

Chairman of the Fed: William McChesney Martin Jr. and the Creation of the American Financial System. *By Robert P. Bremner.* New Haven: Yale University Press, 2004. vi + 357 pp. Photographs, appendix, notes, index. Cloth, \$38.00. ISBN: 0-300-10508-8.

Reviewed by John T. Woolley

Chairman of the Fed is not another book about Alan Greenspan. Nor is it a generic examination of the role of the chairman of the Federal Reserve System. Rather, it is the biography of William McChesney Martin Jr., who served as chairman of the Fed from April 1951 until January 1970.

This was a momentous period in the history of the Federal Reserve System. During World War II, as part of the war effort, the Federal Reserve adopted a policy supporting fixed yields on Treasury issues. This policy, called “the peg,” stood in the way of using monetary policy to stabilize the economy. Martin was a central figure in negotiations in 1951 to remove the peg—resulting in a Treasury–Federal Reserve agreement known as “the Accord.” Thereafter, as Federal Reserve Chairman, Martin led in transforming the Federal Reserve into a powerful and independent institution.

The Federal Reserve’s high esteem for Martin was demonstrated in the System’s decision to name a large new office building for him in 1974. By contrast, the Board’s original 1937 temple on Constitution Avenue was named for one of Martin’s predecessors, Marriner Eccles, in 1982 and then only as a result of an Act of Congress.

It is astonishing to realize that this is the first book to focus exclusively on the remarkable life of William McChesney Martin. While several dramatic episodes during his career have been explored in other works, no one prior to Robert P. Bremner has taken up Martin’s life and career. Other recent Fed chairmen, Arthur Burns, Paul Volcker, and Alan Greenspan, have been much more thoroughly studied and described.

Bremner's book invites reading on at least two levels. The first level is simply the story of a full, rich, and meaningful life. While Martin began his adulthood having benefited from many advantages and privileges, his successes, as Bremner recounts them, did not primarily arise from the access to elites that he gained from his family connections as the son of a successful banker and first head of the Federal Reserve Bank of St. Louis. Martin repeatedly made the most of opportunities that arose. He worked exceptionally hard, and he succeeded because of the quality of his work, the excellence of his mind, and the quality of his character.

On a second level, the book should be read in the light of contemporary economic theory about how to get economic policy committed to sustainable long-run goals. We have learned from recent Nobel Prize winners Edward Prescott and Finn Kydland—and others—that good economic policy must be designed to avoid what is called the “time inconsistency problem”—allowing short-run concerns to distract from sustainable plans. Central Bank independence, we have been taught, is crucial to such policy in monetary affairs. How do we create truly independent institutions?

Martin's career as chairman of the Fed illuminates the challenges of building an independent central bank committed to sustainable policy targets. Much of the literature on central bank independence examines the legal underpinnings of independence. In contrast, Bremner's account of the Accord and the slow building of a zone of operational independence in monetary policy is not a story about laws and formal institutions. Rather, it is a story of individuals negotiating relationships of trust—especially in the early years of the Accord. Bremner shows how Martin worked diligently to keep open lines of communication with the Treasury and the White House, and committed himself to discussing, explaining, and teaching.

Bremner traces Martin's life from his privileged childhood in St. Louis through his last days. Young Martin—“Bill” then and thereafter—grew up in a serious, restrained Presbyterian household. Among his other distinctions, he excelled at tennis. (Later, Martin would marry Cynthia Davis, whose family name is memorialized in the title of the famous tennis cup.) He attended Yale and returned to St. Louis to join his uncle's brokerage firm, A. G. Edwards and Co. From that

vantage point, he experienced the stock-market collapse of 1929, and the pain he witnessed reverberated with family memories of his grandfather's financial ruin during the panic of 1893.

Bill Martin moved to New York City in 1931 to manage A. G. Edwards's business with the New York Stock Exchange (NYSE). Finding himself an outsider in the clubby atmosphere of the Exchange, he emerged as a leader among the other outsider firms. In 1935, Martin entered the Ph.D. program in finance at Columbia University—while still working at the Exchange. For his Ph.D., he studied the workings of the Exchange, deepening his knowledge and expertise. Through this period, Martin built alliances with an influential group of reformers, who brought him into contact with New Dealers like William O. Douglas, then chair of the Securities and Exchange Commission.

These associations enabled Martin, at still a very young age, to join committees that were working on the reform of the Exchange. When NYSE chairman Richard Whitney was forced to resign under the shadow of scandal, Martin was elected to replace him. In that role, Martin consolidated his relationship with the New Dealers and made important and lasting reforms at the NYSE.

Martin was drafted into the army in 1941 as an enlisted man, but his contacts and extraordinary talents propelled him quickly into responsible positions. As a rising staff officer, he participated in managing the Russian lend-lease operation. After the war, Martin was appointed to the board of the Export-Import Bank, where he tackled challenging issues relating to financing postwar reconstruction. This brought him into contact with high-level members of the Truman administration and sensitized him to the tensions between political and economic rationality.

Because of Martin's trusted relationship with Treasury Secretary John W. Snyder, he was called on to help negotiate the increasingly tense relationship between the Federal Reserve and the Treasury. The negotiations eventually produced "the Accord," the name given to the agreement that allowed more flexibility in Treasury bill prices. Martin's unique background permitted him to win the trust of both sides—and he emerged as the natural candidate to replace Tom McCabe as chairman of the Fed.

Bremner skillfully recounts Martin's period at the Fed—characterized at times by tumultuous relationships with the White House. The most famous incident, a dust-up with President Lyndon Johnson about a Fed decision to raise the discount rate in 1966, is recounted in entertaining detail, enriched by the use of recently released historical documents.

The end of Martin's career at the Fed coincided with a resurgence of inflation. We learn from Bremner that he felt personally responsible for these developments, and concluded his illustrious career on a note of profound regret.

Bremner's research benefited from excellent access to Federal Reserve documents and to Martin's personal papers. He also drew effectively from other collections and research libraries including five presidential libraries and archives of the SEC and the NYSE. Bremner's stance toward Martin is respectful, and he avoids the sustained tone of criticism that often typifies accounts by economists with deep theoretical commitments.

This book is a welcome and important addition to existing work on the history of the Federal Reserve. Economists interested in how central bank independence works will find many useful insights in its pages, and all readers will find inspiration in this story of a life dedicated to public service.

John T. Woolley is professor of political science at the University of California, Santa Barbara. His research focuses on the politics of U.S. economic policy, including the Federal Reserve. He has published a many articles on the politics of monetary policy and is the author of Monetary Politics (1984). His current research focuses on monetary policy, democracy, and economic growth, and the American presidency.