

Statement by Governor James K. Vardaman, Jr.,

Member of the Federal Reserve Board,

February 5, 1951.

Never having regarded membership on the Federal Reserve Board as a speaking part, I have made only three short public talks and given about the same number of interviews in nearly five years service on the Board. However in the present situation where an apparent attempt is being made to question the veracity of the Presidency in its dealings with this Board I feel that it is only fair to give my impressions of what has happened and what the conduct of this Board should be.

After the meeting between the Federal Open Market Committee and the President at the White House at 4:00 p.m., January 31, the Committee, consisting of all seven members of the Federal Reserve Board and the Presidents of five Federal Reserve Banks, returned to the Board's quarters and went into executive session. The suggestion was made that a written memorandum of what took place in the White House should be prepared and Chairman McCabe requested Governor Evans to undertake that task. The preliminary draft of Governor Evans' memorandum which was released to the press by Governor Eccles without authorization of the Board or the Committee had not been approved by the Federal Reserve Board members nor all of the members of the Federal Open Market Committee. It was thought to be correct in all essential details but certain minor changes had been suggested. Governor Evans had prepared the memorandum from memory without notes. There were no notes taken at the meeting with the President so far as I know.

Governor Evans' memorandum was correct in essential details as to the words which were spoken during the meeting with the President, but the

memorandum did not attempt to set forth the impressions and general atmosphere prevailing during the meeting. My own impression of the meeting was that the President of the United States had been allowed to leave the conference room with the definite impression in his heart and mind that the Federal Open Market Committee would support the Government financing and bond program as officially promulgated by the Secretary of the Treasury on January the 18th. I said to the Committee that I thought it was tragic that the President had been allowed to leave the conference with such an impression when the majority of the Committee apparently knew at the time they were not going to carry out the President's wishes.

On January 29, two days before the meeting with the President, I submitted a written memorandum to the members of the Federal Reserve Board and on the 31st to the Open Market Committee suggesting that the Board make the following public statement.

"The Federal Reserve Board has made its recommendations to the Secretary of the Treasury in connection with the interest rate on short-term Government obligations and also with reference to the interest rate and maturities on funding and refunding bonds. In the exercise of his statutory authority and obligation, the Secretary has not thought it wise to follow all of the suggestions made by this Board in connection with these matters. Acting in his official capacity, as the spokesman for the Government, the Secretary has announced a financing program, and this Board has nothing further to say on the questions involved other than to state quite firmly and clearly that the Board will support to the fullest extent of its authority the program as officially promulgated by the United States Treasury.

"Whenever it is in line with its statutory authority to do so, the Board will advise with the Secretary on all matters relating to the management of the public debt or any other questions which he may desire to discuss. But it should be clearly understood that under our constitutional framework and present statutory laws, the management of the public debt is the responsibility of the Secretary of the Treasury, and this Board will support him to the utmost of its ability in his officially declared programs and actions.

"We believe the duty of this Board to be to make its ideas available and known in council, but not to make such ideas prevail and the Board will act in accordance with this belief in the present situation."

The Board and the Committee refused to consider the issuance of any such statement in spite of the fact that it was generally thought that Chairman McCabe had given President Truman every reason to believe that the Committee and Board would support the Government financing program.

As long as the questions involved were in the negotiation stage I felt it to be the duty of the Board to present and argue its ideas with the Secretary of the Treasury, and if necessary with the President. But once the Secretary of the Treasury, as the official spokesman for the Government on debt management, had promulgated the Government program I felt strongly that this Board should give such program its whole hearted support personally and officially. The question of statutory prerogatives and personal feelings should be subordinated to the all important necessity of supporting the Government and the Presidency in this time of national emergency. For myself I unhesitatingly waive any theoretical statutory authority and prerogatives in order to support the Government and the Presidency at this time; and if there is any question in my mind as to the propriety of such a waiver I will try to appear before the proper Congressional committee to ask for clarification of my statutory responsibilities as a Member of the Board.