

## Background on the Accord

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The Federal Reserve System formally committed to maintaining a low interest rate peg on government bonds in 1942 after the United States entered World War II. It did so at the request of the Treasury to allow the federal government to engage in cheaper debt financing of the war. To maintain the pegged rate, the Fed was forced to give up control of the size of its portfolio as well as the money stock. Conflict between the Treasury and the Fed came to the fore when the Treasury directed the central bank to maintain the peg after the start of the Korean War in 1950.

President [Harry Truman](#) and Secretary of the Treasury [John Snyder](#) were both strong supporters of the low interest rate peg. The President felt that it was his duty to protect patriotic citizens by not lowering the value of the bonds that they had purchased during the war. Because bond prices vary inversely with bond interest rates, a rise in interest rates would have made the same bonds purchased at the lower interest rates worth less on the government securities market. Unlike Truman and Snyder, the Federal Reserve was focused on the need to contain inflationary pressures in the economy caused by the intensification of the Korean War. Many on the Board of Governors, including [Marriner Eccles](#), understood that the forced obligation to maintain the low peg on interest rates produced an excessive monetary expansion that caused the inflation. A fierce debate between the Fed and the Treasury then ensued as both vied for control over interest rates and U.S. monetary policy.

This website tells the story of how the Federal Reserve and the Department of the Treasury settled their dispute. The resulting agreement, known as the Treasury-Fed Accord, eliminated the obligation of the Fed to monetize the debt of the Treasury at a fixed rate. This agreement became essential to the independence of central banking and laid the foundations for the monetary policy pursued by the Federal Reserve today.

To commemorate the Accord's fiftieth anniversary, the Research Department at the Federal Reserve Bank of Richmond published a [special issue](#) of the *Economic Quarterly*. Included in this issue are reminiscences from [Ralph F. Leach](#), a Federal Reserve Board of Governors economist during the Truman Administration. Leach's contributions add previously unpublished, eyewitness details to the account of the months preceding the Treasury-Fed Accord. The issue also contains articles that span the twentieth-century history of Treasury-Fed relations. Topics include real-bills monetary policy in the 1920s; the often divergent

political forces that shaped the modern Fed; and proposals for two new Treasury-Fed accords related to credit policy and the kinds of assets the Fed should buy. Contributors include J. Alfred Broaddus, Jr., Marvin Goodfriend, Robert Hetzel, Thomas Humphrey, and Jeffrey Lacker.

Besides providing access to these *Economic Quarterly* articles, the website also offers [biographies](#) of significant people involved with the dispute and [bibliographical information](#) for further research. We hope you will enjoy exploring the resources offered at this site and that in doing so you will learn more about this important period of our monetary history.

## **Contact Us**

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