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THE MEN WHO MADE THE FED

Federal Reserve Bank of Philadelphia

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By Lawrence C. Murdoch, Jr.

The Federal Reserve, our central bank, draws strength from its diversity. It is a regional system which blends opposing attitudes, interests, hopes and fears. It was created by Congress, but it has many characteristics found in private enterprise.

The people who played major parts in the birth and growth of the Fed also were a diverse lot with different kinds of strengths and abilities. But because of luck, fate or whatever, the right kind of person seemed to emerge at the right time.

The first of the men who made the Fed, Carter Glass, we will call the fighter. He was only five foot-four, but he could rip the opposition like one of the Bantam roosters he kept as a boy in Lynchburg, Virginia.

Carter Glass fought the controversial Federal Reserve Bill through a hostile Congress.

Glass was born in 1858 to an aristocratic Southern family. The Civil War wiped out his parents' fortune, and he grew up knowing poverty and bitterness. At 13, he left school and found work as a printer's devil. He had to fight to survive as a boy, and he kept doing it all his life.

By age 30, Glass was the owner of the Lynchburg Daily News. His opinionated editorials led him into politics, and in

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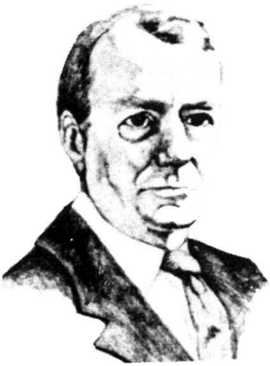
In this pamphlet the author attempts to draw caricatures rather than paint portraits. The former simply captures a few outstanding features and exaggerates them while the latter shows more of a lifelike image.

1902 he ran successfully for Congress.

As it turned out, Glass was the kind of warrior it took to fight the controversial Federal Reserve Bill through a hostile Congress. He had to overcome opposition from Wall Street and the bankers on the one hand and the agrarian, easy-money interests on the other. He got the job done, however, and the Fed was created just before Christmas in 1913.

Glass was just as pugnacious in the 1930s when efforts were being made to bring the Fed under more central control. But, as we shall see, the results were somewhat different.

Benjamin Strong, the first president of the New York Reserve Bank, was the organizer. He started the Bank from scratch and played a major role in financing World War I. He helped discover how open market operations affect the economy and was instrumental in the restoration of the gold standard in the 1920s.



Benjamin Strong organized the New York Reserve Bank and tried to dominate the Fed.

Strong had three older brothers who, like his father and grandfather, graduated from prestigious colleges. But when his time came, the family funds had run out, and he went to work as a bank clerk. Although he lost his first job because of poor penmanship, Strong eventually rose to become president of Bankers Trust, and in 1914, was persuaded to take the presidency of the brand new Federal Reserve Bank of New York.

In principle, Strong did not favor a regional central banking system, but since there was one, he felt the real power should be located in New York. He called the Board of Governors "a timid bunch" and dominated the System from Manhattan. He managed this partly because of New York's status as the nation's financial center and partly because of the force of his own personality.

Marriner Eccles was the centralizer. He was appointed a Federal Reserve Board Governor in 1934 near the bottom of the Depression. As a New Dealer, he felt that monetary policy should be part of an overall coordinated effort, and he sought to bring the 12 Reserve Banks more under the authority of the Board of Governors in Washington.

Marriner Eccles sought to centralize authority in the Board of Governors.

Carter Glass, who was in the Senate at the time, was bitterly opposed to Eccles' plan because he feared it might reduce the System's independence. The aging warrior fought hard, won a few skirmishes, but lost the battle.

The Banking Act of 1935, which Eccles backed, gave complete control over the purchase and sale of government securities to the Federal Open Market Committee. Before that, the individual Reserve Banks had had some degree of authority to conduct such transactions on their own.

The act authorized the President to appoint the Chairman of the Board of Governors and, in turn, gave the Board the power to approve the selection of Reserve Bank presidents and first vice presidents. In addition, the Board got new authority over discount rates, reserve requirements, and the management of Reserve Banks. President Roosevelt used his new power and appointed Eccles Chairman in 1936.

Eccles' grandfather brought his family from the slums of Glasgow, Scotland, to Utah, where the clan prospered, and his father, David, built up a chain of successful businesses. From the age of eight, the young Eccles worked every summer in one of his father's factories and put all his earnings in a bank. At 19, he began a two-year stint as a Mormon missionary in Scotland.

David Eccles died when his son was 22 and left him a business empire worth $7 million. Marriner Eccles managed things so well that he was head of a chain of 26 banks, as well as many other businesses, when he came to the Fed.

He was a small man with a narrow face and keen eyes. A biographer said he had a dry, impersonal manner and let himself go only when out shooting ducks or when given a bag of peanuts.

Eccles' ideology was fervent but far from flexible. He favored easy money and deficit spending in the depressed 1930s, but in the later 1940s, when inflation was the greater problem, he pushed for higher interest rates and a balanced budget.

The Federal Reserve had "pegged" interest rates at low levels in order to help finance World War II. When the hostilities were over, the Treasury wanted the low rates to continue in order to make it easier and cheaper to manage the huge federal war debt. Eccles called the low-rate policy an "engine of inflation" and tried hard, but unsuccessfully, to pull out the pegs.

When Eccles' term was up, Thomas McCabe, president of Scott Paper Company, was named Chairman of the Board of Governors while Eccles remained as a Board member. McCabe also wanted to free the Fed to raise interest rates and fight inflation. However, he differed from Eccles in personality and method. Eccles was introverted and autocratic while McCabe was outgoing and flexible — the characteristics of a good salesman.

McCabe reached an accord with the Treasury in 1951, negotiating with a young undersecretary named William McChesney Martin, Jr. The accord freed the Fed to raise interest rates and restored monetary policy as a viable economic tool — something it had not been for 10 years.

Soon after the accord, McCabe resigned. President Truman then appointed the Treasury's Martin to chair the Federal Reserve Board and carry out the policies he had helped to establish.

Thomas McCabe helped to make monetary policy a viable tool again.

Martin was the persuader. He operated by consensus and often called 10 a.m. meetings of all the Governors where they decided major issues.

He also returned some power to the Reserve Districts. He encouraged the conferences of Reserve Bank presidents and Reserve Bank chairmen and called frequent meetings of the Federal Advisory Council, which Eccles had called "a statutory nuisance." Perhaps most important, he began holding meetings of the Federal Open Market Committee with all Reserve Bank presidents attending and speaking their piece rather than just those whose turn it was to vote.

Martin's father was the president of the Federal Reserve Bank of St. Louis, and when young William graduated from Yale in 1928, he got a job in that Bank's examination department. A year later he joined a brokerage firm as a statistican. He spent the 1930s in New York working in the stock market, eating at the automat, studying economics at Columbia, and playing tennis on weekends. He was one of the top amateurs in the area and his wife, Cynthia, is the daughter of the donor of the Davis Cup.

At the age of 31, Martin became the "boy wonder" president of the New York Stock Exchange. Several years later, in 1941, he was drafted into the Army as a private, exchanging his $48,000 annual salary for $21 a month plus

William McChesney Martin, Jr., steered the Fed through the "laid-back" 1950s and the activist 1960s.

free room and board.

He ran the Fed with quiet dignity and was so respected that he served under five different Presidents. His adaptability and insight brought the Fed through two entirely different kinds of decades, the "laid-back" 1950s and the activist, acrimonious 1960s.

Arthur Burns, whom we might call the scholar, became Chairman of the Board of Governors in 1970. He spent many years in teaching and research before coming to the Fed. When he spoke, his knowledge of economics and erudite manner blended with his instinct for politics and worked to impress Congressmen and colleagues alike.

Burns reorganized the Board more along corporate lines and he himself operated like a chief executive. Even though he had only one vote, his self-assurance and forceful personality made him a powerful figure.

At FOMC meetings Martin always spoke and voted last. In contrast, Burns frequently opened the discussion, and when voting started, he often went first so that the other members acted with the full knowledge of where the Chairman stood.

During Burns' time in office, the System adopted a more modern style of management, which brought a new efficiency and cost consciousness to the Reserve Banks at a time when the economy in general, and the payments mechanism in particular, were changing rapidly — in large part due to computers.

Burns was born in Stanislau, Austria, in 1904. He arrived in the United States at the age of six, just a few years before Benjamin Strong opened the New York Reserve Bank.

He received his Ph.D. from Columbia and was a lecturer, writer, and expert in business cycle behavior until he went to Washington to head the Council of Economic Advisers in the 1950s.

Burns, with his shock of white hair parted in the middle, and ever-present pipe, became a symbol of monetary integrity throughout the world just as William McChesney Martin had been before him. Thus, in 1977 President Carter faced a difficult decision: whether or not to reappoint Burns to another term as Chairman. If he did, he would lose a chance to put in someone more identifiable with his own administration. But, if he didn't reappoint the Chairman, the world might take it as a sign that the U. S. was placing less emphasis on the fight against inflation.

Arthur Burns moved nimbly through political problems and monetary crises.

After many months of deliberation, the President picked G. William Miller, a lawyer who headed the Textron conglomerate. He brought a change in style to the job of Chairman. Traditionally, central bankers seemed to feel that silence in public was part of their role, and Eccles even said that it was his duty to talk as little as possible. Miller, in contrast, was frank and outspoken and gave frequent interviews.

Miller moved on to become Secretary of the Treasury, and then to private life. Paul Volcker was appointed Chairman of the Federal Reserve Board in 1979. He had been president of the New York Reserve Bank and before that held a high position in the Treasury Department, combining parts of the backgrounds of Benjamin Strong and William McChesney Martin. Although he undoubtly will enjoy a high place in the history of the Federal

Reserve, the fact that Chairman Volcker is in office as this is printed makes it appropriate to delay discussion of his achievements.

The men who made the Fed varied considerably in style, personality and philosophy, but what they had in common was dedication and an ability to sense and work towards the nation's current goals.

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