he was removed and that his successor was appointed. And by collateral evidence before we get through, we expect to link this up.<sup>71</sup>

Tobey asked Snyder when he had last seen the Gianninis, and the secretary replied: "I do not remember. It has been some time." The chairman queried whether the secretary met with one or both of the Gianninis or representatives in Florida recently, and Snyder responded: "One of them was down there," but contended he had no meeting with either of the Gianninis. Tobey noted that the Gianninis were the luncheon guests of Snyder's last fall. Snyder responded that he dined only with L.M. Giannini. When the chairman asked if he escorted Giannini to White House or arranged an appointment for him with President Truman, Snyder answered: "I do not recall arranging any appointment, I do not know whether they even went over there or not."<sup>72</sup>

Once again referring to the bank holding bill, Tobey asked if Snyder were aware that the bill "has the support of practically the entire banking fraternity except the Gianninis." Snyder replied that he did not. Tobey referred to a letter of May 23, 1947 in which the secretary stated that he was unwilling to "go on record one way or another" concerning the bank holding bill, and Snyder reconfirmed his stance. When asked if he were aware that during the fall visit of the Gianninis to the Capitol, numerous permits for branch expansion were under consideration by Preston Delano, Snyder answered: "I

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<sup>71</sup>U.S. Senate Committee on Banking and Currency, Confirmation of Nomination of Thomas Bayard McCabe, of Pennsylvania, to Be a Member the Board of Governors of the Federal Reserve System: Hearings Before the Committee on Banking and Currency, 180-181.

<sup>72</sup>Ibid., 181.

presume they were.” When asked if he knew the attitude of the Federal Reserve concerning Transamerica’s expansion, Snyder replied: “No, I do not think I have ever discussed this with them.” Tobey presented a letter from Eccles to the comptroller, advising him that the Board was undertaking an investigation of Transamerica under the Clayton Act. Snyder admitted his awareness of the information. When Tobey presented a letter from Eccles to the secretary, dated April 15, 1947, asking his opinion of the Board of Governors filing suit against Transamerica under the Clayton Act, the secretary contended that he did not think he ever saw the letter.<sup>73</sup>

Tobey’s final questioning returned to the issue of the Gianninis: “Would you agree that there was every reason why the Gianninis would want to get Mr. Eccles out as chairman of the Federal Reserve Board?” Consistently ambiguous, Snyder replied that “I will let the Gianninis testify to that. I would not want to make any statement because I do not know.”<sup>74</sup>

The remainder of the hearings addressed directly the confirmation of the new chairman of the Board of Governors. On April 7, 1948, the committee approved the appointment by a vote of eight to three. The only voter who expressed his reasons for dissent was Senator J. W. Fullbright ( D-AR). Believing McCabe wanted the banking community to determine the policies of the Federal Reserve, Fullbright found this contradictory to the responsibilities charged to the Federal Reserve. Likewise, he

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<sup>73</sup>Ibid., 182-184.

<sup>74</sup>Ibid., 188.

conjectured that the appointment of someone from the Northeast would leave the South unrepresented in the banking system, thus allowing further banking concentration in the Northeast. He conjectured that:

I have no quarrel with the Northeast, except that I do not think they ought to have absolute control over a board with the importance this one has. . . . I think it is not a fair distribution of membership, and I think that it may be distinctly prejudicial to the development of the South.<sup>75</sup>

As a hostile witness, Snyder offered no answers to Tobey's investigation. This resulted in the issue being dropped. Inconclusive evidence left the press without a storyline. The New York Times headline of March 31, 1948 reported "Questioned on Giannini Job Offer, Secretary Snyder Refuses Reply: Attempts to Link West Coast Bankers to Demotion of Eccles as Chairman of Reserve Board are Inconclusive."<sup>76</sup>

Some of Snyder's testimony before the Senate committee warrants speculation as to its reliability. The secretary inferred that he had little, if any, connection with Husbands, an inference that conflicts with Bonadio's claim that they became the best of friends when Husbands was with Transamerica.<sup>77</sup> While Snyder claimed that he did not arrange a meeting for the Gianninis with Truman in the fall of 1947, Truman's appointment book for October 24, 1947, indicated an appointment with L.M. Giannini with a side remark "at Snyder's request."<sup>78</sup> As to Snyder's seeming disinterest in the

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<sup>75</sup>Ibid., 7 April, 1948, 3-4.

<sup>76</sup>New York Times, 31 March 1948.

<sup>77</sup>Felice Bonadio, as a relative of the Gianninis, accessed the Bank of America Archives, and was privy to information not generally available.

<sup>78</sup>Appointment File Daily Sheets, October 1947, Truman Papers.

activities of the Gianninis, again Felice Bonadio refutes this when claiming that Snyder was Giannini's most important connection in Washington, D.C.<sup>79</sup> An oral interview with Snyder years later confirmed his friendship with the Gianninis. While in Mexico with a group of American bankers on April 12, 1945, Snyder spoke with A.P. Giannini. Giannini questioned Snyder very closely about the vice-president and received a very complimentary description of Truman's earlier career. Snyder stated: "Mr. Giannini and I had been friends for some years, so I started in telling him about my long friendship with Mr. Truman and my observations about he handles things. . . ." When asked which bankers were helpful to him during his job as secretary of treasury, Snyder included A.P. and Mario Giannini on the list.<sup>80</sup>

Pearson's allegation that it was political contributions that ultimately caused Truman to defer to the Gianninis was not apparent at the presidential level in the 1948 election. At first, A.P. Giannini supported Robert Taft for the Republican nomination, and when that did not materialize, he supported Thomas Dewey. Clark Clifford advised Truman that "the Democratic Party is an unhappy alliance of southern conservatives, western progressives and Big City Labor. . . . and to pay attention to the farm vote." Clifford forewarned: "The farm vote is in most ways identical to the winning of the West— the Number One Priority . . . . if the Democratic Party is powerful enough to capture the West, it will certainly pick up enough of the doubtful Mid-western and eastern states to get 50 more votes." The issues that would win California were those of

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<sup>79</sup>See fn. 20.

<sup>80</sup>"Oral History Interview with John W. Snyder," interview by H. Schick.



agricultural interest--reclamation and floods.<sup>81</sup> The rural districts tipped the scales for Truman.<sup>82</sup>

Truman followed Clifford's advice and structured his "whistle stop" campaign to include rural areas, particularly in the West. Between June 13, and June 18, 1948, he spoke eight times in California: three in San Francisco, once in Santa Barbara, Los Angeles, San Bernadino, Roseville, and Sacramento.<sup>83</sup> When speaking at the University of California at Berkeley, Truman resided at the Fairmont Hotel in San Francisco and spoke with A.P. and L.M. Giannini in his hotel room.<sup>84</sup>

Records from the Bank of America indicate, however, that Giannini wholeheartedly supported the national Republican ticket, but California's critical electoral votes in the national election supported the Truman ticket.<sup>85</sup> Despite his friendship with Snyder, perhaps Giannini's vanity prevented him from supporting the party that seemed hostile to his empire. SEC charges and a legal case against Transamerica, as well as the hostile attitude of Secretary Morgenthau, might have

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<sup>81</sup>Memorandum for the President, (n.d.), Clark Clifford Papers, Truman Library.

<sup>82</sup>San Francisco Examiner, 3 November 1948.

<sup>83</sup>Roster of Pre-campaign Trips, (n.d.), Truman Papers.

<sup>84</sup>New York Times, 14 June 1948.

<sup>85</sup>Ben B. Tate to Giannini, 28 November 1947; Giannini to Tate, 3 December 1947; Giannini to Tate, 13 December 1947; Tate to Giannini, 15 December 1947; Giannini to Leigh Battson, 22 October 1948; Giannini to Ernest Stauffen, 22 October 1948; Stauffen to Giannini, 25 October 1948; Battson to Giannini, 27 October, 1948; Giannini to Herbert Brownell, 28 October 1948; Stauffen to Giannini, 28 October 1948; Giannini to Pearl Gaulette, 28 October 1948; Giannini to Herbert Brownell, 30 October 1948; and Thomas E. Stephens to Giannini, 31 October 1948, Bank of America Archives.

prevented Giannini from supporting the Democratic party. Having already defected from the Democratic fold in 1944 election, it was unlikely that Giannini would return. He may even have thought that support of Truman would appear as verification of his own influence upon the Eccles's demotion. Bonadio does not affix a date of the invitation by Truman to L.M. Giannini to become the secretary of defense, and therefore it is not possible to surmise if the offer came before the election of 1948 or after. If before, then perhaps Truman was trying to attain the very significant California vote, particularly the rural vote where Giannini's banks monopolized the financial industry, and, if after, only unwarranted speculation remains.

Of note in the correspondence of President Truman is an appreciative missive to Sam Husbands for his contribution to the Democratic party,<sup>86</sup> and a letter from A.P. Giannini congratulating the president upon his victory. Snyder and Truman both returned letters of gratitude to the Gianninis.<sup>87</sup> Although never publicly announced, members of the Giannini family knew that Truman offered Mario Giannini the post of Secretary of Defense, a position he declined due to failing health.<sup>88</sup> It is odd that Truman would offer such a high position to someone he met only eleven months prior.

On April 16, after Thomas McCabe became chairman of the Board of Governors,

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<sup>86</sup>Truman to Husbands, 16 October 1948, Truman Papers.

<sup>87</sup>Truman to Giannini, 18 November 1948; Snyder to A.P. Giannini, 9 November 1948, Eccles Papers.

<sup>88</sup>Moira Johnston, Roller Coaster (New York: Ticknor & Fields, 1990), 20.

President Truman addressed the Board. After extolling the virtues of the new chairman, Truman applauded the role of the Federal Reserve in its national monetary policy, while pointing out that the regional banks should participate in policymaking decisions, an affirmation of McCabe's philosophy. His closing remark addressed the issue of Eccles's demotion.

I sincerely hope that none of you gentlemen have given any credence to the accusations as made before the Senate Banking and Currency Committee, as well as in the gossip columns, that the change in chairmanship was due to the pressure of certain financial interests. I assure you that there is no foundation whatsoever for those accusations. My chief purpose in the changing the chairmanship of the Board at this particular time was to effect the principle of rotation, of which I am a great believer. The nomination of Tom McCabe was my own idea, and I take complete responsibility for his appointment.<sup>89</sup>

The same day Truman visited the Board of Governors, Eccles wrote a letter to the president offering to withdraw as a candidate for the position of vice-chairman. Truman replied that he still wanted Eccles in that position.<sup>90</sup> When, by May 1948, the president still had not nominated Eccles to the position, Eccles sent another letter to Truman. Whether Truman's delay was a ploy to embarrass Eccles to the point of resignation, Eccles did not know. In his letter to Truman on May 26, the former chairman stated:

[Since] four months have now elapsed since you first requested me to accept the Vice Chairmanship and nearly a month and half since you reiterated that response,. . . . I wish to withdraw my name from any further consideration for designation as Vice Chairman. I shall continue to serve

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<sup>89</sup>A Brief for the President: Conference with Members of the Board of Governors of the Federal Reserve System, 16 April 1948, Truman Papers.

<sup>90</sup>Hyman, Marriner Eccles, 338.

as a member of the Board.<sup>91</sup>

President Truman accepted the offer. Later, Snyder's role in his demotion and the secretary's relationship with the Gianninis haunted Eccles. During and after the Transamerica hearings that began in December 1948, these suspicions intensified.

Between 1945 and 1948, Eccles, Truman, Snyder, and the Gianninis engaged in a convoluted itinerary that is difficult to unravel. Postwar years brought new problems to the Federal Reserve, most particularly to Eccles. Almost every program he suggested to ameliorate the effects of inflation caused a controversy from the bankers, the secretary of treasury, and President Truman. When Eccles attempted to enact the Keynesian remedies of postwar inflation, he received little aid from any quarter. Snyder refused to pass along Eccles's plan for special reserves to the president as well as comment on Eccles's plan to bring suit against Transamerica. The 100 percent stock margin, the special reserve plan, the McCabe hearings, the Senate Banking Currency Committee hearings for S. 829, and the Board's initiation of a suit against the Transamerica Corporation elicited showers of criticism upon Eccles. Politically naive, Eccles publicly promoted his causes and often criticized the administration. While doing so, he enlisted the support of top-ranking Republicans Robert Taft and Arthur Vandenberg, and this may have alienated the president so that Eccles's demotion was inevitable. Meanwhile, Leslie Gould of the New

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<sup>91</sup>Eccles to Truman, 16 April 1948, Eccles Papers; Eccles, Beckoning Frontiers, 442-443.

Note: Eccles's appointment as a member of the Board of Governors would remain in effect until 1958.

York American Journal publicly denounced statements of the chairman.<sup>92</sup>

Never unprepared for future engagements, Eccles hired J. Leonard Townsend, the prosecutor in the SEC case, as assistant general counsel for the Board and convinced the Board to file suit against Transamerica just as the SEC case closed. The Gianninis must have felt both relieved and furthered encumbered. They delighted in the demotion of Eccles, and the denouement of the SEC case, an eleven-year ordeal. The onset of a new case against Transamerica, the Hearings of the Senate House and Banking Committee, and accusations that they caused the demotion of Eccles made their victory short-lived. A.P. Giannini, often absent from his headquarters, placed the onus of the defense upon his son, L. M. Giannini, suffering from the ill-effects of hemophilia. Mario Giannini, though not as verbally aggressive as his father, confronted the Tobey hearings on Eccles's demotion with detail and perseverance.<sup>93</sup>

Although the evidence concerning the demotion of Eccles is inconclusive, the connections among Transamerica, Snyder, and Truman appear to be the most likely cause. Snyder's blatantly uncooperative attitude before the Senate Banking and Currency Committee and Truman's complete volte-face toward Eccles between December 1947 and January 1948 indicated political pressure. Perhaps the simplest explanation is the answer: "Mr. Truman was said to feel that the Federal Reserve was becoming too

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<sup>92</sup>New York American Journal, 26, 28, 29, 30 January, 2 October, 6 December 1948.

<sup>93</sup>Marquis James and Bessie James, Biography of a Bank: The Story of Bank of America N.T. & S.A. (New York: Harper & Brothers), 499-504; L.M. Giannini to members of the Senate Committee on Banking and Currency, 28 June 1947, Ibid.

powerful; he himself said he wanted to show Eccles who was boss.”<sup>94</sup>

Nineteen forty-nine would both elucidate and cloud the events of the election of 1948 and the demotion of Eccles. Eccles’s testimony in the Transamerica hearings ignited criticism from many quarters, particularly from that of President Truman. Truman’s wish to see Eccles permanently removed crystalized after the hearings. Once removed as chairman, Eccles aggressively continued his programs within and outside the administration.

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<sup>94</sup>Robert J. Donovan, “Truman’s Perspective,” in Economics and the Truman Administration , ed. Francis H. Heller (Lawrence: The Regents Press of Kansas, 1981), 15.

## CHAPTER IX

### LOCKED HORNS:

1949-1951

Employing the Clayton Act, the Federal Reserve Board charged Transamerica Corporation with monopolistic tendencies due to its holdings controlling stock of forty-eight banks in California, Oregon, Washington, Arizona, and Nevada. Transamerica owned controlling stock in forty-six of the banks. Reputedly sixteen hundred westerners offered to testify in behalf of Transamerica. Although A.P. Giannini relished their upcoming testimonies, he never lived to witness the outcome of the trial. He died on June 3, 1949, shortly after his seventy-ninth birthday. Afterward, his son, L.M. Giannini, assumed complete control of the Giannini empire, and lived to see the dismissal of charges against Transamerica.<sup>1</sup>

The Transamerica hearings began in December 1948 and continued for almost two years. A. P. Giannini prepared for the trial by threatening to go to court to request open hearings, believing this would allow the testimony of the public from those areas that Transamerica served. Without litigation, the Federal Reserve Board permitted open hearings. The Gianninis also sought the disqualification of Eccles and Lawrence Clayton,

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<sup>1</sup>Marquis and Bessie R. James, Biography of a Bank : The Story of Bank of America N.T. & S.A. (New York: Harper & Brothers, 1954), 501.

Eccles's assistant, in the Transamerica case.<sup>2</sup> The question of Eccles sitting on the case was moot because on the same day the Gianninis requested their removal, December 1, 1948, Eccles disqualified himself from the Transamerica case. He feared that the Board of Governor's unanimous decision to file suit against Transamerica Corporation would be misconstrued as Eccles's personal vendetta against the Gianninis because of their banking competition in the West. The Gianninis also claimed that because L.M. Giannini refused Clayton employment with Transamerica, the secretary became embittered.<sup>3</sup>

In keeping with his habit of public commentary when controversial issues arose, following the complaint for dismissal of himself and Clayton, Eccles released to the press the following statement:

Ever since this proceeding was instituted, Transamerica has from time to time charged in the press that the proceeding itself came about as a result of my personal bias against A.P. Giannini and his associates in Transamerica. One of the reasons I agreed to the request of Counsel for the Board to appear as a witness in the case was in order to dispel once and for all the ideas that there could be any truth in these charges. I am informed that upon taking the witness stand I subject myself to such examination as Counsel for Transamerica may see fit to conduct.<sup>4</sup>

The Board accepted Transamerica's claim for removal of Eccles, but found that it did not

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<sup>2</sup>U.S. Federal Reserve System, Board of Governors, Transamerica Corporation: Complaint of the Board . . . . Statements of the Board . . . Order Denying Motion to Dissolve Restraining Order . . ., 24 June 1948, 21 September 1948, 1 October 1948, 17 January 1949, 29 August 1949, 24 June, 1950.

<sup>3</sup>Ibid.

<sup>4</sup>Marriner Stoddard Eccles, Beckoning Frontiers (New York: Alfred A. Knopf, 1951), 454.



have the power to dismiss Clayton because of the lack of due process.<sup>5</sup>

Although Eccles thought he distanced himself from the Transamerica case, his testimony elicited continued and intensive inquiry. The presiding officer of the hearings was Rudolph Evans of the Federal Reserve Board; the Reserve's counsel, J. Leonard Townsend, and Transamerica's counsel, Samuel Stewart. Being one of the first witnesses to testify, Eccles became the target of penetrating questioning by Stewart, who questioned him about the Eccles family holdings. Eccles explained that his family owned the Eccles Investment Company, "a personal holding company that was organized for the purpose of taking over the interest of three brothers, five sisters, and myself, in an estate, and seven of those members were minors."<sup>6</sup> The Eccles Investment Company controlled shares in a variety of businesses: banking, the Stoddard Lumber Company, the Anderson Lumber Company, the Amalgamated Sugar Company, real estate, and the Utah Construction Company. First Security Corporation, an Eccles holding company, held the majority stock in the First Security Bank of Idaho, the First Security Bank of Utah, and the First

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<sup>5</sup>A Digest of the Testimony of M.S. Eccles in the Hearing upon the Complaint issued pursuant to the Clayton Act by the Board of Governors of the Federal Reserve System in the Matter of Transamerica Corporation given at Washington, D.C., 7-11 and 14 February, 1949, James C. Smith, Federal Reserve Board of San Francisco, Columbia Reporting Company, Official Reporters, Washington, D.C., (n.d.) Note: A.P. Giannini and Lawrence Clayton conferred frequently and were socially friendly. Giannini suggested that Clayton work for Transamerica, yet when Clayton contacted L.M. Giannini on this matter, Russell Smith, executive vice-president of the Bank of America N.T. & S.A., informed Clayton that the only offer he could make would be a job paying \$10,000, and Clayton responded "I can scarcely bring myself to leave the position I now hold for one on apparently lesser proportions and greatly less salary." Smith to Clayton, 16 May 1940 and Clayton to Smith, 25 May 1940, Bank of America N.T. & S.A. Archives, San Francisco, CA.

<sup>6</sup>Ibid., 8 February 1949, 619.

Security Bank of Rock Springs, Wyoming, and their branches, thirty-eight banks overall. He also indicated that he served as the president of Eccles Hotels, Inc., the Sego Milk Products Company, and was director of the Utah Construction Company.<sup>7</sup> Eccles declared that he relinquished his office as president of the First Security Corporation when he arrived in Washington, D.C., in 1934 to his brother, George Eccles.<sup>8</sup>

When questioned about a conflict of interest between his position with the Federal Reserve Board and his family financial connections, Eccles insisted that any advice given to his brothers was of a general nature. His time, he contended, was limited in his private financial interests, and that he severed all formal relationships with the Eccles Investment Company when he became a member of the Board. Stewart questioned if Eccles made long distance phone calls from the Federal Reserve concerning his personal affairs. Eccles replied that they were few and paid by himself.<sup>9</sup>

Both the defense and the prosecution examined Eccles's professional and personal relationships with the Gianninis. Eccles stated that he knew A.P. Giannini since 1916 and L.M. Giannini since arriving in Washington, D.C., in 1934. He claimed to have had:

. . . a great many business dealings with A.P. Giannini, personally, and with institutions of which the latter was an officer, and that after he had come to Washington, the companies in which he was interested had continued to have business dealings with A.P. Giannini and the institutions with which he was affiliated.<sup>10</sup>

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<sup>7</sup>Ibid., 8 February, 1948, 686-688.

<sup>8</sup>Ibid., 9 February, 1948, 698-699.

<sup>9</sup>Ibid., 704-708.

<sup>10</sup>Ibid., 7 February 1949, 493.

He said that the First Security Corporation's primary banking connections in California and Oregon were with the Bank of America and the Bank of Portland, another Transamerica holding. The Eccles Amalgamated Sugar Company, of which he was the chairman of the Board, had "substantial banking relations with the Bank of America in the First National Bank in Portland. These connections and the relationship have been satisfactory and cordial."<sup>11</sup>

When questioned about his holding company, the First Security Corporation, Eccles stated that, following the banking holiday in 1933, the states of Idaho and Utah permitted branch banking, whereupon his banks in those states formed branch banks. He remarked that: "I have been an advocate for a good many years, like Mr. Giannini, of limited branch banking."<sup>12</sup>

The interrogation shifted focus as questions arose about Eccles's role in the prosecution of the Transamerica case. Eccles claimed that his initial attention concerning Transamerican expansion came in January 1938 when Morgenthau called for a conference concerning a bank holding bill. Eccles thought they were initiated by Leo T. Crowley, chairman of the FDIC. The result was the introduction of a bank holding bill that President Roosevelt supported in a president's message in April 29, 1938. Eccles did not support the bill because it contained a "death sentence," and that he believed regulation, not liquidation of the bank holding company, a more appropriate panacea. Complete liquidation would be difficult since in most cases the selling of stock to local

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<sup>11</sup>Ibid., 7 February 1949, 493-495.

<sup>12</sup>Ibid., 501.

interests would be problematic. He believed the legislation directed entirely toward Transamerica and did not support it.<sup>13</sup>

Referring to further pressure upon the Gianninis when Comptroller of the Currency Cyrus Upham, sent a telegram instructing the Gianninis to halt further dividend payments, Eccles claimed to be unaware of the message since he was not in Washington, D.C., at that time. Later, L.M. Giannini contacted Eccles complaining that Morgenthau and Crowley unduly pressured Transamerica and hoped that the Board would conduct an examination of the Bank because the Gianninis wanted to get out from under the yoke the Department of the Treasury by converting the Bank of America N.T. & S.A. to a state institution, and yet retain membership in the Federal Reserve.<sup>14</sup>

Eccles and Governor John K. McKee unsuccessfully tried to convince Morgenthau and several regulatory agencies that the Board should have some input into the Transamerica case. Numerous conferences concerning Transamerica occurred among Treasury, the comptroller, the FDIC, the RFC, and the Board. Despite the Board's admonition that a reduction in dividend payments would put Transamerica at a disadvantage while other banks were increasing theirs, the banking authorities demanded an increase in capital to compensate for substantial losses and doubtful. Transamerica agreed to sell preferred stock to the RFC to raise the capital.<sup>15</sup>

According to Eccles, the Gianninis also agreed to no further expansion without

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<sup>13</sup>Ibid., 504-510.

<sup>14</sup>Ibid., 515-517; 519-523.

<sup>15</sup>Ibid., 526-529.

approval of the regulatory agencies. When in 1941, Transamerica acquired the Temple City National Bank, Eccles called Mario Giannini to remind him of the previous “freeze” agreement, and Mr. Giannini replied that he did not think they were acting contrary to the agreement. Within a short while Transamerica acquired the First Trust and Savings Bank of Pasadena despite the denial of such petition to the Board.<sup>16</sup>

Eccles claimed that next time his attention turned to Transamerica resulted from a letter written by the Gianninis to the Board on February 5, 1943, requesting an informal conference. In preparation, the secretary of the Board, Chester Morrill prepared a statement of the Board’s grievance against Transamerica. The meeting between the Board and Giannini resulted in inflammatory statements by Giannini, mostly of the sort accusing the Board of a “diabolical conspiracy.” The Board pointed out that was little expansion by other holding companies, and that the Transamerica’s expansion in 1941 was without Board approval.<sup>17</sup>

Although Giannini agreed to a bank holding bill that would “freeze” expansion, in January 1943, Transamerica acquired the Citizens N.T. & S.A. with thirty branches in the Los Angeles area. Although the Board circuitously transmitted a telegram to the Gianninis admonishing their acquisition, Transamerica replied that their legal counsel advised them “there was nothing in the laws, regulations, or agreement with the Board of Governors of the Federal Reserve System that would preclude them” from acquiring

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<sup>16</sup>Ibid., 546.

<sup>17</sup>Ibid., 8 February 1949, 558-574.

Citizens N.T. & S.A.<sup>18</sup>

Following this statement of defiance, J.P. Driebelbis and two other members of the Board visited Transamerica to conduct a bank examination. Upon their return, Driebelbis submitted a memorandum suggesting that the Board prosecute under the Clayton Act, but he shortly learned thereafter that the attorney general's office was investigating the possibility for a Sherman Anti-Trust proceeding. When the Justice Department decided to drop the case, the Board, aware of further Transamerica expansion, once again proceeded with the Clayton investigation in the fall of 1947.<sup>19</sup>

L.M. Giannini and Sam Husbands responded with accusations that charged Eccles with personal bias and prejudice against Transamerica. Eccles responded:

There is nothing that could be said which is further from the truth than that I have a personal prejudice. Had it been possible, in my public duty . . . for me to follow my personal inclination, I would certainly have preferred not to be placed in this position.

Recounting the supervisory agency's unsuccessful efforts to seek cooperation from Transamerica for the last ten years, Eccles concluded that: "if there is prejudice on my part in this matter, then it must be apparent that there is likewise prejudice on the part of all the other supervisory agents as well as upon all the members of the Board. . . ."<sup>20</sup>

The cross examiner initially focused upon Eccles's bank holding companies and other assets. Eccles stated that he was director and president of the Eccles Investment

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<sup>18</sup>Ibid., 586-589.

<sup>19</sup>Ibid., 590-599.

<sup>20</sup>Ibid., 610-611.

Company and remained so during his membership on the Board. When he went to Washington, D.C., he sold his stock interest in the First Security Corporation to the Eccles Investment Company which now owned 44 percent of the First Security Corporation. When questioned as to the power of his stock control of the First Security Corporation, the witness replied that another company owned 44 percent as well and that he had “absolutely no connection” with this company and that the remaining percentage of stockholders could ultimately determine final decisions. Later, Eccles admitted that the Browning Company owned the remaining 44 percent. The Brownings and the Eccleses had been the best of friends and business partners since David Eccles arrived in Utah and formed the First Security Corporation in 1922.<sup>21</sup> The First Security Corporation, now a subsidiary of the Eccles Investment Company owned by Eccles, controlled the stock of the First Security Bank of Idaho, the First Security Bank of Utah, and the First Security Bank of Wyoming. When counsel suggested the First Security Corporation owned at least fifty bank branches, Eccles’s reply was: “Well, it could be.”<sup>22</sup>

During the cross examination, the committee scrutinized all of Eccles’s business interests. When asked about the Stoddard Lumber Company, Eccles declared that the Eccles Investment Company owned 30-odd percent of the stock and that he was the president and director of that company before and during his positions in Washington, D.C. Although he contended that his attendance at board meetings was irregular and that his position was “purely nominal,” he allowed that as a general contractor “it has had

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<sup>21</sup>Ibid., 10 February 1949, 758.

<sup>22</sup>Ibid., 9 February 1949, 684, 687, 691.

many Government contracts.” The Utah Construction Company participated in the building of the foundations and roads of the Geneva Steel Plant in Provo, Utah, the Davis Dam in Arizona, the Norfolk Dam in Mountain Home, Arkansas, and it worked with the Army of Engineers in the construction of the Alcan Highway. More important, the Utah Construction Company, along with two other companies, participated in a \$20 million Army contract in the Philippines. The choice of construction companies, not open to bidding because the Army had no plans or specifications, was based upon companies that worked successfully for the government during the war. Eccles claimed that the company did not solicit the work<sup>23</sup>

When questioned about Marriner A. Browning’s connection to the First Security Corporation, Eccles stated that while “he was no relation whatever of M.A. Browning,” Browning was a director and vice president of First Security Corporation, a director of the Utah Construction Company, the Amalgamated Sugar Company, and the First Security Bank of Utah.<sup>24</sup>

Eccles contended that he did not support either of the two bank holding bills, one introduced in 1938, and the other in 1941. The first bill, he claimed, was of the “death sentence” variety, a bill he could not endorse. Introduced without his consent, the second bill, like the first, was never reported out of committee. He stated that he supported neither of the bills because he preferred one that was regulatory.<sup>25</sup> Later in the hearings,

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<sup>23</sup>Ibid., 744-747, 750-756.

<sup>24</sup>Ibid., 764-766.

<sup>25</sup>Ibid., 770-772.



counsel asked Eccles's opinion on three bank holding bills, two introduced by Congressman Brent Spence (D-KY), a member of the House Currency and Banking Committee, H.R. 2776, and H.R. 6225, and one by Senator Tobey, S. 829. Eccles said the bills were introduced with his approval and upon his recommendation.<sup>26</sup>

These bills all contained a de novo rule that permitted expansion only by the acquisition of unit banks that had been in existence for five years. Eccles claimed that he was unaware of a de novo rule in California, Oregon, and Washington, the main seat of the Giannini empire.<sup>27</sup> He alleged that his motivation for this rule did not affect his decision about the Board's case against Transamerica.<sup>28</sup>

Counsel then directed attention to a letter written by A.P. Giannini to Eccles on November 29, 1941. The letter stated:

You'll recall our having discussed the Bank of California the last time we had a chat together.

The stock of that Bank is now selling at \$105.00 and it looks very much as if the time isn't right far distant when the stockholders will have to take hold and reorganize or to dispose of it.

Several months ago Dean Witter & Co. approached L.M. with a view of making a sale of the Bank at around \$150.00 per share.

Wouldn't this be a good time, Marriner, to see if a deal couldn't be made in the form of a consolidation, under the old Bank of California charter, which would result in practically a Federal Reserve District wide Branch Bank, with offices in Portland, Seattle, Tacoma, San Francisco & Los Angeles.

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<sup>26</sup>Ibid., 786, 788,792.

<sup>27</sup>From the criticism that following this section of the testimony by Truman as well as the press, obviously all three states practiced the de novo rule. ( Memorandum Re Marriner S. Eccles, 14 February 1949, Truman S. Truman Papers, Harry S. Truman Library, Independence, Missouri; New York American Journal, 11 February 1949. Ibid.

<sup>28</sup>Transamerica Hearings, 10 February 1949, 827.

I don't suppose a man of your youth and talents is going to spend much more time in that Washington atmosphere—so let's hope that this note will make you think of getting back actively into Banking Game out this way.<sup>29</sup>

When counsel queried Eccles about his interpretation of this letter, Eccles replied:

I merely took this from Mr. Giannini as a complementary gesture . . . and that he was favorable to me and his interest seems to me to be an attempt to ingratiate the Transamerica period when there was a great deal of tension.<sup>30</sup>

The tone of Eccles's statement during the hearing conflicts with his biographical description of a similar event. On another occasion, Eccles received a letter from Giannini offering him the presidency of the First National Bank of Portland for one year, followed by a position as president of the Bank of America. Wasting no time, Eccles telephoned Giannini the same day and said "Listen, I am chairman of the Federal Reserve Board. Remember that. Don't even write me another line about an offer of any bank presidency anywhere."<sup>31</sup>

Unbeknownst to Eccles, President Truman kept a watchful eye upon the Transamerica hearings. On February 14, 1949, the same day of the completion of Eccles's testimony, Truman placed a letter in the president's Federal Reserve files indicating his justification for the possible dismissal of Eccles from the Board of

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<sup>29</sup>Ibid.

<sup>30</sup>Giannini to Eccles, 29 November 1941, Marriner S. Eccles Papers, Manuscript Division, J. Willard Marriott Library, University of Utah, Salt Lake City, Utah.

<sup>31</sup>Eccles to Hyman, interview, 15 December 1973, as quoted in Sidney Hyman, Marriner S. Eccles (Stanford: Graduate School of Business, Stanford University, 1976), 324.

Governors. Truman's private letter began with the legal justification for members of the Board devoting "their entire time to the business of the Board." Furthermore the law provided that "no member . . . shall be an officer or director of any bank, banking institution, trust company, or Federal Reserve Bank, or hold stock in any bank, banking institution, or trust company; and . . . he shall certify under oath that he has complied with this requirement."<sup>32</sup>

Truman cited Eccles in violation of the above statute due to his positions of either director, president, and/or chairman of the board at Stoddard Lumber Company, Anderson Lumber Company, Amalgamated Sugar, Eccles Hotels, Inc., Sego Milk Products Company, Mountain States Implement Company, and the Utah Construction Company. Truman listed the government contracts awarded to the Utah Construction Company, and he indicated that Eccles visited these businesses two or three times a year for periods of a few days to a few weeks and made phone calls from the Board's office to these businesses. When asked to produce a record of the phone calls, Eccles refused.<sup>33</sup>

Truman noted that Eccles owned one-ninth of the Eccles Investment Company, the remainder being owned by his family. This holding company controlled 44 percent of the First Security Corporation, a bank holding company that owned almost 100 percent of the stock of branch banks in Utah, Idaho, and Wyoming, a series of banks that advertised themselves as the "largest inter-mountain banking organization." Truman noted that

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<sup>32</sup>Federal Reserve Act , § 10, par.2 (12 U.S.C. § 242 and par.4 (12 U.S.C. § 244), as quoted in Memorandum Re Marriner S. Eccles 14 February 1949, Truman Papers.

<sup>33</sup>Ibid., Memorandum Re Marriner S. Eccles, 2-3.

“These banks are within the Twelfth District of the Federal Reserve, the same as Giannini’s.”<sup>34</sup>

Truman cited other apparent indiscretions carried out by Eccles. For instance, Eccles admitted that the Board tried to reach agreements with Transamerica in 1940 and 1943 to have the holding company seek approval by the Board for expansion although the Board “had no legal authority to require” such sanction. In 1943, Eccles reached agreement with A.P. Giannini that Transamerica would engage in no further expansion without consulting the Board. Giannini agreed with the proviso that the restriction was applied equally to all holding companies. When these restrictions did not apply to other holding companies, Giannini wrote to the Board that he would not adhere to the agreement because of discrimination. Eccles denied reading the letter. Following this confrontation, Eccles sought bank holding legislation that would have allowed the Board to veto Transamerican acquisitions, yet not affect the Eccles Investment Company.<sup>35</sup>

The testimony also revealed that in February 1942, the Board, the FDIC, and the comptroller agreed to decline permission for further expansion by Transamerica. From February 14 on, every application by Transamerica was not processed through normal channels and thus refused. Eccles testified that the attorney general conducted a two-year investigation of the possibility of seeking prosecution of the Transamerica case under the Clayton Act but ultimately found no basis for litigation. The same year, 1945, the Board

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<sup>34</sup>Ibid., 4.

<sup>35</sup>Ibid., 5-6.

hired J. Leonard Townsend, former prosecutor for the SEC against Transamerica, as assistant general counsel. Following another unsuccessful attempt to get the attorney general to prosecute, the Board asked their general counsel to further investigate prosecution under the Clayton Act. When Townsend declared cause for prosecution, the Board initiated investigation in December 1948.<sup>36</sup>

Truman concluded that Eccles's testimony provided the him sufficient cause for the dismissal of Eccles from the Board, because Eccles did not devote his "entire time" to Board matters due to his absences for the administration of his own numerous businesses. In addition, his financial interests, though a family affair:

. . . constitutes a definite violation of the spirit, if not the letter, of the statutory prohibition against members of the Board owning stock or maintaining official positions in banking institutions, and the maintenance of such interest by Mr. Eccles has influenced him to perform his public duties and a biased and prejudiced matter, wholly inconsistent with the public interest.<sup>37</sup>

Thirdly, Truman claimed that Eccles "publicly pressed the initiation and prosecution of a proceeding against Transamerica Corporation without adequate reason." This, Truman surmised, was calculated "to interfere with the efforts of that corporation and banks in which it is interested to provide the most rapidly growing section of the United States with adequate and safe banking service in the public interest."<sup>38</sup>

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<sup>36</sup>Ibid., 7-8.

<sup>37</sup>Ibid., 9-10.

<sup>38</sup>Ibid. 10-11. Note: This memorandum, placed in the president's Federal Reserve file, and never forwarded to Eccles, is only in the Eccles's Collection now because it was imported from the Truman Library. It appears that Truman chose to cast the most negative possible interpretation upon the Eccles's testimony.

The hearings also investigated the tactics used in the Gianninis' acquisition of banking institutions. A common method of expansion included the immediate contact by the Giannini employees or heirs following the death of bankers and important stockholders. In 1945, four days after the burial of the president of First Savings Bank of Colusa, California, G.M. McClerkin,<sup>39</sup> a former bank examiner hired by the Gianninis to purchase banks, spoke with the widow and offered to buy the bank. The same year, McClerkin contacted the First National Bank of Dixon, California, four or five days after the death of the president to offer to buy the bank. In 1947, when the principal stockholder of the First National Bank of Antioch, California, died, McClerkin inquired if the bank were for sale. When McClerkin spoke to G.B. Kellogg, principal stockholder of the First State bank of Rosemead, California, in 1946, McClerkin remarked to Kellogg: "You know we wait and eventually we acquire many of these banks and very commonly through the death in the family."<sup>40</sup>

The findings of counsel for the Federal Reserve Board included the prediction that "unless restrained, Transamerica intends to acquire additional banks in the five-state area." His estimation resulted from Transamerica's attempts to acquire three banks during the hearings, its forty-year history of extensive expansion, and the testimony of twenty-nine bankers from California and Oregon that Transamerica attempted to buy their banks in recent years. One hundred additional witnesses offered to testify to the same

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<sup>39</sup>James and James, Biography of a Bank, 233.

<sup>40</sup>U.S. Federal Reserve System, Board of Governors, Transamerica Corporation, Brief of Counsel: Requested Findings of Fact: Reply to Proposed Findings, 1948 and 1949, (Washington, D.C.: GPO, 1949), 34.

scenario, but by invoking the cumulative evidence rule, Rudolph Evans refused to hear them.<sup>41</sup>

The report referred to A.P. Giannini's testimony before the House Banking and Currency Committee in 1930 when the banker stated: "I believe branch banking should be extended on a nation-wide and worldwide basis, for if you do not have direct branching you are going to have it through holding companies." Further questioning revealed that A.P. Giannini perceived branch banking as the wave of the future. He remarked: "It is coming, gentlemen, and you cannot stop it, and you are bucking up against a stone wall, if you try."<sup>42</sup>

At the annual meeting of stockholders of the Transamerica Corporation on April 28, 1948, A.P. Giannini attempted to assuage their fears. His statement was primarily a diatribe against Eccles and his "disciple," the "waspy" J. Leonard Townsend. Contending that he had "nothing but deepest contempt for men who prostitute their positions in the public service to further their ambitions [Eccles?]," Giannini denounced the bias of Rudolph Evans, the hearing officer, and another member of the Board as well. The charges, he claimed, "were rigged up" and the hearing officer would not allow testimony indicating that Transamerica increased competition rather than decreasing it. He further complained that: "We are also barred from showing that the growth of the Bank of America to major size has freed our West from the domination of Wall Street and has created thousands of new opportunities for private enterprises of all kinds and

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<sup>41</sup>Ibid., 35.

<sup>42</sup>Ibid., 40.

sizes.”<sup>43</sup>

Eccles’s testimony reopened questions concerning his demotion. Kansas Senator Leslie Biffle, longtime friend and advisor to Truman, admitted that Senator Sheridan Downey (D-CA) urged Truman to remove Eccles as chairman. Biffle asserted that Downey “is a good friend of the Giannini family.” The reporter stated that “It was known that Eccles had aroused the ire of many influential bankers as a result of his proposals on bank credit as a means of halting the inflation spiral.” Biffle recalled that Downey spoke to him describing specific reasons “as to why he thought the board chairman should be removed.” Biffle could not recall if he passed along the information to Truman. The reporter, Edward Harris, Washington correspondent for the St. Louis Post-Dispatch, pointed to the three visits between Sam Stewart and Truman prior to and during the Transamerica hearings.<sup>44</sup> A written request to see Truman indicated two visits by Stewart, one on December 11 and the other a week prior.<sup>45</sup> Truman’s appointment calendar also showed that Downey visited Truman on December 12, the day following Stewart’s visit.<sup>46</sup> Truman answered Downey’s letter of January 23, 1948 and remarked that he would be “happy to talk to him on any subject.”<sup>47</sup>

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<sup>43</sup>A.P. Giannini, Statement at the Annual Meeting of Stockholders of Transamerica Corporation in San Francisco, 28 April 1949, Bank of America N.T &.S.A Archives.

<sup>44</sup>St. Louis Post-Dispatch, 3 February 1949.

<sup>45</sup>Steward to Connelly, 10 December 1948, Truman Papers..

<sup>46</sup>Appointment Files Daily Sheets, Ibid.

<sup>47</sup>Truman to Downey, 26 January 1948, Ibid.



Once removed from the chairmanship of the Board, Eccles became more outspoken and aggressive against the administration, particularly toward Treasury and the president. From 1948 until 1951 Eccles issued public statements regarding his dispute with the Treasury Department and with Truman's handling of the public debt. The first postwar recession occurred in 1949 when the Gross National Product rose slightly, prices declined 2.4 percent, and unemployment rose to 5 Percent. A 1948 tax reduction and the increase in Cold War spending resulted in a fiscal deficit of \$3 billion in 1949. During the first half of 1950, the deficit increased to \$4.3 billion, and the administration reacted with alarm as expenditures increased during the Korean War.<sup>48</sup>

At the beginning of the recession in 1949, Eccles publicly denounced Truman's and Snyder's policies, claiming that they led to an excess of the money supply. Pointing to the triple-fold money supply between 1940 and 1945, Eccles blamed it on the "financing of a substantial part of the war's cost by the Government's selling its bonds to banks." Reiterating his previous criticisms, Eccles referred to arguments concerning postwar high income levels, easy credit, and the lag of consumer goods to soak up excess demand as the cause of inflation. The precipitous removal of the excess-profits tax and wage and price controls, and the increased demand for housing, consumer goods, and capital goods, and the shortage of world food supplies quickly led to inflation. As far as

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<sup>48</sup>John W. Snyder, "The Treasury and Economic Policy," in Economics and the Truman Administration, ed. Walter Heller (Lawrence: The Regents Press of Kansas, 1981), 28.

defense spending, Eccles declared it counterproductive and unnecessary.<sup>49</sup>

Many newspaper articles appeared that enlightened the public about the feud among Eccles, Snyder, McCabe, and Truman concerning management of the public debt and monetary policy. Selected examples of New York Times articles include “Eccles Denounces ‘Easy Money` Policy” on December 3, 1949, and “McCabe in Conflict with Eccles Blast” on December 4, 1949; in the Wall Street Journal articles such as “Will Business Boom then Slump in 1950?” and “Money Rulers Differ” on December 5, 1949. On July 20, 1950, in an article entitled “Truman and Eccles” in the Ogden Standard Examiner, Eccles again requested the halting of easy credit. He recommended the curbing of installment buying, the institution of excess-profit taxes, and the non-bank investment of bonds.

The onset of the Korean War exacerbated the controversy between Eccles and the administration. Although Eccles believed fiscal policy the primary tool to check wartime inflation, he pleaded for additional controls by the Federal Reserve to halt credit expansion and inflation.<sup>50</sup> Eccles’s unrelenting fight for the control of monetary policy punctuated almost every public address. Eccles believed that “there was no justification for Treasury’s insistence that the Federal Reserve System adhere to a policy of

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<sup>49</sup>“Business Downturn: Is It Here?: An Interview with Marriner S. Eccles,” U.S. News and World Report, 7 January 1949, 34-35.

<sup>50</sup>Address of Marriner S. Eccles, Member of the Board of Governors of the Federal Reserve System, at the Banquet of the 17<sup>th</sup>. Biennial Congress of the Cooperative League of the U.S.A., Sherman Hotel, Chicago, Illinois, 12 October 1950, Eccles Papers.

purchasing government securities at the will of the holders and at fixed prices.”<sup>51</sup> The Federal Reserve supported Treasury securities at 2½ percent, a policy that the Board deemed inflationary. The Reserve wanted released of that responsibility or at the very least to have the interest rate increased.<sup>52</sup>

Inevitably the fight to control inflation during the Korean War pitted the Federal Reserve and Treasury against each other. While speaking before the New York Board of Trade concerning financial mobilization for the Korean War, Snyder announced that to avoid higher levels of taxation, the 2 ½ percent long-term rate on Treasury securities would remain in effect. In direct opposition to the cornerstone of Federal Reserve policy, Snyder argued that:

You will note that I have not included the use of fractional increases in interest rates on Government securities as one of the measures of effectively controlling inflation. The Treasury is convinced that there is no tangible evidence that a policy of credit rationing by means of small increases in the interest rates on Government borrowed fund has a real or genuine effect in cutting down the volume of private borrowing and in retarding inflationary pressures. The delusion that fractional changes in interest rates can be effective in fighting inflation must be dispelled from

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<sup>51</sup>Eccles, Beckoning Frontiers, 481.

<sup>52</sup>Note: When Treasury floats a long-term bond at 2½ percent, commercial banks may buy them. If the reserve requirement is 20 percent, the commercial bank can loan 80 percent of the bond at a higher interest rate than it paid to Treasury, but it must deposit 20 percent of the loan to the Federal Reserve. If the Federal Reserve were not required to support the long-term bonds, then the banks could not use them as collateral to generate loanable funds, increase the money supply, and cause inflation. If the interest rate on the bonds were increased, commercial banks would be more reluctant to purchase them, and nonbank investors, more so. Nonbanks investors would hold the securities longer and the inflation rate would decrease. The Treasury naturally wants to increase its loans, even at a low interest rate to pay off the public debt, while the Federal Reserve wants to control the supply of money during inflation with higher interest rates than the Treasury. See David C. Colander, Economics, 3d ed. (Boston: Irwin McGraw-Hill, 1998), 215-220.

our minds.<sup>53</sup>

Not only did Snyder denigrate the role of monetary policy, but he implied that his was a policy approved by the Federal Reserve, the president, and the Treasury. Snyder concluded his speech with a statement that:

. . . the 2 ½ percent long-term rate is fair and equitable to the investor, and that market stability is essential, the Treasury Department has concluded, after a joint conference with President Truman and Chairman McCabe and the Federal Reserve Board, that the refunding and new money issues will be financed within the pattern of that rate.<sup>54</sup>

The Federal Reserve Board and the investment market reacted with shock.

Snyder's declaration implied that the secretary of treasury dictated fiscal and monetary policy. Newspapers criticized Snyder's effrontery. Edward Collins of the New York Times protested: "The fact that Mr. Snyder was, as usual, thoroughly unsound and inflationary, was overshadowed by the historic dimension of this impertinence."<sup>55</sup> On January 24, The Washington Post reported that "Snyder Implies Truman's Help in Fight with McCabe on Policy." The reporter, J.A. Livingston, observed that Snyder's decision was "not a decision you'd make, perhaps, if you were an economist."<sup>56</sup>

Although Chairman McCabe issued no public statements, Allen Sproul, president of the New York Federal Reserve and vice-chairman of the Federal Open Market Committee, spoke critically of Snyder's declaration of support of the 2½ long-term

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<sup>53</sup>Congressional Record, 82<sup>nd</sup>. Cong, 1<sup>st</sup> sess., 1951, 97, pt. 11:36.

<sup>54</sup>Ibid.

<sup>55</sup>New York Times, 22 January 1951.

<sup>56</sup>Washington Post, 24 January 1951.

interest rate during a speech before the New York State Banking Association. Sproul's positions placed him high in the chain of command of the Federal Reserve, second only to McCabe, and his opinion was highly valued.<sup>57</sup>

With the termination of his governorship nearing and knowing that McCabe could not speak without jeopardizing his chairmanship, Eccles spoke out honestly and clearly. Senator Robert Taft, the ranking member of the Joint Committee on the Economic Report, invited Eccles to speak on January 25, 1951. Eccles explained why the Reserve System found Snyder's statement disturbing both in substance and by implication.<sup>58</sup>

In an unprecedented move, a president ordered the Board of Governors and the Federal Open Market Committee to the White House on January 31 to discuss the attacks upon Snyder's statement. President Woodrow Wilson, the "father of the Federal Reserve," did not maintain a close relationship with the Reserve. Wilson remarked that "The very moment that I should arrange close relationships with the Board, that moment I would be accused of trying to bring political pressure to bear." Truman, however, felt no such compunction.<sup>59</sup>

Reluctant to attend, Eccles asked that the Board listen to the president without interruption and that only Chairman McCabe be permitted to speak.<sup>60</sup> Herbert Stein described the White House meeting as "one of the most momentous days in the history of

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<sup>57</sup>Eccles, Beckoning Frontiers, 484-485.

<sup>58</sup>Hyman, Marriner S. Eccles, 343.

<sup>59</sup>Eccles, Beckoning Frontiers, 486.

<sup>60</sup>Ibid.

the Federal Reserve.”<sup>61</sup> Opening his statement with a report on foreign affairs, President Truman tried to arouse his audience with the threat of communism. Truman claimed that one way to combat communism was “to maintain confidence in the Government’s credit and in Government securities.” Truman, leaning on past experience, albeit inappropriate, recalled that when he returned from World War I, he received only \$80 for a \$100 liberty bond. Though government securities fluctuated according to supply and demand, Truman failed to appreciate the discrimination.<sup>62</sup> Even John Snyder found Truman’s analysis flawed. Snyder recalled :

The President, unfortunately . . . I don’t think he clearly understood the difference between savings bonds and government bonds. Now [World War II] savings bonds have to be paid at par. I’d tell him, ‘Your talking about government bonds, not savings bonds, then he’d say he wasn’t going to let savings bonds drop to 85 like Liberty Bonds.’<sup>63</sup>

Truman discussed the current budget, geared toward defense spending, and gave a copy of the budget to each member. He complimented the Federal Reserve on its “good job in maintaining the financial structure of the country.” No one referred to the recent disagreement between the Federal Reserve and John Snyder. Repeatedly, the president referred to the necessity of maintaining public confidence in the bond market as a means of combating communism, and finally Chairman McCabe reminded the president that “support of the Government bond market was something of an extracurricular activity for

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<sup>61</sup>Herbert F. Stein, The Fiscal Revolution in America, (Chicago: The University of Chicago Press, 1969), 271.

<sup>62</sup>Ibid., 272.

<sup>63</sup>John W. Snyder, “Interviews with Associates of Truman,” interview by H. Millman, Truman Papers, 8 October 1954.

the Federal Open Market Committee (FOMC).” McCabe suggested that the FOMC consult with Treasury for agreement on bond support and if that proved unproductive, then the chairman would like to speak with the president. The president agreed.<sup>64</sup>

When Chairman McCabe asked who would be making the public statement concerning the meeting, Truman replied that he would do so in the morning but he did not object to the Federal Reserve issuing one as well.<sup>65</sup>

Economist Herbert Stein described the meeting as follows:

The meeting was a masterpiece of deliberate misunderstanding. Neither party said what it really meant, yet each understood what they meant but preferred to respond as if he didn't and so left the other free to interpret the response as he wished. The President couched his request for support in language sufficiently general to permit Mr. McCabe to reply as if he thought the President only wanted assurance that the Federal Reserve would not permit financial disaster. McCabe gave his assurance, but in language so indefinite as to permit the President to interpret his response as commitment to support the Treasury's policy.<sup>66</sup>

The Federal Reserve realized the ambiguity of the meeting. Immediately following the session, its members discussed the interchange and determined that no commitments resulted. The group agreed to write a memorandum on the proceedings. A motion to support the bond market at current levels was defeated by a vote of eight to four. Furthermore, they concurred that if the bond market dropped, they would not support it.<sup>67</sup> The president fired a preemptive strike the following day. An

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<sup>64</sup>Eccles, Beckoning Frontiers, 487-489.

<sup>65</sup>Ibid., 490.

<sup>66</sup>Stein, The Fiscal Revolution, 272.

<sup>67</sup>FOMC Minutes, 1951, 39-41, as quoted in Stein, The Fiscal Revolution, 273.

announcement to the press indicated that the Federal Reserve Board had pledged its support to maintain the stability of government securities.<sup>68</sup> Truman sent a letter to McCabe verifying the agreement as well.<sup>69</sup> When McCabe received the letter, he promptly wrote to Truman and asked him to rescind the statement, but it was too late.

Truman's letter as well as a statement by Snyder indicating the Federal Reserve's acquiescence appeared in the press on February 1.<sup>70</sup> Alfred Friendly of the Washington Post and Felix Belair, Jr., of the New York Times asked Eccles why the Federal Reserve capitulated to Treasury. Eccles replied that their interpretation was incorrect. He relayed to them the details of the meeting. The following day, both reporters printed columns that reflected Eccles's view of the meeting. Eccles prepared a memorandum of the meeting indicating that Truman spoke only in general terms about the government securities market and the need for public confidence in the bond market. On February 4, on the front page of the Sunday edition of the New York Times, Belair's headline was "Truman is Disputed by Reserve Board." When questioned about Truman's letter to McCabe, Eccles replied:

I am astonished. The only answer I can make is to give you a copy of the record of what took place at the White House meeting, as agreed upon by other members of Federal Open Market Committee and from which I have deleted only certain references which deal with the international and

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<sup>68</sup>FOMC Minutes, 1951, 273, Ibid.

<sup>69</sup>Ibid., 273-274.

<sup>70</sup>Washington Post, 1 February 1951; New York Times, 1 February 1951.



military situation.<sup>71</sup>

After acknowledging that the responsibility for the release of the information was his own and did not reflect the Board, Eccles provided the text of the Reserve Board's memorandum.<sup>72</sup> The same day Drew Pearson's radio broadcast revealed Truman's animosity toward Eccles, Pearson remarked that Senator Fulbright suggested Eccles to head the politics-ridden Reconstruction Finance Corporation, and Truman's response was "that both Fullbright and Eccles could go jump in the lake."<sup>73</sup>

As Eccles's stated, "the fat was in the fire" the following day.<sup>74</sup> The Washington Times Herald reported that "It is likely that the President decided upon a devious, political move, calling in the Federal Board governors, hearing what they had to say and announcing publicly that they had pledged support and unity in time of emergency." On February 12, Walter Lippman of the New York Herald Tribune noted that the argument between Treasury and the Federal Reserve "can only be confused and bedeviled if President Truman lets it become distorted into a political quarrel." The New York Times delivered the most controversial account. Robert Allen's column, "Truman Set to Fire Eccles," declared that when the president attended a dinner with Congressional Democratic leaders he remarked that he intended to get rid of Eccles. Also noted was the

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<sup>71</sup>Washington Times Herald, 2 February 1951; New York Herald Tribune, 12 February 1951; New York Times, 4 February 1951.

<sup>72</sup>Eccles, Beckoning Frontiers, 496-497.

<sup>73</sup>Drew Pearson Broadcast, 4 February 1951, Eccles Papers.

<sup>74</sup>Eccles, Beckoning Frontiers, 496.

fact that Eccles's term did not expire until 1958 but that the president had the power to remove to remove Eccles at any time.<sup>75</sup>

Realizing that government bonds competed with banks and savings and loans associations, the Boston Traveler reported that:

President Truman will go down in history for this decision, if not in financial ignominy. He is the first President to meddle with the affairs of the Federal Reserve and how to carry out its legal obligation to control money and credit in the national interest. And, in our earnest conviction, he chose a disastrous winner.<sup>76</sup>

Support for the Federal Reserve's position also came from the Department of Economics at the University of Chicago. Seven economists, including Milton Friedman, believed that:

The insistence of the Treasury on carrying over into the postwar period and into the defense period the same artificially low and frozen interest rate pattern that was unavoidable during World War II conditions, is, of course very unfortunate.<sup>77</sup>

The advice of the committee was that the "Board should be given authority to raise substantially the primary reserves of all banks [and that] short-term interest rates should be made flexible."<sup>78</sup>

Most of the news articles favored the position of the Federal Reserve although occasionally articles supporting Snyder and Truman appeared. When interviewed by the

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<sup>75</sup>Washington Times Herald, 5 February 1951; New York Times Herald, 12 February 1951; New York Times, 13 February, 1951.

<sup>76</sup>Boston Traveler, 3 February, 1951.

<sup>77</sup>Friedman to Truman, 1 February 1951, Eccles Papers.

<sup>78</sup>Ibid.

San Francisco Bulletin on February 9, 1951, L.M. Giannini warned “that a time of national emergency is no time to rock the boat. It is unfortunate, in such a period, to have a largely academic controversy with respect to the financing of the national debt.”<sup>79</sup>

Chairman McCabe, appalled by the events during the first week of February, called a meeting of the FOMC to discuss the recent press releases. The meeting focused upon how to deal with the president and Snyder. The disclosure of the Federal Reserve memorandum by Eccles of the White House meeting received wide attention by the committee. With the exception of James Vardaman, Jr., a Truman appointee, none of the members castigated Eccles for the release of the Federal Reserve memorandum. Allen Sproul commended Eccles for his actions because they engendered respect from the financial community and the public. The majority of the committee realized that the relationship between the FOMC and the secretary of the treasury and President Truman had to be formalized by letter to offset the barrage of the press and to relieve the president of an embarrassing situation. The committee drafted two letters, one to each of the aforementioned.<sup>80</sup>

Eccles made a statement to the committee stressing the importance of aggressive action by the Board and FOMC. He assumed blame for the current situation but made no apologies, for he believed he discharged his public responsibilities by releasing a confidential document. He reminded the committee that it had “a public responsibility that is as important for it to discharge in trying to prevent inflation as it is that we carry

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<sup>79</sup>San Francisco Bulletin, 9 February 1951.

<sup>80</sup>Preliminary Draft of the FOMC Minutes, 6- 8 February, 1951, Eccles Papers.

out a defense program.” Eccles pointed out that the Reserve’s support of Treasury securities was not due to duty but to an effort to “to carry out the demands or requests of the Treasury.” He continued. “. . . we are giving the public the impression that we have capitulated to the extent that we do not do something about this problem. The public today is confused. They think this is nothing but a feud for power between the Treasury and the Federal Reserve.” After describing the responsibilities of the Federal Reserve, Eccles noted that “If the president wants to give us a directive, that is not evidence of our capitulation. If Congress does not like what we are doing, then they can change the rules. But until they do that, we have the responsibility and the authority.”<sup>81</sup>

The FOMC’s draft of the letter to the president attempted a reconciliation by trying to defuse the situation. The letter opened, “You as President of the United States and we as members of the Federal Open market Committee have unintentionally been drawn into a false position before the American public. . . . We would betray our duty to the country as well as to you if we failed to do all in our power to clear up the misunderstandings.” After a general discussion of inflation, the letter continued:

Today’s inflation is not due to deficit financing by the Government. It is due to mounting civilian expenditures largely financed directly or indirectly by the sale of Government securities to the Federal Reserve. . . . In inflationary times like these our buying of Government securities does not provide confidence. It undermines confidence. . . . Mr. President you did not ask us in our recent meeting to commit ourselves to continue on this dangerous road. . . . In accordance with our assurances to you, we shall seek to work out with the Secretary of the Treasury as promptly as possible a program which is practicable, feasible, and adequate in the light of the defense emergency which will safeguard and maintain public confidence in the values of outstanding Government bonds, and which at

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<sup>81</sup>Ibid., 17.

the same time will protect the purchasing power of the dollar.<sup>82</sup>

Eccles continued to publicize the true cause of the problem between Treasury and the Federal Reserve to dispel the rumor that the feud was due to a clash of personalities alone. Speaking before the Federal Advisory Committee, Eccles openly castigated the committee and the American Bankers Association for not supporting the Federal Reserve's position. He blamed the stance of the American Bankers Association for the giving the secretary of the treasury an attitude of independence of the Reserve System that empowered in him to issue a public statement indicating support of the peg of the securities market without the approval of the Board or the FOMC.<sup>83</sup>

Directly addressing the ineptitude of the Council, Eccles pointed to their lack of support when the Reserve Board sought legislation to curb the surplus of cash and claimed that "we got constant opposition from the Council. . . ."<sup>84</sup> He closed his speech with: "I have never seen a time when the bankruptcy of this Federal Advisory Council or of the American Bankers Association was greater than today."<sup>85</sup>

The same day as his visit to the Federal Advisory Council, Eccles spoke to the Board.

Maybe I should apologize to the group. (Turning to Chairman McCabe)- when you were out, Tom, I made a statement. I have been so wrought up over this thing for a considerable time, I guess maybe I said

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<sup>82</sup>Ibid., 24-26.

<sup>83</sup>Statement by Mr. Eccles at Federal Advisory Council Meeting, 20 February 1951, 1, Eccles Papers.

<sup>84</sup>Ibid., 3.

<sup>85</sup>Ibid., 9.

some things I should not or said them in stronger terms than I should have. You have to have a ‘Devil’s Advocate.’ I certainly seem to choose the difficult role of being that. I possibly should not have done it today. I hope you won’t, any of you take it as a personal matter. It is a strictly objective question.<sup>86</sup>

Eccles and Sproul worked assiduously on a plan for reconciliation with Treasury, which, at the same time asserted the ability of the Federal Reserve to discharge its responsibility of supporting Treasury’s bonds. They devised a program whereby the Federal Reserve would support the pegged market only up to a maximum of \$500 million of bonds at 2 ½ percent.<sup>87</sup> The Reserve’s position received support from Senator Paul Douglas of Illinois. This proposal, presented on February 7, received recognition by Truman on February 25, when he invited several administration officials and Chairman McCabe to investigate the relations between Treasury and the Federal Reserve. Although the president mentioned the advisability of maintaining current interest rates, economist Herbert Stein perceived this as “all marginal to the outcome because the basic proposition had already been decided.”<sup>88</sup>

Thomas McCabe resigned from the Board on the same day. His letter to Truman indicated that although he anticipated his role at the Federal Reserve to last one year, he stayed three years because of the tasks at hand. McCabe described his dilemma:

I have felt that the Chairman of the Board of Governors had a special and dual role. As a Board member he must with complete integrity, carry out at all times his responsibilities under the Federal Reserve Act. As Chairman

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<sup>86</sup>Minutes of the Federal Reserve Board, 20 February 1951, Eccles Papers.

<sup>87</sup>Hyman, Marriner S. Eccles, 351.

<sup>88</sup>Stein, The Fiscal Revolution, 276.

he must strive conscientiously to harmonize internally and externally the policies of the Board with those of the President and the administration. Throughout the years since you honored me with the appointment, I have exerted the last ounce of my strength to meet both these objectives. At no time has it been easy.<sup>89</sup>

John Snyder recalled that Truman believed the appointment of McCabe was a mistake. Truman, while discussing the demotion of Eccles and referring to McCabe's appointment, admitted that "I got one just as bad anyway." Snyder observed that "once the mantle fell on him [McCabe], he just swelled up and busted his buttons off . . . Oh no, he didn't have an idea about how to handle the job." When Truman informed McCabe that he wanted him to resign the chairmanship, McCabe promptly did so.<sup>90</sup>

Snyder's choice for a new chairman was William McChesney Martin, assistant secretary to the treasury and a fellow Missourian. Martin, prior to his formal designation as chairman, reputedly negotiated the 1951 accord between Treasury and the Federal Reserve while Snyder was absent for two weeks due to an eye operation<sup>91</sup>.

Liberal Democrat Senator Paul Douglas of Illinois, formerly a professor of economics at the University of Chicago, publicly supported Martin for the position on the Federal Reserve. On February 22, 1951, Douglas discussed the question of pegged bond prices in the Senate chamber. He pointedly reminded the chamber that the issue was not particular to interest rates but "whether the Federal Reserve System would

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<sup>89</sup>McCabe to Truman, 26 February 1951, Truman Papers.

<sup>90</sup>Interviews with Associates of Truman, Comments by the Honorable John W. Snyder, 8 October, 1954, Truman Papers.

<sup>91</sup>United States Government Securities, (17 March 1951): 2.

restrict the supply of credit at its source.”<sup>92</sup>

When Treasury and the Federal Reserve revealed the accord, Douglas and other senators introduced a resolution to allow the Federal Reserve to disavow the bond market. Finding the Treasury-presidential statement ambiguous, Douglas wanted clarification. The joint Treasury--Federal Reserve announcement on March 3, 1951, merely stated that:

The Treasury and the Federal Reserve System have reached full accord with respect to debt-management and monetary policies to be pursued in furthering their common purpose to assure the successful financing of the Government’s requirements and, at the same time, to minimize monetization of the public debt.<sup>93</sup>

The full meaning of the accord became evident three days after the announcement. The Reserve bought \$500 million worth of securities and thus quickly fulfilled its responsibility. When Treasury requested continued support of the bond market, the Board politely refused. Now released from the obligation of pegged prices, the Federal Reserve could execute the control of monetary policy.<sup>94</sup>

Unleashed by his record of not supporting Truman’s fiscal and monetary policies and knowing that he would resign soon, Eccles delivered a commencement address on June 4 at Utah State Agricultural College that caused the final break with Truman. Eccles used his public speech as a vehicle for espousing his views on Korea, Indochina, Iran, and

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<sup>92</sup>Ibid., (3 March 1951):1.

<sup>93</sup>New York Times, 4 March 1951.

<sup>94</sup>Hyman, Marriner S. Eccles, 351.



China. He claimed that the United States “backed reactionary governments that lacked the confidence and support of the people.” Denouncing the American policy of buying off countries that courted communism, Eccles suggested resources should be allocated to combat the underlying problems of overpopulation and economic revolution. The \$60 million dollars slated for Korean defense spending would be better spent helping underdeveloped Korea to shore up its economy. In one short speech, Eccles undermined the Truman Doctrine and his Cold War policies.<sup>95</sup>

With Eccles’s final victory for the Board completed, he proffered his resignation on June 20, 1951, to become effective on July 15, 1951. Eccles reminded the president that although he initially anticipated a short stay at the Capitol, he had served seventeen years because of the war and its aftermath, but he believed it was now time to return to his personal affairs and private business.<sup>96</sup> Truman’s perfunctory response was a “pro-forma expression of good luck and good-bye, without a syllable of thanks for services rendered the nation.”<sup>97</sup> According to Sidney Hyman, Eccles’s biographer, many newspapers praised Eccles’s service and Washington officials honored him with a farewell party in the Capitol’s largest ballroom.<sup>98</sup>

Leslie Gould of the New York America Journal reveled in Eccles’s departure and wrote that it would cause “more cheers than tears.” Gould claimed that the banking

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<sup>95</sup>Ibid., 356.

<sup>96</sup>Eccles to Truman, 20 June 1951, Eccles papers.

<sup>97</sup>Hyman, Marriner Eccles, 357.

<sup>98</sup>Ibid., 358.

community awaited his departure for years.<sup>99</sup> The following day, the financial editor's headline read "Eccles Quits After Playing Both Sides of Street." Admonishing Eccles for his switch from New Dealer to conservative, Gould described Eccles as "just another out-of-season New Dealer who is talking like a conservative." Contending that Snyder and the Gianninis historically opposed Eccles, Gould noted that Eccles might find satisfaction because the Federal Reserve divorced itself from supporting the Treasury bonds and the Federal Reserve recently found that Transamerica's acquisitions "tended to create a monopoly."<sup>100</sup>

The Board's suit against Transamerica continued until June 1951. During the continuance of the case, the Federal Reserve Board managed to thwart the sale of twenty-two banks owned by Transamerica to the Bank of America based upon the Board's contention that new acquisitions "would defeat the jurisdiction of the board and of the court in its anti-monopoly proceedings against Transamerica under the Clayton Act." The attempted acquisitions would have resulted in a total of 554 branch offices.<sup>101</sup>

When the hearing officer, Rudolph Evans, issued his judgment against Transamerica, he ordered the holding company "to divest itself of all stock" other than that of the Bank of America. The Board accepted Evans's recommendations in late March, 1952. Neither A.P. nor Mario Giannini learned of the outcome of the trial. Mario Giannini succumbed to the effects of hemophilia and the physical stress of traveling to

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<sup>99</sup>New York American Journal, 19 June, 1951.

<sup>100</sup>Ibid.

<sup>101</sup>San Francisco Examiner, 24 June 1950.

Washington to appear before the hearings. Hospitalized on March 19, 1952, for a minor operation, his condition worsened, and he died of heart failure on August 19. He never learned of the Board's decision.<sup>102</sup>

Neither A.P. nor Mario Giannini amassed a large personal fortune. The father's final personal assets totaled \$489,278 and his son's, \$461,331.<sup>103</sup> When Mario Giannini died, so did the interlocking directorate of Transamerica and the Bank of America N.T. & S.A. Transamerica sold its shares in the Bank of America two months after Mario Giannini's death. When, in July 1953, the U.S. Court of Appeals ruled that the Federal Reserve did not prove Transamerica in violation of the Clayton Act, Marriner Eccles commented to Sidney Hyman, his biographer, "There was no way on earth to prevent the Bank of America from expanding."<sup>104</sup>

Eccles locked horns with the Gianninis as well as with President Truman and Secretary of the Treasury John Snyder. The suit of the Federal Reserve against Transamerica Corporation was a double-edged sword for Marriner Eccles. Eccles's cross-examination by Sam Stewart led to an admission of his private holdings, which Truman chose to find cause for Eccles's dismissal. Although Truman never actually fired Eccles, his memorandum laid the groundwork for such. Obviously, Truman wanted documentation for a decision he previously made. Eccles, unaware of the memorandum, engaged in a confrontation with President Truman on several levels. Eccles disagreed

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<sup>102</sup>James and James, Biography of a Bank, 514.

<sup>103</sup>Ibid., 502 and 515.

<sup>104</sup>Ibid., 515 ; Hyman, Marriner Eccles, 339.

with Truman's Cold War policies, his support of the pegged Treasury bonds, and his reliance upon the incompetent John Snyder.

Eccles left the Federal Reserve with the knowledge that the Federal Reserve had full control of monetary policy. Clearly a victory for the Reserve, the agency no longer had to support the pegged prices of Treasury bonds. The former chairman thought he left Washington with the Transamerica case finally settled. Though the initial decision declared Transamerica in violation of the Clayton Act, an appeal two years later overturned it. A.P. Giannini was not aware that Transamerica was convicted under the Clayton nor vindicated by the U.S. Court of Appeals in 1953.

## CHAPTER X

### CONCLUSIONS AND LEGACIES

The American banking system was in disarray by the time of Roosevelt's inauguration. The Federal Reserve, unable to prevent the epidemic of bank runs, and considered partially responsible for its inappropriate monetary policy during the 1920s, appeared inept and powerless. Even such institutions as the Bank of America in California and some of the larger New York banks experienced financial difficulties. Not all banks were members of the Federal Reserve, and oversight varied from state to state. Ultimately it was the RFC and the Federal Reserve that shored up failing banks. The Emergency Banking Act of 1933 and the Glass-Steagall Banking Act of 1933 provided an immediate answer. The first allowed the government to investigate banks and loan funds to those most solvent, and the second, to create the FDIC. Yet both were insufficient to solve the problem of an ineffective national monetary policy.

Between 1920 and 1931, the Bank of America was by far the largest of the top five branch banking systems in California. It controlled one-half the total resources and more than one-half the total branches of the group. If the parent branch failed, it would have a domino effect upon its 415 branches. This proved a safety valve when William Woodin of Treasury determined which banks would open under the Emergency Banking Act of 1933. Worried that most of the California banking system would fail if the Bank of America did not open immediately, Woodin agreed to permit the reopening. A.P.

Giannini, grateful to the Roosevelt administration, supported it until the SEC launched an investigation of the Transamerica holding company in 1938.

The frontier mentality of Giannini and Eccles influenced their arguments for permanent changes in the banking system. Frederick Jackson Turner's frontier hypothesis espousing the American characteristics as individualism, democracy, and nationalism<sup>1</sup> led to a banking system that more nearly reflected the American economy. Both bankers, raised in an environment that required hard work and innovation, achieved self-improvement by the sweat of their brow as children. Although both inherited money as young adults, the work ethic imprinted as children remained. More significant to the actions of Eccles and Giannini was Turner's assumption that society on the frontier produced an antisocial individualism who defied direct control from external sources.<sup>2</sup> Historian Ray Allen Billington extended Turner's thesis by including frontier characteristics of innovation, adaptation, and invention.<sup>3</sup> Clearly, Eccles and Giannini exhibited these frontier attributes.

Gianinni's drive and ambition surfaced as an adolescent and later when he created the Bank of Italy. Already wealthy at the age of thirty-one, he sought new areas of achievement. His daring retrieval of the bank's vault during the earthquake of 1907 and

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<sup>1</sup>Frederick Jackson Turner, The Frontier in American History, (New York: Holt, Rinehart and Winston, Inc., 1920), as quoted in Louis Locke, William M. Gibson, and George Arms, eds., Readings for Liberal Education, 4<sup>th</sup>. ed., (New York: Holt, Rinehart and Winston, Inc., 1963), 683.

<sup>2</sup>Ibid.

<sup>3</sup>Ray Allen Billington and Martin Ridge, Westward Expansion, 5<sup>th</sup>. ed. (New York, Macmillan Publishing Co., Inc., 1982), 2.

his banking genius when setting up a makeshift bank shortly thereafter attest to his ingenuity and risk-taking behavior.

After learning of the upcoming Panic of 1907, Giannini prepared his bank accordingly. He reduced overhead costs, and raised the interest rate on real estate, but more significantly initiated branch banking and realized the value of being able to move currency among banks. The banker developed a successful model for expansion. He retained the existing bank officers and hired local workers who could speak Italian. Banking hours were extended to accommodate the farmer, and the bank was open in the evenings and Saturdays. Interest rates were lowered from 5 to 2 percent. Bank personnel were expected to travel door-to-door, as well as attend all Italian-American social events.

Giannini was probably the first banker to engage in mass advertising for the financing of automobiles, consumer products, and motion pictures. He continued to purchase as many branch banks as possible and managed to maintain control of the voting stock by selling a limited number of shares at low prices to each stockholder. By doing this, the board of directors maintained control of decisions.

The banker's bold and pragmatic approach to banking as well as his political maneuvering engendered the enmity of the banking community. Bankers perceived Giannini's practices as "unprofessional." Bookkeeping malpractice, past due unsecured loans, and dividend payments based upon inflated earnings marked Giannini's professional portfolio. Giannini circumvented state laws by joining the Federal Reserve, thus allowing him to acquire banks with national charters. This move sanctioned Giannini to launch an acquisition frenzy of those banks with national charters, and by

1922 the Bank of Italy owned sixty-one branches. Resorting to political maneuvering to ensure validation of his mergers, he hired former federal and state employees as well as endorsing state candidates.

His attempts to acquire banks in New York caused him to cater to the wishes of J.P. Morgan. To avoid such control, Giannini created the Transamerica Corporation in 1929 to absorb all of the Giannini holdings. By visiting his California banks and appealing to the 200,000 California stockholders by using the East versus West Coast banking issue, Giannini won the proxy fight.

Giannini nurtured political connections with the Roosevelt administration. He maintained close communication with the president's secretary, Marvin McIntyre, Eccles's assistant Larry Clayton, Senators William McAdoo and Hiram Johnson, Comptroller of the Currency J.F.T. O'Connor, Carter Glass, Joseph Kennedy, chairman of the Securities and Exchange Commission. Giannini reciprocated the favors when he supported a third party candidate in 1934 California election to draw votes from Upton Sinclair, the Democratic candidate.

Just as Giannini was the son of recent immigrants, so was Marriner S. Eccles. The Eccleses, a poverty-stricken family from Scotland, joined the Mormon church that allowed them to emigrate to Utah. Later when young Marriner's father, David Eccles amassed considerable savings, Marriner remembered that his father took particular pride because he would never have to borrow money from the East. David Eccles's drive resulted in the establishment of an estate worth \$7 million in 1890, the year of Marriner's



birth. Imbued with the values of work and piety, Say's Law, and a distaste for the eastern banking community, young Marriner learned during his adolescence that hard work and investment were the road to success.

After the death of David Eccles, his eldest son became the executor of his father's vast estate in a variety of industries, one of them being banking. Likewise, Marriner had to settle the division of the estate between his father's wives. Assuming the presidency of two banks, Eccles acquired seventeen branch banks. Just as Giannini, Eccles formed an umbrella organization to acquire branch banks, later to become the First Security Corporation.

The Great Depression caused Eccles to question his father's values of unbridled competition. He arrived at the conclusion that the federal government, through compensatory spending, was the only institution with enough funds to stimulate the economy. When Eccles joined a group devoted to determining panaceas for the depression, one of the members invited him to speak at the Senate Finance Committee hearings. After speaking at a bankers' meeting in Salt Lake City, Eccles received the attention of Stuart Chase, also an advocate of compensatory spending. Chase invited Eccles to meet Rexford Tugwell before the banker attended the committee hearings.

Eccles's presentation at the Senate Finance Committee focused upon a five-point program for compensatory spending and a plan for the centralization of the Federal Reserve system. Considering his reception at the hearings, Eccles did not expect to hear from the administration. Nevertheless, when the Economy Act of 1933 passed, he wrote to several friends at the Capitol that the legislation was exactly the opposite of that

required and that the New York banking establishment was, as usual, dominating monetary and fiscal policies.

Later, the Brain Trust invited Eccles to the Capitol to offer ideas as to how to effect the change from budget balancing to compensatory spending. Much to Eccles's surprise, Morgenthau's office contacted him to join the Department of the Treasury. Here, Eccles played an effective role in the creation and execution of the Federal Housing Administration, an agency that the Bank of America took full advantage of.

Thus began the federal career of Eccles and his immediate connections with A.P. Giannini. Both bankers exhibited characteristics common to a frontier mentality--pragmatism, persistence, the capacity for hard work, abrasiveness, a devotion to their cause, and a forthrightness frequently unwelcome by their contemporaries. The differences in their personalities proved critical to the longevity of their professional careers.

Giannini's connections at the Capitol served him well for he achieved special privileges under the McFadden Act of 1927, the Banking Act of 1933, and the Banking Act of 1935. Always quick to form close relationships with those who surrounded the powerful, Giannini used those friendships to gain information. When the Bank was permitted to reopen under the Emergency Banking Act of 1933, it caused widespread resentment within the banking industry and confirmed his political clout. His penchant for hiring ex-federal employees, his political power, his unorthodox banking practices, and his personality earned him the enmity of the banking community, particularly on the

East Coast.

Obversely, Eccles came to Washington, D.C., with no political experience and apparently with little talent or desire for developing political acumen. By his own admission, he often inadvertently alienated such powerful people as Carter Glass, President Roosevelt, Henry Morgenthau, Jr., Lewis Douglas, A.P. Giannini, John Snyder, President Truman, and the banking community. His penchant for sidestepping the administration by delivering addresses and speaking to the press on issues contrary to leadership decisions and cultivating Republican allies clearly indicated his insensitivity to political necessities. Nowhere was this more evident than in his dealings with President Truman. It was not unlikely that Eccles's demotion resulted from his own actions and attitude. Eccles's personality did not lend itself to assuaging his adversaries. His brusque manner, considered rude by some, and his pragmatic and taciturn responses marred his ability to press his cause. Eccles, devoted to his public duty, always had definite ideas and programs, and he aggressively promoted them.

When Marriner Eccles agreed to become chairman of the Federal Reserve on November 1934, it was contingent upon his plan for granting the FED greater control of monetary policy. A.P. Giannini was the only banker of import who supported Eccles's program. As previous acquaintances and both from the West, they were driven by the common goal of diminishing the power of Wall Street. According to Rexford G. Tugwell, a member of the early Brain Trust, President Roosevelt:

. . . counted himself lucky to find Eccles. He had the two qualities most needed. He was a successful banker (and financier), and he did not come from New York. No one could say of him that he was an inexperienced

theorist, and no one could connect him with Wall Street.<sup>4</sup>

Probably President Roosevelt did not wish to be associated with those banking and investment houses considered responsible for the depression and then under investigation by the Pecora Committee. Giannini's feelings about the East Coast banking establishment were well known. He was convinced that he was the target of a "diabolical conspiracy" orchestrated by Wall Street and later by the federal government as well. Thus, Roosevelt, Eccles, and Giannini found common cause in the unseating of Wall Street as the dictatorial center of finance and banking.

Clearly the capstone of Giannini's and Eccles's cooperation was the passage of the Banking Act of 1935. They combined their efforts for independence from Wall Street, although for different reasons. Giannini sought financial freedom from the East Coast, and Eccles, the control of monetary policy in Washington, D.C. Giannini profited from the bill allowing national banks to form branch banks. The bill also placed the control of open market operations with the Federal Open Market Committee, but in deference to the fear of centralization, five members of the district banks were permitted seats, along with seven members of the Board of Governors and Eccles as the Chairman. This legislation allowed the Board the ability to have greater influence over the initiation of monetary policy. Eccles used his new role to enforce compensatory policies whenever possible. The secretary of the treasury no longer had a voting interest. Oddly, with a member of Treasury removed from the committee, the coordination of fiscal and

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<sup>4</sup>Rexford G. Tugwell, The Democratic Roosevelt (New York: Doubleday & Company, Inc., 1957), 373.

monetary policies improved, although the FED remained strapped by Treasury's pegged bond interest rates.

The Banking Act of 1935 thus allowed Eccles to seize leadership of the Federal Reserve, although the Banking Act permitted the president to dismiss the chairman. The fears generated by this presidential power caused many to question whether the chairmanship would become politicized. With the exception of Truman, no president has asked a chairman to resign. Even Truman's suggestion of resignation to Eccles and McCabe did not stanch the movement toward greater control of monetary policy by the chairman. Ironically, Truman's attempts to diminish the power of the chairman of the Federal Reserve by appointing William McChesney Martin resulted in a "course that would make its chairman more important than the secretary of treasury and at times almost as powerful as the president himself."<sup>5</sup>

Eccles's final coup was the accord between Treasury and the FED in 1951. The Federal Open Market Committee petitioned the president to be released from the purchase of Treasury securities. They claimed that supporting a pegged interest rate undermined inflation control. Treasury and the Federal Reserve achieved an agreement whereby the FED would no longer be responsible for supporting the public debt.

Because of the Banking Act and accord of 1951, the Board of Governors holds the power to invoke countercyclical measures. Monetary policy has taken on greater meaning in the prevention of economic downswings. Whereas the district Federal Reserve banks

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<sup>5</sup>Alonzo L. Hamby, Man of the People (New York: Oxford University Press, 1995), 583.

varied the rediscount before the Banking Act, the Board Of Governors now sets the rediscount rate for the entire system. It is now responsible for a greater role in predicting and preventing price fluctuations, unemployment, and control of the money supply. Currently, a primary goal of the Federal Reserve and the Federal Open Market Committee is “to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates.”<sup>6</sup> The central goal of monetary policy is to prevent the economic fluctuations that marked the 1920s leading to the Great Depression. Armed with control of the Federal Open Market Committee, reserve requirements, the rediscount rate, and moral suasion, the FED directs control of the amount of currency in circulation, a necessary tool to prevent an inappropriate amount of currency in circulation. The most frequently used preventatives are the rediscount rate and the buying and selling of bonds. Later developments, such as the Humphrey-Hawkins Act or the Full Employment and Balanced Growth Act of 1978, required the Federal Reserve to articulate its money and credit growth projections for the year. Six months later it must critique its goals and adjust them if necessary.<sup>7</sup>

Several times Eccles unsuccessfully attempted to pass bank holding bills. Congress responded to the policy of circumventing branching by using the holding company to create interstate banking and non-banking organizations. The Bank Holding Company Act of 1956 placed multibanking holding companies under the supervision of

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<sup>6</sup>Board of Governors of the Federal Reserve System, The Federal Reserve System: Purposes and Functions, (Washington. D.C., : GPO, 1994), 17.

<sup>7</sup>Ibid., 26.

the Federal Reserve. Those states that did not allow bank acquisitions by bank holding companies were forbidden to do so. For those states that did permit bank holding companies to purchase banks, the Federal Reserve required banking to be the primary holding.<sup>8</sup>

Although Giannini enjoyed a friendly relationship with the Roosevelt administration, and he publicly supported the re-election of Roosevelt in 1936, complaints surfaced from Morgenthau and Lewis Douglas of the SEC concerning excessive dividends and overlending by the Bank of America. Giannini began to suspect that a “diabolical conspiracy” against him and his bank existed. Eccles unsuccessfully supported Giannini’s fight against the SEC investigation by traveling to Warm Springs, Georgia, to speak personally with the president. Concomitantly, Eccles and Morgenthau experienced difficulties with Morgenthau. Morgenthau, a budget balancer and devoted to Roosevelt, fought Eccles’s compensatory spending programs. When, in 1939, Treasury, the FDIC, and President Roosevelt criticized the Bank of America for overexpansion and overlending, Eccles attempted unsuccessfully to reconcile their differences. When the issues could not be resolved between the Gianninis and Treasury, the Bank of America threatened to revert to being a state institution. Again, Eccles supported the Giannini’s successful efforts.

Eccles constantly battled with the secretaries of the treasury because he attempted to decrease the public debt during times of economic distress and increase Federal

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<sup>8</sup>Kenneth Spong, Banking Regulation : Its Purposes, Implementation, and Effects, 4<sup>th</sup>. ed., (Division of Bank Supervision and Structure, Federal Reserve Bank of Kansas City, 1994), 23.

Reserve holdings during times of inflation. Having to deal with Henry Morgenthau, Jr., John Snyder, and President Truman during the depression and postwar inflation, he found an unappreciative audience. In vain Eccles fought for a means of decreasing the circulating currency. His “special-reserve” plan earned the enmity of Morgenthau, but the support of Giannini. Giannini also endorsed Eccles’s plan for bank unification. Both bankers wanted a streamlined procedure for bank examinations. Overlapping agencies requiring disparate requirements, numerous bank examinations confused bankers as well as federal agencies. Although neither of the programs received federal endorsement, Eccles’s program for bank unification came to fruition in 1978 with the Financial Institutions Regulatory and Interest Rate Control Act. This act created the Federal Financial Institutions Examination Council whose role was to “establish uniform principles and standards and report forms for the examination of financial institutions.”<sup>9</sup>

After Eccles’s seventeen-year sojourn with the federal government, he retired in 1951 and launched a new public career. Always opinionated, often not without a reliable cause, Eccles became a public spokesman, always with certainty and perseverance. Following an abortive attempt to defeat Arthur Watkins, the Republican Senator of Utah, he devoted his time to his financial interests as well as issues of public concern. He denounced U.S. involvement in Vietnam long before others did, pointed out the problem of world overpopulation, and declared that the U.S. should recognize Red China.<sup>10</sup>

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<sup>9</sup>Financial Institutions Regulatory and Interest Rate Control Act of 1978, Section 1006 (a). 12 U.S.C. § 3305 (a). as quoted in Spong, Banking Regulation, 47.

<sup>10</sup>Marriner S. Eccles Papers, J. Williard Marriot Library Special Collections, University of Utah, Salt Lake City, Utah.



The World Trade Club in San Francisco presented Eccles with an International Achievement Award in 1972. His ideas about public policies that once seemed radical now appeared acceptable. Eccles continued to be active in his business interests until the early and mid-seventies. He stepped down from many of his business chairmanships and dissolved the Eccles Investment Company. Utah International remained a viable company and merged with General Electric, the largest consolidation of its time. He continued to serve the public interest by creating the Mariner S. Eccles Library of Political Economy and Marriner S. Eccles Foundation, an organization that funds various private educational, scientific, and charitable organizations of the state. In recognition of his public service, in 1982, five years after his death, the Federal Reserve Building in Washington, D.C. was named in his honor.<sup>11</sup>

Giannini's creation of a "people's bank" and his need to help the common laborer resulted in his lending more than his deposits. Starting as early as the second month of his business, Giannini continued this practice consistently until it elicited severe criticism from bankers as well as the federal government. Whenever he realized a profit, he increased dividends and the salaries of his employees. Giannini's drive was not to attain a fortune, but to live comfortably and be able to travel to Europe.

Although the Gianninis did not invent branch banking, they are credited with its expansion and the recognition of its values. The mobility of fund transfers and the greater elasticity of circulating currency permitted the spread of banking to small communities and those areas with seasonal needs and provided a cushion against

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<sup>11</sup>Ibid.

economic fluctuations. Giannini's legacy punctuates the banking landscape today. His prediction to the Federal Reserve that branch banking was the future and that any attempt to stop would result in "bucking up a stone wall" came to fruition. Economist Thomas F. Siems reported that the value of 1995 bank mergers reached a record high of \$73 billion. The researcher did not find that the concentration in banking led to abnormally high returns, but that there were significant cost reductions and efficiency improvements.<sup>12</sup> John Gunther's studies indicate that increased consolidation resulted in an improvement in banking services at the local level.<sup>13</sup> Currently forty-five states plus the District of Columbia permit branch banking on a statewide basis, with the approval of the Federal Reserve.<sup>14</sup>

The Bank of America continued to grow after the death of the Gianninis and extended its tradition of innovation. A display in the Smithsonian Institute depicts the Bank's pioneering use of computers in business, and the VISA credit card originated as the BankAmericard.<sup>15</sup>

The Bank of America and Nations Bank merged in April 1998 and created the

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<sup>12</sup>Thomas F. Siems, "Bank Mergers and Shareholder Wealth: Evidence from 1995's Megamerger Deals," Financial Industry Studies (August 1996) as quoted at <http://www.dallasfed.org/htm/pib/fis/0896.html>.

<sup>13</sup>John W. Gunther, "Bank Consolidation: When Less Means More," Financial Industry Studies (December 1996), as quoted at <http://www.dallasfed.org/htm/pubs/fis/1296.html>.

<sup>14</sup>Spong, Banking Regulation, 138-139.

<sup>15</sup>Insite: Bank of America, as quoted at <http://165.48.14.138/insite/infocntr/bankheritage/htm>.

largest bank in the United States. The new holding company, BankAmerica Corporation, manages 4,800 branch offices in twenty-seven states and thirty-eight countries and holds 8 percent of the country's federally insured deposits. The CEO, Hugh McColl of Nations Bank and David Coulter of the Bank of America maintain separate offices; McColl in Charlotte, NC and Coulter in San Francisco. Although Nations Bank has controlling interest, all banks are named Bank of America because of its established reputation. The board of directors seats eleven members from Nations Bank and nine from the Bank of America. David Coulter remarked that:

the combination realizes the dream of BankAmerica's founder, A.P. Giannini, to 'become America's bank.' In A.P.'s day the dream was branches. Now customers have access to branches, ATM's, PCs and, soon, television connections. At the same time, the BankAmerica's international franchise will give all customers greater access to an increasingly global economy.<sup>16</sup>

Although driven by different goals, the combined and combative efforts of A.P. Giannini and Marriner S. Eccles resulted in an economy more easily manipulated to prevent significant economic fluctuations, and a banking community more responsive to the needs of the small depositor. By so doing, they united to diminish the power of elitism in banking, a goal of America's founding fathers.

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<sup>16</sup>Press Release, Bank of America N.T. & S.A. Archives, 13 April 1998.

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As the Bank of America grew, and as Eccles became more aggressive in his fight for control of monetary policy, Secretary of State Henry Morgenthau, Jr., became a common enemy to both bankers. Morgenthau caused the Securities and Exchange Commission to launch an investigation of the Bank of America. Later, when Eccles and Giannini were no longer friends, the Board of Governors filed suit under the Clayton Act against Transamerica, a Giannini bank holding company.

By 1945, Giannini's bank was the largest in the world. When John W. Snyder replaced Morgenthau, the "freeze" against Giannini's expansion stopped. Eccles was demoted by Truman but served on the Board of Governors until the Accord of 1951 making the Reserve no longer responsible for supporting the pegged interest rates of government bonds.