

DRAFT

August 3, 1951
WWR-ET

My dear Mr. President:

It is now five full months since the Treasury and Federal Reserve reached an accord, a sufficient interval to judge the action with some perspective. I was intimately involved from the Treasury side in the preliminary discussions that led to the accord, and have tried in my present position at the Federal Reserve to operate faithfully under it. I am moved, accordingly, to make this report to you.

The real meaning of the accord lay in its spirit. It did not attempt to prejudge the future or to settle by argument and debate the relative merits of the issues that were then dividing the two institutions. Rather, both agreed to work conscientiously together to meet constructively the pressing problems that were before us. The country was in the throes of an active inflation at a time when the fiscal problems that faced the Government in refunding and new money financing were stupendous. Neither of us wanted to see further monetization of the debt. We knew that meant more inflation. Both were concerned to assure the efficient financing of the Government. In the true spirit of the accord, we have worked together to assure the success of the Treasury financing program with a minimum monetization of the debt.

Looking back over the five months, I think it is fair to say that the economy has been in equilibrium at a high level of activity. During this period it has accommodated a large transfer of resources from civilian to defense production without further inflation. During this

period also savings have begun once more to accumulate in savings institutions. The Treasury has financed successfully two major maturities, and confidence has returned to the market for Government securities.

I realize that there are sharp differences of opinion among your advisers with respect to how much the accord has contributed to this happy result. Without pressing my own view as to its importance, I think that most fair-minded people would agree on two propositions: (1) That we would not have experienced this period of equilibrium without the accord, and (2) that this interval in the inflationary spiral has given the Government its first real chance to organize itself to meet effectively the economic problems arising out of the defense program.

Respectfully yours,

Wm. McC. Martin, Jr.,
Chairman.

The President,
The White House.