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Interview of Ed Boehne

Conducted by Robert L. Hetzel:

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ROBERT L. HETZEL: … graduate work?

ED BOEHNE: I did.

ROBERT L. HETZEL: And what kind of preparation there did you have for monetary policy? Did you have Elmus Wicker as a professor?

ED BOEHNE: I did, as a matter of fact. I had Elmus Wicker and I took some money in banking and some just finance courses and I actually went up a somewhat different route. I got an MBA and then decided to go into economics and got an MA and a Ph.D. in economics. And so I had it both from the economics department side as well as from the business school side.

ROBERT L. HETZEL: Well, was—did you have some good teachers? Did you feel like when you got to the Philadelphia Fed you had some pretty clear ideas about kind of some of the big issues of the day, what causes inflation, what caused The Depression?

ED BOEHNE: Well, I had a—I think the most useful classes that I-that I had at Indiana were sort of applied macroeconomics. Those classes, business conditions analysis and that sort of thing. And I actually was brought into the Fed—in those days there was kind of a separation between monetary policy and the macroeconomics, believe it or not. Or at least that was the case at the Philadelphia Fed. There were financial economists and monetary economists and then there were people watched the D&P and…

ROBERT L. HETZEL: Yeah, same-same.

ED BOEHNE: Between labor and that kind of stuff. And as time went on that was not an official split, but that's the way it was done. And I actually was brought into The Fed as a kind of a business conditions guy. And that's what people wanted to hear a lot about both in the workroom, worktable, as well as the—in the district. And I gave an awful lot of talks and speeches, really my first year there. And I got to do some work presentations. And so I came at it from a slightly different angle I think than people would probably do it today and may-maybe even been different than the way you approached it or Al Broaddus approached it.

ROBERT L. HETZEL: When did you begin to work with Eastburn on FOMC preparation?

ED BOEHNE: Actually, right away.

ROBERT L. HETZEL: That's extraordinary to jump in. Most people, it takes them ten years before they figure out.

ED BOEHNE: Well, I came in and tried a break I guess, because the senior guy and the kind of macro analysis, business conditions, that sort of thing, decided to go somewhere else. And there were only like eight or nine economists at that point. And so I guess what Eastburn decided to do was to see what I was made of. And so they delayed going out and recruiting a senior fellow and I guess it worked out for me because then I became the senior guy in that-that area and made—so I was really making pre-FOMC presentations, I would guess, within two or three months after getting to the Fed. And then I was actually director of research probably within I guess, I don't remember exactly, but say three years or so, three and a half years after I got to the Philadelphia Fed. Because the guy who was the head became the first vice president, which was unusual, and that was Mark Willis who then went on to be head of the Minneapolis Fed. And so things moved-things moved fairly quickly in those early years.

[00:04:49]

ROBERT L. HETZEL: Is Mark Willis still around?

ED BOEHNE: Yeah, he went to the Minneapolis Fed somewhere in I would guess the mid-'70's or a little later I guess. And then he went one of the—it wasn't Quaker Oats, but one of the…

ROBERT L. HETZEL: General Mills.

ED BOEHNE: Big companies out there. And then he moved on to become the head of the—whatever the company is that runs the *Los Angeles Times*.

ROBERT L. HETZEL: Right. Times Mirror, I guess.

ED BOEHNE: And they had a shake-up out there and so he retired I think quite well off financially. And I understand he did a little professor-ing and not exactly sure what he's doing, but he's still rather a young guy, so I wouldn't be surprised…

ROBERT L. HETZEL: Yeah.

ED BOEHNE: … if he resurfaces doing something.

ROBERT L. HETZEL: So what year did you join the Philadelphia Fed?

ED BOEHNE: Joined in 1968.

ROBERT L. HETZEL: And when—what was your first FOMC meeting, what date?

ED BOEHNE: I think it was in the fall of 1971.

ROBERT L. HETZEL: So it was after wage and price controls were imposed. They were imposed August 15th, '71.

ED BOEHNE: Yeah, and I think I think I probably went at the October meeting and then I went pretty-pretty regularly from then on.

ROBERT L. HETZEL: So let me ask you some questions about Burns and any insights you have into him. On the one hand, here's this guy with an enormous amount of prestige. He was Mr. Business Cycle, head of the NBER and, you know, along with Mitchell invented the modern art of business forecasting, leading indicators and so on, but, on the other hand, there was—a lot of his attitudes like the—sort of like the average businessman, labor unions caused inflation. He—one of the very early proponents of wage and price controls. Did—how did—how did his coming to you in Philadelphia see Burns in kind of—and how did you try to get through to him and talk to him in FOMC meetings, get your point of view across?

ED BOEHNE: Well, I think that Burns was kind of an old fashioned kind of business cycle guy who was a product of the Depression. And I think before he came to the Fed, I don't think he had much appreciation for monetary policy. I think that his—I think that he grew up in a period when inflation was not a—not an issue. It was stimulating the economy and I think that he came from a background in which he looked at the non-monetary disturbances to explain the business cycle and but I think he came with not really much of a sense of monetary policy and I think he came without much of a sense of inflation being a threat. I mean there were some people who were fairly cynical, believing that he was sent over by Nixon White House basically to keep interest rates low. And he did try to do that essentially. I don't think he was mostly on the side of keeping the interest rates low and—so I don't—I just don't think he, whatever his motivation, I think essentially sensed the connection between monetary policy and inflation. I think early on, I think, as I recall Dave Eastburn's comments, I think he—Dave had a—I think more of a sense of the role of monetary policy and I think saw, maybe not as clearly as one sees in hindsight, but I think he appreciated the threat that monetary policy held as far as a threat for inflation. I recall somewhere along in there, I don't remember the exact years, but he dissented, as I recall three times, three times running. Now that doesn't often happen with a Philadelphia president. It may have happened maybe only that once. I think it's more common in Richmond and more common in St. Louis for that to happen. But not in Philadelphia. And I think—I don't think Burns liked it very much.

[00:10:33]

ROBERT L. HETZEL: No.

ED BOEHNE: I think he let Dave know that privately, but I think Dave felt that, you know, there were 12—12 votes around the table and 19 people around the table and only wanted one view and the FOMC would have been one person. So he—he spoke up. He was not a table-pounder. But said things once and then as the inflation of the '70's wore on, I think he became really-really more concerned and we got into issues about monetary aggregates versus interest rates and we got into Fed targeting—targeting money, monetary aggregates and then all through that, Humphrey-Hawkins business. And I think—I think Dave just spoke up and I think he was—I think he was well informed. We would normally have a briefing of several people at the-at the bank and then he and I would almost always took the train and we would talk on the train. And then usually we would talk after dinner on Monday nights, and talk, and go over issues and-and in those days it was—people normally had prepared statements. And he would take a draft and go over the draft of the—of the statement. I don't think he usually read it word for word but I think the basis for his remarks.

ROBERT L. HETZEL: You were able to see Burns over most of his tenure as FOMC chairman. Do you feel like he changed his views over that period or he was—always had the same basic kind of views about inflation and the role of the Fed?

ED BOEHNE: I think his views might have been tempered to some degree, but I think he basically held on to his views. As time went on, I think inflation was probably aided by monetary policy, but my sense was that he still had a large non-monetary view of inflation and that monetary policy played a junior role, which I must say was not at all uncommon for the people of his generation and his-his educational background.

ROBERT L. HETZEL: Well, you mentioned you talked to the directors. I assume that all of 1971-1972 they were for controls on wages. At least Richmond's directors were.

ED BOEHNE: I think they viewed it more as a cost-push, a wage-push, and then later as a—as an oil kind of a boost, inflation—and there were some deficits In those years, and I think they viewed—at least some of them viewed interest—higher interest rates as being a pivotal way of trying to tame-tame inflation. So I think while they were not for wage and price controls, I think at least some of them viewed it as a lesser of evils.

ROBERT L. HETZEL: Yeah, that's a good way to put it. Did—as you listened to the debates between the Keynesians and the monetarists, between Friedman on one side and Tobin and Samuelson and so on on the other side. Did your own views change over this period?

[00:14:54]

ED BOEHNE: I think so. I mean I had pointed out earlier that I—while I had had obviously monetary policy and finance courses in graduate school and undergraduate, that I—that I'd come at it more from what was in those days called a macro—a Keynesian kind of view. And I think my views changed-changed as time went on and I think increasingly I came to the view that monetary policy was the primary cause of inflation, although I think that-that these other factors are important in the sense that if you don't have any cost-push problems or energy problems, that monetary policy can influence inflation in a less costly way. But I mean I think ultimately though inflation is a monetary phenomenon and I think I certainly came to that view, but I also didn't—never bought into the idea that—as was popular in the academic world that you could just simply control the aggregates without regard to the environment that you're in and everything would be okay. Because I think it is tougher for the Fed to control inflation when you have all of those non-monetary things working against you. One certainly can, but the—but the short-short term costs are higher.

ROBERT L. HETZEL: Yeah. Yeah. You mentioned 1972 and the issue of Burns and politics. The Fed had money targets at that time, well, they were at least—they were ranges.

ED BOEHNE: Well, I think that came a little later though, did it not, or no?

ROBERT L. HETZEL: Well, they had two month ranges for M-1 growth at this time. And they were derived from a quarterly benchmark. I don't want to call them targets; they were really benchmarks. And I don't know if you want to talk about this, but Philadelphia debated this very heavily internally in '77-'78, whether they should be treated as targets or benchmarks. And you know.

ED BOEHNE: Yeah, I think there was a term for it, and I can't remember. They were not considered targets in those early years.

ROBERT L. HETZEL: Tolerance. Tolerance ranges. Ranges of tolerance for the…

ED BOEHNE: Something like that. Yeah, Ranges of tolerance.

ROBERT L. HETZEL: There were these two-there were these two.

ED BOEHNE: Was still a largely in those earlier years in the '70's, I mean it was still essentially a Fed fund—I mean we met every four weeks.

ROBERT L. HETZEL: Right.

ED BOEHNE: And the—as I recall it was a quarter of a point, which in those days was considered major progress, because…

ROBERT L. HETZEL: Yeah. Yeah.

ED BOEHNE: … before I started going to the FOMC meetings, the FOMC met every three weeks. And I think they had eighth of a point.

ROBERT L. HETZEL: Yeah. Yeah. So before the elections, these, whatever you want to call them, these two month growth ranges for the monetary aggregates, money was clearly coming in above and Burns was unwilling to raise the funds rate.

ED BOEHNE: Right.

ROBERT L. HETZEL: There was quite a bit of discussion at that time. There was even—when inflation rose in '74, there was a *Fortune* article, do you feel like Burns was sensitive to the political situation?

ED BOEHNE: Oh, I have no—I mean my impression was that the question was clearly yes, that he was quite sensitive to it. And I think intellectually, he rationalized that sensitivity because of the way he viewed the world, but I think he was sensitive to it.

ROBERT L. HETZEL: How did he—how did he get his way in FOMC meetings?

ED BOEHNE: He, as you know, Chairmen control the agenda. They influenced the staff. They decide at the meetings, and he was a very strong willed chairman. He didn't tolerate dissent very well. He used techniques that I didn't think were really right. For example, I remember one president that he was particularly fond of made a statement and Burns basically ridiculed him. I know that he occasionally when he would talk to people to private, so I think he was in a sense a bully.

[00:20:26]

ROBERT L. HETZEL: Yeah, our bank was, I guess unhappy is not a strong word, but, you know, but unhappy with the way that he treated Al Hayes whom at least our president always thought of as a gentleman.

ED BOEHNE: Certainly—certainly with—on Al Hayes. And Al Hayes was such a gentleman.

ROBERT L. HETZEL: Yeah.

ED BOEHNE: And Burns let him have it and he would say things like all his travel and that sort of thing.

ROBERT L. HETZEL: Yeah.

ED BOEHNE: So there was no doubt. And part of that I think was he—two things I think were at work. One is that he—his own memory and experience went to the earlier days of the Fed when the New York Fed was the dominant force.

ROBERT L. HETZEL: Yeah, yeah. That's a good point.

ED BOEHNE: Secondly I think that there was something they, I don't know quite what the word is, but I think he viewed Al Hayes as kind of an elitist sort of fellow and I think there was a little bit of class work there, class distinction. That's hard to ever prove that, but Burns was part of an immigrant family.

ROBERT L. HETZEL: Yeah.

ED BOEHNE: Was a painter, a house painter earlier in his career. And Al Hayes had all the Ivy League credentials. He had the social status and I think there was some of that at work in addition to the residual tension that exists.

ROBERT L. HETZEL: Well, that's—I think that's…

ED BOEHNE: Working the board.

ROBERT L. HETZEL: Yeah, I think that's insightful. Burns always had to dominate the situation and they may have come from having to grow up in a very humble background. His father was a house painter and Burns was somebody who always had—had to dominate the room he was in.

ED BOEHNE: Although I remember once I went to a party somewhere here in Philadelphia and this fellow came up to me who I had known. I didn't know him well, but he was a very distinguished professor at the University of Pennsylvania. They had like four, I think, Benjamin Franklin professors which was really top, top professorships and reserved for really prestigious guys. And he came to me and he said, started to describe Burns in an FOMC meeting. And I said, "You've been to FOMC meetings." And he said, "Oh, no, no." He said, "I haven't been to an FOMC meeting." But he said, "I used to be on the National Bureau Board when Burns was the head of that. And I know Burns' personality and I know the way they ran those meetings and I just presumed he's the same bully at the FOMC meeting," which I found interesting.

ROBERT L. HETZEL: Yeah, that is interesting. He could be gracious also. You don't remember the name of this person? I should know who that is. We can go back and look it up.

ED BOEHNE: Well, he's dead now.

ROBERT L. HETZEL: Yeah.

ED BOEHNE: He died about several years ago, into his 90's. I can't think of it offhand but he was a Benjamin Franklin professor of business history or something like that. But he made those comments to me…

ROBERT L. HETZEL: Yeah.

ED BOEHNE: …just based on his knowledge of knowing Burns in the National Bureau days.

ROBERT L. HETZEL: Where was Walt Rostow? Was he at Philadelphia?

ED BOEHNE: Not to my knowledge.

ROBERT L. HETZEL: Okay. Okay. Because I was trying to think of someone who was a historian.

ED BOEHNE: All right.

ROBERT L. HETZEL: What about the Ford administration? Was monetary policy different in the Ford administration or you know that was the…

ED BOEHNE: Well, it was a relatively short administration and I think quite frankly didn't know whether they were fighting inflation or fighting recession.

[00:25:02]

ROBERT L. HETZEL: Yeah.

ED BOEHNE: And I think there was some back and forth, that kind of things, and I don't really know if the White House had the same focus as the Nixon White House had on the Fed. I think, well, that was a very turbulent time. I mean.

ROBERT L. HETZEL: Oh, it was extraordinary.

ED BOEHNE: You had not only the Watergate but you had the ignominious ending to the Vietnamese War. You had the…

ROBERT L. HETZEL: It was the pardon of Nixon.

ED BOEHNE: Nixon's pardon you had…

ROBERT L. HETZEL: Well, and the deepened recession since…

ED BOEHNE: Exactly. You still had inflation and you know it was—it was a time when I would guess that the Ford people were just not that focused on the Fed and maybe didn't even think the Fed had a significant role to play at that point. And that's impressionistic but that was my sense of it.

ROBERT L. HETZEL: So you get into the Carter administration and in '77, the recovery's clearly in place. But Burns is very cautious about raising interest rates, presumably for the reasons you-you mentioned. I mean he thinks that the inflation that's out there is not The Fed's fault. But he's very cautious about trying to make sure the recovery keeps going. Does that sound right?

ED BOEHNE: I think that was true and I think Burns really did like being chairman of the Fed and whether he harbored some sense that he might be reappointed in a Carter administration, I don't know. But I think he certainly—I don't think wanted to irritate the administration. And I think he was—but he didn't let go of the Fed all that easily because after Miller was appointed, you know, he stayed on the Board for a few months. And there-there was a brief period, very brief period when he was no longer chairman of the Board but he was still chairman of the FOMC.

ROBERT L. HETZEL: Yeah, I'd forgotten that. I guess Miller came on in maybe March and Burns was there through May of '78.

ED BOEHNE: Well, I think that then there was a meeting, as I recall, a telephone meeting. And Miller had been confirmed as chairman of the board, but Burns was still chairman of the FOMC. And Burns then said that it wouldn't be appropriate for Miller to be chairman of the FOMC. And I think he may have nominated him and that was taken care of. Now I do not recall however, I don't think it happened, you'd have to check the records, but I don't think that Burns ever attended an FOMC meeting after that even though he was still a member of the board for a period thereafter.

ROBERT L. HETZEL: That sounds right. Well, let me ask you about the nature of the FOMC under Miller and also about the staff. Because Miller comes, he was chairman of Textron, he obviously didn't have a background in monetary economics. Something was circulate within our department where he had made a statement suggesting that reserve requirements were placed on bank loans rather than deposits. So somebody was running things. Was it a combination of—when Miller came in, was it a combination of top staff and then strong willed governors like Governor Partee, who were the primary kind of movers of monetary policy at least.

ED BOEHNE: I think, first of all, Miller had some-some, not very much at least exposure to The Fed as an institution, because he had been on the Boston Fed Board for.

ROBERT L. HETZEL: Right, actually he was chairman of the.

ED BOEHNE: For a few months. And I don't remember how—I don't remember him being chairman, but maybe he was chairman. But I know he was on the Boston Fed Board.

ROBERT L. HETZEL: Yeah.

ED BOEHNE: He brought a whole—he was a lawyer by background, although I don't know if he ever practiced law, per se. I think he may have—yeah, I think he did practice law early in his career. But his view was really quite different. He—how the FOMC ought to be run, I don't think he viewed it as a kind of corporate board meeting.

[00:30:27]

ROBERT L. HETZEL: Yeah.

ED BOEHNE: I think that he wanted shorter meetings. I don't think he was particularly interested in how people got to decisions. I think he was just interested in where they came out. And I also think he didn't quite appreciate his role as chairman. I don't think, for example, he appreciated what would have happened if he had been in the minority. I don't think as a matter of principle it would have particularly bothered him if he had been on the losing side. I think he was just much more interested in getting a decision. I think people like Partee and some others I think must have had conversations with him about the importance of chairman always being in the majority. There was an episode not at the FOMC meeting but over a discount rate vote and I think he did come out on the short-short side of the discount rate decision.

ROBERT L. HETZEL: That's right. That's right.

ED BOEHNE: Yeah. And it just—it was just unfathomable I think to observers of the Fed and the marketplace that this would happen and I just don't think he appreciated—you know occasionally, chairmans are on the short side of a bank merger case, a regulatory decision. Not often, but it's happened. And I just think that he—but I might say it happens without great consequence, and I just don't think he appreciated it. But the monetary policy, now I remember the shortest FOMC meeting that I ever recall, the vice chairman died.

ROBERT L. HETZEL: That was Gardner?

ED BOEHNE: Steve…

ROBERT L. HETZEL: Gardner.

ED BOEHNE: Steve Gardner died. But he was vice chairman of the board, but he had brain cancer as I recall. And believe that his funeral was at 11:00 and it was on an FOMC day. And Miller called the meeting to start at 8:00. And we had to leave the board I think at 10:15 because it was up at one of the chapels at the National Cathedral. And but I think he was really quite pleased that he could get this group to finish up in two hours and 15 or 20 minutes. And I think he felt that's the way it really ought to be. And I think he—well, I think he was a decent human being. I think he was certainly an intelligent man. I don't think that he and the Fed chairmanship were made for each other.

ROBERT L. HETZEL: My recollection is….

ED BOEHNE: Like I say, he was a very nice man, too.

ROBERT L. HETZEL: Yeah.

ED BOEHNE: And he-he was a nice man and he—I don't think he—it was different than Burns in the sense that I think he let people say what they wanted to say and he never tried to be critical of them. The other thing I remember Miller, which is just a footnote is, is that you know Burns was a smoker.

ROBERT L. HETZEL: Yeah.

ED BOEHNE: That room was like a barbecue pit. And then Miller came around, I don't know if he was an ex-smoker, but.

ROBERT L. HETZEL: But Volker and Wallich too were smokers.

[00:34:18]

ED BOEHNE: Oh, my God, they smoked, you know, in the heat, but No Smoking signs all over the room and so the staff—and I mean he was the boss, so the staff didn't smoke, but some of the other guys did. And then I remember they just smoked anyway. And I think it just irritated the fellow but he went on. And when Volker came back and all the cigarettes and cigars came back it was just sort of a personal thing. As a matter of fact, some of the seating arrangements at the FOMC have a lot to do with who smoked and who didn't smoke because Philadelphia was –used to have a different seat, and Philadelphia didn't smoke. And Dave Eastburn didn't smoke, I was not a smoker, and they tried to get the smokers on one side of the table and the non-smokers on the other side. So you think these things have some rhyme or reason, but some of it all went back to that.

ROBERT L. HETZEL: Yeah, I guess Richmond was a little less positive about Miller's personality. I think we felt like he did not like dissent from the regional bank presidents, that he drove a wedge between the presidents and the governors who were more liberal. And that Miller kept our—at least our bank president, from getting sort of standard salary raises, because of the dissent.

ED BOEHNE: You know that I don't know. I did not test that. I mean, paid a visit to Philadelphia, became a member for the dedication of our building and I didn't—you know, they may very well be true and I wasn't a reserve bank president then. Dave Eastburn might have a…

ROBERT L. HETZEL: Yeah.

ED BOEHNE: … a sense of it. But I didn't—my impression was—is that Burns was vindictive, but I didn't have the sense that Miller was vindictive. Maybe it was a matter of great.

ROBERT L. HETZEL: Yeah, before I go on to Volker, let me ask you a final question about the committee, for Coldwell and Steve Gardner and Phil Jackson and David Lilly. Chuck Partee, Henry Wallich, was this a strong group of people or…

ED BOEHNE: Well, like Dave Lilly—would put Dave Lilly in that category. I think certainly Chuck had a lot of influence.

ROBERT L. HETZEL: Yeah.

ED BOEHNE: Henry Wallich was both a giant in his own right as well as a gentleman.

ROBERT L. HETZEL: Was he influential?

ED BOEHNE: Oh, I think so. I think he was—I think he was influential. What are some of those other names you just…

ROBERT L. HETZEL: Phil Coldwell, he came from Texas.

ED BOEHNE: Phil Coldwell, I think was an influential governor. I don't know—I didn't have the sense that he was that influential in monetary policy. He may have thought he was, I didn't get the sense that he was. [inaudible 00:37:39] Wallich and Partee were more-influential. Steve Gardner, I don't think played that much of a—played that much of a role.

ROBERT L. HETZEL: And then Phil Jackson was.

ED BOEHNE: Phil Jackson was a, you know, he was an outgoing, back-slapping kind of guy who was more used to the business political world. I don't sense that monetary policy, he was not that heavy a hitter.

ROBERT L. HETZEL: In-in 1978, inflation rises sharply, the dollar depreciates sharply and The Fed becomes very concerned with inflation. But before then, Wallich and Volker, do you have any sense of them being hawks and being as hawkish as they later became or do…

ED BOEHNE: I think Wallich certainly was. I think if you go back you'll find a fair number of Wallich dissents and he certainly made statements during the meeting. I remember a lot of civil dissents on the part of…

ROBERT L. HETZEL: Wasn't…

ED BOEHNE: …and I think.

ROBERT L. HETZEL: Wasn't that—wasn't that later on in the early '80's?

ED BOEHNE: Background—he saw the German inflation and what it did. I think that Volker—you have to understand that New York Fed president always feels handicapped in terms of votes. I mean I think that Volker as well as Gerry Corrigan for example, and what was it, the name, between Volker and Corrigan.

ROBERT L. HETZEL: Solomon.

ED BOEHNE: Solomon.

ROBERT L. HETZEL: Tony Solomon.

ED BOEHNE: Solomon. I think that they had all made up their minds that they would never dissent and that—and you know I know that they would probably express how uncomfortable they would feel, but I think they thought that-that they just simply did not want things on the official record that would cause a split between New York and the board. And I think that's—I think that's a fact of life.

[00:40:16]

ROBERT L. HETZEL: That's an interesting observation now that you mention it. I'm sure that's right. That would make much more in the way of—well, actually, in the early '70's, the Board was—well, the New York Bank was still very much attached to Bretton Woods system. And Arthur Burns was not willing to raise interest rates for foreign exchange, balance of payments reasons. And also the Board of Directors at the New York Fed were, you know, very concerned about Bretton Woods.

ED BOEHNE: Right, after.

ROBERT L. HETZEL: And so there were splits—open splits between New York…

ED BOEHNE: There were.

ROBERT L. HETZEL: … and the Board. But—but I think you're right. After Volker, it doesn't…

ED BOEHNE: Well, that's after the Hayes era. I think they just decided that it just wasn't worth it. To the dealer. People I think just decided that they would be much more influential if they could work with Tim and rather than being opposed to him in public.

ROBERT L. HETZEL: So this sort of jumps ahead, but I'm curious. Was that your philosophy somewhat also, that it was better to work with the chairman and try to influence him privately rather than clash with him openly at FOMC meetings, you know, with threatened dissent? When you became president.

ED BOEHNE: Again, if you're asking me, I don't recall ever, I maybe dissented a couple of times in close to 20 years, so it was not my habit to dissent. But I—I guess I felt that if this was between our position and the majority or the chairman's position was such that I just— my discomfort level was too high, I would dissent. But I did feel that one had to try to work with the—work with chairman. But I was prepared to dissent in any meeting. I did not feel by no means that the constraint that New York president would have felt—but I think that, you know, as we got—I think it was harder in the '70's. I think if I had been a president in the '70's, I probably wouldn't have said it.

ROBERT L. HETZEL: Yeah.

ED BOEHNE: But as we go more into the Volker era and the Greenspan era, we're – there were a couple of exceptions, I guess I felt that—probably most of the time I could comfortably vote yes. I might have swallowed hard once or twice. But, you know, I was always comfortable with myself if I knew that I was prepared to dissent, though I would probably stretch not to dissent.

ROBERT L. HETZEL: Did you consider yourself as having a closer relationship with the chairman than most FOMC members or at least most presidents?

ED BOEHNE: I never considered myself having the closest relationship, but I always felt that they were at least listening to me and that I could pick up the phone and give them my views, which I did on occasion. And I found that if I felt monetary policy was getting off track, I had no hesitation to call the chairman and tell him so. And I found him quite receptive.

ROBERT L. HETZEL: So there were times when you talked to the chairman privately outside of FOMC meetings.

ED BOEHNE: Correct.

ROBERT L. HETZEL: When Volker became chairman in August of 1979, did you already have a sense of what kind of leader he would-he would be, or sort of what a strong personality he was going to be? Or were you surprised by the extent to which he kind of led the Fed through a very stormy period?

ED BOEHNE: Well, I think-I think that he was a relatively quiet Federal Reserve Bank, New York Fed President. And so I know some people knew that he had been that way. But I think the Volker basically was a trouble-shooter kind of guy. And I think that he came in at a time when things needed fixing. I mean…

ROBERT L. HETZEL: Yeah.

ED BOEHNE: … it was in terrible shape.

ROBERT L. HETZEL: Yeah.

ED BOEHNE: And I have always viewed Volker as a kind of a turnaround chairman.

ROBERT L. HETZEL: Yeah.

ED BOEHNE: I think things were clearly headed in the wrong direction and I think he knew it. And I think he knew it would be tough to get things turned around. And I think he was the right guy for that, because I think he had the right kind of personality and I think generally had the right kind of instincts. And I think he knew that in order to get things that he would have to—that he would have to take a lot of heat from the public. And the administration and Congress. And I think—I think he knew what he had to do. He had to regain credibility. I think he had to get inflation headed back downward. And I think he was prepared to accept the economic price and I think he was ready to accept the personal price.

ROBERT L. HETZEL: The October 6th, 1979 change in operating procedures. How did he bring along the sort of liberal Keynesian governors like Partee and Rice and Schultz and Teeters. It's not obvious that they…

ED BOEHNE: Well, you know, that meeting was an executive session and I was not at that meeting. But I think that he had called in liberal governors, and certainly Nancy was in that and…

[00:46:59]

[**END TAPE 116, SIDE A]**

[START TAPE 116, SIDE B]

[00:47:03]

ED BOEHNE: But you know was just disaster. The United States had no credibility in the world. The United States, there was no credibility really of the Fed and financial markets. And I think he convinced them that the time had come for tough action and I think some of them saw but maybe gained an appreciation going to what amounted to an aggregates approach, but give them some cover for letting interest rates go up. And I think it's a lot easier, at least I think it was in those years, to say we're targeting the aggregate so or some variation thereof, and we're not targeting interest rates. And I think that—think it was—it made economic sense, monetary sense, but I think it was also politically master.

ROBERT L. HETZEL: In '81 and '82, there were sharp rises of interest rates. The Funds rate, my recollection, it got up to 21 percent. You know, and if you had told me in 1978 that was going to happen, I would have been totally incredulous. How did Volker get away with it? Reagan just couldn't bring himself to…

ED BOEHNE: No, I think that Reagan, you know the chairman of the council at that point was the guy from Bank of Chicago who was a disciple of Keynes, of Friedman.

ROBERT L. HETZEL: Yeah. At first it was Murray Weidenbaum and then it was Beryl Sprinkle.

ED BOEHNE: Yeah, Beryl Sprinkle, that's who I was—and I think that the administration was dominated at that point by people who had this view. That it was the job of monetary policy to eliminate inflation and the job of fiscal policy to stimulate the economy. And I sense that they realized that there had to be a lot tighter monetary policy. And I think that they also realized that the thing had to be in better shape before '84 and I think they were willing to take their medicine early on and I think it was—so I don't think in those early years that-that there was—only as I think we approached '84, I think was the administration that sensitive to those rising interest rates. I mean, I think it sort of fit their strategic plan and broadly speaking I don't think they ever thought it would go to 20 percent. But I think that they had the sense that we had to have a very tight monetary policy. I think Volker's—Volker's strains with the Reagan people came later not earlier. And they're also, a lot of them were in the Greenspan era. But I think it came—it came later.

ROBERT L. HETZEL: Do you think it came when Jim Baker became Secretary of the Treasury? And Don Regan went over…

ED BOEHNE: I think it was more Don Regan.

ROBERT L. HETZEL: So-so Regan was-was just against high interest rates. He-he thought they were excessive.

ED BOEHNE: Yeah. I think he—I think it was more—I think it was more Don—I think it was more of a Regan type of thing.

ROBERT L. HETZEL: There were new appointments to the governors in the early '80's, Wayne Angell, Preston Martin, Manny Johnson, Martha Seger. We call them the Gang of Four, I think other people did, too. Initially, they pushed very hard for a more expansionary monetary policy.

ED BOEHNE: Right.

ROBERT L. HETZEL: And I hadn't thought about this, but I guess that was the sensitiveness of the White House to the Rust Belt problems, the high value of the dollar, the collapse of…

ED BOEHNE: The dollar issue, you know—became front and center in '85 when we had the Plaza Accord and that was a Baker-initiated effort to bring down the value of the dollar.

ROBERT L. HETZEL: Yeah.

ED BOEHNE: And to help manufacturing. And I think—I think that there was a sense over in the Treasury, probably the White House too, that there needed to be some countervailing. Voices against Volker at the Fed and I think that—I think that that role that those guys had, and you know, they challenged him pretty early in the game. And he came close to resigning.

[00:52:31]

ROBERT L. HETZEL: Right. Yeah. Then I guess eventually the—not Preston Martin and not Martha Seger but Manny Johnson and Wayne Angell came around and became Fed converts.

ED BOEHNE: Yeah, I think that Manny and Manley—well, Manley, I think his name was Manny but…

ROBERT L. HETZEL: Yeah.

ED BOEHNE: Called him Manley.

ROBERT L. HETZEL: Right.

ED BOEHNE: Yeah, I think Manley and Wayne ended up being Fed Governors. I think that Martha and Preston Martin really never did. I think that Martha really never saw an interest rate that she didn't want lower and I think that…

ROBERT L. HETZEL: Yeah.

ED BOEHNE: And I'm not sure that Pres had strong views one way or another on it but I think his instincts were for lower-for lower rates.

ROBERT L. HETZEL: So Volker probably resigned because he wanted to run the show and he didn't want to run it with all this sniping going on from the administration?

ED BOEHNE: Well, when he-when he-he resigned, it was over a discount rate decision. And I've forgotten the specific details of it but it's been—it's out. I mean I don't think it's a—I think there have been *Wall Street Journal* articles about it. But it seems to me that it took place like in '86.

ROBERT L. HETZEL: I think that.

ED BOEHNE: Possibly '87. And.

ROBERT L. HETZEL: I think that came earlier. And I think they got over that.

ED BOEHNE: I think it was '86. And it wasn't any earlier than '86. And the more I think about it, it was '86. And Volker felt very strongly about probably not lowering the discount rate and I think that four wanted to lower it. And I think he—I think that Volker knew that he could not or would not be on the losing side. So he—I think they had a meeting in the morning and clearly the votes were stacked against him so he postponed the meeting. And Wayne actually brokered a compromise. And if I recall the compromise, they did not lower the rate at that point but did in the not too distant future. And I think that Volker stayed and didn't resign. Of course he was not-- be appointed in '87.

ROBERT L. HETZEL: Were the members of the FOMC aware of the LDC debt crisis when it was breaking in the summer of '82 or was it only kind of over time that the regional bank president learned about it and…

ED BOEHNE: No, I think that—I think if the other presidents—at least I was aware of it. But I think those kinds of crises, debt crises, there still was a sense of holding that fairly close between the Board and New York. And I think they viewed that as their territory. But I think that it spilled over into the FOMC's domain and because the open-the open market account was [inaudible 00:56:36]. And the easing that took place from those very high interest rates that we talked about earlier, mainly I think a lot of that motivation, bulk of that motivation I think came from debt crisis and the sense that the system was going to break at those high levels of interest rate. And therefore rates had to come down and that's why we had—we had one recession and then we had rates coming down and then inflation still was — the debt crisis receded some and inflation was still there. And rates were taken back up and we had that double dip recession.

[00:57:26]

ROBERT L. HETZEL: Well, and then in addition to the LDC crisis there was Continental.

ED BOEHNE: That's right.

ROBERT L. HETZEL: And [inaudible 00:57:33] and [inaudible 00:57:35] and I guess…

ED BOEHNE: That's right.

ROBERT L. HETZEL: Manufacturers Hanover.

ED BOEHNE: All, the banks. And you know it was just—it was a bad environment, we had some, in our district, at one point we had the biggest discount window loan that had ever been made in our-in our district. In the late '70's, I think it spilled into the '80's. But-but I mean it was a tough time because nobody—portfolio managers just never expected low rates to get that high. And the system was under a wrath of stress.

ROBERT L. HETZEL: Yeah. So Greenspan replaces Volker in the summer of '87. That was also a time of a lot of stress. Bond rates had been rising last spring. Do you have any recollection that Volker did not respond as vigorously as he might have earlier on because of the desire to coordinate monetary policy with other central banks and the deal that they would stimulate their economies? Do you feel like he went on with monetary policy too easy?

ED BOEHNE: I-I—my sense was that the—there may have been some of that in that period. I think if we had too easy a period probably followed the stock market crash of '87. It might have been some of it in the closing period of the Volker era. I'm not sure he had the votes for a policy much tighter than what he had. But I think just as happened following the problems in 1998, I think once you—at that time it was a huge drop in the stock market and the banking crisis was still going on, and thrift crisis. And I think probably what happened is there was too much ease following the fall of '87. That's my recollection of it. And they were getting back into the problems of inflation and then we had to have some monetary tightening brought us into another-brought us into another recession. But I think it was—no, I think Volker, you know, had applied a lot of cut medicine and the economy was going along. There were inflation problems that we couldn't see, but I don't think he had—maybe he didn't have the stomach anymore for it, after what he had been through earlier. I don't think he had the support on the floor—wanted to have a substantially [inaudible 01:01:10] monetary policy and debt.

ROBERT L. HETZEL: Yeah, he brought the inflation rate down from double digits to four percent. And I think the stresses of the financial system…

ED BOEHNE: Right.

ROBERT L. HETZEL: … meant he.

ED BOEHNE: Exactly. I don't think he wanted to [inaudible 01:01:22] the break.

ROBERT L. HETZEL: Yeah.

ED BOEHNE: on his watch. And then…

ROBERT L. HETZEL: Yeah. Yeah. And then inflation starts going up. In '89, the Fed adopts the soft landing strategy.

ED BOEHNE: Right.

ROBERT L. HETZEL: My recollection is that there was never any specific strategy. The FOMC never said, oh, we're going to bring the inflation rate down. But effectively, Greenspan must have decided and the committee agreed implicitly that four percent inflation was too high and it was time to-to get it down to at least two percent if not more.

[01:02:01]

ED BOEHNE: I think that my recollection, now there were undoubtedly who people disagreed, Bob Black, in surge was one, but I think there was a sense that four percent inflation was not worth consciously bringing on the recession to cure it. Sort of like bridging on a recession when inflation was 13 or 14 percent. I think I…

ROBERT L. HETZEL: Yeah.

ED BOEHNE: And I think this is where this notion of kind of opportunistic approach to monetary policy, while never was officially adopted, and you know people, I'm sure, like Bob Black strenuously disagreed with it. The notion was if we could hold inflation at four during expansion, then, you know, sooner or later the economy would weaken and we could lop off a percentage or so. And over time, cycle to cycle, we could get inflation down to the two percent or one to two percent range. I think that that—that that was in the background. And I think while it was never an announcement, I think that—I think there was some implicit comfort, well, not comfort, I think there was some implicit buy-in to that, into that-into that notion by a number of people on the FOMC including me, as a matter of fact. I think.

ROBERT L. HETZEL: Well, when did you become—when did you become president?

ED BOEHNE: 1981.

ROBERT L. HETZEL: Did you—what kind of continuity did you see between the way Greenspan and Volker made monetary policy? Were the similarities greater than the differences or the differences were really pretty pronounced? It's just that they both disliked inflation.

ED BOEHNE: I think that there were a lot of doubts about Greenspan when he first came on.

ROBERT L. HETZEL: Yeah. Especially at Richmond. We thought he was…

ED BOEHNE: Well, not just within the system but I think also generally. I mean…

ROBERT L. HETZEL: Yeah.

ED BOEHNE: … here you had this tough guy Volker who would…

ROBERT L. HETZEL: Yeah.

ED BOEHNE: …turn things around and nobody could accuse him of being soft or not standing up to a fight. And here was a guy who had these credentials, these very close ties to the Republican party and people were remembering the Burns era and…

ROBERT L. HETZEL: Yeah.

ED BOEHNE: … Greenspan was in some ways a legacy of Burns. He had a lot of respect for Burns. And I think there was concern about him and there was some antagonism there in the—between the administration and the Fed. And that---yeah, I think there were concerns and I think that Greenspan came on, I think, trying to show that he was not—he had a lot of respect for the institution, for The Fed as an institution and didn't come to destroy it or weaken it. And I think he was feeling his way. I think he quickly became quite impressed with The Fed as an institution. I think he came in best with the FOMC, how it worked, I think the professionalism—I think he came to like the independence that he had as a chairman and he was no longer an advisor or a commentator, that he could make decisions and implement them. Then I think he had this early on crisis with the stock market and the financial system and he knew a lot about the financial system. Yeah, so I think he—when I think of Volker as a turnaround guy, I think of Greenspan as a guy who simply had to build on the progress that Volker had made. And a lot of the dirty work and the heavy lifting had already been done by

Volker. And Greenspan's job was one, not to let things get out of hand again, and then two, to continue to make some progress on inflation without wrecking the economy and creating havoc in the financial system. So I think he—I think there was a fundamentally different perception of the job that each one of those guys brought to it when they came.

[01:07:13]

ROBERT L. HETZEL: Do you think that the stock market crash in October 1987 had anything to do with the dollar politics between the U.S. and Germany or between the need for Greenspan to establish credibility?

ED BOEHNE: Well, I don't know, you know.

ROBERT L. HETZEL: No way to know.

ED BOEHNE: I just—I don't know. Yeah, I don't think I recall it with enough clarity and I don't think that I—just probably enough in my mind to really give a.

ROBERT L. HETZEL: Following the August 1990 peak in the business cycle, you had a jobless recovery. Do you think the Fed and Greenspan had something to do with that? Greenspan was concentrating on working inflation down and long term bond rates down, or do you see that reasons for the jobless recovery is kind of lying elsewhere than monetary policy?

ED BOEHNE: I think it was a combination. I think that—I think that nobody really knew what kind of level of interest rates it would take to get the economy moving. And again, to get the recovery going, I think—I think that the Fed in hindsight, I was a part of it, just judged how low interest rates would have to go to get the economy going. I also think that while most people in the Fed and most of the decision makers, they took a monetary aggregates approach to things, I think that we hadn't really focused very much on the impediments that can [inaudible 01:09:11] credit granting side of things. And most monetary-trained economists just think that'll happen automatically. And I'm sure it probably would, given a long enough period of time, but clearly were I think some obstacles that Greenspan called headwinds. I think that what had happened is that a whole generation of bankers got burned and I think that they were very cautious coming out of it. And I think that the—that the credit side, the credit channel, I think, did—was an inhibitor of the monetary channel during those periods. I think that probably the regulatory side, bank examination side, contributed to that. And I think the—came to the conclusion of the Fed that there were these obstacles, these headwinds, the term was used, that interest rates would have to be taken considerably lower than we thought. And we actually took—by that time, inflation was down to around three percent, and basically took funds rate down to three percent which essentially was a zero real-rate. And although at the time that that was unsustainably low, that we would have to bring them back up and probably do it hopefully in a pre-emptive way, but I think people wanted to get-get the economy moving and I think the only real instrument that would fix deficits and that's tax increases to try to do something about the deficit. And I think monetary policy was the only show in town really, so I think that they're all prepared to do it.

But I remember as we did it, said to ourselves and said to each other that yeah, we're going to do this, but this is temporary and we're going to have to have enough courage to get those rates back up or we're going to be right back in the-in the inflationary problem. And sort of opportunistic approach would go by the wayside, but it wouldn't hold inflation in check. We would lose the game if we didn't look.

[01:11:58]

ROBERT L. HETZEL: Starting in early '94 going through early '95, the Fed raised the funds rate, my recollections is from six percent.

ED BOEHNE: I never saw them talk about doing it in '93. And there was some talk in the gang in the committee that we at least ought to prepare people for it. I thought it was '93 was a little early for that because…

ROBERT L. HETZEL: Yeah.

ED BOEHNE: … the economy was still just not picking up steam the way it should. But I think by '94, signs were pretty clear I think to most of us that the time had come. Although it still took a fair amount of political courage to do it we [inaudible 01:12:48] some political fight for it, but-but.

ROBERT L. HETZEL: Did—why does Greenspan feel like he needs to forewarn the markets before he raises interest rates? Is he concerned that you know people are just get in a jam if rates go up too quickly?

ED BOEHNE: I don't think that that's—that may be one of the reasons. But I think that he thought that the Fed should be communicating to the market. And I think that the top popular term now is transparency. I think that he just thought that the market shouldn't be surprised. And if you minimize surprises that you would minimize unpleasant side effects. And that I think he also wanted to teach the market how the Fed was thinking and so that when the Fed indeed made a market move that it would be largely anticipated and then the shock value would not be there. And I think that that view really caught on that the Fed should be as transparent as possible. And in those days, I think that was part of that process.

ROBERT L. HETZEL: In '94 when rates went up so sharply, did Greenspan have any problem bringing along Alan Blinder and—you know who was a Clinton appointee, or others or?

ED BOEHNE: I don't—you know, as I recall, there were people—I think wasn't Martha still on the board at that point? Or had she gone off? I think she—there were some dissents, but I think they were people like Martha Seger.

ROBERT L. HETZEL: Didn't Governor LaWare replace her? I'd have to go back and look.

ED BOEHNE: I don't remember.

ROBERT L. HETZEL: To my recollection, LaWare replaced her. [inaudible 01:14:45]

ED BOEHNE: LaWare I think might have dissented in there at some point. But Binder I think understood the logic of it and—no, I think—I think as I recall Greenspan really did a pretty good job of bringing people around. There were dissents, but I—if Martha was still on the board, she certainly would have been one. LaWare, if I recall, dissented along the way. But you know, and Wayne occasionally dissented, but he was coming off the board about then too wasn't he?

ROBERT L. HETZEL: Yeah. Yes.

ED BOEHNE: So, you know, I'd have to go back and look at the dissents.

ROBERT L. HETZEL: Sure. Sure.

ED BOEHNE: But I think he did a pretty good job bringing people along. And I think we all knew that having essentially a zero funds rate was unsustainable. It was just kind of the understanding that those of us have had with lowering it and have to bring it back up. We didn't know exactly when.

ROBERT L. HETZEL: The next big crises were for Mexico and then Asia and Russia. Do you feel like the Fed's going to look pretty good with hindsight in those? Do you feel like we did create some problems, moral hazard perhaps with Mexico?

ED BOEHNE: No.

ROBERT L. HETZEL: And then Asia coming—you know raising [inaudible 01:16:26]

ED BOEHNE: Well, the Asian thing is more firmly in my mind. I think as time goes on, I think people will—the Asian crisis will fade in people's memories and I think people will look back and say the Fed should have tightened earlier. No, and-and I think it was two things that-that caused the Fed to delay. One was the Asian crisis and the other was the Century date change. And I think that—you know in hindsight, things like that never looked to be as potentially dangerous as they do when you're looking at them. Monday morning quarterbacking is easier than making decision during the game on Saturday afternoon. And I think people were genuinely concerned that the Asian crisis—and it spread like wildfire.

[01:17:30]

ROBERT L. HETZEL: Yeah.

ED BOEHNE: And I think people were quite concerned that the system was at risk. And then we had the century date change which turned out to be not much, but loomed very large in people's minds. And I think that there's no doubt that we stayed easy too long. And I think without those two events, the Fed was prepared to tighten in '98.

ROBERT L. HETZEL: Right, right. Yeah.

ED BOEHNE: We had talked about tightening in '98.

ROBERT L. HETZEL: Right.

ED BOEHNE: We [inaudible 01:18:06] in '98. And we just got sidetracked by the Asian crisis. And that got us sidetracked by that into '99. And I think we probably would have inclined to tighten more, we would have been inclined to tighten, and then people would say, oh, my gosh, we got the century date change, that was a problem.

ROBERT L. HETZEL: And what was the concern about the century date change in terms of-of interest rates? It was just, you know, a combination of stresses? Well, you had big computer failures?

ED BOEHNE: Yeah, I think it was just the idea to be sure that there was plenty of liquidity on the system and that there wouldn't be a seizing up, you know. You recall that we had all these cash storage places around the country and.

ROBERT L. HETZEL: Oh, yeah. Oh, yeah, that was a huge big deal.

ED BOEHNE: It was a big deal and I think that there was just this sense that-that there could be a computer failure and that it would get a—you know, people weren't paying their—weren't paying off and just get a liquidity crisis. And that the—you know, in hindsight, it all went smoothly.

ROBERT L. HETZEL: Yeah.

ED BOEHNE: But that was the sense.

ROBERT L. HETZEL: Yeah.

ED BOEHNE: That you could get that sort of thing. And it was very real in the minds of people.

ROBERT L. HETZEL: Yeah.

ED BOEHNE: At that point, and I think the whole thing probably costs us 18 to 24 months of tightening and it-and it contributed to the problems that we had. Now having lived through that, I understand why…

ROBERT L. HETZEL: Yeah.

ED BOEHNE: … why we did it. And yeah, I think we would—the Fed would take it on the chin and already is to some extent, but we will take it on the chin. Going back, having lived through it, I mean I think we made reasonable choices at the time. But looking back I think—I think it probably won't look—won't look as—that good.

ROBERT L. HETZEL: Let me ask you a final question. Do you think that the Federal Reserve System has created an impossible job in the form of the chairmanship of the federal open market committee? Do you think we can find mere human beings who can follow Volker and Greenspan?

ED BOEHNE: Well, the answer to that is yes. I mean it's—I think that the kind of job that it evolved into is that—probably going to get people of stature. But I think that whoever comes into the job is going to realize pretty quickly that better—better do your job in a pretty objective way whether you come at it from Republican point of view or a Democratic point of view. Again, mistakes happen. Can a bad choice—well, yes, of course that can happen.

ROBERT L. HETZEL: Yeah.

ED BOEHNE: Part of the process. But I think that better exposure of whoever has to make the next appointment, I think that they're not going to make that appointment lightly. I think they will make it knowing full well it could be one of the most important appointments not only for them politically, but I think just a point for the country. I think any president made a bad appointment, I think—punished so quickly by the markets.

[01:22:28]

ROBERT L. HETZEL: Yeah.

ED BOEHNE: I just think the president ought to try to get somebody with stature. Whoever comes in there can make good decisions or bad decisions, but I think…

ROBERT L. HETZEL: Yeah.

ED BOEHNE: I don't think it will be over a choice of some [inaudible 01:22:45]

ROBERT L. HETZEL: Yeah. Yeah. I agree with that. Well, we just covered 30 years. You have a pretty good memory. Anything that we should get on the record in terms of your overall feelings about…

ED BOEHNE: I often say it, and probably clearly I know Al would differ with this view, but I think that there are some people who would like to lay in some rules for the Fed to follow. You know, because I think there's a distrust of human beings, it goes back to the old Frank Knight debate. [inaudible 01:23:29] and rules versus man—I should say rules versus people debate.

ROBERT L. HETZEL: Yeah.

ED BOEHNE: I personally don't think that it will work. I've always viewed—where I've come out after 30-plus years in the Fed is that we just can't have sort of duck-swinging monetary policy where we just kind of go from meeting to meeting. But I dint think we can have firm rules either. I've thought of something different in the sort of in-between. You might call it a disciplined discretion. But I think where you have a clear sense of what it is you're trying to accomplish—but I think the world gets too complicated to think that you can make monetary policy with rules. I think the experience with the European Central Bank—I think they've come to the conclusion that they need a little more latitude. But I'll admit it's a trade-off. I mean if you have it loose enough, then you could easily find yourself back where we were in the 1970's,. But I think if you have it—if the rule's too tight, I think you don't take into account the complexities of the real world.

ROBERT L. HETZEL: Yeah. Yeah.

ED BOEHNE: So I think you need this kind of disciplined discretion and, you know, I'll admit that that's a more difficult thing to explain. I don't think it's very popular in academia and I know that Al and I, as good friends as we are and as much as we respect each other, would probably respectfully differ on that. But I would love to be able to think of a rule that would get us through things, but frankly, I don't think it's fair and I think we're always going to have to have a significant element of discretion to get us through the fire.

ROBERT L. HETZEL: Yeah. Okay, okay. Well.

ED BOEHNE: …Greenspan go out.

ROBERT L. HETZEL: Yeah.

ED BOEHNE: Soon. And we're going to have Al go out. We're going to have Bob Perry.

ROBERT L. HETZEL: Yeah, I think, that was one reason they appointed Don Kohn, but you can't put that on one person.

ED BOEHNE: I have a lot of institutional memory. And we're going to have a lot—I was the first of that sort of generation to go. I was the first to get the job around the table but I was one of the first to go. And I think, you know, we saw that happen in—early in my tenure where we had an awful lot of people just go by the wayside. Now Bob Black was a—he fortunately, his 20 years or roughly 20 years was very helpful in maintaining that institutional memory because he was both a colleague, for example, with the Dave Eastburn generation.

[01:26:58]

ROBERT L. HETZEL: That's right.

ED BOEHNE: And of my generation. And I always found Bob to be very helpful. Now I don't—I guess we have Gary Stern in there and people like that who will be around. But yeah, I think Don Kohn certainly can play that role. But you're right, we don't—a lot of it is just passed on and frankly, I don't think about this stuff very much until I get into a conversation like this and then I'm—even though I'm out of the Fed and don't really have any constraints, I still respect the institution so much that I probably wouldn't have been quite as open without outsiders as I would be with you.

ROBERT L. HETZEL: Yeah.

ED BOEHNE: And yet, we don't have anything to hide really. I mean we ought to be open about it. Talk about it and talk about the human side of it as well as the policy side of it. So I'm glad that you're doing it. I suppose—I don't know how the Bob Woodward book was read pretty widely, but …

ROBERT L. HETZEL: But yet, that sort of book is just sort of this happened and that happened and.

ED BOEHNE: Yeah, and it was sort of a [inaudible 01:28:19]

ROBERT L. HETZEL: There's no logic to—you don't have any understanding of why things happened.

ED BOEHNE: It was kind of a news report.

ROBERT L. HETZEL: Yeah. Exactly, yeah.

ED BOEHNE: And I think you need somebody who can write in plain English, but at the same time you know has the actual capacity to make it all hang together.

ROBERT L. HETZEL: Yeah. Yeah. Well, that combination of abilities has always been very important with the Philadelphia Fed. And I know you had something to do with creating that kind of research department. So.

ED BOEHNE: Well, good luck. And if you want to give me a call back somewhere along the line, I'll be happy to be helpful, because I think it's good work that you're doing.

ROBERT L. HETZEL: Yeah, great. Oh, one.

[01:29:13]

[END OF RECORDING]