The Federal Reserve-Treasury Accord and the Construction of the Post-War Monetary Regime in the United States

Gerald Epstein and Juliet Schor

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This previously published, but now out-of-print paper addresses the circumstances surrounding the ‘Federal Reserve - Treasury Accord of 1951. We want to make it available now because of the current intense focus on the role of the Federal Reserve in the financial crisis, which has raised serious questions about its governance. Some critics — particularly those aligned with Congressman Ron Paul — want to "end the Fed." A much better approach, however, is to democratize the Federal Reserve.

Democratizing the Fed is not a hypothetical scenario. As our paper discusses, during the Second World War, the Federal Reserve was largely under the control of the U.S. government — particularly the Executive Branch and especially the Treasury Department. In these conditions, Federal Reserve policy was highly coordinated with fiscal policy and contributed significantly to the war effort. Following the Second World War, financial interests and the Fed itself pushed very hard to make it more independent of the elected government, and to make it dependent on and subservient to the financial sector. This is the Federal Reserve we are once again living with today.

The paper suggests putting true democratic control of the Federal Reserve back on the policy agenda, rather than protecting its capture by finance, or "ending the fed" and putting the economy back into the straight jacket of a gold standard, which helped throw the world into the Great Depression of the 1930s.

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1 Introduction

In 1913, The Federal Reserve Act established the Federal Reserve System as an independent central bank. The Federal Reserve's autonomy was overridden during the Second World War when the Federal Reserve agreed to maintain fixed interest rates on long-term government bonds and limit fluctuations in short-term interest rates.[1] This agreement effectively meant that the Federal Reserve came to be dominated by the Treasury Department and, as a result, fiscal policy dominated monetary policy. More important, the World War II agreement meant that elected government officials, rather than the unelected members of the Federal Reserve System, controlled monetary policy for the first time in the history of the Federal Reserve. An unprecedented experiment in democratic, rather than banker, control of monetary policy was about to begin.

Allen Sproul, president of the New York Federal Reserve, who would lead the fight for Federal Reserve independence, chafed under the control of the Treasury Department. During the war he wrote to Montagu Norman, governor of the Bank of England, asking whether Norman's bank would like to invest some of its dollar holdings in U.S. government securities, "I am faced with the necessity of becoming a

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salesman...[2] In his reply, Norman bemoaned, "I am, with longing for the old days!" [3] (Emphasis added).

The old days, when government influence over monetary policy was minimized, would never come for Norman and the Bank of England. But, for the Federal Reserve (if not for the New York Bank and Sproul), they have returned with a vengeance.[4] The independent Federal Reserve is now widely believed to be the major institution making United States macroeconomic policy. And far from being a bond salesman, the Federal Reserve Board chairman is now routinely called the second most powerful person in Washington.

The major signpost of the Federal Reserve’s extraordinary transformation was the Treasury–Federal Reserve Accord of March 4, 1951 in which the Federal Reserve won independence from government dominance. The public statement of the Accord simply said:

The Treasury and the Federal Reserve System have reached full accord with respect to debt-management and monetary policies to be pursued in furthering their common purpose to assure the successful financing of the Government's requirements and, at the same time, to minimize monetization of the public debt. (Board of Governors of the Federal Reserve 1951, p. 267)

This innocuous-sounding statement nonetheless reflected a highly significant agreement. The fight over Federal Reserve independence in the late 1940s and early 1950s had great significance for postwar macroeconomic policy in the United States. Flexible monetary policy and a fully independent Federal Reserve System were major components of the conservative Keynesian policy structure developed in the postwar era. Just as the implicit "accord" between labor’s conservative elements and capital set the rules for direct labor and capital bargaining, the Accord between the Treasury and the Federal Reserve set the terms of the larger macroeconomic environment within which that bargaining would take place.[5] And by freeing monetary policy from governmental control, it played a major role in establishing the terms on which capital would score a significant victory against labor in the 1980s and 1990s, namely through tight monetary policy (Epstein, 1981; Greider, 1987).

The fight over Federal Reserve independence in the 1940s and 50s provides a gigantic spotlight on the U.S. central bank, usually shrouded in self-designed darkness—a spotlight that allows us to see how it operates, what sustains it, and what it stands for. Part of this darkness is
self-designed secrecy to help the Federal Reserve maintain its independence. But most of it stems from political fear and inertia in a political system where potent forces operate against questioning basic assumptions about long-standing and powerful institutions. Indeed, to current observers, the Federal Reserve’s power might seem to be natural and immutable. But this was not always the case. In 1951, the Federal Reserve’s victory was far from inevitable. Treasury Secretary Snyder secretly pressured President Truman to take over Federal Reserve monetary policy by executive order, and the White House was preparing an order to do so. Some congressmen and senators threatened to alter the charter of the Federal Reserve to keep it subservient to fiscal policy, as it had been during the war, and subject it to the accountability of the democratic process.

Sophisticated members of the system understood that they were involved in a political struggle of the highest order, which they were just as likely to lose as to win. Minutes, letters, and other materials reflect an intense preoccupation on the part of leaders of the independence movement with gauging the political support of their allies. Records reveal the fear felt by members of the Federal Reserve and bankers that Congress might further tighten the reins on the Federal Reserve. They indicate the shock and disappointment of Sproul and his allies at the mixed support they received from expected friends, such as some members of the banking community. At the same time, they demonstrate staunch and critical support from large Wall Street banks and associated industrial firms, which appears to have made a significant difference in the Federal Reserve’s victory.

Because this fight concerned the most basic questions about the central bank—who would control it and to what ends—because it was partially fought in public, and because archival evidence is now abundant concerning its less-public aspects, a study of the Accord can teach us much about key questions concerning the Federal Reserve System and the political economy of macroeconomic policy more generally. The key questions illuminated by this study of the Accord include:

- Who influences central bank policy in the United States, to what ends and why are they able to do so? Relatedly, why is central bank independence seen as so important to some groups?

- Given the answers to the first question, what can the Accord tell us about the relative validity of various theories of the determinants of central bank behavior?
• What can the Accord tell us about the political role of monetary policy in the postwar macroeconomic policy structure more generally? Documents show the motivations of the central bankers and their allies in the independence struggle, their overall conceptions of the role of an independent central bank, and their view of the goals of monetary policy. Perhaps most striking is the extent to which the central bankers explicitly concerned themselves with distributional and class relations. This evidence calls into question most theories of central banking, which suggest that the central bank makes policy in the interests of society, the president, or simply itself.[6]

At critical junctures, and sometimes under strenuous pressure from bankers, the central bank was preoccupied with the effects of its policies on the profitability of banks. On occasion, the Federal Reserve extended its concerns more broadly, to insurance companies and rentiers generally. As Alan Sproul wrote in notes for a Federal Reserve meeting,

> The interests of ‘savers’ including insurance policy holders are legitimate concern of the Federal Reserve System. A credit policy entered into with the deliberate intention of driving down rates of interest on savings to low levels, or keeping them there, would have to have very strong justification on other grounds. That was one of the questions and doubts we had continually in mind while we were pegging the price of long term Government bonds [during and immediately after the Second World War].[7]

Such a concern with the welfare of rentiers, as a group, stands in stark contrast with Sproul’s views of labor. Sproul says:

> Labor members—what we don’t want is members of the Board of Directors of (Federal Reserve) banks representing and acting as a pressure point for one segment of the community. Have no objection, in principle, to labor on boards, but their record as militant class interest advocates is bad.[8]

In fact, in thousands of pages of archival documents, the leaders of the fight for Federal Reserve independence never mentioned the effects of their policies on labor or debtors. Yet, despite Sproul’s concerns for creditors, the proponents of independence did not have the unanimous support of bankers. Evidence strongly suggests that theorists of collective action and class analysis are surely correct in point-
ing to the difficulties capitalist class fractions, much less the capitalist class as a whole, have in organizing themselves to promote their own interests. But if the story of the Accord demonstrates these problems, it shows even more vividly how key sectors of capital overcome the problem of collective action.

The record of the Accord is replete with evidence of relentless organizing by the New York Federal Reserve and leading bankers to bring out bankers and other major firms in support of Federal Reserve independence. Moreover, it shows that in order to win the support of bankers, the Federal Reserve altered its monetary policy to increase bank profits. Among other things, the Fed stopped using increases in reserve requirements to stem inflation, a policy that bankers vehemently opposed.

But the most potent force solidifying banker support for Federal Reserve independence was the threat of radical action by elements within the Truman Administration and Congress. As Sproul wrote to S. Colt, of Bankers’ Trust, only months before the Accord:

> Maybe we do need a new directive from Congress to help us meet today’s problems. (However you should) recognize the dangers in such a course and the advantages of reasonable men finding a way to a coordinated policy of debt management and credit control. (Emphasis added.)[9]

These threats rallied support from “reasonable men” within the Truman Administration, including the Treasury Department. And, whereas other big businesses had been indifferent or had even supported the Treasury Department, in the end they, too, came out strongly for an independent and flexible Federal Reserve monetary policy.

For what was at stake was not simply a few basis points but rather the whole structure of postwar monetary and credit policy. Would monetary policy be controlled by the Administration with a goal toward maintaining full employment as established in the Employment Act of 1946, with inflation controlled by government-directed quantitative measures? Or would monetary policy emphasize inflation control, using a minimum of quantitative restrictions and relying on changes in interest rates?

The coalescence of strong business support for Federal Reserve independence was accompanied by organized labor’s lack of interest in monetary matters. There were strong voices for the alternative structure within the Council of Economic Advisers and scattered through
Congress. In the end, however, these pockets of resistance were isolated. Outflanked both within and outside his own administration, Truman was ultimately forced to cede control of monetary policy back to the Federal Reserve.

Above all, this history of the Accord highlights the dependence of the Federal Reserve on support from key segments of the financial community for its political power, the necessity of following policies favored by those constituencies to maintain their support, and its ability and willingness to oppose the president directly on significant matters. The evidence suggests that as a result, the Federal Reserve, far from being solely concerned with aggregate variables such as inflation and economic growth, is strongly motivated by the effects of its policies on the distribution of income and wealth, particularly on the income and wealth of its key constituencies.

The Accord also highlights that, to win its biggest battles—in this case, for independence—it may need to branch out beyond its traditional constituency of the financial community and rally the wider support of industry. In both cases, the problems of collective action are significant but not insurmountable. In the end, an alternative financial structure articulated by the Council of Economic Advisers scared capitalists sufficiently to allow them to overcome their particular concerns and support Federal Reserve Independence. This alternative program stressed full employment, which risked increasing the power of labor and threatened industry. And the program called for utilizing credit controls that threatened the perogatives of finance. The history of the Accord also shows the difficulty labor has in opposing the business supported macroeconomic policy structure if labor doesn’t take an active interest in matters related to monetary policy and structure.

The history of the Accord also highlights a president’s opposition to an independent monetary policy and his willingness to fight for a policy to his liking. Far from always getting the policy he wants, the president can lose big battles with the Federal Reserve and its allies.

In view of these lessons, most theories of Federal Reserve conduct are anomalous.[10] The “public interest theory,” which argues that the Federal Reserve tries to make policy in the general interest, is particularly difficult to square with the facts. However much the Federal Reserve officials see themselves as operating in the general interest, the unrelenting lobbying by and dependence on the financial community in its fights against Congress and the president inevitably strongly influence the way the Federal Reserve “views” the public interest. The
evidence we will present on the New York Federal Reserve’s position on the level of interest rates and reserve requirements, and the high correlation between key bankers’ positions and the ultimate course followed by the Federal Reserve, seems clear.

The “political business cycle” theory, which argues that the Federal Reserve simply makes the policy desired by the president, fares no better (Nordhaus, 1975; Beck, 1982a, 1982b, 1984, Havrilesky, 1986). President Truman fought the Federal Reserve until he was forced to change his position to match the Federal Reserve’s. Seeing their identical positions, an outside observer might think that the Federal Reserve bowed to the president’s will, but would, of course, be quite mistaken.

Equally mistaken is the “bureaucratic” view of the Federal Reserve, which argues that the Federal Reserve makes policy simply in its own narrow interests, independently of the desires of any groups in civil society (Willet 1989; Toma 1982; Shuggart and Tollison 1983).

The history of the Accord shows that the essential problem with the bureaucratic theory is that the Federal Reserve System is too dependent on political support from bankers and too permeable to their influence to ignore their wishes in the long run and still retain bureaucratic power. A related criticism applies to the currently fashionable view that central bank independence is a way to achieve socially preferable monetary policy by overcoming “time-inconsistency” problems of democratic decision making (Kydland and Prescott 1977; Barro and Gordon 1983; Cukierman 1992). As the evidence suggests, independent central banks are not truly independent of all groups in society. Central bank independence makes central banks more independent of some groups—for example, labor—while making central banks less independent of other groups, in this case, the financial community. The “time-inconsistency” problems of democratic decision making, to the extent that they exist, are simply replaced with “democracy-incompatibility” problems.

Finally, the theory of the Federal Reserve as scapegoat, which argues that the Federal Reserve carries out the unpopular policies of both the president and Congress for which they do not want to have to take responsibility, was not evident during the Accord (Kane, 1980). Far from being the scapegoat, the Federal Reserve’s policy went counter to the strongly held wishes of the president, as well as of many in Congress. The Federal Reserve won the battle; it did not lie down and play the fall guy.
Rather, the Accord illustrates how monetary policy is a contested terrain, where different groups vie for control. Finance is particularly well positioned to affect central bank policy because of the economic benefits the central bank, as a financial market regulator and as a controller of the rate of interest, can offer finance, and because of the political support finance can offer the central bank. (See Epstein 1982.) In the fight over the Accord, the large banks played a critical role: they were the most consistent supporters of Federal Reserve independence, as well as the constituency from which the Federal Reserve solicited support. When industry and finance shared broad interests, the central bank extended its policies toward industry as well. Labor, however, tended to find the central bank relatively impervious to its influence. Its only avenue to affect the central bank policy was through its influence with other government agencies. Central bank independence closes off those avenues of influence (Epstein and Schor 1986, 1988, 1990a, 1990b).

In supporting our "contested-terrain" theory of central banking, we make extensive use of archival evidence. We believe this material adds extremely important information about the political economy of central bank policy. Examining letters, entries in logs, and minutes allows us to discern the goals of central bankers, government officials, and private actors, and to piece together their role in forming monetary policy. In combination with statistical analysis and modelling, archival work greatly enhances our ability to test alternative theories of monetary policy, in contrast to much of the mainstream literature, which relies almost exclusively on aggregate statistical analysis and anecdotal evidence.[11]

In the next few sections, we present a description and analysis of the events leading up to the Accord. Making extensive use of archival material, we focus on the interaction among private groups and Federal Reserve and government officials so as to understand the interests that were at play in the ultimate decision.[12] In the concluding section, we discuss the implications of the history for the prospects of creating more democratic structures of monetary management in the United States.

2 The Setting

Wartime credit policy stemmed from the Federal Reserve's statement, issued immediately after Pearl Harbor, that it would use its
powers to assure an ample supply of funds at all times for financing the war effort. The Fed also stated that it would exert its influence toward maintaining conditions in the U.S. government securities market that would be satisfactory from the standpoint of the government’s requirements. After considerable discussion between the Federal Reserve and Treasury, “agreement was reached in March 1942 that the Federal Reserve System, acting through the Federal Open Market Committee, would maintain a curve or pattern of rates ranging from 3/8 of 1 percent for 90 day Treasury bills, to 2 1/2 percent for the longest maturities of Treasury bonds. This represented some increase in short-term rates . . .” (ibid).

Originally, the Treasury had wanted a lower pattern of rates. But the Federal Reserve fought for and won a higher short-term rate. Sproul had wanted a 3 percent rate on the long end but a compromise was reached on the 2 1/2 percent rate. Sproul had argued that the pattern should be fair to the market in that, while we may have the power to finance the war at whatever rate we might want to dictate, it is deemed desirable to help preserve our banking system and our institutional investors.

However, not everyone agreed. As Paul Samuelson commented at the end of the war: “It was a 2 percent war. It should have been a 1 percent war.” (Samuelson 1945, p. 27) Later Sproul explained: “. . . the 2 1/2 percent rate . . . steers a middle course between the danger of a substantial decline of prices of outstanding securities on the one hand, and the danger of starving investors and investing institutions on the other.”

The policy of maintaining a particular rate structure for interest rates had serious implications for the conduct of monetary policy. It was Sproul who recognized that this “two-pronged policy of (a) providing banks with sufficient reserves to enable them to act as residual buyers of Government securities; (b) maintaining stability, or a “pattern” of rates in the government security market—largely robbed the System of the initiative with respect to the supply of credit.”

After the war, Sproul and others pushed the Federal Reserve to regain that initiative. Clearly, more than slight changes in interest rates were at stake. Randolph Burgess, chairman of National City Bank, posed the problem this way:

This, as you know, has been a battleground in which the commercial banks, and to a considerable extent the Federal Reserve
Banks, have been pressing on the (Federal Reserve) Board and on the Treasury the need for a firmer monetary policy and the dangers of pouring out the resources of the Federal Reserve System to support the government security market . . . Looking at the whole matter broadly, the basic difficulty is that over a period of years the Federal Reserve has been getting more political. It started out as ‘The Supreme Court of Finance,’ but the appointments have deteriorated and the Board has become an arm of the administration . . . As a consequence, the Board has lost its independence and freedom of action which was contemplated by the Federal Reserve Act. It has, therefore, gone along on policies of making money cheap for the Treasury under New Deal theories about cheap money, and the present inflation is partly a consequence of that broad trend.[18]

Burgess’s solution was to constrain the Federal Reserve from making independent policy. Yet ultimately, important members of the financial community sought and achieved a different solution—to restore Federal Reserve independence from “political” control, and expand its freedom to make flexible monetary policy. Letters and other archival materials document the central role played by members of the financial community and other business leaders in pushing for Federal Reserve independence.

Among these, perhaps the most important was Russell C. Leffingwell, chairman of J. P. Morgan and Co., whom Federal Reserve Chair Thomas McCabe referred to as the “dean of the financial community.”[19] Leffingwell might not have been representative of the banking community as a whole, but his views are important not only because they represent the concerns of an influential wing of that community, but also because, partly through his access to and persistent lobbying at many levels inside and outside government, his views appear to have had a major impact on the outcome.

Leffingwell’s correspondence reveals that he belies the simple populist characterization of bankers as single mindedly anti-inflationary, consistently favoring high interest rates and dear money. The reality is much closer to Ferguson’s characterization of “multinational liberalism” (Ferguson, 1984), which describes the postwar “hegemonic bloc” of multinational industrial and financial firms. This bloc supported “conservative Keynesian” policies that maintained sufficient aggregate demand to maintain profitability and resist radical chal-
lenges to capitalism, while, resisting government intervention which would interfere with the profitability or prerogatives of capitalists. (Also, see Collins 1981.)

Leffingwell had a consistent commitment to two ideas on monetary policy: First, it should neither be inflationary nor deflationary.[20] Defying the common perception many have of bankers, Leffingwell thought very highly of Keynes, even to the point of supporting counter-cyclical monetary policy at critical junctures.[21]

Of course, one should not overemphasize Leffingwell’s commitment to “Keynesian” policy. Leffingwell was, after all, a banker. “Love of money,” says Leffingwell,

is the root of all evil, morally speaking. Inflation is the root of all evil, economically speaking. And too much money is the cause of inflation . . . The more money the Federal Reserve creates to buy government bonds or whatever, . . . the higher prices will be . . . ; and the less will our money and our bonds be worth.[22]

If Leffingwell’s first principle was that monetary policy should walk a thin line between inflation and deflation, his second principle was that the Federal Reserve should use changes in interest rates rather than increases in reserve requirements to tighten policy. He wrote:

. . . (large) increase(s) in reserve requirements . . . destroy the earning power and in the end the solvency and lending capacity of the member banks. It is easy to see that if the inflationary policy of buying up the public debt is again resorted to by the Federal Reserve, and the complementary policy of taking over the assets of the member banks is pursued in [the] future, these policies may easily threaten the solvency and indeed the very existence of the private banking system of the United States.[23]

Leffingwell pushed strongly for a greater reliance on interest rate variations for managing the economy because the alternative—increases in reserve requirements and other quantitative controls—would be more detrimental for the profitability and prerogatives of banks.[24] This conflict between flexible market oriented monetary policy and quantitative controls would ultimately be the crux of the battle over the postwar monetary and credit system.
3 First Steps toward Independence

Ironically, the first major confrontation in the battle for Federal Reserve independence was to free policy to fight deflation, not inflation. And it was not fought over the opposition of corporate leaders, but under pressure from them.

In the Spring of 1947, Leffingwell voiced fears of a coming depression.[25] In a letter to Lewis Brown, chairman of Johns-Manville Corporation and a member of the New York Federal Reserve Board of Directors, Leffingwell warned that excessively restrictive policy could

... precipitate a depression here (which) would aggravate world chaos and play into the hands of the Russians.[26]

Despite Leffingwell’s exhortations for gentleness, the board of governors of the Federal Reserve, under Eccles’s chairmanship, raised reserve requirements in 1948.

In the fall of 1948, Leffingwell published an article in Fortune magazine in which he criticized the “par pegging and reserve lifting policies” of the Federal Reserve and called for a reassertion of their control over monetary policy. Leffingwell’s position appears to have had widespread support within the financial community, drawing a number of favorable letters in response from both bankers and life insurance executives. However, the non-financial business community was less enthusiastic, judging from the negative response of Beardsley Ruml, chairman of Macy Corporation and a leading member of the influential business organization, Committee of Economic Development.[27]

In 1948, Truman abruptly informed Marriner Eccles, who had raised the ire of bankers by his “reserve requirement lifting” and “interest pegging” policies, that he would not be reappointed as chairman of the Federal Reserve. Eccles stayed on as a member of the board and became a staunch supporter of independence.[28] Truman appointed Thomas McCabe, president of Scott Paper company, as Chairman of the Federal Reserve. Initially, it appeared that McCabe would continue to follow the same policies as Eccles had, and would not be a faithful ally in the fight for Federal Reserve Independence.[29]

But correspondence between Leffingwell and McCabe over several years show that McCabe was eventually won over to Leffingwell’s
opinion. When McCabe became chair, Leffingwell sent him an unsolicited letter filled with Leffingwell’s by-now-standard position on “the controversy.” By the summer and fall of 1949 McCabe wrote Leffingwell soliciting his advice on testimony before congressional committees.[30] In April of 1950, Leffingwell wrote Lewis Brown that “Mr. McCabe... has more sense in a minute than Eccles in a lifetime,” but not to let up the pressure on him.[31] This persistent attention seemed to work. By the critical fall of 1950, McCabe wrote Leffingwell asking him for advice on how to negotiate the Federal Reserve’s independence from the Treasury saying, “I would like to feel that if you thought I was moving seriously in the wrong direction you would let me know.”[32] McCabe had finally come around.

In the Spring of 1949, many business leaders were concerned about the possibility of a serious business downturn.[33] (See Table 1.)

### Table 1

**Economic Indicators, 1946–1954**

<table>
<thead>
<tr>
<th>Year</th>
<th>GNP</th>
<th>Inflation</th>
<th>Unemployment</th>
<th>Gold Stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946</td>
<td>-19.0</td>
<td>8.3</td>
<td></td>
<td>20.529</td>
</tr>
<tr>
<td>1947</td>
<td>-2.8</td>
<td>14.4</td>
<td></td>
<td>22.754</td>
</tr>
<tr>
<td>1948</td>
<td>3.9</td>
<td>8.1</td>
<td>3.6</td>
<td>24.244</td>
</tr>
<tr>
<td>1949</td>
<td>0.0</td>
<td>-1.2</td>
<td>5.9</td>
<td>24.427</td>
</tr>
<tr>
<td>1950</td>
<td>8.5</td>
<td>1.3</td>
<td>5.3</td>
<td>22.706</td>
</tr>
<tr>
<td>1951</td>
<td>10.3</td>
<td>7.9</td>
<td>3.3</td>
<td>22.695</td>
</tr>
<tr>
<td>1952</td>
<td>3.9</td>
<td>1.9</td>
<td>3.0</td>
<td>23.187</td>
</tr>
<tr>
<td>1953</td>
<td>4.0</td>
<td>0.8</td>
<td>2.9</td>
<td>22.030</td>
</tr>
<tr>
<td>1954</td>
<td>-1.3</td>
<td>0.7</td>
<td>5.5</td>
<td>21.713</td>
</tr>
</tbody>
</table>


But Sproul was more cautious. Sproul did not believe that the economy was faced with an imminent depression.[34] Moreover, Sproul and the New York Bank had a second concern. They did not want to be locked into a lower rate pattern forever. They knew that the Treasury would more easily agree to a lowering of rates than to a subsequent raising of them.
However, Leffingwell's prodding did not fall on deaf ears. Several days after Leffingwell spoke with Sproul and McCabe about monetary policy at a Federal Reserve lunch, the Federal Open Market Committee released a statement to the effect that it would be increasing the supply of funds, and allowing interest rates to fall off the peg (Stein 1969, p. 257). The Federal Reserve took the incident seriously. Testifying about it before the Douglas subcommittee, Sproul said, "I regard June 28, 1949, as a most important date. It signified removal of the strait-jacket in which monetary policy had been operating for nearly a decade; that is, since the beginning of the war." (Ibid.)

However, the Treasury did not see the Federal Reserve's actions of June 28, 1949, as a declaration of independence. Soon the Federal Reserve and Treasury were back to their old fight. The first step in the Fed's break with pegging was during a deflation and under strong pressure from at least some members of the business and financial community. Sproul acted without enthusiasm. At the same time he used it as an opportunity to break free of the Treasury's grip at a time of falling interest rates. This step involved most of the elements we will see again and again as Federal Reserve policy: bureaucratic maneuver and response to pressure from important private groups. It shows that it is necessary to be wary of simplistic arguments that suggest that bankers always pressure the Federal Reserve for tighter policy. Yet the events that followed show how bankers got that reputation.

In early December of 1949 the issue of Treasury–Federal Reserve relations had come to the fore in congressional hearings held by the Douglas subcommittee. The recommendation of the subcommittee was clear and strong in support of independence (Stein 1969, p. 260). Chaired by Rep. Paul Douglas, Democrat of Illinois, the subcommittee's support gave the Federal Reserve renewed confidence that it had strong allies in Congress, but all would not be smooth sailing. One member of the subcommittee, Rep. Wright Patman, believed "these proposals do not make the Federal Reserve System sufficiently responsible to the Executive department." (Stein 1969, p. 260) And the whole of the Joint Economic Committee decided not to endorse the Douglas report but to hold its own hearings to be chaired by Patman. With Patman as chair, neither the Administration nor the Federal Reserve could be assured of support in the Congress.
4 The Outbreak of the Korean War

Throughout the next year, the Federal Reserve and the Treasury fought over debt-management policies and the determination of short-term interest rates. But it was the outbreak of the Korean War on June 25, 1950 that brought the conflict to a head. Whereas the budget had been balanced or in surplus for most of the postwar period, and periods of inflation were punctuated by recession, the war raised the prospects of large budget deficits and soaring inflation (Table 1). On the one hand, this called for restrictive monetary policy. On the other hand, the Korean War was a war. And, as in the Second World War, the Federal Reserve was called on to subordinate its other concerns to the war effort. Treasury Secretary Snyder made it clear that he expected the Federal Reserve to support the Treasury by keeping the long-term rate pegged at 2 1/2 percent.

The Fed itself was not immediately sure what to do. Having achieved freedom on short-term rates, and feeling that it had made a declaration of independence on June 28, 1949, it was reluctant to put itself in the straightjacket once again. It also became increasingly concerned about inflationary pressures and wanted to increase interest rates. At the same time, the Truman Administration came under strong pressure to control the growing inflationary pressures. (See Table 1.) Within the administration, Leon Keyserling and John D. Clark of the president’s Council of Economic Advisors became the leading advocates of using credit controls rather than increases in interest rates to control inflation. And along with Treasury Secretary Snyder, they were also the strongest opponents within the administration of Federal Reserve independence. To the extent that organized labor played a role, it supported the council’s position on controls.

Over the next eight months a major political struggle ensued. Before it was over, President Truman took a public stand against the Federal Reserve and in favor of John Snyder and the Treasury. Allen Sproul, Russell Leffingwell, and the New York Federal Reserve tirelessly mobilized finance and other business to support them in their struggle. In this contested terrain, the outcome would depend on their relative power.

The Council of Economic Advisors and the Role of Labor

The Council of Economic Advisors’ Leon Keyserling and John D. Clark were firm opponents of Federal Reserve independence. Roy
Blough, the third member, was much more supportive of the Federal Reserve and opposed to many of the more “Keynesian” positions of Keyserling and Clark.[35]

Keyserling and Clark thought macroeconomic policy should be directed toward maintaining full employment and maximal economic growth: “The Employment Act of 1946 has established a goal of maximum employment, production and purchasing power.” Every dictate of domestic and internal policy requires that we steadfastly pursue this goal.”[36] Moreover, Keyserling and Clark called on business to reduce prices and increase real wages since, “the economy must expand through rising levels of wages and other incomes . . .” (Ibid, p. 11).

On interest-rate policy, they attacked the Federal Reserve head on.

. . . the Council (has) indicated its strong belief in the eminent desirability of a cheap money policy. This serves as a stimulant to business, which is now needed, and even if we should again be faced with inflationary dangers, there are safer ways to counteract those dangers than through higher interest rates . . . Every policy of the Treasury, the Federal Reserve Board, and other Governmental agencies should be watched carefully and continuously in terms of this objective of maintaining the salutary effects of a cheap money policy and low interest rates.” (Ibid., p. 13)

With the outbreak of the Korean war, the council would still not support increases in interest rates. If necessary, they proposed, Truman could call for increases in reserve requirements or in the extreme, institute an Executive Order “prohibiting (a bank’s) making . . . a new loan which would increase the volume of loans of the bank or other institution.”[37] (Ibid.) Such increases and controls, of course, were anathema to bankers such as Leffingwell.

These calls for controls were consistent with the policies pursued by organized labor.[38] With the outbreak of the Korean war, labor also became extremely concerned with inflation. Blaming monopoly, they called for price, rent, and credit controls.[39] Interestingly, however, during the key periods of conflict between the Treasury and the Federal Reserve labor made virtually no mention of the Federal Reserve and the fight for independence.[40]

This lack of labor involvement in the fight over the Federal Reserve is striking. For example, in the two major postwar congres-
sional hearings over monetary policy, the Douglas hearings (1949) and the Patman hearings (1952), there was very little labor involvement. Of the thirty-five statements presented to the Douglas hearings, only two were from organized labor. In the supplemental volume in which the views of many were solicited, labor views are completely absent. The Patman hearings repeated and extended this pattern. Hence, organized labor appears to have been uninvolved in the struggle over monetary policy, partly as a result of lack of interest, partly by exclusion.

Thus labor was represented in the fight primarily only to the extent that its positions were similar to those of the two members of the council, Keyserling and Clark.[41] Understandably, the Federal Reserve was anxious to minimize the council’s, and therefore labor’s, influence over monetary and credit policy. More significantly, important business-oriented members of Treasury and the White House also attempted to block a role for the council and its more radical conception of Keynesian macroeconomic policy.

*Mobilizing Finance*

The fight intensified in August, 1950. Sproul and others at the Federal Reserve felt that time was of the essence. The Treasury would not have any new financing needs until the spring. It was important to act now to raise interest rates because it would be politically impossible to do so while a major Treasury funding was in process. Sproul’s strategy was to move on short-term interest rates while holding the politically sensitive long-term rate as long as he could, so as not to invite strong political opposition.[42]

The directors of the New York Federal Reserve voted an increase in the discount rate and had asked the Board for approval. At the mid-August meeting of the FOMC, Sproul, calling for approval and an increase in short-term rates, said, “[W]e have marched up the hill several times and then marched down again. This time I think we should act on the basis of our unwillingness to continue to supply reserves to the market . . .” (Stein 1969, p. 264). There was general agreement with this line (Stein 1969, p. 264). The Federal Reserve decided to raise short-term rates and the discount rate.

Snyder was furious. At Snyder’s urging, Truman sent McCabe a letter on August 25, 1950, in Maine where he was vacationing:

I think it imperative that at the earliest possible moment all opera-

standing United States Government securities sell at par. I want the situation maintained as it was when you and I had our conversation the other evening on the action to be taken by the Federal Reserve Board with regard to public credit.[43]

President Truman had now been formally drawn into the battle. Significantly, Truman was now issuing written directives to the Federal Reserve on monetary policy. McCabe, however, returned the president’s letter, saying “he did not want letter in his file for fear it would cause trouble,”[44] because he did not want Sproul, Eccles, and other members of the Federal Reserve to know that he had agreed to Truman’s requests. Moreover, he did not want the Federal Reserve to have to confront a formal monetary policy request from the president of the United States. But within six months, that was exactly what would happen.

The Federal Reserve was now clearly independent with respect to short-term rates. More important, the president had been brought into the fight. Now the key question was, Would the Federal Reserve allow the long-term rate to rise above 2 1/2 percent, the rate which Truman and Snyder were committed to defending? Who could marshal the most forces? (Stein 1969, p. 265). Sproul wrote: “In a showdown with Congress and the public odds may well be against us.”[45]

Among the most important forces to marshal were the bankers.[46] But banker support was mixed, which increasingly frustrated the Fed. Sproul tried to explain the lukewarm support of some bankers:

...For a number of years now, the bankers have been in control of the reserve situation, having unlimited access to reserves without penalty. We are trying to get back to a healthier situation in which the Federal Reserve System will have control of reserves.[47]

This quote illustrates the classic cartel problem facing the central bank in its relationship to commercial bankers. Banks pursuing profit-maximizing behavior in a competitive market individually prefer to have unlimited access to funds. Collectively, however, they can do better if their output is constrained. One way to limit their output is for the central bank to limit the availability of reserves. If such limitations also reduce unexpected inflation, the collective benefits of restriction are even higher.[48]

Moreover, many bankers simply distrusted the Federal Reserve because of the reserve requirement policies followed by the Federal
The Federal Reserve–Treasury Accord

Reserve Board under Eccles's chairmanship. Aware of this, Snyder cleverly attempted to win bankers' support by opposing giving the Federal Reserve Board more powers to raise reserve requirements.[49]

But the worsening inflation situation, and continued lobbying by Sproul, began to pay off (see Table 1). For example, Sproul's aide reported after a meeting with a group of bankers that they had apparently changed their minds and had given what was "practically a complete endorsement of the course we have been following."

The Controversy Explodes

On December 1, 1950 the controversy broke into the public arena once again with a story in the New York Herald Tribune: "There is again much stirring and questioning in the money market, owing to a new series of changes in the prices at which the Federal Reserve Open Market Committee pegs Treasury issues. Although the short rate is fairly stable at 1 1/2 percent for one-year obligations, long bonds are being permitted to sag." (Stein 1969, p. 268)

President Truman was upset by the article. Truman sent McCabe the article on December 4 with a note:

It seems to me that this situation is a very dangerous one and that the Federal Reserve Board should make it perfectly clear to the Open Market Committee and to the New York bankers that the peg is stabilized. I hope the Board will realize its responsibilities and not allow the bottom to drop from under our securities. If that happens that is exactly what Mr. Stalin wants.[51]

Why were Snyder and Truman so opposed to increases in long-term interest rates? Snyder was convinced that increases in interest rates would undermine the Treasury's ability to fund the Korean war. There were also undoubtedly bureaucratic prerogatives at stake. Truman's opposition to the Federal Reserve can be explained by a combination of a "populist" dislike for high interest rates and a fiscal conservatism that placed the highest priority on a balanced budget. High interest rates made it harder to balance the budget, given the large claims of the military.[52] Equally important, Truman was committed to the idea that monetary policy should be controlled by the president, not by an independent authority.[53]

Throughout the next two months, the fight intensified, with Sproul urging McCabe to let the rate on long-term bonds rise, and McCabe
insisting on trying to work things out with Snyder and Truman. Relations between McCabe and Snyder deteriorated and came to the breaking point in the middle of January, when Snyder made a public speech claiming that McCabe had promised to maintain the long-term rate, a promise that McCabe vehemently denied. Furious, with what he considered to be a “double-cross,” McCabe was now ready to move ahead.[54]

Meanwhile Treasury Secretary Snyder was trying to lobby bankers. However, support for the Treasury Department’s position had its limits as inflationary pressure increased and the only alternative became increasing controls on bank credit and possibly more radical measures.[55]

In an attempt to forestall a major break in the long-term rate and reassert his authority, the president invited the entire Federal Open Market Committee to meet with him at the White House on January 31, 1951. This had never happened before, nor has it since. In Stein’s view, “The meeting (with the president) was a masterpiece of deliberate misunderstanding. Neither party said what he really meant, yet each understood what the other meant but preferred to respond as if he didn’t and so left the other free to interpret the response as he wished.” (Stein 1969, p. 27)

The White House, trying to enforce its interpretation of the meeting, issued a press release at noon the next day saying the Fed had promised to “maintain the stability of Government securities as long as the emergency lasts” (Stein 1969, p. 273). Members of the Federal Reserve, of course, knew that they had given no such assurances. The Federal Reserve was stunned and angry.

At a solemn meeting of the FOMC, held on February 6-8, most members felt that the Federal Reserve should still pursue its policy of allowing the 2½ percent rate to rise if necessary. McCabe said:

Since the president’s letter had been released the weight of opinion in the financial press and with such groups as the Committee for Economic Development, the American Farm Bureau Federation and others seemed to support the general position taken by the Federal Open Market Committee.[56]

The support of the Committee for Economic Development was highly significant. The intervention of Truman had apparently intensified and rallied the support of the Fed’s allies.[57]

Meanwhile in Washington, concerned members of Congress were
trying to influence the proceedings. Senator Robertson asked McCabe and Sproul to come to his office to a meeting at which Senator Maybank was also present. Sproul reports:

... In view of the national emergency, the Senators said this is no time for feuding. It is no time for hearings either—enemies of the Federal Reserve system. They (Senators Maybank and Robertson) are our friends. Would the Open Market Committee be willing to talk with Snyder to see what could be worked out? We said yes—but no outsiders, no ex-officio bankers, as suggested by Secy.[58]

Then Chairman McCabe met with Senator O’Mahoney, chairman of the Joint Committee on the Economic Report, an opponent of the Federal Reserve, and a supporter of John D. Clark of the CEA. O’Mahoney described the dangers the Federal Reserve would face in Congress if it continued on its present course.[59]

These warnings evidently scared the Federal Reserve. As a result, it agreed to start a series of meetings with the Treasury, and, for the time being, refrain from raising long-term rates.[60]

Snyder decided to go into the hospital for surgery that week. Senators Maybank, Robertson, and O’Mahoney urged McCabe to hold the issue in abeyance for two weeks, until Snyder could come out of the hospital. They again referred to pressure from Patman and Capehart in Congress for hearings.

McCabe suggested to Sproul that they should wait, but that they should have someone at Treasury to negotiate with in the meantime. Snyder said William McChesney Martin (whom Truman would name Federal Reserve chair within a month) would be the chief negotiator. These secret negotiations between the staffs of the Federal Reserve and the Treasury ultimately led to the Accord announced on March 4.

5 The Accord: An Inside Entente

The Accord was an agreement between two branches of the financial family (Flash 1965, p. 84), the Federal Reserve and the Treasury, in an attempt to forestall outside interference from forces seen as more radical.[61] As the staff discussions continued between the Federal Reserve and the Treasury, these forces were moving to defeat the Federal Reserve and institute an alternative means of credit control that neither the Federal Reserve nor many within the Treasury Department wanted.
Most dramatic was a secret plan developed probably in the Treasury or by the Council of Economic Advisers and sent to President Truman. Under this plan, the president would take control of monetary policy on an emergency basis and would propose to Congress to alter the Federal Reserve’s charter to give the executive control over monetary policy.[62] Truman never issued such a proclamation. But Keyserling suggested that Truman threaten McCabe that he would ask Congress to change the Federal Reserve’s charter to strengthen the Administration’s control over monetary policy.[63]

In the meantime, alternative financial programs for stopping inflation were being developed in the White House. One plan called for emergency credit controls under the Emergency Banking of Act of 1933 to “curtail lending by member banks of the Federal Reserve System. These powers are vested in the Secretary of the Treasury subject to my approval . . . The program could be extended to institutions other than member banks if desired through application of powers provided by the Trading with the Enemy Act.”[64]

Meanwhile, negotiations between the Federal Reserve and Treasury staffs continued. One of the Fed’s concerns was the effect of increases in long-term interest rates on the value of banks’ and life insurance companies’ bond holdings. In a memo sent to Sproul on February 23, an aide estimated the losses banks might suffer if they had to sell long-term bonds before their maturity date. He concluded, “the effects on the banks generally would not be, in any sense, serious.”[65]

Negotiations began to bog down, and Sproul became pessimistic about reaching an agreement.[66] On February 23, negotiations with the Treasury completely broke down. The Federal Open Market Committee decided that if agreement with the Treasury could not be reached by 9:30 A.M. on February 26, they would simply go ahead with their program of allowing interest rates to rise without Treasury consent.[67]

Perhaps getting wind of the Fed’s plans, Truman unexpectedly and abruptly called McCabe the morning of February 26 to a meeting at the White House along with other economic officials—members of the Council of Economic Advisers, Charles E. Wilson, director of the Office of Defense Mobilization, Treasury Department officials, and the chairman of the Securities and Exchange Commission. This meeting preempted the Federal Reserve’s plans.[68]

Truman asked these officials to jointly develop a strategy to maintain confidence in the government security markets and to restrain private credit expansion. The memorandum asked them to explore
various methods of voluntary and involuntary quantitative controls, including increases in reserve requirements, though not ruling out interest-rate changes. The memorandum, probably drafted by the Council of Economic Advisers, asked the Federal Reserve not to change the interest-rate pattern while the study was underway.

Truman asked Charles E. Wilson, formerly head of General Electric and now head of the Office of Defense Mobilization, to coordinate the committee in Secretary Snyder’s absence. Wilson said that a report could be sent to the president within ten days to two weeks.[69] When Truman finished, Clark of the Council of Economic Advisers “spoke of what he considered would be the disastrous consequences of Federal Reserve policy to the whole economy and to the Government’s credit.”[70]

Stein writes, “This (meeting) was all marginal to the outcome, as the basic proposition had already been decided” (p. 276). However, nothing could be further from the truth. In fact, this February 26 meeting turned out to be the turning point. As Sproul wrote to Stevens,

This had all the earmarks of another delaying action, with the Council of Economic Advisers getting a larger finger in the pie. Its ideas about credit control run along the lines of direct control—telling the banks how much they can lend and for what purposes they can lend it.”[71]

Sproul and McCabe seemed stymied and outmaneuvered. Indeed, McCabe was so distressed by the outcome that he wrote out his letter of resignation.[72] Yet in just four days, before Wilson’s committee could even meet, much less issue a report, the Federal Reserve and the Treasury reached an agreement that essentially gave the Federal Reserve what it had long sought (Flash 1965, p. 84). How did the Federal Reserve snatch victory out of the jaws of apparent defeat?

According to Sproul, as a result of the Truman’s February 26 meeting, Martin and others at Treasury “evidently . . . had some second thoughts about” . . . the large role that the Council of Economic Advisors might play in developing a new program.[73] Treasury negotiators Foley and Martin requested further staff conferences for the next two days, February 27 and 28.[74] Moreover, Wilson was unenthusiastic about trying to develop a plan. To stall, he instead asked an outside consultant to write a report.

The issue for Martin and Foley was not a bureaucratic turf battle between themselves and the CEA. For after all, they were on the verge
of offering greater power to another bureaucracy, the Federal Reserve, at the Treasury's expense. The issue was, What would be the monetary structure of the postwar macroeconomic regime: government-controlled interest rates and credit controls to maintain full employment, or the perogatives of private finance embodied in the "market" determination of interest rates and credit, and the independent central bank's power to influence the level of interest rates, inflation and unemployment?

Sproul wrote, "... by February 28th the prospects of agreement were bright enough to warrant calling a meeting of the Federal Open Market Committee on Thursday, March 1st. After two days of meetings and discussion with the Treasury representatives (the Secretary has been in the hospital for the past two weeks and Bill Martin and Ed Bartelt [sic] ... shuttled back and forth between him and the Committee), we reached the agreement announced in the papers over the weekend."[75]

The momentous Federal Open Market Committee meeting was held March 1 and March 2, 1951. Martin was present. He concluded by saying, "That in essence is our proposition. It is offered in the most cooperative spirit and an earnest desire to get a united team of the Federal Reserve and the Treasury. I do not see any solution by Congress which will be satisfactory to everyone in the long run."[76]

On Sunday, March 4, the accord was announced. Its significance was not immediately clear to the general public, nor even to Sproul and other members of the Federal Reserve. But, by September Sproul was referring to March 4 as "Freedom Day."[77]

Keyserling and Clark of the Council knew they had been defeated. Keyserling later explained the defeat.

Nobody was more sincere and more earnest than Truman in opposing the great changeover in monetary policy represented by the Treasury-Federal Reserve Accord ... He was against it; he didn't believe in it ... but somehow it caved in ... The first evidence of it caving in was when Truman appointed ... Charlie Wilson as Chairman [of the February 26 committee] ... I should have been chairman ... well Charlie Wilson as chairman of that committee was a joke; ... naturally he was under the influence of the financial community and attached a great deal more weight to the views of the Federal Reserve System, and there was really a sellout of the Truman position.[78]

Indeed, unknown to Keyserling, as early as January, McCabe had
been cultivating contacts with General Electric's Wilson as a person who would support the Federal Reserve within the White House.[78]

Nor, according to Keyserling, was Truman without blame. "Now it would be very unfair to Truman to say that he sanctioned that sellout. He was certainly disappointed by it; he may even have been flabbergasted by the results; but to a small degree, at least, it was his default..." (Ibid., 143). "[Truman] was as strong as any president had ever been in recognizing the evils of the tight money rising interest rate policy of the so-called independent Federal Reserve Board" (Ibid. 47). But Truman had so many other difficulties and was weakened to the point that he could not fight it out both within his administration and in Congress, where he was faced by the strong opposition of Paul Douglas (Ibid. p. 47; Donovan, p. 330), and by an increasingly mobilized financial and business community. These mobilized forces brought pressure directly on Truman himself. For example, records show that the CED contacted Truman about the controversy, urging him to abandon the pegging of long-term rates.[80]

More significantly, at the critical period of late February when the "Accord" was being negotiated and the rug being pulled out from under Keyserling and Clark, the "dean of the financial community," and a Truman supporter, Russell Leffingwell, was strongly lobbying Truman. The records of this contact show an evolution in Truman's stance from strident opposition to resigned agreement.[81] At a half-hour meeting on February 27, while negotiations between the Federal Reserve and the Treasury were resumed, Leffingwell told Truman of his opposition to all the credit control methods Truman outlined in his February 26 directive, including of course, increasing reserve requirements. He then argued for moderate increases in interest rates. Bringing out the big guns, Leffingwell told the president:

One of the consequences of the inflationary monetary and banking policies . . . is the aggravation of the gold outflow. Our gold holdings must now be regarded as a war fund and should be conserved. The flight from the dollar which is now taking place in consequence of the fear of present inflationary monetary policies must be arrested, if for no other reason." (Ibid, p. 8) (emphasis added)[82]

Truman wrote at the bottom of a letter concerning the meeting, "Had an interview with him Feb. 27, '51. Was pleasant—but we did not
agree.”[83] But Truman was not in a position to completely ignore Leffingwell. On March 8, he wrote Leffingwell:

I have read very carefully your thoughtful letter of March 1st, summarizing the salient points of our conference . . . Both your letter and our talks together were most helpful. Happily the Secretary of the Treasury and the Chairman of the Board of Governors of the Federal Reserve System were able . . . to reach an agreement . . . It was indeed gratifying to me . . . and I feel that it will that it will go a long way in allaying some of the fears you expressed in your letter of March 1st.[84]

Truman appears to have concluded that given the increasingly unified business support in favor the Federal Reserve’s position, the erosion of support within the Treasury Department and elsewhere in his own administration, and his own troubles with Congress on many other significant issues, there was no longer any point in waging a costly battle that he could not win.

McCabe, in the meantime, wrote to Leffingwell: “I feel our recent accord with the Treasury embodies some of the things you have in mind.”[85]

6 Conclusion

More than any other single event, the Treasury–Federal Reserve Accord of March 4, 1951 established the structure for the monetary policy regime of the postwar period.[86] In that regime, an independent central bank would use changes in interest rates to control the economy.

This history contains lessons for theories of central banking. It shows that the Federal Reserve had a bureaucratic interest in independence and power, as the bureaucracy theorists suggest. But we can see that the central bank, and those who influenced and supported it, were after bigger game. They wanted independence from government demands to accommodate budget deficits so that they could conduct monetary policy for other ends: to maintain “adequate” real rates of return for rentiers, to support bank profits, and to help reduce the power of labor by preventing policy from being directed primarily toward maintaining full employment.

Moreover, this case study shows that the process of winning independence involved wooing a financial constituency—the natural ally of the central bank. But others in the business community were also
willing to lend a helping hand. The central bank actively attempted to garner and mold that support. Far from lying down and playing dead in front of the executive branch, or letting themselves be used as scapegoats, the central bank fought for genuine autonomy, and got help from private interests in doing so.

To be sure, there were important divisions both within the banking community and between banks and other businesses that made it difficult for the Federal Reserve to win the battle for independence. However, when it became clear that the alternative would be a very different form of monetary organization—a central bank under the control of the government, and a monetary system with large elements of credit controls directed toward maintaining full employment—broad segments of the business community united. They united in support of more Federal Reserve independence, partly for its own sake, but more broadly for its part in a "conservative Keynesian" policy structure. With labor unable or unwilling to take a strong stand, these leading sectors of the capitalist class won the fight for Federal Reserve independence.[87]

Yet however much big business united around the Accord, in the long run and during less chaotic times, the Federal Reserve tends to return to its natural constituency, finance. And what is in the interests of finance is not always in the interests of everyone else, even big business. Business came to have second thoughts about Federal Reserve power during the tight money period of the early 1980s.[88]

In addition to teaching lessons of history, our study of the Accord suggests lessons for financial reformers. First, this study raises doubts about a common criticism of proposals to democratize the Federal Reserve. This criticism says that if the goal is to create a democratized and healthy financial system, democratizing monetary policy is unimportant compared with restructuring and re-regulating the financial markets. However, our study of the Accord suggests that this is a false dichotomy. The battle over an independent central bank was wrapped up with the battle over the nature of the financial regime. While in principle the issue of central bank independence and financial market regulation might be separable, in practice, an independent central bank, wanting the power to make flexible monetary policy rarely supports strong quantitative regulations of the financial markets,[89] partly because of ideology and partly because it depends on support from private banks that oppose such restrictions. And, given the independent
bank's power, their opposition is a potent force against financial reform.

Second, the "inside entente" between the Federal Reserve and business-oriented elements within the Treasury Department should give pause to reformers who argue that the Federal Reserve should be made a bureau of the Treasury.[90] Forcing Congress to take more control over monetary policy is much more likely to result in progressive monetary policies than simply giving control to the other member of the government's financial family.

The Accord also makes clear, however, that as long as banking and business interests are well organized and willing to take an aggressive position, and those pushing for a more democratic, equitable structure are uninvolved and uninterested, there is little chance that the undemocratic and inefficient financial structures that now dominate our economy will ever be changed.

Yet, in the end, more than anything else, the monetary regime established during the Second World War, and the attempts to maintain and develop it in the postwar period, show that more-democratic alternatives to the current structure of monetary management and credit allocation are possible. And considering the problems created by the current monetary and financial regime, a more democratic system is well worth the fight.

Notes

1. The Treasury interpreted this to mean that the Federal Reserve would fix short-term interest rates while the Federal Reserve wanted to maintain some discretion over short rates. This remained a constant source of tension between the Treasury and the Fed. See more on this below.
4. Indeed, the fight for Federal Reserve Independence proved to be the peak of Sproul's and the New York Fed's influence. After William McChesney Martin became chair, the board of governors in Washington became the center of the system.
6. See Epstein and Schor (1986, 1990) for a discussion of these theories.
7. Sproul files, Federal Reserve Bank of New York, marked E/C 3/25/54-AS.
8. (N), 7/7/52.
10. See the references in Epstein and Schor (1986).
11. For examples of our complementary work using statistical and mathematical modelling, see for example, Epstein and Schor (1990b), Schor (1985) and Epstein (1991, 1994).
12. Stein (1969) presents an extensive and highly informative discussion of the Accord, though from a decidedly different point of view. Flash (1965) also contains important information, particularly on the role of the Council of Economic Advisers and the controversy. Also see Donovan (1982) and Kittl (1986). None of these present the extensive discussion of banker attitudes and their role in the Accord contained here.
13. See Sproul notes, "Shifts in Credit Policy," 12/12/45, in file marked "Background, 1943 through 1947," from which this paragraph is quoted (N).
14. The key to the 3 percent figure is probably found in a memo Sproul co-wrote weeks before the Accord was announced. "Yields on long term Government bonds have been at low levels in relation to the needs for investment income of large institutional investors such as life insurance companies and pension funds. The bulk of the outstanding liabilities of these institutions was entered into on the basis of contracts contemplating an average investment yield of around 3 percent..." Memo entitled, "The Effect on Government Bond Market of Discontinuance of Federal Reserve Purchases," Sproul files, dictated over the telephone by Mr. Woodlief Thomas, Feb. 19, 1951 and as amended by Sproul (N).
15. Memo in Sproul Files, dated December 18, 1941, from Sproul Files marked "Background, 1930-1942." (N) The other three reasons were that rates should be close to the existing rate, should be fair to the Treasury, and should not disrupt the market, so as to require special measures for support.
16. Memo titled "Treasury Financing," Sproul files, January 27, 1942. In short, they were concerned with balancing the interests of those investors with long-term illiquid investments who might lose more from the decline in security prices against those investors with liquid short-term investments who would lose more by keeping interest rates low. See Epstein and Ferguson (1984, 1991) for a discussion of the role the maturity of different banks' portfolios played in the Federal Reserve's open market operations of 1932.
17. Ibid.
18. Burgess to Leffingwell, October 7, 1948. Leffingwell papers (L), Series
I. Box 1, Folder 15, (I, 1, 15).

19. Leffingwell Papers (L), Series I, Box 6, Folder 120, (I, 6, 120), March 23, 1951. Conveniently, Leffingwell, who had been an advisor to the Treasury Department in the First World War, was a prolific correspondent and writer. His papers contain a wealth of information on the attitudes of bankers and others on political and economic matters.

20. “Between the wars our money was managed too much, and too roughly. Our country cannot endure another inflation like that of 1919 or 1929, nor another deflation like that of 1921 or 1932 or 1937 . . . . The policy I suggest is a middle-of-the-road policy, to stop inflating our money, but avoid deflating it. I urge our money managers to walk the middle path this time.” Leffingwell to Lewis Brown, April 12, 1950 (L; I, 1, 13). In his more abstract formulations, Leffingwell proposed a “neutral” monetary policy along Wicksellian lines, or perhaps in line with Keynes of the Treatise. Yet when it came to giving advice at particular junctures, Leffingwell proposed much more activist counter-cyclical policy. Memo to Lewis Brown, chairman of Johns-Manville Corporation, and member of the Board of Directors of the New York Federal Reserve, December 13, 1949. (L, I, 1, 13). See below for the postwar period. Leffingwell also supported expansionary open market operations in the early 1930s. See Epstein and Ferguson (1984).

21. “Keynes . . . was certainly one of the greatest men of our time, although very often mistaken. Cheap money was certainly a proper medicine for the great depression of the Thirties. As certainly it was precisely wrong for the post-war boom . . . When it came to economic theory he was brilliant, suggestive, stimulating, and turned his searchlight into many dark corners . . . .” Leffingwell to Alexander Sachs, February 19, 1952, (L, I, 7, 150). Of course, Leffingwell did not agree with everything Keynes wrote: “Keynes’ economic nationalism was a sad lapse . . . (still) He was an economic planner, but no Socialist.” Leffingwell to Alexander Sachs, February 27, 1952. Leffingwell was less enthusiastic about contemporary Keynesian economists. Writing to a Yale compatriot about a speech of Professor Lloyd G. Reynolds of the Yale economics department, Leffingwell comments: “Reynolds, frightened no doubt by young [William F.?] Buckley, is apologetic about Keynes, who is certainly the greatest economist of our time. Reynolds thinks that it is all right for the [Yale] boys to be reading Samuelson and Bowman and Bach, who are competent mediocrities. Instead the boys should be reading Adam Smith and Ricardo and Mill and Marshall and Keynes.” Leffingwell to C. D. Dickey, February 18, 1952 (L, I, 1, 30).


23. Memo to the Board of Directors of the New York Federal Reserve, op. cit., December 13, 1949. (L) Current proponents of 100 percent reserve requirements to stabilize the financial system (Tobin 1986) need beware
of the intensity of opposition they are likely to arouse in the banking community.

24. However, Leffingwell did not support large swings in interest rates. He insisted that the Federal Reserve must take some responsibility for smoothing out interest rate fluctuations in the presence of a large government debt. Thus, the Federal Reserve practice of "even keeling" in the 1950s has a dignified lineage. As an aside, this letter contains an interesting lesson on the relation between profits, politics and statistical categories. "...[S]ome way should be found for the New York and Chicago banks to tackle the problem... Sproul is on record in favor of eliminating the classification of banks on geographical ground. As long as New York and Chicago banks are classified separately from the rest of the banks of the country, the political Federal Reserve Board will squeeze the lights out of them (with reserve requirement increases) whenever it suits the board." Ibid. And, with the strong support of Sproul, the classification has now been eliminated. (Leffingwell to George Whitney, April 21, 1950 (L, I, 7, 171).

25. "...the hunger and cold, the slow starvation and despair of tens of millions of people in Europe and Asia; the troubles and disintegration of the British Empire: these are some of the evil things abroad which are part of the background in which our fiscal and monetary policy must operate. To these must be added the spread of socialism all over Europe .... Just as monetary policy must in wartime be subordinate to the exigencies of war, so now, I am sure you will agree, fiscal and monetary policy cannot wisely disregard the troubles which are so gravely undermining the economic, social and political health and life of the world." Leffingwell to Sproul, May 23, 1947(N). Further evidence is found in Leffingwell to Sproul, May 9, and Sproul to Leffingwell, May 19, all in the New York Federal Reserve Archives (N).

26. Leffingwell to Lewis H. Brown, Esq., December 16, 1947. (L I,1,5)

27. Leffingwell to Winthrop Aldrich, October 8, 1948, (L I, 1, 1). See for example, Winthrop Aldrich to Leffingwell, October 5, 1948, (L I, 1, 1); from Frank Altschul to Leffingwell, (L, I, 1, 1); and Burgess. op. cit. Rumr to Leffingwell, February, 27, 1948. L, (I, 7, 148). Sherwin C. Badger of New England Mutual bemoaned the low interest rates prevailing on long-term government bonds: "The yield was inadequate to meet the earnings requirements, so far as I know, of every single life insurance company in the country...If the price should decline say to 96 or 97, however, the yield would cover the interest earnings requirements of most life companies... In the meantime it seems to me unfortunate that there should be any controversy between the banks and the life insurance companies as to who is the greater culprit in fostering inflation...Surely the responsibility... lies... with the Treasury and Federal Reserve." Badger to Leffingwell, October 15, 1948. L (I, 1, 6).
Insurance company executives were quite active in lobbying both the Federal Reserve and the Treasury for higher interest rates during this period, as evidenced by numerous letters found both at the New York Fed and in the Truman papers.

28. This became a matter of great controversy with Eccles claiming that he was removed because of his long fight with the Giannini banking interest of California over bank supervisory issues. The Gianninis were leading Democrats and friends of Snyder (Stein, p. 254).

29. Leffingwell writes in June, 1949, "McCabe's letter . . . shows that he has simply absorbed lock, stock, and barrel the doctrine that the board (a) must peg the price of government bonds, (b) must counteract its inflationary course . . . by sterilizing the assets of the member banks, and (c) must abandon the use of the discount rate and open market policy." Leffingwell to C. D. Dickey, June 1, 1949 L, I, 1, 30).

30. McCabe to Leffingwell, July 20, 1949 and November 7, 1949. (L, I, 6, 120)

31. Leffingwell to Brown, April 27, 1950. (L, I, 1, 13)

32. McCabe to Leffingwell, October 17, 1950. (L, I, 6, 120.)

33. See letter from Lewis Brown, Chairman of the Board of Johns-Mansville, and member of the New York Federal Reserve Board of Directors, dated March 28, 1949 (N).


35. See Flash (1965) for a discussion of the CEA during this period. Flash shows that because Blough was seen as an ally of the conservatives, unlike Keyserling and Clark, he was kept abreast of the secret Federal Reserve—Treasury negotiations begun in February, 1950.


38. This section draws heavily on the excellent research contained in Clarke (1983). During this period, the CEA's positions were often reported on and, at least implicitly, endorsed in CIO's publications.

39. See, for example, "Inflation Can—Must—Be Halted," Economic Outlook, CIO Department of Education and Research.

40. By May 1953, the CIO's Economic Outlook attempted to remedy labor's lack of involvement in the issue. In an article titled "Higher Interest Rates Help Banks, Hit You," the Department of Education and Research
acknowledged, "Most Americans have been content to relegate" issues of interest rates and credit "... to the financial community ..." They go on to say, "it has become clear that decisions made in the remote chambers of American finance are of concern to all the people, not just a mere handful." (p. 1) The article contains an extremely perceptive analysis of the role of the Federal Reserve–Treasury Accord and of private financial interests in its creation. "The new 'hard money' policies of the Eisenhower Administration are, in truth, only the high mark of a struggle which has been carried on by the dominant banking interests for several years. The first important victories of the banking community, led by the Federal Reserve Board ... occurred back in 1951 when ... Terrific pressures by the financial community led to the famous accord ...," pp. 34, 36. The article then proposes credit and production controls rather than increases in interest rates which, they argued, only increased profits for large banks (pp. 37, 38). Also see CIO, *Federal Reserve Policy and the Control of Inflation in a Defense Emergency*. By May, 1953, however, the damage had already been done.

41. For further evidence on the coincidence of these views, see the statement of Donald E. Montgomery, director of the Washington Office of the UAW-CIO, in the Patman Hearings, "Monetary Policy and Management of the Public Debt," in which Montgomery criticizes the Treasury–Federal Reserve Accord, arguing that the Federal Reserve Board should "be a part of our Government, rather than a Government apart" (p. 818). Furthermore, Montgomery supports controls to limit bank lending, and increases in reserve requirements (ibid, pp. 818-822).

42. Sproul notes, E/C-FOMC-9/27/50,(N).
43. (T), President’s secretary’s file.
44. Note from Rose A.C., Truman’s secretary, 9/1/50. (T) President’s secretary’s file.
45. Sproul’s notes to himself, August 24, 1950 (N).
46. Sproul notes for FOMC, August 31, 1950 (N).
47. Sproul, notes on FOMC, October 10, 1950 (N).
48. See Dickens (1990), for an interesting discussion of this point in the context of US monetary policy of the middle and late Sixties. The support some bankers gave to the Treasury may reflect the standard suspicion of banks outside of New York to anything considered to be New York’s view. Snyder himself had been a small town banker and encouraged this view. Moreover, there may have been sound economic reasons for New York to be more vociferous in its demand for higher interest rates than other banks. An examination of bond portfolios of different groups of banks shows that New York had a smaller percentage of the longest term government bonds than did all banks on average, country banks and banks from Chicago in particular. The ratio of bonds with greater than a ten-year maturity to total government bonds was 5.6
percent for large New York banks, 9.8 percent for country banks, 12.2 percent for large Chicago banks, and 9.0 percent for all member banks. See the memo from Roelse to Sproul, February 23, 1951. As Samuelson (1945) pointed out in this context, increases in interest rates ought to help all banks as long as the duration of their liabilities is longer than the duration of their assets. In an era of regulated deposit interest rates and low mobility of funds, even banks with large percentages of long term bonds ought to have benefitted in the long run from an interest rate increase. Indeed, the main point of Samuelson’s article was to show that banks would benefit from higher interest rates and that their concern about capital values was just a ruse to make the public think that they wanted lower rates. In the short run, however, those banks’ stockholders may have been concerned about short-term losses especially if there was a concern that bank regulators would force them to write down their assets on their balance sheets.

49. See the memorandum from John Steelman to Robert Turner, January 5, 1948 (T), Official Files.

50. Roelse to Sproul, November 1, 1950 (N).

51. FOMC, pp. 9-10 (N). According to McCabe, he called him at home. As McCabe later reported this conversation to the Open Market Committee, “That article seemed to have upset the President very much. The President said that he hoped the Federal Reserve would ‘stick rigidly to the pegged rates on the longest bonds.’” (ibid) FOMC, 1951, p. 9 (N).

52. There is an oft-told story that Truman was concerned about long-term interest rates because, after the First World War, the value of long-term bonds he held dropped as long-term interest rates increased. (See Stein 1969.) This tale reflects Truman’s “populist” side but ignores his budget-balancing concern. Support for this view is found in Donovan (1982), passim.

53. See Keyserling’s oral history in the Truman Library, discussed below (T).

54. Many in the Federal Reserve, distrusting McCabe, believed he had in fact promised Snyder, thinking Snyder would keep the promise secret. See Roelse to Sproul, March 12, 1952 (N).

55. Randolph Burgess reported to Sproul on a meeting held between bankers and Snyder. “Dr. Burgess said . . . that the meeting was most amicable as the bankers had a chance to cool off after the Secretary’s Thursday speech . . . I said I thought it too bad the bankers had cooled off by the time they met the Secretary; . . . Dr. Burgess said he agreed but that he did not think there was anything to be gained at this time by a public fight. I said that this is probably so but that in private talks with the Secretary I thought the bankers could be more outspoken. The Secretary draws great support, I said, from what he believes to be the “amicable” attitude of the bankers and from the encouragement he thinks
he gets from organized banking in particular. Dr. Burgess said that he thought the Secretary is depending on a weak reed if he is depending on that support for his present program." Sproul to confidential files, January 23, 1951 (N).

56. FOMC, 1951, p. 48 (N).

57. Lewis Brown, chair of Johns-Manville and a director of the New York Federal Reserve sent the following letter to Robert T. Stevens, chairman of J. P. Stevens and chairman of the Board of Directors of the New York Federal Reserve: "...I think the problem of determination of basic policy will go to Congress and we should therefore prepare to present our case with the utmost vigor to Congress for their ultimate decision. ...Personally I am confident that Congress will support the principles on which the Federal Reserve was established." Brown to Stevens, February 5, 1951. A meeting of the board of directors of the New York Bank was held and it was decided to try to take action to give strong support to the Federal Reserve in its battle. Rounds to Sproul, February 8, 1951; Stevens to Sproul, February 8, 1951 (N).

58. Sproul's notes, February 7, 1951. "Senator O'Mahoney...spoke of the pressure for hearings by some of the members of his committee... I gathered that Senator O'Mahoney was interested in avoiding having to have hearings on the Treasury--Federal Reserve differences now, and wanted to impress on us both the nature of the crisis in which the country is gripped and the dangers to the System of a Congressional investigation." Sproul's notes, February 8, 1951 (N).

59. Sproul's notes show that at the first meeting between Snyder and McCabe, William McC. Martin was also at the meeting, a significant and first sign of Martin's appearance. Just a month later, Martin was designated the new chairman of the Federal Reserve. According to Flash, informal discussions between the members of the Treasury and the Federal Reserve had begun at least several weeks earlier. Martin, with Snyder's approval, initiated a discussion with Winfield Riefler, the Federal Reserve's top career economist and assistant to the chairman (Flash 1965, p. 81).

60. FOMC, 1951, p. 73 (N). The senator's warnings paralleled Leffingwell's to McCabe: "I hope that you will be able to persuade Mr. Snyder, and not engage in a knock-down and drag-out fight with him. Nobody will gain by such a fight, least of all the Federal Reserve. The Congress and the American people will not, in my judgement, submit to having the banking authorities manage the public debt. Shades of Alexander Hamilton and Andrew Jackson and the First Bank of the United States! And if by chance the Federal Reserve authorities should be given power to override the Secretary of the Treasury, and should take drastic action with drastic consequences, it might be the end of the Federal Reserve System.
It would become just a Treasury Bureau." Leffingwell to McCabe, October 18, 1950 (L, I, 6, 120).

61. This is Flash's term (Flash, 1965, pp. 76-85).

62. The proclamation read: "In this critical period of international disturbance, it is imperative that we have unified action on the entire defense front, including the financial front. I am, therefore, issuing today an Executive Order which requires that the Federal Reserve System's open market operations in Government securities be made with the approval of the President of the United States. I am at the same time making this statement public so that my reasons for issuing the Executive Order will be clear. When the Congress reconvenes, I shall suggest that it consider the advisability of enacting specific legislation incorporating this requirement." (Emphasis added.) Or perhaps, the plan was created by the Council of Economic Advisers. (T/President's Official File). Earlier versions are found in Treasury secretary's files in the Truman Library. There is some evidence that Beardsley Ruml might have known of this proclamation. This might have had scared Ruml and the CED into a more active stance in support of the Federal Reserve. See Sproul to Ruml, September 26, 1950 (N).

63. See Keyserling's proposed letter to McCabe, February 8, 1951 (T), Murphy Files. It is not clear whether the letter was ever sent.

64. President's secretary's file, "Memorandum for the Secretary of the Treasury and the Chairman of the Board of Governors of the Federal Reserve System," undated (T). This memorandum would serve as the basis for the Memorandum of the February 26 meeting, but with the credit controls proposal having much less emphasis. See below.

65. Roelse to Sproul, February 23, 1951 (N). Similarly, in a memo written by Sproul and Woodlief Thomas of the Board of Governors, the central bankers analyze the effects on insurance companies and other investors. Sproul files, February 19, 1951 (N). To some extent, of course, such concern is prudent considering the central banks' role in preserving the stability of the financial system. In the context of other statements expressing concern for the distributional aspects of policy as discussed above, however, one must also see these as representing a concern for income distribution.

66. "... after many such attempts I am dubious as to the outcome. It has the appearance of another delaying action. I am fearful that if we continue to delay putting into effect a positive policy, while seeking a compromise with the Treasury which in the end will not be forthcoming on acceptable terms, we shall confuse and perhaps lose our friends without placating our enemies." Sproul to Stevens (N).

67. Sproul to Stevens, March 5, 1951 (N).

68. It turns out Charles Wilson, former head of General Electric, did not
know ahead of time the purpose of the meeting. It seems likely, therefore, that it had been pushed by Snyder and Keyserling.


70. Sproul's notes for February 27, 1951 (N).

71. Sproul to Stevens, February 20, 1951 (N).

72. Truman's aide, Charles Murphy, asked McCabe to re-write the letter to take out the more strident language and did not forward the letter to Truman. McCabe officially submitted his resignation eleven days later.

73. Sproul to Stevens, March 5, 1951, (N). Indeed, Truman had sent a memorandum to Wilson prior to the February 26 meeting urging him to consult the council on matters of credit policy and war mobilization.

74. Sproul notes, Sproul file, erroneously dated February 27 (N).

75. Ibid.

76. FOMC, 1951, p. 127 (N).

77. See Sproul's notes on the Executive Committee Meeting of the FOMC, September 25, 1951 (N). By the beginning of the year, Snyder had lost his stomach for the battle as well. With regard to the provision of the Federal Reserve Act that gives the Secretary of the Treasury power over the Federal Reserve Board "whenever any power vested by Act ... in the Board of Governors ... appears to conflict with the powers of the Secretary of the Treasury," a Treasury Department lawyer conveyed to Murphy of the White House that "Snyder does not want to deny that he has the authority, and at the same time he does not want to claim it. The problem is that no one seems to be able to figure out just what these words mean. Therefore, they do not want to force the issue, one way or the other." Robert C. Turner to Charles S. Murphy, January 10, 1952, (T), Murphy papers.

78. Keyserling oral history, (T), pp. 142-43. Also see the discussion in Donovan which supports Keyserling's view of Wilson's role during this period as pushing the policies of the Truman administration toward business and away from labor, generating labor opposition to Wilson. Donovan (1982), pp. 325-27. Keyserling argues that Martin, also, "double crossed Truman." "Wilson as a hard-core businessman sided with Martin and I was lost in that situation. They ran away from Truman; they made the accord." Keyserling oral history, pp. 48-49 (T).

79. In notes to himself on January 19, 1951 Sproul writes: "Chairman McCabe reminded me that ... Wilson and the other man seemed to be in complete accord with us ... [He] said to me that [they] ... are completely cognizant of our position, agree with it and will put in an oar on our side." Sproul files, New York Federal Reserve, January 18-19, 1951 (T). One wonders who the other man is.

80. (T), Secretary's file.

81. On February 6, 1951, Leffingwell wrote Truman: "I am concerned by
your letter to Mr. McCabe, published in the *New York Times* Saturday, because I disagree with the Treasury's cheap money policy, and because I do not think the President should direct the Federal Reserve authorities." Leffingwell to Truman, February 6, 1951 (L, I, 7, 165). On February 10, Truman replied: "I am backing John Snyder to the limit. I appreciate your interest in this matter but it seems to me that an emergency is a very poor time for bankers to try to upset the financial apple cart of the Nation ... That seems to be what they want to do and if I can prevent it they are not going to do it." (L, I, 7, 165)

82. We know what Leffingwell told Truman because Leffingwell wrote Truman a letter several days later, on March 1, reiterating his position. There is some, though not overwhelming, evidence that the Federal Reserve was beginning to be concerned about gold losses at this time. Also see Table 1 (p. 19), which indicates that the U.S. gold stock had declined in 1949, but held steady in 1950.

83. Handwritten by Truman on the bottom of a letter from Leffingwell to Truman, February 23, 1951. (T), President's secretary's file.

84. Truman to Leffingwell, March 8, 1951. (T), Official File. Truman then had copies of Leffingwell's letter sent to members of the Wilson Committee for further consideration. Leffingwell sent Truman another letter on March 12: "I congratulate you most heartily ... In view of this I hope it will not turn out to be necessary to adopt further involuntary controls such as were suggested for study in the memorandum of February 26th. Certainly it would be most imprudent, and perhaps seriously deflationary, to increase bank reserve requirements or superimpose other new controls just when the higher interest rate has been offered and the Federal Reserve has withdrawn its support." Leffingwell to Truman, March 12, 1951 (T), Official File. To which Truman replied: "It is a pleasure to reiterate that I found your views as developed in our personal conference, and in your letter (of March 1) ... invaluable. It is reassuring to know that you feel that there is abundant evidence that all is working well, with such good prospects of the happy consummation which we both desire." Truman to Leffingwell, March 29, 1951.

85. McCabe to Leffingwell, March 19, 1951 (L, I, 6, 120). Leffingwell also sent a letter of congratulations to Senator Paul Douglas, "You have done so much to bring about an improvement in Treasury–Federal Reserve policy..." and again in March of 1952: "May I ... congratulate you upon the great service you have rendered and are rendering every day to our country in exposing the evil and the methods of monetary inflation." Douglas, replied in a handwritten note, "I am greatly touched by your letter. Your... opinions on this subject mean a lot to me." Douglas to Leffingwell, April 3, 1952 (Ibid).

86. The Accord was successful for the Federal Reserve in that it ushered in a new interest-rate regime. For evidence, see Shiller (1982).
87. This interpretation is consistent with Livingston’s view of the origin of the Federal Reserve as the result of a united capitalist corporate class (Livingston 1986). Livingston made his argument in response to the arguments of Wiebe and Kolko, who interpreted the origins of the Federal Reserve in terms of sectional banking interests rather than in terms of the large corporate capitalist class as a whole. Whatever the merits of Livingston’s argument for the 1990s, and we remain somewhat skeptical, they have some validity in the fight for the Accord. This interpretation is also consistent with Ferguson (1984).

88. Greider’s excellent book argues that the Federal Reserve is essentially dominated by finance. The history of the Accord, and other evidence suggests that while the Federal Reserve has this tendency, industrial capital can have significant influence at particular times.

89. For another example, see our study of the “divorce” of the Bank of Italy and the Italian treasury (Epstein and Schor 1989).

90. Leffingwell opposed the domination of the Treasury Department by the Federal Reserve and wrote Douglas in support of the Treasury’s autonomy immediately after the Accord. “I think . . . the two should fight it out together. The conception of a [Federal Reserve Board] of seven men, all bureaucrats, with fourteen-year terms, sitting up in their marble palace and ruling the economy of the United States . . . is completely hostile to the theory of our institutions.” Leffingwell to Carr, March 9, 1951. Leffingwell wanted multiple centers of power to reduce the chances that the and his fellow bankers would be excluded from influence, as long as those centers did not include radicals in the Administration or Congress.

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