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## Interview of Frederick Deming

Conducted by Robert L. Hetzel

February 13, 1995

**Robert L. Hetzel:** Your experiences with the Fed go back to the late forties. When did you—your first job was—with the Fed was with the St. Louis Fed?

**Frederick Deming:** Yes. I—and I became a member of the research staff, I guess I was the assistant manager, maybe I was a manager. We didn't have a department, we had three people. And that was in 1941, in September.

**Robert L. Hetzel:** And were you at the St. Louis Fed until you transferred to the—

**Frederick Deming:** To Minneapolis.

**Robert L. Hetzel:** —Minneapolis Fed?

**Frederick Deming:** That's right.

**Robert L. Hetzel:** Or you were there continually?

**Frederick Deming:** That was in the first of April, 1957 when I went to Minneapolis.

**Robert L. Hetzel:** You're the only person I know who has had contact both with the Senior Martin and with Bill Martin, Junior. Is there anything I should know about Bill Martin's father—

**Frederick Deming:** Well he was president of the Federal Reserve Bank of St. Louis after I joined it. Chester Davis was the president when I was—in 1941. Old Mr. Martin was a very, very vague man. I'm not sure he even knew who his children were. He seemed to be able to be able to recognize me. I don't think he knew who I was, but he at least thought he'd seen me before. And so when he came down to the bank on any sort of business or visit, I got the job of shepherding him around. And he—I can remember one day when we walked past my office, I was with him, and he looked in and saw the desk, it was empty and he says "he's not here, is he?" So—but he was a perfectly competent central banker.

**Robert L. Hetzel:** Is there anything—

**Frederick Deming:** Didn't remember people very well.

**Robert L. Hetzel:** Is there anything about his attitudes, his way of looking at the world that—

**Frederick Deming:** [Crosstalk unintelligible 00:01:56]

**Robert L. Hetzel:** —was passed onto his son, do you think?

**Frederick Deming:** I don't know. I suppose that he gave him a rigid Presbyterian background. He came out of Virginia, you know.

**Robert L. Hetzel:** No, I didn't know that.

**Frederick Deming:** And he worked for Carter Glass.

**Robert L. Hetzel:** Oh, that's fascinating. I didn't know that.

**Frederick Deming:** When he was a very young man, he—I think he went to Washington Lee University. And he married a St. Louis girl, was then—let me see, his name was McChesney too. I was going to say he married a McChesney, but he couldn't have. Bill Martin is William McChesney Martin, Jr. And the old Mr. Martin was William McChesney Martin. And I thought he married a St. Louis girl, maybe he—I'm sure he did, but I don't remember who she was.

**Robert L. Hetzel:** Okay, so your main contact with the senior person was just shepherding him around the place.

**Frederick Deming:** Sort of guiding him around when he came in.

**Robert L. Hetzel:** You never got into any conversations about—

**Frederick Deming:** No, not about policy at all.

**Robert L. Hetzel:** When did you first attend an FOMC meeting?

**Frederick Deming:** I don't really remember. I was secretary of the president's conference back in—probably in the late forties I guess. I don't really recall. I succeeded Bill Treiber, who had been secretary. You know they—I don't know whether they still do this or not, but that conference used to meet four times a year. And they rotated the presidency.

**Robert L. Hetzel:** Yeah, that sounds right.

**Frederick Deming:** Chairmanship. And whoever happened to be chairmen at the time—picked the secretary for the committee from his bank, and I—Allan Sproul had been

chairmen here before Chester Davis was. And the year afterwards John Peyton from Minneapolis was, then I became the secretary and I just don't remember when it was.

**Robert L. Hetzel:** Bob Holland became secretary later on in the fifties, didn't he? I think.

**Frederick Deming:** He may have. And they may have changed the rules. See, I left the system in 1965. It was still operating about the same way then. I've got a picture in the library at home of the conference—and it must have been about 1962 or 63.

**Robert L. Hetzel:** Did bank presidents take their directors of research to FOMC meetings in the—

(tape skips)

[Crosstalk unintelligible 00:04:40] like they do now?

**Frederick Deming:** You see—the bank presidents really became active, and the Federal Open Market Committee, only after Bill Martin became chairman.

**Robert L. Hetzel:** Right.

**Frederick Deming:** And up to that time it was run basically, I think we've mentioned this before, where the Federal Reserve Bank president from New York and they picked Richmond and a fellow from Philadelphia because they were close.

**Robert L. Hetzel:** Right, because they could drive up.

**Frederick Deming:** That's right. And the rest of it was they—there were two to three members of the board—it was the executive committee that ran it. And the open market committee met only four times a year and two of the meetings were almost simultaneous. Because you organize the committee in the first of March, and so they had a meeting on the twenty-eighth of February for the old committee and the new one on the first of March. And basically the full committee, when I first knew it, met only really three times a year. And when Martin became chairman, that was in 1951 as I recall it, he almost immediately brought the other bank—the—created the open market committee as a operating unit instead of the executive committee. And that brought the presidents into closer contact with him.

**Robert L. Hetzel:** Right, well let's get that in a minute. Do you have any recollections of Eccles of when—

**Frederick Deming:** Oh sure.

**Robert L. Hetzel:** —when you were in the system, what kinds of things did—I mean, the executive committee must've been dominated by Eccles and Sproul.

**Frederick Deming:** That's right.

**Robert L. Hetzel:** And—because they were, they both had personalities such that they wanted to dominate.

**Frederick Deming:** That's right.

**Robert L. Hetzel:** And then of course, later on you had the [tape skips 00:06:16], so—

**Frederick Deming:** That's right. But Sproul and Eccles got along better I think than Sproul and Martin did.

**Robert L. Hetzel:** Because there was less to argue about because there was less to argue about?

**Frederick Deming:** I don't know. You see, I saw the open market committee only tangentially at that time, because I was a secretary of the conference. And they always had a meeting at the conference—president's conference. And I didn't really attend the meeting so much as I attended secretary at the president's conference. And it was when Martin became chairman that he brought the presidents in.

**Robert L. Hetzel:** Right.

**Frederick Deming:** And then they brought their directors of research along with them. And by that time, I guess I went to the open market meetings with Chester Davis—no, I didn't either, because I don't think he was president at that time. It was D.C. Johns was president of the St. Louis Bank. And by that time I guess I'd become first vice president. And I went alternately for him when he couldn't go.

**Robert L. Hetzel:** Do you have any recollections of what people said at the time for why Truman did not reappoint Eccles?

**Frederick Deming:** Oh he didn't reappoint him because he didn't like him. Eccles was a difficult man to get along with. And he—what he didn't do was resign as a board member. He just didn't get reappointed as chairman, they brought in McCabe.

**Robert L. Hetzel:** There was an issue at the time of how banks should hold their required reserves and Eccles was pushing a proposal for banks to hold Treasury securities as required reserves as a ways of immobilizing those security holdings and—

**Frederick Deming:** Well if he did that I haven't any recollection of it at all.

**Robert L. Hetzel:** Okay. What recollections do you have about the Accord?

**Frederick Deming:** Well, that was—actually the Accord was negotiated between Win Riefler, who was assistant to the chairmen at the time. And—who was McCabe, of course at that time. And Bill Martin, who was then an assistant Secretary of the Treasury, who was

acting for John Snyder. Snyder came out of St. Louis and he— just as an aside— he used to say that Bill Martin and I were his children.

**Robert L. Hetzel:** Snyder said that?

**Frederick Deming:** Yeah.

**Robert L. Hetzel:** So you knew Snyder from St. Louis?

**Frederick Deming:** Oh sure.

**Robert L. Hetzel:** Snyder must have been a difficult man to get along with too.

**Frederick Deming:** I didn't think so.

**Robert L. Hetzel:** Okay.

**Frederick Deming:** He couldn't get along with McCabe. They weren't even speaking to each other by the time McCabe resigned. But—

**Robert L. Hetzel:** And that's because Truman thought that McCabe had made a commitment to keep the price of Treasury bonds pegged and he wasn't forceful enough in maintaining that commitment.

**Frederick Deming:** That was probably it. You know, we didn't move the price of the Treasury bond by a thirty-second without creating a storm of protest. And when you—you said pegged—but he was a peg. And it wasn't until we got loose from that—with the fifty-one Agreement, that you could really do anything with monetary policy.

**Robert L. Hetzel:** What was Snyder's background? Was he able to understand the issues involved? Or was he simply—

**Frederick Deming:** Well he was—actually, John Snyder was a much better secretary to the Treasury than he's been portrayed as. He came up from Arkansas. He served in Truman's battery in World War One. He was the vice president of the Federal Reserve Bank—the First National Bank in St. Louis when I first knew him. And when Truman went down to the—came down to the presidency after Roosevelt was assassinated [sic], he brought a whole group of Missourians with him, which is not unusual. I mean it's unusual for Missourians, but he—it's not unusual for a president to pick people from his home state. And Snyder was one—I think he was—he was head of the RFC to begin with I think, and then became Secretary of the Treasury. He brought Stu Symington down as Secretary of the Air Force. He brought Harry Vaughan down who was sort of the local white house comedian. He brought Clark Clifford down. A fellow named Jake Vardaman down who then became a governor of the Federal Reserve system.

**Robert L. Hetzel:** Oh, that's interesting. There's a story about Vardaman, he was—

**Frederick Deming:** There are lots of stories about Vardaman.

**Robert L. Hetzel:** Well, I'll tell you mine, you can tell me yours. The story I heard the—was that Vardaman was on the board, and he was leaking versions of the internal disputes to the American Banker, which the others thought were biased. And during one board meeting, one—I guess the vice chairman started at the end of the table and he said “well I'm not leaking those stories to the American Banker.” And the next person to him said “well I'm not leaking those stories.” And this started working down the line to Vardaman. And you could see what was coming, and before it got to him, he stood up, said “this is—I don't have to take this!” and stormed out of the room.

**Frederick Deming:** If that's true I don't know it.

**Robert L. Hetzel:** Okay. Well I got the story from somebody who was in the meeting. So, I think probably is.

**Frederick Deming:** Jake's father was a senator from Mississippi. And he wasn't a very good senator, incidentally. James K. Vardaman, and then—James K. Vardaman second or junior, whatever he was, was Jake Vardaman, I came up to St. Louis and he was a banker at the Tower Grove Bank in St. Louis, and went into the Navy in World War II and was a commodore. I think he was the last person to hold that rank. And he wasn't a very good naval officer—actually Jake wasn't very good at anything. He ran a shoe company called the Vardaman Shoe Company, which went bankrupt. And he was appointed to the board, rumor has it that he was—Truman appointed him to the board because Bess Truman couldn't stand him. And subsequently Truman has said that that was the worst appointment he'd ever made.

**Robert L. Hetzel:** So what was the contact with Bess Truman? Why did she—

**Frederick Deming:** Because Bess Truman was the first—Harry Truman's wife.

**Robert L. Hetzel:** Sure.

**Frederick Deming:** And she didn't like Vardaman. He was the Naval Aide at the White House.

**Robert L. Hetzel:** Oh I see, I didn't understand that.

**Frederick Deming:** And Clark Clifford was the Assistant Naval Aide.

**Robert L. Hetzel:** So it got him out of the White House.

**Frederick Deming:** That's right. That was all she wanted done. And he put him on to the board. And—partly because he was annoyed with the board anyway I think. But he subsequently was reported to have said, according to his daughter, that that was the worst appointment he'd ever made.

**Robert L. Hetzel:** So Snyder could understand the issues that were involved. It wasn't just a case of I'm the Secretary of the Treasury and I don't want to pay more for my debt, I want to—and didn't [tape skips 00:13:47] think beyond that.

**Frederick Deming:** Every Secretary of the Treasury had that feeling. There's nothing unusual about that. He wants to borrow at as low a rate as he can.

**Robert L. Hetzel:** And then, of course, Truman was just straight out populist. He couldn't [Crosstalk unintelligible 00:14:02]

**Frederick Deming:** Truman had seen the liberty bonds go down in value. And he regarded that as mortal sin. That's why he had his position on the thing. I don't think he was a populist and such, he just didn't like the [unintelligible 00:14:15] American bonds to go down. And populists have other views than that.

**Robert L. Hetzel:** So he was not a Lyndon Johnson, in that sense.

**Frederick Deming:** No. I don't think Truman ever really paid an awful lot of attention to that part of the thing except for the price of bonds. And he'd seen liberty bonds go down to eighty-one and at the end of World War One and he wasn't going to have that.

**Robert L. Hetzel:** Yeah. What about McCabe? He was kind of out of his element, wasn't he? I mean—

**Frederick Deming:** He was a—actually, McCabe was a better chairman than I think he's been portrayed as. He was sort of innocent. As a businessman he didn't have much contact with Washington. And he couldn't really understand why people in the Senate or Congress would pick on him. He regards that as sort of a personal insult. And there's a fellow named Tobey who was a Republican from New Hampshire, who was especially mean to him—of course he came out of Scott Paper, and they made toilet paper. So a lot of comments about that. But McCabe was chairman for only a short time, and—two and a half years? One and a half years, three and a half, something like that.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** And the Accord was negotiated under him. And he supported it and then then quit.

**Robert L. Hetzel:** Oh, but the dominant forces within the Fed at the time must've been Eccles, Sproul, and Riefler. McCabe, it seems hard to imagine him playing a dominant role with other characters that were so strong within the system.

**Frederick Deming:** Oh Eccles wasn't particularly effective at that time. He was just a board member. And he stayed on out of sheer meanness. He wasn't going to let Truman get rid of him. And I can remember being at a meeting where Eccles was, and this was up in New York, at one time when he was—we were having a drink at the bar—he was a Mormon but he took a drink—and he mentioned something about it, he said “that fellow, what's-his-name that fired me.” And he's referring to the president of the United States.

**Robert L. Hetzel:** That's funny. So, Sproul and Riefler must have been the dominant—

**Frederick Deming:** Riefler negotiated the agreement.

**Robert L. Hetzel:** And he was the dominant intellectual force at the board, I assume?

**Frederick Deming:** Right.

**Robert L. Hetzel:** And then—but there were other individuals who were strong-minded also. Did you have contact with Riefler, Woody Thomas and—

**Frederick Deming:** Oh yes, of course.

**Robert L. Hetzel:** —and Ralph Young?

**Frederick Deming:** Woody Thomas was the director of research.

**Robert L. Hetzel:** And Ralph Young was on the board and staff that time too?

**Frederick Deming:** Yeah.

**Robert L. Hetzel:** They were all strong individuals, strong-minded—

**Frederick Deming:** Yeah, but don't overrate their strengths. Riefler was the guy who did the negotiating with Bill Martin. And those two basically cut the deal. The others contributed, I'm sure, in terms of comment and help and so forth. But the two people who did this were Win Riefler and Bill Martin.

**Robert L. Hetzel:** Martin's role in this is generally portrayed as an accommodator, as somebody who got into an agreement as a negotiator, rather than an independent party. Is



that not right, Martin had a sense of how things—that this was not a good arrangement, it was going to break down and he was willing to facilitate it?

**Frederick Deming:** Which arrangement do you mean? The one before they signed the accord?

**Robert L. Hetzel:** Yeah, the—

**Frederick Deming:** The [unintelligible 00:18:12] peg.

**Robert L. Hetzel:** The peg, yeah. The pegs. Martin—

**Frederick Deming:** Martin, after all, understood markets pretty well. He'd been chairman of the stock exchange, he came out of a family that is basically the A.G. Edwards firm now. He was a floor broker for them in New York. He promised his mother that he would never drink or smoke and he never did. And when all the other people of the stock exchange were cavorting around and going to cocktail parties, Martin studied, played tennis.

**Robert L. Hetzel:** I think he did—

**Frederick Deming:** Married Cynthia Davis.

**Robert L. Hetzel:** He took courses in economics at Columbia University I guess.

**Frederick Deming:** He took—he graduated from Yale, of course.

**Robert L. Hetzel:** Sure.

**Frederick Deming:** And I think he—I'm not sure whether Bill ever got a Master's degree or not, but he took some courses in economics. And—but he essentially was a market man. And he understood market. And he understood that you couldn't operate the way they were operating to peg the rate and have any control over the credit situation. So he was the one that finally, I guess convinced John Snyder and the president that you had to do something here. And that result was the Accord. And Riefler understood markets. And—but he was the basic negotiator from the boards side, the Federal Reserve side. And I don't really know how much Ralph Young and Woody Thomas and Marriner Eccles and the rest of them contributed to this thing. It was essentially a Riefler-Martin deal.

**Robert L. Hetzel:** About the attitudes of Bill Martin, he was kind of in between the generations, the generation that was growing up during The Depression and then the later generation in the sixties, the Keynesian generation—I mean, on the one hand, he thought that government had a responsibility to intervene in the economy. He believed in the full employment act of 1946. On the other hand, he had the depression ideas that inflation, over-

extension of credit speculation had caused the depression. So on the one hand he thought government should manipulate interest rates to mitigate recessions, on the other hand, he was [Crosstalk unintelligible 00:20:37]

**Frederick Deming:** [Crosstalk unintelligible].

**Robert L. Hetzel:** He di—okay, well what is you—

**Frederick Deming:** He wouldn't [unintelligible 00:20:40] you should manipulate is very strange.

**Robert L. Hetzel:** Well lower—

**Frederick Deming:** I said he was a market man.

**Robert L. Hetzel:** —Lower—but when you had a recession, he was—he thought you should push interest rates down.

**Frederick Deming:** To have an easier credit policy, that's right.

**Robert L. Hetzel:** Right, manipulate was probably the wrong word.

**Frederick Deming:** But he—I can remember him saying—and I don't remember whether this was in a private conversation or the board meeting—but whatever it was, you could touch up a market, but you couldn't control it. And add that at certain times you could do something about the interest rate structure. That is by your actions. But basically it responded to stimuli and not to—I'm saying this badly. [unintelligible 00:21:24] responded to an easier credit policy. But that, if you had a preconceived notion that you wanted to bring the interest rate down to one and three quarters percent or something in the half percent, or whatever, that you could—you might get there with credit policy, but you couldn't get there that precisely with it and you couldn't touch a market up that easily.

**Robert L. Hetzel:** So, he also would've said that the Federal Reserve system could not control the rate of inflation. He would've said we're one of—we're an important influence—

**Frederick Deming:** That's right.

**Robert L. Hetzel:** We affect credit policy, but the government and other, you know, private sector forces, they also act to control inflation. So we're one influence.

**Frederick Deming:** That's right.

**Robert L. Hetzel:** Sproul, on the other hand, was more—believed the government could exercise greater control in terms of implementing—

**Frederick Deming:** Yeah, but you—you have to recognize two points on this thing. The Federal Reserve Bank of New York did the actual actions. They bought the security and sold the securities and did this sort of thing. Sproul viewed himself as the first among equals. He's a very nice man, I was very fond of him. But he had pretty definite opinions as to how—what you could do with credit policy. And he was much—when I say Martin was a market man, so was Sproul a market man, except he thought you could do more with markets than Martin thought.

**Robert L. Hetzel:** Well Sproul thought that you should intervene all along the term structure. And Martin thought you should intervene only at the shortest maturities.

**Frederick Deming:** That was a Riefler idea, the, you're talking about the Bills Only policy.

**Robert L. Hetzel:** Yeah. I'm just trying to get what philosophical differences there were between the two in terms of the way they looked at what we can do. [phonetic (Crosstalk) 00:23:22].

**Frederick Deming:** Sproul and Martin?

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** They were—Sproul thought that you could intervene all along the line, so did the New York open market desk.

**Robert L. Hetzel:** Yeah, Riles [phonetic 00:23:31]

**Frederick Deming:** And—but not just Riles, anybody who was there on the desk had that feeling. So did Bob Roosa. Any rate, the—Sproul's favored intervention along the yield curve, Martin eventually, basically because he got convinced by a study done by—well I can't remember the man's name, [unintelligible 00:23:54] New York Market and Guaranty Trust.

**Robert L. Hetzel:** Youngdahl and Leach.

**Frederick Deming:** Oh, Youngdahl was at the board.

**Robert L. Hetzel:** But didn't he later go to (tape skips 00:24:050

**Frederick Deming:** —but I'm talking about [unintelligible 00:24:06] when they did the study on the short term interest rate. And I don't remember his name. You've got it in your records some place I'm sure.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** But the—they did a pretty thorough study at Deider [phonetic-unintelligible 00:24:23 ], they talked to [unintelligible 00:24:25] lot of people, and they came to the conclusion, the study did, that if you intervened at the short end of the market you had less obvious governmental influence on the whole rate curve. And that became what is known as the Bills Only doctrine. Which wasn't altogether absolute, because there were times when they did intervene at different points in the market, but not very often. And, but Riefler was the great exponent of that thesis. Martin was sympathetically more in tune with that than he was with the Sproul thesis. And New York kept pushing the intervention at a lighter scale and Martin resisted that. And that was, I think probably the basic reason why he put the open market committee in total as the policy instrument rather than the executive committee.

**Robert L. Hetzel:** Well, there was the obvious issue of where final control was going to reside. Was it going to reside at the board, closer to American politics, or was New York going to remain a—

**Frederick Deming:** I don't think politics had anything to do with it. This was a philosophic approach not matter how you have monetary policy instruments.

**Robert L. Hetzel:** But both of the individuals involved had such dominate personalities, it's hard to believe that the issue of who was going to control—who was going to have the final say wasn't a key—wasn't underlying—

**Frederick Deming:** Of course it was. But I didn't—I thought you were talking about the vested political scene.

**Robert L. Hetzel:** No, but I think the board people felt that inevitably it was naive to think that the New York Fed could remain a dominant player in the formulation of monetary policy, given the change in the political environment, the concern over full employment and—

**Frederick Deming:** Well the board staff, of course, was sympathetic to the board position.

**Robert L. Hetzel:** Sure.

**Frederick Deming:** And the New York staff was sympathetic to the New York position. And to that extent, I guess you could say that the two staffs didn't see eye to eye.

**Robert L. Hetzel:** No, they certainly didn't. That's for sure. (tape skips 00:26:52) In terms of control, there were—two things went on. One is there was the debate over who should oversee the implementation of monetary policy, whether it should—the head of the

open market operation should report directly to the New York Fed president, or whether he should report to the FOMC. And that was a contentious issue.

**Frederick Deming:** Yes, but it—there really wasn't a strong objection to the [unintelligible 00:27:23]. The manager of the open market account was elected by the committee.

**Robert L. Hetzel:** Was Roos [phonetic 00:27:32] initially selected by the committee?

**Frederick Deming:** Yes. I mean, always the New York man was put forward because he was there. You had to have somebody was running this affair. And he was put forward but the manager of the open market account was selected by the committee. He reported both to the president of the Federal Reserve Bank of New York and to the committee and such.

**Robert L. Hetzel:** And then Martin brought the regional bank presidents in because it was a more congenial environment. It was a form where he could exercise more effective control.

**Frederick Deming:** That's right. And he—Martin believed in that in that, at any rate instinctively, that it was better to have—rather than have this, such a tight executive committee, which it was fundamentally the chairman and the New York Bank President making policy because with all due regard to Richmond and Philadelphia they didn't really have much influence on policy.

**Robert L. Hetzel:** Well I'm sure that's true.

**Frederick Deming:** But the—

**Robert L. Hetzel:** I'm sure that's true.

**Frederick Deming:** They were on the whole, Martin believed in a more democratic process. Sproul was not an antidemocrat, he just thought that the desk and the New York bank knew more about implementing monetary policy than the board did, which was away from the markets.

**Robert L. Hetzel:** Sure, if you believed in tone and feel, you needed somebody right there on the (tape skips 00:29:00) to make decisions, not somebody several hundred (tape skips unintelligible 00:29:03)

**Frederick Deming:** That's right. And it wasn't that easy to communicate in those days, you understand. The phones worked, but it took some time work.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** I used to call my wife from Washington, from the Carlton Hotel when I was in Washington and the process was this, it was usually done in the evening, and you call the operator and she'd say I'll call you back in twenty-five minutes.

**Robert L. Hetzel:** Oh gosh.

**Frederick Deming:** Long distance call to St. Louis.

**Robert L. Hetzel:** Yeah. I'm sure you can remember trying to call from abroad too when you [Crosstalk unintelligible 00:29:35]

**Frederick Deming:** Yeah, that was—

**Robert L. Hetzel:** That was even worse.

**Frederick Deming:** - even worse.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** But, the communication simply wasn't as rapid then and now it's pretty simple to pick up the telephone and get somebody a thousand miles away.

**Robert L. Hetzel:** Yeah. Did you ever go to the New York desk and spend time there?

**Frederick Deming:** I went to the New York Federal Reserve in, I guess in 1945 or '46 to get sort of indoctrinated in how open market policy worked. I sat on the desk, I'm not an operator, you do you understand, as an observer, for I think a couple of weeks.

**Robert L. Hetzel:** Was Rouse the—

**Frederick Deming:** Oh yeah, he was the manager.

**Robert L. Hetzel:** And he had a rather unyielding sort [(tape skips) unintelligible 00:30:20]

**Frederick Deming:** Oh he was very pleasant man.

**Robert L. Hetzel:** Okay. Some of the people who've worked for him thought [(tape skips) unintelligible 00:30:27]

**Frederick Deming:** Well I'm sure he didn't. But don't—

**Robert L. Hetzel:** Sure.

**Frederick Deming:** Don't try to cast these people as ogres and demons and violently opposed to each other. This was a perfectly gentlemanly disagreement. They didn't swear at each other and things like this. And Bob Rouse was a very competent manager of the open market account. Now Rick Youngdahl who is an old but very close friend of mine, didn't like the way Rouse ran the desk. Didn't mean the thought he was a bad man, he just didn't like the way he was operating.

**Robert L. Hetzel:** Yeah, and the same thing with Leach [(tape skips) unintelligible 00:31:08]

**Frederick Deming:** Ralph Leach you're talking about, not Hugh Leach.

**Robert L. Hetzel:** Yeah Ralph Leach, yeah. Let me ask you about your impressions of how people saw the interaction between the Fed's monetary policy and the recessions and inflation that occurred in the 1950s. During the Korean War, the whole political system was pretty conservative. Truman asked for a tax increase from Congress and he got it and—

**Frederick Deming:** Three.

**Robert L. Hetzel:** Okay. And the Fed, you know, was not about to let the World War II style inflation get out of hand. So monetary and fiscal policy were both pretty restrictive and you got a recession in '53, '54.

**Frederick Deming:** Yeah.

**Robert L. Hetzel:** And then the—Martin was—and Sproul, they were new style interventionists. They thought you had a recession you should have an easier credit policy, so they pushed rates down. But then subsequently Martin felt that the Fed overdid it in '54, they pushed rates down too far and that contributed to the inflation they had in the period '55, '56, '57, is that correct?

**Frederick Deming:** Yeah, I think that's probably basically true. You, being at the—you're in a research position, aren't you?

**Robert L. Hetzel:** Right.

**Frederick Deming:** But you understand this is not a very exact science.

**Robert L. Hetzel:** Oh yeah. I'm just trying to get your recollections of how people, view—you know, whatever you can remember about the way people viewed things at the time. (tape skips 00:33:03) how you viewed them.

**Frederick Deming:** My own judgment is—

**Robert L. Hetzel:** Yourself.

**Frederick Deming:** That the Federal Reserve basically had always been more sensitive to inflation than to deflation. That it has always been a little bit more eager to clamp down than it is to ease up. And that runs basically through the system's history from the time it was founded. And the different chairman and different New York bank presidents and different presidents in the Federal Reserve banks have differing senses of what is important at one time, what is important at another time. But fundamentally the system has been, if anything, a little overzealous on the anti-inflation side. Under zealous on the anti-deflation side.

**Robert L. Hetzel:** Do you have any recollections of Arthur Burns at that time, of his—

**Frederick Deming:** About who?

**Robert L. Hetzel:** Arthur Burns, of his input?

**Frederick Deming:** Arthur was—came in, of course, quite late to the Federal Reserve system in 1971.

**Robert L. Hetzel:** But as head of the Council of Economic Advisers for Eisenhower.

**Frederick Deming:** Yes, but he was head of the, of a Council during the Eisenhower years.

**Robert L. Hetzel:** Right.

**Frederick Deming:** And at that time, the Council I don't think was quite as influential as it was in subsequent years. Walter Heller really made the Council an active participant in economic policy decisions. And Arthur didn't really do that much with it. When he became chairman of the Federal Reserve System, he was a good chairman incidentally, I think he was probably a little, like all other chairman, a little more inclined to see inflation around the corner than he was to see deflation around the corner. If you read the minutes of the open market committee, you can see that running through the Burns period. And I don't really think as chairman he was an awful lot different from Martin. Personalities obviously, but.

**Robert L. Hetzel:** Yeah. So, you think—you would agree with (tape skips 00:35:20) overdid it, especially in 1959 and 1960, Martin, if you go back and read the



minutes, there's an over increase in interest rates at the beginning of '59, and then two increases later on, one in end of July and one end of December, which must have been Martin's, since interest rates rise significantly, but there's nothing in the record to indicate that the FOMC signed off on them. Is it your impression that monetary policy overdid it at that time?

**Frederick Deming:** No I don't really think it overdid it very much.

**Robert L. Hetzel:** Okay.

**Frederick Deming:** But I—all I'm really trying to say—

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** This case, is the Council and the Treasury both were in favor of lower interest rates than the Federal Reserve was. The Treasury because it was borrowing. Borrower never wants to pay any more than he has to.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** And the Council because spiritually I guess you'd say, the Council was dominated by people who felt that interest rates were always a little too high. The—Walter Heller was one of my closest friends. And he wasn't quite as aggressive on a lower interest rate policy as Jim Tobin was. Tobin was convinced that interest rates, if they went up were fatal.

**Robert L. Hetzel:** Well but, Tobin was looking more at—as long as long term interest rates remained low, Tobin seemed happy. He was willing for Roosa and the Treasury to push short term rates up to deal with the international situation. As long as the long term rate didn't increase.

**Frederick Deming:** Yeah I guess that's probably true. Although, Jim, coincidentally, as a low interest rate man. Always had been.

**Robert L. Hetzel:** Sure.

**Frederick Deming:** He's one of my closer friends too, incidentally, and I like him very much. We disagreed on a lot of things.

**Robert L. Hetzel:** When did you get to know Heller?

**Frederick Deming:** When I went to Minnesota. I knew him before that. But not that well. And I went to Minnesota in 1957 and Walter was a professor at the University of Minnesota and we saw a lot of each other. And he was appointed to chairmanship of the

Council of Economic Advisers, of course, by Kennedy. And he had been recommended that job by Paul Samuelson. And Walter was a good chairman. And he was a good economist to begin with, and he had an engaging manner. And he served us as chairman of that council for about four years. He had gone by the time I went to Treasury, Gardner Ackley was the chairman when I was out there. And Walter had the most publicized income for [unintelligible 00:38:24] almost anybody in the government.

**Robert L. Hetzel:** What was that? I hadn't hear of that.

**Frederick Deming:** He complained bitterly that he wasn't get paid enough.

**Robert L. Hetzel:** Well, he wasn't, I'm sure he wasn't.

**Frederick Deming:** I know, but nevertheless. He was the one that was—at that, at the time, in the early sixties they got most of the publicity by saying the government salaries were too low. He had done better as a professor at the university and with some consultancies and so on than he did on the Council of Economic Advisers.

**Robert L. Hetzel:** So did you at times take the plane with him from Minneapolis to (tape skips 00:38:57)

**Frederick Deming:** No, I knew him personally quite well. We saw each other with great frequency. And his wife and my wife were friends. We went dancing together as a matter of fact at times. And he (tape skips- unintelligible 00:39:15]. There wasn't anything that unusual about that sort of relationship.

**Robert L. Hetzel:** No, I just curious of—well, I'm curious to, I guess what I'm leading up to is whether you talked economics and what you thought of—he was very, you know, he was Mr. Keynesian and—

**Frederick Deming:** That's right.

**Robert L. Hetzel:** And I'm curious—I'm curious whether you two argued economics or whether you were, you know, generally saw things eye to eye, just curious.

**Frederick Deming:** Well Walter, especially was public finance. And he was essentially a fiscal policy man, I guess you'd say.

**Robert L. Hetzel:** Sure.

**Frederick Deming:** And I was essentially a monetary policy man.

**Robert L. Hetzel:** So Tobin, if Heller was public finance, then Tobin would've been, and perhaps Solo would've been the strongest macro people on the council.

**Frederick Deming:** I guess that's right. See the Council was Heller, Tobin and Kermit Gordon. And I took them to dinner at a restaurant that probably doesn't exist anymore called the Black Ham or some such thing as that, right around the corner from the executive office building, about the 25<sup>th</sup> or 26<sup>th</sup> of January. And I was just back from Europe. And it snowed during the inauguration you may remember, may know, when Kennedy was inaugurated. And I knew all of them quite well, I still see Tobin, Gordon's dead.

**Robert L. Hetzel:** Sure.

**Frederick Deming:** And Heller's dead.

**Robert L. Hetzel:** Yes.

**Frederick Deming:** The last time I saw Tobin was probably a year or so ago. But he came out of Wisconsin. He's got a summer place in Wisconsin.

**Robert L. Hetzel:** [(tape skips) 00:41:01] So let's get into the 1960s. In the early sixties, the Treasury was quite conservative and quite concerned about balance of payments. As you've said, the council was much more concerned about using fiscal policy to eliminate the output gap. But at that time, the Treasury was, if anything more important than the council in terms of influencing Kennedy's views. So the Fed didn't endure the kind of pressure that it did under Johnson, is that a correct statement? I mean, basically the Treasury and the Fed saw eye to eye under Kennedy.

**Frederick Deming:** There were three people. The Budget Bureau, the Council and the Treasury Department, they call the Triad. And the Quadriad was formed when the Federal Reserve came into it.

**Robert L. Hetzel:** That's right.

**Frederick Deming:** When I was in Treasury, we had [unintelligible 00:42:04] over for lunch every week to the Federal Reserve System. And the chairmen came over and talked to the Secretary of the Treasury I guess every week. I don't think that had changed appreciably during the Kennedy or the Johnson administrations. I don't really know what they do now, but as far as I know, afterwards, when Nixon was president, they still did that. And you—there were conflicts obviously, differences of opinion, as well as differences of philosophy. But, I was never aware, and I don't think anybody was, of hostility between the council, the Treasury, the Federal Reserve or the budget bureau. These are all manned by, normally intelligent people. And the—now I don't know whether this got more controversial later on, when Beryl Sprinkel was chairman of the—was under-Secretary of the Treasury for monetary policy. Beryl's a monetarist.

**Robert L. Hetzel:** Right, yeah, I know him.

**Frederick Deming:** You know him?

**Robert L. Hetzel:** Well, I've met him a few times.

**Frederick Deming:** And he was pretty damn difficult to deal with. He gave Volker an awful lot of problems.

**Robert L. Hetzel:** That's [crosstalk unintelligible 00:43:25]

**Frederick Deming:** And

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** Mainly because he felt that they—the Federal Reserve wasn't paying enough attention to the money supply. And the—from my point of view the money supply is a fragile reed to lean on. But Beryl believed that that was the-all-and-end-all of things. And, now there was never that kind of hostilities between the under-Secretary of the Treasury for monetary affairs and the Federal Reserve system up until the Sprinkel tenure, that I know of at any rate. The—almost all of the others who were in there got along reasonably well together. You'd get mad at the desk from time to time. Or I'd get mad at the desk from time to time because I thought they didn't do what they would've been doing. But there was never anything very personal about this.

**Robert L. Hetzel:** Yeah. Let me ask you about the debate (tape skips 00:44:29) exchange intervention, swaps, the feds involvement in activities that before had been carried out by the exchange stabilization fund. Do you remember the debate that took place within the FOMC in late '61 and early '62 over whether it ought to become involved in establishing swap lines?

**Frederick Deming:** Well yes, but it wasn't—my recollection wasn't that there was great hostility to that. You understand that the presidents at that time and the board members for that matter, didn't really understand much about this.

**Robert L. Hetzel:** Well I went—I've read those minutes and there was quite a bit of concern among the presidents about whether this was an appropriate activity for—

**Frederick Deming:** Yeah, I know but [unintelligible 00:45:22] the reflection of the fact that they didn't know very much about it. The—all of that had been done, fundamentally by the Treasury and the New York bank. And I don't have a recollection that there was a deep philosophical objection to the swaps. I think there was probably some lack of understanding

as to just what they were supposed to accomplish. My wife always accused me of dealing in funny money. And some say that's what the swaps were.

**Robert L. Hetzel:** Yeah. Do you have any recollection of why Martin was unwilling to go to Congress for authorization? That parts missing from the minutes. A couple times it says, you know, Martin goes and he confers with the head of the House Banking committee and he comes back and he says "well I don't think it's going to work." Do you have any recollection of those—

**Frederick Deming:** No. You mean when we went and talked to Patman?

**Robert L. Hetzel:** I'm wondering if—I don't think, was it Patman at that time? I'm—I can't remember whether it was Patman or Reuss or someone else.

**Frederick Deming:** Well Reuss wouldn't have had voiced any problem on this that I know of. I knew him quite well. And—

**Robert L. Hetzel:** I just don't—I'm sorry, I'm just, my memories failing me. I don't quite remember who was head of the house banking committee in 1962, whether it was Patman, or—it could've been Patman—

**Frederick Deming:** I think Patman was still there. I think Henry Reuss [phonetic 00:46:57] became chairman of the banking committee about the time I went down to the Treasury. But in—I don't really remember Martin having a—he may have— (tape skips off)

[00:47:10]

[END TAPE 74, SIDE A]

[START TAPE 74, SIDE B]

[00:47:13]

**Frederick Deming:** —and ran it pretty well.

**Robert L. Hetzel:** Well Coombs was quite influential in the foreign area, right. He'd been Kennedy's roommate at—

**Frederick Deming:** Yes, he [unintelligible 00:47:26] do anything about it.

**Robert L. Hetzel:** When you were at Treasury the issues came up that's come up now about using swaps to help Mexico. Do you remember the discussions at the time about Mexico?

**Frederick Deming:** We didn't have any swap arrangements with Mexico when I was there as I recall.

**Robert L. Hetzel:** Yeah I think it—it was established in the—'67.

**Frederick Deming:** '67?

**Robert L. Hetzel:** Yeah. Okay well maybe it wasn't a big thing then. But [(tape skips) unintelligible 00:48:00] with Mexico in '67, I just wanted—

**Frederick Deming:** I just don't remember it.

**Robert L. Hetzel:** Sure.

**Frederick Deming:** Basically the swaps signs were with the European countries. And fundamentally were the countries that the members of The Group of Ten. And the—Charlie went over to [unintelligible 00:48:15] I guess with all the meetings, and the swaps were his sort of personal invention. And on the whole they worked pretty well.

**Robert L. Hetzel:** I just always assumed that Bob Roosa was the one who came up with the idea of the swaps. You think—

**Frederick Deming:** He may have been. But Charlie did the operations, bonds. And Roosa invented Roosa Bonds. He did a lot of things to keep our gold supply under control. And that's what the bonds did.

**Robert L. Hetzel:** Right. Yeah, they provided cover for dollars that—

**Frederick Deming:** That's right.

**Robert L. Hetzel:** [Crosstalk unintelligible 00:49:12] central banks were holding. Okay, when did [(tape skips) unintelligible 00:49:16] go over to the Treasury?

**Frederick Deming:** 1965.

**Robert L. Hetzel:** Okay.

**Frederick Deming:** At the beginning of the year.

**Robert L. Hetzel:** So you went over while Dillon was still?

**Frederick Deming:** Dillon was still the secretary.

**Robert L. Hetzel:** And then Fowler came in April 1<sup>st</sup>–

**Frederick Deming:** Right after that. Dillon had already resigned the–I’ve heard the president say that he had a rumor that the Secretary of the Treasury wanted to resign but he hadn’t seen a resignation letter yet. That he just hadn’t read it, because I don’t think it was an outright lie. But Dillon was tired to death. He’d–he left the Treasury he went down the whole [unintelligible 00:49:59], he had a house and said he slept ten hours a day for the next two months.

**Robert L. Hetzel:** Yeah, I’m sure he did. Do you have any recollections of Dillon? Did you ever meet him or have contact?

**Frederick Deming:** Who?

**Robert L. Hetzel:** Dillon. Did you ever have contact with him?

**Frederick Deming:** Doug Dillon?

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** Of course I had. He was secretary when I was there.

**Robert L. Hetzel:** For four months, right?

**Frederick Deming:** Yeah.

**Robert L. Hetzel:** So what were your impressions of him?

**Frederick Deming:** A very able man. But I had met him earlier. He was Undersecretary of the State, when I had a mission Taiwan. And I had talked to him at that time. And I didn’t know him well, but I knew him before I went to Treasury and he was still there. He’d also been ambassador to France, of course.

**Robert L. Hetzel:** [(tape skips) 00:50:47] Let me ask you in general about your role in the Treasury. Fowler was a lawyer and his strong point was working with Capitol Hill. So somebody had to be the mastermind at the Treasury in terms of economic strategy. That had to have been you, I mean right? I mean, who else? I mean, by default, right? Because you were the–you were under Fowler, right? And as I say Fowler was a lawyer.

**Frederick Deming:** But I think Joe Fowler trusted me.

**Robert L. Hetzel:** Yeah, I’m sure he did.

**Frederick Deming:** And—to the extent that—the Treasury has always been a reasonable place to work with. You didn't have a lot of backstabbing or anything like that. And the whole Treasury staff was extremely loyal. And so I had an awful lot of help. And Fowler knew a lot more about this than you give him credit for. Yes he's a lawyer and—but his connections on Capitol Hill were excellent. He'd been an active Democrat. He wasn't really afraid of anything. I've seen him lecture Lyndon Johnson and that took a lot of courage. And—

**Robert L. Hetzel:** Was this on taxes, or—?

**Frederick Deming:** It was, I guess it had to do with taxes, because I think I've got a picture of him with his finger pointing at the president and saying "I bet you can't do this, Mr. President." The—Joe Barr was the Undersecretary of the Treasury. And we three got along quite well. So—

**Robert L. Hetzel:** Who are the economists you relied on for advice? Volcker was there for a while when you—

**Frederick Deming:** Volcker was there for a short period of time. He had been Roosa's deputy.

**Robert L. Hetzel:** Right.

**Frederick Deming:** Then he went back to the Chase.

**Robert L. Hetzel:** So he was there until, I don't know, November '65 I guess, something—

**Frederick Deming:** I had a fellow named Frank Schiff for a while. And I—Peter Sternlight came down from the New York Fed. And fundamentally you had two people that you worked with. One was the, what they called the deputy Undersecretary, and the other one was the guy that ran the debt management operations. And when I went down there and Volcker was the deputy Undersecretary, he came back to succeed me as Undersecretary. And there wasn't an awful lot of change in the—some change in style, I'm sure. But not an awful lot of change in the approach that had been taken. The first Undersecretary for monetary affairs was Randy Burgess. And the second one was Julian Baird who came out of St. Paul. Then Bob Roosa. Then me, then Volcker. And then some other people after that, of course.

**Robert L. Hetzel:** Sure.

**Frederick Deming:** [unintelligible 00:53:58] was the last one. But there wasn't an awful lot of difference until you came to Beryl, who philosophically, as I say was a monetarist. But the general line pursued by all of the undersecretaries that I'm aware of was not vastly different from one to another.



**Robert L. Hetzel:** To what extent did you rely on discussions with the council to work out positions on policy? Was there—

**Frederick Deming:** You mean with the Council of Economic Advisers?

**Robert L. Hetzel:** Yeah, with Ackley. Was there—were there matters in which you deferred to him, or did you kind of just [(tape skips) unintelligible 00:54:44]

**Frederick Deming:** We—see we had a whole series of meetings of the triad. And yes, I talked to Ackley. And I talked to Okun and all these other people. I—we saw them with great frequency. All you do in Washington is go to meetings.

**Robert L. Hetzel:** Yeah, sure.

**Frederick Deming:** You depended on the Treasury staff to flesh out positions that you had. You operated partly on your instincts. I don't think anybody operates much differently. Roosa I think was much more meticulous in his dealings than I was.

**Robert L. Hetzel:** Was there a difference working—you think, working with Ackley than working with Heller? Were they different personalities?

**Frederick Deming:** Heller wasn't chairman when I was there. He had left and Ackley had become—I guess Ackley came in at about the same time I did. I can't answer that question. I don't know. But I had no problems with Ackley. The—

**Robert L. Hetzel:** Let me ask you about Bill Martin. In 1965, Martin was quite active in lobbying for an increase in the discount rate. And at times he was willing to make his case publically. There was the famous speech he gave at Columbia in June of 1965, when he argued that the gold standard was threatened. Later on in the fall, he gave at least speeches perhaps off the record to the business community arguing his position. In '65 he was—he was quite aggressive in making his case publically. Were you in on any of—I guess you must have been, on Quadriad discussions where Martin and Johnson argued—

**Frederick Deming:** Yes, of course.

**Robert L. Hetzel:** And what's your rec—do you have any recollections? The only things I've seen on, you know, insider accounts on these conversations were that at times the arguments were heated, and that's the only—so if, anything you remember about these discussions I'd be interested in.

**Frederick Deming:** But only the—Martin was faced with the position where he thought he had to do something. The triad, the Treasury, the Budget Bureau and the Council, argued against the rise of the discount rate. They didn't argue against an increase in monetary

tightness. They thought the discount rate was probably too symbolic a move to take at that time. And they were trying to get the budget into somewhat better balance and maybe get a tax increase through—Martin was smarter than the rest of us in that he saw that you weren't get a tax increase through. And so he acted. He made a lot of people mad when he acted, including the president.

**Robert L. Hetzel:** Sure, I'll come back to that in a minute. Another one of the issues was the—if the Fed raised the discount rate, commercial banks would raise their prime rate and the Council thought that that would be a contravention of the guideposts. So they were opposed to an increase in the discount rate for that reason.

**Frederick Deming:** Yeah.

**Robert L. Hetzel:** Were you involved at all with the enforcement of the guideposts at that point and talking to banks about [Crosstalk unintelligible 00:58:27]

**Frederick Deming:** Of course, everybody was.

**Robert L. Hetzel:** So you had some conversations with bank executives at that [(tape skips unintelligible 00:58:35]

**Frederick Deming:** Yes. There was the—you see, we had the objective of trying to bring the balance payments into better balance. And we had the objective of financing the government who was borrowing more money than it should have been at the time. All of these things argued against—on the one hand, against an increase in the interest rates. And the only way you could make the payments balance operate then was to put some moral suasion into effect and we had the—whatever they call that program, that prevented borrowing in the markets by foreigners.

**Robert L. Hetzel:** Yeah, the voluntary credit—

**Frederick Deming:** State program. That was a Federal Reserve program, but this was another one that prohibited for all practical purposes, foreign borrowing in the American capital markets. We had arguments with the head of the Royal Bank—

**Robert L. Hetzel:** There was the interest equalization tax too.

**Frederick Deming:** Yeah. But the objective was to try to bring the payments balance into better balance, which we finally did in 1968. And it actually wasn't anything like as bad a balance as it is now, of course. But we were getting a lot of lectures from the Europeans about the improvidence of the American fiscal policy because they all thought we had to have a tax increase. And so did we. Except that it was difficult to get Wilbur Mills and the president of the United States to agree on this.

**Robert L. Hetzel:** Sure.

**Frederick Deming:** And the argumentation—none of these problems are as complicated as they're made out to be, but none of them are as simple as some people try to make them out to be. And what we were trying to accomplish, we eventually got accomplished by guess or by God I guess. And we did a lot of moral suasion. And sometimes it worked pretty well and sometimes it didn't.

**Robert L. Hetzel:** [(tape skips) 01:00:46] Back to the Quadriad meetings in 1965, since I don't have any direct commentary on these, what was it like to see Martin and Johnson arguing? Was Martin persuasive? Was Johnson persuasive? It was hard to argue with Johnson, wasn't it?

**Frederick Deming:** You mean the president?

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** Yes. I never saw Martin and Johnson argue. The Quadriad didn't meet with the president. It just met as a group. And it depended on who happened to be around at the time. Martin attended—Quadriad official. It was Martin, the Secretary of the Treasury, and the chairman of the Council of Economic Advisers and the Director of the Budget. As a practical matter, the chairman of the council and the Director of the Budget and the Undersecretary of the Treasury for monetary affairs form triad and really had a lot of contact with each other. We also had contact with Martin and the rest of the governors. And people on the staff, both at Treasury and at the Budget Bureau and the Council and the Fed. And I say all you do is go to meetings, there are all kinds of meetings. And, so the contact was almost continuous. And there were not anything that I recall being heated arguments. These were relatively intelligent approaches to what would be best to do. And sometimes you got your way and sometimes you didn't.

**Robert L. Hetzel:** Let me ask you about the discount rate increase [(tape skips) 01:02:37]. Did Johnson come close to asking for Martin's resignation?

**Frederick Deming:** Not that I know of. Martin went down to Texas. To all—all the reports I ever heard of, that was a perfectly amicable meeting. The president was not as mean as he's made out to be. He was—anybody west of the Mississippi river is the populist. You take that as a blanket statement. And—

**Robert L. Hetzel:** Are you being serious or facetious?

**Frederick Deming:** Hmm?

**Robert L. Hetzel:** Are you being serious or facetious?

**Frederick Deming:** I'm being serious.

**Robert L. Hetzel:** Okay.

**Frederick Deming:** The—fundamentally, the western part of the country was borrowing from the eastern part. And if you [unintelligible 01:03:32] being a populist means wanted lower interest rates, I think everybody west of the Mississippi River would be classed as a populist. And the president wasn't much different from the Secretary of the Treasury from Missouri, or the senator of Minnesota, the senator from Washington or California, whatever. I don't think that's quite as true today as it was.

**Robert L. Hetzel:** Sure.

**Frederick Deming:** But Johnson didn't seem like such an ogre to anybody who grew up, as I say, west of the Mississippi River.

**Robert L. Hetzel:** [(tape skips 01:04:07) unintelligible] Do you have any thought of Bill Martin?

**Frederick Deming:** I think he liked Martin. Martin is very difficult not to like.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** I think he liked Martin. I think he approved basically of the way he ran the Federal Reserve System. And after all, Martin stayed throughout the Johnson term.

**Robert L. Hetzel:** But, there is a difference of pre- and post- December '65. In '65, Martin was quite vocal in making his case for the independence of monetary policy. But after that, there—it seems like he works much more closely with the administration. The—Johnson's reaction to the discount rate increase must have made an impression on him.

**Frederick Deming:** I don't think so. I didn't detect any real difference in Martin from that time. He got his way on the discount rate. There were no more really serious arguments about that from there on. I can remember Volcker saying at the time, because he was still deputy Undersecretary at the time, that they had to do something. And—but there wasn't—the president, I'm sure, called him to order. He went down to Texas and apparently it was resolved amicably down there. I don't know that much about that—that particular affair, except that evidently the president and Martin got along all right.

**Robert L. Hetzel:** Let me ask you about the reaction of the housing industry to the increase in interest rates [(tape skips) unintelligible 01:05:53]. How much were you involved in the negotiations over the extension of Regulation Q and dealing with the housing lobby and the problems they were causing for Congress.

**Frederick Deming:** The housing lobby and the savings and loan industry were a real thorn in the flesh. There's a fellow from California, his name I've forgotten also, but was one of the great spokesman for the savings and loan system. Came into the Treasury one day and announced dramatically, he was going to say the entire industry failed.

**Robert L. Hetzel:** Yeah, the California S and L's always seem to be the ones living closest to the edge. That didn't change—

**Frederick Deming:** That's right.

**Robert L. Hetzel:** —from the very beginning.

**Frederick Deming:** But this was long before the S and L's got into real trouble, of course.

**Robert L. Hetzel:** Yeah, but it was the same thing, except it was different magnitude at that point. Although, they create an enormous [(tape skips) phonetic 01:06:44] amount of pressure on Congress. [(tape skips) 01:06:52], well you—had you—did you deal personally with Wright Patman on interest rate issues?

**Frederick Deming:** I'd never had that much—I testified before Patman. But that was when I was president in Minneapolis. I never had the kind of political contact with him that Martin had or that the Treasury had. He was—he's a peculiar fellow in a sense, almost benign in his accusations. And at the same time very determined about them. He came out of Texarkana. And—do you know Arkansas or Texas at all?

**Robert L. Hetzel:** A little bit. I'm somewhat familiar with Houston. Yeah. [(tape skips) 01:47:42]

**Frederick Deming:** Patman was a typical east Texan, or west Arkansan I guess. And he honestly believed interest rates were—ought to be low all the time.

**Robert L. Hetzel:** Was—he and Johnson got along, didn't they?

**Frederick Deming:** Not really. They—just because they were both Texans?

**Robert L. Hetzel:** I think, didn't their [(tape skips) unintelligible 01:08:10]

**Frederick Deming:** Yes, but—and I don't really think they had any particular close relationship. Sam Rayburn and the president did, of course. But I don't recall the president ever expressing an opinion about Patman.

**Robert L. Hetzel:** [(tape skips) 01:08:32] Why did you characterize his views on interest rates as benign? I don't—I doubt the people [Crosstalk unintelligible 01:08:40]

**Frederick Deming:** No, no. I'm talking about his attitude that—when he presided at a meeting, he was not an aggressive and mean questioner.

**Robert L. Hetzel:** I see.

**Frederick Deming:** He was almost benign in his approach to the witnesses and so on. I'm not talking about his actual policy, I'm just talking about his attitude.

**Robert L. Hetzel:** Yeah, I see. Yeah, that makes sense. Early '65 he had already gotten a large number, seventy some members of the house of representatives to sign onto a bill that would've fixed interest rates [(tape skips) unintelligible 01:09:13] the Fed to fix interest rates. Did he ever come close to organizing a movement within Congress to pass legislation to set the interest rates that the Fed could pay on deposits?

**Frederick Deming:** I don't think he ever got that close to it, no. I think he tried from time to time, but—he just had a thing about this. And I don't really think that he was ever very successful in what he was trying to do.

**Robert L. Hetzel:** Not even in '66, when there was so much concern [(tape skips) unintelligible 01:09:55] interest rates and housing and—?

**Frederick Deming:** I don't think he had any real chance of getting anything done then either. On the whole, I'm not sure you could still say this about the Congress, but on the whole, when I was down there the Congress was essentially sensible. And, yeah, but they—you get some wild ideas coming around so on. But basically they acted like responsible human beings. There was a cuckoo here and there, but not very many.

**Robert L. Hetzel:** Did you have any contact with the head of the Senate banking committee, Willis Robertson?

**Frederick Deming:** Yes I did. He was a senator from Virginia.

**Robert L. Hetzel:** Do you have any recollection of what his attitude toward the Fed was, or?

**Frederick Deming:** I think on the whole, it was friendly. Robertson was a great man to get to sponsor a bill. He was very careful, the Senate trusted him, and if Senator Robertson said it was all right to vote for this, they voted for it. Whether they knew anything about it or not. He was a—both your senators were good.

**Robert L. Hetzel:** Harry Byrd?

**Frederick Deming:** Yep.

**Robert L. Hetzel:** What were your recollections, or did you have dealings with Harry Byrd, I suppose on the tax-on tax issues?

**Frederick Deming:** Not an awful lot. But he used to—he never brought his wife to Washington as I understand it. And he used to stay at the Sharm [phonetic 01:11:18] Hotel. And when I'd come in there for a meeting, it'd usually be oh eight or nine o'clock at night, I'd normally go down have a cup of coffee or a sandwich or something in the what is now called the garden room, but it was—I've forgotten what it was called then. And Senator Byrd would be having supper there about that time. And I used to go over and say hello to him. And he knew I came from Minnesota and he told me that we had one of the best senators that he'd ever dealt with, although they didn't agree on anything. That was Hubert Humphrey. I knew his son too, the second senator Byrd. But Byrd, I think was chairman of the Senate committee when I was appointed.

**Robert L. Hetzel:** Senate committee on—?

**Frederick Deming:** Banking. But—no, he was chairman of the Senate committee on finance I guess. No, that was Russell Long. I've forgotten, at any rate.

**Robert L. Hetzel:** No, I can look that up, yeah.

**Frederick Deming:** Byrd was a very pleasant man and a good senator, and so was Robertson.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** I'm not sure I can say the same thing for his son.

**Robert L. Hetzel:** So the—in 1966 the sentiment within the Federal Reserve System appeared to shift from the idea that the Fed could raise interest rates enough to contain inflation to the idea that fiscal policy needed to bear more of the burden of a restrictive policy.

**Frederick Deming:** That's right. But we didn't get fiscal action 'til 1968.

**Robert L. Hetzel:** But do you feel like the experience with Congress—Congressional hostility to increases in interest rates? Do you feel like that was a factor in the Fed thinking? Or Martin just, himself, believed that a tax increase was the right thing to do and—

**Frederick Deming:** Well everybody believes the tax increase was the right thing to do, I say, except the president and Wilbur Mills. The president was opposed to it because he—the Vietnam War wasn't very popular. And he thought that was unlocking Pandora's box.

**Robert L. Hetzel:** Well, let me ask you about the tax increases in—the arguments within the administration for tax increases in 19—[(tape skips) unintelligible 01:13:50] early in 1966, the Council of Economic Advisers and the bureau of the budget began to argue for a tax increase. Initially the Treasury was on the sidelines—

**Frederick Deming:** Oh no, the Treasury was active in promoting a tax increase also. Everybody was, I say, except the president.

**Robert L. Hetzel:** Well, my understanding is that McNamara was opposed to a—

**Frederick Deming:** McNamara was opposed to it because he was running a Vietnam War and he thought this would cause them a lot of problems. I don't think McNamara was opposed to it on economic reasons at all. It was purely politics. The—I can recall a White House meeting, but I'm not quite sure when this was, but it was probably about 1966. And the President's office called in outsiders, Clifford, who happened to be at this meeting. And he referred to the fact, the president was talking about a tax increase and how he couldn't support it and so on, and Clifford sort of quietly said "Mr. President, President Truman was faced with a similar situation in the Korean War, asked for it and got three tax increases." That didn't have much effect on President Johnson, but there wasn't anybody that I know of who was opposed to tax increase on economic grounds. It was all purely a question of the political situation. And eventually it got through, a little late, but it did get through.

**Robert L. Hetzel:** At the time McNamara wasn't willing to make an estimate of what defense expenditures were going to be. He wanted to have supplemental appropriations as he got exact information on what monies were going to be required so that you—

**Frederick Deming:** Nobody had any idea what money was going to be required. One of the great truths of a wars is that you can't ever figure out how much they're going to cost. And McNamara wasn't any different from anybody else in that respect that I know of.

**Robert L. Hetzel:** But it was clear that it was going to cost more than was being budgeted for, so—

**Frederick Deming:** That's right. It always does. There was no great surprise to that.

**Robert L. Hetzel:** But as long as the administration didn't put forward a budget that incorporated a realistic estimate of defense expenditures, it was hard—

**Frederick Deming:** Weren't any realistic estimates.

**Robert L. Hetzel:** But it was still—it was hard to go before Congress and say we need a tax increase without [(tape skips) unintelligible 01:16:35] that was kind of more realistic in terms of what the war was actually going to cost.



**Frederick Deming:** No. No, no. The argument was that it would open up the entire Vietnam problem, which had a lot of ramifications, and it had nothing basically to do with taxes or the war. The—it was not a popular war. And that was what stirred up all the problem, I think, rather than the—you know, you got all kinds of statements. You got body counts, you got all sorts of things like this. The people were getting killed and an awful lot of people thought we shouldn't have been there to begin with. That was what the issue was. It wasn't the question of economics or the budget or anything else. It was—fundamentally you didn't know what it was going to cost. And therefore trying to make an estimate of what it was going to cost was not only imprudent but improvident.

**Robert L. Hetzel:** Do you think McNamara was realistic [(tape skips) 01:17:42]—unrealistically optimistic about when the war was going to end?

**Frederick Deming:** No. The—I don't—I think at that particular point in time they had no idea how long it was going to last. And it did last a long time. But it was the most unpopular war that we'd ever been engaged in. And everybody who was in government at that time or in subsequent governments knew that. And that was the essential problem.

**Robert L. Hetzel:** [(tape skips) unintelligible 01:18:22] Treasury handled the extension of Regulation Q [(tape skips) unintelligible 01:18:27] Congress about extending it to thrifts and also the variable rate—

**Frederick Deming:** Well the Treasury didn't really have anything to do with it, didn't it? That's a Federal Reserve regulation.

**Robert L. Hetzel:** Right, but didn't the Treasury negotiate between Congress—or [(tape skips) unintelligible 01:18:45] on this? Initially, my understanding is that the Board was hostile to extension of Reg Q and in particular to lowering the ceilings on passbook savings accounts. Congress came fairly close to passing some kind of legislation that would've set a ceiling on all bank deposits on what—on the interest rates that banks could pay. And that the Treasury brokered a—the final agreement between Congress and the Fed on this issue.

**Frederick Deming:** Well I don't have any recollection of the Treasury being that much of a factor in it.

**Robert L. Hetzel:** Okay. Is it possible [(tape skips) phonetic 01:19:32] that Joe Barr would've handled—

**Frederick Deming:** It's possible, but I don't really think—it may just be my faulty memory. As I say my records are in Minneapolis and not here. And I just don't have any recollection of that being a—even that much of an issue. I said this fellow from the Savings

and Loan came in and said that the industry would fail. But he was kind of a wild man anyway and I don't think people paid that much attention to him.

**Robert L. Hetzel:** Have you decided where to donate your papers, by the way?

**Frederick Deming:** They're supposed to go to the Johnson Library in Texas. They're also supposed to go to the Minnesota Historical Association. And one of these days I'm going to get them sorted out.

**Robert L. Hetzel:** Okay, so—but you haven't sent off any of your papers yet?

**Frederick Deming:** I haven't done anything to them yet. I've —when I've been looking for something in particular I go back and forth through them some. And I sorted out a few of them, but they're an awful lot that I haven't sorted out.

**Robert L. Hetzel:** Let me ask you about the president's speech in September (tape skips 01:20:42) 1966. There were some modest fiscal [(tape skips) phonetic 01:20:45] actions taken. I think the investment—the tax was re-imposed, probably some things with excise taxes. After that speech the Fed began lowering interest rates. Was there an implicit understanding between the administration and the Fed that the Fed would lower interest rates and sustain economic growth and in turn the administration would ask for a tax increase when it became—

**Frederick Deming:** There was always that in the picture. That was one reason I think that there was a little relaxation after the discount rate increase Martin did in '65. Everybody that I know of sort of hoped he would get a tax bill through. It never happened. And I—the hopes turned out to be unrealistic. But there wasn't anybody that I know of who was opposed to that, except on purely political reasons.

**Robert L. Hetzel:** And so at that point, presumably the Fed was hoping that the State of the Union Address would not only contain a recommendation for a tax increase, but that Johnson would go ahead and send a tax bill to Congress.

**Frederick Deming:** That's right.

**Robert L. Hetzel:** But then you had a kind of a mini-recession, a growth slowdown, inventory [phonetic (tape skips) unintelligible 01:22:23] then it was no longer possible as long as the least growth was moderating.

**Frederick Deming:** It didn't moderate very much.

**Robert L. Hetzel:** But apparently enough that a tax incr—it was easy [(tape skips) unintelligible 01:22:37] tax increase wouldn't have been feasible at the time.

**Frederick Deming:** I'm not aware of any feeling on that score at all. I think that everybody that had anything to do with economic policy was in favor of trying to pay more for the war than we were paying, a bigger share.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** Or the tax increase. And then we kept down the borrowing rate and it would take the pressure off the interest rate structure and so on. I don't know of any opposition to that, except on political grounds.

**Robert L. Hetzel:** In the debate over—the economy began to strengthen in, later in 67, late summer [(tape skips) phonetic 01:23:15]. And it finally became clear that the second half of 67 was going to be very strong. And at that point, Johnson decides to send a tax bill to Congress. When it finally came out it came out for a ten percent [Crosstalk unintelligible 01:23:34]

**Frederick Deming:** That's right.

**Robert L. Hetzel:** —surcharge.

**Frederick Deming:** That's just right.

**Robert L. Hetzel:** The argument between him and Wilbur Mills was not so much on the tax side, it was on the expenditures side. Wilbur Mills wanted big cuts in expenditure to go along with the tax increase.

**Frederick Deming:** But it was essentially a procedural squabble.

**Robert L. Hetzel:** Okay, can you explain that to me?

**Frederick Deming:** Well I mean the—Wilbur thought he ought to be consulted more closely by the president than he was. And I don't really think that—it was a question between—about two vain men, neither who wanted to give way to the other one.

**Robert L. Hetzel:** Mills' position was that there needed to be large cuts in expenditures—

**Frederick Deming:** Yes, he wanted some cuts in the expenditures too to go along with it because he was trying to get this through Congress.

**Robert L. Hetzel:** And the people who he needed to sign onto the [(tape skips) unintelligible 01:24:34] and conservative democrats weren't going to go along with it unless they had something to—

**Frederick Deming:** Some sort of cuts, that's right. And you weren't going to get—you had to have a balanced tax bill and put some taxes on business and some taxes on individuals and you had to have some balance with the expenditures side. But that's what I'm talking about being procedural. It wasn't really so much about a matter of economics it was a matter of presentation.

**Robert L. Hetzel:** Well expenditure cuts that Mills wanted would've cut into Johnson's Great Society program so—

**Frederick Deming:** Yes.

**Robert L. Hetzel:** [Crosstalk unintelligible 01:25:10]

**Frederick Deming:** That's right. But—

**Robert L. Hetzel:** Johnson would—

**Frederick Deming:** It wasn't—

**Robert L. Hetzel:** Johnson—

**Frederick Deming:** Mills wasn't basically opposed to the Great Society program. He had to have something that would let him sell his bill. An awful lot of the transactions that take place up in Washington, and again I'm not sure about today, but at that time. Were a reflection of the need to get—you had to do some trading to get what you wanted.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** And that I think was essentially the problem, that—it wasn't that Mills was opposed to the expenditures so much as that he had to have something to put forward.

**Robert L. Hetzel:** He had to have a cover for himself. I mean, he couldn't go on [(tape skips) unintelligible 01:25:57]

**Frederick Deming:** That's right.

**Robert L. Hetzel:** —tax increase and then he would've been the one who was out there all [(tape skips) unintelligible 01:26:03] who would've taken all the heat for everybody in the country for whatever reason [(tape skips) 01:26:06]

**Frederick Deming:** That's right.

**Robert L. Hetzel:** It was opposing the tax increase—

**Frederick Deming:** That's right.

**Robert L. Hetzel:** The liberals were concerned about the cities and the antiwar people (tape skips 01:26:13). But he and Johnson, you think they had this additional problem that they were both prima donnas and it was hard for them to—

**Frederick Deming:** I can remember the Secretary of the Treasury saying to me “you ever get the chairman of the Ways and Means Committee and the president together maybe we can get this done.”

**Robert L. Hetzel:** Yeah. And they really never did come together, did they?

**Frederick Deming:** No.

**Robert L. Hetzel:** In the sense that the—finally the bill got through in spring '68, but it was the [(tape skips) unintelligible 01:26:45] side that tacked on the tax increase and then the conference committee that—

**Frederick Deming:** That's right.

**Robert L. Hetzel:** —presented it.

**Frederick Deming:** I suppose anything would've helped then. We took what we could get. Look, I've got to go.

**Robert L. Hetzel:** Okay.

**Frederick Deming:** If you'd want to talk some more, just call me some other time.

**Robert L. Hetzel:** Okay. We're pretty close to being done. But I'm enjoying this and—if you can think of—why don't I call you back once more, and if in the meantime, perhaps you can think of things and stories and things that I should know about and then we can finish up I think probably not in too much more time.

**Frederick Deming:** Okay.

**Robert L. Hetzel:** Well I've certainly enjoyed this. I appreciate you taking the time to talk to me.

**Frederick Deming:** I'm glad to do it, except I've got to go now.

**Robert L. Hetzel:** Okay, should I just call back in a week or?

**Frederick Deming:** A week would be fine.

**Robert L. Hetzel:** Thanks a lot.

[01:27:36]

[Tape stops recording]

[Tape resumes recording]

[01:27:37]

**Frederick Deming:** –work. We didn't get that thing through until it was the middle of 68.

**Robert L. Hetzel:** That's right. So you think that–

**Frederick Deming:** I think that probably it would've been more successful had it worked. Actually, it didn't hurt the economy particularly in my opinion. So the Federal Reserve opted to take a more pronounced action than it did. It was generally—it was relatively tight in 67 and 68. It just didn't take any overt action. At least in my judgments that's—just a second. Hold on just a second.

**Robert L. Hetzel:** Sure. Sure.

**Frederick Deming:** [unintelligible 01:28:20]. But—[(tape skips) unintelligible 01:28:26] There's little question that the tax action was too long delayed and equally a little question that the guns plus butter approach puts too much strain on the economy. But actually the price increases of late '67 and '68 were relatively mild compared with the increases in the late 1970s and early 80s.

**Robert L. Hetzel:** That's true.

**Frederick Deming:** So that—I don't really think that there was an awful lot of bad reaction to policy, I guess I should say, at that period.

**Robert L. Hetzel:** You think the increase in inflation was primarily due to the stresses placed on the economy by increased defense expenditures?

**Frederick Deming:** Well I think the increase to defense expenditure's not offset by tax increase, it was a principal cause, sure. If—it's hard to imagine how hard we worked on this tax increase.

**Robert L. Hetzel:** Yes.

**Frederick Deming:** It really wasn't such a big one. The original request I guess was for seven percent surcharge.

**Robert L. Hetzel:** Yes.

**Frederick Deming:** That modified to ten.

**Robert L. Hetzel:** Six percent I guess.

**Frederick Deming:** Was it—finally passed at six. And it wasn't that much of a surcharge, but it just took an awful lot of effort to get it done.

**Robert L. Hetzel:** Simply inherently hard to raise taxes? Or was it the problem of Wilbur Mills and Lyndon Johnson—

**Frederick Deming:** Well it was partly—

**Robert L. Hetzel:** —getting together—

**Frederick Deming:** —the problem of Johnson and Mills. Partly because the president was afraid that if he raised it—the war was not very popular. And it was going to create an awful lot of political "hoofarah" [phonetic 01:30:01] if the taxes were pushed. That's why he didn't introduce a tax bill to begin with. But when it finally got introduced in, I guess in the summer of '67, it was pushed as hard as it could be pushed. It just—the Congress was not particular receptive to it. The Vietnam war was—you probably wouldn't remember this, but the Vietnam war was not very popular.

**Robert L. Hetzel:** Yeah, I was in college at the time, so I can remember that.

**Frederick Deming:** Okay. And in any event, it was a—the administration kept trying to say that the war was not going to be as expensive as it turned out to be. Everybody always says that in any war. There's nothing new about that.

**Robert L. Hetzel:** Well, but initially, in '66, part of the problem was that the Defense Department wasn't giving explicit estimates of what the war was going to cost. It was asking for appropriations as it needed the money. And without an explicit estimate of the cost of the war [Crosstalk unintelligible 01:31:09]

**Frederick Deming:** That's right, well it was hard to make an explicit estimate of the cost of war.

**Robert L. Hetzel:** Right, but as far as getting taxes to pay for the war, it was hard to go to Congress and say hey, we need this much money because the figures weren't being made explicit.

**Frederick Deming:** We had something like four-hundred-and-fifty to five-hundred-thousand men in Vietnam by the middle of 1966. It was obviously getting to be a pretty expensive doing.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** And the ambivalence was caused primarily by the unpopularity of the war.

**Robert L. Hetzel:** But in the early period it wasn't so much that the war was—I mean the war was widely supported. The opposition to the war, you know, what we think of, the street demonstrations, that really began in 68, didn't it, primarily with the—

**Frederick Deming:** Oh no. It was active before that time. The—there were people were going up to Canada to escape the draft. There was an awful lot of stuff that—they blew up a laboratory in Wisconsin.

**Robert L. Hetzel:** Yeah, I remember that.

**Frederick Deming:** The—there were protests in the cities—this was racial more than anything else. But this was not a happy time.

**Robert L. Hetzel:** Yes, I remember that.

**Frederick Deming:** And it was—the war was unpopular. It had been unpopular I'd say from the—almost the time we began getting an awful lot of soldiers over there and we got a lot of body bags back. And the—I don't think McNamara was consciously underestimating the cost of the war, beyond the fact that everybody always does that. There's nothing—I think every war we've fought has been more expensive than we thought it was going to be.

**Robert L. Hetzel:** Well why do you think Johnson made the decision from the beginning? I guess you just answered this, not to ask for a tax increase, but by method—

**Frederick Deming:** Basically because he felt the war was terribly unpopular.

**Robert L. Hetzel:** So if he had appealed for the tax increase in terms of supporting the boys abroad, you know, wrapping himself in the flag, that just wouldn't have worked—



**Frederick Deming:** Well I guess it wouldn't have worked. The depth of feeling about this thing was fairly intense. I can remember having a long and violent argument with an old friend of mine on Vietnam.

**Robert L. Hetzel:** But you were a hawk right? But you never got into those discussions of—is that [(tape skips) unintelligible 01:33:33]

**Frederick Deming:** It was a—you—the depth of intensity of that feeling—

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** You got some of it in college, but you didn't get as much of it as we got in Washington.

**Robert L. Hetzel:** Although I'm sure you were in the vortex of [(tape skip) unintelligible 01:33:50] start, was that in the spring, sixty—

**Frederick Deming:** I'm sorry, I didn't hear you.

**Robert L. Hetzel:** When did the riots in the city start? Was that in spring of sixty—

**Frederick Deming:** Oh those were basically in 1968. It started in Washington, probably the worse ones, the summer of 68. We lived in a corner around from the Sheraton Hotel and right near the Sharm Hotel. And you could see smoke coming out of the city from the roof of the apartment house.

**Robert L. Hetzel:** Yeah I could see—

**Frederick Deming:** That's quite out as far as we—

[01:34:21]

**[END TAPE 74, SIDE B]**

**[START TAPE 75, SIDE A]**

[01:34:25]

**Robert L. Hetzel:** This is not a very well defined question but, what do you think Martin's motivations were primarily at that time? I mean his primary motivation was to get a tax increase, he really felt that that was—

**Frederick Deming:** His primary motion was to contain what he saw was the coming inflation. And fundamentally I guess he didn't much care how it was handled, as long as it was handled. Everybody kept hoping, and actually I think—honestly thinking that you were going to tax increase through finally. And that tended to delay Federal Reserve—more abrupt Federal Reserve action -- than was taken. There was a certain amount of promptness in policy at the time anyway. It was not what I'd call an easy policy. Easier earlier, but it wasn't that easy in '67 and '68. And so I don't think Martin had any Machiavellian intuition there, he was just trying to get something done.

**Robert L. Hetzel:** Well, some of his staff, people like Brimmer thought that if monetary policy had to carry the entire load, interest rates would have to go very high. And that would be, you know, very disruptive to the housing industry, for example. Do you think Martin had that kind of view too and monetary policy had to be complimented by fiscal policy, or it was just—?

**Frederick Deming:** Everybody always thinks that.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** At the—yes, he did think that monetary policy had to be complimented by fiscal policy. But the principal motive was to get some tax—we had a budget deficit of—it doesn't sound like much now—

**Robert L. Hetzel:** I know.

**Frederick Deming:** a budget deficit of twenty-five billion dollars.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** And it scared everybody to death. And we had a balance of payments deficit of three to three and a half billion and that scared everybody to death. Now those numbers don't seem very impressive at the present time, but they were impressive then.

**Robert L. Hetzel:** Sure. Well, we had fixed exchange rates too. So to—we'll get to that [(tape skips) unintelligible 01:36:31]. Balance of payments deficit was a source of concern. [(tape skips) 01:36:35] Congress was also hostile to high interest rates at that time. Do you think—

**Frederick Deming:** They're always hostile to high interest rates.

**Robert L. Hetzel:** Do you think that affected Martin's strategy in terms of pushing for a tax increase as opposed to sharp rises in interest rates?

**Frederick Deming:** Martin had been around a long time. He faced a Congress that was hostile to high interest rates from the time he went into office.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** There wasn't anything new about that either. He could live with that sort of a situation. What he didn't want to live with was an inflation. And he thought if got under way it would be bad—hard to contain.

**Robert L. Hetzel:** Well, but, I mean, something was different in the sense that the increase in interest rates in summer of [(tape skips) unintelligible 01:37:22] enormous impact on housing. So Congress must have been much more sensitive to monetary policy after that point than it was before.

**Frederick Deming:** I don't think they were any more sensitive to monetary policy then than they'd been at any other time.

**Robert L. Hetzel:** But you think that the opposition to the Fed that Patman organized was never widespread enough to threaten the Fed. He was always viewed as a, kind of a radical or not really a mainstream politician.

**Frederick Deming:** No I don't—there has been, ever since I'd known the Federal Reserve System, which goes back pretty far—

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** There has been a political attack on it. Whenever it began to move up. That goes back, I guess to 1914 probably.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** And any chairman or any member of the board or any of the reserve bank presidents learn to live with that. And sometimes it actually spurs them to take actions that shouldn't have been taken I guess. [unintelligible 01:38:39] them a little bit. And just the opposite reaction to what you would expect in that case, some get mad.

**Robert L. Hetzel:** Well it may make them more reluctant to lower interest rates, for fear that—

**Frederick Deming:** That's right.

**Robert L. Hetzel:** —then raise them subsequently.

**Frederick Deming:** That's right but in any of that, I don't really think that that sort of hostility had any particular effect on Martin beyond what any—beyond the effect it would have at any normal time.

**Robert L. Hetzel:** So, he didn't feel himself besieged by a [(tape skips) unintelligible 01:39:12] opposed to high interest rates and a Congress concerned about the housing industry plus populous pressures by Wright Patman. You feel like well that was just his—

**Frederick Deming:** All of those things had been in the picture for a long time.

**Robert L. Hetzel:** Okay. Let me ask you about with the dollar in '67 and '68. Johnson's attitude was that he wasn't going to—he would've been opposed to an increase in interest rates for international purposes. I mean it wasn't possible to go to him and say "we're losing gold, we need to raise interest rates." No one would have, no one ever, I assume tried that or—

**Frederick Deming:** Well sure. Bob Roosa's scared President Kennedy to death by talking about losing gold.

**Robert L. Hetzel:** Right. But I had the feeling that it was different with—

**Frederick Deming:** Not that much.

**Robert L. Hetzel:** —Johnson.

**Frederick Deming:** They didn't—the American government not merely the Treasury, but the president also didn't want to lose gold. When the [unintelligible 01:40:18] for gold payment were practically after I just had walked in the door at the Treasury.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** It not only made the president mad, it scared him.

**Robert L. Hetzel:** But, did that ever—bue—

**Frederick Deming:** We did all sorts of things, including interest rates to help resolve the balance of payments system. There was a program, I guess it's called the interest equalization tax.

**Robert L. Hetzel:** Right.

**Frederick Deming:** There was a discouraging program to the—about borrowing, both domestically and foreigners in the United States. The Fed had its interest, whatever they called that program

**Robert L. Hetzel:** Well—

**Frederick Deming:** —that worked pretty well. Voluntary credit restraint program.

**Robert L. Hetzel:** That's right. That's exactly right.

**Frederick Deming:** All of those things were designed to help resolve the balance of payments thing. We peddled arms. We got foreign countries buy bonds. We—actually we sat through meetings about every other week in Paris, where the principal subject was the improvidence of the American economy.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** And the—this had been going on I guess since about 1962, '63, and we were serious about this. It—we didn't want to lose the gold. We didn't want to put the dollar under pressure. The whole American exercise was in respect to the special [unintelligible 00:07:34] was to try to get something that would keep foreigners from getting so many dollars.

**Robert L. Hetzel:** I assume a lot of your time was taken up with the special credit restraint committee. I assume a large fraction of your time was taken up with these kinds of programs.

**Frederick Deming:** That's right.

**Robert L. Hetzel:** And I [(tape skips) phonetic 01:42:19] have to ask you this, sitting through these meetings in Paris, it was in '66, '67 in particular that the French began threatening to ask for gold from the administration?

**Frederick Deming:** Oh they asked for gold in '65. They—I said they asked for gold. I had barely walked into the Treasury when a fellow named Rene [unintelligible 01:42:39], who was the French economic attaché at the embassy there, came in and said that the president, who was de Gaulle, had asked him to put in a request, I think it was for twenty-five million dollars in gold—no it was more than that. It was quite a chunk. And, any rate, it came as a complete surprise, the president had a press conference and one of the questions was what are you going to about this and I was supposed to given him an answer, which I did, but I gave it to George Reedy and didn't call the president directly and I got bawled out for it. But—by the president, I mean. Because he said “I told you to call me directly.” But I thought he was pretty busy so I talked to Reedy and Reedy had been trying to tell him what the answer

was. But in any event, the French request for gold and the push in the Working Party Three and the Group of Ten and so on for a new international currency system was tinged by the French preoccupation with gold.

**Robert L. Hetzel:** [(tape skips) 01:43:51] What was the initiating factor that caused the Treasury to sign onto the idea of SDRs? Was there anything—any particular precipitating factor or just a general feeling that there needed to be some substitute for gold?

**Frederick Deming:** Well the—we met with great frequency. This idea of a new international monetary standard was begun in the fall of 1965 as I re—'66—no '65, as I recall it. It was spearheaded by a speech made in the Congress by a Kansas republican whose name I know very well but can't think of at the moment. And he was a perfectly sensible Congressman incidentally. And, not a wild man by any means. And out of that, Joe Fowler called a meeting of the, I guess at the Group of Ten to discuss changes in the international monetary system. And it sent the foreigners scurrying to Washington real quick to find out what was going on. And from that point on we met with great regularity. And over time evolved a system that's called the special drawing right in the fund. And it took until 1968 to get it approved, so it was really a sort of a three and a half year exercise. And it just gradually evolved. It wasn't any more an American idea than it was a German idea or an Italian idea. It came out of the deputies of the Group of Ten, of which I was one, working on a program. And we worked on it almost constantly.

**Robert L. Hetzel:** But the primary opposition came from Europe, and in particular, the French who thought it would weaken the discipline on the United States.

**Frederick Deming:** Yes. That's what the—at least that's what they said. We finally managed to break the European Osoia front, and we finally got the French in line. That was agreed to at a meeting in Sweden and that was in the spring of 1968 I think, may have been the fall of '68. I don't remember precisely.

**Robert L. Hetzel:** Osoia, was that the name?

**Frederick Deming:** Hmm?

**Robert L. Hetzel:** Osoia.

**Frederick Deming:** Osoia in Italian.

**Robert L. Hetzel:** Oh okay.

**Frederick Deming:** Was one of the people. Emminger of Germany was one of them. A fellow named, well it depended, it may have been Vickman or it may have been Yoga of Sweden [unintelligible 01:46:23] of Japan. The Dutchman Van Lent [phonetic 01:46:31].

There was a Belgian named Striker [phonetic 01:46:36]. There were various Englishmen, but the principal one was a fellow named Dennis Rickett. And the Canadian Allen Hockett [phonetic 01:46:47]. He came sort of equally from the finance ministries in the central banks. That was the basic makeup of all of the—of the committee. And they just met regularly and it—after long talking—there was a fair amount of goodwill within the group. I can remember sitting next to—the way we were seated according to the French alphabet, which put the United States right next to France, because it following E, of course.

**Robert L. Hetzel:** Yeah, E-F.

**Frederick Deming:** And then France.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** And I can remember after particularly, I guess I should say nasty statement by the French delegate who leaned over and said to me finally “you know that’s the government policy, not mine.” It wasn’t—

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** There was not that much hostility within the group. But there was a certain amount of hostility politically. And the English didn’t like the French any better than we did, and neither did the Canadians. The—they saw them as being disruptive, and they’ve always been disruptive as a matter of fact.

**Robert L. Hetzel:** Yeah. Yeah and of course the tables were turned then in [(tape skips) unintelligible 01:48:06]. Get to that in a minute. Let me ask you about the period, fall '67 through March '68. You must have been incredibly busy during that period.

**Frederick Deming:** We were busy all the time.

**Robert L. Hetzel:** Well, even more so during this. [(tape skips) unintelligible 01:47:22]my perception is correct. There was an enormous amount of concern about the pound. And I mean there was feeling that the pound was—would have to be devalued and that the labor government was not moving vigorously enough to push interest rates up, cut through deficit. But there was a reluctance to let the pound devalue because the feeling was that well if the speculators won with the pound they would move onto the gold pool and the United States would end up having to supply all the gold to keep the price of gold at thirty-five dollars to the ounce. And if that had to be abandoned then the dollar itself would be under attack and the whole system might break down.

**Frederick Deming:** That was—that’s essentially correct. But it’s exaggerated. I don’t think anybody really expected until the very last minute that you were going to have to

devalue the pound. The—we had arranged a series of credits by the British [unintelligible 01:49:37] on the eve of the pound evaluation. I was in Paris at the time, and got a phone call from Washington to go over immediately to London. I was on my way home, but I stopped in London. And I got in, I guess was, must have been close to midnight. And went over to the Treasury where Sir William Armstrong was the principle, British civil servant in charge of it. And as I was there, the governor at the Bank of England came in. And I had a slip of paper in which I talked to various people of the Group of Ten as to what kind of credit this could produce to support the pound. And I gave it to O'Brien and he called it Deming shopping list. And they arranged those credits, which helped stabilize the pound after it was devalued by I think it was 14.4 percent. In any event, I don't think anybody really, until the very moment it happened, thought that it was—the pound was going to have to be devalued. Now the British got lectured on improvidence too. This was standard exercise of the Group of Ten, everybody was wrong at some time or another. And we had tried to get certain actions taken by the British, who were as reluctant to take action as we were. And we had a containment operation going on the telephones at the time of the devaluation, which was to see that other people didn't go along with it. And they held, practically speaking. So that the actual effect of the pound devaluation wasn't as strong as had been feared.

But you're right about the perception that if the pound went down, a lot of other things were going to go with it.

**Robert L. Hetzel:** There was something called the Deming group. Is that—

**Frederick Deming:** That's right.\

**Robert L. Hetzel:** -what you were referring to?

**Frederick Deming:** Well that was a group in Washington. That consisted of people from the Council, the Federal Reserve. Dewey Daane was one of them from the Federal Reserve. Francis Bator in the White House. I don't remember who came over from the council, it may have been Art Okun. There were a half-a-dozen people. Somebody from state. But we met—

**Robert L. Hetzel:** Would that have been Tony Solomon at that point?

**Frederick Deming:** I don't think it was Tony. I think it—it may have been at that time. He was in on a lot of these things. But I think maybe it was a professor at Harvard. Rick—I know him too, but I can't say his name. [(tape skips) unintelligible 01:52:38] was in on a lot of this. He was the Undersecretary of the state for economic affairs.

**Robert L. Hetzel:** There was a feeling that the international monetary fund should have lent more money to Brittan then it was—



**Frederick Deming:** No, not that I remember.

**Robert L. Hetzel:** So there was no [(tape skips) unintelligible 01:52:59]

**Frederick Deming:** No. I don't recall anybody being particularly unhappy about the fund. The basic action was in the Group of Ten. Which was the group, present group of seven plus Denmark—I mean plus Sweden, Holland and Belgium. And Roosa had developed a plan just before he left the Treasury that was exceeded to by the group which provided certain credits. If you called on the Group of Ten that was outside the fund. And you could call those into being, if you needed to and essentially that was what I did when I got the shopping list for the British. The—everybody agreed to put up so much money and help countries that—particularly the countries in the Group of Ten that had balance payments problems. And that—I've forgotten what the amount was that was provided by this last credit that I had talked about. And, but whatever it was it was a pretty substantial sum.

**Robert L. Hetzel:** Yes.

**Frederick Deming:** That is, for those days.

**Robert L. Hetzel:** Sure.

**Frederick Deming:** It wouldn't be that substantial nowadays. And we used the swap network. There were a lot of things that were going on. We had the gold pool operation. I've got a picture on my library wall at home of—talking to the president the day we closed the gold market. The secretary and Martin were down to the Congress trying to persuade them to do something. I guess this had to do with the tax thing and we—there was a panic on it and we closed the gold market for just over the weekend basically. But the—I don't recall any dissatisfaction with the fund, except it was a more cumbersome operation than the Group of Ten.

**Robert L. Hetzel:** Were you involved in the president's speech on January 1<sup>st</sup>, 1968?

**Frederick Deming:** I sure was. Which I took off immediately afterwards to Great Britain.

**Robert L. Hetzel:** What was the—was there ever any fear that at that point you'd be faced with the kind of choices the administration was faced with in August 1971 where closing the gold window would either force a major devaluation of the dollar or floating exchange rates or was it always—

**Frederick Deming:** Wasn't in on this in 1971, so I don't—I can't answer that question.

**Robert L. Hetzel:** No, but what I mean is that there was—I mean, what I—there was no feeling that the system would fundamentally have to be changed. I’m not asking you to comment on '71, it’s just that in '71, it was the [(crosstalk) unintelligible 01:56:02]

**Frederick Deming:** You mean in '68?

**Robert L. Hetzel:** Yeah, the—

**Frederick Deming:** Oh, there was no feeling about that at all. I can recall, we went, Gene Rostow, Nick Katzenbach, and I went on a special plane and we went around the European capitals. And we covered them in about—I think about three days, I think we saw two a day for the three days. At any rate, the—when we got to Switzerland, the Swiss who was then head of the National Bank of Switzerland said “you waited till the eleventh hour to take the action that you should’ve taken three years ago.” Everybody was relieved. They were also worried that this action would have some—you see the Europeans have always been concerned about the American policy. Concerned that it was going to be too tight and hurt them, or concerned it’s going to be too loose and hurt them.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** And they’ve never been very happy with it.

**Robert L. Hetzel:** Are you also talking about the voluntary direct investment—

**Frederick Deming:** No, I was talking about the entire program that was announced in January of 1968, which was a strengthening of all the things that we had done before. And there was support, but trepidation. I’m talking about the Europeans.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** Now, a couple of people went off to Japan and—to talk to them out there. And I guess they may have stopped in Australia and New Zealand, although they weren’t members of the Group of Ten.

**Robert L. Hetzel:** [(tape skips) 01:57:46] Things weren’t—didn’t really quiet down. It was in late February or March when the gold pool began to suffer—

**Frederick Deming:** That was—that when we closed the gold market.

**Robert L. Hetzel:** [Crosstalk unintelligible 01:57:57]

**Frederick Deming:** Right.

**Robert L. Hetzel:** That was the focal point of trouble at that time, the amount of gold sales required?

**Frederick Deming:** The pool—

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** Basically broke up at that —it had—the pool had actually been quite a successful operation, up to that time. And everybody, of course, all of the Europeans were scared to death that the price was going to be raised on gold. Because that meant that they were holding lots of dollars—

**Robert L. Hetzel:** That's right, yeah.

**Frederick Deming:** And they would be accused of being improvident themselves if they didn't cash them in.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** And if they cashed them in they were going to get in trouble with us. So they were sort of between the rock and the hard place. And when the pool finally did blow up and we closed the gold market, the price still wasn't raised, of course.

**Robert L. Hetzel:** Right. [(tape skips) unintelligible 01:59:02] market—the Italian, Guido Carli had a key role in that? Can—

**Frederick Deming:** Yes.

**Robert L. Hetzel:** Do you remember the discussions on—were there alternatives or was there—

**Frederick Deming:** Carli had a key role in that because we talked him into it.

**Robert L. Hetzel:** Well that's interesting, because I think he may take credit for it. So it's—

**Frederick Deming:** He did. He should have. He was the spearhead, but actually, one of the aspects of trying to get along internationally was that you were supposed to be—show the United States' muscle, but not too directly. And if you could get somebody else to carry the can, that was helpful. And Carli was a very bright man and a very nice man. He's dead now. But he was governor of the bank of Italy and was a strong governor of that bank. And we actually sort of talked him into supporting and introducing that program.

**Robert L. Hetzel:** This point, you were making decisions with—you and Martin were the primary movers? Or was it a much larger group—

**Frederick Deming:** Well it was a larger group that—the—

**Robert L. Hetzel:** Dewey Daane and [(Crosstalk) unintelligible 02:00:26]

**Frederick Deming:** But the Secretary of the Treasury, Joe Fowler was in on all of this. And was a very strong Secretary of the Treasury. And was very supportive on everything that was done. Martin was of course a strong Federal Reserve chairman. Dewey Daane was the Federal Reserve point man on foreign things. Tony Solomon was active in this. I ought to be able to think of the other state department fellow.

**Robert L. Hetzel:** Well—

**Frederick Deming:** Who was also active in it. Art Okun was active. Sort of everybody was in on the act. And the planning groups on these things were Francis Bator was extremely active in it until he went back to Harvard and then he was succeeded by another man whose name I don't remember at the moment, but who was equally active. These were the international experts in the White House. And the—it was a fairly closely knit group.

**Robert L. Hetzel:** [(tape skips) unintelligible 02:01:41] when we went to the two tier gold standard in March, 1968 and the Fed raised the discount rate, had the Federal Reserve system coordinated that move with other central banks so that it would ensure that the other central banks didn't match our rate increases and therefore—

**Frederick Deming:** I don't remember that, but they probably did. The—there has been for a long, long time, I guess it still exists, fairly close communication between the central bank and between the finance departments. I don't know whether it's as close as it was right at that time—today is as close as it was at that time. But it historically has been. And I don't know whether they—if you deemed it—they tell the other central banks they were going to raise the discount rate, my guess is no. I don't think they ever talked like that. But I think they probably explored the possibility.

**Robert L. Hetzel:** I know [phonetic (tape skips) 02:02:46] that from within the system there were some, I don't know, acrimony is probably too strong a word, but, that the New York Fed thought that we should have raised the discount rate a full percentage point. But they were excluded from these discussions. And so they kind of dragged their feet when it came time to raise the discount rate. And there was some—

**Frederick Deming:** New York Federal Reserve was never excluded from any discussions that I know of.

**Robert L. Hetzel:** Well the board of directors, apparently was the–

**Frederick Deming:** Well the board of directors really only does what the president tells them to do, the president of the bank. Or the–as far as I know.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** Now it may have been–some board of directors had their noses out of joint because they weren't consulted on these things. But–

**Robert L. Hetzel:** Yeah, that sounds kind of like what–

**Frederick Deming:** Wasn't anything new about that either.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** At least I don't think there was. Al Hayes was president of the New York Federal Reserve bank at that time. And I wouldn't say he was as strong a president as Allan Sproul had been, but he was a pretty strong president. And fundamentally what you do in a board meeting–I'm sure they do this at Richmond.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** And I used to do it at Minneapolis, you talk to the board and you make a recommendation. And if you're a reasonably strong executive the board accepts it.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** They may argue a bit about it sometimes. I can remember somebody asking me once at Minneapolis if I'd object if he voted against the–this didn't have anything to do with the discount rate, it was something else. And I said “no, as long as I've got enough votes to carry it.”

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** But the–there are only nine people on the board. And they are generally pretty receptive to whatever the president tells them. Or at least they were when I was around.

**Robert L. Hetzel:** Now, I think they often generally defer to the expertise of [(tape skips) unintelligible 02:04:54] to make those decisions.

**Frederick Deming:** Sure.

**Robert L. Hetzel:** So let me ask you about the revaluation of the mark in the fall of 68 and, you know, the devaluation [(tape skips) phonetic 02:05:05] of the pound and the frank. Did—that obviously occupied a lot of time, was a great source of concern. But was there the same feeling at that time, that the dollar would be threatened? Or was it more a view that this was a problem of the common market and less of a—

**Frederick Deming:** The dollar was not in any particular trouble at that time. Actually, what happened, that frank problem blew up sort of fast. We were on a farewell trip to Europe. And the election had been, Fowler was going to leave the Treasury and was going to just go around to see everybody and start to say goodbye. And I was with him and we got to—well I guess we'd been in London and then we stopped in Paris. And I had a luncheon session with Rene Lauer [phonetic 02:06:04], who said that the bank was in difficulty and could we give him some help? And I had talked about this before and I said “yes, of course we could.” And we went on to Italy and then ended up in Bonn, where we had expected to be one day. And there was a special meeting of the Group of Ten called, because the bank was in deep trouble and we wanted to get the Germans to raise the rate of the mark.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** And they wouldn't move. Schiller was the German minister of the economy at that time. And he wouldn't move at all. And [(speaking to someone in background) Is Rich [phonetic] going with you?]. Any rate, we stayed in Bonn—my wife was with us. We stayed in Bonn at The Ambassador, so I guess three days. And she slept with her clothes on.

**Robert L. Hetzel:** Oh dear.

**Frederick Deming:** At night, waiting for me to get home.

**Robert L. Hetzel:** So—

**Frederick Deming:** Because we weren't sure when we were going to—we were going to leave as soon as we could. This was the last stop.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** And we had had—I had had a dinner party planned in Paris to say goodbye to the people in the Group of Ten. And of course it got cancelled because there wasn't anybody there. They were all in Bonn. And that meeting ended absolutely with no results whatsoever. The French refused to devalue and the Germans refused to revalue. Subsequently, of course, it took place. But the French finance minister at the time had—was constantly on the phone, basically to de Gaulle. And he eventually, before the—when the

meeting broke up, the French had refused to do any devaluation and the Germans refused to revalue.

**Robert L. Hetzel:** Well, de Gaulle had too much pride and the Germans were worried about their farmers and the—

**Frederick Deming:** The Germans were just dumb.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** The German Central Bank thought they ought to revalue.

**Robert L. Hetzel:** Well, but it would've affected the—

**Frederick Deming:** I don't think it would have affected the—

**Robert L. Hetzel:** —payments [(Crosstalk) phonetic 02:08:09] farmers.

**Frederick Deming:** They got a lesson—there was the Dutch minister of finance, whose name was Vididine [phonetic 02:08:13] and eventually became head of the international monetary department, gave Schiller, who was a professor himself, a little lecture on economics. On currency values. And it didn't have any effect whatsoever.

**Robert L. Hetzel:** But the Germans were taking in enormous amounts of dollars they were having to inflate their currency. I mean, they must have had strong reasons for not wanting to revalue, given their inability to control—

**Frederick Deming:** They had political reasons for not wanting to devalue. They had protestors outside the meeting hall saying “don't send the mark up.” I don't think they had—the protestors had any idea what they were protesting, but there was a lot of agitation on it. And you couldn't get Schiller to budge. And Franz Josef Strauss was the finance minister at the time, and he was willing to revalue basically because he didn't like Schiller. But the meeting was a profound disappointment. Although the actions took place later on.

**Robert L. Hetzel:** Yeah, well, the market forced the—

**Frederick Deming:** Yeah.

**Robert L. Hetzel:** —actions. Okay, before I ask you questions about individuals, let me ask you a general question. I'd be interested in what your recollections are about just, what the major initiatives that you were involved in. The kinds of things for which you provided a—an impetus. I know it was a time of strong personalities. Martin was a strong chairman and Fowler was a strong Secretary of the Treasury. But—and Ackley was a strong head of the council. But—

**Frederick Deming:** So was Okun

**Robert L. Hetzel:** Yeah. And—but, Fowler was a lawyer after all. And, you know, the council was never as attuned to political realities as the Treasury. And of course, you know, the Fed had a limited sphere of influence. So, you had to be one of the key individuals this period, in terms of doing the analysis of economic policy and the kind of strategies. And in terms of the programs that you played a key role in helping to shape and kind of motivate, what do you view as the kind of key initiatives and programs that you personally were a key player in?

**Frederick Deming:** I don't know that I could even begin to answer that question. I—

**Robert L. Hetzel:** Just everything I guess. But, I thought there might be things that stood out in your mind or—

**Frederick Deming:** I suspect that the principle preoccupation of the time was the tax legislation and the balance of payments. We—I think I told you the last time, I went to the Federal Reserve for lunch, I think it was on Tuesday, every week with the governor. So we had—the Fed was never out of anything as far as I know. It wasn't a member of the Triad, but it was a member of the quadriad. And I mentioned the Triad was the Treasury, the council and the bureau of the budget. There were close working relationships with all of these things and it's a little hard to tell who had the initiative. These ideas sprang up from conversations and meetings and so on. And some of them were probably mine and some of them were probably other peoples.

**Robert L. Hetzel:** Who were the key governors you worked with at the board? Daane on international, I suppose Brimmer and Robertson—

**Frederick Deming:** I didn't work very closely with Andy Brimmer. He became a member of the board sort of late in the period that I was there. The—

**Robert L. Hetzel:** Yeah, spring '66.

**Frederick Deming:** Robertson—Martin was sick for a while, did you know, he had a gallbladder operation.

**Robert L. Hetzel:** Summer '66.

**Frederick Deming:** Was it the summer of '66?

**Robert L. Hetzel:** Yes.



**Frederick Deming:** And Robby ran the board and he had been a close friend of mine for a long time. Dewey Daane I'd known ever since he was—worked at the bank you were in.

**Robert L. Hetzel:** Sure.

**Frederick Deming:** The fellow named Bob Solomon over there who was active in—

**Robert L. Hetzel:** Yes.

**Frederick Deming:** —international bank—

**Robert L. Hetzel:** Yes.

**Frederick Deming:** I guess he's at Brookings now.

**Robert L. Hetzel:** Right.

**Frederick Deming:** But I saw—every Tuesday we had lunch with all the governors. All the governors that were around at any event. And I think Martin came over and saw the Secretary of the Treasury every week.

**Robert L. Hetzel:** Yeah on Monday.

**Frederick Deming:** Was it Monday?

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** I guess that's right. Because we went over to lunch with the board on Tuesday.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** And the phones were busy all the time with Joe Califano in the White House. You talked to everybody. And the ideas came from some place and I don't know where they came from. In fact, I said the—Bob Ellsworth was a Kansas Congressman who made a speech in the House, started the entire SBR exercise. Fowler, who was a great believer in getting along with the Congress, established several committees. We had congressmen over at the Treasury constantly. We had a group called the Dillon group, which was a bunch of advisors from outside. David Rockefeller and [unintelligible 02:13:56] and I guess Kermit Gordon was in that group. He was the—at that stage at the Brookings Institution. Walter Heller, Roosa, they came down and I spoke but it was oh maybe on the average of close to once a month. Out of all this whirlpool, ideas evolved. And I don't know that anybody could take credit truthfully for any of them.

**Robert L. Hetzel:** Okay well let me run through a bunch of names and you may draw blanks on most of them, but there may be kind of things that you'll associate with these individuals. Because for me, you know, most of them are just names in a book, but I'd be interested if you have any impressions that they were particularly articulate or—

**Frederick Deming:** They were all articulate.

**Robert L. Hetzel:** Well, forceful—let me ask you about some of the board members. Balderston?

**Frederick Deming:** Canby was vice chairman of the board—

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** —for a time. He got—Brimmer is the one who replaced him. I was very fond of him. And I think he was an excellent board member. And he's a Quaker.

**Robert L. Hetzel:** No, I didn't know that.

**Frederick Deming:** Well, if he wasn't a Quaker he was close to being a Quaker. He used to tell Quaker stories. And he was first rate. He'd been Dean of the Wharton School.

**Robert L. Hetzel:** Yeah, right. Yeah. King?

**Frederick Deming:** (tape skips) Who?

**Robert L. Hetzel:** King, governor. Didn't make a big impression [(tape skips) phonetic 02:15:42]

**Frederick Deming:** You mean from Mississippi?

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** Oh yes. He was never a particularly strong governor. He called me up I guess about four or five years ago out of the blue one night from New Orleans. And I still don't have the slightest idea of what he wanted to talk about. I knew him fairly well. He had been appointed as a governor and I don't quite know why. But he was never a very strong governor.

**Robert L. Hetzel:** Yeah. He's still around then? I didn't realize—

**Frederick Deming:** Well I don't know that he's still around now. He was four or five years ago when he telephoned me.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** Raised cattle in Mississippi.

**Robert L. Hetzel:** Mills? He was a–

**Frederick Deming:** Abbott Mills from Oregon?

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** One of the most dedicated governors I've ever seen. And his own man. A completely independent thinker. And I thought was an excellent governor.

**Robert L. Hetzel:** Yeah, that was the impression I had reading through the minutes.

**Frederick Deming:** [(tape skips) unintelligible 02:16:37] argue with anybody on a matter of principle.

**Robert L. Hetzel:** Yeah. Shepardson?

**Frederick Deming:** From Texas. Very, very nice man. I wouldn't say he had been a particularly strong governor but under the old rules, I don't think it still exists, you had to have somebody from agriculture on the board. And Shepardson was the appointee. He'd been dean of the school of agriculture at the University of Texas. Perfectly good governor, I don't mean to say he was bad.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** When he went through his hearing, somebody, and it was probably Paul Douglas, asked him about the open market operations. And I guess the question was phrased something like this when the Federal Reserve sells bonds, does it reduce reserves or does it increase reserves and Shepardson didn't know. He took a guess and he guessed wrong.

**Robert L. Hetzel:** Oh dear. Where did this happen?

**Frederick Deming:** At the Senate Confirmation Hearings.

**Robert L. Hetzel:** Oh dear. Okay.

**Frederick Deming:** They were perfectly sympathetic, because he wasn't supposed to know that much.

**Robert L. Hetzel:** Yeah. What about Scymczak?

**Frederick Deming:** Matt had been a—he would've had the longest time on the Board of any governor in history. He was appointed originally, I've forgotten when. And he had—they drew straws when the original appointments were made. And he got the longest appointment. But when they revamped the board and made fourteen year terms, he got reelected to the board. And I think he served for twenty-six years.

**Robert L. Hetzel:** Wow.

**Frederick Deming:** Matt at the ability to convince an audience that he knew a lot more than he did.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** He—actually he was a perfectly good governor.

**Robert L. Hetzel:** Yeah. Yeah.

**Frederick Deming:** And I was very fond of him.

**Robert L. Hetzel:** Yeah. You worked closely with Dewey Daane on the international—

**Frederick Deming:** Yes, because he came along on most of the meetings I went to in Paris. And I'd known him for a long, long time.

**Robert L. Hetzel:** What about Sherman Maisel? His—

**Frederick Deming:** Maisel.

**Robert L. Hetzel:** Maisel, his—

**Frederick Deming:** M-A-I-S-E-L. He came out of California.

**Robert L. Hetzel:** Yeah, his comments are very different from most of the members of the [(tape skips) unintelligible 02:18:49]

**Frederick Deming:** I thought Sherman was a little naïve.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** He was a—I think he was a perfectly good governor. You know, most of the governors are not perfect.

**Robert L. Hetzel:** Well, you know, none of us are.

**Frederick Deming:** I thought Maisel was as good as most of them.

**Robert L. Hetzel:** Yeah. So, I mean there's an academic flavor to most of what he says in the—

**Frederick Deming:** Yes, of course there was. He came out of a university. And one of—there's a long, long argument about this, as to whether the board out to be composed primarily of former university professors and economists or whether they ought to be men of affairs. My personal judgment is that the board is not as strong today as it used to be. They had what you call the men of affairs on it. We didn't know an awful lot about academics, but we're perfectly sound judgment people.

**Robert L. Hetzel:** Well, that's what—

**Frederick Deming:** Maisel was one of the early ones that had come out of—primarily out of academia.

**Robert L. Hetzel:** Because then—

**Frederick Deming:** There've been others, but he was one of the very early ones.

**Robert L. Hetzel:** Yeah. Yeah. Well I guess Martin wanted business—businessmen. He thought that, you know, monetary policy was a knowledge of the markets, bond markets which he knew and he wanted people then who could give him information about the economy.

**Frederick Deming:** That's right.

**Robert L. Hetzel:** So he didn't see a need for academia [(tape skips) phonetic 02:20:22]. Well, Mitchell?

**Frederick Deming:** George Mitchell was not an academic. He'd been a tax man under Adlai Stevenson. He went to the Chicago Bank as the director of research.

**Robert L. Hetzel:** Yeah, right.

[02:20:36]

[END TAPE 75, SIDE A]

[START TAPE 75, SIDE B]

[02:20:40]

**Robert L. Hetzel:** –a letter, but I haven't heard from him. So, I'll have to—I've got a phone number too—

**Frederick Deming:** We got a Christmas card from him this year I think.

**Robert L. Hetzel:** Okay then I'll—

**Frederick Deming:** It was signed by his wife. He had a note on it my wife tells me.

**Robert L. Hetzel:** Oh okay. Well then it's—see I sent him a letter, actually it was just about two weeks ago. So I'll telephone him. That's good. Andy Brimmer, I've talked to him too. He's a lot of fun to talk to.

**Frederick Deming:** If I'd—in spite of the fact that I've seen Andy a lot over a long period of time, I don't really know him that well. I think he was a good governor. But—and he stayed on the board longer than I thought he would.

**Robert L. Hetzel:** Yeah, all the way though Burns'. [(tape skips) unintelligible 02:21:22]. Sherrill, did you know him at all? He came on after you though, so you probably—

**Frederick Deming:** Sherrill I knew just casually.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** I don't—he was a Texan. I think he was a perfectly adequate governor but just don't know enough about him to comment.

**Robert L. Hetzel:** Well, do you want to make any comments on the two—Robertson [(tape skips) phonetic 02:21:40] and then Martin?

**Frederick Deming:** Well Robbie is a man of very strong opinions. He was a lawyer by trade. And so his arguments were always perfectly good natured, but he carried his point as hard as he could. Martin I'd known for so long that I can only say that I have great admiration for him. I think he was an excellent chairman and an excellent man.

**Robert L. Hetzel:** Yeah. What about the bank presidents?

**Frederick Deming:** I just told you earlier that I thought Hayes had been a good president in New York but he wasn't as strong as Sproul.

**Robert L. Hetzel:** Yeah, when—in reading the FOMC minutes, primarily what you see from Hayes is prepared statements. I infer from that, that he did very careful work preparation with his staff in going to these meetings—

**Frederick Deming:** He did.

**Robert L. Hetzel:** But that he was—but within the meetings he was not a forceful, effective expositor. In that, in reading the meetings, primarily what you see of him is these inserted prepared statements, as opposed to a lot of the others where there's a lot of—they're involved in the give and take [(Crosstalk) phonetic 02:22:53].

**Frederick Deming:** Yeah, but that was just the New York pattern. They did that under Sproul too I think.

**Robert L. Hetzel:** Okay.

**Frederick Deming:** I didn't—don't recall Hayes being inarticulate at the meetings. I think he carried his points as hard as he could.

**Robert L. Hetzel:** You feel like he was effective in arguing his points in FOMC meetings?

**Frederick Deming:** Well he wasn't as effective as Sproul, but there were few people who were.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** He was one of the real stars.

**Robert L. Hetzel:** Yeah. And some of these individuals kind of go farther back, but, Bopp from Philadelphia.

**Frederick Deming:** Karl Bopp?

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** He's an old, old friend of mine. He got me to come down to Sanibel. He came out of St. Louis, went to the University of Missouri.

**Robert L. Hetzel:** Right.

**Frederick Deming:** Was president of the Philadelphia bank. And, a man of very strong principles. And I think, perhaps the most intellectual of the presidents while I was there.

**Robert L. Hetzel:** Yeah I've often wanted to kind of go back and read through his early writings and I gather Philadelphia's collected some of his letters and his notes [(Crosstalk) phonetic 02:23:59]

**Frederick Deming:** He—I think he left them his library. He's dead now.

**Robert L. Hetzel:** Yeah, I'm sure he is, because he was one of the old timers. He was one of the—he was around when there—

**Frederick Deming:** You mean like me!

**Robert L. Hetzel:** No. I mean he has to be older than you.

**Frederick Deming:** Yeah, he was, but not an awful lot.

**Robert L. Hetzel:** Oh. Okay, well—how about Bryan?

**Frederick Deming:** Malcolm Bryan at—

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** —at Atlanta?

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** He was in and out of private banking. He was originally a university professor. First vice president of the Federal Reserve Bank of Atlanta. Then was made—went over to the trust company of Georgia. And then came back as president of the Atlanta Bank. And I can remember writing him a note once and it said “Malcolm, you're the most even-tempered man I've ever met. You're always mad.

**Robert L. Hetzel:** That's funny.

**Frederick Deming:** That's an exaggeration, but he was mad a lot of the time.

**Robert L. Hetzel:** That's funny.

**Frederick Deming:** He was a lot better than his predecessor.

**Robert L. Hetzel:** I don't know who the predecessor was.

**Frederick Deming:** Well I— Mac-something-r-other. And, but—because I told you the last time, the presidents really didn't get into open market policy—

**Robert L. Hetzel:** Right.

**Frederick Deming:** —until about the time Bryan became president.

**Robert L. Hetzel:** Yeah, I guess the—

**Frederick Deming:** And—



**Robert L. Hetzel:** '55, '56.

**Frederick Deming:** His—I've seen his—the former president sleep through an open market meeting.

**Robert L. Hetzel:** Oh dear. Okay. Johns?

**Frederick Deming:** D. C. Johns of St. Louis?

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** I knew him, of course, very well. I worked for him.

**Robert L. Hetzel:** Yeah. Right.

**Frederick Deming:** And I think he was a—he was a, sort of a moody fellow. And he was an excellent president.

**Robert L. Hetzel:** His statements seem to have been thoughtful from what I've read of them. [(tape skips) unintelligible 02:25:39]

**Frederick Deming:** That's right.

**Robert L. Hetzel:** Pretty serious—

**Frederick Deming:** He was a very thoughtful man.

**Robert L. Hetzel:** And I guess you wouldn't agree with this, but he was talking about money in 1960. [(tape skips) 02:25:50] to think in a careful way about how policy was made.

**Frederick Deming:** Yeah he was a lawyer by training and was a very careful thinker.

**Robert L. Hetzel:** Irons?

**Frederick Deming:** Bob Irons was at Dallas. He was a former professor I think at the University of Georgia, and a contemporary with me of course. He headed their research department there when Randall Gilbert was president of that bank. Gilbert always called him Doctor Irons. And, they do that in the south, I don't know whether they still do it in Virginia or not but the only place I get called doctor is in the south. And Irons was a first rate president.

**Robert L. Hetzel:** Yeah. Yeah I had that impression too from reading the minutes.

**Frederick Deming:** [(tape skips) 02:26:32] Kansas City? He was also a lawyer. He succeeded Leedy [phonetic 02:26:38] of Kansas city and I think Clay was a pretty good president. But I just can't answer that question well enough.

**Robert L. Hetzel:** Oh sure. Well, there's no reason you should—I mean, you know, a lot of the comments, statements you read from the FOMC minutes are run downs of the local regional economy. You know, a lot of his statements were just statements of what the regional economy was doing. And there's no reason you should remember every one of those, or—Scanlon?

**Frederick Deming:** Who?

**Robert L. Hetzel:** Scanlon.

**Frederick Deming:** Oh, in Chicago?

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** Charlie Scanlon was a, I think a first rate president. When—I'll tell you a little story, and this ought to be off the record.

**Robert L. Hetzel:** Okay, let me turn off my tape. [02:27:24]

[Comment Removed at Interviewee's Request]

**Robert L. Hetzel:** Okay, thanks here, I'll do it. Hickman?

**Frederick Deming:** Brad Hickman at Cleveland. I just didn't know him very well.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** I'm told that he never got along very well with the Cleveland staff. But I don't know that.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** And—or, well somebody from the Cleveland staff is the one that told me that. But he was a perfectly competent president at the meetings as far as I could see.

**Robert L. Hetzel:** Yeah. What about—what do you know about Galusha, your successor. Obviously I can't interview him. He comes across as a forceful person with strong opinions in the FOMC meetings [(Crosstalk) unintelligible 02:28:04]. It's fun to read whatever he has to say.

**Frederick Deming:** Who, I don't know who you're talking about.

**Robert L. Hetzel:** Galusha.

**Frederick Deming:** Oh, my successor.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** Yes. Well, actually, I never knew Galusha very well.

**Robert L. Hetzel:** Oh, okay, I just assumed.

**Frederick Deming:** See he came in aft—he came on my board just as I left.

**Robert L. Hetzel:** I see, yeah.

**Frederick Deming:** And he became president of the bank while I was away. Froze to death out in Montana—

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** And I saw him from time to time, but I didn't really know him very well. From everything I hear in Minneapolis, he was an excellent president.

**Robert L. Hetzel:** And, this is probably another case of someone coming on after you left. Did you have any impressions of Darryl Francis?

**Frederick Deming:** Yeah. We started together in the research department in St. Louis.

**Robert L. Hetzel:** Okay, I'd forgotten that.

**Frederick Deming:** He's a month older than I am.

**Robert L. Hetzel:** I had to—yeah that had to—

**Frederick Deming:** And I—he went down to work for the National Bank of Commerce in Memphis for a time. And then came back to St. Louis I guess was first vice president and then became president. He succeeded Harry Shuford, who was from Texas at St. Louis.

**Robert L. Hetzel:** Francis' views on money came primarily from his [(tape skips) unintelligible 02:27:15]

**Frederick Deming:** That's right. The St. Louis bank, as you probably know, has been in the forefront of the monetary school in the Federal Reserve System. And I don't happen to belong to that school [unintelligible 02:27:26]

**Robert L. Hetzel:** I understand.

**Frederick Deming:** I could never talk Darryl into doing anything except endorse it, so did D. C. Johns, his predecessor. And I guess everybody has at St. Louis.

**Robert L. Hetzel:** And, do you think that was because of the force of Homer Jones' personality—

**Frederick Deming:** It really started a little earlier than that. There's a fellow named Bill Abbott who was the director of research at St. Louis for a time, who began the study of—about the time Milton Friedman did, I guess of the monetary aggregates.

**Robert L. Hetzel:** Weren't you director of research then?

**Frederick Deming:** I was, but this was after I was director of research.

**Robert L. Hetzel:** Okay.

**Frederick Deming:** I think I was first vice president at the time.

**Robert L. Hetzel:** Okay, well, I'll have to get that [(tape skips) unintelligible 02:28:06]. Any recollections about other members of the administration? What about Ackley? Gardner Ackley.

**Frederick Deming:** He was not as strong a chairman as Walter Heller had been. But it was—Heller was an exceptionally strong chairman of the council. Ackley came out of Michigan.

**Robert L. Hetzel:** Right.

**Frederick Deming:** And went back to Michigan. And I haven't seen him for some little time. He came down a couple of times to—down here to Sanibel, and I had him here and he became ambassador to Italy.

**Robert L. Hetzel:** Right.

**Frederick Deming:** And I think was a perfectly good ambassador. And he was a perfectly good chairman of the council too. But he wasn't as strong as Heller. And I don't think he was quite as good as Okun.

**Robert L. Hetzel:** (Tape skips) I gather from reading memoranda and stuff that after a while, Ackley did become close to Johnson and that, you know, having very regular contact with him so that he must have been effective in that sense. In that he established a good personal relationship with the president.

**Frederick Deming:** With the president. As far as I know he did. He got appointed ambassador to Italy.

**Robert L. Hetzel:** Yeah. What about members of Congress that were important one way or the other for the Fed? Do you have contact with Proxmire?

**Frederick Deming:** I had contact primarily with people on the Ways and Means Committee and some on the banking committee. The Treasury did its own lobbying at that time, that is the Treasury officials did their own lobbying when I was there. And so I used to go down and call on people came out of Montana and Wisconsin.

**Robert L. Hetzel:** Oh that's interesting.

**Frederick Deming:** Dakotas and so on.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** Minnesota. I knew most of them reasonably well. I knew most of the Ways and Means committee reasonably well, but the primary difference was that you didn't really have to lobby anybody except Mills and Johnny Burns, the ranking republican and the chairman of the committee. They pretty well controlled their delegation. They don't do that anymore.

**Robert L. Hetzel:** Yeah. On the banking committees then are Willis Robertson and then [(Crosstalk) unintelligible 02:30:19]

**Frederick Deming;** Robertson was of course the Virginia senator.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** He's Pat Robertson's father, you know?

**Robert L. Hetzel:** I guess I knew that once but had forgotten it.

**Frederick Deming:** He was—my guess is that Robertson was a very influential senator. So people trusted him. If Robertson said it was all right to support a bill, because he was very, very thorough—I don't think he was terribly brilliant, but he was a very thorough man. And if he said—told the democrats they could support the legislation they believed him.

**Robert L. Hetzel:** And I gather he was supportive of the Fed?

**Frederick Deming:** Oh yes.

**Robert L. Hetzel:** There was never a period where the Senate banking committee was hostile to the Fed in the way that the house banking committee has [(Crosstalk) unintelligible 02:31:05]

**Frederick Deming;** Not that I know of.

**Robert L. Hetzel:** –traditionally been hostile. Although Proxmire was often critical.

**Frederick Deming:** Well Proxmire was critical, but it was sort of an impartial criticism. He was not vindictive.

**Robert L. Hetzel:** Did you ever have any contact with Paul Douglas?

**Frederick Deming:** Yes I did.

**Robert L. Hetzel:** So he must've had a forceful personality.

**Frederick Deming:** Yeah. He was an excellent senator. When we—we had to finance at five percent, the president had to sign off on all this, all—every finance over more than a year, I don't know whether he still does or not, but he had—

**Robert L. Hetzel:** Well I'm sure he doesn't. He wouldn't have enough hours in the day.

**Frederick Deming:** We sent the memorandum over and it was marked top secret and he'd sign it and he kept it top secret, even after he announced it. But in any event, the day we had to—Joe and I—Fowler and I went over to tell him that we were going to have to pay five percent for some notes. And he was very calm about this, although he's basically a low interest rate man. And he said “okay, if you have to you have to.” But he said “I want you to do two things. I want you to go back and tell Russell Long and Paul Douglas that you've got to do this.” Fowler got Long, thank God and I got Douglas to call and I told him about this and he said “Fred, if you were a republican I'd blast this to high Heaven. I know you have to do it so I'll be supportive.” Long had a fit.

**Robert L. Hetzel:** Well, Douglas as an economist, I would assume understood the problem. So he—

**Frederick Deming:** Yes, I'm sure he did. [(Crosstalk) unintelligible 02:32:49]

**Robert L. Hetzel:** Reacted politically.

**Frederick Deming:** Because Fowler was betraying all the principles of the Democratic Party. And, actually—

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** Long as a perfectly good senator, but he just had a fit at that stage. And, of course we did it anyway, we had to.

**Robert L. Hetzel:** Yeah, well, you put it in a neat way in conversation [(tape skips) phonetic 02:33:07] where you said everyone west of the Mississippi was a populist—

**Frederick Deming:** That's right. Well, of course Douglas was east of the Mississippi.

**Robert L. Hetzel:** Well—

**Frederick Deming:** Long was west of the Mississippi.

**Robert L. Hetzel:** Yeah, Douglas was a very—has a very famous name in economics. So he should have a very sophisticated understanding of—

**Frederick Deming:** He did have. He was a fine senator and a fine man.

**Robert L. Hetzel:** Yeah. Well, I guess I saved the biggest for last. Did you have personal contact with Lyndon Johnson?

**Frederick Deming:** With who?

**Robert L. Hetzel:** Johnson. President Johnson.

**Frederick Deming:** Oh you—course I did!

**Robert L. Hetzel:** So can you tell me any Johnson stories?

**Frederick Deming:** I saw him more frequently really than I wanted to. He was a—of course this is a prejudiced judgment—

**Robert L. Hetzel:** Sure.

**Frederick Deming:** Because he was president when I was there. I thought he was a good president. And I still think he was a good president.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** He was sort of temperamental. He got mad pretty easily. He was a real populist. Joe Barr and I had to go over and talk to him one day when Barr was, I guess at that stage had become Secretary of the Treasury. It was after Fowler had left. And we had to get a rate increase through for the Federal Home Loan Banks, by recollection. And we went over on a Saturday morning and got a long, long lecture about the mortal sins of high interest rates. And he said that he's going to have to hunker down under a hollow log and he wasn't going to announce it...

**Robert L. Hetzel:** I have never heard that expression, hunker down under a hollow log. That's good.

**Frederick Deming:** Of course, he let it go through all right because he had to. He probably understood more about business than any president we've had in modern times.

**Robert L. Hetzel:** Yeah. So what was the—you said you saw him regularly. What were—in general, what were the regular reasons for meeting with the president?

**Frederick Deming:** Well, he had cabinet meetings of course. And when Fowler couldn't go I went. The—we talked to him quite frequently about these problems of the pound and the international monetary system. I don't really remember how often I saw him, but I saw him a lot.

**Robert L. Hetzel:** Yeah.

**Frederick Deming:** And saw the staff there a lot. I knew my way around the West Wing of the White House all right.

**Robert L. Hetzel:** Yeah. Well, I'm kind of running out of questions, if—

[02:36:11]

**[END OF RECORDING]**