Biographies

Background information on key figures involved in the historic agreement between the Treasury Department and the Federal Reserve

Marriner Stoddard Eccles
Chairman and Member of the Board of Governors (1934-1951)

Eccles was selected as Chairman (then called "governor") of the Board of Governors by Roosevelt in 1934 and served until 1948. He sponsored the Banking Act of 1935, which restructured the Federal Reserve System to be the centralized monetary authority that it is today.

Ralph Leach
Chief of the Government Finance Section of the Research Division at the Board of Governors (1950-1953)

As a staff economist at the Board of Governors, Leach was consulted by leading members of the FOMC during the Fed's conflict with the Treasury. His firsthand account of those events provides the basis for two unique articles in the *Economic Quarterly*.

William McChesney Martin Jr.
Chairman of the Board of Governors (1951-1970)

Martin's tenure as Chairman is the longest in history. Prior to his term at the Fed, Martin was an assistant secretary of the Treasury and served as the key negotiator of the Accord for that institution. He then became Chairman of the Board of Governors and worked to solidify the Fed's independence.

Thomas Bayard McCabe
Chairman of the Board of Governors (1948-1951)

McCabe was the Chairman of the Federal Reserve when the Accord was achieved. His leadership was instrumental in establishing a firm opposition to the restrictive rate pegging policies that were being imposed on the Fed by the Treasury.

Winfield Riefler
Assistant to Chairman McCabe and Chairman Martin (1948-1959)

Riefler was one of the key negotiators of the Accord for the Federal Reserve. He was a highly valued adviser to both Chairman McCabe and Chairman Martin.

John Wesley Snyder
Secretary of the Treasury (1945-1953)

Snyder was a crucial ally to his lifelong friend Truman during the administration's conflict with the Federal Reserve. He was also instrumental in implementing the Truman Doctrine and the Marshall Plan after World War II.

Allan Sproul
President of the Federal Reserve Bank of New York (1941-1956)

As the president of the influential New York Fed, Sproul was a highly respected member of the FOMC. His advocacy of Fed independence was essential to the establishment of the Accord.

Harry Truman
33rd President of the United States (1945-1953)

Truman led the opposition to Federal Reserve independence. Truman viewed the Fed's support of the bond market as critical to his administration's efforts to manage the reconstruction of Europe and U.S. involvement in the Korean War.

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Biographies

Biographies:
Marriner Stoddard Eccles (1890-1977)

Chairman and Member of the Board of Governors (1934-1951)

Eccles's bank management won him recognition in the West, but he was unknown in the East. At the same time, his experience spurred him to develop an ideology pertaining to the steps and measures that he felt should be taken in order to end the Great Depression, and he became what was known as a fiscalist. He believed that the government needed to take an active role in reestablishing order in the economy. His views were aligned to those of John Maynard Keynes, though he claimed that he had reached the same conclusions as Keynes on his own and that he knew of Keynes's work only what he learned from reading a few abstracts.[2] Fundamentally, Eccles believed that the economic system did not necessarily correct itself.

In February 1933, during a series of speeches he made in Utah, he caught the attention of Stuart Chase, a well-connected national publicist. Chase suggested to Eccles that he meet with Rex Tugwell, a man close to then President-elect Franklin Roosevelt. Upon meeting Eccles in February, Tugwell was intrigued by the banker's liberal philosophy.[3] By November of that same year, Eccles found himself in Washington in a young administration with ideas similar to his own. He joined the Treasury as assistant secretary for monetary and credit affairs.

A few months later, however, a vacancy on the Board of Governors opened up, and the Roosevelt Administration offered Marriner Eccles the position. It was at this time that Eccles began to work to carry out his ideas regarding the structure of the Federal Reserve System. He practically made it a condition for his acceptance of the Board job offer that the structure of the Fed be changed. Subsequently, Eccles sponsored the Banking Act of 1935.[4] It centralized control of the Federal Reserve within the Board of Governors, which had been previously called the Federal Reserve Board. Many in the Senate were upset by the Act because they were against the establishment of a centralized monetary authority. It also upset several in the banking industry, including some people within the Federal Reserve System itself. [5] Because of the changes installed by the Banking Act of 1935, the Federal Reserve Bank of New York and the Board of Governors in Washington D.C. would end up vying for control of the System's policy initiatives almost two decades later.

Another important change that Eccles imposed through the Banking Act was a change in membership of the Board of Governors. Previously, the Secretary of the Treasury and the Comptroller of the Currency had been allocated *ex officio* seats on the Board. Eccles pushed successfully to have those seats eliminated. The new structure that emerged was the same as that of the Board of Governors today. Although adamant about carrying out a fiscalist philosophy of government spending, the Roosevelt Administration was willing to go along with the changes requested by Eccles knowing that he was going to be Chairman of the Board.[6] Because Eccles shared the administration's views regarding government's active role in the economy, Roosevelt did not fear that losing seats on the Board would lead to a loss of influence within the Fed.

Eccles endorsed deficit spending by the government as a way out of the depression. With U.S. entry into World War II becoming a certainty, the objectives of the economic policymakers within the government had to change. Eccles started to advocate a balanced budget, believing that the war would be better financed through tax increases coupled with price and wage controls. His goal was to suppress private consumption in order to avoid inflationary pressure.[7] But Eccles did not succeed. Instead he found himself in an arrangement by which the Fed would support the Treasury in its placement of debt on the government securities market. Although Eccles would have preferred not to put the Fed in such a position, like the other governors he recognized that winning the war was a primary concern. Providing the government with cheap financing was the most effective way for the Fed to contribute towards that effort; therefore, he supported the measure.

For the next ten years, the Federal Reserve played a subordinate role in the economic affairs of the nation. It injected and retracted liquidity from the government securities market in support of the Treasury's predetermined peg. Once the war ended, however, from the Fed's perspective the priority switched from fundraising to restricting inflation. Between 1946 and 1948 tensions between Eccles and Harry Truman increased, for they opposed one another's views on policies. Harry Truman did not reappoint Eccles to the chairmanship when his term expired in 1948; traditionally someone in Eccles's circumstances would then resign from the Board, but he remained on the Board as a regular member. This was permitted because the term limit for membership is longer than the term limit for Chairman.[8] Eccles supported the new Chairman, Thomas McCabe, as the Fed continued its struggle to release itself from the peg.

Although Eccles had been removed from the most powerful position at the Fed, he still played a significant role during the Accord. On January 31, 1951, Truman summoned all the members of the Federal Open Market Committee to the White House in an effort to convince them to change their views; however, the committee refused to publicly support the interest rate peg that was being imposed on the Fed. Nonetheless, after the meeting, Truman released a statement to the press saying that the committee in fact had made such an agreement. The press called Eccles to confirm the accuracy of the statement. Eccles had to make a decision, either to wait for the following Monday to rally a formal rebuttal by the

committee or to deny the statement on behalf of the committee by himself. The former action would have allowed time for the public's acceptance of the false statement out of the White House, whereas the latter action was a risk to his own credibility. Eccles made a bold decision and immediately released the minutes of the meeting to the press even though they were considered to be confidential.[9] The minutes showed that the committee had in fact made no agreement with the White House. The FOMC did not immediately praise or criticize Eccles's actions. It was not until years later that the significance of his action in saving the Fed's side of the struggle was truly appreciated.

Eccles proved to be an effective adversary to Harry Truman even though he was no longer Chairman. Soon after the Accord was in effect, Eccles resigned his membership, having seen his battle through to the end. He returned to Utah to continue his banking business, and he died in Salt Lake City on December 18, 1977.

Footnotes

[1] William J. Barber. 1992. "Marriner Stoddard Eccles," in *Biographical Dictionary of the Board of Governors of the Federal Reserve*, ed. Bernard S. Katz, p. 83
[2] Barber (1992, 82).
[3] Barber (1992, 84).
[4] Peter K. Pfabe, "Leaders & Success: FDR Fed Chief Marriner Eccles: He Developed Mortgage and Banking Systems of Today," *Investors Business Daily*. 20 December 1994.
[5] For further details see Barber (1992) and *Selected Papers of Allan Sproul*, Lawrence S. Ritter, ed. (New York: Federal Reserve Bank of New York, 1980).
[6] Richard H. Timberlake, "Tale of Another Chairman," Federal Reserve Bank of Minneapolis *The Region* (June 1999).
[7] Barber (1992, 83).
[8] Board governors are appointed to nonrenewable 14-year terms by the President and confirmed by the Senate. Once confirmed, a governor cannot be involuntarily removed from the Board. If a governor resigns, then a new governor can be appointed to complete the term, after which he or she can be reappointed to a full term by the President.
The Chairman is also a member of the Board of Governors; the Chairman's term as Chairman is 4 years long and can be renewed as long as he or she remains on the Board. The term of a Chairman coincides with the term of the President. See *A Primer on the Fed* by Alfred Broaddus (Richmond, VA: Federal Reserve Bank of Richmond, 1988) for further details.
[9] See *Selected Papers of Allan Sproul* (1980) and Robert L. Hetzel and Ralph F. Leach, "The Treasury-Fed Accord: A New Narrative Account," Federal Reserve Bank of Richmond *Economic Quarterly* 87 (Winter 2001): 33-55.

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Biographies

Biographies:
Ralph Leach (1917-)

Chief of the Government Finance Section of the Research Division at the Board of Governors in Washington D.C. (1950-1953)

Ralph Leach was born in Elgin, Illinois, on June 24, 1917, to Harry A. Leach and Edith Sanders Leach. He received his A.B. from the University of Chicago in 1938. After graduation, Leach served in the United States Marine Corps in the South Pacific from 1940 to 1945. After World War II, he managed Treasury portfolios for Harris Trust & Savings Bank in Chicago and later for Valley National Bank in Phoenix; in the process, he developed acquaintances with many of the major Treasury dealers in the country. Because of his experience, Leach was invited to join the Federal Reserve Board as chief of the Government Finance Section in the spring of 1950. By accepting such a position, Leach placed himself on the front line of the dispute between the Treasury and the Federal Reserve.

After his career with the Fed, Leach went to work at the Guaranty Trust Company and retired as the chairman of the Executive Committee at the Morgan Guaranty Trust Company in 1977. He is a member of Phi Kappa Psi and the Coral Ridge Country Club. Ralph Leach currently resides in Fort Lauderdale, Florida.

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Biographies

Biographies:
William McChesney Martin Jr. (1906-1998)

Chairman of the Board of Governors (1951-1970)

William McChesney Martin Jr. was born on December 17, 1906, to William McChesney Martin and Rebecca Woods. Martin's connection to the Federal Reserve was forged through his family heritage. In 1913, Martin's father was summoned by President Woodrow Wilson and Senator Carter Glass to help design the Federal Reserve Act that would establish the Federal Reserve System on December 23 that same year. His father later served as governor and then president of the Federal Reserve Bank of St. Louis.

Martin was a graduate of Yale University, where his formal education was in English and Latin rather than economics.[1] However, he still maintained an intense interest in the subject through his father. His first job after graduation was at the St. Louis brokerage firm of A.G. Edwards & Sons, where he became a full partner after only two years.[2] From there Martin's rapid rise in the financial world landed him a seat on the New York Stock Exchange in 1931, just two years after the stock market crash at the start of the Great Depression. During the early part of that decade, Martin's work toward reforming the institutional flaws of the stock market led to his election to the exchange's board of governors in 1935. There he worked with the SEC to reestablish confidence in the stock market and prevent future crashes. He eventually became president of the New York Stock Exchange at age 31, leading newspapers to label him the "boy wonder of Wall Street."[3] Like his tenure as governor on the exchange, Martin's presidency focused on cooperating with the SEC to reform the stock exchange so it would serve more as a public institution than as a club for the wealthy.

During World War II, Martin was drafted from the exchange into the U.S. Army. There he supervised the disposal of raw materials on the Munitions Allocation Board. He was also a liaison between the Army and Congress and the supervisor of the lend-lease program with the Russians.

Martin's return to civilian life was also a return to the financial world, but this time it was on the side of the federal government. Harry Truman, a fellow Democrat, appointed Martin as head of the Export-Import Bank, which he operated for three years. It was at this institution that he was publicly viewed as a "hard banker." He insisted that loans be sound, secure

investments; on that principle he opposed the State Department on multiple occasions for making loans that he saw as being motivated purely by politics. On those grounds he would not permit the Export-Import bank to be used as a fund for international relief.

Martin finished his career with the Export-Import bank when he was called to the Treasury to be the assistant secretary for monetary affairs. Martin had been with the Treasury for about two years when its conflict with the Federal Reserve reached its climax. During the period immediately preceding the final negotiations with the Fed, Secretary of the Treasury John Snyder went into the hospital. Under these circumstances, Martin became the head negotiator for the Treasury. From the Treasury's perspective, Martin was a valuable representative. He had a thorough understanding of the Federal Reserve System and of financial markets; furthermore, he was viewed as an ally of Truman, who strongly opposed Fed independence. During negotiations, Martin reestablished contact between the Treasury and Fed, which had been forbidden under Snyder.[4]

With Robert Rouse, Woodlief Thomas, and Winfield Riefler of the Fed, Martin negotiated the Accord. The FOMC and Secretary Snyder accepted the Accord and its compromises, and it was approved by both institutions. The Chairman of the Board of Governors at the time of ratification was Thomas McCabe, who would officially resign from his position just six days after the statement of the Accord was released. The Truman Administration saw the resignation of McCabe as the perfect opportunity to recapture the Fed almost immediately after it had supposedly broken away. Truman selected Martin to be the next Chairman of the Board of Governors, and the Senate approved his appointment on March 21, 1951.[5]

Contrary to Truman's expectations, however, Martin guarded the Fed's independence, not just through Truman's administration but also through the four administrations that would follow. To the present day, his term as Chairman is the longest term the Board of Governors has seen. Over nearly two decades, Martin would achieve global recognition as a central banker. He was able to pursue independent monetary policies while still paying heed to the desires of various administrations. Although the objectives of Martin's monetary policy were low inflation and economic stability, he rejected the idea that the Fed could pursue its policies through the targeting of a single indicator and instead made policy decisions by examining a wide array of economic information. As Chairman, he institutionalized this approach within the proceedings of the FOMC, gathering the opinions of all governors and presidents within the System before making decisions.[6] As a result, his decisions were often supported by unanimous votes on the FOMC.

Externally, Martin was perceived as being the dominant decisionmaker at the Fed. Throughout his tenure, he defended the right of the Fed to take actions that would sometimes conflict with what the President wanted. He regularly asserted that the Fed was responsible to Congress and not to the White House.[7]

William McChesney Martin Jr. ended his term as Chairman of the Board of Governors on January 30, 1970. On that day, his career in public service ended, but he continued to work, holding a variety of directorships for a group of nearly 24 firms and nonprofit institutions for almost 30 more years. On July 28, 1998, at the age of 91, he died at his home in Washington, D.C.

Footnotes

[1]Barnard S. Katz, ed. *Biographical Dictionary of the Board of Governors of the Federal Reserve* (Westport, CT: Greenwood Press, 1992), p. 193.
[2]Bart Barnes, "Longtime Fed Chairman William Martin Jr. Dies," *The Washington Post*, 29 July 1998.
[3]See Robert L. Hetzel and Ralph F. Leach, "The Treasury-Fed Accord: A New Narrative Account," Federal Reserve Bank of Richmond *Economic Quarterly* 87 (Winter 2001): 50.
[4]Hetzel and Leach (2001, 50).
[5]Hetzel and Leach (2001, 52).
[6]Katz (1992, 201).
[7]For further reading on Martin's tenure, see Katz (1992) and Robert L. Hetzel and Ralph F. Leach, "After the Accord: Reminiscences on the Birth of the Modern Fed," Federal Reserve Bank of Richmond *Economic Quarterly* 87 (Winter 2001).

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Biographies

Biographies:
Thomas Bayard McCabe (1893-1982)

Chairman of the Board of Governors (1948-1951)

In early 1948, President Harry Truman appointed Thomas Bayard McCabe Chairman of the Board of Governors of the Federal Reserve System. McCabe remained at the Federal Reserve only until March 1951, but as head of the Fed, he was a pivotal player in the negotiations leading to the Treasury-Fed Accord.

Thomas Bayard McCabe was born on July 11, 1893, in Whaleyville, Maryland, to William Robins McCabe and Beulah Whaley McCabe.

Upon graduating from Swarthmore College with an A.B. degree in economics in 1915, McCabe chose to return to his hometown of Selbyville, Delaware, to work with his father in banking. But soon thereafter, he received a letter from his adviser at Swarthmore telling him that his decision to return home was a mistake. McCabe was inspired by the letter to reconsider his decision. After following up a contact from college, McCabe moved to the town of Chester, Pennsylvania, and began work with a small one-mill paper company. His service to that paper company would last a lifetime, helping it to become the multinational Scott Paper Company. McCabe temporarily left to follow his country into World War I. He enlisted as a private in 1917 and advanced to captain by 1919.

At the age of 26, McCabe returned to civilian life and to the Scott Paper Company. He advanced rapidly, moving up from assistant sales manager to become the president and CEO by age 34. Thomas McCabe's association with the Federal Reserve began in 1937 when he was appointed to be a director of the Board of the Philadelphia Fed. He also served as a member and chairman of the Business Advisory Council for the Department of Commerce. When the United States entered World War II, McCabe directed his public service toward the war effort. Some of the positions he held included executive assistant to Edward Stettinius on the Advisory Commission of the Council for National Defense, deputy director of the Division of Priorities, and deputy lend-lease administrator.[1]

Prior to his appointment to the Board of Governors, McCabe had served Truman as the Liquidation Commissioner for the federal government. In that position, he was responsible for managing the disposal and sale of excess war materials. During the war, the Fed cooperated with the Treasury by pegging the interest rates on government securities. Although wary of the economic implications of that policy, the Board of Governors and the regional bank presidents supported it because of the high priority placed on winning the war. The day after the attack on Pearl Harbor, that solidarity was expressed in the issued statement:

> The System is prepared to use its powers to assure that an ample supply of funds is available at all times for financing of the war effort and to exert its influence toward maintaining conditions in the United States Government security market that are satisfactory from the standpoint of the Government's requirements. [2]

After the war ended, the policy of supporting the price of government securities remained in place.

The death of Board governor Ronald Ransom in 1947 gave Truman the opportunity to make a new appointment.[3] Truman chose Thomas McCabe to fill that position, and furthermore signaled his intention to make him the next Chairman eventually. McCabe took office as Chairman in April of 1948 and inherited a Federal Reserve System that was unable to conduct independent open market operations. The Treasury still insisted that the peg be maintained. Initially, McCabe's actions as Chairman did not receive any resistance from the Treasury. Soon after his appointment, the economy slipped into a recession in early 1949. The recession called for a loosening of credit restrictions and meant that the most favorable policy was to lower interest rates. On June 28, 1949, the FOMC asserting this policy, stating:

> The Federal Open Market Committee, after consultation with the Treasury, announced today that with a view to increasing the supply of funds available in the market to meet the needs of commerce, business, and agriculture it will be the policy of the Committee to direct purchases, sales, and exchanges of Government securities by the Federal Reserve Banks with primary regard to the general business and credit situation. The policy of maintaining orderly conditions in the Government security market, and the confidence of investors in the Government bonds will be continued. Under present conditions the 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.[4]

The Treasury was pleased with this statement as the Fed subsequently reduced reserve requirements. Those reductions led to an increase in the demand for bonds by commercial banks. Bond prices rose, resulting in cheaper debt financing for the Treasury.

But the economic rationale for expanding credit soon faded as the economy began to accelerate again in late 1949. Hostilities broke out in Korea in June of 1950, providing additional stimulus. War made it likely that the Treasury would need to raise more debt. The mix of economic expansion, artificially low interest rates, and a new round of debt financing was destined to generate serious inflationary pressures on the economy. In response, the Fed raised the discount rate in August 1950.[5] The intention of this increase was to discourage banks from borrowing money from the Fed, but the move led Secretary of the Treasury John Snyder to publicly criticize the FOMC.

Conflict between the FOMC and the administration ensued. Thomas McCabe, Marriner Eccles, and Allan Sproul, who was president of the New York Fed, pressed for a relaxation of the interest rate peg. They argued that the inflationary pressure generated by the peg would undermine war financing by creating inflation. After months of intense sparring in the public eye, the Treasury backed down and settled its argument with the Fed through the Accord.[6]

However, the chairmanship of Thomas McCabe was a casuality of the conflict. Snyder told Truman that he could not work with McCabe any longer.[7] McCabe resigned effective March 9. McCabe's three-year tenure as Chairman of the Board of Governors was short, but it forever changed the Federal Reserve. His removal could have been seen as a last ditch effort by the Truman Administration to regain control of the Fed after it was liberated by the Accord. The President appointed William McChesney Martin, Jr., then assistant secretary of the Treasury, to replace McCabe, but Martin proved to be just as stalwart a defender of the Fed's independence. McCabe left the office on March 31, 1951, and Martin took over on April 2. Thomas McCabe returned to his home in Swarthmore, where he continued his service as president of the Scott Paper Company until 1962. He then served as chairman of the board until he was 75. McCabe died on May 27, 1982, at the age of 88.

Footnotes

[1]See Barnard S. Katz, ed., *Biographical Dictionary of the Board of Governors of the Federal Reserve* (Westport, CT: Greenwood Press, 1992), p. 168.
[2] See Clay J. Anderson, *A Half Century of Federal Reserve Policymaking 1914-1964* (Philadelphia: Federal Reserve Bank of Philadelphia, 1965), particularly chapter 7, "World War II: Pegged Rates."
[3]Katz (1992, 169).
[4] Thomas B. McCabe, *Reply of the Chairman of the Board of Governors of the Federal Reserve System* (Washington D.C.: Board of Governors of the Federal Reserve System, November 1949), p. 34.
[5]Katz (1992, 170).
[6]For a detailed account of the events surrounding the Treasury-Fed Accord, see Robert L. Hetzel and Ralph F. Leach, "The Treasury-Fed Accord: A New Narrative Account," Federal Reserve Bank of Richmond *Economic Quarterly* 87 (Winter 2001): 33-55.
[7]See Hetzel and Leach (2001, 51).

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Biographies:
Winfield Riefler (1897-1974)

Assistant Chairman to the Board (1948-1959)

Winfield Riefler was a native of Buffalo, New York. Born on February 3, 1897, he served in World War I and earned the Croix de Guerre for his actions in France. Riefler graduated from Amherst College in 1921. His government career began right after college with a job as a Department of Commerce representative in Buenos Aires, and he joined the Federal Reserve staff in 1923. While there, he developed a table in the Federal Reserve Bulletin currently known as "Reserves of Depository Institutions and Reserve Bank Credit."

Today, this table provides a consolidated Treasury-Fed account of the factors that supply and absorb bank reserves and currency.[1] While at the Fed, he earned a Ph.D. in Economics from the Brookings Institution. His thesis was later published as a book entitled "Money Rates and Money Markets in the United States."[2] The book shows how the actions of the Fed that affected bank reserves also influenced short-term interest rates.

Riefler left the Fed in 1934 to take a full-time position at the Institute for Advanced Studies at Princeton University as the head of the Economics Department. With the support of the Institute, Riefler contributed to a variety of government functions. He served with the Roosevelt Administration as central coordinating statistician in 1934. There he made a substantial contribution to the real estate market with his concept of the self-amortizing home mortgage. Prior to the development of this concept, home mortgages were given only five years to mature followed by a payment of the principal. In conjunction with that contribution, Riefler helped to write the Federal Housing Act, which allocated funds to communities in need of redevelopment.

In 1937, still with the Institute, he was appointed to be a substitute member of the permanent finance committee of the League of Nations. During World War II, he was instrumental in bringing several League organizations to the United States.[3] In 1942, he directed operations in London for the Board of Economic Warfare, which was responsible for assessing the economic strength of the Axis Powers as well as determining effective policy measures that inhibited the production capacity of the enemy.

With the war's end, Winfield Riefler returned home to rejoin the Federal Reserve as a consultant with the Philadelphia Board of Directors. It was there that he made an impression on Thomas B. McCabe, who had served on the Philadelphia board since 1937. When McCabe was appointed Chairman of the Board of Governors, he made it a requirement of his acceptance that Riefler join him as his personal advisor. It was an opportunity for Riefler, who wanted to reestablish the Fed's independence, which had been virtually lost soon after the Fed was restructured in 1935. He believed that the Fed should always aim its efforts towards economic stabilization and that its current activities in the government bond market were impeding its progress toward that objective.[4] In 1948, Riefler resigned his position with the Institute of Advanced Studies. He joined McCabe in Washington and was instrumental in negotiating the final settlement of the Accord with future Fed legend William McChesney Martin, Jr. [5] When Martin left the Treasury and came over to the Fed, Riefler served as his personal adviser, too. Riefler retired in 1959, having seen his convictions regarding Fed independence put into practice. He died on April 8, 1974.

Footnotes

[*]The content of this biography received important contributions through conversation with Donald Riefler, the son of Winfield Riefler.
[1]Robert L. Hetzel and Ralph F. Leach, "The Treasury-Fed Accord: A New Narrative Account," Federal Reserve Bank of Richmond *Economic Quarterly* 87 (Winter 2001): 35, footnote 5.
[2]Obituary for Winfield Riefler, *New York Times*, 10 April 1977.
[3]Obituary for Winfield Riefler (1977).
[4]Hetzel and Leach (2001, 35, footnote 5).
[5]See Hetzel and Leach (2001, 33-55) for further details.

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Biographies

Biographies:
John Wesley Snyder (1895-1985)

Secretary of the Treasury (1945-1953)

As the Secretary of the Treasury at the time of the Accord, John Snyder was the primary adversary of the Federal Reserve. Ultimately, his conflict with the Fed stemmed from his firm belief in the philosophy of "good financing" for the federal government, which held that the government should be able to issue as much debt as needed on the most favorable terms. To implement such a principle, Snyder had no choice but to obtain the Federal Reserve's cooperation in pegging interest rates at low levels in the government securities market. During the 1940s this cooperation came about voluntarily, but during Snyder's term, the Fed sought to be released from this obligation.

The objectives that John Snyder pursued were always aligned with what he deemed to be in the best interests of the Treasury, even if those policies were disagreeable to professional economists and Fed officials. After the war, the Treasury was responsible for funding the rebuilding of a war-torn world. Given that much of the funding was to be achieved through the issuance of large amounts of Treasury debt, it was only natural that Snyder would wish to minimize the interest costs derived from the debt. From the strict perspective of financing the federal budget, Snyder's policies were on target.

John Wesley Snyder was born on June 21, 1895, in Jonesboro, Arkansas. He spent a year at Vanderbilt University's Engineering School before entering the Army in 1915 to serve as a second lieutenant in the field artillery during World War I. After the war he went back to Arkansas to be a bank clerk, and he never graduated from college. During the postwar period he remained in the Army Reserve, where he met another young reserve officer, Harry S. Truman, with whom he would develop a lifelong friendship.

During the twenties, Snyder moved to St. Louis, where he became further involved with banking. In 1931, he was employed by the Comptroller of the Currency, and six years later he became the St. Louis regional director of the Reconstruction and Finance Administration. Snyder was one of the earliest supporters of Truman's Senate reelection bid in 1940.[1] From that time until Truman assumed the presidency five years later, Snyder had access to Truman's closest political circle.

When Truman became President in April of 1945, he initially appointed Snyder as the Federal Loan Administrator. Two months later, Snyder became the director of the Office of War Mobilization and Reconversion. In that position, he supervised the dismantling of World War II price controls and helped convert industries back to peacetime production. His successful execution of those operations led Truman to consider him for a higher position. Truman did not consult Snyder before he named him to the position of Secretary of the Treasury, but Snyder accepted. He was to become one of Truman's closest advisors on not only financial matters, but also general domestic and foreign policy issues. Truman valued Snyder's counsel to the extent that Snyder was often the last person to whom Truman spoke before he made final decisions.[2]

Snyder's role within the Truman Administration was to lead the conservative faction. He moved to deregulate price controls and wartime restrictions in the summer and fall of 1945. This brought him into conflict with other members of the Truman cabinet who felt that such actions, if precipitated too rapidly, would spur inflation and cause a recession. In some cases, regulations had to be reinstated when their removal failed to achieve the intended purpose.

Snyder did not always concur with Truman. He opposed Truman's 21-point program of September 1945, which among other things called for increases in employment insurance.[3] However, Truman went ahead with the plan anyway. This instance illustrates that Snyder's opinion was respected, but his advice was not always taken.

On the fiscal policy front, however, Snyder and Truman were usually united. Snyder was instrumental in implementing the Truman Doctrine and the Marshall Plan to reconstruct war-torn Europe.[4] He opposed any measure that would jeopardize the federal government's ability to pay down the debt and thus opposed a Republican push in Congress to cut taxes in 1947. He argued that the economy was already operating at full capacity and that the taxes were needed to restrain inflation. His campaign against the Republicans was successful, but then he was politely snubbed by Truman when the President proposed his own tax cut to redistribute the tax burden. Privately, Snyder opposed the measure, but publicly he supported it.[5] Truman's plan never actually made it through Congress; instead, another Republican tax proposal passed and then survived Truman's veto.

The Truman-Snyder alliance was never more essential than during the administration's conflict with the Federal Reserve. As Truman's second presidential term progressed, the Federal Reserve began to chafe under its obligation to peg the interest rates on government securities. As a matter of principle, the President did not want to punish patriotic citizens by raising interest rates and thus lowering the value of their bonds. Snyder pressured the Fed to hold the rate peg at artificially low levels. When the Korean War intensified, it became likely that the Treasury was going to need to issue new debt. Thus, in the interest of minimizing the service charge on the extra debt, the Treasury wanted to extend the rate peg indefinitely. The conflict developed into a full-blown institutional battle that was fought behind closed doors as well as in the public arena. Snyder felt that it was essential to raise debt cheaply in order for the country to fight the communist threat. By contrast, the Fed

argued that subduing inflation at home was just as important for the same reason. Although Snyder and Truman resisted fiercely, support for their position dwindled and the conflict was resolved by the Accord. In the end, Truman approved the Accord on Snyder's recommendation.[6]

John Wesley Snyder retired from government at the end of Truman's second term and worked on the boards of several philanthropic institutions after his retirement. He died at the age of 90 on October 8, 1985.

Footnotes

[1]See Eleanora Schoenbaum and Clark S. Judge, *Political Profiles. The Truman Years* (New York: Facts on File, 1978), p. 505.
[2]Schoenbaum and Judge (1978, 505).
[3]Schoenbaum and Judge (1978, 506).
[4]Associated Press. Obituaries. "John W. Snyder Dies at 90." *Washington Post*. 9 October 1985.
[5]Schoenbaum and Judge (1978, 507).
[6]See Robert L. Hetzel and Ralph F. Leach, "The Treasury-Fed Accord: A New Narrative Account," Federal Reserve Bank of Richmond *Economic Quarterly* 87 (Winter 2001): 33-55.

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Biographies

Biographies:
Allan Sproul (1896-1978)

President of the Federal Reserve Bank of New York (1941-1956)

Allan Sproul was born on March 9, 1896, in San Francisco. He attended high school in the Bay Area and then matriculated at the University of California at Berkeley. World War I disrupted his college education when he enlisted in the Army Air Force and learned to fly bi-planes. He was promoted to officer status and his squadron was sent to Britain in 1918, too late to experience any combat. He returned to California and completed his bachelors degree in pomology, the study of growing fruit, at the College of Agriculture. Sproul applied his degree by working briefly with the California Packing Company, which packaged farm produce, and then as an agricultural adviser for two small banks in Southern California.

Sproul's life and career took a significant turn when a friend recruited him to the Federal Reserve Bank of San Francisco. Sproul accepted a position as the head of the research department at the regional reserve bank. Reminiscing later, he would recall that he did not know what a central bank was. However, given that the Fed had been chartered only seven years before, it was unlikely that even those in the banking industry were entirely aware of what exactly a regional branch of the central bank was supposed to do. Starting in 1920, Allan Sproul compiled and presented economic data concerning the conditions of the twelfth Federal Reserve district. He soon became the assistant to the chairman and secretary of the bank and began to learn how economic policy was formed.[1] By 1924, Sproul had himself become secretary of the San Francisco bank. His new position required him to travel across the country to attend monetary policy meetings in Washington. Those occasional journeys would bring another significant change to Sproul's life. While he was in Washington, his abilities came to the attention of two men from New York, Benjamin Strong and George L. Harrison. Strong was the president of the New York Fed and Harrison was his assistant. They offered the Californian the position of secretary of the New York Fed.

So eager was the New York Fed to obtain Sproul's services that it kept the job offer open long after Strong died in 1928. Although Sproul was initially reluctant to accept the offer, he could not resist the action stirring on the East Coast in the wake of the stock market crash of 1929; in 1930 he decided to accept the post in New York.

Joining the New York Fed as secretary on March 1, 1930, Allan Sproul was first assigned to the foreign exchange department. Four years later he became a special assistant to Harrison, who had taken over as president of the bank after Strong's death, and two years after that he ascended to first vice president, a position that eventually required him to take the helm of the open market Trading Desk. When the former manager on the Desk left the Fed for another job in September of 1938, Allan Sproul was placed in charge of open market operations for the entire Federal Reserve System.

On January 1, 1941, only a decade after he had been persuaded to come to New York, Sproul became president of the bank. The man who brought him there, George Harrison, had decided that the shift in power within the System from NY to the Board in Washington had cut into the prominence of the New York Fed beyond his tolerance; he left and was replaced by Sproul. For Sproul, the presidency of the New York Fed was accompanied by the vice-chairmanship of the Federal Open Market Committee. Sproul's appointment coincided with the start of the Fed's policy of supporting the interest rate peg on Treasury debt issuance. This peg was set at 3/8 percent on the three-month securities and 7/8 percent on one-year bills.

As vice-chairman of the FOMC, Sproul worked with Marriner Eccles, who was the chairman of the FOMC. Eccles and Sproul were not in agreement on every monetary policy issue, but they did agree that the rates of 3/8 and 7/8 on two short-term securities were too low given the 2 to 2.5 percent rate being offered on the longer-term bonds. With the yield spread so wide, they felt that the Fed would end up holding an excessive amount of short-term securities when investors and banks exchanged those instruments for longer-term bonds.[2]

The disagreement between the Treasury and the Fed over the bond spread would soon expand into a wider conflict. With the war's end, the necessity to maintain the rate peg was called into question. In 1948, President Truman declined to reappoint Marriner Eccles as Chairman of the Board of Governors. Although denied the chairmanship, Eccles remained on the Board.

With the outbreak of the Korean War in June 1950, the conflict heated up between the Fed and the Treasury. With the likelihood of new debt issuance on the horizon, Treasury tried to persuade the Fed to continue its maintenance of the interest rate peg. Some members of Congress, like Illinois Senator Paul Douglas, sided with the Fed. Others, like Texas Representative Wright Patman, sided with the President. Sproul, Eccles, and McCabe were the leading members of the FOMC who voiced their concerns over the effect of the interest rate peg on money stock growth and inflation. Eccles labeled his own institution an "engine of inflation."[3] Sproul asserted that under current circumstances, the Federal Reserve was being forced to behave as a bureau of the Treasury rather than an independent central bank.[4] In early 1951, in the final months of the dispute, Sproul and Chairman McCabe corresponded extensively and also met with President Truman and Treasury Secretary Snyder in an effort to settle the disagreement. Truman advocated other methods of stopping credit and money growth besides raising interest rates. Sproul maintained that the Federal

Reserve could only retain monetary control by permitting the market to determine the interest rate. The Fed remained firm in its position, and since the Treasury needed to retain investor confidence in the government securities markets, it decided to settle and negotiated the Accord.[5]

The political firestorm surrounding the Accord created an uncomfortable environment for Allan Sproul.[6] His main concerns were with the proper functioning of monetary policy. The public attention that he received during the controversy was something that he hoped to avoid in the future; however, he was to enter another institutional battle soon after the Accord. The Fed had a new Chairman, William McChesney Martin, Jr.; McCabe and Eccles, with whom Sproul had successfully worked to secure Fed independence, resigned and returned to their home states. The source of this new conflict was the issue of whether the Fed should restrict its open market operations to trading just Treasury bills. This "bills-only" policy was enacted in September of 1953 by the Board of Governors in Washington D.C. Sproul opposed the bills-only policy on the grounds that it closed off other potential channels in the monetary transmission mechanism and thus inhibited the speed with which monetary policy actions could take effect.[7] Another aspect of the controversy involved a power rivalry within the Federal Reserve System. As a regional bank in the nation's financial capital, the New York Fed was more influential than other banks in the system. Sproul believed that "bills only" was simply an effort by the Board of Governors in Washington to gain an upper hand over the New York Fed.[8]

Sproul had little liking for the politics of the struggle that he led against the Board. The conflict was emotionally and physically damaging to Sproul and may have caused the ulcers from which he suffered. At this point in his career, he felt that the rewards were hardly worth the stress. Thus, in a move that surprised many of his colleagues, he resigned his presidency on June 30, 1956, and moved back to California.

The bills only policy that Allan Sproul opposed was eventually abandoned in 1961. At that time, it was deemed ineffective in coordinating interest rates with objectives in the balance-of-payments. After his retirement, Sproul maintained an active life in the banking industry. In particular, he gave many presentations to the Wells Fargo bank. He maintained contact with those who had served with him during his tenure at the New York Fed, including Marriner Eccles, who was also living in California. He continued working until seven weeks before his death on February 21, 1978.

Footnotes

[1]Today, these nominal positions do not exist within the regional banks. Most of these adjustments came with the Banking Act of 1935. Prior to 1935, men like Benjamin Strong and George Harrison were called "governors" of the Federal Reserve Bank of New York, whereas today they would be called "presidents." Positions within the Board of Governors also evolved with the Banking Act. The Board of Governors itself was called the "Federal Reserve Board." It was seated by four "members," who today would be the equivalent of "governors";

today's "chairman" and "vice-chairman" of the Board of Governors were then called the "governor" and "vice-governor" of the Federal Reserve Board. For more information on the changes produced by the Banking Act of 1935, see Carl H. Moore, *The Federal Reserve System: A History of the First 75 Years* (North Carolina. McFarland & Company, Inc., 1990) pp. 88-89.

[2]See *Selected Papers of Allan Sproul*, ed. Lawrence S. Ritter (New York: Federal Reserve Bank of New York, 1980) p. 7-8.

[3]*Selected Papers of Allan Sproul* (1980, 11).

[4]Robert L. Hetzel and Ralph F. Leach, "The Treasury-Fed Accord: A New Narrative Account," Federal Reserve Bank of Richmond *Economic Quarterly* 87 (Winter 2001): 44.

[5]See Hetzel and Leach (2001, 33-55).

[6]*Selected Papers of Allan Sproul* (1980, 11).

[7]See Robert L. Hetzel and Ralph F. Leach, "After the Accord: Reminiscences on the Birth of the Modern Fed," Federal Reserve Bank of Richmond *Economic Quarterly 87* (Winter 2001): 57-64.

[8]The original designers of the Federal Reserve System intended for monetary power to be decentralized, away from Washington. The 12 regional banks located throughout the country were given some discretion with regard to discount rates and banking regulation. However, with its close proximity to Wall Street, the Federal Reserve Bank of New York quickly became the most powerful regional bank within the system. This was in part due to the amount of assets that it had under management, but was also attributed to its control over the Trading Desk.
The Trading Desk comprises a group of traders at the New York Fed who conduct financial transactions on behalf of the entire Federal Reserve System. Today, these transactions are commonly referred to as open market operations, which consist of the purchase or sale of U.S. Treasuries. For a complete discussion of the Trading Desk and open market operations see Ann-Marie Meulendyke, *U.S. Monetary Policy & Financial Markets* (New York. Federal Reserve Bank of New York, 1998) and Frederic S. Miskin, *The Economics of Money, Banking and Financial Markets* (New York, Addison Wesley Longman, Inc., 1997).

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Biographies

Biographies:
Harry Truman (1884-1972)

33rd President of the United States (1945-1953)

Harry Truman was the primary advocate for maintaining the interest rate peg on government securities. His conflict with the Federal Reserve arose because although he properly pursued the objectives of "good financing," that is, cheap debt for the government, he overlooked the necessities and benefits of an independent monetary policy controlling inflation.

Harry Truman was born on May 8, 1884, to John Anderson Truman and Martha Ellen Young in the town of Lamar, Missouri. In 1901, he graduated from Independence High School. Although he was a good student, he never received any degree higher than that of a high school diploma.

After graduation, he worked a series of jobs in the Kansas City area before enlisting in the Missouri National Guard in 1905. After 1906, Truman lived on and helped operate the family farm in Grandview with his parents and brother. After he left the National Guard in 1911, his jobs in the Grandview area included road overseer and post-master. In addition, he engaged in several failed business ventures that related to raw materials. Truman reenlisted in the National Guard in 1917 and was sent off to fight in World War I, arriving in France on April 13, 1918. He engaged in combat for about two months before the armistice was signed.

Truman's political career began in 1924 when he ran for an eastern judgeship on the Jackson County Court. However, he lost this election to Henry Rummel. For the next two years, he worked as a membership salesman for the Kansas City Automobile Club. In 1926, he was elected to be a judge on the Jackson County Court, where he presided until 1934. At the end of his second term as a judge, Truman was elected to a Missouri seat in the U.S Senate under the Democratic Party. He would serve for a decade in the Senate during what he would call the "happiest 10 years of my life."[1]

During World War II, Truman served on many committees connected to the administration of the war effort. He headed the Special Committee to Investigate the National Defense Program that was created to investigate the nation's mobilization effort in hopes of making it

more efficient. It was later estimated that the results of this investigation saved the government up to $11 billion.

On July 21, 1944, Truman was nominated for the office of vice-president at the Democratic National Convention in Chicago. He was elected to the vice presidency on November 7 of that same year. Six months later, the death of President Franklin Delano Roosevelt thrust Truman into the White House.

From Truman's perspective, the conflict with the Federal Reserve was as much a matter of fairness as it was of economics. While Secretary of the Treasury John W. Snyder made the argument that releasing the peg on interest rates would hurt the fiscal position of the federal government during a crucial period, Truman wanted the Fed's cooperation on the principle of protecting the small town investor. During World War I, Truman had had a personal experience with buying government debt when he bought Liberty Bonds. He then felt cheated when the interest rate on the Liberty Bonds rose after their issue. The value of the bonds declined with their rise in interest yield. Truman remembered this incident as an insult to his patriotism. Now that he was President, he felt an obligation not to let the price of government bonds decline.[2]

During the second half of the 1940s, through the Fed's interest rate peg, Truman was able to enforce that principle. In the meantime, the United States was playing an important international role, helping to establish the United Nations while redeveloping Europe and Japan through the Marshall Plan and the Truman Doctrine.

But that brief period of peace ended with the outbreak of the Korean War in June of 1950. Truman felt that the United States had to mobilize quickly to stop the spread of communism, as is clearly expressed in his 1951 State of the Union Address:

> The threat of world conquest by Soviet Russia endangers our liberty and endangers the kind of world in which the free spirit of man can survive. This threat is aimed at all people who strive to win or defend their own freedom and national independence. Indeed, the state of our Nation is in great part the state of our friends and allies throughout the world. The gun that points at them points at us, also. The threat is a total threat and the danger is a common danger.[3]

In November of 1950, the Chinese intensified the war by crossing the Yalu River and pushing American forces back toward the 38th parallel. The Truman Administration faced an extended conflict and a possible world war if the fighting expanded into China or the Soviet Union. Even though many U.S. government expenditures in Korea had been funded by tax increases, Chinese entry meant that the Treasury would have to issue new debt to pay for the war. The Fed quickly foresaw the consequences that would arise if the price of U.S. Treasuries continued to be subject to its control. With annualized inflation running near 20 percent in late 1950, the Fed argued that the low peg on interest rates had to be raised. Truman and Snyder countered that cheap financing was still essential for the fight against

the communists. In an attempt to reconcile their differences, Truman, Snyder, and members of the FOMC held a series of meetings. In spite of these efforts, the conflict soon spilled over into Congress and into the press.

The Fed forced a resolution of the issue when in February 1951 it informed the White House that it was no longer willing to support the current situation of pegged interest rates.[4] Truman called a meeting with the Chairman of the Board of Governors, Thomas McCabe, Allan Sproul, who was the President of the Federal Reserve Bank of New York, and other government policymakers. In that meeting Truman advocated direct credit controls as an alternative method for slowing inflation. This method would allow interest rates to remain unchanged. But the Fed representatives regarded Truman's alternative as a return to the bureaucracy that tightly controlled and rationed the economy during World War II. They also saw this suggestion as part of an attempt by Truman to keep the Fed under the administration's control.

The dispute was settled on March 3, 1951, with the Treasury-Fed Accord. Chairman McCabe would officially resign from his position just six days after the statement of the Accord was released.[5] Truman selected Martin to be the next Chairman of the Board of Governors, and the Senate approved his appointment on March 21. This decision bothered some on the Board of Governors, for prior to his appointment, Martin had been with the Treasury and had in fact negotiated the Accord on behalf of the Treasury. However, Chairman Martin in fact worked to solidify the Fed's independence that had been made possible by the Accord.

Truman's administration ended on January 20, 1953. After attending Eisenhower's inauguration, he left Washington by train and headed back to Independence, Missouri. Even after his retirement from the White House, Harry Truman would continue to be recognized for his contributions to postwar stability. He died on December 26, 1972, at the age of 88.

Footnotes

[1] John W. McDonald. May 1984. "10 of Truman's Happiest Years Spent in Senate," *Independence Examiner* Truman Centennial Edition.

[2]See Robert L. Hetzel and Ralph F. Leach, "The Treasury-Fed Accord: A New Narrative Account," Federal Reserve Bank of Richmond *Economic Quarterly* 87 (Winter 2001): 39-40.
[3]See Truman's State of the Union Address of 1951, www.trumanlibrary.org/whistlestop/tap/1851.htm
[4]For further details, see Hetzel and Leach (2001, 49-53).
[5]See Hetzel and Leach (2001, 51-52).

Additional Resources

- Harry S. Truman Library & Museum
- Biography of Truman on White House's web site

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