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Interview of Ralph Leach

Conducted by Robert L. Hetzel

November 15, 1994

Ralph Leach: …and I believe that was June 25th, 1950.

Robert Hetzel: Yes. Did you come–

Ralph Leach: I came from– well, I started to work with the Harris Trust in Chicago, then went to the Valley National Bank in Phoenix, and from there was hired by the Board as a market expert. I had been trading government bonds for the period between the war and 1950. And they were completely dependent. The Board in Washington was completely dependent for market viewpoints on the New York Federal Reserve Bank, and they wanted – this was Winfield Riefler and Woodlief Thomas, Ralph Young, the top three economists were very anxious to have someone with a market viewpoint down there. So I became chief of the government finance section. And, well, the day after I started, Woody Thomas came down and said, 'We've done you a terrible disservice, because with the war breaking out, we're in for pegged markets for the duration.' And that's the way it looked for a few months. But then in September we came to a situation in which the Open Market Committee met, and you recall the schedule of interest rates at that time was 3/8 percent Treasury bills, 7/8 percent one-year certificates up to the 2 ½ percent long-term bonds.

Robert Hetzel: Right.

Ralph Leach: And we were– the Federal Reserve was monetizing far too much of the debt held by the insurance companies and others, and the decision was made at an Open Market Committee meeting – I'm quite sure it was September – to change the discount rate from ¾ of 1 percent to 1 percent. That would have meant that the following week, when the Treasury rolled over a one-year certificate, that it could no longer do it at 7/8 of 1 percent. And the Chairman of the Fed then, Tom McCabe, and Allan Sproul, the president of the New York bank, got in a car, went over to the Treasury and told John Snyder, Secretary of Treasury, that they were planning to do that, and they thought he should know. And before they got back to the Fed, Snyder had pre-announced the re-funding at 7/8 of 1 percent, which, presumably, blocked the Fed. We reconvened the Open Market Committee, and the– well, this is my recollection. You'd have to get somebody else's too. The decision was virtually made immediately that we couldn't do that, and at some point I decided to – over the Chairman's objection, because he reminded me, when I said I would like to make a market observation, and McCabe simply said, 'We don't have market opinions down here, Mr. Leach. We depend on the New York Bank for that.' And someone else – I don't know who – somebody said, 'Well, let's hear what he has to say,' or something like that. And I said, 'Well, I think there's a way you could resolve this that would probably get some headlines, but it would be a way of declaring our independence, and that is that we go through with the change in the discount rate, and simply put in a par bid for all of the new certificates and take a slight loss by selling them, or sell something else in the marketplace, and it wouldn't upset the market at all.' And the best words I ever heard came out of Allan Sproul, who said, 'I'd like to take about a ten minute recess and think about that.' And so he and I talked, and at the end, that's what we did. And it did cause the breakout in the headlines, you know: 'Fed Defies the Treasury' and so forth. But it went through smoothly in the marketplace, and that started the ball rolling that led toward the accord on March 4th of '51, during which time there were all kinds of headlines, the stories leaked by particularly Jake Vardaman, who was a member of the Board at the time, and had been Truman's aide. And it was clear that he was leaking the stories. It was even virtually proved at one of the next Open Market Committee meetings. I can go into details if you want them.

[00:06:00]

Robert Hetzel: Oh, sure, I'd love to hear anything you have to say in this. You know, we have a few things. We have Sproul's accounts, and we also have whatever's recorded in FOMC minutes, and Herb Stein has summarized that material. But there's really very little inside discussion of what went from at the accord, except for Allan Sproul's account, and he published that in the New York Fed *Monthly Review*, and so he's very careful, very sort of diplomatic, but–

Ralph Leach: Yeah. Absolutely wonderful guy.

Robert Hetzel: Absolutely the details of what happened have never been, to my knowledge – and I'm pretty interested in this area – have not been recorded.

Ralph Leach: Well, I'd love to see that Sproul article if you can manage to get a copy of it.

Robert Hetzel: Sure. Oh, sure. I'll do that.

Ralph Leach: Okay. Maybe I ought to read that before I talk to you further.

Robert Hetzel: Why don't we talk, and then I'll–

Ralph Leach: Okay.

Robert Hetzel: –I'll send you the article and then we can–

Ralph Leach: Well–

Robert Hetzel: –if that jogs your memory additionally, we can–

Ralph Leach: Okay, the incident at the– well, later Board meeting, when there are some particularly nasty stories in the *American Banker*, which were leaked by Vardaman to them, Matt Szymczak was Vice Chairman of the Board, and at an ensuing Board meeting – I don't know exactly when; it was probably early '51 – just after one of the nasty stories had been published, the meeting started and the Chairman always turned to the Vice Chairman to allow him to say anything he wanted to before the others did. And Szymczak said, 'I'm very disturbed about such-and-such a story, and I just want to announce publicly, or to this group, that I have no contact with anyone at the *American Banker*.' And whoever was sitting next to him, another Governor, said, 'Well, I'm glad to hear that, Matt, and I agree – I have no contact with them, couldn't possibly have talked to anyone there.' Went through one or two more people, and Vardaman, who was the furthest down the line got up and walked out of the room, muttering, 'I'll be damned if I'm going to go through this kind of thing,' or something like that. So it was obvious to everyone where all the anti-Federal Reserve stories were coming from in that respect.

Robert Hetzel: The *American Banker* is available on microfilm, and I will check these stories, but what was his slant?

[00:09:17]

Ralph Leach: Well, there was dissention, very much dissention within the Board over the fact that the Federal Reserve wasn't giving complete support to the Treasury. The President was upset about it, and I think Truman was probably pretty upset about it. But that's maybe not worthy of being included. What I'm leading up to, really, is that there was a tremendous amount of undercover work being done – not to my knowledge, and I think not to the knowledge of almost anyone on the Board, including several of the Governors. And this was between Winfield Riefler and the Undersecretary of the Treasury, then Bill Martin. And they were– and incidentally, if you can get anything of Win Riefler's, be sure and do it, because he was intending, we were told, to write a story of this, or write at least a lengthy article for publication, but it never was published, as far as I know.

Robert Hetzel: I've not heard that. Perhaps somebody at the Board would know if he has any descendants.

Ralph Leach: They might know.

Robert Hetzel: Dewey Daane typically has contacts with people. I've talked to him some, and I'll ask him. He may know, but if anything exists, it would have to be with one of his descendants, and I don't know if there is any–

Ralph Leach: Well, I know one of them very well.

Robert Hetzel: Well–

Ralph Leach: He worked for me at Morgan. That's Don Riefler, who has just retired and– well, no, he's retired about two years ago I guess. Because I've asked him about it, and he never responded with anything. I don't know whether it existed, or he didn't want to reveal it or what.

Robert Hetzel: Do you have either a phone number or address for him?

Ralph Leach: No, but you could get it through my secretary at Morgan.

Robert Hetzel: Okay. Do you have her name?

Ralph Leach: Yes.

Robert Hetzel: Is she still there?

Ralph Leach: Yeah. Muriel Davis. And the number is [phone number redacted]

Robert Hetzel: (Break in recording) –and–

Ralph Leach: Part time Florida, part time New York, I think now.

Robert Hetzel: And that's Don Riefler?

Ralph Leach: Donald. Donald B. Riefler.

Robert Hetzel: Okay. Definitely. For these people who are gone, it's also interesting to talk to their descendants, their sons and daughters, because sometimes they have interesting stories that have been passed down, so I'd love to just give him a call and see what– You know, he may have some information.

Ralph Leach: He may have, yeah. But we went through this long period, up to March 4th with more and more feeling of certainty that we were right, and that we were getting full support from a good many articles that were being written, and the feeling of certainty that things were going to work out in our favor. And when the accord came out, of course, we were very happy on March 4th, and then on March 5th we learned that the presumed 'enemy,' William McChesney Martin, was part of the working out of the accord, and was then appointed Chairman of the Federal Reserve. And he succeeded McCabe immediately because McCabe, it turned out – you've probably got this – had taken the chairmanship of the Federal Reserve with a guarantee to President Truman that they would not allow government bonds to sell below par.

Robert Hetzel: No, that's not part of the–

Ralph Leach: That's not part of it?

Robert Hetzel: That's not part. And there's absolutely nothing about why McCabe resigned. There's only just complete speculation.

Ralph Leach: Oh, yes, I know it's speculation, but that–

Robert Hetzel: Well, I mean in the sense of people who– I mean complete conjecture, not even educated guesses. People typically say, well, he was probably a weak Chairman, and Truman probably didn't like him, and Truman fired him. But no one says that with any kind of inside information, or–

[00:14:12]

Ralph Leach: Yeah. And I think everybody who knew the situation closely was confident that that was part of the problem that we were confronted with during the workout toward the accord, is that he was always backing off on maintaining independence, and then maintaining the par level on government bonds. And part of the accord – again, check my facts – part of the accord was that for a period of time, anybody who owned the long term 2 ½ percent bonds was allowed to swap them for a 5-year 1 ½, which was then selling at or slightly above par.

Robert Hetzel: Yeah, I think that went on for almost a year after March of '51.

Ralph Leach: I don't know how long it went on, but it was–

Robert Hetzel: About a year I think. I think that the desk was afraid that, given the large amount of securities in the hands of insurance companies and banks, they were afraid that everyone would want out at once, and then if everybody tried to get out at once, you'd have a big run-up in rates.

Ralph Leach: Right.

Robert Hetzel: So they wanted to have a gradual unloading. And that may have been one reason why the monetary policy was so conservative in that time.

Ralph Leach: Right.

Robert Hetzel: The Fed didn't want to scare people.

Ralph Leach: Oh yes. But there was a big argument within the FOMC on maintaining the price of par on the one-and-a-halves when people started to sell them. And that was finally resolved by letting them break par. But all through this the New York Fed was very anxiously trying to support at a higher level than the Board felt was proper, and the Board now including Bill Martin.

Robert Hetzel: You mean after March of '51?

Ralph Leach: Right. After the exchanges had started, and people had started – well, natural arbitrage would start in a situation like that. But I can't remember exact details, but it seems to me we had a support level of 99 ¾ for quite some time, and allowed far too much liquidation at that time.

Robert Hetzel: Well, I mean, I think the New York desk traders were the ones who really felt under pressure, in that the dealers were consistently wanting them to take more securities than the New York desk wanted to buy, so it almost became a personal thing, where the desk people were put in the position of having to tell these dealers that, well, look you guys, be patriotic, and do this for your country, and we don't want to hold them. But the dealers, on the other side, kind of viewed it as a personal thing: well, look, you guys are making the market, you know – I've got to sell these and it's just a business, and you ought to take them. And I think it was an unpleasant, difficult time.

Ralph Leach: I know. I was up there a lot, observing, and thank God for John Larkin, because everybody else wouldn't even speak to me.

Robert Hetzel: Well–

Ralph Leach: But John was one great guy, and sort of a go-between, between me and Bob Rouse, and–

Robert Hetzel: Yeah, I gather Rouse was difficult to get along with from everybody, and he–

Ralph Leach: Yeah, he–

Robert Hetzel: And Larkin kind of smoothed things over, although Larkin got in trouble for trying to be an intermediary. You know, Rouse kind of wanted everything to go through him, and Larkin was the person people wanted to talk to, because he was so knowledgeable. But then he got in trouble when – anyway, so he felt put on the spot a lot.

Ralph Leach: Well, I don't think he got into trouble, but I think he was–

Robert Hetzel: Well, he got in trouble with Rouse, but in a sense–

Ralph Leach: Yeah, but I would say that was the guy that he should have gotten in trouble with, because Rouse simply wanted to maintain the status quo, and I can't remember his chief assistant, who was– was it Miller? Is there a guy named Miller in there?

Robert Hetzel: Hmm.

Ralph Leach: Anyway, the–

Robert Hetzel: Later on it was Bob Stone, but that was later.

Ralph Leach: No, no, that was long before Stone.

Robert Hetzel: That was much later, yeah. No, I don't know that.

Ralph Leach: Yeah. Well, let's–

Robert Hetzel: So Rouse just thought, maintain the peg? I mean, he was–

[00:19:05]

Ralph Leach: Oh, yeah, he was for maintaining the pegs and then gradually lowering them and taking only a few bonds here and there. And this led to a series of meetings, which Bill Martin came to me to talk about leading up to a study of open market operations, which I'm sure you've read. This must have come out in '52. We had the heads of every one of the major dealers come down, spend a day just talking about their relationships to the desk and how they felt markets should operate. And our big question to them was always, 'Do you guys have enough capital and market ability to operate in a really free market? Can you stand it?' And the answers were all positive, that they were prepared to take chances, take losses. And then finally the study that came out of all of that, which was largely written, again, I would guess, by Win Riefler, talking about the depth, breadth and stability in markets. That phrase comes in quite often, and I didn't realize until later that he was using his son's initials to remind himself of all those words. At least I accused him of that.

Robert Hetzel: That's funny.

Ralph Leach: But anyway, I'd say that the only events after that that I would think were significant were the ability of the marketplace to step up to their new responsibilities, and then the growing willingness – I guess that's maybe not the right word to use, but – the growing acceptance by the Treasury that they had to meet the demands of the marketplace on every one of their offerings, and not depend on Federal Reserve support.

Robert Hetzel: Congress played a part in that too.

Ralph Leach: Oh, sure.

Robert Hetzel: Were you aware at the time of Senator Douglas, and actually Wright Patman? He was no friend of higher interest rates, but he was–

Ralph Leach: He sure wasn't. Douglas was disappointing, but Patman was expected, I'd say.

Robert Hetzel: You said Douglas was disappointing? What did you say about Douglas?

Ralph Leach: Yes, I thought– my recollection of Douglas was that he was arguing against the Fed's independence. I may be wrong on that.

Robert Hetzel: No, no, no. He was strong in favor of getting rid of the peg and establishing Fed independence. Douglas was a firm believer in the Quantity theory. He'd come from the University of Chicago, and he thought money caused inflation, and he thought if the Fed had to buy bonds, it couldn't control money. His metaphor was, if you've got a glass and a pitcher of water, and you keep pouring water into the glass, it's going to overflow, and that's what's going to happen if you keep buying government securities.

Ralph Leach: Well, good. I maybe got some other impression along the line, I know, that I can't define at this point.

Robert Hetzel: Well, later on in the '60's I think he was much more critical of the Fed, and the Fed raising rates in '66.

Ralph Leach: That's it, yeah.

Robert Hetzel: So I think your impressions may come from that later period when he was attacking the Fed, but at that time he was very supportive.

Ralph Leach: I should add that I'm from the University of Chicago too.

Robert Hetzel: Oh, so am I.

Ralph Leach: Oh, really?

Robert Hetzel: Oh, dear, I wrote my thesis under Milton Friedman.

Ralph Leach: Oh for goodness sake. We'll get to that one in a minute.

Robert Hetzel: I still–

Ralph Leach: Let me say the one thing that always disappointed me was that the conclusion of our study included the statement that the Federal Reserve should not try to influence the price levels of longer term securities; that their responsibility should rest in the Quantity theory, and that therefore they should buy only securities due within a year and just let the market decide what the quantity of money, what was being created should dictate in terms of the rest of the yield curve. And the New York Fed characterized that as the 'Bills Only' policy, and got enough support for the feeling that we at the Fed were being far too restrictive, and that there would be a time when the Federal Reserve should intervene in the market. Well, the study result included that, but included a statement which originally was that they should maintain stability in the market. And that meant to the New York Bank, to the desk, that they could intervene at will. We changed that instruction – you've probably seen this in the minutes of the FOMC–

[00:25:22]

Robert Hetzel: Yes.

Ralph Leach: –changed that to 'correcting disorderly markets,' rather than 'preventing.' In other words, you could say any time, well, we went in because we thought that the market would become disorderly. And our answer in Washington was, when the market becomes disorderly, you do something about it. But you don't decide beforehand that you're going to prevent it. It's maybe a little difficult in terms of writing it, but everybody understood what we were talking about. And yet – well again, for a personal story – I'd been up in New York. I went up there in 1953 with the Guaranty Trust, and then the merger with Morgan, at Morgan Guaranty. And one of the wonderful things about that was a continuing contact with Allan Sproul at the New York Bank, and after he retired, fairly regular visits, when he would come in for lunch with a number of us. And in the early '60's, when Kennedy was elected, appointed Dillon Secretary of the Treasury, and Bob Roosa the Undersecretary, here was the arch-enemy – Bob Roosa, who had been fighting against any restrictions on open market operations. And at one of the luncheons, when Allan Sproul was at the bank, everybody walked out of the lunch room, and he held my arm, and as we walked down the aisle together, he whispered, 'I want you to know that B.O. is dead.' The story that came out of that was that when Dillon was appointed Secretary of the Treasury, he and Roosa were the only ones who knew Kennedy. Bill Martin hadn't even met the president. So at some session, this subject was brought up, that the Fed had its hands tied as far as the operations of the government bond market were concerned, and it was because of this Bills Only policy. And Sproul had just heard from Roosa that the result of that luncheon, Bill Martin agreed to abandon that stance. But for a while they were operating only in the very short term market, as far as the desk was concerned.

Robert Hetzel: Yes, I know a little bit about that. That was partly in response to pressure from the Council of Economic Advisors. The Council wanted lower interest rates, and the compromise that was reached was that the Fed would have flexibility to move short term rates, but they would have to purchase long term bonds to try to lower long term rates. So it was–

[00:29:04]

Ralph Leach: What was the date of that, do you recall? Or the–

Robert Hetzel: Yes, I do. It would have–

Ralph Leach: '61, or…?

Robert Hetzel: –been early '61.

Ralph Leach: Yeah.

Robert Hetzel: In a part it was the strategy to diffuse pressure to keep short term rates low. Basically what the Treasury and Roosa were saying: okay, if you'll give the Fed some flexibility on short term rates, you know, we'll do what we can for you on the long term end. So it was partly a tactical thing. But let me get back to this earlier– I found it fascinating that you were working at the Board, but at least personally you sided with Sproul on the Bills Only issue. Did that come from your earlier experience in the bank?

Ralph Leach: No, now Sproul was on the opposite side.

Robert Hetzel: Yeah, Sproul was opposed to Bills Only.

Ralph Leach: Yeah.

Robert Hetzel: But what I'm saying is that you were at the board, and at least personally, you sided with the New York on this issue. Was that because of your earlier experience as a bond trader?

Ralph Leach: I'm sorry, I did not side with the New York view, no. I was for the Bills Only policy, strong– In fact, I–

Robert Hetzel: Oh, I'm sorry.

Ralph Leach: I want to say that I was the one who put it in there.

Robert Hetzel: Oh, go over that again, because then I missed it. I thought you were sympathetic with Sproul's opposition to Bills Only.

Ralph Leach: No, I was for free markets, period. And a decision to restrict the operations to the short term market would have fitted in with a free market policy. Once you try to say, well, we'll muddy this up a little bit, we'll do whatever we want on short term rates and money supply, but at the same time we'll support some level of rates that the market doesn't believe in, then you're in trouble. So no, I was–

Robert Hetzel: Okay, good. I'm glad you cleared that up. But Sproul had this idea that if you did operations at the short end, sometimes it might take a long time for the reserves to make their way to the long end.

Ralph Leach: Hm-hmm (affirmative).

Robert Hetzel: And that was just a judgment with him.

Ralph Leach: That's quite possible, but it's still not an artificial market.

Robert Hetzel: Hm-hmm (affirmative). No, I'm just trying to get inside, trying to understand how Sproul viewed this.

Ralph Leach: Yeah.

Robert Hetzel: Can we talk about Sproul for a minute since you had contact with him later on also?

Ralph Leach: Yes.

Robert Hetzel: I've talked to a number of people who knew him, but always in administrative relationships. They worked for him, and they really had little– they don't have much idea of kind of how he thought about things. Did you get a sense of his feeling of kind what he thought, say, caused the Depression, and the appropriate role of the Federal Reserve System, and how that changed over time? Kind of any sense of larger issues, how his view of monetary policy differed from Martin's, and if Sproul had remained the dominant force within the System, would monetary policy have been different?

Ralph Leach: Well, yes and no. I think that one of the most significant things between the two of us, between Allan Sproul and Ralph Leach, was a statement – when we adopted the policy of operating in the short term market only, and let the market decide what the curve should be, walking out of that meeting, he said – and this must have been before I left the Federal Reserve – and he said, 'Ralph, you'll regret this one day. What you're doing is taking the setting of monetary policy away from the financial center of the world, in New York, and moving it to Washington.' And I said, 'I know that, Allan, but that's got to come inevitably. You're not going to be able to keep that kind of relationship.' And he says, 'We'll talk about it.' And we did, over the years, and he asked me several times if I didn't regret some of the things that had been done, and some that I had supported strongly, and I said, 'No, I still think it was inevitable.' The country would not have taken New York as the center of the Federal Reserve System for any longer period than they did. I still feel certain about that, and I think I got that from Bill Martin, probably, because we not only had a good working relationship, with his market background and mine, but we happened to play tennis every noon.

[00:34:27]

Robert Hetzel: Oh, you must have been a great tennis player.

Ralph Leach: Yeah.

Robert Hetzel: You must have been very athletic.

Ralph Leach: Well, I was not in his class.

Robert Hetzel: I don't think I would play tennis with Bill Martin today. So there were two issues here. One is where the dominant influence within the system was going to lie. As long as you had the executive–

Ralph Leach: It was the main one that I was contesting with Allan, but on the broader issues, I really don't think I'd be able to comment.

Robert Hetzel: Sproul wanted to conduct monetary policy through tone and feel of the markets, kind of being right there, almost minute-by-minute to see how markets were reacting, and then responding in an intuitive way. And Martin was more – even though he was not an economist – he was more of a person who would look at economic statistics, you know, what his staff was telling him about the economy, and–

Ralph Leach: Right.

Robert Hetzel: So there was, in a sense – this is probably not the right word – but Martin was more of a modern– Sproul went back more to the kind of Depression-era policy making, and Martin had kind of one foot in each camp. But one of those feet was in the more modern, quantitative, look at all the incoming statistics on the economy.

Ralph Leach: Well, I think there was another aspect of it, though, and that is, that he would look back through the presidents of the New York Fed, and I think Allan was saying, in effect, that these guys were in much better position to view the world picture, and to translate that to foreign central bankers than anybody who had ever been appointed Chairman of the Fed.

Robert Hetzel: Well, in a sense that was right, in that the New York Fed was always more concerned about the dollar–

Ralph Leach: Yeah, right.

Robert Hetzel: –through the end of Al Hayes' period, the New York Fed was more consistently willing to raise interest rates when the dollar was under attack than the Board, although I'm sure the Board's judgment of the situation, that the country wasn't willing to run domestic monetary policy on the basis of international considerations was undoubtedly the better, or in a sense, the more politically correct judgment.

Ralph Leach: Yeah, and Allan brought that up every once in a while and sort of, well, you see how the Washington -- the dominance of Congress and the President over the Federal Reserve, which might not have been true if New York had maintained its premier position.

Robert Hetzel: Well–

Ralph Leach: Anyway, who knows?

Robert Hetzel: Well, yeah, the issue is whether– regardless of how the struggle for influence within the system had been resolved – whether the Congressional banking committees would have been willing to let New York, as opposed to the Board, run policy. I mean, I think the answer is clear, that Congress wants people close by it thinks it can… Anyways–

Ralph Leach: Well, you mentioned Milton Friedman. I became a great advocate of his, although I never took any courses from him. He was a later time than I. But I got to know him quite well through the Oppenheimer relationship that he had–

Robert Hetzel: Oh, he still has that.

Ralph Leach: Huh?

Robert Hetzel: He still has that relationship with–

Ralph Leach: He still has it. I know he's close to Chuck Brunie. Chuck might be a good guy for you to talk to if you haven't.

Robert Hetzel: Yeah. I've actually had a couple letters from him, but on different sorts of things, on indexing government bonds and so on.

Ralph Leach: Yeah.

Robert Hetzel: But–

Ralph Leach: But let me just relate one incident that– Shortly after I'd left the Fed, maybe in '55 or thereabouts, whoever was Dean of the school at Chicago then invited me out to give a talk to a banking school in Wisconsin. And he picked me up at the airport, and then drove me up, and he said, 'Now I don't know whether you know much about Milton Friedman.' And I said, 'Well, I've heard the name, but I don't know him.' And he said, 'Well, let me tell you, he is the world's greatest logician. If you get into a debate with him, don't grant him any of his premises. You challenge his premises and his logic.' Well–

Robert Hetzel: That's very insightful.

Ralph Leach: Well, we got up to this meeting, and my talk was to be on Federal Reserve operations, and I went through a lot of the discussion that you and I have just had, and said that one of the most interesting things to me was that none of the economists there really had any idea how markets worked. And I taught a class in how markets work. And one of the things that I did was to point out a way – a graphic way – of how Federal Reserve interference in the market just kills a market at any given time. And at the end of the talk, Milton, who was sitting on the front row, stood up and he said, 'I just want to say, you have taught me how to teach a course in a way that I've never taught it before.' And he and I became really quite good friends over the years. But he was always, I thought, a champion of free markets that really stood out in a way that nobody else has.

[00:40:52]

Robert Hetzel: Well, what we forget now is what the intellectual environment at the time was–

Ralph Leach: Oh, no, I know. I remember, definitely.

Robert Hetzel: –and how difficult it was, in an academic environment, to defend free markets, even though the country as a whole was fairly conservative. In academia, you were all by yourself if you were willing to defend the market.

Ralph Leach: That's true.

Robert Hetzel: And what he did really took an enormous amount of courage.

[END TAPE 43, SIDE A]

[START TAPE 58, SIDE B]

Ralph Leach: If they hadn't had some market person on their side, and the New York Fed was not filling that role, that they would have ended up losing to the Treasury and just going on supporting the market.

Robert L. Hetzel: So you provided the intellectual rationale for what had to be done.

Ralph Leach: Right.

Robert L. Hetzel: And the New York Fed was…

Ralph Leach: [inaudible]

Robert L. Hetzel: I mean the New York Fed was on the firing line. The New York Fed had the sense it was creating too many reserves. It knew what the problem was in a practical way but it couldn't articulate it, you know. I mean let me go back to the accords in the discussions within the FOMC, it was an unusual situation in the sense that ordinarily the Chairman is the dominant person and yet on the FOMC at the time, the two dominant individuals must have been Eccles and Sproul rather than the Chairman and --

Ralph Leach: Very definitely.

Robert L. Hetzel: So Sproul and Eccles were then the driving force behind this, and how did they work together? Did they see things the same way and they just couldn't work together on this?

Ralph Leach: I find it difficult to answer that question. My sessions with Eccles were—there's ones where he would go on for a couple of hours just dissecting every statement I made and saying, "Are you sure you feel certain about that," and so forth. Sproul was a much smoother guy and I think the one thing that I wish I could remember, and you've probably got a good memory of it was his caucusing with all of the Federal Reserve Bank presidents on some point and -- it must have been on the question of restricting operations to the short term area. Like does that recall—does that come to your mind anywhere that he—I think he had them all meet in Richmond.

Robert L. Hetzel: I think that was after the Accord, wasn't it? That….

Ralph Leach: I can't remember. But I was trying to.

Robert L. Hetzel: My recollection is there was a meeting in Richmond that was—where they—the study you mentioned and that was presented to the FOMC, the regional bank presidents. And that was done at Richmond. And I would guess, this is just my guess, that what you're talking about, the caucusing would have occurred at that time. But that was later on. I'd have to check that. But almost maybe early '53 or.

Ralph Leach: Well, yeah. What I'm—my recollection is that to some extent drove a wedge between Eccles and Sproul. Eccles—but that's too vague a recollection. I wouldn't want to—I could urge you to try to read more about it, but that's all.

Robert L. Hetzel: Sure. What can you tell me about Eccles, your recollections or impressions of him? I've never talked to anyone who personally knew or, you know, had any contact with–with Eccles.

[00:45:40]

Ralph Leach: Well, I would say that I really didn't have much contact with him. In the-in the aftermath of I think it must have been the-the decision to throw down the gauntlet to the Treasury, on the very outset, in September of '50, that Woodlief Thomas came down to my office and said, "Governor Eccles would like you and me to come up and talk to him." And as we left the office, and he said, turned to my secretary and said, "Call Mrs. Leach and tell him he'll be late for dinner. About 4:00."

Robert L. Hetzel: Yeah.

Ralph Leach: Fair enough. We-we spent from about four to I think about 7:00. And he was just going over every aspect of what we had talked about and he was-he was desperately trying to be convinced that-that although he had voted for what we did, he was uneasy, I'd say.

Robert L. Hetzel: He was…

Ralph Leach: That doesn't give you any feeling for.

Robert L. Hetzel: No, but it does. He was a banker by background.

Ralph Leach: Yeah.

Robert L. Hetzel: So-so it was harder for him to think in the kind of general, or I guess, macroeconomic way that-- I mean.

Ralph Leach: But he-he had been in a cabinet position somewhere in what, I can't remember. Was he—or was the Federal Reserve appointment right out of the Salt Lake background?

Robert L. Hetzel: Right out of Salt Lake. And he was a political confidante of-of Roosevelt. So he was really a New Dealer by profession. And he was not an economist. And he accepted the views of the time, that the Depression had been caused by speculation, you know, the over-extension of-of credit. And there really wasn't much the Fed could do about it except try to kind of re-establish extension of credit. So of course he, you know, he had no kind of background in Chicago quantity theory or whatever. But.

Ralph Leach: No.

Robert L. Hetzel: So I mean he was kind of banker-New Dealer but I think he-he must have—he-he didn't get along with Truman and, you know, because since Truman didn't-didn't reappoint him.

Ralph Leach: Right.

Robert L. Hetzel: So I think he-he didn't lose any love over-over Truman. And I think he, you know, probably believed that The Fed ought to be independent. But I think he probably had a pretty vague—I assume the driving force behind all this was the Fed thought it was going to create inflation by pegging the rates. But he probably-he probably had only a vague idea of how that-how that would work.

Ralph Leach: Yeah. But-but there was a feeling that he felt he was going to be appointed Chairman. And I never understood that, but I think he was-he was hurt internally when-when Bill Martin came over from the Treasury to succeed McCabe.

Robert L. Hetzel: I hadn't heard that. I wouldn't have thought given the-given the relation between Eccles and Truman, I wouldn't have thought that he would…

Ralph Leach: And I would have thought if anybody was, it would have been Matt Szymczak, was a good political tie. I always felt he had a good political tie to Truman.

Robert L. Hetzel: Szymczak was…

Ralph Leach: And this is just an impression. But.

Robert L. Hetzel: Szymczak was well connected politically but no one has ever had anything good to say about him as an intellect or a leader or.

Ralph Leach: That's true, yeah.

Robert L. Hetzel: He apparently—he certainly didn't impress anybody as far as his leadership or…

Ralph Leach: No, that's true.

Robert L. Hetzel: ...intellectual capabilities, so.

Ralph Leach: Yeah.

Robert L. Hetzel: And you know, so did—just—one-one detail. So why do you think McCabe left and did you think the decision was made to make Martin Chairman and then Truman, you know, simply asked him to-to leave?

Ralph Leach: Well, my-my understanding, and I'd say this was—I'm-I'm surprised you haven't heard it from others, well. A lot of them you can't talk to.

Robert L. Hetzel: Well, there are—yeah, there aren't a lot of others talking about this. Most of the other people who were in the Fed at this period like Dewey Daane…

Ralph Leach: Yeah.

Robert L. Hetzel: … were really young, you know, they were just kind of staff people.

Ralph Leach: That's right. Dewey and I were at the same level.

Robert L. Hetzel: Young people and they weren't connected. That's right.

Ralph Leach: My understanding was that McCabe, while all this talk was going on about what we were going to do, *vis-à-vis* the Treasury market, that he was quietly saying to himself, I can't let this happen. I promised the President I wouldn't. And there was good reason why-why Truman had that strong feeling after—and his, based on his World War I experiences. That when the accord was reached and it was understood that-that some Treasuries would be falling below par, that Tom walked over to Truman's office and said, "I would like you to accept my resignation." And there was—I don't know how the appointment of Martin came about. I would—I wouldn't have guessed that this is—was something that was obvious to a lot of people in the administration that here was a guy who was a perfect candidate for the chairmanship. And at that…

Robert L. Hetzel: Yeah, I don't really know.

Ralph Leach: At some levels within the administration for-for some time.

Robert L. Hetzel: So McCabe probably felt like he could no longer lead the…

Ralph Leach: Yeah.

Robert L. Hetzel: The Fed.

Ralph Leach: Yeah. He'd lost.

[00:52:09]

Robert L. Hetzel: You know, yeah. I just read odds and ends about Martin's appointment. Apparently Snyder was away in the hospital. So Martin conducted the negotiations and impressed both sides. And Anderson, who later became Secretary of the Treasury under Anderson, who was from Texas, apparently brokered the agreement and persuaded, you know, Truman that Martin would be a good Chairman. But that's—those are just odds and ends of things that-that I've read. I've not, you know, no one has-has, you know, given me their-their own personal accounts of it. Can-can you tell me a little bit about the individuals at the Board that were, you know, one step below the FOMC and the executive committee and how they looked at things. I mean what—how did people view the Fed's relationship to inflation and how did they see the relationship between pegging bond rates and-and the inflation rate and you know consequences of continuing the peg?

Ralph Leach: Well, I think-I think the reason I was hired was that they-they had strong feelings that the peg—and by "they" I would say the trio at the top: Win Riefler, Woodlief Thomas and Ralph Young, all felt strongly that they were being the tools of inflation. And that-that had to be broken, but that they didn't-they didn't feel that they were expressing themselves apparently in FOMC meetings. Maybe not, maybe just a feeling that nobody would contradict Allan Sproul. And that was-that was the basis. Woody Thomas was the one who came out to Phoenix and offered me the job.

Robert L. Hetzel: Well, how did they know about you?

Ralph Leach: Through dealers in New York. They apparently had some contact with—you know the dealers would come down and talk to people at the Fed all the time and never-never learning much of anything, but trying to tell the Fed that lots of them, lots of dealers felt that the market would do a hell of a lot better with-with the Fed stepping away from it. That'd be a better indicator to the economy of what interest rates really should be.

Robert L. Hetzel: So your expertise came from your background, what you'd learned at Chicago or from what you'd learned-figured out on your own when you were in the markets?

Ralph Leach: That is sitting out in the Pacific for two and a half years with—in the Marine Corps that there was so much public debt being created that when I went back to the bank, it was going to be a good thing to get involved in. It was going to be a major part of the banking business, which it hadn't been. And it was true, there was practically every head of every major bank, the portfolio operation in the post-war years was an ex-banker who had been moved in simply because that had become such a large part of the-of the bank. And I moved in with no background at all, but a feeling that there could be a real opening for the young people in that area. So that's—that was it. And luckily, traded very successfully both in Chicago and Phoenix and-and thereby got a little reputation among the dealers in New York. None of who I had ever met because Phoenix was too remote to-to visit.

Robert L. Hetzel: I'm sure it was in 1950, yeah. What can you tell me about Riefler, Young and-and Thomas? I mean those are names that for sure I know. You can't read anything about the Fed without coming across those names all the time, yet I've never talked to anyone who-who knew them personally. Can-can--

Ralph Leach: Well, Win Riefler was a stand out, I think probably one of the great economists of the century. And the other two were very strong, but not in his class, as my—would be my judgement. But Win was the guy who invented the mortgage—the—stretched out mortgage payments as opposed to single payments which were the—one of the-one of the very weak things that helped the Depression get a lot worse. And that was his invention that brought about the 20 year, 25 year mortgage payments.

[00:57:46]

Robert L. Hetzel: And when was that when the…

Ralph Leach: Well, that must have been in the early '30's. Again, I've always—everybody attributed that to him. He was—there was probably-there was probably a group of people who led that effort. But I bet if there were a group, that he was the key man in it.

Robert L. Hetzel: He must have had a fair amount to do with the introduction of free reserves targeting. The New York Fed didn't like those initially. I mean they wanted to use tone and feel and less—they didn't want a quantitative guideline. But that was the Board's idea, right? I mean Riefler must have had something to do with-with free reserves.

Ralph Leach: I really don't know the answer to that.

Robert L. Hetzel: Woody Thomas handled statistical briefings and kind of information on the economy. He wasn't really… he wasn't really an economist. He was kind of a statistician.

Ralph Leach: Well, Don was really the head of that division. And Jack Noise [phonetic] under him was the guy that I worked most with. And then brought to Morgan Guaranty when I got up there. And he was chief economist for Morgan Guaranty for a number of years. But—my contact was mostly-mostly with Win. And particularly discussing market developments. He-he was more interested in that. This was undoubtedly his continuing relationship with-with Bill Martin. So I may be influenced by that in my feeling that he was of considerably greater stature than the other two.

Robert L. Hetzel: And he must have been an important influence in the Accord in supporting the, you know, the abolition of the interest rate peg. I mean he must have been…

Ralph Leach: Worked out-worked out most of the details I'd say with Bill Martin. With them at the Treasury.

Robert L. Hetzel: So he was probably the primary staff person negotiating with the Treasury.

Ralph Leach: I would think the only.

Robert L. Hetzel: Excuse me?

Ralph Leach: I would think the only staff person. And I think on-on Martin's side. My impression is that it was-it was a two-man deal and they both, they got along beautifully. And they were working toward the same goal, a real market. And that it was-it was not anything that depended on a lot of staff support at either side. It was just a…

Robert L. Hetzel: Yeah. Well.

Ralph Leach: again, the impression. Now it could be that Woody Thomas and Ralph Young had tremendous input. Excuse me just one second.

Robert L. Hetzel: Sure.

Ralph Leach: (muffled) 1:00. 1:00. Sorry. Yeah. Excuse me.

Robert L. Hetzel: Yeah. Well, Martin's father was Governor of the Federal Reserve Bank of St. Louis.

Ralph Leach: Really.

Robert L. Hetzel: So there must have been that.

Ralph Leach: Yeah, well, sure. He had a background in it.

Robert L. Hetzel: That must have contributed.

Ralph Leach: Right.

Robert L. Hetzel: I've been told that Martin kept a diary but the family is unwilling to-to make it public. So hopefully that will be preserved and some year people will get an insight into all these things.

[01:01:45]

Ralph Leach: Yeah, that's a shame that they wouldn't release it.

Robert L. Hetzel: Well, apparently, people have tried to, a few people—just a few people know about it and they've tried to persuade them to, you know, put it in a library or something. And the family is unwilling-unwilling to do it. So nobody really knows what-what's going to happen. But hopefully.

Ralph Leach: Is his widow still living?

Robert L. Hetzel: He—they're both still living, but he's no longer coherent.

Ralph Leach: Oh, I know. I thought he died last year.

Robert L. Hetzel: No, no, he's still alive and his wife is still lucid, capable, but he-he's no longer able to talk to people.

Ralph Leach: Yeah.

Robert L. Hetzel: So he's just in a nursing home but more than that I don't really-I don't really know.

Ralph Leach: Yeah.

Robert L. Hetzel: Did—do you have any sense of, you know, kind of the big event of this time, the Accord, Truman was unpopular at the time. He-he was kind of low in the, you know, these public opinion polls. And-and the Fed was getting some support from Congress, yet it's extraordinarily unusual for the Fed to risk a showdown with the President of the United States. Did the-did the—do you have any sense that the FOMC kind of calculated well, yeah, we can win this one? I mean what-what happened was really an amazing thing. There must have been a lot of trepidation.

Ralph Leach: They knew they were taking a calculated risk and going back to the three hour session with Eccles that was clearly what that was all about. He had to have every detail, every argument that he could possibly use because he was going to be badgered over the next week or two with a hell of a lot of people asking what the hell is going on over there. You're talking about the break in 1950 now.

Robert L. Hetzel: Right.

Ralph Leach: Yeah. And, yeah, but I-I think they were well aware that they were taking a big, calculated risk.

Robert L. Hetzel: And--

Ralph Leach: But it was something they had to do.

Robert L. Hetzel: And after the full FOMC met with Truman, they came back to the board and had a meeting, and there's no record of that. That was not part of the FOMC meetings.

Ralph Leach: Oh really?

Robert L. Hetzel: Yeah. At-at one point I think maybe it was the day after that, Eccles—the FOMC agreed on a statement as to what had happened, at-- their understanding of, you know, what had happened at the meeting with Truman. And of course there was the famous incident of that Eccles on his own initiative released that to the-to the public. And, you know, of course it showed the FOMC had no intention of continuing the peg on long-term bonds. But the initial meeting after the –of the FOMC after meeting with Truman, there's no-there's no record of that meeting.

Ralph Leach: I never did see FOMC minutes on a regular basis. I could get them if I asked, but.

Robert L. Hetzel: Did you remember the incident where Eccles on his own initiative, released the Board's memorandum.

Ralph Leach: I remember that. Yeah, I remember that. That was sort of a short-lived burst, seemed to me. I think that was—I—and you've gone back into the motives of a lot of these and I wouldn't know anything about them. I was-I was sort of floating in a-in a different world. I was—just obviously badgered by thousands of calls from New York, which I just couldn't answer. After-after the March 4th accord was reached, the New York Bank called a meeting either on Saturday or Sunday of the heads of all the major government security dealers. And I flew up to New York for that to talk about what was—what was expected as far as I could tell them from-from the tenor of what had gone on at the meetings. Simply that we expected them to conduct the market without any support from the Fed, and how soon could they do it and how much trouble were we in from a capital standpoint and that sort of thing. And I had a long talk with-with Win about that and can't remember, it was either—I guess it was Woody Thomas and I went up, not Win. Woody, yeah, Woody was available but he went along to talk sort of philosophically. You never met him, I gather.

Robert L. Hetzel: No.

Ralph Leach: Very soft spoken, Southern voice and-and then he would turn to me and say, Well, you know their language better than I or something like that. And of course we had Bob Rouse and the staff, John Larkin and others were there. You've probably gotten some different impressions than I would have had from that. My feeling was that the-the group of dealers welcomed it. Chris Devine I remember particularly strongly saying we've got plenty of capital that we've been frustrated for years with doing business on a basis that is not a market basis.

Robert L. Hetzel: When did you leave The Fed?

Ralph Leach: 1953.

Robert L. Hetzel: So early, late '53 or?

Ralph Leach: September, I think it was.

Robert L. Hetzel: The—let's see. The—there was a recession going on at that time in the end of '53 and early '54. And the Fed pushed interest rates down to quite low levels by the middle of '54.

Ralph Leach: Prime rate was at three percent in spring in '54.

Robert L. Hetzel: Yeah and the-the three month bill rate got down to almost half a percent in June of '54. Later on, Martin said that he thought the Fed overdid it. That it was too—we came out of the recession too quickly.

Ralph Leach: Yeah.

Robert L. Hetzel: Monetary policy was to expansionary. Do-do you remember anything of those?

Ralph Leach: Yeah, very well. For a personal reason. That I was still a young kid at this time and-and so the chairman of the oil guaranty trust was really a tough old oil man type. And at a meeting, it was probably April or May of '54, I was head of the portfolio committee. And I-I said, I would suggest we sell all of our long term bonds, confine our holdings within two or three years at the most. And the chairman says, Why? Just sort of shocked, why? I said well, because interest rates are going to go up. And he said, "How much?" And I said, "Well, prime rate will go to—probably go to five percent from three." He says, "You've got a bet. My bet's always two dollars." I said to him, "I'll take it." And then we set a time period of 18 months. And each succeeding meeting, we—discussion would come up again, and he'd say, "I can double my bet any time. And you can either pay me now or take the double." So we doubled it to four dollars, 16.

Robert L. Hetzel: Yeah, that's funny.

Ralph Leach: This time my-my associates were telling me, look, Luther Cleveland hates to lose a bet. So you better for God's sake hope you lose that bet.

Robert L. Hetzel: That's funny.

Ralph Leach: It got to 32 dollars. And he went abroad in something like August of '55. And Chase raised their rate to five percent. And everybody looked at me, kid, you're in trouble. And when checked his bank, 8:30 in the morning his secretary came down with a note that just says, "Congratulations, young man," with 32 dollars with it. Not a word was ever said about it so yes, indeed, I remember that.

[01:11:57]

Robert L. Hetzel: Did you follow monetary policy then for the…

Ralph Leach: Oh, sure. Oh, absolutely.

Robert L. Hetzel: Yeah, just going back. I had a feeling that that experience was important for example in 1959 when the Fed again pushed interest rates very low in-in '59.

Ralph Leach: Yeah.

Robert L. Hetzel: And then when bond rates went way down and way back up, they got concerned that they were going to repeat that earlier period and Martin began to push short term rates up very sharply in—throughout '59.

Ralph Leach: Yeah.

Robert L. Hetzel: probably out of concern. He didn't want to repeat the earlier experience. And monetary policy ended up being very tight in that year.

Ralph Leach: Yeah. Yeah, there were lots of fairly violent swings, but I-I think mostly it's all been to the good as far as the economy is concerned.

Robert L. Hetzel: Well, the Fed kept the inflation rate down in-in the '50's.

Ralph Leach: Right.

Robert L. Hetzel: But then situation—anyways. So did-did the-the Fed still had the executive committee when-when you left as opposed to the regular FOMC meetings. The FOMC only met I guess, the full FOMC met four times a year and the executive committee met once every several weeks.

Ralph Leach: Right.

Robert L. Hetzel: Did-do you remember any-any—these questions are very general. I'm-I'm running to the end.

Ralph Leach: This is-this is after I left. Most--

Robert L. Hetzel: Yeah, I guess.

Ralph Leach: No, let me-let me say one thing that might.

Robert L. Hetzel: Yeah.

Ralph Leach: that might add to your knowledge on this. About a month or so after Bill Martin came in as chairman, Larkin, I think I was walking off the tennis court with him one day, and he had just had a meeting of some-some group, whichever, I don't know, but he said, "Ralph, would it scare you to think of a President sometime in the future, or a Congress, who might call all of the Federal Reserve Presidents and the board to a congressional hearing, and to think of what some of these people might be saying to-to those congressman?" And-and I said, "Bill, I don't even know most of the people you're talking about. So I wouldn't- I wouldn't know how to react." But-but in effect what he was saying was that, that clearly there had to be a much greater dissemination of information to a broader group than they were then reaching. And an understanding and an agreement or open disagreement, if you want to show that there can be dissention in a board. But I know he started very soon after that to-to broaden as quickly as he could the participation and-and still not disrupt things too much. Because you can't spend all your time in board meetings.

Robert L. Hetzel: Yeah, well, that's an interesting observation. I've to ask you this before we quit. So what years were you at Chicago?

Ralph Leach: I graduated in 1938. So did you have any contact with Frank Knight for example?

Ralph Leach: No. The guy that I knew best in the faculty was Ted Yntema. I became a good friend later because he was head of—he left Chicago to become, what, financial vice president of Ford Motor. And he-he ran their-their—he was the contact that-that we had on their pension fund. And he was the guy who put…[cuts off]

Robert L. Hetzel: Hello? I'm sorry. I missed the…[dial tone] Shit.

[01:16:52]

Ralph Leach: [phone rings] I—and I think Chuck Brunie could tell you more about this if you're interested, that he was the one that pushed the pension fund managers into using stocks. Up until then, I know that Guaranty Trust, when Yntema had said I want you guys to start buying stocks instead of all these goddamn bonds you're buying. He said well, you'd-you'd have to write a letter of indemnification to protect us. Something like that. Hard to believe isn't it? It's 40 years ago but.

Robert L. Hetzel: Well.

Ralph Leach: Quite sure that Yntema was the key guy in that movement.

Robert L. Hetzel: Do you remember anything about what your professors were saying about the Depression at the time? Did you get any strong feelings about, you know, a Chicago view of the Depression? Was it debated vigorously or?

Ralph Leach: No. I'm surprised I remember as many of the things that I just told you [laughs]. But no, I-I couldn't remember any of that.

Robert L. Hetzel: Yeah. What—you mentioned Chuck Brunie a couple of times. I've actually had a little correspondence with him on things that Milton Freidman has kind of intermediated between us. Index bonds and some things like that. But what-what-did he—what was your connection with him?

Ralph Leach: Well, he's a close personal friend in Bronxville when we lived in New York.

Robert L. Hetzel: Did-did…

Ralph Leach: He sent me—he did a-a write-up for—on Ted Yntema when he died—what is the group that meets and conservative economist Milton Friedman, the Mont Pelerin? Is that it?

Robert L. Hetzel: Yes.

Ralph Leach: Is that it?

Robert L. Hetzel: Yes.

Ralph Leach: Chuck Brunie wrote a—an article on him, what do you call it? Not a eulogy, but anyway, a memorial sort of thing. And in it, he had a footnote from—oh, I guess it was my relationship with Ted Yntema. And-and a footnote that says, Milton Freidman has-has written or has said that-that the major—that one of the major person involved in the Accord between the Treasury and the Federal Reserve was Ralph Leach. And this was news to me. But then he went on to say that this may not be too surprising since Ralph was one of Ted Yntema's students at the University of Chicago. So…

Robert L. Hetzel: Well, did Brunie ever have any relationship with the Fed or?

Ralph Leach: No, no.

Robert L. Hetzel: Yeah.

Ralph Leach: No. But he's—he is a personal friend of Milton's...

Robert L. Hetzel: Yeah.

Ralph Leach: … and Alan Greenspan.

Robert L. Hetzel: Oh.

Ralph Leach: In fact, the greatest dinner I ever attended in my life was one that four people, Chuck Brunie had invited Milton and Alan Greenspan, oh, and Milton's son.

Robert L. Hetzel: Yeah, David.

Ralph Leach: David and I were….

Robert L. Hetzel: Spirited con…

Ralph Leach: And all I did was sit and all Chuck did was sit and listen. It was…

Robert L. Hetzel: Yeah, spirited conversation. I'm sure.

Ralph Leach: Right.

Robert L. Hetzel: John Larkin mentioned Dick Youngdahl.

Ralph Leach: Dick Youngdahl, yeah.

Robert L. Hetzel: What was his position?

Ralph Leach: Dick was my boss, immediate boss, at the Fed. And he was-he was one of those, as I recall, who suggested that we-we have some sessions in which probably seven or eight of the economists, Jack Noise [phonetic], Dick and others, and I would-I would explain how markets operate to them. In fact, I used a-a game theory, a game approach to it that had them trading with each other and then I'd…

Robert L. Hetzel: Yeah.

Ralph Leach: … stop the trading and tell them look, if you can't do that, you can't make a market that has seven bid offered at ten, not when the markets are normally trading in eight or quarter-point spreads. But you simply can't make a market like that. You're, you know, but some guy would get—one of us would get in a position where he didn't know whether he wanted to buy or sell so he just spread his market. That-that sort of thing. We had a lot of fun doing that and.

Robert L. Hetzel: I mean you were basically explaining how markets through supply and demand set prices and that market would work like any other market.

Ralph Leach: Yeah. And you.

Robert L. Hetzel: Yeah.

Ralph Leach: You give the numbers to them and the sum of those numbers was what the closing market was going to be. And nobody knew what it was. But anyway, the…

Robert L. Hetzel: Yeah.

Ralph Leach: The point I'm getting at is that I knew-I knew Dick had a lot of interest in that. And I went up to New York in '53 and Aubrey Lanston knew that he did not have long to live. And he called me and offered me the job of presidency of the firm and succeed him whenever he was no longer able. And I told him I did not want the job, but let me tell you who is a good guy to talk to. And he hired Dick. And Dick had a long and I'm sure very successful career at Aubrey Lanston.

Robert L. Hetzel: Would you have a phone number or address for him?

Ralph Leach: No, I'm not sure where he is.

Robert L. Hetzel: Well, well, I can send a letter to Aubrey Lanston so I'm sure they would forward it.

Ralph Leach: Oh, yeah. Oh, in fact, David Jones, does that name mean anything to you?

Robert L. Hetzel: No.

Ralph Leach: He's an economist at Lanston and Company that Dick hired. He was very…

Robert L. Hetzel: Oh, yes, I know the name.

Ralph Leach: they hired him and he's still…

Robert L. Hetzel: Sure.

Ralph Leach: Well, he's every Friday morning at 6:30 you'll see him on the…

Robert L. Hetzel: Sure, sure, sure.

Ralph Leach: CNN Business News. He's the economist now for Lanston. So he would know. You could get in touch with him and I'm sure he knows where Dick is.

Robert L. Hetzel: Okay, that's good advice. And I'll call your secretary Muriel Davis about Don Riefler and I'll send you the things that Sproul wrote about the Accord. And after reading those, if you have any more –if that jogs your memory at all, you know, I'd love to hear from you.

Ralph Leach: Okay, I'll be glad to.

Robert L. Hetzel: Okay, well, this has been wonderful. I've just certainly enjoyed this.

Ralph Leach: Pleasure. And if you have any questions that you think of, give me another call.

Robert L. Hetzel: Oh, absolutely. Well, thanks again.

Ralph Leach: Bye.

Robert L. Hetzel: Bye.

[END RECORDING]