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Oral History Interview of Spencer Marsh

Conducted by Robert L. Hetzel

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Spencer Marsh: …and clear it from the Federal Reserve really didn't mean very much as from the standpoint of economics because they had no way of doing anything except for raising or lowering the discount rate and lending banks to help them take care of loan demands and also help them with the loans that they had made which were in poor shape. But in one way or another, they would help the banks try to collect them. They might try to—in some cases we sold collateral for the loans, where it was worthwhile. They'd borrow it from us, of course, very heavily at that time. And I wasn't involved, directly. I was just a kid out of college at that point. But we were involved.

But the real effort was made as it appeared that these banks were in very bad shape, for many of them, but some of them were as much as seven times insolvent. Their capital was gone seven times. And so, then we had to send out examiners to see what they had in way of bad loans and based on the reports we got, we had to decide which banks could be reopened in '33 when the banking holiday came along, and for four days they were closed. And then after that, it was a matter of, can I say, deciding which would reopen and then helping them where it was a marginal situation, have to be helped somewhat, even then.

And eventually, the Reconstruction Finance Corporation recapitalized the bank which had lost almost all of their capital, but was still able to stay above water. They were all recapitalized by the RFC and the RFC had to be told which ones they were and how much to put in. Then they had to work it out how much—how it was to be done. Most of it, of course, was done with preferred stock, which the RFC took and—to work out. That all did, eventually, work out pretty well. But a lot of banks were very close to the line.

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And as we approached the war time situation in the late '30s and early '40s, there were still a lot of banks that had a lot of preferred stock outstanding and it was quite apparent that the approaching war, people, I think as I said, realized that eventually we might be—might have to get into the war situation and finance a war. And at that point we had to decide—I was put in—at that point I was put—in the middle '30s I was put into the Bank Examination Department—in '33 that was, to help decide which banks and how to help them, how much to put in and so forth, and work with the RFC in figuring out the arithmetic, how much they needed and how much we could afford to give them.

Of course, we had unlimited power to create funds by making loans, but—and we did make a lot of loans direct to the bank. But we had to have collateral for them. But then they didn't have much good collateral, we weren't able to make—and by law—make unsecured loans to the bank. We had to have them put up their collateral, which consisted of what appeared to be good loans and all of that was mechanical operation.

[00:05:18]

And it all worked through the Bank Examination Department, in which I was chief of the Analysis Division, which prepared the statistics on which banks and how much we could loan, how much good collateral they had and so forth. And it was—we took on a lot of other people that were out of work at that time, in the Depression, enlarge the Bank Examination Department to do all this mechanical work. I didn't—at the start I did go out and examine some banks, but mostly it was in the office as the chief of the Analytical Department division.

And then when the war came along the whole effort was made to decide how to do that. And of course, they started—the Treasury started issuing Treasury Bonds to pay for the war. And as that went along, it devolved on the bank examiners and the analysis of the examination reports to decide how much they were to be allowed to take on the war loan deposits. They put limits on what—how much of a bank could take, how much a particular bank could take as a war loan deposit, which that was another mechanism that developed during the war.

And I've forgotten all the details of that, but it ended up at the end of the war, that we had an enormous number of banks that has nothing but government securities in their portfolios. They took on war loan deposits and took—the individual banks would take Treasury Bonds, which they'd place to secure loans from the Fed if there were any loans to be made. But most of the credit was against Treasury Bonds at that time. So all the other industries and borrowers who disappeared during the war, some of these war industries of course went on, but a lot of industries more or less dried up and they all had to, the banks had to finance the—invest these war loan deposits in the Treasury issues. And they were loaded with Treasury Bonds.

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And at that point, the question arose as to how to make the banks viable as lenders again at the end of the war. During the war it was just a question of building-up the government holdings of the various banks as they took war loan deposits. And that, at the end of the war, is when the real mechanism of the Federal Reserve came into play and tried to support the government's securities that were in the banks, as the banks started to liquidate them after the war.

[00:09:50]

And this of course ended up with our paying the interest rates. During the war we did pay the bank interest rates that the Federal Reserve—excuse me. The Treasury wanted to finance the war of course, during the war, and so the interest rates during the war was pegged at 2.5%. And if anybody wanted to make loads and use Federal Reserve credit, they had to pay 2.5%. When they sold the bonds, they had to be sold on a—to get liquid funds, they had to be sold on a 2.5% basis. And that resulted in an awful lot of creation of money at that point, new money, which was created during the war. And after the war, as we bought them back from the banks to they could make other loans, to finance—reinvigorate the economy. And that's when we really got into the monetary policy activities.

That's just a very overall picture of it. You undoubtedly know a lot, but the effort was made by the people in the Federal Reserve to—at that point, during—in 1945, '46, I was transferred to the monetary policy, the open market operations. Up to that time, open market operations hadn't amounted to anything at all, except to peg the rates of 2.5%. If anybody wanted to sell government bonds to make some loans, we had to buy the bonds on a 2.5% basis to monetize the debt, which we did in very large amounts at that point. And that was quite an operation.

We did our best to buy as few as we could and we'd use a lot of moral suasion—dissuasion you might call it—to get them to hang onto them and not sell them if they could avoid it. But if they wanted to sell them to us, we had to buy them. There was no two ways about it. During the war, we did quite a bit of that, but really became a deluge. At the end of the war as all the industries that had been making war materials reverted to other activities and it was just a question of taking everything that anybody wanted to sell us in the way of Treasury issues from the banks and the others. There were insurance companies involved, too, and quite large amounts, very large amounts.

But at the end of the war, it was quite obvious that we had to get away from the takerate of 2.5%, or we would continue to monetize more debt and inflation was bound to occur, and it did. At the end of the war, the Federal Reserve was the—wait a minute now. Let me get this straight on the time basis. It's kind of difficult to remember all the time sequences, but the effort to get away from pegging the government security rate was made by backing

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away from the 2.5%. We would lower our pegging price, raise the interest rate, in effect, by not buying everything and buying some and not taking a whole bank portfolio over intact, because that would have been an enormous amount of injection of bank credit immediately and without the industrial capacity to create all these things right away, the money was bound to be very inflationary and it did.

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And I think we figured out that about a 50% inflation occurred around that time, between the time we started trying to get rid of the 2.5% rate. It appeared that prices—the price structure increased about 50% after the end of the war to the time that we completely stopped pegging the rate, which was in the early '50s, '51, '52. We dropped—we started dropping the pegging rate in the late '40s, '47, '48, and in 1950 we speeded up the process.

And of course, that created a lot of anguish among the banks who were then taking losses on their holdings. But it worked, finally, and we finally ended up letting the market set the rate instead of the Federal Reserve by the process of pegging the rate. That is buying at a particular interest rate. That's the history of that.

Then, from then on in, it was a matter of, what you know now, mostly. Things were not so different at the end of the war from what they now as far as the mechanism and the efforts of the Federal Reserve to control money and credit and to maintain the value of the dollar. And so far, we've managed to stay with it without the politicians. Then of course, politics began to come into it, as the administrations wanted things pumped-up around the time of elections and so forth. And there was always the question of whether the Federal Reserve was going to knuckle-under and maintain a rate or just let it float, which mostly it did. We really did nothing after that period of pegging was over. We really did nothing to create unnecessary amounts of money if there was any danger of creating inflationary pressures. So basically, that is the way it worked.

Now, my own experiences were involved in dealing with the Reconstruction Finance Corporation when it got going. Then dealing with the banks and deciding how much war loan account they would be permitted to take. If they were allowed and depending on the size of the bank if we allowed them to take everything they wanted to and pegged everything, it would have created difficulty with the banking structure, create sort of preferences here and there, I suppose. We never did feel there was much of that. But we tried to spread it out among the banks and put limits on the amount of that kind of money that would go into the war loan accounts.

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Then as we got closer to the time when we wanted to get out of pegging, we used an awful lot of persuasion to persuade people to buy the Treasury Bonds. And we also spent a lot of time advising the Treasury on the—we were working, of course, with the Government Security Market for the dealers. And that resulted in—that was aimed at preventing the Treasury from having to pay too much for its debt as the rates increased. They wanted to finance the debt, of course, as cheaply as possible. And we kept advising them based on our contacts in the market, with the dealers.

After the war, the dealers were obviously the big contact which we had to make—to advise the Treasury on what rates—on the rates to put on their new issues and to—as they came out, they had to be sold to the market and the dealers had to make the efforts to place them and to buy-up any that didn't get taken up. Instead of the Federal Reserve buying them all, the dealers had to take them in and try to sell them. And that took a while for them to get organized to find out which banks and investors—there were a lot of insurance companies involved in this, too. They had enormous amounts of Treasury issues that all had to be pegged, had to be liquidated. And they wanted to make other loans, of course, and so it was a chore for the dealers to try to figure out who—where those new Treasury issues could be placed, at what rates. All this occurred toward and after the end of the war as we tried to get out of the pegging syndrome. It was quite a complicated operation.

But, as the Federal Reserve and the Trading Desk, in which I was involved almost continuously from 1948 on through the time I retire, it required constant contacts with the dealers to get the feel of the market, see what rates the Treasury might be justified in paying. And then see whether we should allow the rates to go up or keep them down or keep them down by creating more money. And the game was to try to create as little money as possible at times when the economy was booming, and as it slowed-up, to be more generous. And so this was quite a trick, because it had never been done before and never been done this way with Treasury issues.

Robert L. Hetzel: Let me ask you some questions that have occurred to me while…

Spencer Marsh: A little confusing sounding, but…

Robert L. Hetzel: No, it's fine. It's very clear. I just want to ask you some questions—

Spencer Marsh: What?

Robert L. Hetzel: I just want to ask you some questions about the details. Starting from the beginning, from the early '30s when you were helping banks.

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Spencer Marsh: Oh, that was—yeah. We were helping the banks. This is with the RFC.

Robert L. Hetzel: Was there any talk at that time about open market operations. Later on you…

Spencer Marsh: Well, there weren't any government bonds until the RFC began to finance the banks. They had to refinance the banks. They had to sell more Treasury issues. And as the Treasury issues gradually increased in the banks in the '30s, that's toward the war, particularly of course during the war, the open market operations grew. Before the '30s, they were practically nonexistent.

[00:25:09]

Robert L. Hetzel: So there was no way to help the banks by buying in the open market and providing reserves? That never came up?

Spencer Marsh: Oh, no, not at all. That was one of the key features. And then financing the war, they created all this debt that made a perfect instrument for financing the war and also for monetary policy when we got around to it. Of course, all that debt never was reduced. It's been refinanced over the years and continuously grew.

Robert L. Hetzel: When you were a student at Princeton and you talked about the Federal Reserve System, you just talked about the discount window. You never talked about open market operations?

Spencer Marsh: Not really, no. It just didn't—wasn't possible to do anything, unless we wanted to buy stocks or something. And of course, we made a lot of loans to banks that held a lot of stocks, that way we probably financed another—a direct open market operation. But it was supposed to help the stock market; it didn't, not at all.

Robert L. Hetzel: When the bank runs occurred, there was no talk about the Federal Reserve System replacing the reserves that the banks were losing when people tried to withdraw their funds. That was viewed as primarily as a problem for the banks. Now, what was the Fed's attitude during the time of the bank runs?

Spencer Marsh: The bank runs?

Robert L. Hetzel: Yes.

Spencer Marsh: Well, they were all—that were all—the attitude was to lend them—lend them the money, but they had to have collateral, of course. And so we took on a lot of

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collateral, but had to de-liquidate it eventually. And we took on some and some of it went bad and a part of the Fed's effort was to try and liquidate some of that bad collateral that we had, that was questionable collateral. And we had the crew of people in the credit department who would go around and visit the banks, the larger banks that had the larger amounts of collateral that was no good. They were insolvent, I'd say, several times and some of that we made loans again so where it was—where it looked the best. But it was a very small effort really, on the whole picture.

The whole picture was so bad that they had to close the banks and then the money that was put in by the Reconstruction Finance Corporation, went to liquidate some of that. And of course, they had to borrow more stock borrowing money to provide that. So then the open market operation and Treasury issues began and they did borrow quite a lot of money then. And we tended to peg—we pegged—I've forgotten when they started to actually fixe that 2.5% rate. It was somewhere in that period and I don't remember exactly when it was that we put all the—started buying large amounts of Treasury issues, but it was in the—I wasn't in the open market operation until '46, '47.

Robert L. Hetzel: Right.

Spencer Marsh: Up to that time, I'd been in the examinations division, department, where we would try to work out the bank's problems.

Robert L. Hetzel: Right. Why did so many banks get in trouble at the same time? What caused their problem?

[00:29:33]

Spencer Marsh: The stock market. In the '20s—in the '20s they—there was a lot of stocks, speculative stocks issued and sold and traded. And the market, the stock market, about the time I went to work in September of '29, it began to be—when Hoover was president, it began to be itchy about it. And the stock market fell out of bed and it just went from—the banks and people realized that there was an awful lot of poor stocks, or stocks that were not functioning, not trading very well. And then October of '29 the stock market really fell out of bed and it just went to pieces. Then England went off to gold standard and back in there, forgotten the date.

Robert L. Hetzel: Yeah, '31.

Spencer Marsh: Thirty-one, and that aggravated it more. So it was a deluge of stocks that banks, they wanted to borrow against. As the people became itchy about the stock market, people wanted to get rid of them. And of course—and of course, that aggravated the

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whole bank situation and they were all loaded to the ears with stock loans, collateral loans. And we weren't going to bail-out all the collateral in the stock market, if they held. We did bail-out a lot of them in small amounts. But we didn't have too many stocks. We insisted on—as a matter of fact, as I recall, the regulations didn't permit us to take stock collateral. We had to take other collateral, good loans, supposedly, from industries, direct loans, which was the bank function and they had to hang onto the stocks. That's the way I recall it.

But the collateral they had was not—just couldn't be discounted at the bank in any sizable amount, until there was—the stocks improved in price. But they didn't. They kept going down and worse and worse. All the good collateral, or supposedly good collateral, went to the Federal Reserve Bank and the bank had to—had all these stocks that they couldn't do anything with. They had big losses in them. They could sell them at enormous losses, but that made them insolvent right away, quick. So the whole thing just piled up. And during the '30s, the only thing that helped was the Reconstruction Finance Corporation that gave the banks more collateral after the banking holiday, and the rest of them closed, never did reopen, the ones that were in the worst shape.

Robert L. Hetzel: Do you remember any of the individuals working at the Federal Reserve Bank at that time? First of all, did you remember any—when you came to work at the Fed, did you hear any stories about Benjamin Strong?

Spencer Marsh: Not too many. Not too many. George Harrison was president when I came. He left somewhere in there. I've forgotten just when. You know the date. But George Harrison was the present when I was there.

Robert L. Hetzel: Did you ever meet him?

Spencer Marsh: Oh, sure. Oh, sure.

Robert L. Hetzel: What do you remember about him?

Spencer Marsh: Not too much. I was just one of the kids down in the Bank Examination Department and I didn't have much direct contact. I had—I got to know Allan Sproul fairly well, who came in in the middle '30s. I used to play golf with him. They—we had a—the banks in New York area had a Banker's Athletic League and they had golf tournaments and I loved golf and played a pretty good game. So I was the star golfer for the Federal Reserve during that period. We had time to play golf. Allan Sproul liked to play golf. But I didn't see much of him. Mostly, that was later on, after the war, when Sproul was still president. But I got to know him really well. He was a very funny fellow. Harrison was sort of remote and he had enormous problems and the golf was not a big feature then. Later on it was.

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[00:35:15]

Robert L. Hetzel: What were Harrison's problems?

Spencer Marsh: What?

Robert L. Hetzel: You mentioned Harrison's problems. You're talking about the banking?

Spencer Marsh: Oh, yeah. He was the head of the Federal Reserve that had all this on his lap.

Robert L. Hetzel: Sure.

Spencer Marsh: That's all. His problems was dealing with an impossible situation. But it was greatly helped, the whole thing—he was there in the late '29, I think, and on through—until Sproul came in. I think it was around the middle '30s. I can't give you the date off hand. I don't remember. But he was an economist and the only person—he had a lot of understanding of the situation. I don't know whether Harrison did or not. But he didn't last too long after I got there, maybe four or five years. I just don't remember the dates. But he was so, I guess, involved in trying to work things out for the banking system that we never saw anything of him.

Robert L. Hetzel: Did you know the name Carl Snyder?

Spencer Marsh: Oh, sure.

Robert L. Hetzel: What did you know of him?

Spencer Marsh: Not too much. Not too much. I remember the name. I don't—forget what he did.

Robert L. Hetzel: He was an economist in the research department. New York bid [phonetic].

Spencer Marsh: Of the board? In Washington?

Robert L. Hetzel: The New York bid [phonetic].

Spencer Marsh: Oh, yeah.

Robert L. Hetzel: I think he retired about the time you came.

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Spencer Marsh: Yeah, I think so. The person I used to know very well, had a lot to do with, was Dewey Daane. You know Dewey Daane?

Robert L. Hetzel: Yes. I'm talking to him. The problem is he's so busy. He's very hard to find time to talk to. What was your contact with Dewey Daane?

Spencer Marsh: Well, he was in the Federal Reserve Bank of Richmond then.

Robert L. Hetzel: Yes. He came in 1939.

Spencer Marsh: Yeah. And from then on I thought quite a lot of him, because I was—let's see. When I came into the Trading Desk I got to know him better. That was in about '48. I didn't know him before that. But then they had a program for educating all the presidents and the economists of the various banks, various Reserve banks in open market operations. And that's when I got to know all of them. They'd come in and spend two or three weeks or a month sitting on the Trading Desk and listening to us try to argue with the dealers over whether we were going to buy a block of bonds from some insurance company and try to persuade them to hang onto them and buy as few as we could at the pegged rate. And that was quite a thing also.

It was the questions that we also tried very hard to get the banks, the large banks, the city and around our district anyway, to take blocks of the large Treasury issues during—after the war, that is in the middle '40s. And from then on, try to get them to buy them. That was when we were still pegging the rate, but trying to get away from it. But by not buying any more than we had to, and gradually, then of course, we had the Christmas Eve, dropping the peg, which that's when we started to drop it from 2.5%. And the minute we did that, everybody went berserk because they all tried to get out at once before we'd drop it again. We'd drop it a little bit and that would slow it up a little. But then, later on, say, well we better get out before it goes lower. The prices go lower and the rates go up.

[00:40:18]

Robert L. Hetzel: When was that? Was that in 1951 or was that before?

Spencer Marsh: Oh, no. That was… **Robert**

L. Hetzel: Forty-nine?

Spencer Marsh: Well, it started—I couldn't put a—can't put a date on when we really started. It was the Christmas Eve, Bob Rouse was the manager and he engineered it.

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And, gosh, it was within the—'49, '50, somewhere in there. Up to that time, we'd pegged it still at 2.5%.

Robert L. Hetzel: Had the Korean War started then? That started in June 1950.

Spencer Marsh: I don't—gee, I don't remember the dates. The dates escape me. It was so long ago that—in general I remember. I can't remember which came first and what the dates were.

Robert L. Hetzel: What can you tell me about Allan Sproul? What do you remember about him?

Spencer Marsh: Oh, mostly I didn't have anything much direct to do with him. In the business way, he—well, I would sit-in on the strategy issues for the—at our director's meetings—and I would—my job at that point was—when we started to get away from the pegging business, was to interview the dealers every morning. And they'd have—at that time there were—originally there were about five or six, seven or eight dealers that were doing the bulk of the trading. But there wasn't any profit at 2.5%. It was just a matter of paying them to—giving them a little spread on it to make it—keep them going.

As we began to get deluge, they made quite a lot of money on sort of a fee for handling it. We didn't pay them a fee. We paid them a little spread on it. But that was in the strict pegging day. Then as we got away from the pegging and we dropped the peg, then the dealers were—had to be careful they didn't get hooked with a big portfolio and they would immediately come in to us and try to sell us more and more at the peg, at the peg rate to avoid taking more losses if we dropped the peg later on, which obviously we were trying to do. That was quite a trick.

Robert L. Hetzel: Did you ever attend any of the executive committee meetings or the FOMC in Washington?

Spencer Marsh: A couple of times I went down with Bob Rouse, sat in on them. But no, I spent more time at the Treasury trying to work out with them the details of new issues and what they could do, what they might be able to get away with as we dropped the rate. This was when the rate began to be fairly free. Of course, we had no choice but to stick with the pegs until we got rid of it entirely around '51, '52, somewhere in there. Then from then on, it was—had to be a lot of consultation over what rates we were going to pay and what rates the market would take. And that's—my job was to talk to the dealers and get their ideas on what rate they'd have to pay for a particular refunding.

Of course, it continued to be quite a problem for the Treasury, because the Treasury was paying more and more for refunding all this colossal debt that they issued during the war.

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And they never did—never were able to reduce it by one iota. All it did was get bigger and bigger. At that point, the Treasury had the problem of—the political problem—of paying so much interest for the debt.

[00:45:04]

Robert L. Hetzel: Do you remember any of the stories about the Accord and the role that Sproul played? At the time, were you aware of the problems between Truman and the board? Or did you just learn about that later?

Spencer Marsh: Oh, indirectly. Sure. We were aware that the board and Truman and the Treasury balked very much at paying a lot more for the debt as they—as we dropped the…

[END TAPE 16, SIDE B]

[START TAPE 67, SIDE A]

Spencer Marsh: And, of course, Bill Martin was the big help to the Fed, because he always said, well, the Federal Reserve's job is to take the punchbowl away when the party gets rough.

[00:46:03]

Robert L. Hetzel: Did you know Martin at the Treasury or only—

Spencer Marsh: Oh, that was Bill Martin, the—

Robert L. Hetzel: Yes. But did you know him when—you said you worked with the Treasury. Did you know him when he was still at the Treasury?

Spencer Marsh: Oh, yeah. Yeah, I'd talk to him. But it was later. See, I didn't get into this until the middle of—until '47—'46, '47, '48. And he didn't—he wasn't there for more than a few years after that. Then we had a whole session of other chairmen of the boards. And they were all committed to the same thing.

He evidently—of course I didn't sit in on these discussions. These were political discussions with the people at the Board and the Treasury and so forth. But I didn't see too much of that. I knew it was going on, obviously. There was a lot of talk about it. But I didn't actually sit in on the discussions at the Board on that [unintelligible 00:47:26] keep the people [unintelligible 00:47:30] during the Depression and keep businesses going.

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And then during the war, the big transition, enormous transition, from a private economy during the Depression. That fell apart. Then during the war the whole thing changed to a military economy and then back again to a private economy. Looking at it in a sort of a global sense, it was a complete revolution both times.

And it all had to be unwound by the Federal Reserve in effect, because we had the ability to create the money and one way or the other to help to find the money, in the first instance from the Treasury Reconstruction Finance Corporation, then during the war to find the money to convert the private economy, what was left of it, into a war economy, and then back again to a private economy with the least difficulty. And, of course, that's the whole thing. That was the name of the game.

And then after we got the private economy going again to try to prevent the—to maintain the value of the dollar as best we could. And we alternated in depressions, recessions, and to try to move back and forth. And the things now—and then too—there were Congressman Patman. You remember him?

Robert L. Hetzel: Oh, yes.

Spencer Marsh: And, well, I had a number of sessions with him. He'd come to New York and want to have a session with the dealers. And we'd get the dealers together with—of course, by that time we had a lot more dealers, and it was beginning to be a more—or was becoming a more profitable business. And we relied on the dealers to help us with the control of the money supply by taking—when you wanted to sell or buy, they were the guys that did the job. And all of this was part of the picture then. And we got to know the dealers very well. My job was really dealer relations as much as anything.

Robert L. Hetzel: What did Patman want to know?

Spencer Marsh: Everything. He was awful. He was impossible. He wanted us to—oh, actually, I don't know really what he wanted, other than to put the Federal Reserve down. That was his political job. And I sat through several sessions with him and the group as the dealers—he'd come in and he'd say, "Well, why don't you do this or that or the other thing and create more money? Create more money." He was of course a populist. And, "You're not creating enough money. You're not supplying the money that you should be." "What do you expect us to do, create inflation too?" He didn't care about that. He wouldn't listen to it.

Robert L. Hetzel: This was in the 1960s or 19—

Spencer Marsh: No. Yeah, '60s, after we'd been managing the money supply, or trying to. And he felt we weren't doing enough. And he blamed—tried to blame the dealers,

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and he wanted the Treasury to do more, I guess on its own. He had some ideas that just were—they're just crazy. And in the context, they didn't make any sense.

He thought the Federal Reserve was there to create more money for the poor people or some darn thing. He wouldn't say it that way, but he came up with all sorts of weird, weird comments and recommendations and things that just didn't make any sense. And the darn fool, he'd almost laughed when he said them. He was just an idiot. And we got another one just like him now. You know who that is.

Robert L. Hetzel: Yes. Another southerner.

Spencer Marsh: And the same—same idea. Never mind keeping the economy going or try to prevent—well, to maintain the value of the dollar. I'll put it that way. And that didn't mean a thing to him.

Robert L. Hetzel: What did he say about interest rates? How did the dealers—I mean, he always wanted the banks to charge lower interest rates.

Spencer Marsh: He wanted us to keep the interest rates down, way down, all the time. That was his whole idea. And this guy, he looked at the market as a conspiracy to benefit all the dealers. And he thought the dealers were crooked and were—or, I mean, he—I don't believe he really believed this. He knew better. But it was a political gambit. And he overdid it. And this other guy now—what's his name?

Robert L. Hetzel: González.

Spencer Marsh: I can't remember.

Robert L. Hetzel: González.

Spencer Marsh: Ah, yeah. Same thing, exactly.

Robert L. Hetzel: Hm-hmm.

Spencer Marsh: And they're just menaces from a [unintelligible 00:54:15] standpoint. All they are is really flies on the Federal Reserve back, except that there are other Congressmen and people that don't understand that maybe think there's something to it. How can you maintain the value of the—and a stable economy? You can try. You don't always do it, but you can try. How can you [unintelligible 00:54:43] unless you maintain the value of the dollar?

Robert L. Hetzel: Yeah.

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Spencer Marsh: And so that was one of the most unpleasant parts of the whole thing, and I went to Washington a couple of times to talk to some of his assistants. He had a guy working for him then. I've forgotten his name. He was a hatchet man. And Patman would call somebody from the Federal Reserve trading desk to come down and be told what to do. And it was ridiculous.

Robert L. Hetzel: Yeah.

Spencer Marsh: And it was just—well, it was almost ludicrous. And the dealers used to laugh at him because he didn't make any sense at all from the standpoint of their function or our function. And I think two days we sat with him in New York while he interviewed six or eight of the dealers to find out where the crooks were or who were the crooks and what were they doing wrong. The atmosphere was just one of—almost a circus, really, because he had to smile many times when one of the dealers would—some of the dealers were just traders, and some of them were real intelligent statesmen, almost, the leaders in the dealer market.

There were three or four people who were very well-informed, understood the whole picture. And we relied on them to give us the real—a real story about it, about what they were doing and how they were doing and what they would do and what they couldn't do. And we relied on them heavily, and they still do. They take a beating sometimes, because the market fluctuates and then the Treasury goes berserk. But that's the same old story.

Robert L. Hetzel: Sure.

Spencer Marsh: That's the more recent history of [unintelligible 00:57:16] since the '50s.

Robert L. Hetzel: Yes. He was the only Congressman—

Spencer Marsh: But this is the global sort of picture of this thing that I think is the most interesting part, that the Federal Reserve got all involved in all of this stuff and took the beating when there was a beating from the Treasury or Patman or whatever.

Robert L. Hetzel: Yeah, Patman—

Spencer Marsh: And from Congress and the Treasury, Paul Volcker, who was a very fine economist and a very fine man. I liked him very much in a way. But he could be impossible. As the undersecretary of the Treasury, you handle all these relations. Well, he used to come up—every time there was a refunding operation, he used to come to New York and sit in with the dealers and listen to them. He didn't tell them what to do. He got the

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information that he needed, the feel of the market for what rate would go in the market at a particular refunding time.

Robert L. Hetzel: Hm-hmm.

Spencer Marsh: Well, all this debt of course obviously has to be refunded. And that's—we're coming up to that again.

Robert L. Hetzel: Well, why did you say Paul Volcker could be difficult?

Spencer Marsh: Oh, because—well, he had a job to do—fund the debt and arrange for the refunding of all this debt at a reasonable rate. Treasury never wanted to pay out anything more than they had to for it, obviously. And so his job was to try and figure out how to sell it at the lowest rate.

And I sat in on many days with these various dealers to try to give him some feel of what was feasible in the market of—the dealers would work on this with them, and I would listen, and I didn't take an active part and tell him it could or couldn't be done. But I let him go, and then I'd ask some questions that might give him a better feel of it and—because I was on the trading desk at the time and I was talking to them, all the dealers, all the time on the trading desk.

And every morning a group of them would come in to give us a feel of what was going on in the market, not just at refunding time, but every day, so we could judge what effect a particular move we might want to make. If we wanted to put money—if we wanted to take money out of the market if it was of the periods when the money market rates were going up, we'd try to get a feel of how much the dealers felt that it might go up from what they saw in the trading going on. And that happened every morning.

Robert L. Hetzel: Did you know Paul Volcker in the 1950s when he was at the New York desk?

Spencer Marsh: Oh, very well. You know, he was president then of the Federal Reserve Bank. Oh, I knew him before—

Robert L. Hetzel: No, in the 19—

Spencer Marsh: I got to know him. Oh, he—when he came to the Federal Reserve—

Robert L. Hetzel: It was in the 1950s.

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Spencer Marsh: ’50s, I guess it was. He was an economist in our Research Department.

Robert L. Hetzel: Hm-hmm. Did you have any—

Spencer Marsh: Oh, yes, I had a lot to do with him then. But he was a young economist, and then they educated him on the market, the Treasury market. So they put him on the trading desk right there where I was for a year or more. I got to know him very well. And I liked him, but he could be very, very positive. And we saw that later on. He was the same way. He had very definite ideas and very definite questions or things he believed or wanted done and that the Treasury wanted done and so forth.

And he would be almost abusive on the phone. He was like we didn’t know what we were doing and all that sort of stuff. But I realized, and, oh, we all realized that he had a mission in life down there. The Treasury was always trying to keep the rates down, obviously. And so we took his abuse with a grain of salt. He didn’t really mean anything by it. It wasn’t personal. It was just his job to do it that way.

And he was smart, a very smart guy, of course. And we were—everybody recognized it in the Fed and took him for what he was worth, what his job was. And so I see him quite often at Princeton when I go down there. He was the class of ’39, and I guess I was the class of ’29. So we reuned at the same time, and I’ve seen him quite a lot down there off and on.

Robert L. Hetzel: Hm-hmm. When was the desk under the most pressure from the Treasury in the 1960s?

Spencer Marsh: 1960s?

Robert L. Hetzel: Yeah. When was Volcker calling? ’65, ’66, ’68?

Spencer Marsh: Ah, now you got me. It went on and off. In periods when rates tended to go up and we got booming times, that would be the time. And when the—then the recessions, they would let the rates go down. We would let the rates go down. The secretary would. And the Treasury thought that was fine, so we got no flack.

But at the times when the rates were going—tending to go up and the Fed saw inflation in the future or in the cards, possible inflation, they would—we’d get the word down that the—we’d hear indirectly on the Treasury—on the trading desk that the Treasury Department was unhappy about this and that and the other thing and about the rates tending to go up. And we’d say, “Well, here we go again. There’ll be more pressure to keep the rates down.” And—

Robert L. Hetzel: That wasn’t just—

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Spencer Marsh: Then the job of the Federal Reserve was for the Chairman and Allan Sproul or whoever was that the President of the Federal Reserve Bank was always on the Open Market Committee, was the Chair at Open Market Committee, and he would be talking to the Chairman of the Open Market Committee. And somebody would be resisting the Treasury Department's effort to influence the rate, keep it down. But we'd hear about it secondhand. They wouldn't—Volcker used to call the Treasury. He'd call the trading desk. But they don't do that now.

[01:06:08]

Robert L. Hetzel: Hmm. So that was in the—

Spencer Marsh: At least while I was there.

Robert L. Hetzel: I mean, Volcker wouldn't just call Martin, and Martin would call the trading desk? Volcker would actually just call—

Spencer Marsh: Well, no, Volcker would call the trading desk, try to get me or whoever was handy to do something about it and keep it down. But that never worked. He knew that. He'd try, and he was trying to do his job. That was when he was a deputy or an assistant there in the Treasury.

Robert L. Hetzel: Right.

Spencer Marsh: But now they haven't done that. You get these yahoos, González or whatever his name is, to talk to the press or something else. He would talk to the press. And I don't know what he would do with the people in Washington. He might call the Chairman Greenspan or somebody and put pressure on him. But I just don't—I haven't been there, so I don't know how that works now.

Robert L. Hetzel: Sure. Sure. Well, this wasn't—during periods of even keel, the desk would try to keep interest rates from rising, wouldn't it?

Spencer Marsh: Now what?

Robert L. Hetzel: During periods of even keel.

Spencer Marsh: Yeah. Well, then—yeah, the policy of the Open Market Committee would be to keep the even keel and try not to create too much money, which was not too difficult. But the pressure would come when there was a boom psychology around and people wanted to borrow more money because they could make more money in the booming economy.

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And then, of course, when the capacity reached the point when they really had to [unintelligible 01:08:22] had to raise rates or could raise rates—raise prices, rather—prices of this, that, and the other thing, or the value of the dollar tended to decline, then the pressure would be on to keep from—the Federal Market Committee would be pressured to—by the Treasury at times—particularly at times of refundings, mostly at times when these vast amounts of Treasury issues had to be refunded.

And it's constant, continuous. And every time they get a big refunding at the time when there is upward pressure on rates, then we talk about the Treasury trying to influence it. Sometimes it apparently was, and sometimes it was low-key.

Robert L. Hetzel: Sure.

Spencer Marsh: It depends on who was running the show. Greenspan is pretty realistic about it, very realistic about it. But there was a couple of them—I've forgotten his name—one of them who always favored the Treasury's point of view, and he was more political.

Robert L. Hetzel: Yeah, Miller.

Spencer Marsh: Yeah. Well, no, no, there's another one. Chairman of the Market Committee.

Robert L. Hetzel: You mean Burns?

Spencer Marsh: Burns. No.

Robert L. Hetzel: Arthur Burns?

Spencer Marsh: Arthur Burns was more, yeah, more that way. And some of them—

Robert L. Hetzel: Well, how would you contrast Burns and Martin?

Spencer Marsh: Oh. I didn't see too much of Martin. And, well, I didn't see too much of Burns. But from where I sat, I think Martin was much more realistic about it. He was interested in maintaining the value of the dollar. And, like you say, every time—his job was every time the party got going, he'd take the punchbowl away. And Arthur Burns was much more political.

So Bill Martin was not really a politician at all about it. He was very realistic. He knew what had to be done. And what he did reflect—what we did reflected a lot of his philosophy or his ability to recognize the problem and go along with it. I don't think—he

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wasn't an economist as such, but he was a realist. The other people all had the political point of view, keep the Treasury happy and the President and Truman and all the rest of them happy.

Robert L. Hetzel: Hm-hmm. Going back to the 1950s, do you remember any of the debate between Sproul and Martin over whom the system Open Market account manager would report to? Whether he would report to the President of the New York Fed or whether he would report to the FOMC and the Chairman of the FOMC?

Spencer Marsh: Well, my recollection was that they—right from the beginning that—the only manager that I knew of the Open Market account was Bob Rouse. And he always reported both to the…

Robert L. Hetzel: To Hayes and to Martin?

Spencer Marsh: Yeah, to the President of the Federal Reserve Bank and to Martin, as far as I know. And that's always the way it's been. They both thought—of course, the President of the Federal Reserve Bank was the Vice-Chairman of the Open Market Committee. And he always attended every meeting. And he had as much to say—he probably had a lot more influence than some of the in-between guys that were more politically involved on the Committee. I couldn't tell you who they were over the years.

But I think he had a lot of influence, a lot of weight, while he was still in the Fed. And it lost some of that along the line. Al Hayes was a nice guy, very nice, but he wasn't the man that Sproul was by any means as President of the Federal Reserve. He was Vice-Chairman of the Committee. But he did not carry the weight that Sproul did by any means. Sproul went through the difficult periods of the recession and the depression and the—after Harrison left. I really can't tell you too much about that period of Harrison, because the Fed really wasn't a factor in the money, monetary sense too much until the Treasury began to borrow money.

And, of course, during the war, Sproul was very much involved. And all the management of the monetary policy during the war, that is, providing liquidity during the war, giving the financing that the war [unintelligible 01:14:32] effect and then unwinding it afterwards, and I'm sure that when it came to departing from the pegging system, the two and-a-half percent rate in the '40s and up to the '50s—I'm sure he had a lot to do with going through that.

And we had a lot of criticism for dropping the interest rate. You heard about the Christmas Eve when they first started to drop the interest rates. It was done on a Christmas Eve. I think it was a three-day holiday. The banks were all in terrible shape. And they knew that they had to get away from the pegging rate or else create endless amounts of new money. Bad enough as it was, up to that point they had been buying everything.

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And so they gave the signal that Christmas Eve—and I've forgotten the exact date—December something or other—and they first dropped the interest, the two-and-a-half percent rate, a little bit. And that was the signal for all—everybody that had these government securities still had an awful lot of them. They wanted to get out before it was dropped further and had more losses. So they did it gradually, little by little, over a period of, oh, maybe a year and a half, you know, little by little, and—

Robert L. Hetzel: So that would have been after the accord? That would have been after March 1951 that the Fed gradually moved away from the dollar?

Spencer Marsh: Yeah, when they decided—yes, after the accord when they decided they were going to move—they knew they had to do this. Otherwise, it would have been a disaster, a complete disaster, because they still—the insurance companies and the banks held the bulk of the Treasury debt [unintelligible 01:16:57] and acquired during the war. And, of course, they had no other way of lending—of getting income. That was their income. So then this all had to be converted into private hands, get it back into the market, out of the Federal Reserve.

Robert L. Hetzel: Right. Hm-hmm.

Spencer Marsh: And we had that job. And this was quite a feat, of course. But Sproul and I'm sure was a very strong advocate of getting—of doing just—he knew it had to be done. He was an economist, but a very realistic one—not that you all aren't, but some of them are not. And that's why he was so important in that period.

Robert L. Hetzel: Mmm-hmmm.

Spencer Marsh: And I think—they had a series of Chairmen of the Board back when Sproul was still there that were not—they were businessmen. They didn't understand, and some of them were just totally—and I think—you mentioned Miller. I think he is one who just didn't know what was going on, didn't understand the markets. And, of course, the Treasury market is a specialty market that lives on the Federal Reserve. I mean, they depend on them for their income.

And they couldn't operate unless the Fed was—they had some idea what the Fed was doing, or they used to—that's another thing that interested me. I should mention that. The policy of the Open Market Committee and the trading desk [unintelligible 00:33:30] was not to advise anybody in advance of what we were going to do. You give the market a chance to find out themselves, and it would be less disruptive.

And that worked out very well over the years. We didn't telegraph it ahead of time that we're going to do this, that, and the other thing. Now they've done it the other way as a

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result of pressure from Congress, of González and others down there that think everybody has to know immediately or ahead of time what's going to happen. And it's not—my experience, my observation of the market was very disruptive if we did.

And that's what happened after they—and peg started to drop, that everybody wanted to get out immediately because they thought we were going to do more of the dropping, drop it further. Obviously, we were going to at that time. We had to. And so they all tried every ruse they could think of as an excuse to sell us more, more, and more and more before we dropped it further. And that's the kind of a market it is.

Robert L. Hetzel: Right. What did people say at the time when Sproul resigned? Why did they say he resigned?

Spencer Marsh: Who?

Robert L. Hetzel: Allan Sproul.

Spencer Marsh: Oh.

Robert L. Hetzel: Did he resign because of disagreements with Martin?

Spencer Marsh: Oh, I don't—I don't really think so. I think he'd had enough. He had been in it for years. And I think he just decided he'd had enough.

Robert L. Hetzel: Hm-hmm. He had picked Bill Treiber to succeed him, but then the Board wanted Al Hayes instead. Do you remember any of those things?

Spencer Marsh: No. And I don't—I don't know anything about that. I really didn't have any [unintelligible 01:21:22] on it. I think the bankers wanted somebody from the banking fraternity as I have a vague recollection, but I didn't get involved in all that discussion. No, I don't have any good feel of that at all.

Robert L. Hetzel: What was Al Hayes' background in what—

Spencer Marsh: He was a banker. He was in the Bank of New—the New York Press Company. He was president of the New York Press Company. And he was an intelligent, very nice guy, and he was no dummy. But he didn't have the personality. He didn't have the definite ideas that Allan Sproul had about what things should be done.

And that's where I say, during that period when it was so difficult getting out from under the pegs and so forth, letting the interest rates go up, he I think was a tower of strength.

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And Al Hayes just wasn't that kind of a guy. He didn't have that kind of background. Allan Sproul had grown up as an economist in it, and he knew exactly what the—he was in charge of, I think, research in New York before he entered the executive position. But he was very definite in his ideas, and he knew from—I don't know what his experience had been exactly.

But he seemed to carry a whole lot more weight than the subsequent guy. We've had a couple of good ones in New York too, including Volcker. He was very supportive, and he knew what the score was, that there's so much politics in the background of the Fed operation that it takes somebody with considerable strength of character and a positive approach to all these things and being right so much of the time.

Robert L. Hetzel: So Hayes always wanted to work with Martin?

Spencer Marsh: Well, Hayes came long after Martin.

Robert L. Hetzel: Well, Hayes came in what, '56? And Martin came in '53?

Spencer Marsh: Oh, way before. He came—he came, you know, during the latter part of the war.

Robert L. Hetzel: Who?

Spencer Marsh: No. Martin came, yeah, after the war was over.

Robert L. Hetzel: About 1956. Yeah, he came from the Treasury.

Spencer Marsh: Yeah, but Hayes didn't come till considerably after that, I don't think.

Robert L. Hetzel: I think he came in 19—

Spencer Marsh: There was a—let me think.

Robert L. Hetzel: Hayes came in 1956, I think.

Spencer Marsh: '56, yeah. Well, there was quite a gap between the time they came. And he wasn't the man that Sproul had been by any means.

Robert L. Hetzel: Yeah. Tell me how the FOMC gave instructions to the desk at that time in the 1950s.

Spencer Marsh: Oh, boy. Well, gee, now let me think.

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Robert L. Hetzel: Let's start with free reserves. Where did the idea of free reserves come from? Was that resurrected from the way the Fed behaved in the—operated in the 1920s? Or was that just reinvented after the accord in the 1950s?

Spencer Marsh: Now I haven't any idea. Going back into the '20s, I don't think they—I really don't know what they used as a guide to policy then and to money supply. The measurement of money supply is what you're talking about, and there have been so many different gauges. They tinkered with it. I didn't have much to do with that part of it, the statistical side of it.

00:40:18

Robert L. Hetzel: Well, how was the—in between FOMC meetings, how often did—for example, Bob Rouse or Bob Stone, how often did they have contact with the Board and with the Chairman and with the Board staff? Were they regularly on the phone with the—

Spencer Marsh: Ah, yeah, they'd be on the phone. And then if there was a question about—if the market would suddenly give signs of being too tight or too easy or too much credit involved, Federal Reserve credit involved, he would get together with—on the phone. And sometimes he'd go down to Washington and talk about it.

But they would call the shots. And, of course, when Sproul was there, Sproul could do all that. Hayes, I don't know how much time he spent, how he operated, really. We didn't see much of him. I think he had—well, he wasn't oriented toward that side of it so much, the statistics of how to manage the reserves.

Robert L. Hetzel: In the 1960s, who were the primary Board staff people you talked with? If the desk needed to talk to the Board and it didn't talk directly to Chairman Martin, do you remember who the individuals were that you usually talked with?

Spencer Marsh: Oh, yeah, yeah. I can't think of his name. There was one fellow down there that was there until not too long ago.

Robert L. Hetzel: Oh, Steve Axilrod?

Spencer Marsh: Yeah, Steve Axilrod. Yeah, he was the contact. He was pretty much the contact at that level. And if [unintelligible 01:28:12] more questions, why, I guess some of the other Board members would get into the act. But that was his job as liaison with the Fed, with—yeah.

Robert L. Hetzel: Before him, did you ever talk with Ralph Young or Dan Brill or—

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Spencer Marsh: Oh, yes. Yeah. Dan Brill, I think—yeah, those names are very familiar. They were the contacts at various times. There was always somebody down there that was the main contact on open market policy and monetary policy to try and reflect the Committee's ideas. And that's where Allan Sproul was a big help, because he's had a lot of the ideas. And I don't know. I really don't know how much contact was done at his level when he was there or how much was done by Bob Rouse. I think he deferred to Sproul quite a bit, I suspect.

Robert L. Hetzel: Sure. Sure.

Spencer Marsh: I really don't know. He had a separate office. His office was on a different floor, and while he had access to the market console, that is the dealer console where you could talk to the dealers, and he did sometimes. But I really don't know how much he got involved, directly involved, in discussions. He probably did.

Robert L. Hetzel: Hm-hmm. Let me ask you just a few final questions about the 1960s. In 1959 when the dollar was under attack, Chairman Martin raised interest rates. In 1968 when the dollar was under attack, we didn't behave that way. In fact, monetary policy was quite expansionary in '68. Do you remember any of the kinds of pressures the Fed was under during that period, 1967 and '68?

Spencer Marsh: The '60s, late '60s?

Robert L. Hetzel: Yeah. Do you have any—

[01:30:44]

Spencer Marsh: Ah, the pressures. Well, let's see, the '60s. I'm trying to orient myself. There were—yo-yo. It was like a yo-yo. It would go up. It would go down. As the economy changed and as the money market changed, there were—as the whole scene changed, there would be pressures when the Fed wanted to tighten up.

That's when the pressures would come, what we would conceive to be pressures and we knew were pressures, and we had to go along to some extent with not allowing things to become disasters, not let the market get into extremes of—and get paranoid [unintelligible 00:46:13]. Sometimes they did and sometimes they didn't. But there were a lot of shifts as the economy changed, you see.

Robert L. Hetzel: Yeah. You retired in 1972?

Spencer Marsh: Yeah. My last appearance was early '73, officially was, I think, April '73. But I had two months vacation, so it was January, February '73.

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Robert L. Hetzel: Do you remember anything about the implementation of monetary policy in 1972, the last year that you were there? Any particular—

Spencer Marsh: Oh. Well, I'll tell you, the last four or five years starting in about '69—

[END OF RECORDING]

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