HARRY S. TRUMAN LIBRARY AND MUSEUM

Oral History Interview with John W. Snyder

Secretary of the Treasury in the Truman Administration, 1946-53. Other Federal positions once held include Executive Vice-President and Director, Defense Plant Corporation, 1940-43; Assistant to the Director of the Reconstruction Finance Corporation, 1940-44; Federal Loan Administrator, 1945; Director, Office of War Mobilization and Reconversion, 1945-46. Secretary Snyder was a longtime close friend of Harry S. Truman beginning with their service in the U.S. Army Reserves after World War I.

Washington, D.C.,
May 7, 1969
By Jerry N. Hess

NOTICE
This is a transcript of a tape-recorded interview conducted for the Harry S. Truman Library. A draft of this transcript was edited by the interviewee but only minor emendations were made; therefore, the reader should remember that this is essentially a transcript of the spoken, rather than the written word.

Numbers appearing in square brackets (ex. [45]) within the transcript indicate the pagination in the original, hardcopy version of the oral history interview. (Online Editor's note: The brackets were removed from the web version of the transcript for readability. In addition, the text after the middle of page 1480 was removed since it does not pertain to the Treasury-Federal Reserve Accord. No other edits have been made to the document.)

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HESS: Mr. Snyder, what do you recall about the problems involving debt management in 1951?

SNYDER: Well, Mr. Hess, the so-called "problems," frankly, should have never developed, other than just the natural problems of handling any difficult problem such as the debt of the United States. What created a situation that caused the President to issue the memorandum, which he did on February 26, 1951, grew out of a long series of occurrences. During the war, Mr. Marriner Eccles was chairman of the Federal Reserve Board of Governors. He had cooperated very splendidly with the Government to help hold the cost of the debt down. He had supported the Treasury in maintaining low interest rates, as a matter of fact, maybe a little too low.

And when the war was over and we began to try to work out the gradual improvement of the general fiscal situation, the Federal Reserve was under pressure largely from the New York Federal Reserve Bank. It had always liked to feel that its officers up there were really the dictators of the monetary policy, credit policy, in the United States, and they began to press for higher interest rates. The Treasury cooperated with them, and they with the Treasury, and we began to raise the bill rate. It went from a low of, I think around 5/8ths up to about 1-1/2 percent on the ninety day bills, which were issued. Practically every Monday morning, there is an issue of the bills that came out. It's a rolling debt to meet the urgent needs of the Government, and it has become sort of established as part of the Government financing. We also began to let some of the longer term notes and bonds begin to take on a little higher rate. And we were doing that in an orderly fashion, and going along very splendidly, until the Korean invasion took place, and we went to the defense of South Korea. At that time, the Fed, the New York Fed, particularly, of the Federal Reserve Bank began to press very hard to let the interest rates push right on up. I was concerned about that for I had seen a lesser incident than the invasion of South Korea cause two world wars; in both World War I and World War II the initial spark was much less than this invasion of South Korea. And I did not think that it was wise, nor did many others think it was wise, for us to start into an unknown situation of that sort knowing not how much it was going to demand in financing on a runaway interest rate basis. So I frankly spent a great deal of time with Mr. Tom [Thomas B.] McCabe, who had become chairman of the board of the Fed replacing Mr. Eccles, although Mr. Eccles stayed on the board until his term of office ran out as a Governor. The pressure was so great that I finally made an arrangement with Mr. McCabe, and I did this in the presence of Senator [Burnet R.] Maybank, chairman of the Senate Finance Committee. He agreed that we would hold the rate at its present level for a particular financing that we were bringing up at that time. Much to my amazement one morning Mr. McCabe and the president of the New York Bank, came into my office in the Treasury, and stated that they had not bothered to tell me about it, but they were announcing that day that the rate was going up. Well, this was a body blow, this was a real shock to me for I definitely had a very clear understanding with Mr. McCabe that this would not happen. It appears clear now that Mr. Allan Sproul, who was the president of the New York Bank, had put the pressure on Mr. McCabe. The New York bankers, and others, had put the pressre on him to show his independence from the administration, and to act as head of the Federal Reserve Bank. McCabe hemmed and hawed and said that he didn't remember making this statement and so forth, or making any agreement. Senator Maybank was positive that he did, the same as I was. Well, anyway, that really set fire to the problem, because they went through with what they said they were going to do, and I announced that we were going to issue the new bonds at the rate agreed on. They had been supporting the Government bond issues to see that they did not drop below par.

HESS: Did you try to argue them out of making that announcement?

SNYDER: Oh, very, very strenuously, but they said they had already done it so as not to embarrass me, because they knew that I would object to it, and the very fact that they knew I'd object to it made pretty clear that there had been some discussion and understanding with Mr. McCabe and me. Well, the problem developed by their not supporting the issue that we came out with that day at the old rate. That caused a great to-do. But in the meantime, I'll have to drop back a little: I gave a press conference in New York for a group of financial writers, in which I stated that because of the military action in Korea -- in support of South Korea -- that I felt that it was a fair rate that was being offered at this time under such circumstances, and that I was appealing to the bankers of the country to support that rate. The interesting part was, following that conference, the price of U.S. bonds went up showing that it was accepted there as a situation that could be lived with. Then followed this procedure that I just told you about, the visits from the two gentlemen from the Federal Reserve Bank. Following that, of course, the bonds fell a little, and did not carry the market reaction that we had hoped they would. We had a pretty tough time and the bonds dropped for several days, and finally we had another session with McCabe; and at that time I was having very serious trouble with my eyes and had planned to go for an operation. Mr. McCabe assured Senator Maybank and me that the Fed would ride along until I got back from the operation, which would be a couple or three weeks maybe.

The day after I went into the hospital, the Fed just cut loose, and the market went all over the place. I sat up, they got me out of bed, I'd had the operation, I sat up with a group of my people. Mr. [Charles E.] Wilson came out, who was at that time the head of the Defense Committee, but Mr. [William McChesney, Jr.] Martin, Ed [Edward H.] Foley, who was Under Secretary, and John Graham, Assistant Secretary, Ed [Edward F.] Bartelt, all came out to the hospital, and we worked out a program of agreement that I would be willing to go along with the Fed. They went back and there was some squabbling about it, and Wilson came out the next day. At that time I told him that I had worked up this agreement, that I had been working with the staff of the Fed, and that it was a fair understanding between us, but if the Treasury was to even go along with that, why, I felt that Mr. McCabe had lost his effectiveness in the Federal Reserve position, as he apparently was not able to make decisions.

He went back and went to see McCabe and McCabe agreed to resign. We had another meeting then, and about that time, we came to this understanding. Mr. Truman had them over to the White House because I was in the hospital at the time, and he got nowhere with them. So that's when we had to come to this definite understanding that created the so-called Treasury-Federal Reserve Accord.

It was very mysteriously announced in the papers, and they tried to make a great mystery out of it. I don't think we ever published exactly what we had agreed on, but it was just that we were working together and cooperating. That brought on this memorandum which you have here. As you know, the memorandum requesting the study of the problem of debt management and credit control was addressed to the Secretary of the Treasury, the Chairman of the Board of Governors of the Federal Reserve System, the Director of Defense Mobilization, and the Chairman of the Council of Economic Advises. That pointed out practically what I have just told you here. We were very cooperative in helping the President put this memorandum together. It set out the Treasury's position very clearly. Following that, Mr. McCabe did resign and Mr. Truman appointed Bill Martin, who was Assistant Secretary of the Treasury, and had helped in working out this Accord. Ed Foley, Under Secretary of the Treasury, did a yeoman job and to Ed Bartelt is due a great deal of the credit, and of course, some of the staff over at the Fed were very cooperative in helping get it worked out. The Treasury and the Fed had really worked together splendidly for many, many years. When you stop to think about it, the Federal Reserve Bank system is fiscal agent for the Treasury. They handle all of our fiscal matters. They are our paying agent; they are our distributing agent for currency and for specie and we just have to function with the Federal Reserve Bank, one of the twelve Federal Reserve Banks, began to feel that they ought to get back and resume the official position of dominance that Mr. [Benjamin] Strong, I think he was the first president of the New York Federal Reserve Bank, had exerted for many years. Of course with the war coming on, that had somewhat been dampened by the war conditions and the action of Chairman Eccles.

But following this affair we worked out a working formula which we called the Treasury-Federal Reserve Accord and it stayed in effect until after I left the Treasury.

HESS: Did that work fairly effectively?

SNYDER: It did. It worked very well until after Mr. Truman's administration was out of office, and when the new administration came in and made the abortive attempt for a peace settlement with the North Koreans, which as you know has not been settled yet, the Treasury Department then just threw the gate open. Mr. Randy [W. Randolph] Burgess, who was Under Secretary of the Treasury in charge of the financial matters, fiscal matters, credit matters, just said that "We'll let the Government securities go where they will." Of course, immediately the price of the securities dropped and the rate went up until it just threw the whole monetary system out of gear, and then they had to turn around and reverse and come back up again, which I think demonstrated very clearly that our system of gradually increasing these rates, the rates of the securities, was the proper way of handling it, and that we certainly should not have gone into a wild interest-raising program in the face of our entering into this military action. I think that as we look back we'll find that the Treasury's position could have probably been a little more flexible had it not been for the pressure put on by the Fed.

HESS: Were they pressured by the New York bankers in turn?

SNYDER: I'm sure so, I'm sure so.

HESS: And their desire for higher interest rates.

SNYDER: That was the whole thing for the Fed in New York to get back where the New York bankers could work with them and get the control of finance back in New York, don't you see.

HESS: And you didn't have so much trouble with the other Federal Reserve Banks, was that right, the other eleven?

SNYDER: Well, our only problem was, of course, was with the head here. If he permitted the banks to do this -- the control was here in the Board. They could have told any one of the banks, "No. That is not our policy," but the New York bank -- Mr. Sproul -- brought pressure on Mr. McCabe, who we learned later had great political ambition. This was in

'51, and Mr. Truman had somewhat announced that he was not going to run again. He may not have officially announced it, but it was generally understood that he didn't intend to run. I think that's true. Now, maybe if he had not let it be known, but anyway, the Republicans began to believe that they could win, and Mr. McCabe had somewhat got the notion, whether these were promises, or dangling carrots, got the notion that he could be Secretary of the Treasury, and so he began to get very political in his attitude. And of course, later he was one of the very, very large contributors to the Republican Party, although he was not appointed to anything after they got into office. Another gentleman, who was very ambitious and hopeful that he was going to be made Secretary of the Treasury, was Mr. Winthrop Aldrich of the Chase Bank. And he was disappointed also.

I think that just about covers it. Now, this is to be sealed. I don't want this released until all parties mentioned here are dead.

HESS: All right, fine. We will do that. We will mark that on the copy.

SNYDER: Have you any questions?

HESS: Not on this particular matter, if that pretty well covers it.

(Online Editor's note: Remainder of transcript deleted)