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Interview of Ralph Leach

Conducted by Robert L. Hetzel

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Ralph Leach: The way the news came to me was through Allen Sproul. Allan, after he left the fed and went to California, but whenever he came to New York, he came to the Bank for lunch, and five or six of us would have lunch with him, discussing all these things as we went along. And after one lunch - it must have been mid-'61, probably - when we left the lunch room he took me by the arm and held me back, and he said, 'I just want to give you one piece of news, and that is Bills Only is dead.'

Robert Hetzel: Yeah, of course he was happy.

Ralph Leach: Very happy.

Robert Hetzel: But tell me the story about–

Ralph Leach: And I said, 'Over my dead body.' And he said, 'Well, lots of good men die for poor causes.'

Robert Hetzel: Oh, that's good.

Ralph Leach: And that was when I first learned that what had happened, apparently was that Martin had found himself trying to defend free markets, and Dillon and Roosa were able to persuade the President that that was wrong; that the Fed had to be there to help them out from time to time, and to restrict their operations to short term securities, and in fact to quantity of money only as their real objective. Martin just lost that battle. However they did not do an awful lot of market manipulating even under the new– I don't know how they changed the instruction from the Washington Open Market Committee to the New York Operator, in terms of what he could and couldn't do.

Robert Hetzel: Well, the story I got is that whenever there would be a Quadriad meeting, whenever Martin was supposed to meet with the President, Jim Tobin, who was on the Council of Economic Advisors, would send a memo to the President saying, 'Hey, the Fed is not buying long term securities.' So then before these meetings, the New York Fed would go out and buy some long term securities so that they could show that they were upholding Operation Twist. But I talked to Bob Stone, and he said the Fed people absolutely didn't believe in it, but that the Council, and particularly Tobin and Roosa really thought that this was having an enormous effect. And actually I have an anecdote on that. Ann-Marie Meulendyke, who until recently was at the New York Fed, wrote up the history of this period, and she wrote in her book that Operation Twist really had no effect on the term structure of interest rates, and she got a very angry call from Bob Roosa. This was in the early '80's, I guess, complaining to her that in fact, he said, you know, it did have a big effect. So he really did believe in it.

Ralph Leach: Well, the guy I'm trying to think of was Bob Stone's boss; is it John Larkin?

Robert Hetzel: Yes. No, I'm sorry–

Ralph Leach: Did you talk to him?

Robert Hetzel: I talked to Larkin, that's right. That's what I meant.

Ralph Leach: Yeah, because I think that basically he felt the freer market would be better for all concerned, but he was not inclined to fight Bob Rouse and Sproul on the subject. Sproul, I think, basically felt that the problem was a much, much greater one, and that was that the New York Bank was going to lose all its prestige in the US and the world, and instead everything would center on Washington.

[00:04:28]

Robert Hetzel: Sure.

Ralph Leach: Martin's point, clearly, from the start, was that's the whole trouble with the Fed. It's the New York influence that has to be dampened, and it must become much more of a Washington organization.

Robert Hetzel: Sure, and Martin was always a consensus politician.

Ralph Leach: Right.

Robert Hetzel: He always worked– He had his own views, and he pushed his own views, but ultimately he came to an agreement with the President and the Secretary of the Treasury over what was acceptable. Of course it worked reasonably well as long as you had an Eisenhower and Anderson and even Kennedy in office, because Kennedy was so concerned about the gold situation. He didn't want a gold crisis as long as he was having so much international problems.

Ralph Leach: Right.

Robert Hetzel: So it worked pretty well until the war. So at this meeting that Kennedy and Roosa and, presumably Dillon had with Martin – that must have been also the time when they pushed Martin into agreeing to engage the Fed in sterilized foreign exchange intervention and the swap lines.

Ralph Leach: I'm sure.

Robert Hetzel: If you're interested in this, I just wrote this history up, and it'll be– Do you get our Economic Quarterly?

Ralph Leach: No, I don't.

Robert Hetzel: Okay, well, I'll put you on the list because I think you'll be interested in this history–

Ralph Leach: I would.

Robert Hetzel: But this is the counterpart. This had to have come along with Operation Twist. So you think that Martin had some philosophical predilection toward Bills Only? It wasn't just that Bills Only was a convenient way of framing the issues with the New York Fed so that it wasn't just a personal struggle for control–

Ralph Leach: Yeah.

Robert Hetzel: –who the Open Market manager was going to report to?

Ralph Leach: I have no doubt that he was a free market man and did want to confine the operations to the short term, but the Bills Only was a figment of the New York imagination. Nobody had ever specified that that was to be it. It was simply to be within the operations and securities within a year or so was the way we were talking, because we, at that time, had some problems with the one-year rates too. And you just couldn't take a chance at that point. Then all of a sudden this 'Bills Only' phrase started to be popularized all over the press, and we found ourselves trying to defend our position against that narrow an interpretation. And I always thought that was a coup on the part of the New York Fed to come out with that kind of an advertising campaign, but I don't think there is any question about Martin's philosophy on the free market. The problem at that time was still one of defining, or trying to define the time when the Fed would step in to correct a disorderly market– what *was* a disorderly market. And I can't remember the exact dating of the report where that was first discussed. It was a study of the market in 1952, I think. Did you ever find that one? It's the one where they talk about -- define what an orderly market is; depth, breadth and resiliency are the phrases that were used to describe a market.

Robert Hetzel: No, I've never been able to find the–

Ralph Leach: Oh, dammit. That's–

Robert Hetzel: –report. It was done with a Robert Kraft from Guarantee Trust.

Ralph Leach: Yep.

Robert Hetzel: So did you know him?

[00:09:09]

Ralph Leach: Why yes, he was the guy who recommended me to be his successor. He was the treasurer of the Guarantee Trust. At Martin's request, he spent a year in Washington working with us, going through interviews with all of the government security dealers, checking whether they felt they could operate under a free market concept. Did they have enough capital? Were they really prepared to step in and make substantial markets? All that sort of thing. And all of them said, yes, they were anxious to, that they had to beef up their organizations and their capital. But then on a personal basis, yes, after he went back, about six months, Bob Kraft called me and he said, 'I've agreed to take another job, and I've recommended you as my successor.' So that's how I got into the Wall Street area.

Robert Hetzel: So as part of the accord, Martin must have brokered the arrangement at that time, since he was at the Treasury. That's when they must have developed the idea of "even keel" as part of the deal.

Ralph Leach: Yes.

Robert Hetzel: That well, at least the Fed would stabilize rates, as long as the Treasury was in the--

Ralph Leach: That was Martin and Winfield Riefler who did that whole negotiation. And we were sort of on the fringe of it. We knew what was going on, but we really didn't know basically how close they were coming until sometime in mid-February, prior to the March 4th agreement. Then it began to be buzzed around that this was going to be done very quickly. What we didn't know was that, after announcing it on, I think it was Friday, March 4th, Truman followed up on Saturday by appointing Martin the Chairman of the Fed. So we spent the weekend saying to ourselves, Christ, we won the battle but lost the war. Now we've got a Treasury guy coming over to be the Chairman. Well, he turned out to be maybe one of the best chairmen ever for the Fed.

Robert Hetzel: Yeah. Of course, the other side of that was that he had people like Riefler on the staff who were extraordinary individuals.

Ralph Leach: Absolutely. One of the most extraordinary ones known, I think. An absolutely superb individual. Brilliant. The guy that thought up the amortizing mortgage as a way of avoiding the catastrophes that they had in the late '20's. He was just great. If you want to know more about him, his son was my number two man at Morgan for thirty years, and he's up in northern Florida somewhere. But he was not a part of the Fed, but if you want anything personal about Win Riefler, Don, I could get you his number very easily.

Robert Hetzel: Well, actually you did that, and I talked–

Ralph Leach: Oh, did I?

Robert Hetzel: –and I talked to him. So the senior had a very interesting life.

Ralph Leach: Very.

Robert Hetzel: And unfortunately Don didn't know as much about the early part of it. Apparently he ran an export-import business and did all kinds of things, but yeah, I talked to him and it was real interesting. So Roosa really -- once that Martin had kind of won control of the system, Roosa really couldn't rise any farther within the system, so he might as well have gone to the Treasury. I mean, he'd lost the battle.

Ralph Leach: Yes, I would think so. But also, he became a real antagonist for the Fed in terms of breaking down the agreements that had been reached and all, and of mine personally, I know. At one point in the, I would think, early '60's – if I'm repeating myself, stop me – I had–

Robert Hetzel: No, you're not.

[00:14:08]

Ralph Leach: I had been deciding, in running our portfolio at Morgan Guaranty, that there was a possibility that the whole market was overlooking a development that we could take advantage of. And talking to our chairman and president, I remember saying that there is a $1.3 billion offering – I believe it was one-year treasury bills – coming out, and the market was a good ten basis points off in guessing where it was going to go, and I wanted to buy the whole issue. And they said, well, we certainly can't do that. Probably saying, since they were Morgan guys, this idiot – it'd take us a while to do that because that's bigger than the bank was a year ago before the merger. But they finally let me bid for, I think, $900 million. And when the results of that bidding were announced, they said the announcement will be delayed because there is a questionable bid being considered. And this was Roosa. And he finally decreed that they would not sell us more than $325 million, which was 25% of the issue. That's when the limitation of 25% was first established. Up until then anybody could buy any amount they wanted. But he did it on the basis that this could have caused a disorderly market situation. And I called him and said, 'I don't know how you can justify spending money on interest that you didn't have to pay, and awarding them to somebody else,' and he said, well, we certainly can't give 70% or 80% of the issue to one buyer. And I said, 'Why not?' Well, he had no answer. But at any rate, that caused quite a furor because they didn't announce who it was, and so everybody was trying to guess for a couple days who in the hell had upset the apple cart. And I guess I finally told somebody, 'Let's get it out here.' And the story…

Robert Hetzel: Yeah. Incidentally, did you ever read the debate between Roosa and Friedman on fixed versus flexible exchange rates? It came out in a little book.

Ralph Leach: Yes. Yes, I did.

Robert Hetzel: Yeah, anyway, that was a classic debate. Roosa apparently wasn't personally pretentious. That's my understanding.

Ralph Leach: No.

Robert Hetzel: But he had this idea that markets had to be managed; that they–

Ralph Leach: Oh, he had a fixation on that.

Robert Hetzel: –wouldn't run by themselves, and they had to be managed by the elite of the world's central bankers, and treasuries.

Ralph Leach: Or that they couldn't be trusted. Markets can't be trusted.

Robert Hetzel: No. And so the Bretton Woods system wasn't this impersonal system that would cause money to change when you had a balance of payments surplus or deficits; it ended up being a system of exchange controls and all sorts of ad hoc interventions on trade and so on. And I mean it seems strange. I'm sure these people thought of themselves as conservatives, yet they were very interventionist in terms of their attitudes toward markets.

Ralph Leach: Right.

Robert Hetzel: And I think curiously, some of that was in Paul Volcker. Paul Volcker never got away from the idea that the central bank ought to manage the exchange rate, and ultimately that got us into Plaza and Louvre as late as the '80's. So anyway, that's another story. Did you keep up with people at the Fed at all after you left, or–

Ralph Leach: Not to any extent, no. Any specific ones you…?

Robert Hetzel: No, I was just interested in the details where Sproul and Martin finally had it out on the debate over who the Open Market manager–

Ralph Leach: No, I've never heard any stories on that.

Robert Hetzel: –was going to report to. Okay. Well, so you mentioned you had contact with both Arthur Burns and Alan Greenspan?

[00:19:16]

Ralph Leach: Arthur Burns had been an advisor to J.P. Morgan for years before the merger, so he came aboard. We had an economic advisor at the Guaranty who was not in Arthur's class, so Arthur stayed on as really the advisor.

Robert Hetzel: So this was after Burns had been head of the Council under Eisenhower?

Ralph Leach: Yes.

Robert Hetzel: So that would have been–

Ralph Leach: This would have been in the '60's. The merger took place in '59.

Robert Hetzel: Hm-hmm (affirmative). So Burns would come in and do what a business economist does. He would give near term forecasts–

Ralph Leach: Yes, well, he and I would both make talks for visiting groups of bankers or industrial groups. He would talk maybe more about world economics. I'd talk about the outlook for interest rates, that sort of thing. So yeah, we got to know each other very well. The Greenspan dates could be established easily, when he came on the board of Morgan. That was– I'd have to try to look that up for you if you want me to. I know when Maggie Thatcher came into power in England he was on the board by then, because he was invited to lunch one day, and I was at this big board table. I was sitting across from her and Alan was sitting next to her. And I heard her say, 'Alan, explain why it is that we don't have money supply figures in Britain comparable to yours.' And Alan rather impishly said, 'Ask the man across the table from you. He's the world's expert on that.' And I just laughed and said, 'Mrs. Thatcher, the man on your right is the world's expert, and don't let him get out of it.' So he explained it to her. But I can't remember when that was. That must have been early '80's, I guess.

Robert Hetzel: Right, yeah.

Ralph Leach: But he was on the board for several years.

Robert Hetzel: So in the '70's, then, he would have come on. Maybe late '70's.

Ralph Leach: Yeah, probably in there.

Robert Hetzel: Did you have any sense in talking to Burns how he thought, as an economist– that is, as a business economist people are typically looking at, well, you know, Burns' and Mitchell's leading indicators and their trying to read the tea leaves for near term economic activity. And you can listen to that and you don't really have a fundamental sense of how they think of the world; that is, what causes inflation? What caused the Great Depression? Could you get some sense of Burns', kind of the way he looked at the world as an economist? Or did he mostly come across as a person who summarized information about world economic activity and…?

Ralph Leach: Well, I wouldn't know how to answer that question. I don't think I'd try to characterize it. There are so many different aspects of Burns that I can't quite reconcile them. But Greenspan much more easily, because through a mutual friend, Chuck Brunie – has that name ever come up with you, at Oppenheimer in New York?

Robert Hetzel: Well, actually yes it has, because I had this idea that the Treasury would issue in pairs indexed and non-indexed bonds as a measure of inflation expectations, and I published an op-ed piece in the *Wall Street Journal* about it, and that was picked up, and that was the basis for the congressional hearings that eventually led to the Treasury study that recently caused the Treasury to decide to issue indexed bonds. And so I had a little bit of correspondence with Brunie in the early stages about that, through Milton Friedman. Friedman was interested in this, and so–

[00:24:31]

Ralph Leach: Chuck was a neighbor and close personal friend in New York, and on several occasions he would have a dinner for four or five people in New York. And the other two would be Greenspan and Friedman, and I. And I tell you, they were the most fascinating times. As Chuck would say, 'All you and I have to do is sit and listen.' And that's what we did, and listening to those two guys, you could clearly understand where they were coming from on almost any given subject. But trying to characterize Burns, I would think he was– I'll take your phrase – more a collector of information–

Robert Hetzel: Hm-hmm (affirmative). An eclectic.

Ralph Leach: –and a manipulator of it–

Robert Hetzel: Yeah.

Ralph Leach: –explainer of it, than an originator.

Robert Hetzel: Yes. Yeah.

Ralph Leach: Whereas these two guys are–

Robert Hetzel: Greenspan–

Ralph Leach: –both brilliant original thinkers.

Robert Hetzel: Greenspan wanted to get more into the analytics of it, kind of professorial and–

Ralph Leach: Absolutely, yeah.

Robert Hetzel: –kind of figure out what's going on. Okay, so that's interesting to me, because our contact with Greenspan is with Greenspan as Chairman, and he gives these long, rambling, sort of discursive, professorial discussions, but he doesn't necessarily tip his hand in the way he would if he were not speaking as Chairman, even within the FOMC. So it's always hard to know. He tends to start a monologue and you think he's in one position, but by the end of it he comes out on the opposite side. So for us it's a little hard to really kind of get inside and see well, what does he really think causes business cycle and so on. So you had dinner with him? This would have been in the late '70's? Or this would have been after he was head of the Council for Ford?

Ralph Leach: I would think so, yeah.

Robert Hetzel: Yeah, that was in '75-'76.

Ralph Leach: Yeah. Brunie has contact with these two. He runs blind trusts for both of them. And so you can time it whenever Alan went into the political world and had to set up a blind trust, that's when it was.

Robert Hetzel: Well, I'll give– I think I have– Friedman sent me some correspondence that he was having with Brunie on this indexed bond thing. I'll have to see if I've got a phone number or address. Was Oppenheimer Trust– isn't that the–

Ralph Leach: It's the Oppenheimer Fund.

Robert Hetzel: Okay, well, I can get an address for that. And I'll send him a letter and see if he's willing to talk to me.

Ralph Leach: I maybe shouldn't have said that. Maybe he doesn't want it known that he's running those, but I think a number of people know that he is.

Robert Hetzel: Well, that wouldn't come up. I don't think that's– Okay. So if you had to guess what Greenspan would say if somebody asked him what caused the high inflation rates in the United States in '73, '74 and then again in '78, '79, '80. What do you think he would say?

Ralph Leach: I would think he would say the Fed was at fault in their money supply decisions.

Robert Hetzel: Hm-hmm (affirmative). And what do you think he would say about the recession in '75?

Ralph Leach: Well, I'm saying what I would say.

Robert Hetzel: Yeah, okay. No, I'm just wondering if he–

Ralph Leach: In almost every case it's been faulty Federal Reserve timing that has led to those excesses on both sides. And from the background of all the discussions with Friedman and Greenspan, I would think that that's the number one answer that they would give. I can almost guarantee that's the answer that Chuck Brunie would give.

[00:29:27]

Robert Hetzel: Hm-hmm (affirmative). Right. Yeah, he's close to Friedman on this.

Ralph Leach: Yeah.

Robert Hetzel: But it's to say, Greenspan's a little more inscrutable.

Ralph Leach: Well, yeah, he is, but–

Robert Hetzel: He's a little more eclectic.

Ralph Leach: Basically. And maybe it's just because he didn't want to refute the brilliant analysis that Friedman was giving that was the reason he didn't argue much the other way, and that's why I would say that he would not have argued with it.

Robert Hetzel: Well, any other anecdotes you can tell me about Greenspan or Burns? Were they pretty good forecasters or were they…?

Ralph Leach: Well, I think that depended on who they had working with them and for them. No, I can't. And why don't we do this: if I can scratch up any more, I'll call you.

Robert Hetzel: Okay.

(END OF RECORDING)