

Remarks by Thomas C. Melzer
President, Federal Reserve Bank of St. Louis

Award Ceremony for William McChesney Martin, Jr.

Country Day School

St. Louis has been home to a number of people who have made significant and lasting contributions to our society, both by their deeds and by the example they set for others to follow. This morning I am delighted to join with you in honoring one of these St. Louisans, William McChesney Martin, Jr.

Let me begin by presenting a hypothetical situation and asking how you would respond. Imagine that you were about 30 years old, having achieved great professional success at an early age and about to be married. Also imagine that there was a major war going on and that you were drafted into the service as a private, not only interrupting your career, but also potentially putting you at significant personal risk. But let us also assume that because of your family connections, educational background and professional success you could pull strings and thereby avoid being drafted. What would you do? Pull the strings or let nature take its course?

Well, there is certainly food for thought in this situation. But let me tell you what Bill Martin did. At the age of 31, as the youngest President in the history of the New York Stock Exchange, he allowed himself to be drafted. Why? Because he did not think it was fair that

he should be treated any differently than anyone else. He had come from a prominent St. Louis family; he attended Country Day, followed by Yale University; he worked at the Federal Reserve Bank of St. Louis for a short time and then moved to A. G. Edwards; and, within two years he became a partner in that firm, eventually relocating to New York. He had it all--family, schools, career--and yet his sense of integrity would not allow him to take the easy way out.

That quality was to serve Bill Martin well throughout his career. Later he was to become Chairman of the Federal Reserve System, a position he held for 19 years--longer than anyone before or since--serving under five Presidents. This is the same position presently held by Paul Volcker, who some have referred to as the second most powerful man in America.

As a relative newcomer to the Federal Reserve, I am surprised that even now--15 years after his retirement--Bill Martin and his impact on the System are still so well remembered. As a result, when I was asked to join you today, I looked on it as an opportunity to learn more about this outstanding man.

To properly appreciate Bill Martin's accomplishments, let me take a minute or two to tell you about the Federal Reserve and the role of its Chairman. As the nation's central bank, the Federal Reserve influences the growth of money and credit in the economy. Too little money growth can jeopardize economic expansion; too much can risk inflation. Complicating the policymaking process are the difficulty in measuring

money, especially now, and the long lags which exist between changes in money growth and desired economic results. Finally, decisions must often be made against a highly-politicized backdrop--Presidents and Congressmen alike typically do not like the higher interest rates which can result from Federal Reserve policies.

The structure of the Federal Reserve was intended to minimize the impact of political pressure. The System is often described as being independent within government. The principal policymaking body is the Federal Open Market Committee, or FOMC. This is comprised of seven governors, including the Chairman, who are appointed by the President for 14-year, overlapping terms. In addition, five of the 12 reserve bank presidents at any one time are also voting FOMC members, this year including me. The presidents are selected by their local boards of directors and approved by the Board of Governors. So you can see that the structure puts some distance between the policymaking process and politics.

And yet the Chairman, who is the principal spokesman for monetary policy, must be prepared to take the political heat for the FOMC's actions. His only weapon in the final analysis is the power of persuasion--Congress could always legislate the Federal Reserve out of existence if they were so inclined. At the same time, in leading the FOMC internally, a Chairman also must bring together a number of diverse viewpoints and forge a consensus. Indeed, both internally and externally, the role of Chairman is a most challenging task.

Yet, during Bill Martin's tenure at the Federal Reserve we had one of the most prolonged periods of low inflation, low unemployment and steady economic growth in our nation's history. He certainly must have been up to the task, which leads us to ask, "What qualities does he possess that account for his success?"

I have already mentioned Bill Martin's integrity. This was very much in evidence in 1951 when President Truman asked him to be Chairman of the Federal Reserve on one condition--that he not let U.S. Government bond prices fall. Apparently, Mr. Truman had suffered losses in government bonds in the past. Martin explained why this was unworkable and told Mr. Truman that under those circumstances he simply could not accept the position. The next day, Mr. Truman summoned him again, said he understood Martin's objections, and offered him the job without any strings, asking him simply to do the best he could on bond prices.

In this anecdote there is also the hint of another one of Bill Martin's qualities--what might be termed mental toughness. Do not misunderstand me--from everything I have been told, Bill Martin is a total gentleman. In fact, many revere him for the consideration which he has consistently shown other people over the years regardless of their age or position.

What I am referring to is a quality that President Kennedy apparently observed also. Shortly after his inauguration, rumors began to surface that Mr. Kennedy wanted to get rid of Bill Martin as Chairman. In the spring of 1961, Martin went to Mr. Kennedy, told him that he had heard

the rumors, and handed him his resignation. Mr. Kennedy reportedly admitted making statements which led to the rumors, read the resignation letter, and then proceeded to tear it up. The President said that he now realized how hard it was to find people willing to assume responsibility, that Bill Martin was one of these people, and that he wanted him to stay on.

Later President Johnson discovered Bill Martin's toughness himself when the Federal Reserve raised the discount rate in 1965 at an inopportune time politically. Mr. Johnson was trying to legislate his Great Society program and achieve a major military buildup in Vietnam; at the same time, the Fed was applying the monetary brakes to reduce the threat of inflation. Bill Martin was invited down to the LBJ ranch to "discuss" this action. Despite Mr. Johnson's intense efforts, for which he is so well noted, to persuade Martin otherwise, the discount rate remained unchanged at its higher level.

Finally, perhaps the most difficult of Mr. Martin's qualities to describe is the great sensitivity to people and events he displayed. I mentioned before the consideration he showed others. He listened carefully to different views and weighed their validity and consequences carefully. "I want to be convinced before I take the plunge," Martin once said. "I distrust the man who is certain he knows the answer." I think the record shows that Bill Martin listened well and knew when to act.

Well, there it is in a nutshell--integrity, mental toughness and sensitivity, or perhaps I should say a good sense of timing--all important qualities for a Federal Reserve Chairman. In a broader context, however, I think there is a lesson for all of us in the example Bill Martin has set, particularly you who are following in his footsteps here at Country Day. I hope these insights will be helpful to you in the future. They have been for me. Thank you.