DIGEST OF PRESS COMMENT ON FEDERAL RESERVE—TREASURY CONTROVERSY
February 13, 1951

1. C.M.D. lines up on side of Federal Reserve.
The eight-man program committee of the Committee for Economic Development issued a statement declaring there will be no reasonable basis for having confidence in the Administration's anti-inflation program if bank credit growth is not curbed. It asserted it is "of the utmost importance" that the Federal Reserve System use its available power to check credit expansion. "The contribution that an anti-inflationary monetary policy can make to preserving the stability of our whole economy and the holding down of the cost of the defense program is more important than the preservation of an existing pattern of interest rates in the security market. The costs of an anti-inflationary monetary policy in the form of higher interest burden on the Federal debt are commonly exaggerated and in any case would be small by comparison with the costs of greater inflation."

The CED program committee taking responsibility for today's statement consists of: Chairman Meyer Kestenbaum, president of Hart Shaffner & Marx; Marion B. Folsom, treasurer of Eastman Kodak; John D. Biggers, president of Libbey-Owens-Ford Glass Co.; Gardner Cowles, president and publisher of the Des Moines Register and Tribune; Fred Lazarus Jr., president, Federated Department Stores, Inc.; Philip D. Reed, board chairman of General Electric Co.; Beardsley Ruml of New York City; and J. Cameron Thompson, president of Northwest Bancorporation. (J. of C.; N.Y. Herald Trib.)

2. Senator Bricker accuses Wardaman of "totalitarian philosophy" in dispute.
Bricker disclosed that Wardaman had sent him a memorandum -- previously made public -- explaining his position in the dispute over interest rates and asked for the Senator's comment. In reply, Bricker accused Wardaman of taking the view that "the laws passed by Congress should be disregarded whenever the President feels that the national emergency so requires." The Senator added "I am unalterably opposed to that sort of totalitarian philosophy either in war or in peace." Bricker's own view, he stated, is that "the Treasury's fiscal policies will result in disastrous inflation." (W.S.J.; J. of C.)

In an editorial, the New York Times states that a thorough investigation of the Federal Reserve-Treasury dispute was made by the Douglas Committee in 1949. The public should know that the merits of the dispute have already been assessed by a disinterested and competent tribunal, and that the judgment of the committee was that Congress restore the supremacy of the Federal Reserve System over the nation's credit structure and instruct the Treasury to manage the public debt in conformity with the Board's credit policy. The editorial points out that "for reasons best known to the majority of the Joint Committee as a whole, headed by Senator O'Mahoney of Wyoming, the report was pigeonholed." (N.Y. Times)

4. Letter to Truman said to smooth over dispute on 2-1/2 percent rate.
The President is reported to have received a letter from the Federal Reserve Board clarifying the present controversy between the Board and the Treasury.
The letter is said to have been received by the President prior to his press conference of last Thursday when he announced the majority of the Board supported his position calling for stability in the Government bond market. While the text of the letter is unrevealed, some "leakage" of its contents seems to indicate that Secretary Snyder has kept intact his policy program as detailed in his New York Board of Trade speech. The Capital is buzzing with questions as to who is behind the strength of the resistance of certain Federal Reserve Board members to a commitment to support the 2-1/2 percent rate. The large New York banks hold relatively small amounts of the long-terms -- the bulk is held by smaller banking institutions. It is pointed out, however, if the ceiling on the 2-1/2s could be pierced there might be a chance that higher short-term rates would follow. Executives of many of the nation's larger banks have expressed themselves that a higher interest rate is necessary to help stem inflation. (Am. Banker)

5. **Baltimore Sun sees price stabilization program undercut by easy-money policy.** In an editorial, the Baltimore Sun lines itself up with the "Chicago Economists" who feel that price increases since last June are directly attributable to the Treasury's insistence on an "easy money policy". The editorial accuses the Administration of wanting to eat their cake and have it. "It follows that so long as this Administration policy keeps grinding out new money, prices are likely to push up through any ceiling Disalle & Co. can apply." (Baltimore Sun)

6. **Truman criticized for entrance into Federal Reserve-Treasury feud.**
Donald P. Horsey, president of the Pennsylvania Bankers Association, in an address before the association, deplored the President's intervention in the interest rate fight as an attempt "to dictate the monetary policy of the country". Horsey pointed out that it was the first time since the FRB was established 37 years ago that any President -- Republican or Democratic -- has "seen fit to enter in a dispute between these two agencies and to enter into it in such a way as to decide which is right." He noted, also, that in those 37 years, the U. S. has had two wars and "a great many emergencies". (Phila. Inquirer)

7. **Governor Dewey calls low interest rates powerful engine of inflation.**
Governor Dewey, in his Lincoln Day address, criticized the Government's fiscal policy, saying that the Treasury was, in effect, pumping Government bonds into the Federal Reserve at low interest rates and "creating the most powerful engine of inflation this country has ever known". (N.Y. Times)

8. **Aubrey Lanston sees early test of investors' faith in U. S. bonds.**
Lanston, New York securities dealer, in an address before Group II of Pennsylvania Bankers Association, asserted that the calmness of investors in the face of the Federal Reserve-Treasury dispute will be put to a test when the Treasury begins to refund some $40 billion of securities due or callable in a four-month period beginning in June. If cash redemptions are as high as in the last refunding, the Treasury would have to pay out about $6 billion. "No wonder the Secretary of the Treasury believes a stable and confident Treasury security market is a prerequisite to financial mobilization," commented Lanston. "To parlay the reduction in the value
of the dollar by decreasing the dollar price of securities may be the worst
way to deal with the situation." (J. of C.)

Lanston told the meeting the Treasury-FRB dispute was not a question of
interest rates -- that the main factor was the maintenance of investor con-
fidence in the Government security market. He contended that a trend to
higher rates at this time "would multiply, not reduce, the inflation
potential". (Phila. Inquirer)

9. Hirsch says higher interest rates not an effective inflation curb.
Julius Hirsch, economist and lecturer, expressed his opinion that fractional
interest rates would be ineffective in stopping inflation. Such a measure
as Dr. Schacht used in Germany, increasing rates to 20 percent, might be
effective, but less than drastic upward revisions would not have any effect.
(Am. Banker)

10. Princeton economist says Treasury's interest rate policy is incongruous.
Richard Lester, signing himself as Professor of Economics at Princeton,
addressed a letter to the Editor of the Washington Post in which he stated
it is fatuous for the Treasury to try to combat inflation by increasing
taxes while at the same time insisting upon the same interest and bond-
buying policy by the Federal Reserve that increased the money supply by
almost 8 billion dollars in the last 12 months. "As long as bank money
expands under an easy money policy as fast as taxes are increased, we are
not serving to curtail inflation. All that is happening is that we tax-
payers are being soaked so that Secretary Snyder can keep interest rates
low by causing an expansion in the money supply." (Wash. Post, 2-12)

11. George Wanders predicts Federal Reserve will seek new reserve controls.
Wanders, writer for the New York Herald Tribune, predicts the Federal Reserve
will soon make another effort to obtain from Congress powers to impose
secondary reserve requirements upon all commercial banks. He feels the
chances for getting such powers are greater today than in December 1947
when the Board unsuccessfully sought such authority. If a special inquiry
is made into the Treasury-Federal Reserve controversy, such hearing might
become the suitable sounding board for the fresh powers. (N.Y. Herald Trib.)

12. Eccles forecast outcome of FRB fight.
More than two years ago, Eccles prophetically forecast the outcome of the
battle between the Treasury and the Federal Reserve System. On Nov. 22,
1949, while testifying before the Douglas Subcommittee, Mr. Eccles said
that throughout financial history "the Central Bank has never successfully
used its authority to enforce its will over any Administration in power." (Am. Banker)
DIGEST OF PRESS COMMENT ON FEDERAL RESERVE-TREASURY CONTROVERSY

February 14, 1951

1. Federal Reserve reported working on credit control acceptable to Snyder.

Joseph Slavin, Washington representative of the Journal of Commerce, reports the Federal Reserve System is now attempting to work out an effective credit control program which will be acceptable to Secretary Snyder. While the Reserve has refused to bow to Administration dictates of monetary policy, it is under no illusion that it can act independently of the Treasury. It hopes now, as it did before Mr. Truman's "abortive intercession", that it will be able to accomplish its objective through negotiation with the Treasury. Slavin reports the Reserve declared its position in a letter to the President on Friday and has kept Snyder up to date on its thinking. In devising the program, the Federal Reserve is considering a wide range of steps, including changes in the interest rate pattern and a drastic increase in the Board's power to raise the reserves banks are required to hold against demand deposits. (J. of C.)
DIGEST OF PRESS COMMENT ON FEDERAL RESERVE-TREASURY CONTROVERSY

February 15, 1951

1. Treasury-Federal Reserve dispute seen far from settled.

The Washington Bureau of the American Banker reports that while there is an apparent "uneasy" truce at the moment between the Reserve and the Treasury, pending Secretary Snyder's return from the hospital, the controversy is far from settled. The letter which the Reserve sent to the President last week is not believed to offer more than a conditional pledge of support within a framework of more flexibility in interest rates. However, an "official" is quoted as saying that the agencies are not now so far apart.

Meantime repercussions are developing in Congress. The article refers to Senator Erskine's recent letter to Governor Vardaman accusing him of "totalitarian philosophy" in the dispute; to Representative Patman's indication that he will have something to say on the matter soon (Patman has in the past introduced bills to put the Federal Reserve banks under the Treasury); and to the fact that chairmen of key committees (Mahoney of the Joint Economic Policy Committee, Mayhew of the Senate Banking Committee, and Robertson of a subcommittee which would take jurisdiction over any hearings) are carefully avoiding public statements. (Am. Banker 2/14)

2. "Newsweek" reports "Bond Pot Still Boiling".

The Treasury-Federal Reserve battle is taking on the aspect of an "old-fashioned Hollywood cliff hanger". The Treasury still insists that the FRB maintain a firm floor under government bonds and FRB balks on the grounds that the Treasury's demand would boost the money supply and add to inflation. President Truman's intervention has failed to resolve the dispute and by-standers kept firing verbal blasts: Vardaman has announced he would "waive any theoretical statutory authority" to support the President and the Treasury; Thomas L. Parkinson, outspoken president of Equitable Life, charged the FRB had now become the "captive" of the Treasury; Secretary Snyder told a Congressional committee the FRB "has really been passing out the propaganda" while the Treasury has had little to say; FRB indicated that credit needs to be further tightened and was preparing plans to ask for new anti-inflation legislation. The week's developments ended, like the typical serial, on a note of mystery. Snyder and McCabe met behind closed doors at the Treasury and neither would say what happened or whether any decisions were reached. (Newsweek, 2/19/51)

3. Truman accused of usurpation of power and misunderstanding of inflation.

Henry Hazlitt, writing in Newsweek, reviews recent events in the FRB-Treasury controversy and asserts the President clearly usurped his power in calling the meeting with the Open Market Committee. "The President had
no more legal right to tell the Federal Reserve Board what to decide than he has to tell the Supreme Court what to decide." He goes on to state that the President and Secretary Snyder simply do not understand the economic consequences of what they are proposing. "This creation of bank credit without more goods is not merely the cause of inflation; it is the inflation. Mr. Truman and Secretary Snyder might just as well tell the Federal Reserve Board point blank: 'We demand more inflation!'"

Hazlitt comments on the President's reported remarks to the Open Market Committee with regard to experience with Liberty Bonds after World War I. Hazlitt states that the decline only lasted for a few months in 1920 and affected only those people forced to sell in those months. He says the maximum loss of those people was only about 18 percent compared with a 30 percent purchasing power depreciation that holders of goods purchased in 1942 have taken "as a result of the very bond-pagging and low-interest policies on which Mr. Truman has insisted." (Newsweek 2/19)

4. McCabe has replied to Truman letter on interest rate issue.
The Washington Star also reports that Chairman McCabe sent a letter to the White House replying to the President's letter of January 31 which set off a controversy as to what the Federal Reserve would do in supporting the Government securities market. The article carries a brief resume of recent events in the controversy but makes no speculation as to the content of the McCabe reply. (Wash. Star 2/14)
DIGEST OF PRESS COMMENT ON FEDERAL RESERVE-TREASURY CONTROVERSY

February 16, 1931

1. McCabe letter challenges President's assertion regarding F.R.B. support.
   Felix Belair, Jr. reports in the New York Times that Chairman McCabe's
   recent letter to the President challenges the basis of the President's
   assertion (reiterated in his press conference on 2/15) that he has the
   Open Market Committee's "assurance that the market on Government securities
   will be stabilized and maintained". Belair states that the McCabe letter
   is "understood to have set forth that the Open Market Committee does not
   consider itself committed in any program to support the Government
   securities market either on new or refunding issues." He further reports
   that McCabe, at the direction of the Open Market group, sought in his
   reply to Mr. Truman to set the record straight on the "assurance" he said
   he had received. "The McCabe letter also invited the President to make
   public its contents. The Federal reserve group felt that its release by
   any other source would not be in keeping with courtesy due to the President.

   Questioned as to the contents of the McCabe letter, the President said
   he could not comment on it because he had not seen it. (Belair reports
   the letter was dispatched to the President about two weeks ago.) Neither
   would the President discuss a question whether commercial banks should
   pursue a normal lending policy at a time when the Federal Government was
   attempting to combat inflation by controlling prices and setting ceilings
   thereon. The President said that the question of bank loans was a detail
   with which he was not familiar and therefore could not comment on it.

   Belair indicates that several influential members of the Senate Banking and
   Currency Committee, including Senator Douglas, are pressing for public
   hearings on the controversy, "but there also has been evidence of pressure
   from the Executive Branch against such a course." (N. Y. Times 2/16)

2. Washington Post moves closer to Treasury viewpoint.
   In an editorial on "Defending the Dollar", the Washington Post evidences
   a changing trend in editorial thinking on the F.R.B.-Treasury controversy.
   It declares that the "Federal Reserve-Treasury conflicts has caused needless
   alarm by leading the public to infer that the support of the Government
   bond market precludes effective control over the expansion of bank credit."
   It goes on to point out that selective credit controls can be further tightened
   and that "such methods of control would check over-all expansion of bank
   credit and at the same time enable the Federal Reserve System to give
   continued support to the bond market in line with the Treasury position."
   (Wash. Post 2/16)

   By way of contrast, an editorial in the Washington Post a week earlier (Feb-
   ruary 7th) made this statement: "As we pointed out in a previous editorial,
   the Government's price-support policy forces the Federal Reserve System to
   buy large quantities of Government securities and makes it virtually power-
   less to protect the dollar by means of over-all nonselective credit controls,
   such as advancing discount rates, raising reserve requirements and selling
   Government securities in the open market."
3. Time Magazine assails Snyders' "cheap-money policy".
In its lead article on "National Affairs," Time Magazine berates President Truman and Secretary Snyder for opposing Federal Reserve's effort to control inflation by increasing interest rates on new securities. It claims that "nearly every authority on economics in general or finance in particular" agrees that the Treasury should accept the consequences of the FRB decision in the matter and cites the report issued by the "Chicago economists" as well as a poll by the Senate-House committee of 405 of the nation's top economists, and C. E. D's recent statements.

Time says the Secretary's stand in a "tunnel view" which considers only the increased debt charge. It states the reply to Secretary Snyder is as follows: "If he sticks to his cheap-money policy it will cost a horrifying lot more to finance than an addition to the interest on the national debt. It will send prices skyrocketing, knock the value out of life insurance and savings and the purchasing power out of the household budget, shoot up the cost of rearmament, strike a deadly blow to the U. S. economy -- and the economy of the free world. This is true, as the experts have pointed out, because the Snyder policy in over-prosperous 1951, is sure-fire fuel for really dangerous inflation." (Time Mag. 2/19)

4. Parkinson declares that Congress should set monetary policy.
Thomas I. Parkinson, president of Equitable Life, declared in a statement before the annual meeting of the company's board of directors that the "cheap money financial system" is not working in combating inflation and "The time has come for Congress to take back the making of Treasury policy and all Government policy concerning this matter of monetary soundness and money supply." As a first important step in that direction, the insurance official recommended immediate appointment of a monetary commission to examine the whole banking, debt and monetary situation. (W.S.J. 2/16)

5. FRB-Treasury controversy viewed as battle for political control.
Leslie Gould, financial editor of the Journal-American, says the interest rate battle is not likely to be settled on its merits, as it should, because of the personalities involved in the fight. Instead of sticking to the issue -- whether interest rates should be high or low -- it is being pictured as one of political control over the Federal Reserve. This, he says, "is a lot of eyewash" for the Federal Reserve was corrupted into a political arm of the Government years ago. "The man responsible for this is Marriner Stoddard Eccles, who is now posing as the knight in white armor fighting the political forces of the Treasury." When Eccles was Chairman of the Board, appointed by Roosevelt, he delivered it "lock, stock and barrel into the hands of the politicians". But Eccles has been disgruntled because Truman demoted him from the chairmanship of the Board, and Eccles is now getting back at Truman and Snyder by ranting about political control. Gould concludes, however, that on the real issue Eccles is right that interest rates should be allowed to rise. (Journal-American 2/14)
DIGEST OF PRESS COMMENT ON FEDERAL RESERVE-TREASURY CONTROVERSY

February 19, 1951

1. Vardaman, replying to Bricker's challenge, clarifies bond-support stand. The top news story of the day was Governor Vardaman's reply to Senator Bricker's letter of last week criticizing the Governor for his statement of February 5th siding with the Treasury in the interest rate controversy. Bricker had taken Vardaman to task for his earlier statement that we should "unhesitatingly waive any theoretical statutory authority and prerogatives in order to support the Government and the President at this time." Bricker had challenged Vardaman - "by what right, do you presume to waive statutory authority in violation of your oath of office?"

In his public reply to Senator Bricker today, Mr. Vardaman said he had based his position on both economic and legal grounds. He reminded the Senator that in urging support of the Secretary of the Treasury, he had not indicated approval or disapproval of the Government's financing program and had not discussed its advantages or weaknesses. "I simply say that since this board has absolutely no statutory authority to alter or to cancel the Government's debt financing plan, it should support the Government's program", said Mr. Vardaman, "until such time as the Congress clarifies the situation by legislative enactment which will either: 1. Give the board authority in the area of public debt management. 2. Give the board more effective control of investments and reserves of banks and insurance companies and other depositaries, lending agencies and institutions whose operations materially affect the national credit structure. 3. Relieve this board of some of its responsibility for credit control."

Governor Vardaman summed up his position as follows: "Let me repeat, the law is silent as to the Federal Reserve's authority in the area of debt management, and on the other hand the law is quite specific in placing responsibility for management of the public debt in the hands of the Secretary of the Treasury. Therefore, I feel that the welfare of the nation would be better served if this board continued to support the official Government financing program just as it has since 1941 and that the board should immediately approach the Congress with an explanation of its position and ask for such clarification as the Congress might care to make in the premises. To do otherwise, that is to withdraw the arbitrary support of Government bond prices which we have maintained continuously during the past decade, could result in near-panic in the Government bond prices to some unknown level. On the other hand, if we continue to give the Government financing program the board's customary support until the Congress shall determine otherwise it is possible that the present pressing necessity for arbitrary support of the market might be considerably lessened or even eliminated during the coming months."

(Felix Belair, Jr., in N. Y. Times 2/19; Coleman B. Jones in Herald Trib. 2/19; J. of C. 2/19; Wash. Post 2/19; W. S. J. 2/19; Am Banker 2/19; Phila. Inq. 2/19; Wash. Times-Herald 2/19.)
2. Washington Post amplifies its views on effectiveness of credit controls. In today's editorial on "Selective Controls" the Washington Post spells out its conviction that selective controls are a much more effective means of restricting loan expansion than nonselective control which curbs loan expansion by raising the cost of credit, or increasing interest charges on borrowed money. It asserts "There is a good deal of truth in Secretary Snyder's contention that limited increases in interest rates have little deterrent effect on private borrowing, especially when business is booming." In favoring the use of selective controls, it points out that these types of control can always be tightened or relaxed in response to changing conditions, while blanket control, on the contrary, makes it impossible to discriminate between credit advances that are in the public interest and those that are undesirable. Again, the Post concludes "If the Reserve Board were given broad authority to apply selective controls at its discretion, it could cooperate with the Treasury in stabilizing the bond market without increasing the upward pressure on prices that would be intensified by continued excessive expansion of bank loans." (Wash. Post 2/18)

3. Life Magazine raps Snyder's "easy money policy" as cause of inflation. Life Magazine, in an editorial "It's Your Inflation", brands Secretary Snyder as the "villain" in the fight against inflation. It points out that the Federal Reserve Board, by advocating higher interest rates, is trying to reduce the amount of credit and cash money available for general use and spending in order to check inflation. "Mr. Snyder, whether he intends to or not, is defeating this effort and stepping up inflation with his 'cheap money' policy. He is making your dollar shrink in your pockets, and at the same time is compounding the costs of the expanding defense program." Life concludes "All the Charles Wileons, Eric Johnston and Michael D'Isalles in Washington cannot prevent or cure this inflation with price, wage and commodity controls if the root fiscal causes of inflation are not only unchecked but actually encouraged.... It's your money. It's your inflation. Better speak up, while three cents still pays the postage on a letter to Washington." (Life Mag. 2/12)

4. Alsops analyze argument between Eccles and Treasury. Joseph and Stewart Alsop, in a syndicated article, point up the continuing depreciation in purchasing power of our defense dollars in supporting Eccles stand that inflation can only be stopped by such fiscal measures as making Government bonds less attractive to cash and raising interest rates. Snyder's opposition to Eccles' proposal is viewed as one of resisting increased debt charges from higher rates. The Alsops say this is false economy. "The mere fact that the Government has already lost to the money inflation some two billion out of every ten billion defense dollars appropriated is enough to demonstrate how false the Treasury's brand of economy is. Quite aside from the effects of inflation on the whole economy, this loss alone cancels out several times over what might be saved through cheaper financing of the public debt." (Wash. Post 2/18; Herald Trib. 2/18)
5. Truman stands pat on backing Treasury.
The American Banker reports the President is standing pat on his support
of the Treasury in the dispute over interest rates, and cites the
President's statements at his press conference last Thursday. Despite
differences between Reserve officials and the Treasury -- and the "McCabe
letter" to the President is known not to have basically helped -- the
situation over the weekend was clear that if there can be avoidance of
further sensational conferences and letters, and key committees of Congress
can avoid holding hearings on the subject, the matter will be worked out
on a basis reasonably satisfactory to all most concerned. (Am. Banker 2/19.)

6. Unpegging bond market would strike blow at small banks.
A financial report in The Philadelphia Inquirer states that unpegging the
Government bond market would have the effect of freezing the assets of
about every small bank in the country while having little effect on the
larger banks. It is pointed out that the smaller banks hold a large
proportion of their assets -- in some cases as high as 60 or 70 percent --
in Government securities, while the larger banks have comparatively small
Government holdings and those mostly in short-term securities. If market
support is dropped the small banks would be the ones hit, for they could
not afford to take a loss by selling their Governments in the open market
to provide the necessary reserves for bank loans. Yet virtually all of
the small banks have the responsibility of meeting essential credit needs
of their communities. (Phila. Inq. 2/19.)

7. Bankers Trust Co. says rigid curbs on bank credit neither necessary nor
appropriate.
The Bankers Trust Company, in its annual review "United States Government
Securities and the Money Market" published today, declares that in the
present period of rapid expansion of the defense program rigid curbs on
bank lending are neither necessary nor appropriate. Rather the bank
asserted that "the situation calls for a courageous fiscal policy and
increased production, in addition to allocations of essential materials,
selective credit controls and price and wage controls. If these measures
are pursued with vigor and forthrightness, severe credit restraints will be
unnecessary. If they are not made effective, even drastic restraining upon
bank lending will be no more than a dramatic and futile gesture against the
march of inflation."

The review states that proper debt management can help confine inflationary
pressures and it recommends the issuance of long-term, marketable bonds not
eligible for commercial bank investment. (N. Y. Times 2/19.)

8. Truman's right to influence Reserve Board questioned.
John Elliott, writing in the Herald Tribune, reports that President
Truman's recent entrance into the interest rate controversy has brought
to a head the issue concerning the right of the Chief Executive to
influence the nation's central credit institution. Excerpts from Senator
Glass' book, "An Adventure in Constructive Finance" are cited to show the
original intent to have the Federal Reserve a free and independent agency.
Senator Douglas is expected to press action on the recommendation made by his subcommittee a year ago that Congress restore the supremacy of the Federal Reserve Board over the nation's credit structure and that Treasury actions relative to credit transactions in the Federal debt be made consistent with the policies of the system. (Herald Trib. 2/18.)

9. Herald-Tribune says betting is on Truman-Snyder side to win dispute.
An article in the N. Y. Herald Tribune gives a factual report of issues and personalities in the F.R.B.-Treasury dispute. "Who will win the fight is not clear, though the betting is on the Truman-Snyder side. Federal Reserve authorities are not obligated by any law to follow the Treasury line, but they show no sign of actually assuming the risk of letting government bond prices drop unless Congress so directs." (Herald Trib. 2/18.)

10. Sylvia Porter sees increasing probability of agreement on overall program for restraining inflationary loans.
Miss Porter, in her weekly news service "Reporting on Governments", states that broader and tougher controls over bank credit are being seriously explored, and there is an increasing probability that out of the present discussions will come an overall program for restraining inflationary loans that will have support of both Treasury and F. R. B. This would help push the interest rate controversy into the background. Regret is being expressed on both sides, she reports, over the extent to which the interest rate "feud" has been played up by the press and radio. Among the "tougher" controls being discussed are the "Special Reserve Plan" originally sponsored by Eccles in 1947, the "Ceiling Reserve Plan", and a proposal involving a formula that would limit bank loans by establishing percentage schedules for loans in relation to deposits or other bank assets. (Reporting on Gov'ts 2/17.)

11. Goldsmith thinks support level may be dropped in near future.
Ted Goldsmith, in his weekly service "United States Government Securities", devotes practically his entire current issue to a discussion of the F.R.B.-Treasury controversy. He says it is apparent that Congressional sentiment is veering towards the Federal Reserve point of view. He states there is a possibility that Senator Taft will attack the Open Market Committee for failure to exercise their statutory responsibilities to curb inflation. "It is my opinion that until the Federal Reserve Board's controversy is settled the Government Bond market is in a precarious position. We think the support level of long-term Government securities might be dropped in the near future." (U. S. Gov't Securities 2/17.)

12. Moody's sees present interest pattern being held for some time.
The current weekly issue of "Moody's Bond Survey" reports that the market is still trying to digest the full meaning of the fare of conflicting views served up recently concerning maintenance of the present pattern of Treasury interest rates. "It is our view that the pattern can be held for some time, though at the cost of further abetting the inflationary rise in money supply. But since the question will not be decided purely on its objective merit, the
answer lies beyond strictly financial considerations. We suspect the 2-1/2 percent rate is safe for the foreseeable future, despite the fact that over the longer run a higher level of long-term rates seem possible, especially if inflationary pressures persist." (Moody's Bond Survey 2/19.)

13. Eventual solution -- Federal Reserve will be given other methods of inflation control.
The editor of Standard & Poor's "Bond Outlook" states in the current issue that he is inclined to the belief that the eventual solution of the Treasury-Federal Reserve struggle will leave the Treasury with its 2-1/2 percent long term rates and provide the Federal Reserve with other methods of inflation control. (Bond Outlook 2/17.)

14. Whaley-Eaton reports Federal Reserve involuntarily financing huge increase in money supply.
The American Letter of the Whaley-Eaton Service reports the Federal Reserve has involuntarily financed a $7 billion increase in the money supply during the past seven months. In this same period Treasury operations have been deflationary by a $3 billion reduction in the publicly held Federal debt. The basic conflict is unresolved. The FRA resents its role of "engine of inflation", but the Treasury has the final say. "Snyder has unused dictatorial powers over Federal Reserve member banks carried over from the emergency banking legislation of 1933." (Whaley-Eaton 2/17.)
DIGEST OF PRESS COMMENT ON FEDERAL RESERVE-TREASURY CONTROVERSY

February 20, 1951

1. Editorial Comment on Vardaman's reply to Bricker.
The New York Times stingingly attacks Mr. Vardaman's qualifications to be a member of the Federal Reserve Board and says he was only confirmed for his position because of "senatorial courtesy." Mr. Vardaman's recent performance, the Times states, "goes far to explain why the Federal Reserve Board has permitted itself to be pushed around so shockingly in recent years by the Treasury." It concludes if the Board is to be strong and independent it must be composed of members who owe their appointments to their accomplishments, and to their stature as individuals, not to political favoritism. (N. Y. Times 2/20.)

The New York Herald Tribune, in an editorial "Aid and Comfort to Inflation", views Vardaman's siding with the President and Secretary Snyder the result of personal loyalty to the President who is not well informed on technical details of credit policy and has been the victim of "narrowly conceived advice from the Treasury." Mr. Vardaman is accused of exaggeration in order to win his point when he suggested that panic would ensue in the financial markets if the Federal Reserve used its buying and selling powers to control the volume of credit. The Herald Tribune says it is not a question of supporting the market 100 percent or not at all -- the fact is if the Reserve is left free to act, it can both raise interest rates and preserve stability in the market. The editorial concludes that Vardaman, in arguing that the Treasury's statutory power to manage the debt settles the matter, ignores the fact that the Reserve Board also has statutory powers to act against inflation. "It cannot make full use of those powers while it is bound to follow the lead of the Treasury, supporting that agency's rigid, inappropriate, easy money policy." (N. Y. Herald Trib. 2/20.)

2. F.R.B. spokesman says Vardaman is alone in bond stand.
William Hines, writing in the Washington Evening Star, reports that Elliott Thurston, special assistant to the Federal Reserve Board, declared today that Governor Vardaman is "alone in his viewpoint" that price support for Government bonds must continue. Thurston added that the eleven other members of the Board's Open Market Committee feel continued bond support is inflationary, and that Chairman McCabe definitely sides with the majority. (Evening Star 2/19.)

3. Treasury's bond buying raises speculation.
A $100 million purchase of Government securities on February 19th for the account of the Treasury Department Postal Savings account raised speculation as to whether Secretary Snyder was fighting the Federal Reserve Board in the open market to maintain low money rates. Ordinarily
the Federal Reserve Bank of New York does the buying to support
Government 2-1/2's at par. A Treasury official was asked whether
the Federal Reserve of New York had pulled out its supporting operation
from the 2-1/2 percent bonds. "Not as of now," was his laconic reply.
(Phila. Inq. 2/20.)

b. Moley takes issue with Snyder over increased debt charge from higher
rates.
Raymond Moley, writing in the Los Angeles Times on 2/14, takes issue
with Secretary Snyder as to the actual additional charge to the
Government from increasing interest rates. He cites statistics to
show that a very large portion of the money paid out in increased rates
would be returned to the Government via the income tax route. He says
some of the bonds would be held by people with very large incomes where
the tax "bite" would be 95 percent. Corporations, for example, with
income over $25,000 which held bonds would give back between 55 and 85
cents on every additional dollar paid by the Treasury; moreover, the
remaining 15 to 45 cents would be taxable in the hands of individuals
receiving the stock dividends. He states that an excellent tax
accountant, L. Robert Driver, has calculated for him that the Treasury
might get back as much as 99-1/4 cents of a dollar paid to corporations.
He admits that the amount the Government would recover from increased interest
rates paid to smaller tax payers would vary, but on balance it would be
very large. Moley concludes that increasing interest rates is a sound
step toward checking ruinous inflation. (L. A. Times 2/14.)
DIGEST OF PRESS COMMENT ON FEDERAL RESERVE-TREASURY CONTROVERSY

February 21, 1951

1. Finance Magazine reviews the Federal Reserve-Treasury controversy. The current issue of "Finance" in its leading article "Treasury's Victory Over Fed Detailed", by Charles Molony, sees the Board's case weakened by its reluctance to adopt a firm position. "Everybody knew exactly where John Wealey Snyder, Harry S. Truman and Marriner S. Eccles stood in the Battle of the Interest Rates, but the collective position of the Federal Reserve Board was obscured in the smoky haze over the early February fray." The Board is indirectly taken to task for failing to present its position after Snyder "jumped off in front" to open the current phase of the struggle with his deliberate, key declaration in his now-famed New York speech. "The confusion might have been dispelled in its infancy by a straight-forward board statement of its position, and an opportunity to make one -- with all due dignity -- knocked on the board's door in an invitation to send a representative before the Senate-House Economic Committee, just eight days after Secretary Snyder's speech. The opportunity was not seized. Senator Joseph O'Mahoney, Wyoming Democrat, and presiding committee member, put it into the record that board chairman McCabe was 'absent from town and ill', thus belying another report he was otherwise engaged at a simultaneous Washington luncheon of Mississippi bankers." The reporter states Secretary Snyder looks to be at the peak of his powers in Washington, wielding a greater influence in the Capital than ever before. Current betting gives Snyder and Truman lengthening odds to win the victory.

In its feature section "Off The Record", Finance Magazine suggests that a timely Book of the Month Club selection for the President would be Carter Glass' book on "An Adventure in Constructive Finance" which relates Woodrow Wilson's feeling about keeping the Board an independent agency. The article states that the way the so-called Fed-Treasury dispute has been handled reflects little or no credit on the principals involved or their agencies. "President Truman wittingly or unwittingly, has all but completely stripped the Reserve Board of its rightful prestige and independence, and has reduced it to the ignominious status of a political pawn. The board's failure to get on the record with a timely, coherent statement must be charged off to abysmally poor public relations, and/or lack of leadership on the part of Chairman Tom McCabe. Treasury Secretary John Snyder's charge that the Fed has 'really been passing out the propaganda' might better have been made against the Treasury: In recent weeks, the Secretary's New York speech has been milked dry of propaganda possibilities; he has buttonholed visiting bankers from all over the country with intimate, first-hand spellouts of the Treasury position; and he granted to Felix Belair, Jr., of the New York Times, an 'exclusive' interview that was on the press service wires before the paper's ink was dry. Finally, Governor James K. Vardaman's my-President-right-or-wrong statement smacked of a degree of subservience that might have originated on the other side of the Iron Curtain." (Finance 2/15.)
2. **Upgren views credit as the culprit of rising prices.**

Arthur Upgren, writing in the Minneapolis Sunday Tribune, takes his stand on the side of the Federal Reserve in the current dispute and asserts we must have higher interest rates (as well as higher taxes) if price stabilizers can possibly achieve reasonable success. He takes issue with Secretary Snyder's cost figure of the additional charge on the debt by increasing rates, saying that all the debt does not fall due for renewal until 1972. About $52 billion is due in a year and very much less each year thereafter. He figures the interest cost would be only $260 million the first year and would take many years to rise to the figures Snyder uses. He cites figures from the President's economic report, comparing total bank credit subject to checking with the cost of living index, to show how prices go up as more bank money is credited. He concludes if the bonds were not supported that people would have to hold on to them to avoid the temporary loss a sale of them would produce. "That's exactly what we want to happen. Then bank reserves will not be so easily increased." (Minn. Sunday Trib. 2/18.)

3. **American Banker sees FRB and Treasury on horns of dilemma by failure of Congress to keep budget in balance.**

The American Banker, in an editorial, states that it has been its position that the Board and Treasury have been placed on the horns of an insolvable dilemma by the failure of Congress to keep the Federal budget in balance and prospective future failure to do so, and therefore, that instead of fighting each other over their mutually contradictory responsibilities in this dilemma, it would be wiser for the Reserve Board and Treasury to point out that inflation control is not possible when Congress, in the driver's seat, keeps mismanaging the nation's money by failing to balance the national budget. Aubrey Lanston's speech before the Pennsylvania Bankers Association is noted in which he argued that as long as the Treasury faces the possibility of a deficit, future open market operations by the Federal will not contract credit in any appreciable degree. It also points out Lanston's remarks about the effect of FRB maneuvers in disturbing the market's confidence. "His remarks, we believe, reinforce our concept that the real 'culprit in the woodpile' amid all the smoke of Federal Reserve-Treasury dispute, is Congress, and that the sooner that Congress recognizes that their tax and budget policy is the third and controlling leg in our national problem of monetary management, the sooner we will have some rational approach to solution of the dilemma in which the Board and the Secretary of the Treasury have been placed by said Congress." (Am. Banker 2/20.)

4. **"First Boston" executive says pegs could be lowered without hurt to market.**

James C. Morrison, an executive of the First Boston Corp., told the Association of American Railways last week that the Federal Reserve System might lower its buying prices to points not far from present levels without serious danger. In supporting the Fed's viewpoint, he pointed out that it is not necessary for support of the long-terms to be completely withdrawn. He contends the market could be supported at a price which would not affect the solvency of any of our institutions but at the same time would create sufficient losses in security portfolios to retard selling and thereby slow up the amount of new credit being made available.
Morrison says a low interest pattern could be maintained without further inflationary damage if the budget were balanced, if price and wage controls are rigidly maintained and if we have tighter direct controls over bank and non-bank credit. However, he asserts, if the Reserve Board were allowed greater flexibility in interest rates, the essential controls would not have to be as drastic as under a fixed pattern of rates. (Am. Banker 2/20.)
DIGEST OF PRESS COMMENT ON FEDERAL RESERVE-TREASURY CONTROVERSY

February 23, 1951

1. Majority of Federal Advisory Council backs Treasury's stand on bond support. The Washington Bureau of the American Banker reports that the Federal Reserve's Advisory Council met in Washington the first three days of this week, and it is understood, after study of data, precedents, and the economic outlook under present war conditions, the Council voted seven to five on behalf of continuing the present policy of support for the present 2-1/2 percent long-term rate. The Council, representing one Reserve member bank from each of the 12 Federal Reserve Districts, is a statutory body required to advise the Board regularly as to their views. The law presumes that they represent the sentiment of the Reserve Banks of their district.

Apparent that the Council had before it a wealth of data showing large and small bank holdings of Government securities, loans and related data. It is being pointed out that banks with large holdings of bills, certificates and notes will not be affected by any "juggling" of the long-term rates. With such short-term securities, virtually the same as cash, such banks have been able to date to meet all loan demands. Smaller banks, however, with their funds in long-term Governments, would find themselves "frozen in" if these bonds went much below par. (Am. Banker 2/23.)

2. Senator Douglas assails Treasury policy. Senator Douglas, in a speech before the Senate on February 22, accused the Treasury of "cracking the whip" to force the Federal Reserve Board against its will to support Government bonds. This policy, Douglas said, the Senate, enabled banks to increase private loans and "has fed the fires of inflation". He warned the Treasury to "enact" its easy-money, low interest rate policy on Government securities, or else he would introduce legislation to carry out the recommendation of his sub-committee last year that would give the Federal Reserve Board control over the Nation's monetary and credit policy.

Although Senator O'Mahoney disputed Douglas' thesis, it received considerable support from Republican Senators. Taft indicated he was in general agreement, but expressed some belief that the public market for Treasury bonds would be sufficiently active so that banks could sell at will without loss from their portfolios when they needed new reserves for new lending, just as easily as when the FRB was buying. (Wash. Post 2/23; N.Y. Times 2/23; J. of C. 2/23; Phila. Inquirer 2/23.)

3. Johnston names group to study part loan rise plays in inflation. Economic Stabilizer Eric Johnston has named a group of nationally-known economists to make a study for the Government of the part expanding credit plays in today's inflation and how to stop it. Besides discussing credit, they'll give Mr. Johnston their ideas on taxes, wage controls, price controls, and any other subjects that worry him. It is suggested that their investigation could lead to some positive action that might put
an end to the current argument between the Treasury and the Federal Reserve over interest rates. (Johnston's aides, it is reported, have been divided in their views on the FRB-Treasury controversy.)

The new advisory group is headed by Theodore Yatena, vice president in charge of finance for Ford Motor Co. and a member of the C.E.D. Two former C.P.A. officials -- Paul Porter, former C.P.A. chief, and Donald Wallace, now teaching at Princeton -- are included on the committee. Others are: Douglas V. Brown, Mass. Institute of Technology; Marion B. Folsom, chairman of C.E.D.; Clifton Golden, Harvard University; Richard B. Heilbroner, Northwestern University; Meyer Kastenbaum, president of Hart Schaffner & Marx; Howard B. Myers, director of research for C.E.D.; Theodore Schultz, Univ. of Chicago; Boris Shiskin, A. F. of L.; Summer Slichter, Harvard Univ.; Alan Temple, vice president of National City Bank, N.Y.; George Terborgh, Machinery & Allied Products Institute; and Jacob Viner, Princeton University. (W.S.J. 2/23.)

4. Childs lists higher interest rates as No. 1 check on inflation.

Marquis Childs, in an article in the Washington Post, says the No. 1 check on inflation is for the Administration to find some way to switch from its stubborn determination to keep interest rates at the present low levels. "Virtually all economists on the outside, including observers from abroad who follow economic trends here, are agreed on the need for a rise in the Government interest rate in order to check the flow of credit into the banks. This is virtually the equivalent of printing press money. It is a hard pill to swallow since it means reversal of a policy followed for a decade, but it cannot be long delayed if the inflationary current is to be stemmed." He lists as the No. 2 check the responsibility of Congress to cut the $71 billion budget as drastically as possible to bring about a budgetary surplus. His No. 3 check is increased taxes. (Wash. Post 2/23.)
1. Financial groups set up "voluntary agreements program" to curb credit.
The Sunday New York Times, in a story by George Hone, reports that the
American Bankers Association, the Life Insurance Association, and the
Investment Bankers Association, in cooperation with the Federal Reserve
Board, have worked out a voluntary program to restrain the use of credit.
Under its terms, bankers, insurance companies and other large lenders will
pledge themselves to "cooperate" in restraining the use of credit not needed
for the defense program. Known as the "voluntary agreements program", the
project was authorized under Section 708 of the Defense Production Act of
1950, which granted power to the President to permit such restrictive
arrangements among financing institutions. The President's power under
the section, however, was delegated to the Federal Reserve Board, with the
condition that it consult with the chairman of the Federal Trade Commission,
and obtain the approval of the Attorney General before sanctioning the
agreements. A formal program embodying the financing institutions' own
suggestions on methods is now being studied by the Attorney General's
office and final clearance is expected momentarily.

The program, as presented to the Attorney General, sets forth a "statement
of principles" to be applied to considering all requests for credit.
Among the loans which may merit approval are: 1. Those which will
directly further the defense effort; 2. Those for production, distribu-
tion, or services required to meet the regular business needs of the
economy; and 3. Those guaranteed by government agencies. Loans which
should be disapproved include: 1. Those for the purpose of retiring
corporate equities held by the public, since they merely substitute credit
for savings; and 2. Those for purely speculative purposes, such as loans
to buy inventory for resale.

Finally, the document contains a provision for the establishment of a series
of committees. These would be headed by a national group, probably with
four representatives from each lending field. The national committee would
be responsible for developing statistics on general loan trends, especially
in the non-banking area, and supplementing those of the Federal Reserve
System. In addition, the national body would appoint a number of subcom-
mittees at the local level. These could be called upon to pass on doubtful
loan applications submitted by financing institutions in their areas.

The program, since it is purely voluntary, is without "teeth" and its
effectiveness will depend entirely upon the spirit and willingness of the
financing institutions to cooperate in resisting the common national enemy --
inflation. (New York Times 2/25.)

The Philadelphia Inquirer, in a story by Nicholas Gregory, describes the
program worked out by these financial groups as a "so-called voluntary
'capital market committee' similar to that of the Second World War to prevent
unnecessary financing" and states the group has had the approval of the
Attorney General. (Phila. Inq. 2/25.)
2. **Truman assailed by Bricker for intervention in Treasury-FRB feud.**

Senator Bricker accused President Truman of "highly improper" action in intervening in the Treasury-Federal Reserve dispute and suggested the Reserve Board should quit supporting Government bonds at par prices despite White House and Treasury opposition. Bricker's views were contained in a letter of February 23 to Governor Vandaman, the third in a series of exchanges between the two men on the question of how the Federal Reserve should best fight inflation. Bricker wrote that the Federal Reserve support of the Government securities market is a "self-imposed practice." He noted that it is also a "statutory responsibility" of the board to protect the value of the dollar. "Under present conditions," Bricker said, "the board's self-imposed practice is in conflict with its statutory responsibilities." He said there is no legal reason why the board cannot modify its support of Government bonds in order to fight inflation. For this reason, he suggested Truman's recent intervention was "highly improper." *(W.S.J. 2/26; Wash. Post 2/24.)*

The New York Times, in reporting the Bricker letter, states that Bricker suggested to Vandaman that "some compromise between the board and the Treasury would be highly desirable," but gave no specifications except that it "should satisfy in part the Treasury's desire for a stable bond market and at the same time allow the board some freedom of action in curbing inflation through a restrictive credit policy." "Naturally," Bricker said, "I do not recommend that the board's withdrawal of support be so abrupt or complete as to cause panic and chaos in the government bond market. The greatest threat to confidence in government bonds is inflation and not a restrictive credit policy, which, while it may cause bonds to break par, makes deficit financing more difficult and inflation less probable." *(N.Y. Times 2/26.)*

3. **Farm Bureau opposes Administration's debt management policies.**

The American Farm Bureau Federation, in testimony by its president Allan B. Kline advocating "pay-as-we-go" taxes, charged the Treasury with "gross mismanagement" of the national debt by its insistence on the maintenance of inflationary low interest rates. "The time has come," Kline asserted, "for the Federal Reserve System to discharge its statutory responsibilities by relating its purchases and sales of Government obligations to the nation's need for money and credit -- even though this will result in higher interest rates. The present Government policy of pegging the price of Government bonds is inflationary... The public debt should be managed so as to make a maximum contribution to price and economic stability instead of with the objective of keeping the Government's interest costs at a minimum." *(N.Y. Times 2/26; Wash. Post 2/24.)*

4. **New York Times finds Douglas' support of Federal Reserve position heartening.**

The New York Times, in an editorial, says "It is heartening news that Senator Paul Douglas has gone into action behind the Federal Reserve System in the latter's controversy with the Treasury. Not only does the Senator from Illinois command the respect of Democrats and Republicans alike for his demonstrated independence of mind but he is without doubt the best informed member of the Senate in the field of monetary policy since the death of
Carter Glass, in 1946. After reviewing Douglas' recent remarks in his speech to the Senate accusing the Treasury of forcing the F.R.B. by insistence on market support to "feed the fires of inflation," the editorial concludes that "Senator Douglas' argument is, in our opinion, unanswerable. Moreover, we are satisfied that once this issue receives the airing which its importance warrants, and which now seems to be in prospect, public opinion will insist upon legislation designed to give effect to the Douglas Report of a year ago."

5. **Interest rate feud should never have been brought out into open.**

E. S. Banks, financial editor of The Philadelphia Inquirer, states that the interest rate controversy should never have been brought out into the open but should have been settled by the staffs of the two agencies concerned. The discussion is too technical for the average individual and the main reaction on the part of the public has been fear of what would happen to the dollar. It has resulted in a "flight from the dollar" — in American funds being invested in Mexico and other foreign countries and in greater buying of common stocks on the stock exchange. In presenting the pros and cons of the argument, Mr. Banks states that a surprisingly large number of financial men agree with Secretary Snyder that higher interest rates will not check borrowing. He also quotes at length from Aubrey Lanston's address before the Pennsylvania Bankers with respect to the questionable effect of open market operations in contracting credit, and says Lanston's remarks have met with the approval of a large segment of financial circles. *(Phila. Inq. 2/26.)*

6. **Search for working agreement between FRB and Treasury is continuing.**

Sylvia Porter, in her weekly service "Reporting on Governments", states that while both the FRB and Treasury still stand by their positions, officials and the technical staffs of both fiscal agencies are working on procedures, techniques, and methods under which each will be able to pursue the policies it insists are appropriate. "The discussions are serious, are touching on fundamentals — and they are being conducted in an atmosphere that is not nearly as irascible as some headlines would suggest." One point needing clarification is that the Treasury is asking that the 2-1/2 pattern be maintained only for the emergency -- it is not demanding such a rate in perpetuity. Also, it should be emphasized the Reserve is continuing its support program in a definite way. The Treasury is concentrating on ways credit may be restricted without involving jiggling of rates and is sympathetic to new legislation to achieve this. Reserve officials are stressing that the rate itself is not the key thing, the control of credit is. Increasing talk is being given to a "conversion issue", similar to the financing in World War I when several of the issues sold carried clauses that they could be converted into any higher-rate bonds floated during the war. *(Reporting on Gov'ts 2/24.)*
7. **Money row issues held unrealistic.**

Paul Heffernan, writing in the Sunday New York Times, says the financial marketplace believes it is unrealistic to regard the falling-out between the Treasury and Federal Reserve officials as a controversy over long-term interest rates. The real issue is held to be whether the central banking system is ever again to be independent in all of its functions related to bank credit, and whether the Treasury debt is ever again to compete in the capital market on even terms with other debt. He says the Treasury and Federal Reserve Board have never been far apart in relation to the 2-1/2 percent rate on long-term borrowing. Further, the fact that there is neither pressing need for long-term financing at the moment nor evidence of any accumulation of savings to absorb such bonds is only more cause for discounting the part the 2-1/2 percent rate is playing in the current dispute. A more plausible explanation is the Treasury's anxiety that more than $50 billion of the marketable debt is coming due for refunding this year and the market must be inviting if the refundings are to be successful. The Treasury insists it must therefore have certainty in the Treasury securities market, and the Federal Reserve Board insists on uncertainty. He says it would be unthinkable for the central bank to refuse to stand by the Treasury refunding but some reservations seem likely. For "to make new issues of Treasury securities 'hot' would not just maintain the investor confidence that President Truman wants but would invite sure-thing gamblers to turn their thoughts from the point-spread potentials of basketball to the more lucrative yield-spread potentials of a market kept rigg'd by the central bank." He points out that in 1945, banks in major cities had outstanding loans totaling close to $2-1/2 billion to other than brokers or dealers for carrying Government securities; whereas the total today is only about $175 million largely because of the uncertainty which the Federal Reserve has imparted to the market and the rise in short-term borrowing costs. (N. Y. Times 2/25.)

8. **Reserve to ask further power to curb credit.**

Joseph Slevin, writing in the Journal of Commerce, says the Federal Reserve Board is preparing a report to Congress tracing recent inflationary monetary developments and urging that Congress extend the Board's authority over reserve requirements. The Board, in its report, is also expected to explain the interrelationship of reserve powers and open market operations and tell Congress that if it wants an effective central bank it must both give the system more power and be prepared to accept, if not defend, an upward movement in interest rates. Slevin states that while the system actually has authority now to follow whatever interest rate policies it thinks are best, it is reluctant to defy the Administration insistence on cooperation in maintaining current rates because of the system's knowledge that no central bank has ever bucked a national Government and survived. (J. of C. 2/26.)
9. **Wanders calls money market dispute a paradox.**

George Wanders, writing in the New York Herald Tribune, says what the money market needs is a modern pair like Gilbert and Sullivan to sing of "a paradox, a paradox, a most ingenious paradox." The current paradox is that the money market is struggling, quite properly, toward freedom from government controls at a moment when almost every other market of our economy is moving under such controls. He points to numerous minor paradoxes within the over-all paradox: some of those who vigorously supported restraints in 1942 are now calling most loudly for relaxation of the restraints; difficulty of reconciling relatively recent declarations with current statements; no one knows what the Reserve has in mind in the way of higher rates or the levels at which it might support Treasury securities if the present scale were abandoned. If the latter could be determined, Wanders asserts much of the confusion would disappear and the discussion could be conducted in a practical manner instead of in the abstract, as at present. (N.Y. Herald Trib. 2/26.)

10. **Market support commitment nullifies Fed's other powers.**

The editor of Standard & Poor's "Bond Outlook" says the central bank's inability to refuse to buy securities offered for sale virtually nullifies its other powers to control credit expansion. He points to the recent increase in reserve requirements and says this gain was almost exactly offset by a rise in reserve bank credit through sales of securities to the Open Market Committee. He states that complete abandoning of supports would be obviously impractical in the face of $40 billion of refunding and a possible budget deficit, and concludes if nothing less will be effective, then it is apparent the Federal Reserve must be granted additional powers -- "the best bet to date seems to be some form of secondary reserve requirements which will regulate both the volume and character of the banks' loans and investments." (Bond Outlook, 2/24.)

11. **Interest rate policy will be tested in June.**

U.S. News and World Report says the Treasury's cheap-money policy will be put to a severe test when it has to refund $37.9 billion of outstanding notes and bonds in 7 months beginning next June. It states the question is whether, at current low interest rates, the Treasury will be able to find private investors willing to buy and hold these issues -- if not, the Federal Reserve System will have to buy them in as it did in the past two refundings. "Mr. Snyder questions how much good would come of increased rates. Besides, he thinks there will be plenty of customers for his refunding issues. Treasury officials expect the demand for private credit to shrink, thus making Government securities more attractive to investors." (U.S. News & World Report 3/2.)

12. **Compromise plan is "in the wind".**

Business Week reports that a compromise may be "in the wind" in the F.R.B.-Treasury dispute. "One plan with considerable backing calls for retention of the peg, but at less than par. Its supporters claim it would tighten credit, but not so much that the Treasury would have trouble financing future deficits." (Bus. Week 2/24.)
Truman acts to end money policy feud.

The news story of the day was, of course, the White House statement of February 26th on Federal securities and credit which included the President's memorandum to Snyder, McCabe, Wilson and Keyserling asking them to work out a program "to provide the necessary restraint on private credit expansion and at the same time to make it possible to maintain stability in the market for Government securities." The statement was given wide news coverage, but by and large the stories were purely factual reporting of the contents of the statement. (The New York Times and the New York Herald Tribune printed the complete text of the statement in addition to their respective stories.)

Some reporters, however, read implications "between the lines" of the statement, and these are presented below:

*Felix Belair, Jr., New York Times, 2/27*

"Although the terms of reference given by the President called for 'reconciling the policies concerning public debt management and private credit control' the President seemed to take neither side of the argument in the long-standing differences between the Treasury and the Federal Reserve."

"The point to which the President's memorandum did not address itself and on which the Federal Reserve Board has insisted in its negotiations with the Treasury was that stability in the Government bond market is not synonymous with a pegged market or a 'frozen' pattern of rates."

"Aside from his suggestion (the President's) that further increases in reserve requirements be considered, there was little in the President's memorandum of comfort to the Federal Reserve Board. Moreover, Congress several years ago refused an identical recommendation of the Federal Reserve Board."

"The President's memorandum did not recognize that the Federal Reserve System was given exclusive jurisdiction by Congress over the nation's credit structure. It referred to the system as the 'main and central organ for economic stabilization before World War I' but it said that in those days 'far simpler conditions prevailed than those now confronting us.'"

"The White House meeting was a surprise to Wall Street and market experts were reticent about reading any conclusive meaning in it. On the face, the move appeared to be an attempt to gain by negotiation and the counsel of other interests a meeting of minds which the Treasury and President Truman have been
Unable to force on the Federal Reserve by executive suasion or dictation....
The fact that the call to the White House came while the central bank's Open
Market Committee was in session left the inference in the minds of market men
that the summons may have had the spot objective of forestalling the central
bank from lowering anew its market pegs for certain long-term Treasury
securities, if any such move were in mind."

Wall Street Journal 2/27.
"Mr. Truman appeared to be leaving the way open for some eventual increase in
interest rates. But he urged the Reserve Board to take no steps 'to change the
interest rate pattern' while the study is in progress."

"The White House statement seemed to indicate Mr. Truman may be giving more
weight to arguments by Federal Reserve officials and others that the Treasury's
interest rate policy is inflationary."

Journal of Commerce 2/27.
"The President's memorandum, it was noted, follows fairly closely the thinking
of the report of the President's Council of Economic Advisers. That report, it
will be recalled, hinted that the usual restrictive measures of central banking
might not be effective, at least in a short enough time, and might have to be
supplemented by more direct controls, some of which might be new ones."

"Chief Mobilizer Wilson is expected to make use of a report by a committee
recently appointed by Eric Johnston to look into the credit control situation."

"But the (President's) suggestions, originating in the Treasury, were not happily
received by FRB officials. Although they declined to comment on them, they were
represented as being angry and lacking in faith in the efficacy of the projected
anti-inflation methods."

In the meeting with the President, "McCabe and Sproul were clearly outnumbered,
for almost all the rest, it is known, support the Treasury. The two FRB officials,
we learned, did not know the purpose of the meeting when they attended, and
the President's proposals were sprung on them cold."

"In effect, Mr. Truman told the FRB that if it was so bound and determined to
cut back commercial loans, here were three ways to do it, none of them entailing
any upsetting of the Federal security market and interest rates. The usefulness
of the first method, the creation of an organization something like the Capital
Issues Committee of World War I, but 'operating in a broader area', is known to
be deprecated by the FRB. That agency feels that voluntary methods of curbing
lending will be of little use in the present situation. The second approach,
statutory power to increase reserve requirements far above present levels, has
been urged repeatedly by the FRB. But the FRB feels that it would only be a
useful supplement to its open market operations of buying and selling bonds to
control credit, and could not be effective alone."
DIGEST OF PRESS COMMENT ON FEDERAL RESERVE-TREASURY CONTROVERSY

February 28 and March 1, 1931

1. Editorial comment on Truman memorandum to resolve credit control controversy.
There is presented below the tenor of editorial comment in New York and Washington papers on President Truman's statement and memorandum of February 28th.

New York Times, 2/28
In an editorial "Easy Money Forever?", the New York Times lines itself up solidly on the side of the Federal Reserve and calls Senator Douglas' speech of February 21st "a brilliant exposition of the issue of monetary policy and its relation to the present inflation of prices." It makes this concluding reference to President Truman's recent action in the dispute:
"Chairman McAdoo and Allen Spradl, head of the Open Market Committee of the System, were invited on Monday to the White House, where a new and fantastic proposal was put in the words of a Washington correspondent, 'sprung on them cold'. This proposal can be summed up by saying that it is an effort to solve the problem of credit control by a hodgepodge of legal devices resurrected from the past while at the same time leaving the Treasury free to control its inflationary easy-money policies to its heart's desire."

New York Herald Tribune, 2/28
In an editorial "The Credit Problem", the New York Herald Tribune says the President has acted too soon in trying to effect a solution to the controversy but says he has been less than satisfactory in describing the problem to be solved. First, credit control should be centralized, and the Tribune feels it should be given to the Federal Reserve Board who is "far and away the best equipped to control credit" instead of spreading authority thin over several agencies. Second, while the President leaves room for some compromise in the matter of increasing interest rates, his bias is on the side of rigidity. Third, the President didn't even mention what choice we are to make between general, indirect monetary controls most appropriate to a private enterprise economy and the selective, direct type of credit control which might amount, at its logical extreme, to credit and capital rationing. "Unless this third issue is brought to the fore, we may gain coordination and a measure of stability at the expense of an independent banking system."

Journal of Commerce, 2/28
The Journal of Commerce sees the Federal Reserve Board superseded as the top credit control agency of the country. The President has in effect subordinated the Federal Reserve to a new interdepartmental committee that has been given a ready-made program. The group has been told exactly what it is expected to sponsor and "it should hardly take the 10 days to two weeks allotted to the group to make its report." "There are strong arguments for the view that wide changes in interest rates are not a desirable method of controlling credit, and that direct restrictions may be preferable during the current emergency. But it is not necessary or desirable to dismantle our established credit control organizations, and to replace it with a new intergovernmental agency, to establish this policy."
Wall Street Journal, 2/28
The Wall Street Journal accuses the President of confounding in his statement what he calls "stability" in the government bond market with "full confidence in the public credit of the United States", and that to him stability in the market means not a price reflecting truthfully the changing influences upon it but an artificially and arbitrarily pegged price. The Journal suggests that the real criterion of government credit is the willingness of private citizens and their thrift institutions to invest in government obligations without any promise that the Reserve System will bail them out -- in other words, the "gauge of the government's credit is to be found not in any interest rate artificially pegged but in the popular state of mind on the subject."

Washington Post, 2/28
The Washington Post asserts that "the President is on the proper ground, it seems to us, in calling upon the Treasury and the Federal Reserve to make the attempt" to explore in common all possible means of credit control. It says Senator Douglas' proposal to lay down statutory rules for the guidance of the Federal Reserve authorities would not resolve the conflict between the system and the Treasury. "On the contrary, the conflict would be intensified. Responsibility for financial decisions and debt management rests with the Treasury; responsibility for monetary management, with the Federal Reserve." Their functions interlap and clearly a solution of the conflict lies in voluntary cooperation involving mutual concessions. "Nor do we think that the issues in dispute have been sufficiently explored to warrant positive directives to the Reserve Board to stand its ground. A drop in Government bond prices following withdrawal of Federal Reserve support from the market might have very demoralizing effects, assertions to the contrary notwithstanding. Moreover, the post-Korean inflation is not due solely to an expansion of bank loans."

The Washington News, 2/28
The News views the President's statement as a hope for a compromise settlement of the controversy between the Treasury and the Federal Reserve over interest rates, and says it will be a tough job to reconcile two viewpoints which, up to now, have appeared irreconcilable. "But if Mr. Truman is willing to modify his own previous position in the interest of seeking a sound compromise, he deserves public credit for that."

Washington Evening Star, 2/28
The Star says the President's call for a new study is a welcome development but "it is doubtful, however, that this study will be productive of any new solutions of an old question." If the President's program in effect means direct Government control on all the commercial banks -- some 14,000 in number -- "it is suggestive of a cumbersome if not unworkable nightmare of regulation." It would seem to be much simpler and less risky to let the Federal Reserve experiment with discontinuance of the open market support of Federal securities. The choice perhaps is a choice of risks. But the lesser risk would seem to be to follow the line suggested by Senator Douglas..."

The Federal Reserve Bank of New York, in its "Monthly Review" of business and financial conditions just released for publication, asserts that a study of recent monetary policy of foreign countries shows that "they have increasingly resorted to monetary and credit policy as an instrument of economic and financial control" involving in nearly all cases "the abandonment of rigid interest rate patterns and the tightening of quantitative credit restrictions." Pointing out that "long-term interest rates have been allowed to rise in several countries, including some where the monetary authorities previously had maintained rigid pegs for government bond quotations," the Federal Reserve publication concludes that "postwar experience has demonstrated that direct controls tend merely to suppress inflation without eliminating it, to impede an increase in productivity, to distort production and to aggravate balance-of-payments difficulties."

"In an effort to achieve the necessary cutback in private spending and to maintain healthy economics while building up defense strength", it is stated, "foreign governments have chosen to attack the problem by resort to monetary and fiscal controls." The study covers recent experience in Great Britain, France, Germany, Canada, Sweden, the Netherlands, Belgium, Denmark and Finland. The New York Herald Tribune comments "Its (the study's) publication at this time is obviously aimed to support the Federal Reserve System in its current controversy with the Treasury about the advisability of 'pegging' the prices of government securities." (N. Y. Herald Trib., 3/1; N. Y. Times, 3/1; W. S. J. 3/1.)

3. Lippmann says President is making second try at pressurizing the F. R. B.

Walter Lippmann says the President recognized -- "at least in theory" -- that there is a problem yet to be solved and in appointing the committee to make the study on credit controls did "not ask those present for any commitments on the subjects under discussion." While Lippmann says this is a better way to approach the problem, it is still not good enough. What half of the committee -- Snyder and Keyserling -- are going to report we already know, for they put a preview of it in the memorandum the President read which they and their staffs must have written. Wilson, the third member, has been subjected to "unfair pressure" in that he has been put in a position "where he cannot side with the Federal Reserve without coming into open disagreement with the President of the United States, who is his immediate superior." McCabe's position is even more difficult than Wilson's. "Mr. McCabe and his colleagues are in the awkward predicament of being asked, indeed heavily pressed, by the President of the United States to do what under the law and their own unanimous judgment under that law they ought not to do. The President's memorandum comes close to saying that if they do not obey the Treasury, they will be interfering with the defense effort. This is duress employed to override their independence of judgment. It is not fair, indeed it is highly improper, for the President to place them in a dilemma where if they do their duty under the law, they are made to appear as obstructors of the national defense." Lippmann concludes that it is an issue for Congress to decide whether the Federal Reserve should follow its own judgment or obey the President's instructions. (Wash. Post, 3/1; N. Y. Herald Trib., 3/1.)
4. A. B. A. awaits "go-ahead" from Reserve to effect plan to control credit. Banks, insurance companies and investment bankers are waiting on a go-ahead signal from the Federal Reserve System to make effective a plan for voluntary control of credit. This was explained by James E. Shelton, president of the American Bankers Association in a telegram assuring President Truman that the Nation's commercial banks will cooperate fully in curbing expansion of credit during the present emergency. Noting that the President's recent statement had mentioned a voluntary credit-control program as a means of attaining the objective on non-inflationary lending, Mr. Shelton pointed out that the A.B.A. carried out in 1948 a voluntary program "with good results". "We believe that all possible avenues of approach to the solution of this problem should be taken along voluntary lines before further laws and regulations are employed in this field", Mr. Shelton declared. The current program of these financial groups to voluntarily control credit is now with the Attorney General for approval. (W. S. J., 3/1; N. Y. Times, 2/28.)

5. Severe curbs on credit may result from interest rate controversy. Dr. Marcus Nadler, in an address before a forum of the Savings Banks Assn. of New York, said that if the current interest rate dispute is not solved, savings banks and other lending institutions can expect the imposition of further severe controls under existing laws and the passage of additional Federal legislation that will be dangerous to private credit and cause lenders to "pray" for a return of the days when they could earn 2-1/2 percent. Nadler said one of the most significant portions of the President's statement on Monday was the request for a study of the "necessity and feasibility of using the powers in the emergency banking act of 1933", and the extension of controls authorized by this law to cover non-Reserve member banks "by using the powers provided by the trading with the enemy act." Under existing laws and through the proposed new Capital Issues Committee, according to Nadler, the Administration and Secretary Snyder can "dictate" the terms of any "transactions" by a bank, tell it whether it can or cannot make any particular mortgage, or ultimately tell it just how many government bonds it will have the "great privilege" of purchasing and at what rate. (N. Y. Herald Trib., 3/1.)

The Washington Bureau of the American Banker reports that Truman's memorandum is seen as a "Federalization threat" to all banks. The use of the Emergency Banking Act with the Trading With the Enemy Act to control credit expansion would, as one official declared, "give Government practically unlimited power over all banking." Another commented that it "would Federalize banking effectively." "In effect, the Secretary (of the Treasury) would act through the White House to the Reserve banks in control of bank credit. Officials point out that the Secretary presumably would write the rules that were to be enforced on all banks." (Am. Banker, 2/28.)
6. **Economists assail Truman for dictating to Federal Reserve.**
The 51 members of the Economists' National Committee on Monetary Policy, most of them university professors, in a statement released on 2/26, assailed the President for his "serious mistake" earlier this month in summoning members of the Federal Reserve Board and its Open Market Committee to the White House to exact a promise that they would support Treasury security issues. The economists said the Federal Reserve System "should be, and is supposed to be, free from any pressures" from the executive branch. Next only to issuing irredeemable currency, the statement said the greatest evil is the "destruction of the independence of a nation's central banking system by the central government." (Wash. Post, 2/26.)

7. **Direct controls on bank credit favored by Keyserling and Snyder.**
Keyserling and Snyder are known to favor the imposition of direct controls on bank credit, and it was at their suggestion that the proposal was included in the President's memorandum. The Economic Council has been in favor of direct controls for some time. The proposal was "advanced originally by John D. Clark, one of the three members of the economic group." Snyder's support of the proposal, however, has taken close observers of the Treasury-Federal Reserve Board dispute by surprise. It was learned today that it was in fact, the Secretary himself who recently approached the council with the suggestion that direct controls be adopted as a solution to the problem of controlling monetary inflation. For its part, the Reserve considers direct controls an extremely burdensome way of accomplishing an objective that it feels can be easily attained through the traditional indirect methods of central bank operation. On top of that, it has no liking for the mass of administrative detail that would be forced on it if direct controls were adopted....There appears to be no likelihood that a four-man committee which includes both Snyder and Keyserling will recommend that the system be given the range of monetary powers it wants. The President probably saw to that when he limited the group to considering methods, including voluntary restraint and stiffer reserve requirements, that still would preserve the stability of the Government bond market." (J. of C., 2/26.)

8. **Treasury called "fountainhead of inflation".**
The Los Angeles Times, in a recent editorial discussing the government's efforts to control inflation, labels the Treasury as the "fountainhead of inflation" by insisting on a fixed pattern of interest rates which "give the delusion of saving a little money". "If the Federal Reserve Board were permitted to exercise its statutory powers instead of acting as a tool of Treasury policy, more stringent credit restrictions could be imposed and inflation would be relieved." (L. A. Times 2/26.)
9. Haney says people are fed up with low interest rates on Government bonds.
Lewis Haney makes reference to Secretary Snyder's statement that we must not suppose that small changes in interest rates make any difference, and says "the fact is people are fed up with saving to buy Government bonds and then getting a measly 2 or 3 percent, which when figured in terms of reduced purchasing power amounts to only 1 to 1-1/2 percent....The best proof is that a day or so ago Truman called in the head of the Reserve System and others and ordered them to prepare a plan to do two things: (1) To peg the price that his administration pays when it borrows our money, and (2) To restrain private borrowing. But, Mr. President, if the artificially low rates you pay us when you borrow from us on your bonds doesn't make any difference, why do you have to prevent private borrowers from outbidding you? If the easy money policy be okay, why the physical controls over private debt and business?" (Journal-American, 2/26.)
DIGEST OF PRESS COMMENT ON FEDERAL RESERVE–TREASURY CONTROVERSY

March 2, 1951

1. Truman’s recent memorandum no assurance to Government securities market. The New York Times, in "Topics and Sidelights of the Day in Wall Street", reports there was some slight improvement in the dealers' market for Government securities yesterday but not enough to outbalance declines registered in the troubled trading sessions of the early part of the week. "President Truman’s reworking of the Snyder declaration has been of no great reassurance to the market, presumably because of the stress given the naive notion that a pegged market breeds confidence in the securities supported. The reverse, of course, is true. A pegged market breeds distrust of the securities pegged and breeds confidence only in some given market level for a limited period of time; it breeds, too, constant speculation as to when and how much the pegs might be changed." (N. Y. Times, 3/2.)

2. Treasury assailed for forcing Federal Reserve to be "engine of inflation". Wilbur Fulton, Vice President of the Cleveland Federal Reserve Bank, in an address before the annual directors' meeting of National Sales Executives, declared "As long as the Federal Reserve is required to buy Government securities at the will of the market to defend a fixed pattern of interest rates established by the Treasury, it must stand ready to create new bank reserves in unlimited amounts. This policy makes the entire banking system, through the action of the Federal Reserve System, an engine of inflation." (N. Y. Times 3/2; Baltimore Sun 3/2.)

3. Truman seen as credit policy boss. Rodney Crowther, writing in the Baltimore Sun, says that the President in his renewed intervention in the Treasury–Federal Reserve dispute, ordering a compromise, has disclosed who really is the nation's credit boss. According to some experts, Mr. Crowther relates, the emergency powers which the President dusted off in his memorandum are so broad that the President could -- if he wanted to -- nationalize the Federal Reserve banks and take away all their independence. "There is no indication in Administration circles that there is any such intention. But the power exists. There have been threats to use it, no less an authority than Senator Douglas told the Senate February 22." (Baltimore Sun, 3/2.)

4. Treasury is helping to peg Government bonds. The Wall Street Journal reports that the Treasury has been using some of the $3 billion postal savings deposits to buy Government securities and thus support the market. While such buying is not unusual, the latest buying is much bigger than normal. Before Secretary Snyder went to the hospital he told McCabe he hoped the Reserve System would continue bidding to keep prices steady. He thought McCabe promised. But since then the Board has hinted privately the support might be ended letting prices fall and interest rates rise. "Snyder’s friends complain, ‘This bond support ruckus has the Secretary so worried he hasn’t gotten much rest.’" (N. Y. J., 3/2)
5. Nadler says bond support is certain.
The American Banker carries a rather lengthy article reporting on Dr. Marcus Nadler's recent speech before a forum of the Savings Bank Assn. of New York (mention of Nadler's speech was made in item 5 of our press digest of 2/28 and 3/1). The American Banker stresses the fact that Nadler minced no words that "the bond market will be protected with whatever legislation is needed." Nadler put it this way: "Whenever there is an argument between husband and wife, the wife will be sure to have the last word, and in the combination of the Treasury and the Federal Reserve System, the Treasury is the wife. You can be sure the Government bond market will be maintained at a rate determined by the Treasury." (Am. Banker, 3/1.)

6. Mellett sees little understanding in interest rate row.
Lowell Mellett, writing in the Washington Evening Star, says one of the bitterest battles this town has enjoyed in a long time is the controversy between the Treasury and the Federal Reserve. "What these two big boys are fighting about isn't easy to understand, but one thing is clear, they are really mad." Senators Douglas and O'Mahoney undertook to elucidate the issue the other day, and "They found themselves as thoroughly in disagreement as the Treasury and the Reserve Board. Mellett quotes excerpts from their statements, as well as statements made by Senators Taft and Millikin, and concludes: "So, whether or not the issue -- largely between Democrats -- ever becomes understandable, the Republicans seem likely soon to take a hand. It is too good a fight to stay out of." (Wash. Star, 3/1.)
DIGEST OF PRESS COMMENT ON FEDERAL RESERVE-TREASURY CONTROVERSY

March 5, 1951

1. Snyder-McCabe accord on debt management and monetary policies.
Top billing was given in the Sunday newspapers to the joint statement made by Secretary Snyder and Chairman McCabe that "The Treasury and the Federal Reserve system have reached full accord with respect to debt-management and monetary policies" and the simultaneously announced plans for floating the new 2-3/4 percent bonds. Generally the statements were viewed as an "official" (if not actual) settlement of the long-standing feud. Most reporters, however, were careful to point out that there was no comment on one vital point in the controversy -- and that was on whether or not the price support program would be continued.

The joint announcement was hailed in carefully coordinated prepared statements by various legislators in Washington and by the President at Key West. The President stated he was "highly gratified at this agreement, which represents a very important step forward in the solution of the problems outlined in my memorandum of Feb. 26...". However, the President went on to state that "Consideration of other aspects of the problems outlined in the memorandum of Feb. 26 will continue to go forward as originally planned." (N. Y. Times, 3/4; N. Y. Herald Trib., 3/4; Wash. Post, 3/4; Wash. Star, 3/4; Wash. Times Herald, 3/4.)

Editorial Comment.
The New York Times says it hopes the joint statement means that the Federal Reserve and the Treasury have worked out a "modus vivendi" along sound monetary lines. "We think, however, that those in Washington who have interpreted the proposed new exchange offer as confirmation of this are premature in their judgment or are indulging in wishful thinking.... We shall be in a better position to know whether the Treasury is shifting its position or whether it is merely 'buying time' in this situation when we see what happens to the 'pogo' under the Government's two-and-one-half percent market bonds. One cannot help wondering why, if the Treasury really means to permit a genuine test of the market for its securities, it doesn't permit that to be done by the simple, direct method of open-market Reserve operations. And if the Treasury does not mean to permit its securities to find their natural level (within certain obvious limits), then it is idle to say that the basic issue between the Treasury and the Reserve is any nearer resolution than it was a week ago or a year ago." (N. Y. Times, 3/5.)

The New York Herald Tribune points out that the "peace-making announcement", while a desirable step in the right direction, fails to disclose the nature of the new policies. It states that unless it means that the fight against inflation will be given clear priority over the limited objective of keeping down the cost on the public debt, the agreement will be of little value. In particular, it says if the Federal Reserve is to be expected to support a new interest rate pattern as rigidly as it has felt obliged to support the present one, very little help from credit policy can be expected in the fight against inflation. (N. Y. Herald Trib., 3/5.)
The Journal of Commerce concludes from the joint announcement that henceforth long-term financing by the Treasury will consist mainly or entirely of non-marketable bonds. The Journal sees this as giving the Federal Reserve a freer hand in the management of interest rates since it will cut down on the supply of long-terms which the Reserve would have to support in the market. It points out, however, that the transformation of a larger part of the public debt into non-marketable bonds is far from an unmixed blessing since life insurance companies, savings banks and other investors will be deprived of much flexibility in their portfolios. The Journal comments: "Restoration of the Federal Reserve System control over interest rates and reserve credit is regarded as more important than the flexibility of the portfolios of financial institutions. Events could well prove that the Federal Reserve's insistence upon regaining such control is fully justified." (J. of C., 3/5.)

The Washington Post states: "Of course this bond offering and the agreement to cooperate does not settle disputed issues in regard to methods of stabilizing the Government bond market. But, given the will, we do not doubt that the Treasury and the Federal Reserve Board will find ways to solve their joint problems through consultation and compromise. That is the only feasible method of ending a controversy, that, if prolonged, might undermine investor confidence and precipitate a flight from Government securities." (Wash. Post, 3/5.)

The Washington Evening Star views the compromise as a case of putting "the cart before the horse", since it is an attempt at a political compromise of an economic problem, and "it is doubtful that politics and economics can be successfully mixed." The Star states it is doubtful whether the new bond issue at an increased rate of 1/4 percent will achieve the desired end of halting the trend toward monetization of the public debt. Since there is nothing in the announcement to indicate that open market purchases will be stopped, the "full accord" is viewed with some misgiving. (Wash. Evening Star, 3/5.)

The Baltimore Sun says the new plan for offering non-marketable 2-3/4 percent bonds, agreed upon by Snyder and McCabe, is a sign of new unanimity among the financial authorities, but it is not yet clear how much the new bond issue will dampen down the inflationary potential of the Government debt. "As will be seen, too, the new plan does not meet head-on the demand that the Reserve people be allowed to exercise greater flexibility in purchasing the present marketable bonds from commercial banks eager to expand loans. But the boost in the interest rate on the new non-marketable issue is bound to have some restraining influence on this and other aspects of the money market." (Balt. Sun, 3/4.)

The Philadelphia Inquirer says that if the "full accord" announced between the Treasury and the Federal Reserve Board really means that these two financial agencies are going to work harmoniously on debt management and monetary policy, it will be a distinctly encouraging development in the fight against inflation. It states that whether the compromise plan to offer the new non-marketable bonds at a 1/4 percent
interest increase will slow down the cashing of lower-interest bonds remains to be seen. "But even if further moves have to be tried, at least the Treasury and the Federal Reserve Board have shown that it is possible to get together on efforts to combat inflationary pressures." (Phila. Inq., 3/5)

2. Treasury and Federal Reserve have thrown "smoke screen" around their differences.

The Wall Street Journal reports that the two fiscal agencies have thrown a "smoke screen" around their differences on debt management and interest rate policy. "Late Saturday the two agencies announced they had "reached full accord" in their disagreement. But the crux of the fight -- whether the Federal Reserve System should continue to support the bond market -- has been left as much in the air as ever, unless there is a secret agreement on that point. Most bank and insurance company executives said it was a big step forward. Beneath the surface, however, was the question of what the Government intends to do to curb inflation by restraining private credit expansion."

Unless Secretary Snyder extracted a commitment from the Reserve to support the market, in return for his acquiescence for a higher interest rate on the exchange offering, he appeared to have made all the concessions. If the Federal Reserve made a deal to support the market, it would be doing exactly what it has been arguing for weeks it should not do. "No answer to these questions could be found in Washington over the weekend." (W. S. J., 3/5)

3. "Freeze" seen on $19-billion debt.

Paul Heffernan, writing in the New York Times, says that equally as significant as the reconciliation between the Treasury and the FRB is the means which brought about the agreement -- the decision to issue a long-term nonmarketable issue of bonds bearing interest at 2-3/4 per cent. "The purpose, obviously, is not to sell more government bonds by offering a higher interest return, but rather to get a big fraction of the public debt away from the public market... In other words, it is a move to freeze $19 billion of Government, long-term debt... Such a freeze would have a double action. It would spare the Federal Reserve from the duty of being the residual buyer of bonds unattractive to non-bank investors at certain prices. Secondly, it would prevent institutional investors from making new loans from the proceeds of their sale of such bonds in the public market." Heffernan compares the authorities current decision as the use of a "carrot instead of a stick" -- i.e., incentive of added interest income rather than compulsory freezing of Government bond investments. "But a carrot for investors in the form of a non-marketable bond is likely to command considerable scrutiny before it is nibbled up." Heffernan sees that the more substantial point marketwise is that the Treasury and the Federal Reserve System have buried the hatchet, and will now work with each other instead of at cross purposes. (N. Y. Times, 3/5)
Felix Belair, writing in the New York Times, says the new bond announcement looks more and more to experts as an effort to sound out the Government bond market and an attempt to discover obliquely what could be determined directly only by withdrawal of Federal Reserve support of that market. "If the effort is successful, one major source of inflationary bank credit will have been removed. Also the strength of the market indicated by the willingness of non-bank investors to exchange old bonds for new, will have deprived the Treasury of one of its chief arguments for a 'pegged' Government bond market and a 'frozen' pattern of rates. On the other hand, if the Treasury's offering as finally revealed is insufficiently attractive to induce the exchange of marketability for a fractional rate increase from 2-1/2 to 2-3/4 percent, disinterested officials believe the Treasury-Federal Reserve conflict will be right back where it started." (N. Y. Times, 3/5.)

5. Reserve Banks may lower peg in new accord.
Ed Tyng, writing in the Journal of Commerce, reports that Federal Reserve Bank officers who have charge of open market operations in Government securities held an unusual meeting at the Bank on Sunday and that dealers were holding meetings before the market opened this morning to learn something about Federal open market policy. There were rumors that Federal Reserve "peg" in the market might be removed or lowered, with most observers believing the latter move more logical. (J. of C., 3/5.)

6. Efforts to curb bank lending to continue despite accord.
Charles Kolomy, writing in the Washington Post, says officials have pointed out that Administration efforts to work out new ways of restricting bank lending will continue regardless of the new Treasury-Federal Reserve agreement. While the announcement by the two disputing agencies may ease the need for further curtailment of lending, it is not expected to eliminate that need. (Wash. Post, 3/5.)

The Washington Bureau of the Journal of Commerce reports that the Federal Reserve Board will follow up the Treasury announcement of a new long-term bond issue with an appeal to Congress for additional power to control bank credit by increasing reserve requirements. (J. of C., 3/5.)

C. Norman Stabler, writing in the New York Herald Tribune, says "The step taken Saturday is only one of many which may be necessary to attain the triple goal of maintaining an orderly market in government bonds, keeping interest rates low enough so as not to burden the Treasury Department with excessive debt service, and yet letting the rate advance enough so that some of the funds now promoting the inflation will be siphoned off and immobilized." (N. Y. Herald Trib., 3/5.)
7. End of "rift" seen as stabilizing factor in corporate market.
Shelly Pierce, writing in the Journal of Commerce, says the debt management policy announcement over the weekend was welcomed by investment bankers as a "stabilizing influence which should end the confusion that has enveloped the corporate bond market for many weeks. Underwriters have attributed to the controversy the recent rise in yields on corporate bonds and the poor reception which has been accorded most new issues this year." (J. of C., 3/5.)

George Mooney, writing in the Sunday New York Times, says that bankers were stunned by the President's memorandum of last week which called for a study of the possible use of direct Government controls over banking. While voluntary methods have not been ruled out, many bankers were fearful of the "Federalization" threat. (N. Y. Times, 3/4.)

9. Gardiner Means outlines program to halt monetary inflation.
Gardiner Means, in an article on "The Inflation Crisis" in Sunday's Washington Post, says that the objective of the FRB to prevent an inflationary expansion in the money supply and the Treasury's objective for managing the public debt to keep its costs as low as possible can be resolved in such a way as to meet both objectives. After a rather lengthy discussion of the expansion in the money supply, the Federal Reserve's powers to stop monetary inflation, and the cost to the Treasury of increased interest rates, Mr. Means suggests the following 5-point program by the Federal Reserve to halt monetary inflation:

1. Publicly announce that in its considered opinion the value of long-term Government bonds can be maintained in the near future close to par without preventing the necessary limitation on the money supply, and that it will cooperate with the Treasury to this end.

2. Make clear to the Treasury (a) that this does not mean supporting long-terms above par as at present; (b) that it does mean supporting them slightly below par until such time as new or refunding issues of long-terms have to be sold, when the support level might have to be raised; (c) that this is not a permanent commitment but one for the foreseeable future and may have to be revised at a later date in the light of events; (d) that this cooperation is conditioned on the Treasury's cooperation in not setting the interest rates on new security issues at rates which are in conflict with the Federal Reserve's responsibility for limiting the money supply. In practice, the rates on new issues ought to be arrived at by mutual agreement.

3. Raise rediscount rates to whatever level is necessary to prevent more than an appropriate amount of borrowing of reserves from the reserve banks.

4. Start selling short-terms at a rapid rate, perhaps at once pushing the yield up to 2-1/4 percent and selling what the market will take at
that rate with the expectation that short-term rates will fall back somewhat after reserves have been sufficiently reduced. If the contract-
action of reserves could be brought about quickly, the Treasury would
have the benefit of the new and more stable rates in its July financing.

5. Allow the prices of long-terms to fall slightly below par but support
them at a level consistent with, say, a price of 98 for a 20-year, 
2-1/2 percent bond.

Mr. Means concludes that "in the absence of actual war, such a program
would be successful in stopping money inflation without undue cost to
the Treasury." (Wash. Post, 3/4.)

10. Sweden had its counterpart of present controversy between FRB and Treasury.
John Elliott, writing in the New York Herald Tribune, reports that the
Swedish government and its central bank were not long ago engaged in a
controversy over pegging Government securities similar to the fight now
being waged by the Treasury and the Federal Reserve. The feud was
terminated last summer in the victory of the central bank. The out-
standing figure in the Swedish struggle over monetary policy was 62-year
old Yvar Booth, former governor of Sweden's central bank. (Booth's role
in the dispute is seen as comparable to that of Eccles' role in this
country.) Specifically Booth objected to the Swedish government's policy
of pegging the long-term rate at 3 percent, a policy that had led between
1946 and 1948 to large bond purchases by the central bank. Booth held,
as the Federal Reserve does now, that the creation of new bank reserves
necessary by the government's policy led in itself to inflationary
pressures. But Booth was opposed not only by the cabinet but also by a
majority of his own colleagues on the board of directors. Booth resigned
in protest in December 1948. John Elliott states that time vindicated
Mr. Booth. "The mounting wave of inflation that made itself felt in
Sweden early in 1950 and became intensified after the Korean War began
in June forced the Swedish government to reverse its monetary policy.
In July, for the first time since the war, the Riksbank withdrew its
support from the government bond market. As a result the quotation of
the 1934 government loan which had been pegged by the bank at 99 fell
at once to 95 and later became stabilized at about 94 -- a rise in the
effective yield from 3.05 to 3.22 percent. And for the first time in
the history of Swedish banking the nation's monetary authorities imposed
cash reserve requirements on the commercial banks. Like other European
countries, Sweden discovered that monetary and fiscal controls are an
essential weapon in the battle against inflation." (N. Y. Herald Trib.,
3/4.)

11. Clark favors individual bank loan quotes.
Whaley-Eaton Service, in reporting on the President's appointment of a
committee to devise new credit policies, says that Mr. Clark, the Economic
Council spokesman on monetary policy, would empower the FRB to set indi-
vidual loan quotes for every bank in the country. "To bankers' arguments
that this would be 'an administrative impossibility,' Clark points to the
fact that the Government has undertaken control of the prices of four million
business institutions and the wages of 60 million workers." (Whaley-Eaton, 3/3.)
12. Sylvia Porter says President's memorandum has caused "scare borrowing". Miss Porter reports that the President's memorandum of last week has not had much, if any, effect in reviving confidence among investors. On the contrary, there is suspicion that it has caused a considerable amount of "scare borrowing" — borrowing which would not ordinarily be arranged at this time but which is being hastened by fears of pending curbs on credit and shortages of money. (Reporting on Governments, 3/3.)

13. Goldsmith sees Government bond market in precarious position. Ted Goldsmith again devotes his bi-weekly bulletin to a discussion of the developments in the Treasury-Federal Reserve controversy and quotes at length from Senator Douglas' recent Senate debate on the subject. He states that, according to informed circles, the Open Market Committee had decided to lower the support levels on Government securities in a long meeting on February 17th, but apparently Commodore Vardaman told the White House about it, and the President called the meeting of February 20th to head off such a move. Goldsmith's concluding opinion is: "I would not own long-term government securities under present conditions. I am not sure that the Treasury and the President are able to co-erce the Federal Reserve System. Apparently the members of the Open Market Committee must decide whether they are nice or men." (Goldsmith Service - U. S. Gov't Securities, 3/3.)

14. Business Week sees little tightening on credit. Business Week, in its "Washington Outlook", says "a harsh tightening of credit isn't in sight as an inflation brake." It notes "that Truman practically told his new interagency credit committee to work on a policy that will make money harder for private borrowers to get, but keep it plentiful and cheap for Treasury borrowing."

In a story "Study on Credit", Business Week reports that the new study group very likely will propose giving FRB more power to impose bank reserve requirements and to extend them to nonmember banks. "But it is not likely that any new kind of direct control over business lending can be devised beyond voluntary cooperation on the part of the banks."

Wilson, it is pointed out, is, however, a new factor. It is suggested Wilson's opinion may be influenced by his associate, Sidney Weinberg, and perhaps also by the group of 15 economists which Eric Johnston appointed to study this subject. (Bus. Week, 3/3.)

15. Too early to determine effectiveness of President's study program in ending dispute.
The Editor of Standard & Poor's "Bond Outlook" discusses the objectives of the President's program to curb inflationary credit and to maintain stability in the Government security market, and says "It is too early to determine whether President Truman's second effort to resolve the Treasury-Federal Reserve dispute has pointed the way toward a solution or further muddle an already confused situation. Everything depends on the attitudes of the four agency heads charged with developing a compromise. If they approach the problem in a realistic and fairminded manner, there is no doubt that a program can be evolved which will satisfy the stated objectives. If, on the other hand, 'pet schemes' or considerations not stated play a dominant part, the entire matter may become the subject of protracted Congressional debate." (Bond Outlook, 3/3.)
DIGEST OF PRESS COMMENT ON FEDERAL RESERVE-TREASURY CONTROVERSY

March 6, 1951

1. Comment on "Treasury-FRB Accord".

In an editorial, the Wall Street Journal says the new agreement has been widely hailed as a felicitous compromise. "That it is a compromise goes without saying. How felicitous it may be remains to be seen." The Journal emphasizes the presence of large presumptions in all reasoning about the "full accord with respect to debt management and monetary policies". Whether it is an "important step forward" will depend upon the reception the new 2-3/4 conversion issue gets after the details of the issue are disclosed. It points out that nothing was said about market support nor about a stronger grip on commercial bank reserves -- "Here again the fullness of the 'full accord' is hard to measure.... Certainly the accord has made a dent in the Treasury's easy money policy. But the laurels in this context, such as they are, may yet shift back and forth." (W. S. J., 3/6.)

"No comment" was the response made yesterday by James B. Shelton, president of the American Bankers Association, when asked his reaction to the "accord" on monetary policy just announced by the Treasury and the Federal Reserve Board. The reply was given in answer to a question by reporters during the American Bankers annual savings and mortgage conference in New York. However, John W. Kress, executive vice president of the Howard Savings Institution of Newark, N. J., and chairman of the A.B.A.'s savings and mortgage investments committee, asserted the new accord on monetary policies will not stabilize the Government and corporate market in 1951, nor increase appreciably interest rates on long-term securities. He declared "The real issue of whether the Federal Reserve is ever again to be independent in all of its activities associated with bank credit and whether Treasury debt is ever again to compete in the securities market on equal terms with corporate debt remains unsettled. It is our duty to be militant, to be concerned with the soundness of our economy and to avoid domination of capital markets for political purposes." (N. Y. Times, 3/6; N. Y. Herald Trib., 3/6.)

General commendation came yesterday from the investment community for the Treasury-Federal Reserve Board compromise solution, according to a story in the Washington Post. From both the fiscal agencies themselves there were no mental reservations on either side about the solution. There was some evidence in yesterday's Government security transactions that the Open Market Committee was actually still supporting the market, but neither Treasury nor FRB would comment on the point. "Some observers concluded that if the FRB did not continue to support the Government bond market at present rates it would be a sign that it was running out on what must have been part of the bargain that was struck with the Treasury." Although the agreement would seem to take care of part of the inflation problem that concerned the FRB, other aspects were still unresolved. These, which relate more directly to the problem of the continued expansion of bank credit are to be the subject of a high-level meeting later this week. (Wash. Post, 3/6.)
2. **Market seen in new phase with pegging superseded by "plan for orderly conditions".**

The *New York Times* reports that wholly apart from the downward price adjustments in Government securities yesterday as a result of the announced new conversion issue, "the market's behavior indicated that it has entered a new phase, one in which maintenance of pegs by the Federal Reserve authorities to defend a fixed pattern of interest rates has been superseded by a new type of central bank control whose objective will be limited only to maintenance of orderly market conditions." *(N. Y. Times, 3/6.)*

The *New York Herald Tribune* reports that the first reaction to Saturday's agreement between the FRB and the Treasury was that the restricted issues whose holders can obtain the new 2-3/4s held steady, but that most of the bank-eligible bonds and other restricted issues of intermediate and long-term maturities slumped. "In informed quarters in the financial district it was emphasized that this development indicates that the Federal Reserve System from now on will continue to maintain an orderly market, but it will cease to maintain a pegged market for government bonds as it has been doing consistently since the beginning of World War II." *(N. Y. Herald Trib., 3/6.)*

The *Journal of Commerce* reports that the Federal Reserve Bank yesterday left unpegged all Government securities except the two issues that are eligible for conversion into the new 2-3/4s. "Apparently it was not a matter of lowering pegs, but taking them out altogether, at least for the time being. Sufficient demand arose, as various issues got more out of line with the pegged 2-1/2s to support the market at declines that were at worst only minor ones. There was no indication that the Federal's undertaking to maintain 'orderly markets' on all Government securities had been modified." *(J. of C., 3/6.)*

3. **Investors cautious about proposed 2-3/4 issue.**

The *Wall Street Journal* reports that an atmosphere of caution enshrouded the Government securities market yesterday, with investors taking to the "side-lines". Insurance companies, savings banks and other large holders of the outstanding long-terms eligible for conversion held their fire pending further information on the new offering. "They wouldn't feel like cheering, they said, if it turned out, for instance, that the notes into which the new 2-3/4s are made convertible could be sold only at a discount." Commercial banks apparently looked upon the offer as an upping of interest rates, despite all the uncertainties surrounding it. The bank-eligible issues showed declines ranging to nearly 3/8s of a point. The uncertainties in the U. S. Government bond market also found reflection in a general marking down of bids for state and local government bonds and for investment quality corporate issues. *(N. S. J., 3/6.)*

4. **Precedent set in interest rate compromise.**

A *Journal of Commerce* newsletter says that a precedent has now been set in the interest rate dispute. "The Treasury cannot sit back and virtually veto a rise in interest rates or a drop in Government bond support prices on the ground that this threatens its ability to finance its own requirements."
It has been demonstrated that, through cooperation between the Treasury and the Federal, it is possible to steer a course to satisfy both. This may result in wholly unorthodox and unexpected expedients, like the current exchange offer. But broad increases in interest rates and restrictive credit measures are potential more than immediate developments. Should the supply of new institutional investments in the period ahead fall short of the volume of funds accumulating in the hands of institutional and other investors, interest rates could soften for a time despite what the Treasury has done." (J. of C., 3/6.)
DIGEST OF PRESS COMMENT ON FEDERAL RESERVE-TREASURY CONTROVERSY

March 7, 1951

1. Senators file bill to resolve all credit disputes in favor of Federal Reserve. Senator Douglas introduced a resolution on March 6, sponsored by five other Senators, "to make it perfectly clear" that all credit control conflict between the Treasury and the Federal Reserve System is to be resolved in favor of the Federal Reserve. Charging that last weekend's joint Treasury-Federal Reserve announcement of agreement on debt management and monetary policies is unclear, the Illinois Democrat told the Senate that no information is available on what the Federal Reserve has agreed to do about buying Government securities in the open market. He declared that market purchases of Government bonds by the Reserve have "been largely responsible for the inflation which has occurred since the outbreak of Korean hostilities." Douglas had warned the two agencies on Sunday that he would seek to have Congress define the responsibilities if they did not make the terms of their agreement public. "I hope to stiffen the back of the Federal Reserve and clip the wings of the Treasury," Douglas said. His proposal, offered as a joint resolution, declared that:

1. The primary power and responsibility for regulating the supply, availability, and cost of credit in general shall remain vested in the Federal Reserve System.

2. The policies and actions of the Secretary of the Treasury relative to money, credit and transactions affecting the Federal debt shall be made consistent with reserve policies.

The five Senators who joined in sponsoring the resolution were: Fulbright, Democrat of Arkansas; Gillette, Democrat of Iowa; Tobey, Republican of N. H.; Thye, Republican of Minn.; and Flanders, Republican of Vt. (J. of C., 3/7; N. Y. Times, 3/7; N. Y. Herald Trib., 3/7; W. S. J., 3/7; Wash. Post, 3/7; Balt. Sun, 3/7.)

2. Treasury issues again decline sharply. The bond market yesterday continued a downward adjustment to the investment yield implications of the Treasury's forthcoming offer to convert up to $19 billion of the 2-1/2 percent debt into 2-3/4 percent bonds. The decline in the short part of the market pushed yields on one-year investments to a point near 1-3/8 percent. With the Federal Reserve now committed only to the maintenance of orderly market conditions, prices of 25 of the Treasury's list of 31 bonds and longer-term notes again moved sharply downward, the biggest decline being registered in the longest-term bank-eligible 2-1/2s, these callable in Sept. of 1967. This issue lost 19/32 of a point to close the day at 102 bid. Otherwise, the day was marked by a steady flow of offerings into the market from investors wishing to dispose of their holdings, and by markdowns by dealers adjusting their positions to the bearish forces loosened in the market. Substantial offerings of the 2-1/2 percent bonds eligible for conversion to the new issue came into the market from all directions and were absorbed readily by the Federal Reserve
support bid of 100.22/32. Presumably such sales are to provide institutional investors with funds to fulfill loan commitments which cannot be matched by the flow of current savings. (N. Y. Times, 3/7; N. Y. Herald Trib., 3/7; J. of C., 3/7.)

The Wall Street Journal, in reporting on the market, stated that since the questions raised by the investors about the new conversion offer went unanswered yesterday, "It was a case of confusion becoming confounded.... Uncertainties in the bank-eligible bond list were heightened during the day by rumors that the Federal Reserve might raise its rediscount rate, as a means of stemming the increase of bank credit." (W. S. J., 3/7.)

The Journal of Commerce reported "As on Monday, the Federal Reserve stood on the sidelines even though, in some instances, bids were hard to obtain and the old traditions of what constituted an orderly market threatened to be violated." (J. of C., 3/7.)

The Treasury's newest sale of 91-day discount bills was executed on Monday at an average price of 99.645, equal to an annual discount rate of about 1.465 percent. The Washington Star reports "This is the highest rate obtained on 91-day bills since the bank holiday of 1933." (Wash. Evening Star, 3/6.)

Bankers acceptance yield rates yesterday rose to the highest levels since the early 1930's. The new rates averaged one-eighth of one percent higher. The banks said that they had disposed of a good many bills to dealers and the dealers admitted that with bills coming at them in increased volume and tending to pile up in their portfolios, the only way they could move them was to raise yield rates, thereby making the acceptances more attractive to short-term investors. The Journal of Commerce reports that "dealers who raised the rates laid the blame not on the doorsteps of the Treasury or the Federal Reserve but on the Swiss...Back of the whole move was the virtual cessation of foreign central bank buying, particular Swiss, which has been a mainstay of the bankers bill market. Why foreign banks should suddenly stop buying was the topic of various conjectures. One school of opinion took the view that foreign banks were moving so much money to Canada and other places alleged to be safer than New York in the event of war that they didn't have enough left to invest in acceptances. The other school of opinion held that since United States Government short-term securities had improved in yield so materially since Sunday that the foreign banks now considered it better to invest idle short-term money in securities issued by the United States Treasury." (J. of C., 3/7; W. S. J., 3/7.)


Dr. Marcus Nadel, addressing the annual savings and mortgage conference of the American Bankers Association, called the Treasury's statement that it would offer a 2-3/4 nonmarketable issue to take up the 2-1/2s of June and December 1957/72 "a step in the right direction." He strongly urged institutional investors to "take the necessary steps" to make the new
Treasury offer successful, for if it were not, he warned, "then in all likelihood the Treasury and the Reserve authorities will suggest to the Congress new legislation which will lead to a solution of the present problem but at the expense of the financial institutions." Dr. Nadler suggested that this new legislation might include increased reserve requirements for commercial banks and regulation of the investments of other financial institutions. On the other hand, Dr. Nadler said that if the refunding operation were successful, it would greatly diminish the necessity of the Federal Reserve banks to buy large amounts of Government securities in the open market. He expressed the view that the Treasury's weekend action was a recognition of the fact that the 2-1/2 percent rate "is not sufficient for financial institutions under present conditions of rising costs and demand for credit." (N. Y. Herald Trib., 3/7; N. Y. Times, 3/7; W. S. J., 3/7.)

4. American Banker sees end of fixed pegs for Government securities likely. The American Banker says the general feeling is that as soon as the books are closed on the new offering of 2-3/4s we will be at the end of "fixed pegs" in the Government bond market, and that the Federal from then on will have greater freedom in its open market operations than it has had in the past. The conversion-eligible issues of June and December 67/72 are the ones the Federal has had to "peg", and if the bulk of them can be converted to the marketable 2-3/4s, the Federal Reserve will be free from the fixed pegs. "The insurance companies are reported to have told the Treasury that if they would get a 2-3/4 percent bond they would be perfectly willing to hold them until maturity, and that such an issue would check any selling by insurance companies in these long 2-1/2 percent bonds. The Treasury, with the new issue, is obviously giving the insurance companies what they asked for and expects them to convert the bulk of their holdings." (Am. Banker, 3/6.)

5. Livingston calls compromise an "ingenious victory for par". J. A. Livingston, writing in the Washington Post, views the Treasury-FRB compromise as a triumph of ingenuity over economics -- an ingenious move to keep the Victory 2-1/2s out of the money supply without coming to grips with the Treasury's basic problem of facing the market and competing in price and rate with bonds issued by corporations or with mortgages. He says the Treasury is still committed to the fetish that long-term 2-1/2s must sell at par, although it has agreed to lighten the Federal Reserve's load in supporting, Atlas-like, the Government bond market. According to Livingston, insurance companies, pension funds, and savings banks do not need par protection. "When they buy long-term bonds, they buy for long-term holdings. If they want to sell, they ought not to be subsidized by the Federal Reserve System. If the Reserve must stand ready to buy bonds at par, then holders of such bonds have a demand obligation. And why not call it just that? And why pay 2-1/2 percent?" Livingston concludes "as a long-term proposition, life with par is unbearable." (Wash. Post, 3/7.)
6. **Wall Street Journal has more to say on Treasury-FRB accord.**

In another editorial on the Treasury-FRB accord, the Wall Street Journal says that unless the agreement between the two fiscal agencies includes more than has yet been disclosed, its help in checking inflation is not likely to be great. It points to the fact that the new 2-3/4 nonmarketable issue will carry some provision for convertability into marketable notes of some fairly short maturity. "What is to happen if a great amount of the new bonds is converted into the notes and these press upon the market? Does the Reserve System then support the notes market by buying them and so resume monetization of the public debt? Or has the Treasury consented that the Reserve may consider itself free of any obligation to peg the market for the conversion notes?" The Journal states that a more resolute way for the Treasury to test its investment yield rating in the market would be a courageous abandonment of Federal Reserve support. *(W. S. J., 3/7.*)
DIGEST OF PRESS COMMENT ON FEDERAL RESERVE-TREASURY CONTROVERSY

March 9, 1951

1. All press removed on U. S. securities as Snyder announces terms of new 2-3/4. A wholly free market for all issues of United States government securities prevailed yesterday for the first time since the early days of the Second World War, as the Federal Reserve removed the last of its pegs (those it had been maintaining earlier this week on the long-term 2-1/2s eligible for conversion into the new 2-3/4 issue). Almost simultaneously the Treasury announced the terms of the new 2-3/4 conversion issue. After a relatively sharp price dip in these two issues (momentarily slumping to par) and a more modest recession in some shorter-term bonds, the market got new bearings and prices rallied generally well above their lows for the day. As the day progressed, what was described as a "good two-way market" shaped up, with savings banks and insurance companies coming in at the new free-market levels to buy, sell and switch investments. Some of the large insurance companies were evidencing interest in buying at the new levels bonds convertible into the new 2-3/4s, and one substantial purchase of this kind was said to have been made. The volume of exchanges, however, was not large. Time was given over chiefly to feeling out the new situation, which was described as "touch and go." The Treasury's surprise announcement of the details of the new 2-3/4 conversion issue was welcomed by financial observers as finally clearing the way for genuinely free money and bond markets. Previous indications were that the terms of the exchange offering would not be available until next Monday and the uncertainty prompted some "scare" selling of the two bond issues concerned. It was assumed that the Treasury "hurried" its disclosure in order to discontinue the confusion. (N. Y. Times, 3/9; N. Y. Herald Trib., 3/9; J. of C., 3/9; W. S. J., 3/9; Wash. Post, 3/9; Phila. Inquirer, 3/9.)

The New York Times article reports "Market men said that if the Federal Reserve had not withdrawn its bid of 100.22/32 for the non-bank 2-1/2s callable in 1967, another flood of offerings would have engulfed the Reserve institution. It was remarked, too, that if the terms of the note issue had been announced last weekend and the bids withdrawn at the same time, the Federal Reserve would have been spared the need for buying millions of dollars worth of bonds."

With regard to the Treasury's announcement that the new 2-3/4 bonds could be turned into the Treasury for five-year marketable notes bearing 1-1/2 percent interest, the Wall Street Journal says that it has learned "on high authority" that the Treasury and Federal Reserve are agreed that these new notes would be sold on a "free market" without any Federal Reserve price propping.
George Sanders, in his article in the New York Herald Tribune, states "The free market means that the Federal Reserve Banks no longer need be the 'engine of inflation' described by Marriner S. Eccles, member of the Board. The automatic monetization of the public debt now will be under the control of the monetary authorities, rather than the banks, insurance companies and other market elements. It is not expected that markets will be permitted to fluctuate widely, as the Federal Reserve still is committed to maintenance of 'orderly markets' ."

2. Life insurance companies support exchange offer.
The Joint Committee on Inflation Control of the Life Insurance Assn. of America and the American Life Convention yesterday threw its support to the Treasury's offer and gave some indication of how insurance companies feel about it. The announcement was made by Carrol M. Shanks, Chairman, who is president of the Prudential Insurance Co. of America. It said: "The Joint Committee strongly urges all life insurance companies to support the exchange offering to the maximum possible extent. The Joint Committee believes that the new Treasury program is a significant step in the right direction in the fight against inflation, and thinks that it will prove but the first measure, growing out of the accord, in a continued vigorous program by Treasury and Federal Reserve authorities to prevent a further expansion of the money supply." (J. of C., 3/9.)

3. Journal of Commerce sees interest rate structure fluctuating within relatively narrow range.
The Journal of Commerce, in an editorial on "The End of the Page", says there are deep-seated reasons why the interest rate structure, while now more flexible than at any time in the past decade, should fluctuate only within a relatively narrow range. "In recent years, much more reliance has been placed upon fiscal policy, direct credit curbs, and direct economic controls to regulate the economy. Much less is expected from changes in rates of interest, and there is correspondingly less need for drastic increases or decreases in these rates. The Federal Reserve authorities have rightly argued that the rigid pattern of interest rates imposed by the Treasury during World War II, and maintained after the war so far as long-term Government bonds are concerned, is no longer desirable or logical. After resisting for a long time, the Treasury has finally consented to the restoration of a freer market for Government securities. Now that the Federal Reserve banks have recovered their power to control interest rates, they can foster either wide or narrow swings in rates. Statements by Federal Reserve spokesmen, as well as the logic of the current situation, favor the view that rate changes will be relatively narrow... In other words, flexible interest rates can contribute to economic stability without leading to wide and erratic changes in the cost of borrowing money that affect the economy too drastically and end up by doing more harm than good." (J. of C., 3/9.)
4. Fiscal fight goes on despite claims of "full accord".

The Wall Street Journal says the fiscal fight goes on, despite Treasury-Federal Reserve claims of "full accord". It says the only point in which they are in accord is that they'll try to get investors to trade the marketable 2-1/2s for the new non-marketable 2-3/4s. "Secretary Snyder wouldn't approve letting the Federal Reserve stop buying bonds at par or above. Treasury Chairman McClellan wouldn't promise to support indefinitely the market at that level after the swap is finished. Some board members banker to let government bond prices fall and see interest rates go still higher; they favored a 3½ rate on the new non-marketable bonds, instead of 2-3/4%. By itself, the new fiscal move doesn't mean private loan costs are going up 1/4%. The effect on interest rates for private borrowings won't be clear until the still-hot battle is over." (W. S. J., 3/9.)
1. **ABA rapped for inaction on Treasury-FHIE dispute.**

The banking business in general and the American Bankers Assn. in particular were severely criticized yesterday by Robert H. Williams, Jr., vice president of the Corn Exchange National Bank & Trust Co., for failure to take a stand in the dispute between the Treasury and the Federal Reserve Board. Speaking before the second annual public relations conference of the Pennsylvania Bankers Assn., Williams said such "ostrich tactics," coupled with banking's failure to offer any real help in shaping public policy, has led the banks to "the brink of the same kind of direct controls that have been imposed on the rest of the economy." Williams contended that as a result of the neutrality of banking in the dispute, an effort is under way "to take the function of controlling credit expansion largely away from the only professional, non-political group left in public administration and hand it over to the President whose approach to the problem is at best different. It would mean control by political officials necessarily motivated by more than purely economic forces. It could mean licensing and direct controls over our transactions instead of general controls of the flow of available funds, leaving us freedom of choice in their use. And it has meant inflation -- a declining value of the dollar -- with no real attempt to strike at the causes. And all of this is as part of a defense program which can go on indefinitely." The "middle" in Washington also was assailed as confusing to the public and banking by both C. A. Sienkiewicz, president of Central-Penn National Bank and chairman of the conference, and William H. Neal, senior vice-president of the Wachovia Bank & Trust Co. of Winston-Salem, N. C. (Phila Inquirer, 3/9.)

2. **Voluntary plan for credit control by financial institutions is ready.**

The Wall Street Journal reports that the Justice Department is expected to approve within a day or two a voluntary plan to curb private credit expansion. The plan would apply to banks, life insurance companies, investment banks, and any other groups of lending institutions, such as building and loan associations, which the Federal Reserve Board may designate. The Attorney General's approval of the plan would assure bankers and other lenders that they would not be subject to anti-trust prosecution for participating in it. (W. S. J., 3/9.)

3. **Market improves after two successive days of drastic declines.**

The flow of offerings into the market for Government securities in the wake of the announcement of the Treasury's pending conversion offer of 2-3/4 percent bonds began to subside yesterday. As a result there was some improvement in prices throughout the list of Treasury obligations after two successive days of drastic declines. But before the recovery gathered momentum in the final two hours of dealings new low prices had been recorded throughout the list and the long-term, bank eligible 2-1/2's which have lacked support, broke slightly below 102. They closed well
above that level at 102.9/32nds. Also, before the recovery gathered
strength, at least another $200 million of Treasury bonds had been
liquidated from various institutional sources that had made commitments
for the use of their money at profits greater than are obtainable in
Government securities, even on the basis of the rise of one-quarter of
1 percent to be offered by the Treasury in the forthcoming conversion
issue. This brought to over $600 million the amount of bonds estimated
to have been dumped since trading began on Monday. Much of the day's
liquidation, as on Monday and Tuesday, was in the two issues directly
convertible into the new long-term, nonmarketable 2-3/4's. The two issues
remained throughout the third successive day firmly pegged at 100.22/32nds.
It was not disclosed whether the supporting orders were for Federal Reserve
system account or for Treasury investment funds for which the New York
Federal Reserve Bank is agent. (N. Y. Times, 3/6; J. of C., 3/6; N. Y.
Herald Trib., 3/6.)

4. American Banker cites Eccles' statements in 1948 on effect of dropping
pangs.
A story in the American Banker points out that Marriner S. Eccles in 1948
was one of the staunchest supporters for maintaining support of the
Government bond market at current levels. Eccles' conclusion at that
time was that lowering the pangs on the 2-1/2 Treasury long-terms to some
point low enough to dry up sales of securities to the Federal Reserve
Banks and thus block inflation would involve an unpredictable amount of
risk of collapse of Government bond prices. The article quotes at length
from Eccles' speech before the Iowa Bankers Association in October 1948.
(Am. Banker, 3/7.)

In an editorial, the New York Times supports the action taken by Douglas
and 5 other Senators in sponsoring a resolution to make it perfectly clear
that in the future all credit-control conflicts are to be resolved in favor
of the Federal Reserve. It says that the terms of the Snyder-McCale truce
of last weekend"are so vague that, in the minds of those who have followed
this controversy, they raise the question of whether this is anything more
than a bid for time on the part of the Treasury. The Douglas resolution
would clear away any such misgivings, once and for all. In the last
analysis one agency must accept final responsibility for over-all monetary
policy, and it is obvious that that agency should not be the greatest single
borrower in the country." (N. Y. Times, 3/8.)
DIGEST OF PRESS COMMENT ON FEDERAL RESERVE-TREASURY CONTROVERSY

March 12, 1931

1. The Government bond market on Friday.

The Government bond market's second day on a wholly free basis resulted Friday in prices receding somewhat from the levels of Wednesday. With the Federal Reserve System maintaining complete aloofness, the prices of six issues of intermediate-term and long-term issues not eligible for commercial bank purchase drifted fractionally closer to pay. The 2-1/2s eligible for conversion into the 2-3/4s closed at 100.1/32 bid and 100.7/32 asked. That represented a decline of 3/32nds of a point from the level of late Thursday. Some insurance companies were said to have bought blocks of these two issues on Friday with a view to converting to the new non-marketable 2-3/4s. But this buying was conceded not to be too large. More evident in some shops was the usual Friday attitude of "let's get the weekend out of the way and decide Monday what we ought to do." The question in the minds of bond men was whether the authorities would see fit to furnish stabilizing support to the market at or near present per levels at least until the new conversion issue has been "digested." (W. S. J., 3/10; N. Y. Times, 3/10.)

The Wall Street Journal reports that the market for tax-exempt state and local government bonds was hard-hit last week in the general reappraisal of investment securities that followed word of the U. S. Treasury's offer of new non-marketable 2-3/4s. Municipal dealers were carrying unusually large inventories when Treasury Secretary Snyder made his announcement. They made deep cuts in offering prices all along the line in order to lighten their load of unsold bonds. "Measured in terms of dollars and cents, the change in the general obligation yield index last week indicated a price decline of nearly $3 per $100 bond for the average state and city issue in the 20-year maturity range." (W. S. J., 3/12.)

2. Comments on Treasury-FED accord and developments during the past week.

Over the weekend financial and editorial writers continued to give space to comments and conjectures as to the meaning of the Treasury-FED accord and the ensuing developments in the market during the past week. These comments are digested below.

Paul Kefferman, writing in the Sunday New York Times, says that the terms of the new issues sponsored by the agreement show that as far as interest rate considerations are concerned, the Treasury and the Federal Reserve cannot be far, if at all, apart. "If this is so, and if the movement of the free market bears out their views, both parties can be said to have scored a considerable victory. But time will tell....It seems reasonable to assume, however, that the double conversion offer announced last weekend was conjured up hastily as a catch-all compromise. It offered the Federal Reserve relief from the job of supporting current prices for the longest-term 2-1/2s outstanding in the hands of investors. It offered the Treasury a new mutual assistance entente with the central bank. It offered to certain investors a 1/4 of 1 percent interest incentive if they
wanted to give their blessing to the newly-formed official peace. To the market, it offered a bewildering experience, but that, coming from Washington is nothing new. To bond men it looks as if the Federal Reserve's break at this time with supporting a "fixed pattern of rates" must reflect a conviction that the existing level of market prices not only is likely to prevail, but is likely to prevail without the support of the bank -- that is, without the bank's "rigid" support. This is still to be proved. At the moment, the market is posed at its most delicate point in the nation's history -- a kind of zero-heights equilibrium which it is likely to hold either precariously or with assurance the rest of the month." (N.Y. Times, 3/11.)

John C. Forrest, financial editor of the New York Times, wrote that of far greater import to bankers, than the abandonment of the pegs, was whether the policy of freezing nearly $20 billion of Government bonds will act as a precedent for similar moves, thus adding to the uncertainty that the "accord" was designed to resolve. (N.Y. Times, 3/11.)

The New York Times, in an editorial on "Government Bond Pegs" raises the following questions: (1) Does the removal of the pegs mean that recurring differences between the Treasury and the Federal Reserve are no matter of history or even that the present dilemma is actually resolved? (2) Does it mean there is no need for the joint resolution introduced by Douglas? The editor says "The answer to each of these questions, in our opinion, is a decisive no. Actually, the present arrangement is by no means a completely satisfactory one. By injecting into the situation a 2-3/4 percent bond that is convertible into a short-term note, the Treasury has anchored the long-term rate to the rates for short-term paper. It could hardly have conceived a more ingenious technique for confusing and complicating the problem. Apart from this, however, there is the basic fact that Secretaries of the Treasury come and go, and so do chairmen of the Federal Reserve Board. Unless Congress makes clear its intentions as to the measure of the Federal Reserve's ultimate responsibility for credit control we cannot hope to have a sound and consistent monetary policy. In short, the events of the past week have in no wise diminished the necessity for early action on the Douglas resolution." (N.Y. Times, 3/11.)

George Wanders, writing in the New York Herald Tribune, says the events of the past week have freed the Federal Reserve from being an "engine of inflation". "That the conflict really has been settled, after many false starts and promises and two Presidential interventions, is shown by the infallible test of the market for Treasury obligations. All price pegs were removed last Thursday. The joint Treasury-Federal Reserve statement of agreement, released over the preceding weekend, seemed meaningless until full freedom was restored to the market. When official price supports ended, all doubts vanished. The transition to a free market was effected gently and by stages, with full consideration for all interested elements in our economy. The final plunge caused some momentary confusion, but the market quickly straightened out and prices of longest-term Treasury 2-1/2 percent bonds held a bit over par value. Complete success attended the culmination of the long planning, and a new phase in the battle against inflation thus was opened." (N.Y. Herald Trib., 3/12.)
In an editorial, the New York Herald Tribune, says financiers are puzzled as to what lies behind the "agreement" between the Federal Reserve and the Treasury. "A growing number of persons were beginning to believe as the week drew to a close that the Treasury has made no concessions to Federal Reserve and has brought about a method of stalling for time. Not until the Treasury issues its new bonds on March 19 will it be known how effective is this quaint new truce between the two agencies." The Tribune says that if in the agreement, the Federal Reserve has pledged itself to support Government securities in unlimited quantities, "we will be no better off than we are now, and probably worse. Bank reserves will rise. So will bank loans. So, naturally, will prices." (N. Y. Herald Trib., 3/11.)

The American Banker, in an editorial discussing the dropping of the pegs and the new conversion issue, states: "After the hiccups close on the exchange offer we do not expect to see any fixed pegs any longer, but we think this situation is pretty well understood at this time, and we imagine that most of the readjustment to the new policies has pretty well taken place by now. At a time like the present it is well to bear in mind that the Treasury did not agree to let the Government bond market go to pieces and we may be looking at the bargains already." (Am. Banker, 3/9.)

The editor of Standard & Poor's "Bond Outlook" says the Treasury's announcement of the 2-3/4 percent issue is but one facet of the compromise. "To date, the only concession (and it was a substantial one involving the cost of Government financing) was made by the Treasury. We may not know for months, if ever, what pledges the Treasury received in return from the Federal Reserve authorities. Many observers feel that without important assurances from the 'Fed' the Treasury Secretary would have waited the report of the committee set up last week by the President before retracting from his often expressed interest rate policy. Others, however, argue that the threat of Congressional intervention -- such as the resolution introduced by Senator Douglas and five other senators -- may explain the willingness of the Administration to accept a higher interest cost." (Bond Outlook, 3/10.)

Newsweek reports "Monetary experts said the Treasury's concession toward higher rates was only a partial solution of the basic issues. In recent months much of the selling of government bonds has been by insurance companies seeking to put their money into more profitable enterprises. The 2-3/4 percent rate may entice these sellers to keep their securities, cutting down on the amount that the Federal Reserve is forced to buy. But if the holders should refuse to exchange their bonds, the agreement would become meaningless." (Newsweek, 3/12.)

Henry Hazlitt, writing in Newsweek, says the new conversion offer is a step in the right direction but it does not seem adequate to solve the problem. "The banking system could have been much better protected against a halt in the bond-pegging policy, for example, by allowing holders of outstanding long-term government bonds to convert them into bonds bearing a variable-coupon rate." (Newsweek, 3/12.)
U. S. News and World Report says the real meaning of the "full accord" is not that the Government's easy-money policy is coming to an end but that the policy is being modified. "Actually Federal Reserve does not intend to permit any drastic decline in Government-bond prices. Mr. McCabe agrees with Mr. Snyder that any wide fluctuation would make it hard for the Treasury to refund the 37.9 billion dollars' worth of outstanding notes and bonds that come up in seven months beginning next June. Nobody wants to run the risk of letting Treasury issues fail. So movement in interest rates will be held within a fairly narrow range. But this movement, such as it is, almost surely will be upward. Primary effect will be on federal, municipal and corporate bonds. The trend, however, may be reflected in some hardening of rates on ordinary bank loans." (U. S. News & World Report, 3/16.)

E. S. Banks, financial editor of the Philadelphia Inquirer, says that while the offering of the non-marketable 2-3/4s is supposed to mark an armistice in the dispute between the Treasury and the Federal Reserve, financial men are wondering whether it is any more than "window dressing." He says one of the questions puzzling financial men is what the Federal Reserve intends to do with the Victory 2-1/2s it has reportedly been buying in large blocks. "Will it exchange the 2-1/2s for the 2-3/4s and, if it does, will it hold them or will it then exchange the 2-3/4s for the 1-1/2 percent notes? Financial men doubt that the Federal Reserve can afford to 'freeze' the entire amount of its funds now tied up in the 2-1/2s." (Phila. Inq., 3/12.)

3. Douglas resolution called inopportune and unnecessary.

The Washington Post, in an editorial "Money Dispute" says that the Douglas resolution is inopportune because it follows on the heels of the announcement of the Treasury-Federal Reserve accord, and is also impracticable because voluntary cooperation and compromise are the only feasible methods of solving common problems and reconciling conflicting objectives. The Post quotes an answer made by Chairman McCabe to the Douglas Committee in late 1949 to the effect that "mest management policies and Federal Reserve policies must...be harmonized basically.... The present method of consultation between policy-makers and operating officials of the two agencies is on a voluntary basis. I can conceive of no formalized action that could add to the satisfactory relationships that prevail..." His conclusions, the Post states, "are just as sound today as when uttered." (Wash. Post, 3/10.)

The American Banker notes that the Douglas Resolution seems unlikely to be considered seriously by the Senate Banking Committee. Indications are that the Chairman of the Committee, Senator Haybank, is not especially anxious to hold hearings. Senator Robertson, Chairman of the Subcommittee handling Federal Reserve matters, expressed his belief that the resolution is not needed to insure Federal Reserve independence, and that public hearings "at this time would not be in the public interest." (Am. Banker, 3/9.)
John Elliot, writing in the New York Herald Tribune, states that the New York banking community appears "to take a dim view" of the Douglas resolution. Inquiry discloses that reactions range from mild disapproval to irrevocable opposition. Representative of the bankers who supported the Federal's resistance to pegging the bond market but who are opposed to the resolution, is Elliott V. Bell. Mr. Bell, referring to the controversial second paragraph of the resolution calling for the Secretary to make money and credit actions consistent with Federal Reserve policies, said it was "obscure, unnecessary," likely to torpedo the recent accord between the Federal Reserve and the Treasury, which has restored the freedom of the bond market in accordance with the wishes of the nation's central agency. Another New York banker who has supported the Federal Reserve stand stated, "I am against giving such supreme power over our credit policy to seven men sitting in an ivory tower. . . . Congress eventually would probably revolt against the investment of such dictatorial powers in the board and, going to the other extreme, and the independence of the Federal Reserve by making it a division of the Treasury."

(S. Y. Herald Trib., 3/11.)

4. No tightening of credit terms seen at present.
"The Federal Reserve Board has about given up, at least for the time being, the idea of tightening credit terms for consumer installment buying or extending the existing regulation into new fields. However, this outlook could change if outstanding consumer credit starts rising again or if the Administration's mobilization men start putting pressure on the board for tighter credit rules. Reserve Board officials probably believe they'd have a hard time justifying stricter regulations as long as the amount of outstanding installment credit is dropping, as it did in January. They also are afraid any such action would set off a row in Congress and another between the Government and labor."
(W. S. J., 3/12.)

5. Some limitation seen on extent of life insurance support of exchange offer.
In reference to the statement made by the Joint Committee of the Life Insurance Association of America and the American Life Convention, urging life insurance support of the new Treasury 2-3/4 issue (see Press Comment, March 9), the Wall Street Journal reported that there were some indications that all-out conversion will not be possible because of previous commitments for loans to finance plant expansion of industry, and that in some cases such commitments might exceed the new cash income of the companies involved, necessitating the sale of Government obligations from their portfolios. (W. S. J., 3/10.)

6. Clark criticized for position on interest rate policy.
In a letter dated March 5, 1951, to the New York Times, S. A. Goldenweiser takes issue with Mr. Clark of the Council of Economic Advisers, on the position that a rise in interest rates would be unnecessary and harmful to the economy and the defense effort. Mr. Goldenweiser states that many professional economists share the opposite view. They contend that the volume of money is never an indifferent factor in the economy, and that under conditions such
as prevail at present the availability and volume of money are extremely powerful. Mr. Goldenweiser adds that by "demanding a subsidy (in order to market its securities) the Treasury reveals a lack of confidence in the soundness of its credit; fortunately it is the only place (so far) where this confidence is lacking....it is necessary in the interests of the country to be prepared to finance and refund the public debt -- without feeding inflation -- even if this should require a rise in the cost of the public debt. To disregard experience, to depend entirely on fallible reasoning, and thus to run the risk of disaster on the financial front, would be extremely dangerous." (N. Y. Times, 3/11.)

7. Higher interest rates basis of anti-inflation campaign says Eccles.

At a conference of the Harvard Business School Club, Mr. Eccles called for an anti-inflation program to include a "pay-as-we-go" taxation program and credit restraints for private banking. He stated that increased interest rates and other monetary controls should be the basis of a long-term anti-inflation campaign rather than direct controls which "as we found in the last war dealt not with the causes of inflation but the effects." (Wash. Post, 3/11.)
Most issues of longer-term United States Government bonds broke through par in Monday's market for the first time since their issuance during World War II. It was stated that the Federal Reserve System resented the market for the first time since last Wednesday to assure stabilization of bids and purchases. For the most part, the market closed lower by slight fractions which ranged from 1/32 to 5/16 of a point, in a day described as marked by heavy two-way trading in which the central bank evidently played a minor role.

The Victory 2-1/2's callable in December, 1967, and its twin issue callable in June of that year, were quoted at the close 100 bid, 100.1/16 asked. According to market reports, the Victory 2-1/2's at one time were quoted below par. It was said that a block of $5 million changed hands at 99.13/16. Offerings reaching the market came from corporations and trust funds switching into shorter-term obligations and from savings banks and other lending institutions needing cash to meet leading commitments. Bond offerings, however, continued to meet widening demand outside the Federal. Government bond dealers reported that institutional buyers of the 2-1/2's convertible into the new 2-3/4's appeared in the market in the greatest number since the new issue was announced.

At the close, bids under par prevailed for six of the Treasury's issues callable between 1964 and 1966. It was noted that the decline of these six issues below par marked the first time that any so-called long-term Government bond issues had sold below par since the '30's.

Federal Reserve policy with regard to the Government bond market was described as still a "mystery". One reason advanced for renewed official support by the Federal of the Victory 2-1/2's and the June 15, 1967/72 issues was that it would create an atmosphere conducive to the exchange of the issues into the remarketable 2-3/4's. On the other hand, it was held that permitting prices to slip on these issues would encourage conversion. (N. Y. Times, 3/13; W. S. J., 3/13.)

2. Reserve Board issues voluntary credit control plan.
The Federal Reserve Board late Monday issued its new voluntary credit control program with a warning that it is not a panacea for inflation. The scheme calls on commercial banks, life insurance concerns and investment banking firms to cut down on private basis "not necessary" for defense and "not essential to the needs of agriculture, industry and commerce." Participants in the voluntary plan are promised immunity from anti-trust prosecution by the Justice Department and the Federal Trade Commission.

As part of the voluntary program, the Reserve Board said it would soon name a twelve-member Voluntary Credit Restraint Committee to direct and implement the plan. Pending the appointment of the national committee, the Reserve Board in a "statement of principles" proposed as a criterion for sound lending whether the
loan would "comprehensively increase or maintain production, processing
and distribution of essential goods and services." Under the interpre-
tation, the statement said, loans "classified as proper" would be those
for defense production, "direct or indirect, including fuel, power and
transportation." Also approved would be loans for production, processing
and distribution of farm and other staple products, as well as loans to
augment working capital where higher wages and prices make such credit
necessary to "sustain essential production." No restriction was put on
loans to securities dealers in "the normal conduct of their business," or
on loans to dealers or others when the loans are incidental to the
"allocation and distribution of securities where the money is being raised
for any of the foregoing purposes."

Loans not considered consistent with the program would include those made
to retire or acquire corporate equities in public hands, including
acquisition of plants and companies where no over-all increase in production
would result, and those made for speculative investments or purchases.

In a letter to "all financing institutions in the United States," Thomas
E. McCabe, chairman of the Federal Reserve Board, requested compliance with
the statement of principles, and urged "full support" of the voluntary

3. Governor Evans says voluntary credit control plan no substitute for additional
authority to curb private credit.

Governor R. M. Evans, member of the Federal Reserve Board, in an address
before the National Installment Credit Conference of the American Bankers
Association meeting in Chicago, stated that "a workable program for cooperative
restraint of credit is a step in the right direction and it is to be hoped
that all members of the financial world will give this constructive program
full support. Such voluntary efforts reduce the burden which other measures
may need to carry, but they cannot be expected to do the whole job." While
not stating what new powers the Board wants, Mr. Evans said that "further
authority" must be granted the Board to regulate private credit expansion
"and the sooner the better."

Answering the criticism of banks who say that they favor credit regulation,
but feel that banks should not be singled out for credit curbs, Mr. Evans
asked: "Why shouldn't you be singled out? After all the banks are institu-
tions doing business under a charter granted either by a state or by the
Federal Government. With this charter you have the power to create money.
By virtue of your business, you are the financial leaders in the territory
you serve. You deal in money and credit. When people think of finance,
those are the two things they have in mind." As in health problems "they
naturally think of the doctor." (Am. Banker, 3/13; W. S. J., 3/13.)
Journal of Commerce sees credit demands as deciding extent of interest rate rise.

In the "Financial Situation" a Journal of Commerce newsletter, it is reported that: "Future demand for credit, rather than anything we now know, will determine how much of a rise in interest rates will follow unpegging of the Government bond market. Now that it has the effective power to raise interest rates, the Federal Reserve will be guided by changing conditions. There is no particular level of interest rates it prefers over another. Credit and business conditions will decide ... The attitude of the Federal Reserve toward interest rates at this juncture is clearly set forth in its famous policy statement of June, 1949. ... The Federal Open Market Committee then stated publicly: "Maintenance of a relatively fixed pattern of rates has the undesirable effect of absorbing reserves from the market at a time when the availability of credit should be increased." ... There is no evidence whatever that the Federal Reserve favors higher interest rates as a matter of principle, regardless of business and credit conditions. The aggressive stand in favor of lower interest rates taken by the Federal Reserve in June, 1949, dispels any such notion. ... the money and investment markets cannot count upon prompt clarifying statements on its credit policy from the Federal Reserve. Part of the strategy of the Federal is to maintain uncertainty in the market, so that holders of Government securities cannot count upon the prices they will receive should they attempt large-scale liquidation of Government securities in order to obtain funds with which to make other investments and loans. ..." (J. of C., 3/13.)

Additional Comments on Treasury-FED accord.

The Commercial and Financial Chronicle, in a recent editorial, says that while "harmony" and "unity" are the keynotes of the recent Treasury-FED accord, "It is, however, obvious that the authorities are merely trifling with the basic problems of debt management and its relation to the money market, and hence to what is commonly termed inflation. Moreover, the inference is plainly to be drawn, we think, from the current announcement that they have no intention of doing more than trifling with these vital issues. The absurdity of the notion that the financial sins of the past can be remedied or their consequences substantially ameliorated by so simple a device as replacing a 2-1/8% 'bank-restricted' bond with a 2-3/8% 'non-marketable' bond is obvious. Such an idea would be absurd even if these 'non-marketable' bonds were not to be made convertible into notes with an early maturity. It is absurd even if one assumes that holders of the 2-1/8% will quickly and eagerly exchange their holdings -- an assumption one hesitates to make without fuller knowledge about some of the terms... In the first place only about $10 billion of the national debt is in these bonds. If they entirely disappeared from the market, there would still be some $335 billion Federal interest-bearing debt untouched by all this... We would be an optimist who could believe that one-quarter of a point in the interest rate -- even if it applies in such cases -- will hold these government obligations where they now are. In any event, a more active utilization of existing cash could of itself overthrow any such anti-inflationary program as is now apparently
contemplated. When debt management is taken out of Fair Deal politics and placed in the hands of men who know what they are doing, we shall begin to make progress. Until then such compromises as that now being publicized will be of little avail." (Com. and Fin. Chron., 3/8.)

Business Week reports that "The new accord between these agencies (Treasury and Federal Reserve) grew out of a recession of relations, apparently on the best of terms. For a long time, there was no contact even at the staff level. What produced the change? One speculation is that the Treasury didn't want the same of forcing on the banks a new harness of direct controls -- which it would have to administer. Another is that neither the Federal nor the Treasury wanted their program tangled up in the new presidential committee." An editorial "Full Accord: A Step Forward" appearing in the same issue comments: "Obviously this conversion plan ingenious as it is, is not enough to merit the phrase 'full accord.' Behind it there is evidently a new and better understanding between Treasury officials on the one hand and the Federal Reserve Open Market Committee on the other. It will remain for future events to show how well this understanding can be implemented. At least we have been saved from the rather grim prospect posed by the President's recent appointment of a committee to reconcile Treasury debt management objectives and Federal Reserve credit policies. The directive given to that group by the White House seemed to leave open no solution to the problem except the extension of direct controls on credit to a point where a policeman would be needed in every bank to pass on every loan. For a few days it seemed as though the Administration had in mind borrowing the techniques developed by Eitel Schacht, Hitler's police-state banking genius. Secretary Snyder and Chairman McCabe have had the statesmanship and good sense to save the financial system from that.

It will remain for the financial community in general and the banking community in particular to give every encouragement to the working out of this new Treasury-Federal Reserve accord." (Business Week, 3/10.)

7. A. Kerneseyer, in an editorial appraisal in the Wall Street Journal, comments that "As it stands, the conversion plan is not a direct reconciliation of the long opposed attitudes of Treasury and Federal Reserve. It would be premature, however, to assume that the Treasury has permanently abandoned its easy-money policy, will never again call upon the Reserve System to support government bonds and will always take its chances in a free capital market." (W. S. J., 3/10.)

Leslie Gould, financial editor of the New York Journal American, writes in an article headlined "Federal Reserve Wins, Public Loses in Battle Over Interest Rates" that "While the Treasury Department is pictured as the winner in the battle over interest rates on the long-term Government bonds, the Federal Reserve actually has carried off the game. Government bond prices have fallen sharply, and that means higher interest return on those securities. The only ones kidded are the public, which is always the way in things political. In this instance, economics was on the side of the Federal Reserve... The 2 3/4 percent bond plan was announced as a compromise. It was clearly stated that the Federal Reserve would continue support of the
Government bond market. That was an erroneous statement, for the Federal Reserve this week pulled out of the bond market and prices of long term governments fell sharply. While it is sound economics to permit higher interest rates, the way the whole business has been handled smacks to high heaven. It is a real double cross of the public. . . . There is more than a little irony in the Federal Reserve Board in general and Marriner S. Eccles in particular yelling about the Government taking the Reserve over. The Federal Reserve sold itself out years ago to the Executive branch, when Marriner Eccles as chairman initiated the policy of rigging the government bond market. Then he was in season at the White House. Now he is out of season." (Jour. American, 3/11.)

The Kiplinger Washington Letter advises that "what to do about bank credit, interest rates, and other issues is still not settled, despite truce between Treasury and Federal Reserve. Higher interest rates (2-3/4 percent, up from 2-1/2 percent) on certain long-term bonds will keep some money from private loans, thus tighten credit a little." (Kiplinger Wash. Letter, 3/10.)

In an article entitled "Defer Judgment on Treasury 'Accord'" appearing in the United Business Service, it is stated that "Though the full meaning of this move (announcement of the new 2-3/4 Treasury issue) is not yet clear, it appears at the moment to have a twofold significance. (1) It points to a narrowing of the area of disagreement between the Federal Reserve Board and the Treasury. (2) It means a slight advance in the level of interest rates. How much the latter development will contribute to inflation control will not be known for some months. In any case, we do not look for serious repercussions and suggest that clients suspend judgment until all the aspects of the new 'accord' are known and the market has had a chance to adjust itself." (United Business Service, 3/12.)

The Wall Street Journal, in an editorial, comments: "In its recent agreement with the Treasury, the Federal Reserve has made a slight move in the right direction, particularly by the lowering of its support for the government securities market." It concludes "that it needs is a complete reassertion of its independence -- the independence which its founders so clearly saw was necessary." (W. S. J., 3/13.)

6. Baltimore Sun comments on Douglas resolution.
"If the Federal Reserve can now really refuse to buy all the bonds offered, then it will regain some power to control the size of bank reserves," states a Baltimore Sun editorial. "In this way it can cut down the generating of checkbook money. The unpegged trading of Thursday and Friday suggests that the Treasury may have agreed to do what Senator Douglas wants the Congress to tell it to do. Just to make sure, however, the Senator may yet wish to get his joint resolution passed anyway. After all, a resolution of this tenor was the unanimous recommendation of a subcommittee on which Senator Douglas served over a year ago." (Baltimore Sun, 3/10.)
DIGEST OF PRESS COMMENTS ON FEDERAL RESERVE-TREASURY CONTROVERSY

March 14, 1951

1. Prices of long-term Treasury bonds continue to decline.
   Hardest hit in Tuesday’s declining U. S. securities market were the Victory 2-1/2s and the 2-1/2s of June 15, 1967-72, which for the first time sold below par. At one time late in the day, both issues were quoted at 99 bid, off a full point from Monday. They firmed up slightly and closed at 99.2/32 bid, 99.8/32 asked, after it was known that “a fairly large” order at the 99.2/32 price, presumed to have come from the Federal Reserve, reached the market. One dealer reported that about $2 million of the Victories changed hands at the 99.2/32 level.

   Declines of half a point or more also appeared in other long-term Treasury obligations; but at the short-end of the maturity schedule, the recessions dwindled to the normally small fractions. The bank-eligible 2-1/2s of September 15, 1967-72 closed yesterday at 101.7/32 bid, down by 19/32 of a point.

   The market price breaks, according to the Wall Street Journal occurred “in what might be described as an atmosphere of almost complete confusion.” The Journal added that “before yesterday’s indicated restoration of support for the June and December 2-1/2s... the market was in an extremely nervous condition.” The range of variations permitted before the re-entrance of Federal support surprised veteran observers and dealers, and the steepness of the declines deepened “the mystery regarding plans of the Federal Reserve and the Treasury for supporting the Government bond market.” The New York Times, while stating that price declines were the most severe for a single trading session since the September week end of 1939 when Germany invaded Czechoslovakia, noted that “for the most part, the price changes represented nervous markdowns by dealers, rather than exchanges at progressively lower levels.”

   Offerings, though not large, dominated the market as a result of complete lack of buying interest. Monday bids which held the 2-1/2s at par had been identified with stabilization by the Federal. However, when offerings came to yesterday’s market to hit such bids, the bids were withdrawn. This withdrawal appeared to cause some diminution in offerings; but in other cases, the consequent price retreat of the dealers seemed to touch off offerings from other interests. Offerings came from trust investors, corporations, and others who were not carrying their bonds (mostly Victories) for long-term investment. The big insurance companies “sat out” Tuesday’s session, but some buying for pension funds and savings banks came into the market near the close. (N.Y. Times, 3/14; N.Y. Herald-Trib., 3/14; W. S. J., 3/14; J. of G., 3/14.)

2. High-grade and municipal bond prices and stock prices decline following further break in Treasuries.
   High rated corporate and municipal bonds tumbled in Tuesday’s market, in some cases more sharply than Treasury bonds. High-grade corporate bonds
were quoted 1/2 point to a full point lower. One large unsold issue declined from the February 28 public offering price of 101-1/4 to 98 bid. (N.Y. Times, 3/14.)

While it was noted that the break in U.S. bonds encouraged selling in stocks, other factors were pointed out as probably contributing to the sharpest drop in stock lists, since last December 2, with losses for many leaders running up to 4 points in Tuesday's market. Possibilities of an early peace in Korea, credit controls, and overstocked inventories were listed as additional reasons. (N.Y. Herald-Tribune, 3/8; W.S. J., 3/14.)

3. Comment on Federal Reserve voluntary credit control plan.

The American Bankers Association has pledged itself to full support of the Federal Reserve Board's program for voluntary credit restraint. (See Digest 3/13) James E. Shelton, president of the Association, declared that the program is a gratifying development, inasmuch as it recognized the importance of "voluntary action." He added that the Association "will urge the cooperation of individual banks in carrying out the objectives of the plan.

(N.Y. Times, 3/14; W.S. J., 3/14.)

The Federal Reserve, explaining that the Justice Department was unwilling to permit release, refused to make public the letter from Justice which reportedly promises anti-trust immunity to banks and insurance companies that participate in the Federal's voluntary credit control plan. The Justice Department's objection was based on the fact that the most recent letter from Attorney-General McGrath carried references to previous correspondence between the agencies, and that publication of the last statement would present only "one side" of the situation. This would "not be too satisfactory from their (the Justice Department's) standpoint," F.R.B officials said. Board Governor Powell, however, emphasized that the letter was "very straightforward" and gave "unqualified approval" to the voluntary proposals. (W.S. J., 3/14.)

The Wall Street Journal, in an editorial, declared that the Board is to be warmly commended for its several warnings against expecting "voluntary credit restraint" to accomplish too much. The Journal further states that "... if we assume that all lenders would make that distinction (between "proper" and "improper" loans) perfectly in all cases -- a whale of an assumption, by the way -- the plan would not necessarily stop inflationary lending. Credit expansion is both a cause and an effect of price inflation. When the costs of producing and processing essential goods rise, those engaged in these trades need more working capital even to carry on, let alone to expand output. . . . It is not at all unlikely to develop that the price-inflationary factors which this plan is designed to bring under restraint are an almost negligible part of them." (W.S. J., 3/14.)
4. Joint Economic Committee readiness report on credit control measures. Chairman O’Mahoney said that the 14-man Joint Committee, meeting on March 12, reached "substantial agreement" on the scope of the committee reply to the President’s Economic Report. . . The details of credit control measures under committee consideration were not revealed. It was determined, however, that the Republican side of the panel has not renewed with any insistence its former plan to increase the required reserves of Federal Reserve Banks against their notes and deposits. . . Senator O’Mahoney said the committee discussed the interest rate situation "very sketchily." Other committee sources said that the committee seemed pleased over the Government securities market’s firmness on removal of the Federal Reserve support. "Some of us suspected all along that the 'sticks' were unnecessary," a committee researcher remarked. (Amer. Banker, 3/15.)

5. New York Times says letting Governments go below par protects buying power of dollar. In Topics and Sidelights of the Day in Wall Street" it is stated that: "It may take a little time for all thrift-inspired holders of the Government’s savings bonds to realize that the willingness of the public authorities to let long-term Government bonds sell below par is one of several moves now being made to defend the buying power of the dollar from further depreciation. No one stands to benefit more than the investor, who thus far has been the nation’s Forgotten man." (N. Y. Times, 3/14.)
DIGEST OF PRESS COMMENTS ON FEDERAL RESERVE-TREASURY CONTROVERSY

March 15, 1951

1. U. S. Governments show improvement.
Steadiness returned to the Government bond market on Wednesday with issues mostly showing price increases. The Wall Street Journal reported that "Tuesday's panicky feeling... gave way... to an atmosphere of quiet confidence." Asked if there was any evidence of official buying in the June and December 2-1/2s, a dealer said: "I don't believe they (the Federal Reserve System) bought a bond today. More bonds traded at 99.6/32s and 99.8/32s than at any other price quoted during the session."

The June and December 2-1/2s both opened at 99.2/32s bid, the price at which the Federal was reported to have rescued the issues late Tuesday. Independent buying from investors sent both issues to a 99.8/32 bid, but they closed at 99.2/32s, unchanged from the previous day. Prominent on the upside of Wednesday's market were the bank-eligible 2-1/2s of September 1967-72, which closed up 12/32s of a point at 101.19/32s bid.

Bids and offers were both in the market enough to make a two-way trading session described as "moderate" to "fairly heavy". Some of the buying of the two longest restrictions was said to be coming from savings banks and pension funds for conversion purposes. (N. Y. Times, 3/15; W. S. J., 3/15; J. of C., 3/15.)

2. Wall Street Journal reports effect of drop in U. S. securities on corporate and municipal financing.
While noting that the market for higher grade bonds has been distinctly soft since early February, the Wall Street Journal states that it was the joint Federal Reserve-Treasury announcement on March 3 that touched off the active phase of the decline. The decline resulted in investment bankers being stuck with $25 million out of $35 million of the Tennessee Gas Transmission Co. 3-1/2s which could not be sold at the asking price of 101-1/4. These bonds have fallen to 96. Borden Co. had to improve the terms of its $60 million bond offering announced on February 15 at 2-3/8 percent. In the March 7 offering the rate was raised to 2-7/8 percent. Big professional investors seem to expect somewhat higher yields on corporate bonds. An improvement of perhaps 1/4 of 1 percent in return is the hope of an insurance company in Boston, "but that's as far as it expects the move to go." Several trust funds in Chicago have stopped buying corporates because they feel the prices haven't fully adjusted to the changed level of the Government market.

Corporate borrowing plans, the Journal notes, are apparently not being changed wholesale. One bond man comments that compared with other costs the boost in interest rates is too slight to constitute an obstacle. Asked whether the Seaboard Air Line would be advised to postpone its $2.4 million corporate note issue a prospective underwriter had this to say: "We don't like to ask them to postpone. We'd look like monkeys if we did and then have it turn out that the market a few weeks hence is even lower."
of the bankers interested in underwriting P. Lorillard Co.'s $15 million of debentures to be sold on March 22, said: "We expect to go ahead unless the market goes to hell in a handcart, which I don't believe it will..."

Obligations of states and cities have been pushed down. The Dow-Jones yield index was 1.72 percent on February 5, rose to 1.81 percent March 5, and to 1.95 percent on March 12. The Journal says that some dealers who specialize in municipals have taken "quite a licking". It is estimated that on March 5, dealers held $234 million of new municipals, not far short of the record breaking figure of $260 million on November 15.

Preferred stocks of the highest grade, ordinarily moving with bonds, are reflecting the decline. Compared with 17&1/2 two weeks ago the closing bid Wednesday on Eastman Kodak preferred was 165. (W. S. J., 3/15.)

3. Additional comments on Treasury-FED accord.
An editorial in the Fort Worth Star Telegram comments that the "full accord" reached by the Treasury Department and the Federal Reserve Board in their long-standing disagreement over federal debt management policies involved a compromise of the widely differing views of the two agencies. It is still too early to determine whether it is the "very important step forward" which President Truman called it. It may turn out to be, instead, merely a compromise with inflation. The best that can be said for it, at this stage, is 'so far, so good.'... The crux of the dispute between the reserve board and the Treasury Department has been the reluctance of the board to go along with a policy which... makes the banking system an 'engine of inflation.' The FED, however, has been under considerable duress to follow a policy dictated by the Treasury's desire to hold down interest rates on the federal debt, regardless of the inflationary effect of so doing." In commenting upon the Douglas Resolution, the editorial concludes: "There can be no doubt that the congressional intent in establishing the FED was that it should be an independent agency. It is important that it should be, to prevent any possibility of manipulation of the currency for political purposes. If the resolution introduced by the six senators will fortify the FED's position in this respect, and will enable it to take the steps it considers necessary to halt inflation at its source, it ought promptly to be passed." (Fort Worth Star Telegram, 3/11.)
Thomas Furlong, writing in the Chicago Daily Tribune, notes that "bond support and has little market effect," and adds that "The withdrawal of the reserve system buying orders from the market is not necessarily permanent... How long the reserve system will stay out and at what price level the market may again be supported, the reserve authorities were not saying. Keep 'em guessing, is the reserve system's motto. The withdrawal of the reserve system's bids came as an aftermath of the 'settlement' of the interest rate dispute between that agency and the treasury that was announced by government officials March 3. It is only in recent months that the reserve authorities reached a decision among themselves that the 2-1/2 percent top rate on government bonds should be revised upward. As recently as two years ago spokesmen for the reserve system were solemnly defending their purchases of government bonds and hinting broadly that a withdrawal from the market would be little short of disastrous... Recently the reserve authorities became convinced that the system's growing purchases of government bonds necessary to maintain the market price level was having a direct inflationary effect... But the board was stuck with its own policy and the treasury would not agree to any modification of it..." In conclusion Mr. Furlong comments that the Federal's withdrawal from the market after the "surprise settlement" is regarded as experimental, that the system is still committed to maintaining an "orderly" market, and that while the schedule of interest rates which will emerge is not entirely clear, it is generally accepted that the price of money will be higher.

(Chicago Daily Trib., 3/11.)

The American Banker, in listing "expressions of approval for the 2-3/4s exchange" quotes Henry Bruere, chairman of the Committee on Government Bonds and Public Debt of the National Association of Mutual Savings Banks, to the effect that "The Government, which is spending such large sums of money, should be compensated many times over for the higher interest offered on a part of the debt by savings through lower prices for what it must buy as inflation is checked. Beyond this it is salutary to restore to the Federal Reserve Bank its proper function in regulating the supply of credit. This the Treasury's step will accomplish in part."

(Am. Banker, 3/14.)

4. Additional comments on Federal Reserve voluntary credit control program.

The life insurance industry joined the bankers Wednesday in pledging full support of the voluntary credit control program. Carroll E. Shanks, president of the Prudential Insurance Company, speaking as chairman of the Joint Committee on Inflation Control of the Life Insurance Association of America and the American Life Convention termed the program "an excellent medium" through which loans and investments may be channeled into essential uses. "It is but one step in a broad effort to fight inflation," Mr. Shanks added.

(N. Y. Times, 3/15.)

In an editorial, the New York Herald Tribune says that the new voluntary credit control program has been framed in a way that makes very good sense. "The Federal Reserve Board," the editorial continues, "has... formulated a program that holds considerable promise of adding to the effectiveness of the fight against inflation on the credit front."

(N. Y. Herald Trib., 3/15.)
A Journal of Commerce editorial states: "Vague is the word for the statement of principles issued by the Board of Governors of the Federal Reserve System to govern voluntary control over credit extension..." The Journal declares, however, that vagueness is unavoidable, and that the very vagueness presents a major opportunity to banks and other lenders to demonstrate that flexible voluntary regulation can work better than rigid coercive controls. "True, voluntary controls are infinitely easier to apply where banking is carried on by a very few institutions," the editorial continued, "but if the large majority of bankers will cooperate there is no reason why we cannot do with fewer, rather than with more, coercive controls over banking in the future. Bankers thus have a large stake in the success in the voluntary credit control program.... To the extent that this program brings about a stabilization of the volume of bank loans and of the money supply, far less desirable and possibly harmful controls like high cash reserve requirements and special reserve requirements will become unnecessary." (J. of C., 3/15.)

In announcing the 12 members selected for the Voluntary Credit Restraint Committee, Federal Reserve Board Chairman Thomas B. McCabe declared: "If this program [the voluntary credit restraint plan] initiated at the request of responsible leaders of the financial community is effective in restraining private credit expansion, it will not be necessary to invoke more drastic types of compulsory restraint such as have been suggested as possible alternatives." (J. of C., 3/15.)

The American Banker states that when the fact became known generally that the letter from the Justice Department to the Federal Reserve Board promising anti-trust immunity to participants in the voluntary credit control plan was something less than "unqualified," bankers indicated considerable reluctance to subscribe to any effort which might sometime in the future make them liable under the anti-trust laws. "Banking lawyers want to know the exact phrasing of the letter from the Attorney General for the protection of banks generally." (Am. Banker, 3/14.)

5. Commercial bankers cautious in expressing public views on Treasury-Federal Reserve conversion plan.

In an editorial "Expressions of Approval" the American Banker notes that while "Commercial bankers have been more cautious than Mr. Shanks, of the Life Insurance Association and Mr. Bracero, of the Bowery Savings Bank, in expressing publicly their attitudes toward the Treasury-Reserve Board conversion plan... there has been considerable private expression of approval for the move and hope that it will work." The editorial concludes: "From such bankers as have communicated their sentiments to us, it would appear... they will "go along"... and park the new 2-3/4's on their shelves [commercial banks hold a small proportion of the convertible 2-1/2's for their savings departments] rather than the new fluctuating 2-1/2's. There are many more reasons why they should, than why they should refrain, it seems agreed." (Am. Banker, 3/14.)
6. Wall Street Journal says decline in bond prices no reflection on
Government's credit.
A Journal editorial states that it is well to point out that the decline
in government bond prices is no reflection on the government's credit
because "President Truman and some other people have suggested that
government bonds had to be propped up to par to protect that credit...the
government will not come closer to paying the going rate for money.
That it should have tried to fix an artificially cheap price in the
beginning was not wise. It could do so, in fact, only because it com-
pelled the Federal Reserve System to guarantee a high fixed price for
government bonds... But whatever the spot price of government bonds,
whether the Federal Reserve supports the price or not, the bondholder at
maturity will collect all his principal in addition to full interest as
surely as the sun rises. No debtor can have a sounder credit than that.
The pity of it is that this reassurance is necessary. It wouldn't be
necessary if there hadn't been so much foolish talk beforehand about
what makes government credit good." (W. S. J., 3/15.)

7. Banker declares dropping of supports should create greater confidence in
fiscal and monetary policies.
Frederick A. Fatts, president of the Philadelphia National Bank declares:
"The atmosphere has been cleared by the recent removal of price supports
from the Treasury bond market. This trend toward realism should create
greater confidence in our fiscal and monetary policies." (W. S. J., 3/15.)

8. February buying of Governments by Treasury noted.
The New York Herald Tribune and the New York Times carried stories to the
effect that "While considerably short of the December, 1947, purchase mark
of $696 million, the February figure [sic] of $261 million indicated the Treasury
had been supporting the bond market itself while quarreling with the
Federal Reserve over the latter's unwillingness to support prices above
the par mark." (N. Y. Times, 3/15; N. Y. Herald Trib., 3/15.)
DIGEST OF PRESS COMMENTS ON FEDERAL RESERVE-TREASURY CONTROVERSY

March 16, 1951

1. William McChesney Martin, Jr. named Chairman of Federal Reserve Board.
   Friday newspapers carried front page news stories covering the resignation of
   Thomas B. McCabe as Chairman of the Board of Governors of the Federal
   Reserve System and the appointment of William McChesney Martin, Jr., now
   Assistant Secretary of the Treasury, in his place. Statements were uni-
   mous in praise of Mr. Martin’s ability, and the rich experience in fiscal
   and monetary matters which he brings to this latest of the important posi-
   tions he has held in private and Government financial groups. (N. Y. Times,
   3/16; N. Y. Herald Trib., 3/16; W. S. J., 3/16; J. of C., 3/16; Wash. Evening
   Star, 3/15; Wash. Post, 3/16; Balt. Sun, 3/16; Phila. Inquirer, 3/16.)

   Comments as to the "meaning" of Mr. McCabe's resignation and Mr. Martin’s
   appointment, in view of the recent Treasury-Federal Reserve "accord", were
   varied, however. The New York Times says that "it was plain that the cause
   of his [Mr. McCabe's] resignation was the continuing feud between the
   Federal Reserve Board and the Treasury Department. Felix Belair, Jr. in
   an article "Choice of Martin Hailed by Board," also in the Times, points out
   that Mr. Martin is no stranger to the concept of Federal Reserve "independence",
   "but that however he might feel about the necessity for an independent
   Federal Reserve System, he was also a representative of the Secretary of the
   Treasury who had won President Truman to the view of a "pegged" Government
   market ... and could not have been appointed over Secretary Snyder's
   objection." (N. Y. Times, 3/16.)

   Robert J. Donovan in the New York Herald Tribune states "that one well
   informed Government official predicted that Mr. Martin's appointment would
   further heal relations between the Treasury and the Federal Reserve" and
   adds that "The White House, it is known, hopes that the appointment ... may
   lead to a period of better feeling ..." The Herald Tribune also quoted
   Senator Paul Douglas to the effect that Mr. Martin has "long been identified
   with Treasury policy" and that "I hope he will change if he goes on the
   Board." (N. Y. Herald Trib., 3/16.)

   The Wall Street Journal notes that "The change in the Reserve Board Chairman
   was widely interpreted as strengthening the Treasury's hand in its dealings
   with the Federal Reserve ... Though Mr. McCabe and Treasury Secretary Snyder
   asserted they have reached 'full accord', few people in Washington have
   taken the announcement at its face value. If the 'compromise' is fully
   satisfactory to the Federal Reserve, it is known the Treasury is not wholly
   content with the new arrangement. Arguments between the two agencies on
   debt management and fiscal policy are continuing." (W. S. J., 3/16.)

   "Martin is moving into what will continue to be a hot spot," Joseph R. Eleven
   writes in the Journal of Commerce. "Despite the fact that Martin is coming
   to the Federal Reserve from the Treasury, he is not expected to be a Treasury
   influence within the Reserve Board. On the contrary, the new chairman is a
   tough-minded though genial man of independent views who has a habit of making
   his own decisions." (J. of C., 3/16.)
Staff Correspondent Joseph A. Fox in the Washington Evening Star writes: "It is understood that Mr. Martin supports the official Administration view on holding the line on Government security interest rates. His addition to the board, therefore, can be expected to give the Administration's position more weight. However, it is not expected that Mr. Martin's presence will tip the balance from the present Federal Reserve position to one more nearly in line with the Treasury's." (Wash. Evening Star, 3/15.)

The Washington Post story by Alfred Friendly declares that while there were some reports that Mr. McCabe was resigning because of the difference with the Treasury "the fact it is known, is exactly the other way around; McCabe resigned because there was an agreement." (Wash. Post, 3/16.)

Dewey Fleming commented in the Baltimore Sun that all indications were that Mr. Martin was a "happy choice" for chairman from both the Treasury and the Reserve standpoint. (Balt. Sun, 3/16.)

The Philadelphia Inquirer says Mr. Martin is not a "yes" man. "His acceptability," the news story states, "should enhance his chances of achieving a full harmony between the two agencies that the accord did not insure alone, as Mr. Truman himself implied today." (Phila. Inquirer, 3/16.)

2. Reports of Martin appointment cause bullish flurry in Government bond market.

Quiet and slight price irregularities prevailed in Thursday's market, although the report of Mr. Martin's appointment imparted a bullish tone in the afternoon. At the 3 o'clock deadline for FRB open-market operations, prices eased off slightly, but moved ahead again in so-called "after-the-close transactions." The brighter tone in the Government market was even more noticeable in corporate and municipal bond transactions. Active trading reappeared in high-grade corporates, with prices rising by substantial fractions of a point. (N. Y. Times, 3/16.)

3. St. Louis Post-Dispatch doubts that "voluntary" measures will curb bank lending.

In an editorial, the St. Louis Post Dispatch asks whether the Federal Reserve appeal to the Nation's banks for a voluntary credit curtailment will succeed any better in March than it did last July and last November. Pointing out that the present appeal might be more fruitful because of the assurance against anti-trust action which might "get the banks together" in refusing loans, the editorial adds "All the same, experience ought to have demonstrated by now that in the field of inflation control 'voluntary' measures always work better when compulsory measures can be quickly brought into play if they do not . . . President Truman has asked Government officials to study two ways of doing this: delegating the Treasury's emergency banking powers to the Federal Reserve Board, and enacting legislation giving the Board authority to increase reserve requirements. If Federal Reserve has one or both of these powers up its sleeve, the chances of a successful voluntary program will be much enhanced." (St. Louis Post-Dispatch, 3/14.)
4. Richmond Reserve Bank reports little selling of Governments by member banks. Relatively light sales of Governments by Fifth District member banks in the week ending March 7 were attributed by the Richmond Federal Reserve Bank to: (1) Uncertainties as to the terms of the new Treasury 2-3/4s, (2) Withdrawal of support of bank-eligible securities, and (3) Announcement of the Federal Reserve-Treasury "accord." (Dail. Sun 3/16)

5. National City Bank Letter comments on Treasury-FRB controversy and President's February 26 memorandum. In its March letter on economic conditions and public finance, the National City Bank of New York sketched the background of the Treasury-Federal Reserve controversy and reviewed the President's memorandum read at the White House conference on credit policy on February 26. Commenting specifically on the President's request to the group to consider "direct Government controls over private lending," the letter states that "the suggestion that these extraordinary powers provided in the Emergency Banking Act of 1933 and the Trading with the Enemy Act are applicable to the present situation is, to say the least, a little startling. . . . One broad question that has been raised in the controversy," the letter observes, "is the propriety of having the Executive bring pressure to bear on an independent agency . . . Apart from the matter of responsibility, and where it should lie, question may be raised as to the major premise in the President's memorandum -- namely that 'full confidence in the public credit of the United States' requires 'stability in the Government bond market' . . . the idea has become prevalent . . . that United States Government bonds, the world's prime security, must have artificial market supports . . . This is a relatively new idea . . . In World War II the fixed pattern of rates became a fetish . . . Postwar experience refutes the theory that the money and capital markets are insensitive to differentials in interest rates, even small ones . . . The mass of regimentation is avoidable and by relatively simple measures . . . reestablish equilibrium in the longer-term market . . . use . . . more fully the good will and cooperation of the people involved . . ." (Nat'l City Bank Letter for March.)
I. Additional comments on Mr. Martin's appointment and implications in view of Federal Reserve-Treasury accord.

In an editorial on March 17, the New York Herald Tribune says that "The contest between the Federal Reserve Board and the Treasury for undisputed leadership in national credit policy enters a fascinating new phase with the resignation of Mr. Thomas B. McCabe ... and the appointment of Mr. William McChesney Martin, Jr. ..." (N. Y. Herald Trib., 3/17.)

The New York Times in an editorial says that "In view of the fact that in the recent past Mr. Truman had mistakenly, if perhaps understandably identified himself with the cause of the Treasury ... it would be easy to construe the present move [Mr. Martin's appointment] as an overt act on the part of the White House and as a violation of the two-week-old truce. But such an interpretation would, in our opinion, be decidedly superficial. The nomination may have represented a mischievous thrust at those Congressional leaders who had thrown their support behind the Reserve Board, but hardly a malicious one." The editorial concludes that, even if Mr. Martin satisfies the Congress as to his philosophy regarding Federal Reserve-Treasury relationships, neither that fact nor anything else that has occurred to date lessens the importance of Congressional action on the Douglas resolution. (N. Y. Times, 3/17.)

F. A. Kormeyer, writing "An Editorial Appraisal" in the Wall Street Journal, states that Mr. Martin is credited with having played a decisive part in bringing about the accord which altered the Treasury's interest rate pattern and withdrew Reserve System support from the bond market. "That would argue," Mr. Kormeyer concludes, "that he is not committed to the policies which Treasury Secretary Snyder long followed ..." (W. S. J., 3/17.)

In Sunday's New York Herald Tribune, it was stated in the review "The Week in Business" that there was still a good deal of speculation on the outcome of the Treasury-Federal Reserve fight over a national fiscal policy. It was said of Mr. Martin's appointment that "At first blush it looked like a coup ... then it developed that it was Mr. McCabe who nominated Mr. Martin and that in the ranks of the Reserve System there was considerable rejoicing." (N. Y. Herald Trib., 3/18.)

A Washington Evening Star editorial comments that while it is natural for some people to wonder whether the Treasury point of view is to be imposed on the Federal Reserve through a change in chairman, it is the Star's belief that there is no basis for such an apprehension ... "The Treasury-Reserve dispute," the editorial continues, "has been resolved on a reasonably satisfactory basis. The Federal Reserve view, in the main, has prevailed ... there is no reason to believe that he [Mr. Martin] will attempt to reverse what has been accomplished ..." (Wash. Evening Star, 3/18.)
In an editorial, the Wall Street Journal states that views to the effect that Mr. Martin was appointed to bolster the Treasury's position fail to take into account that he has "a mind of his own and a facility for expressing his views in a diplomatic manner . . . We can assume that he must have persuaded his boss, Treasury Secretary Snyder, that it was wrong to insist on a 2-1/2 percent rate for long-term Government bonds . . . this is not to say that sweetness and light will henceforth prevail...there is, however, a great opportunity for Mr. Martin to restore to the Reserve Board...independence...in the field of credit control . . ." (W. S. J., 3/19.)

Speculating with regard to Mr. Martin's appearance before the Senate Banking Committee, a Wall Street Journal news story says that the lawmakers will want to know whether he has been indoctrinated with Treasury "easy money" policies, and about the part he played in "getting the Treasury to give in to the Federal Reserve in the interest rate feud." The Journal suggests that if members of the banking group press Mr. Martin, "he'll probably have to admit many of his Treasury associates don't like the new arrangement between the two fiscal agencies . . . Mr. Martin's big job as new F.R.B. chief will be to help put into effect the 'full accord' that now exists only on paper." (W. S. J., 3/19.)

Nicholas P. Gregory, writing in the Philadelphia Inquirer, states that Mr. McCabe's resignation has made some members of Congress suspicious that President Truman may "pack" the Reserve Board with people who will be subservient to the wishes of the Secretary of the Treasury. (Phila. Inquirer, 3/19.)

Kurt Bloch in Barron's says that the Martin appointment must come as "something of a shock" to all those who of recent weeks have argued that the Federal Reserve had won a tremendous "victory" over the Treasury. He further states that, in his opinion, the "victory" has been grossly misinterpreted. "...what is going on seems not a movement towards dearer money, but a clever maneuver on the part of both the Reserve and the Treasury to put the new issue across . . . the authorities are certainly not promising that they will raise interest rates through traditional means. On the contrary, they are threatening the bankers with direct control over their loans and/or higher reserve requirements . . . What would be needed is a general rise in yields as the result of aggressive Federal Reserve open market selling, and a willingness of the Treasury to pay the cost through an issue of marketable bonds on new and much higher terms. Nothing like this has happened. Mr. Snyder is treading the path blazed by Mr. Henry Morgenthau, Jr., though using more sophisticated techniques. Mr. Martin has been a party to those techniques, and while he may of course reverse the trail, it will take some drastic doing." (Barron's, 3/19.)

The American Banker says that the most important news of last week was the resignation of Thomas B. McCabe and the nomination of William McChesney Martin, Jr. to succeed him as Chairman and Governor of the Federal Reserve Board. "The hope is, " the American Banker editorial says, "that the change will seal the agreement between the Treasury and the Federal Reserve Board, and that we will have these two agencies working together rather than at dual purposes." (Am. Banker, 3/19.)
"William McChesney Martin, Jr. is moving from the Treasury to the Chairmanship of the Federal Reserve Board," U. S. News and World Report says, "among indications that he will map and pursue his own course on questions that brought Treasury and FRB into conflict. For the time being, the row over interest rates...is ended." (U. S. News and World Report, 3/23.)

2. The Government bond market last week.

Paul Heffernan, in Sunday's New York Times, says that the larger significance of the prior week's transformed Government bond market goes far beyond price fractions and yield decimals. "The move is perhaps the most forthright official step yet taken since the war to halt the depreciation of the dollar." He continued, "Despite the price appeal of the Treasury bonds at the below-par levels, and despite realization that the Treasury and the Federal Reserve System will not let any disorderly price decline take place, the newly-freed market is still unsure of itself." (N. Y. Times, 3/18.)

John C. Forrest, financial editor of the New York Times, noted that fluctuations in Government bonds were "a source of anxiety for investment bankers and traders" in the week ending Saturday, March 17. "It is becoming more apparent," he added, "that the new Treasury-Federal Reserve policy on Government securities is having a wider effect than was first envisioned. New conjectures were raised not only by the changing price levels for Government bonds but also by the Federal Reserve in its market operations. Such speculation was heightened by the announcement of Mr. Martin's appointment as FRB Chairman." (N. Y. Times, 3/18.)

3. The Treasury-Federal Reserve accord and the course of interest rates.

In "The Editor Discusses..." in Standard and Poor's Bond Outlook, it was noted that "if the Federal Reserve took any part whatever in the proceedings [last week's Government bond market operations], it was simply in the interest of an 'orderly' market, if such a precipitate break can be regarded as orderly." Continuing, the editorial states "...while the decline in the 2-1/2s may not have completely run its course, it cannot be too far from the bottom." Institutional holders of the 2-1/2s are advised to check to see what percentage of their funds can be invested in a nonmarketable issue and, to the extent indicated, accept the exchange since there is no point in selling unexchanged bonds at prevailing discounts. The editorial concludes that a new interest rate level apparently has been evolved. (Standard & Poor's Bond Outlook, 3/17.)

Moody's Bond Survey sees no reason to fear an extended rise in interest rates at this time. "...it is apparent that monetary authorities did not expect the decline [in prices] to be of really serious proportions, in view of the fact that by the time that the Treasury needs to refund maturing issues and to seek new funds in the market there must have been built up a new feeling of confidence in the Government market." (Moody's Bond Survey, 3/19.)

U. S. News and World Report states that interest rates won't be permitted to rise much higher, and Government bonds will continue to get Federal Reserve support not far under par. (U. S. News & World Report, 3/23.)
4. **Terms of exchange offering announced.**
Secretary Snyder announced over the weekend the terms governing exchange of 2-1/2 percent Treasury bonds for those paying 2-3/4 percent. The FRB "is paving the way" for the exchange offering, Joseph R. Slavin reports in the Journal of Commerce, by carrying out a "highly delicate stabilizing operation -- a part of the "price" the Reserve had to pay for "full accord".

"It was forced on the Reserve by the Treasury's refusal to approve a genuine test of the strength of the Government bond market . . . but it could not risk following the orthodox method of setting the yield on the new issue only after a new market had been allowed to make its own level . . . ."

"The success of the Treasury-Federal Reserve operation," Mr. Slavin continued,"will depend on the market's stabilizing at a point close to where it is now . . . Meanwhile, those who are looking beyond the present offering can see rough sailing ahead for the Reserve even if the non-marketable are a howling success . . . Nothing the Reserve can do with its present powers through open-market operations would prevent the lenders from using their cash to expand credit." The only way it [the Federal Reserve] will be able to curb credit created by lenders who let their short-term securities run off, Mr. Slavin concludes, is through (1) rigid compliance with voluntary credit control program, (2) heavier reserve requirements, or (3) direct controls on banks. (J. of C., 3/19.)

5. **Additional comments on credit controls.**
Business Week asks if the indirect effect of "dropping the peg" and the direct effect of "voluntary restraint on credit" will result in curbing lending. "There's considerable question as to how much difference lower bond prices will make in lending," Business Week concludes, after conducting a survey among bankers. Further, with regard to voluntary credit restraint "Bankers feel they have already done considerable tightening up on their own." (Business Week, 3/17.)

Commenting on the plan "cooked up" by Mr. John D. Clark for freezing bank loans as of a specified date -- if voluntary curbs don't work -- and a variation of the plan heard at Treasury which would provide that the Federal Reserve Bank in each area would have to approve every loan a bank makes in excess of $100,000, the Wall Street Journal says that "the Federal Reserve has been against the freeze plan," and "The Treasury, cagier as usual, gives only cautious approval, but thinks it may eventually have to be invoked after the "voluntary" curb on bank loans has been given a chance to fail or succeed." (W. S. J., 3/17.)

The Bond Outlook sees the "voluntary credit restraint program" as one of the indications that the authorities are really "coming to grips with the inflation program." The Outlook feels that the program may be effective, at least over the next few months, because of (1) the recognized threat of drastic credit controls, (2) the fact that lenders may have reached a point where they would welcome an excuse for adopting a more cautious attitude, and (3) the evidence that borrowers show signs of backing away from further expansion. (Standard & Poor's Bond Outlook, 3/17.)
"To the extent the Committee [The Voluntary Credit Restraint Committee] is effective," says Moody's Bond Survey, "(and we believe it will have a substantial effect) it will act in the direction of easing the pressure for higher interest rates." (Moody's Bond Survey, 3/19.)

6. Sylvia Porter survey reveals approval for credit curbs and divided opinion on interest rates.
Sylvia Porter reports "surprising" results of the questionnaire of February 10 submitted to subscribers of "Reporting on Governments" to obtain investor opinion on debt-management-fiscal policy questions. 64 out of 100 subscribers answered the nine questions. Highlights of the survey follow: 
(1) The most significant result was...the overwhelmingly favorable response to question 7 on 'Further strong curbs on the extension of credit, both selective and general..." (2) The sharp division of opinion on interest rates taken before the 'full accord' proclamation...the over-all percentages indicate a virtually 50-50 division. Miss Porter states that the answers (to Question 5 "In general, do you favor the view of the Treasury on interest levels as expressed by the Secretary, John Snyder?" and Question 6 "Do you favor the view of the Federal Reserve System, as expressed by...Marriner Eccles?") stress that "there has been general disapproval of black-and-white positions in this instance." She feels that the implication is that the investing fraternity will really support a compromise. (3) Despite varying opinions expressed, responses revealed that at least before March 4, the general belief was that Government bond prices would be maintained -- regardless of compromises reached." (Reporting on Governments, 3/17.)

7. Eccles says policy stated in Iowa speech not applicable now.
Mr. Marriner Eccles in a letter dated March 15 to the American Banker says "There is no comparability between the situation at the time of my Iowa speech and the situation now." Mr. Eccles' letter charged that the article appearing in the Banker on March 7 which quoted from his speech in Iowa in 1948 was designed to make it appear that he is inconsistent in advocating an end of the pegs. (Am. Banker, 3/19.)

8. The bond market of the 1920's in relation to now.
Mr. John H. Rumbaugh, in a communication to the American Banker, examines the bond market of the '20's in relation to now, stating in his introduction that "It certainly is timely to review some of the historic past when the Board did function in a high, wide, and questionable manner." He asks whether the Treasury should countenance increasing its borrowing costs, and while doing so wreck the confidence of its present bondholders. Pointing to the time when Government bonds, having no sponsor, hit the low 80s, he concludes that "Chaos in the market would describe its condition conservatively if upwards of $256 billion Government securities go begging for a sponsor." (Am. Banker, 3/19.)
9. **Economist says Keynesian doctrine might not support "low interest rate policy" today.**

Herbert Stein, Assistant Research Director, Committee for Economic Development, in a communication to the Washington Post, takes issue with Herbert Elliston's statement in his review of Harrod's biography of J. M. Keynes to the effect that "if Keynes were alive today he would support the 'Treasury' view as against the 'Federal Reserve' view on monetary policy." Mr. Stein lists a number of ways in which our present economy differs from the one in which Keynes supported a low interest rate policy, and says that the situation is sufficiently different to raise a real question about where Keynes would stand today. (Wash. Post, 3/19.)

10. **Inflation fight needs variety of weapons.**

United Business Service states in its March 19 letter that the experience of foreign countries in fighting inflation warrants two general conclusions: (1) A successful attack on inflation must be conducted on several different fronts with a variety of weapons; and (2) the effectiveness of a slight increase in interest rates as an inflationary curb is doubtful. (United Bus. Service, 3/19.)

11. **News writer alleges Government tried to "take over" Federal Reserve.**

Lyle C. Wilson in the Washington Daily News says that "Insiders are telling how 'the boys' tried to take over the Federal Reserve System to establish a phony greenback economy. 'The boys' were identified as several persons in the Administration and in Congress . . . What they are alleged to have sought was a permanent tie-in of Treasury and Federal Reserve operations which would have been inflationary." The story also states that President Truman and Mr. Snyder took advice from those who were sold on this project, but later changed their minds. (Wash. Daily News, 3/19.)
DIGEST OF PRESS COMMENTS ON FEDERAL RESERVE-TREASURY CONTROVERSY

March 26, 1951

1. Senate Banking Committee to approve Martin.
The Senate Banking Committee, after a two-hour closed session on Monday, indicated that it would approve the nomination of William McChesney Martin, Jr. as Chairman of the Federal Reserve Board. Chairman Maybank, who said he expects final Senate action before Easter, stated that Mr. Martin in answering "a thousand and one questions" concerning the Treasury-Federal Reserve relationship "satisfied me on most things." A Journal of Commerce news story called it "significant" that Senator Bricker -- a long standing critic of the Treasury's stand on Government bond market support -- was "satisfied". Members of the Senate group unanimously agreed that Mr. Martin did a good job in presenting his views. "He left the impression," a Wall Street Journal news story says, "that he favors Federal Reserve independence from the Treasury in credit controls -- but just how the relationship between the two top Government fiscal agencies would specifically work was not made clear." (N. Y. J., 3/20; J. of C., 3/20.)

2. Leslie Gould says Martin appointment should mean closer cooperation between Federal Reserve and Treasury.
The financial editor of the New York Journal American, Leslie Gould, says that "Martin...is more likely to be attentive to the wishes of the Treasury than to Harriner S. Eccles and others active in the Federal Reserve on the other side of the cheap money argument. His appointment should mean an end to the fight and closer working co-operation between the two organizations. So the Federal Reserve has won the fight on interest rates, but may have lost everything else." (N. Y. Journal American, 3/18.)

In "Topics and Sidelights of the Day in Wall Street", New York Times, it is stated that while opening of subscription books on the new 2-3/4 percent issue is less than a week away, "there is no sign yet of any snowballing of market enthusiasm for the new issue... whether professional investors with liquid short-term assets or cash will sit out... or get aboard remains to be seen. The big bond houses specializing in Governments, including First Boston Corporation and Salomon Brothers & Natzler, are recommending that investors avail themselves of the Treasury offer as an outstanding investment opportunity." (N. Y. Times, 3/20.)

4. Voluntary Credit Restraint Committee urges curb on lending to reduce inventories.
In the first of a series of bulletins to be mailed to some 90,000 private lending institutions throughout the United States, the 13-man Voluntary Credit Restraint Committee headed by Oliver S. Powell, Federal Reserve Board Governor, urged that loans for inventory expansion be stopped and that borrowers be urged to cooperate in reducing peak wholesale and retail inventories piled up since the start of the Korean War. The Committee's declaration marked the launching of a new Government drive on inventory hoarding as the economic complement to regulations issued by the National Production Authority banning the ever-accumulation of scarce strategic materials. (N. Y. Times, 3/20; N. S. J., 3/20; J. of C., 3/20.)
5. Central Hanover Bank & Trust Co. deflates claim that credit restrictions are taking effect.
In support of its belief that credit restrictions are beginning to "bite", the Federal Reserve Board points out that consumer installment credit dropped $212 million in January 1951 compared to $54 million in January 1950. However, the Central Hanover Bank & Trust Co. calls attention to the fact that total consumer credit fell only $199 million, far less than the $441 million drop in January 1950. And, the bank adds, charge-account balances were off only $6 million compared with a drop of $403 million in January a year ago. (N. Y. Herald Trib., 3/20.)

6. Chicago Daily Tribune says Reserve Banks helped elect Truman.
An editorial in the Chicago Daily Tribune states that "... federal reserve authorities have sought to create the impression that they are saints and Secretary of the Treasury Snyder is a sinner ... In fact, it was the federal reserve which adopted the policy which it now criticizes, and defended it against attack when there was less to justify it than there is now. The main talker for the federal reserve system and principal architect of its post-war policy has been Allan Sprout, president of the Federal Reserve Bank of New York ... Sprout insisted in 1945 that "we are not blessed with peace, no matter how far we may be from war, and our economy cannot function as if we were at peace." In such conditions, "a tougher monetary policy isn't the answer." ... The present is certainly more like war than 1945 was. ... The time for putting government bonds on their own was in 1945, when no war was in progress and the treasury had a record surplus. Evidently the desire to help Mr. Truman get elected interfered then." (Chicago Daily Trib., 3/18.)
DIGEST OF PRESS COMMENTS ON FEDERAL RESERVE-TREASURY CONTROVERSY

March 22, 1931

1. Commercial paper rate raised to 2 percent - 2-1/4 percent.
The Wall Street Journal notes the raise of a 1/8 percentage point in the
commercial paper rate as "new evidence...of the gradual hardening of interest
rates since the Federal Reserve System and the Treasury announced they had
reached an agreement early this month..." The change followed a 1/8 percentage
point boost in the rates on bankers' acceptance two weeks ago. While a
substantial firming in the acceptance and commercial paper rates frequently
pressages a raise in the base prime rate on money borrowed by business from
banks, "top bank lending officers do not anticipate an early upward change.
Necessary to touch off an immediate upward movement, they say, would be further
developments in the monetary field exerting upward pressures on interest rates,
such as an increase in the rediscount rate." (N. Y. J., 3/22.)

2. Bond market unsteady.
Prices of Government bonds eased off again yesterday in a session described
in the New York Times as reflecting "the unwillingness of investors and dealers
to take on any substantial long positions either at this price level or at this
particular time." Corporate obligations were unsteady. In break-ups of two
recent unsuccessful underwritings, Southern California Edison Co. 2-7/8s (issue
price, 103.34) and New England Power Co. 2-7/8s (issue price, 102.125) were
quoted at 96 bid. (N. Y. Times, 3/22.)

3. Borrowing remains much the cheaper way to finance business despite slight
firming of interest rates.
The Journal of Commerce, in an editorial "The Temptation to Borrow," points
out that "Corporations with good credit can borrow at long term through bond
issues at a cost of around 3 percent" compared with "a cost of 4 percent or
more for money raised through the sale of high-grade preferred stock, and
prevailing yields of over 6 percent for common stocks of stronger companies."
Furthermore, since dividends, unlike bond interest, are not deductible from
taxable income, "tax savings loom large in the picture." In addition, "borrowed
capital reduces excess profits tax liability for many corporations." The
editorial continues: "Recent and prospective changes in credit policy do not
necessarily discourage bond financing. Higher short-term interest rates have
narrowed the spread between the cost of money borrowed from banks and money
raised by selling bonds." The possibility of higher long-term rates makes "it
the more desirable for corporations needing money to sell bonds now, before any
greater change in long-term interest rates does occur." The Journal concludes
that "while bond financing has an important place in corporate finance, it would
be unfortunate indeed if the favorable conditions governing [it] should result in
a large increase in corporate debt. . . when business conditions turn less
favorable & a large bonded debt says the financial strength of corporations and
imparts their ability to raise capital for future expansion and modernization
needs. . . Bond financing must be kept within conservative limits, if the
present financial strength of American corporate enterprise is to be protected
for the future." (J. of C., 3/22.)
4. ABA president indicates that present business and consumer credit controls are limited in effect.

James E. Shelton, replying for the American Bankers Association to a series of questions on inflation from the Joint Economic Policy Committee of Congress, stated that present controls over business and consumer credit "are as effective as controls alone can be in holding down demand, in the absence of other, more effective controls over the country's economy." (Am. Banker, 3/21.)

5. American Bankers Association calls for cooperation in voluntary credit control program.

In a letter sent to all the banks in the country, James E. Shelton, president of the Association, urged them "to comply with the letter and the spirit of the statement of principles announced...on March 9." Urging the necessity of a voluntary effort to lessen inflationary pressures, Mr. Shelton said: "I am confident that effective cooperation by banks and other lenders in this voluntary program will demonstrate the undesirability of rigid credit controls." (Balt. Sun, 3/22.)

6. Minneapolis Sunday Tribune comments on bond market adjustment.

Richard Wilson, Chief, Minneapolis Tribune Washington Bureau, writes that "...according to federal reserve board officials who caused government bonds to go below par, the market is adjusting...very hardly. 'I never expected to live to see the day when this could happen so easily,' said one official. 'The good part of it is that the old fetish about the necessity of government bonds remaining at or above par is laid to rest, and, I hope, permanently...the federal reserve board thinks it has done its part to stop inflation, without hurting too many people.'" (Minneapolis Sunday Tribune, 3/18.)


It might be said, Finance states, that the 1917 Act is "power -- in being -- to nationalize the whole banking system, for the duration of the emergency at least." In describing the 1933 Emergency Banking Act and how it came into being, Finance quotes "words out of the past [which] seem to have a curiously significant projection into the future." Because of the rush to get the bill to and through the Senate the same day, (March 9, 1933) the House time for debate was limited to 40 minutes, split between the majority and minority parties. "Representative Louis McFadden, Pennsylvania Republican [who helped to carry the bill through] called the bill 'a dictatorship on finance in the United States...complete control over the banking system'...The only opposition in the House came from a group of Farmer-Laborites led by Ernest Lundeen of Minnesota who uttered a dire prophecy: 'Under this bill thousands of small banks will be crushed...money and credit control will still be further concentrated...we must not allow ourselves to be swept off our feet by hysteria'. The opposition in the Senate was even lighter than in the House," Finance concludes "Thus was sown the wind." (Finance, 3/15.)
DIGEST OF PRESS COMMENTS ON FEDERAL RESERVE-TREASURY CONTROVERSY

March 21, 1951

1. Eleven members of Senate Banking Committee vote to recommend confirmation of William McChesney Martin.

Senator Douglas, the only member of the Senate Banking Committee to withhold direct approval of Mr. Martin's nomination as Chairman of the Federal Reserve Board, (Senator Long, D., La., was absent) voted "present" with the explanation that: "I regard him very highly as a man, but I'm not quite certain how independent he'll be of the Treasury as chairman of the Federal Reserve Board." (W. 3. J., 3/21.)

Newspapers continued to give space to comments and conjectures concerning Mr. Martin's appointment. These comments appear below.

"Mr. Martin, we learn", an American Banker editorial says, "was the chief negotiator for the Treasury in working out the details of the new conversion 2-3/4s. In fact, it has been observed that, had it not been for his contribution to the negotiations, they might still be going on. . . . his appointment seems to imply that there will be closer liaison between Treasury and Federal Reserve Board than has existed for many years, and that it will be a liaison of equal powers. . . . Twenty years ago there was a good deal of discussion about...getting the Secretary of the Treasury...off the Board...in the interest of independent monetary management. Now we have gone around almost a full circle. Close understanding with the Treasury, as distinct from actual Treasury participation in...Board operations, seems to be as important for smooth monetary management as the ideal of independence of the Board as our monetary supreme court." (Am. Banker, 3/20.)

The Journal of Commerce adds its comments to those which see the selection of Mr. Martin as promising a new harmony between the Treasury and the Federal Reserve Board -- "and between them and the financial community", the Journal adds. (J. of C., 3/21.)

2. Conviction grows that FFR will not peg Government issues at any level.

Prices of U. S. Governments and corporates sagged in Tuesday's market "as the conviction grew in banking circles that the Federal Reserve had no intention of supporting Government bonds at any predetermined levels." The present understanding between the Treasury and the Federal Reserve is believed to require the latter only to maintain an orderly market in Government securities, and dealers have noted, during the past week, that the "market gave every sign of being on its own". The New York Herald Tribune noted that "It is a moot question in the market for the time being whether the Federal Reserve open market operations are supporting the long-eligibles. Most observers feel there is occasional and spasmodic support." (N. Y. Herald Trib., 3/21; W. S. J., 3/21; J. of C., 3/21.)
Recent Treasury-Federal Reserve Comment

A number of financial writers and other commentators lately have raised the question of what the Federal Reserve has to gain in the present controversy. There have been suggestions that the Board has used the Korean crisis as a springboard to get additional powers. A few commentators have suggested that the Board is bound to lose on political grounds alone; but others have recognized that the Board can lose because of the inherent weakness of its case.

"Washington and You" -- Commercial and Financial Chronicle, February 8

"If anything can be reckoned as a certainty in this capital of confusion, it is that the Federal Reserve Board will make little progress in persuading Congress to go along with its death-bed conversion to higher interest rates."

1. Administration opposition. -- President's opposition and Keyserling and Clark's attack on the fundamental thesis of the Board's position.

2. Only a score of Representatives and a half-dozen Senators understand the technical arguments for raising interest rates. Overwhelming majority would respond as O'Mahoney did -- we're freezing wages and freezing taxes and you (Federal Reserve) are proposing that banks and other big interests shall have a pay raise through higher interest rates which taxpayers would pay.

3. Federal Reserve Board's following in Congress has seldom been smaller, which Congressmen would say at least privately is Federal's own fault, because:

4. Why has Board waited until now to urge abandonment of pegs? Has stoutly defended 2-1/2 percent rate during all postwar years, even a few months ago, heaping scorn on those questioning the policy. Congress not impressed by Board's conversion.

5. Fundamental difficulty is Board is so steeped in pure monetary theory, it has lost sight of human and political considerations of policy. Cites McCabe's complaint that insurance companies were selling too many Governments and moving into more profitable loans and investments. "It is almost as though Governor McCabe considered insurance companies to be rival aggregations of capital which were operating to thwart the divine will of the Reserve Board's monetary managers."

6. Congress feels that although the Banking Act of 1935 sought to sew up the Board's independence, the Board to date has acted as though it were a member of the executive team. Hasn't until just now spoken up against administration headlong postwar flight into new and extravagant social undertakings.
Big bank pressures? From several sources -- not Treasury -- informed opinion is that one reason for the bitterness of the interest rate dispute is that some "big banks" dislike Secretary Snyder for his stabilization of interest rates. The argument is that this is a power struggle between New York and Washington for money dominance. It is said that studies made show that long-term holdings of Government bonds by the N.Y. banks are comparatively small with profit probabilities if the pegs were pulled. These same studies show that medium and smaller banks broadly favor the 2-1/2% rate, being heavy holders of long terms.

A DEAD LION CAN'T HELP BANKERS MUCH

The Federal Reserve Board is on the spot. Very much so. Its present position on the ever-higher-interest rate pattern may be theoretically correct, but practically and politically it is a lost cause.

The Board's position has nothing sacred about it. It is no part of the Decalogue. No moral principle is involved. To choose another course -- to bend to the forces of Big Government -- is a matter of strategy and expediency. It can be one of self-preservation.

Big Government, created by big debt, is certain to win, as it has always won in all history. The national debt is like an atomic bomb which cannot be pushed around and treated like something ordinary. The normalities just don't apply.

What would be tragic -- yet possible -- is that this Federal Reserve Board should be so insistent upon its view that it will sign away its own future. Instead of bending to the power of the political forces that cannot under present conditions be successfully resisted, it will make a suicidal stand.

Already, it has lined up against it the majority party, the leaders of which selected every one of its Members. The President grows irritated over its assumption of omniscience. The Majority Leader of the House makes an unusual address, rejecting the Board's position. Shrewd Senator Robertson seeks to work out a face-saving compromise for the Board. A smart political antagonist such as Rep. Wright Patman is able to advance a position, long held, that the Reserve Banks should be taken over by the Government.

The minority party has not taken up, and made an issue, of the Board's position. The issue, moreover, is not one that can be easily popularized. To the extent that it can be, it involves support for many political liabilities, such as assured profits for the "big bankers."

Many shrewd bankers, remembering other days, would like to avoid the kind of political fights that will stir up radical labor agitators and make the broader issues of economy in government and elimination of socialistic experiments harder to hold in check.
The bankers of the nation would like to preserve their Federal Reserve System -- a profitable thing to control. They would like to avoid a brawl in the sawdust of politics. They would like to work with Government and not against Government. They have tried the latter and neither the experience nor the memory is pleasant.

Will the Federal Reserve Board choose to go to the stake in a bright blaze that will delight all the enemies of the capitalistic system and leave only blackness afterwards?

A cynic, it can be remembered, once commented about the usefulness of a dead lion!
Sylvia Porter Reporting on Governments, February 10

1) "Actions Speak Louder Than Words" — despite all the bickering and headlines, the Open Market Committee supported the Government market last week more freely than in a long time.

2) Columnists who ordinarily avoid even simple financial matters are now pontificating on the question, revealing by their comments the source of their material; the Reserve has been getting the most favorable press.

3) Snyder is more determined than ever — if his determination could be increased — and believes that the present controversy is the result of a propaganda campaign which must be resisted (quotes the Secretary before Ways and Means Committee). Snyder is a powerful figure in this Administration. Notes that the Secretary rarely uses strong or fighting words in public and, therefore, has done so only because he is absolutely convinced he has taken the right position on interest rates.

4) Inaccurate to describe this as a Treasury-Federal Reserve feud; there is a split in the Open Market Committee itself.

5) This is an Administration decision. Notes President Truman's position and McCormack's speech. Difficult to imagine Open Market Committee abandoning support of the Government market — defying the Administration that far.

6) Raises question as to whether controversy has not been promoted by the Federal Reserve in order to prepare the way for the Reserve's bid for new powers (last week she was inclined to discount this suggestion, but this week seems to feel that there might be merit in it). Experts within the Reserve System are working hard on possible new powers which Congress might give to the System to combat inflation. If controversy gets to Congress, it is quite possible that the entire Reserve structure will be reviewed; general voter reaction will be for Treasury, against "Wall Street"; dual responsibilities will be discussed; new credit controls will be voted for the duration of the emergency.

7) WHAT IF THE RESERVE DOES NOT GET General impression that Treasury would be helpless if the Reserve decided to defy Snyder is wrong. Treasury supervises the investment of vast trust funds; it may invest these funds ... in outstanding marketables. Sources of funds to buy in marketables: (a) cash balances, (b) $5 billion it may borrow from the Federal Reserve, (c) taxes as they are collected, (d) money borrowed by sale of bills or other short-terms to banks which just about makes the buying power "unlimited".

8) Concludes by citing as BONSENSE: (a) that members of Open Market Committee were surprised that Truman thought the Committee had agreed to support the Treasury's policy on market stability — each knew why he was called to White House; (2) that this is a "gray" matter and something can be achieved by shifting a peg from 2-1/2 to 2-3/4 percent — it is either a pegged market or a free market; (3) that Congress will vote for deflation -- look at the record; (h) that economics can be divorced from politics — if that were possible, we'd not be in so serious a situation.
The article would seem to try to state both sides of the question fairly. However, in summing up the problem, there is emphasis which would bias the reader in favor of the Federal Reserve. For example, the "issue concerns the dollar and what it will buy"; the "problem stems from the growing supply of money; the "supply of money is growing faster than the supply of goods, and, as a result, prices are being pushed to new high levels"; and the "chief reason why the money supply is growing is that Federal Reserve Banks are buying Government bonds to hold the price at par."

States that a knockdown fight is going on inside the Government over what to do about money; Treasury is on winning side to date.

Concludes: Congress probably will have to make the final decision, particularly if the Treasury is forced to finance Government deficits.

Statement of case: (1) What the country is seeing is a clash of theories about how to control money, and, through money control, how to control inflation.

(a) Theory No. 1 is the classical approach -- the Reserve Board theory -- that higher interest rates will make it harder for people to lend and to borrow money. This is spelled out along the usual lines.

(b) Theory No. 2. -- The Treasury position is essentially that a stable Government bond market and lower interest rates must be maintained during the defense emergency. Any other course invites confusion and may upset people's confidence in Government credit. Mr. Snyder argues Federal Reserve theory has not been proved, citing increases in interest rates in 1919-1920 and 1929 without any visible effect on inflation until a crash resulted. The implication is that this medicine is too strong to be tried at this time.

(2) Second point of conflict develops from the divided authority of the Treasury and the Reserve Board.
American Banker, February 13

1) Under heading, "Eccles Forecast Outcome of FRB Fight" quotes Eccles before Douglas Subcommittee on November 22, 1949, as follows:

In discussing debt management, Eccles said, "When the Administration in power at any given time is put there by the electorate and is responsible to the electorate, to have an independent agency deprive them of the most important tool in the economic kit doesn't seem to me to be very practical." Doubtful "whether you can, as a practical matter, improve a situation that merely gives to an independent Federal Reserve agency the opportunity to advise -- the opportunity to recommend." Throughout financial history, "the Central Bank has never successfully used its authority to enforce its will over any Administration in power."

2) Another article says Capital conjectures as to who is behind strength of Federal Reserve resistance to 2-1/2 percent rate and Snyder policy. Is it all based on concepts of duty? Cites same line of thought quoted above in Banktrends -- large banks have been vocal (increase in rates would benefit them); small banks haven't said much (wouldn't make as much stir if they did.)
February 5, 1951

Memorandum to Secretary Snyder:

There is enclosed a statement which I issued to the press today giving my impressions of what happened at the meeting between the President of the United States and the Federal Open Market Committee of the Federal Reserve System at the White House at 4:00 p.m. on January 31; and also stating what I believe the Federal Reserve Board should say and do in connection with the financing program of the Government as officially promulgated by the Secretary of the Treasury.

I would sincerely appreciate it if you would read this statement in its entirety and give me the benefit of any comment you may care to make.

J.H.V.

Enclosure
Statement by Governor James K. Vardaman, Jr.,
Member of the Federal Reserve Board,

February 5, 1951.

Never having regarded membership on the Federal Reserve Board as a speaking part, I have made only three short public talks and given about the same number of interviews in nearly five years service on the Board. However in the present situation where an apparent attempt is being made to question the veracity of the Presidency in its dealings with this Board I feel that it is only fair to give my impressions of what has happened and what the conduct of this Board should be.

After the meeting between the Federal Open Market Committee and the President at the White House at 4:00 p.m., January 31, the Committee, consisting of all seven members of the Federal Reserve Board and the Presidents of five Federal Reserve Banks, returned to the Board's quarters and went into executive session. The suggestion was made that a written memorandum of what took place in the White House should be prepared and Chairman McCabe requested Governor Evans to undertake that task. The preliminary draft of Governor Evans' memorandum which was released to the press by Governor Eccles without authorization of the Board or the Committee had not been approved by the Federal Reserve Board members nor all of the members of the Federal Open Market Committee. It was thought to be correct in all essential details but certain minor changes had been suggested. Governor Evans had prepared the memorandum from memory without notes. There were no notes taken at the meeting with the President so far as I know.

Governor Evans' memorandum was correct in essential details as to the words which were spoken during the meeting with the President, but the
memorandum did not attempt to set forth the impressions and general atmosphere prevailing during the meeting. My own impression of the meeting was that the President of the United States had been allowed to leave the conference room with the definite impression in his heart and mind that the Federal Open Market Committee would support the Government financing and bond program as officially promulgated by the Secretary of the Treasury on January the 13th. I said to the Committee that I thought it was tragic that the President had been allowed to leave the conference with such an impression when the majority of the Committee apparently knew at the time they were not going to carry out the President's wishes.

On January 29, two days before the meeting with the President, I submitted a written memorandum to the members of the Federal Reserve Board and on the 31st to the Open Market Committee suggesting that the Board make the following public statement.

"The Federal Reserve Board has made its recommendations to the Secretary of the Treasury in connection with the interest rate on short-term Government obligations and also with reference to the interest rate and maturities on funding and refunding bonds. In the exercise of his statutory authority and obligation, the Secretary has not thought it wise to follow all of the suggestions made by this Board in connection with these matters. Acting in his official capacity, as the spokesman for the Government, the Secretary has announced a financing program, and this Board has nothing further to say on the questions involved other than to state quite firmly and clearly that the Board will support to the fullest extent of its authority the program as officially promulgated by the United States Treasury.

"Whenever it is in line with its statutory authority to do so, the Board will advise with the Secretary on all matters relating to the management of the public debt or any other questions which he may desire to discuss. But it should be clearly understood that under our constitutional framework and present statutory laws, the management of the public debt is the responsibility of the Secretary of the Treasury, and this Board will support him to the utmost of its ability in his officially declared programs and actions."
"We believe the duty of this Board to be to make its ideas available and known in council, but not to make such ideas prevail and the Board will act in accordance with this belief in the present situation."

The Board and the Committee refused to consider the issuance of any such statement in spite of the fact that it was generally thought that Chairman McCabe had given President Truman every reason to believe that the Committee and Board would support the Government financing program.

As long as the questions involved were in the negotiation stage I felt it to be the duty of the Board to present and argue its ideas with the Secretary of the Treasury, and if necessary with the President. But once the Secretary of the Treasury, as the official spokesman for the Government on debt management, had promulgated the Government program I felt strongly that this Board should give such program its whole hearted support personally and officially. The question of statutory prerogatives and personal feelings should be subordinated to the all important necessity of supporting the Government and the Presidency in this time of national emergency. For myself I unhesitatingly waive any theoretical statutory authority and prerogatives in order to support the Government and the Presidency at this time; and if there is any question in my mind as to the propriety of such a waiver I will try to appear before the proper Congressional committee to ask for clarification of my statutory responsibilities as a Member of the Board.
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