Contact: Mark Primoff
845-758-7412
primoff@bard.edu

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DISTINGUISHED CAREER OF FORMER FEDERAL RESERVE CHAIRMAN MARRINER S. ECCLES GIVES WEIGHT TO FISCAL EFFORTS TO FIGHT RECESSION, NEW LEVY ECONOMICS INSTITUTE PAPER SAYS

ANNANDALE-ON-HUDSON, N.Y. — The global financial crisis has generated renewed interest in the 1951 Treasury–Federal Reserve Accord and its lessons for central bank independence. Federal Reserve Chairman Marriner S. Eccles was instrumental in drafting the Accord, which established an independent central bank and led to a lasting separation between monetary policy and the Treasury's debt-management powers. While some view Eccles's role as a reversal of his earlier stance as a defender of Keynesian policies and strong supporter of FDR's New Deal, a new paper from the Levy Economics Institute of Bard College, *Lessons from an Unconventional Banker*, argues that his support for the Accord—and central bank independence—was clearly linked to the strong inflationary pressures in the U.S. economy during the Truman administration and should not be interpreted as unconditional support for central bank independence at all times.

"Eccles's role in the Accord drama is somewhat surprising, since he started his career at the helm of the Fed as a 'fiscalist' and preached deficit financing and monetization of government debt," writes Levy Research Associate Thorvald Grung Moe. "But in a broader cyclical perspective, his position was quite consistent, contrary to what some historians have stated, as he was equally concerned with inflation and deflation." For this reason, Moe states, the Accord should not be seen as the eternal beacon for central bank independence but rather as an enlightened vision for a more symmetric policy role for central banks, with equal weight on fighting inflation and preventing depressions.

Moe's paper revisits the history of the 1951 Accord and Eccles's role in the events that

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led up to its signing. He contends that Eccles favored countercyclical fiscal and monetary policies, and close coordination between the central bank and the Treasury. “The history of the Accord should teach central bankers that independence can be crucial for fighting inflation, but also encourage them to be more supportive of government efforts to fight deflation and mass unemployment,” writes Moe. “Eccles argued correctly that a nation that borrows in its own currency can never go bankrupt, since ‘it owes the debt to itself.’ Central banks should therefore support strong fiscal efforts through monetization, as there is currently no immediate risk of inflation.

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One-Pager No. 37: *Lessons from an Unconventional Central Banker*
A more detailed discussion of this topic can be found at:
http://www.levyinstitute.org/publications/?docid=1675.

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