6. Q. E. D.

THE FOREGOING chapters were sent to the publisher in September 1950. This postscript is being written during first part of March 1951. In the interval of five months a sudden turn of events has set off a chain reaction whose end is not in sight. In Korea we are heavily involved in a war with the Chinese Communists. In Europe we now mean to give muscular strength to the skeleton of the North Atlantic Alliance. Here at home we are accelerating a defense production program to provide for our own needs and help meet the needs of other free countries.

The cost of that program has yet to be determined. Let us hope that when the decision is made, it is directly related to our economic potential. I have emphasized this point before. Heretofore, when we mobilized our military strength for war and accepted the regimentation of our entire economy, we could still look forward to a return to "normalcy" when the war ended. We can hold no such hope under present world conditions. In the first place, we are not mobilizing for war; we are mobilizing to deter an enemy from starting a world war. In the second place, there is no termination for our defense preparedness program. It must continue as long as aggressive Communism threatens the peace of the world.

Under these circumstances, what we contribute to the common defense must be planned in relationship to what our economy is willing to pay for currently. The events of the last five months have not in any way changed this basic necessity. The limitation of our human and material resources still makes it imperative that we get the greatest possible benefits out of our technological superiority. Only by doing this can we maintain the strength of our position as the arsenal of democracy and thereby carry out our commitments to other free countries of the world while defending ourselves. We can help equip other free nations, including Japan and Germany, so that they can defend themselves against the Russian satellites. Together with the British Empire, we can rapidly build and maintain an air force and navy that will have unquestioned control of the air and the sea. I believe that this, plus our superiority in atomic and other new weapons, will be a sufficient deterrent to prevent any direct attack on the other free nations by Russian land forces. If not it will mean a global atomic war. But in rapidly carrying out and maintaining such a program we shall be greatly restricted in the size and use of our own land forces. Our manpower can contribute far more to the defense of the free world on the production lines and in the air force and navy than it can in the front lines of land armies in Asia and Europe.

Nor have recent events altered the fact that a sound domestic economy is of paramount importance in any adequate defense against Communist aggression. Our diplomats may be able to stave off a third world war. Our fighting men may be able to win such a war if it is forced on us. But whether we avoid the battlefield or triumph on it, we can still lose our domestic freedoms. The very system our defense program is designed to protect can be lost through a complete regimentation of our economy; a regimentation imposed in an effort to prevent the inevitable inflation from either war or a defense program that is beyond our resources or ability to pay for currently. The death toll of inflation in other nations was succinctly described by Senator Paul H. Douglas in the Senate on February 22, 1951, when he said:

> By wiping out the middle classes and separating society into two classes of the propertyless on the one hand and the rich speculators on the other [inflation] paved the way for fascism and communism on the continent of Europe. It is a destroyer almost as evil as war itself. In the eyes of those who want to destroy democracy and capitalistic institutions it is a cheap way of achieving their collapse.

It costs the enemy nothing in lives and treasure. It is really a supreme folly for a nation which is arming against the threat of invasion from without to let this invader, inflation, bring ruin from within.

Have we avoided this supreme folly? The answer is that we have not. In the five years between V-J day and Korea the repeated efforts the Federal Reserve made to deal with a prime source of inflation got nowhere. Within the Administration, the Treasury Department, with its chronic institutional bias toward cheap money, had the final say on monetary and credit policies. Within the Congress, the repeated requests made by the Reserve System for congressional recognition and support of its inflation-control program met with an inadequate and ineffective response. As these pages indicate, I favored a cheap-money policy during the depression, when millions were unemployed and facilities everywhere lay idle. As these pages further indicate, I reluctantly went along with a cheap-money policy during the war years when we faced the need to finance huge budgetary deficits. But there was no justification for such a policy in the period between V-J day and the present, when we had budgetary surpluses and lived under mounting inflationary pressures. There was no justification for the Treasury's insistence that the Federal Reserve System adhere to a policy of purchasing government securities at the will of the holders and at fixed prices. Such action did not assure confidence in the credit of the government. Instead, it fostered the unwarranted growth of bank reserves that fed the inflationary fires; and these fires slowly consumed the real purchasing power of the dollar. As the Reserve System has repeatedly noted, the credit of the government is determined by the willingness of the public to buy and hold government securities.

When, with this in mind, the Reserve System asked to be free of the Treasury's demand that it buy all securities offered it at fixed prices, this in no way implied a preference for higher interest rates, which would increase the income of all holders.

The Federal Reserve was not interested in higher interest rates as such. It is mischievous error to present the issue in these terms. We simply wanted to curb the sale of government securities to the Federal Reserve which add to the reserves and deposits of the banking system; to curb those sales by making the market more self-supporting and less dependent on Federal Reserve purchases. As Dr. E. A. Goldenweiser expressed the issue in the *Wall Street Journal* for February 2, 1951:

> . . . An anti-inflationary influence was not expected to be exerted by the rise in short-term rates but by the reduction in funds at the disposal of banks for lending or investing. If rates advanced as a result of the tightness, this would not be the object of policy, nor in itself a means of carrying it out. It would be an incidental result of general credit restriction. Whether desirable in themselves or not the advances in rates would be secondary in importance to the imperative need of restraining the flow of money into buyers' hands.

Furthermore, we at no time urged a completely free market that would be subject to manipulation by private interests. As I've said before, what we wanted was an *orderly* market in which the Federal Reserve maintained control, but where freedom of action would be permitted so as to reflect more nearly the real demand by private investors. Maintenance of an orderly market is not the same thing as maintaining a fixed pattern of rates irrespective of inflationary conditions. It should be remembered that continued support of government securities at fixed prices, of par or above, makes call money, or interest-bearing currency, out of the marketable public debt. If these conditions are to prevail, then the rest of governmental financial policy is illogical. Specifically, what justification is there for various issues of marketable government securities, with their wide variations of maturities and interest rates? Why should the government discriminate against holders of savings bonds by paying them less interest if they cash them prior to maturity, and at the same time see to it that the holders of marketable bonds are protected against loss of principle or interest if they sell them before maturity? Why should the so-called "marketable" bonds bear such a designation if prices are not permitted in any degree to reflect market demand?

Questions of this sort met a uniform answer from the Treasury. It cited its paramount need to keep interest rates low and thereby reduce the cost of managing the public debt. If this policy was not justified in the period between V-J day and the Korean war, there was far less justification for it in the months following our involvement in that war. In the period between June 1950 and February 1951 the cost of living rose 7 per cent; wholesale prices, 17 per cent; wholesale prices of farm products, 22 per cent; textile products, 32 per cent; basic raw materials, 50 per cent. These increases were not caused by the production of armament. Thus far, armament production has been small in volume. Neither were they caused by an excess of government spending over receipts. During the second six months of 1950, when prices shot upward, the federal government's receipts exceeded its expenditures by almost $2 billion. To this degree the government's fiscal policies have been a deflationary and not an inflationary force. In fact, increasing congressional support for a vigorous fiscal policy, calling for sharp reductions in nondefense expenditures and a pay-as-you-go tax program, is one of the few hopeful events at the present time.

The price increases in the last seven months of 1950 were due to two interrelated factors. First, there was an increase in the use of the existing excessive supply of money. Second, this existing supply was greatly expanded by an abnormal and rapid growth in bank credit made possible by the Federal Reserve supporting the government security market on the basis of the Treasury's cheap-money policy. Specifically, Reserve System purchases of government securities from nonbank as well as bank investors in this seven-month period created reserves that enabled the banking system to expand its loans and investments by 20 per cent, or about $10 billion, and brought on an estimated 8-per-cent increase in the money supply in the form of deposits.

The significance of this process was not lost on the general public. The resistance of the Reserve System to the Treasury requirement that it support government securities at prevailing fixed prices at last won outside interest and aid. There was a growing awareness that the government was not selling new security issues, nor was it engaged in deficit financing. The budget, instead, showed a surplus for the past year. Yet the volume of money and credit grew sharply. An increasing number of people understood, furthermore, that the growth was directly attributable to the fact that those who held marketable government securities (as distinguished from savings bonds) could readily convert them into money, and in most cases at premium prices. This was made possible by the support policy.

What I've just described was the background for an extraordinary event in the history of relations between the Treasury and the Federal Reserve. At a luncheon meeting of the New York Board of Trade on January 18, 1951, Secretary of the Treasury Snyder announced a policy of debt management for the duration of the emergency. Its manifest purpose was to freeze the existing pattern of rates. The Secretary said:

> In the firm belief, after long consideration, that the 2½ per cent long-term rate is fair and equitable to the investor, and that market stability is essential, the Treasury Department has concluded, after joint conferences with President Truman and Chairman McCabe of the Federal Reserve Board, that the refunding of new money issues will be financed within the pattern of that rate.

The announcement came as a special shock to the Federal Reserve System. But it also was a shock to the investment and money market. It gave the impression that Chairman McCabe, and hence the entire Federal Reserve, had agreed to the announced policy. I understand that McCabe neither agreed nor knew that the speech was going to be made. In any case, he could not speak for the other eleven members of the Federal Open Market Committee, who are responsible only to Congress for carrying out their statutory responsibility. Four days after the Snyder announcement, Edward H. Collins, the leading and able financial writer for the *New York Times* began what was to be an increasing public protest. "All that Mr. Snyder has proved," Collins wrote, "would seem to be that he is still top dog at the White House. But this was enough to convince him that he has been right all along, and all this nonsense about short-term money rates and their application to inflation was just so much high falutin book talk, important only for purposes of theoretical debate by central banking authorities."

Collins continued:

> More shocking, fundamentally, than this absurd dictum, however, was the simple fact of what seemed to be the Secretary's mission. Central banks in their general policies may from time to time make concessions to the temporary needs of the Exchequer, but when and if they do they announce the fact themselves. In the opinion of this writer, last Thursday constituted the first occasion in history on which the head of the Exchequer of a great nation had either the effrontery or the ineptitude, or both, to deliver a public address in which he has so far usurped the function of the central bank as to tell the country what kind of monetary policy it was going to be subjected to. For the moment at least, the fact that the policy enunciated by Mr. Snyder was, as usual, thoroughly unsound and inflationary, was overshadowed by the historic dimensions of this impertinence.

While criticisms of this sort were being re-echoed throughout newspapers of the nation as well as by economists generally, the Federal Reserve officially observed a discreet silence. However, Allan Sproul, President of the New York Federal Reserve Bank, and the ablest man in the System, replied by indirection to Snyder in the course of a speech before the New York State Banking Association on January 22. Reading between guarded lines, the press correctly interpreted Sproul's remarks as a challenge to Snyder's views. I was less guarded. I restated the Reserve System's case when, at the request of Senator Taft, the ranking Republican member on the Joint Committee on the Economic Report, I was invited to appear before that body on January 25. The Administration leaders on the committee did not want me as a witness; they wanted Chairman McCabe instead, but he begged off because he could foresee the difficult position in which he would be placed. He could not defend the Treasury's position; as Chairman, it would be difficult for him to oppose it publicly without resigning.

Though it appears to have been Secretary Snyder's intention to present the Reserve System with a *fait accompli,* the vigor of the counterattack evidently led him to make a further attempt to get the Federal Reserve committed to the Treasury's announced debt-management policy. On the morning of January 31 the Federal Open Market Committee met in Washington as scheduled. Chairman McCabe advised us shortly after the meeting began that the President wanted him to bring the entire committee to the White House for a conference at four o'clock that afternoon. Notice of the scheduled visit was made public; the press corps who had been following developments closely became very much interested. The committee naturally assumed it was being called to the White House in regard to the Treasury-Reserve controversy. We prepared no formal statement of our position. It was agreed, however, that Chairman McCabe would be the only spokesman of the group and would make no commitments for the committee as to open-market policy.

This was the first time in the history of the Federal Reserve System that a President called either the Reserve Board or the Federal Open Market Committee to the White House for the purpose of discussing or influencing their policies. Until this instance the dictum laid down by Woodrow Wilson and reported by Senator Carter Glass in his book *An Adventure in Constructive Finance,* had been adhered to by all our chief executives. Glass had asked Wilson, the "father" of the Reserve System, why he did not establish closer relations with the Reserve Board he had created. To this Wilson is quoted as saying: "The very moment that I should attempt to establish close relations with the Board, that moment I would be accused of trying to bring political pressure to bear."

What took place at the White House meeting is described in the memorandum that appears directly below. (Though I shall have more to say later about the memorandum, here I merely add that it was written by Governor R. M. Evans at the request of the full Federal Open Market Committee, made that day immediately after we returned to the Federal Reserve Building. It was later approved by the members of the committee after some minor suggested changes were made. Then, on February 3, under extenuating circumstances to be related presently, I released it to the press on my own responsibility and without the knowledge of others on the committee.) The memorandum reads:

The full Federal Open Market Committee met with President Truman in the Cabinet Room shortly after 4 p.m., on Wednesday, Jan. 31, 1951. Chairman [Thomas B.] McCabe had met with the President in his office a few minutes earlier and came into the Cabinet Room with him. The President shook hands cordially with every one present.

The President stated that during the past few weeks he had met with many groups in the Government because he wanted them to know the seriousness of the present emergency and to ask for their full assistance and co-operation. He stated that the present emergency is the greatest this country has ever faced, including the two world wars and all the preceding wars.

He gave a brief sketch of the difficulty of dealing with the Russians.

The President emphasized that we must combat Communist influence on many fronts. He said one way to do this is to maintain confidence in the Government's credit and in government securities.

He felt that if people lose confidence in government securities all we hope to gain from our military mobilization, and war if need be, might be jeopardized.

He recalled his wartime experience when he bought Liberty Bonds out of his soldier's pay. When he returned from France and had to sell his bonds to buy clothes and other civilian things, he got only $80 or a little more for his hundred dollar bonds and later they were run up to $125. He said he did not want the people who hold our bonds now to have done to them what was done to him.[1]

He stated that most politicians would not ask for higher taxes prior to election but that he had vetoed a reduction in taxes before election and won anyway. If it had not been for that irresponsible reduction in taxes, he said, the Federal budget would have been in balance all these years.

He stated that he wanted to levy all the taxes necessary to pay the cost of the defense effort which he felt would be between 100 and 120 billion dollars over the next few years. He stated that he had just met with the Congressional leaders and asked for sixteen and one half billion dollars in taxes and that he expected to get this in two bites—a quick tax bill yielding about ten billion and the other six and one half billion to come after more careful study. He wanted us to understand that he is doing all he can on the tax front to combat inflation.

The President gave each member of the committee a copy of "the Federal Budget in Brief," expressed the opinion that the budget had been pared to an irreducible minimum. He said that he had participated in the preparation of sixteen budgets and felt he was competent to judge and understand them. Maybe something could be cut out but it would make a hole in the defense effort, and that he would not do.

The President said that he felt we had done a good job and wanted us to continue to do a good job in maintaining the financial structure of the country. He further stated that he had had a number of conferences with our chairman but this was his first opportunity to meet and talk with the entire committee. He made no mention of recent differences of opinion with the Treasury.

[1] Unlike the marketable bonds of World War I, the savings bonds of World War II are non-marketable and redeemable at predetermined values. Hence present holders of savings bonds are assured against price fluctuations.

Chairman McCabe thanked the President for receiving us and indicated that we all share his concern for the maintenance of the Government credit. He stated that although the support of the Government bond market was something in the nature of an extracurricular activity for the Federal Open Market Committee, it had performed this service for the past nine years or more and had done a very good job.

He stated that the committee had always carefully weighed its responsibilities to the Government and to the general economy as well and that these are statutory responsibilities which it could not assign if it would.

The President interjected that he was familiar with that, but wanted the committee to continue its good work during the defense period. He emphasized that he was speaking of the defense period only.

Chairman McCabe referred to the fact that in the last few days the Government bond market had gone up a few thirty-seconds and then had come down a few thirty-seconds, which he considered to be a proper market operational technique. The President said he would not undertake to discuss details of that kind, that he was principally concerned with maintaining the confidence of the public in Government securities as one way of presenting a unified front against communism. He did not indicate exactly the details of what he had in mind, but he reiterated that we should do everything possible to maintain confidence in the Government securities market.

The chairman outlined concisely some of the responsibilities with which we were charged, principally to promote stability in the economy by regulating the volume, cost, and availability of money keeping in mind at all times the best interests of the whole economy.

The chairman turned to the members of the Federal Open Market Committee and said the President could depend on every one in the group to do what they could to protect the Government credit.

Chairman McCabe stated that with a group of men such as those composing the Federal Open Market Committee, there would, of course, be differences of opinion as to just how the best results could be obtained.

The President nodded, indicating that he understood this. The chairman suggested the following procedure: that we consult frequently with the Secretary of the Treasury, giving him our views at all times and presenting our point of view strongly, and that by every means possible we try to reach an agreement. If this could not be accomplished, he (the chairman) would like to discuss the matter with the President.

The President said this was entirely satisfactory and closed the meeting on the same note as it was opened—namely, that he wanted us to do everything possible to maintain confidence in the credit of the Government and in the Government securities market and to support the President of the United States in achieving this end.

The chairman stated at the end of the meeting that he presumed that any statement concerning this meeting would be made by the President. The President said he would have no objection to our making a statement and thought that it might be a good thing.

The chairman then asked him what would be the general nature of the statement and he said it can be said that we discussed the general emergency situation, the defense effort, budget and taxes, and that he had stressed the need for public confidence in the Government's credit. He said further that he would be talking to the press the next morning and that he would be prepared to answer questions that might be raised.

Since the President indicated that he would be discussing it with the press the chairman said he felt it would be best for us not to issue any statement to the press at this time. The President did not seem to be particularly concerned about whether or not a statement was issued. The press conference scheduled for the following morning was canceled because of General Eisenhower's appearance at the Capitol.

And that is all that happened.

When the members of the committee returned to the Federal Reserve Building, it was agreed after full discussion that no commitments had been made or, for that matter, sought either directly or indirectly to support the policy Snyder announced on January 18. It was thought advisable, however, that a memorandum should be made of what had happened at the White

House. Thereupon the committee adjourned to meet again in two weeks.

Around noon of the next day the following release appeared on the ticker tape:

WASHINGTON (AP)—The Federal Reserve Board has pledged its support to President Truman to maintain the stability of Government securities as long as the emergency lasts.

White House Press Secretary Joseph Short announced this today, saying there have been reports of differences of opinion between the Treasury and the Federal Reserve Board.

"This is to quiet those rumors," Short said.

Members of the Federal Reserve Board conferred with Mr. Truman yesterday. Secretary of the Treasury Snyder did not attend the meeting.

Almost immediately thereafter a second story appeared on the ticker tape. Its source was identified as a "Treasury spokesman," and he translated the White House statement as an approval of the position Secretary Snyder took in New York on January 18. The story read:

WASHINGTON (AP)—A Treasury spokesman said that the White House announcement means the market for government securities will be established at present levels and that these levels will be maintained during the present emergency.

As a result of the White House and Treasury statements I received a call from Alfred Friendly of the *Washington Post* and from Felix Belair, Jr., of the *New York Times*. They both observed that the stories on the wires indicated that the Reserve System, under pressure from the President on the previous day, had capitulated to the Treasury. They wanted to know whether this was true. I replied that it was not. There were no commitments and there was no pressure. I indicated briefly what was the sense of the White House meeting. This was reflected in the accounts the two men wrote for the next day's editions of their newspapers. They made it plain that despite the White House statement indicating a truce in the long-standing controversy over credit policy between the Treasury and the Federal Reserve, the dispute had not been settled.

At the time I spoke to Friendly and Belair, I did not know that the interpretation placed on the White House meeting by the Treasury spokesman was being confirmed in a letter that was evidently prepared in the Treasury for the President's signature; it was on its way to McCabe that Thursday afternoon. On Friday morning, at the request of Governor James K. Vardaman, the Board of Governors went into an executive session. Vardaman had read the Friendly article in the *Post* and wanted to know who provided him with the information it contained. "An article like that could only come from someone who was present at the White House," Vardaman observed. I at once said that I gave Friendly the information from which he could write his story. I do not believe Vardaman expected this prompt and frank admission. His only response was that what I did was inappropriate. I said that under ordinary circumstances I would fully agree with him and would be equally critical of any such disclosure; nevertheless, I felt that, in view of the real facts, the White House press release and particularly the Treasury interpretation of it called for a prompt denial.

On this same morning individual members of the Board of Governors were shown the letter McCabe had received from the President the day before. Addressed to "Dear Tom," its most significant passages read:

> Your assurance that you would fully support the Treasury defense financing program, both as to refunding and new issues, is of vital importance to me. As I understand it, I have your assurance that the market on Government securities will be stabilized and maintained at present levels in order to assure the successful financing requirements and to establish in the mind of the people confidence concerning Government credit.
>
> I wish you would convey to all the members of your group my warm appreciation of their cooperative attitude.

It would understate our reaction to say we were surprised by what we read. After some informal discussion, it was felt that the only way the matter could be handled was to have McCabe see the President as soon as possible, show him the memorandum Governor Evans had prepared at the direction of the Federal Open Market Committee, and then request that the letter be withdrawn, since it did not reflect the understanding of the committee. This could be done without embarrassment at this time since the letter had not been released. Meanwhile the stories in the morning editions of the *Washington Post* and the *New York Times* no doubt alerted the Treasury (and possibly the White House) to the fact that the Open Market Committee would continue to resist any pressure to support the Treasury's announced policy. With the apparent intention of ending both this resistance and the doubts raised in the press as to future Federal Reserve policy, late Friday afternoon the President's letter to McCabe was publicly released without notice either to McCabe or to anyone connected with the Reserve System. Other members of the Reserve Board and staff had left their offices for the week-end. Around seven o'clock in the evening I, too, was preparing to leave my office in the Reserve Building. But my plans were changed when Felix Belair of the *New York Times* called me on the phone.

He began: "I thought you said the Open Market Committee hadn't agreed at the White House Conference to support the market for government securities at present levels."

"That's right," I replied.

"Well, then, listen to this."

He proceeded to read me the text of the President's letter to McCabe.

"Where did you get that?" I asked him when he was through. "I thought that was a confidential letter."

"Why, the White House has just released it to the world," Belair said. "What have you got to say to that?"

"I don't know," I said. "Let me think about it. I'll call you later."

The pattern of recent events made it clear that the release of the letter was a final move in a Treasury attempt to impose its will on the Federal Reserve. If swift action was not taken to offset the effect of the move, the Federal Reserve would no longer have a voice in deciding monetary and credit policies. It would lose the independent status Congress meant it to have and, in its most important function of open-market operations, it would be reduced to the level of a Treasury bureau. I resolved that this would not happen. At a loss for any better means available at that moment, I felt the best chance that the System had to preserve any of its independence was to release the confidential memorandum covering the meeting with the President. Any objective-minded person who read it could not escape the conclusion that the President's letter to McCabe did not reflect what was said at the White House. But the memorandum had to be released promptly if it was to be effective. I felt that McCabe, whom the President had chosen to head the Board of Governors, could not release the memorandum without at the same time submitting his resignation as Chairman. In any case, McCabe was at his home in Pennsylvania. I also knew it would be impossible to bring together the full Open Market Committee until the first part of the week. I doubted whether the committee would release the memorandum even at that time, or whether it would be appropriate for it to take such official action. (As I've already intimated, whatever their private views, no other member of the committee, with the exception of Allan Sproul, voiced any public protest against the policy announced by Snyder on January 18.) The logic of fairly recent events pointed to me as the one who might be expected to assume the initiative in this matter because more than a year before, in testimony before the Douglas subcommittee investigating Treasury-Reserve relations, I had noted the imperative need to clarify what appeared to be a conflict of responsibility. Again, in testimony before the Joint Committee on the Economic Report on January 25, 1951, I critically pointed out the inflationary effects should the Reserve System support Secretary Snyder's debt-management policy as he announced it on January 18.

Another aspect of this decision should be mentioned. Three days before, I had written but not yet submitted my letter of resignation to the President. It was to be effective March 1, and would mark the end of seventeen years in the government, of which sixteen years were spent as a member of the Reserve Board. In the months immediately preceding the writing of that letter I had also completed plans to return to my home in Utah and to private business interests in the West. But it was evident that if I released the memorandum, I could not submit my resignation without making it appear that I was running from an unpleasant situation I had precipitated. I therefore postponed sending it.

The only copy of the committee's memorandum was in the hands of Sam Carpenter, the secretary to the Board of Governors. I called him at his home and told him what I had learned through Belair. I then asked Carpenter if he could come to the Federal Reserve Building and show me the memorandum so that I could see whether it in any way justified the President's letter to McCabe. After an interval Carpenter reached my office. The pages he showed me bore penciled notations, representing the minor changes agreed to earlier in the day. At my request, he left this memorandum with me, though I did not tell him what I meant to do with it.

By the time my secretary had copied the text, it was eleven o'clock. I then called Belair and told him I might have a statement to make, but wanted to sleep on it. I promised to get in touch with him the next morning. A night's sleep did not change my view. In response to my call on Saturday morning, Belair appeared at my apartment in the Shoreham Hotel. He repeated his question: "What is your view of the President's version of his meeting with the Federal Open Market Committee as explained in his public letter to Chairman McCabe?" In reply I handed him a statement I'd prepared. It read:

> I'm astonished. The only answer I can make is to give you a copy of the record of what took place at the White House meeting, as agreed upon by the other members of the Federal Open Market Committee and from which I have deleted only certain references which deal with the international and military situation. Any other comment would be superfluous. I am giving you this solely upon my own responsibility and without the knowledge of other members of the Committee. It is most unfortunate that this vitally important matter of money and credit which Congress has placed in the Federal Reserve System has been raised in a manner which only needlessly adds to confusion.

At my request, Belair gave a copy of the statement and the memorandum to the editors of the *Washington Post* and the *Washington Evening Star*. It was front-page news on Sunday, February 4. In these, as in all other newspapers throughout the country that carried the story, the universal judgment was that the record of what had happened at the White House did not support the version expressed in the President's letter to McCabe. The memorandum contained no reference to the maintenance of the government-securities market at present levels, to the pattern of rates announced by Secretary Snyder, or to the refunding of new issues. It indicated that President Truman declined to discuss the behavior of the government-securities market and that he simply spoke in general terms about the need to maintain confidence in the government's credit. All this aside, without understanding the technical details of the controversy, the public gained the impression that the White House was putting pressure on an organization that was meant to be independent of political influences. As a result of this, public sentiment, and hence congressional sentiment, swung to the support of the Federal Reserve.

By Monday morning the fat was in the fire. Rather than wait for the scheduled meeting on February 13, McCabe called the

Open Market Committee to meet the next day, Tuesday, February 6. The purpose was to consider what should be done in view of the week-end development. With the exception of Allan Sproul, no one at the meeting either approved or criticized my action in releasing the memorandum. Sproul expressed the view that what goes on at a Presidential conference should not be disclosed until the President gives it out, but when the President does that, he should give an accurate report of what has happened. It was the Board's memorandum and not the President's letter to McCabe that accurately represented what actually was said and the spirit in which it was said. For this reason, Sproul continued, he was glad I had taken individual action in releasing the memorandum; it temporarily retrieved our place in the financial community and with the public. In my reply I expressed regret that the situation had developed to the point where releasing a confidential document seemed absolutely essential. I purposely avoided telling anybody what I was going to do because I did not want to involve anyone else in any way.

Turning to the larger question that justified the release of the memorandum, I said that it was as important for the Open Market Committee to do everything in its power to try to prevent inflation as it was important that a successful defense program be carried out. "If we fail in this task," I said, "history may well record that we were responsible in great measure for helping to bring about the destruction of the very system our defense effort is designed to protect. We should not delay action; in retrospect I think we have been derelict in not acting more aggressively, particularly since Korea. We know what *we* should do in this inflationary situation. We should publicly inform the President, the Treasury, and the Congress of what we propose to do, and then do it. Otherwise the public will get the impression that we have capitulated and lack the courage to discharge our responsibilities. If Congress objects to our actions it can change the law; but until it does that, we have a clear responsibility to check inflation—in so far as we can do this within the framework of our authority—by preventing a further growth in the supply of money and credit at this time."

At the suggestion of Allan Sproul, the committee agreed that a letter would be sent to the President to get the current issue back on an official basis; also, that another attempt be made to resume negotiations with the Treasury along the lines McCabe had suggested to the President at our White House meeting. Before the day was over, the proposed letter to the President was drafted and approved, as was the second letter to the Secretary of the Treasury reopening the door for further discussion of debt-management policies. It was our hope that the White House would release our reply, since it clearly stated the reasons underlying the committee's position and was a complete answer to the President's letter to McCabe. Our reply was approved by every member of the Open Market Committee except one, who had close White House connections. However, when reporters later pressed the President with questions about our letter, he replied that he had not yet seen it. Meanwhile, efforts were made by Administration leaders and by members of the White House staff to get the Open Market Committee to withdraw what we had written. The committee was unwilling to do this.

At this writing, at a time when there is widespread concern over inflationary dangers, it is difficult to predict the long-run significance of bringing the controversy between the Treasury and the Federal Reserve out in the open for public and congressional discussion. As for myself, I am mildly hopeful that the System will exercise a greater degree of independence in the use of its powers in helping to maintain economic stability. The Federal Reserve has a very difficult role to play in this undertaking. Its actions are seldom popular. If it is to succeed in its mission, it will need great internal strength in its composition, great courage in its action, and a sustained public and congressional understanding of the role it should play in our society of democratic capitalism.

One final word. We all face the lure of a beckoning frontier where, in a world at peace, we can use our human and material resources for the well-being of all men. But whether we have permanent peace will depend on a foreign policy that understands the historical posture in which a large part of the world now finds itself. A large part of the world is in a state of revolution. We view it as Communist-inspired, and try to buy it off with dollars or settle it by war. We must recognize that the Communists only exploit existing unrest and will continue to do so unless we ourselves deal with the underlying causes of world-wide revolution. I am disposed to agree with Supreme Court Justice Douglas, who recently said:

> American foreign policy never has been addressed to the conditions under which these revolutions flourish. We send technical experts to help in seed selection, soil conservation, malaria controls and the like. But we never raise our voices for reforms of the vicious tenancy system . . . under which increased production works to the benefit of a few. We talk about democracy and justice, and at the same time we support regimes in those countries whose object is to keep both democracy and justice out of the reach of the peasants for all time.

Even in our own country we face an ironic paradox. The economic and social problems that are glossed over during a period of defense production or war will come to the fore with increasing severity if we at last attain the sought-for world at peace. How fully to produce and distribute our abundance under conditions of full employment within the framework of our free-enterprise system will continue to be the great challenge for future generations.