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Interview of Robert Holland

Conducted by Robert L. Hetzel

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Robert Holland: So it was pre-Martin we had that FOMC executive committee that was given pretty explicit leeway to do things between the meetings. You know? And, you know, the president of your bank was one of the ones on there. But when Martin came in, he quickly moved to get rid of that. Not because he was wanting more leeway for himself, but he was really—he really wanted to...I don't know—well, democratize the Federal Reserve System is too broad a term, but he did want to spread the authority a little more broadly.

Robert L. Hetzel: Sproul wanted basically to return to the system of the '20s where the New York Fed was the dominant—

Robert Holland: Yeah, but he never—Sproul never really had the votes to get that, you know? That was a yearning he had in mind and he thought it was the most efficient way to go. But he never was able to—I mean, however, Martin really respected not only Sproul, but also Rouse, who I think was...Bob Rouse goes back a long time. I know that Martin respected both of them and their market judgements.

And he had his own market judgements and so forth. So I never saw him fight a suggestion that the New York Money Market—that the New York people at the Rouse and Sproul level made in between meetings for a way of interpreting the directive. It was—he seemed to feel that on that triumvirate degree, it was a lot better for the Federal Reserve System. And that he wasn't—it wasn't being as open to challenge, it wasn't being as—now, my impression was they never went very far from, really, the central tendency of the instruction by the FOMC.

Robert L. Hetzel: The FOMC discussed the behavior of the Treasury bill rate, so they never went very far from that did they—in terms of money market conditions?

Robert Holland: No.

Robert L. Hetzel: Let me ask you—

Robert Holland: No, that...no. The Fed funds rate could kick around. You know, it sometimes could have a one-day or two-day fluke when some of the big banks or something had miscast and so forth. And that, they just...And it was my recollection, I remember them just tolerating that. You know?

Robert L. Hetzel: Sure, of course.

Robert Holland: I mean, sure it was gone, but the next—you know, Thursday morning they'll run another rate again, so it could have a one-day spike. Or, you know, that kind of thing and so forth. And I didn't—I don't remember them ever trying to knock down a spike like that. I remember—or creating a spike deliberately, you know?

The...that's the way I think back over that period. They were—I mean, money market conditions were the, sort of, central feeling at which they were going. Sometimes there was more reference in the FOMC discussions that covered more than that, but in between the meetings it was really the money market conditions that they stuck with.

[00:04:53]

Robert L. Hetzel: I don't want to push your memory on this—this is not the point—but in reading over this period, if there's an exception to this rule of the chairman taking some initiative on his own to interpret the directive, it would have come in August of '59—and an increase in interest rates because of the concern over capital markets and gold outflows. And then after that there was a lively discussion within the FOMC led by Abbot Mills, and from then on the chairman—

Robert Holland: '49—that's pre-Martin.

Robert L. Hetzel: '59? '59.

Robert Holland: Oh, I'm sorry, '59—yeah. I'm thinking '49. No, okay.

Robert L. Hetzel: So after—

Robert Holland: So it's after Martin. Yeah.

Robert L. Hetzel: So after that, at the end of the meeting—

Robert Holland: It's after Martin but it's before I showed up and was down there sitting and listening to it. I didn't get there until '61.

Robert L. Hetzel: Oh, okay.

Robert Holland: I remember vaguely that, because I was out of the Chicago Fed. But I don't know—I don't have any insight into what exactly—how exactly that was handled.

Robert L. Hetzel: Sure. Okay. I mean, that's sort of pushing things, but just in looking over the record it seems to me that if there's a time when the chairman exercises discretion independently of the committee, it's a pretty unusual thing. But—

Robert Holland: Oh, yes. Oh, yeah. Well, unless—once in a while, you know, the FOMC has voted explicit elbow room to a chairman between the meetings.

Robert L. Hetzel: And how does it do that in terms of language of the directive? I came in with Burns. And so in Burns' day it was very—

Robert Holland: See, Greenspan has gotten that once or twice recently. At least once. Right now I don't recall the language—the writ of the...but it was one where they weren't quite sure when to move, and they gave him a...do you remember, Bob?

Robert L. Hetzel: Oh, I think maybe I know what you mean. Where there have been times when the committee has said, we think rates should move up, but we're going to allow some discretion over, you know, the time period that this occurs.

Robert Holland: Yes. Yes.

Robert L. Hetzel: Yeah. With Greenspan—I mean, this whole thing—issue—has come up again because of this explicit release of the tilt language with the May meeting. And so the whole general issue of how you—the directive language and who interprets it between the meetings—that's coming up again. So—but so far it hasn't come up that much in that—at least over the last 10 years, Greenspan's always called a telephone conference if he wants to change the funds rate between meetings. And he has very infrequently changes it between meetings. So it's not been a general issue—

Robert Holland: Right.

Robert L. Hetzel: But all of a sudden it is an issue again. Under Burns—

Robert Holland: Well, because of the tilt thing, right? Yeah.

Robert L. Hetzel: Yeah, that's why it's come up.

Robert Holland: Well, and in a way, I mean, that was partly Greenspan's doing—of trying to be a little more...well, transparent is too extreme...be a little more forthcoming to the general public and so forth...to start including, you know, a reference to a quote tilt and so forth.

Robert L. Hetzel: Right. But that raises the whole issue of explicitness of language—

Robert Holland: Yes.

Robert L. Hetzel: And interprets it and so all of a sudden—

Robert Holland: Yeah. And Greenspan's clearly led the committee into more explicit revelation of that kind of thing ahead of the final full minutes, than any other chairman. Burns was no great—was not eager to put out a lot more information.

Robert L. Hetzel: No. But in terms of interacting with the desk over the intermeeting period, in the Burns' period—I mean, the language that the FOMC—that the full FOMC gave the manager of the desk—I mean, that was quite explicit and quite detailed. Did Burns exercise much discretion over the behavior of the funds rate between meetings, do you think? Other than—of course, if you're going to put through a big change, you're going to, you know, talk to the chairman about what you're doing and so on. I mean, do you feel like he was like Volcker at all?

Robert Holland: No. No, no, no. He wasn't—he didn't keep himself as close to the market as Volcker.

[00:09:58]

Robert L. Hetzel: Volcker sort of had the expertise and the quantitative ability to, sort, of run the desk himself if he wanted to. And he was involved at that level. But Burns had—more feeling was more once he got the language—the contingent language—set he—

Robert Holland: He wanted that—yeah, he was a bear on the language and the contingent language. And we'd slave sometime over a word or two in that thing to get the nuance just what he felt was right. And I and others who were, you know, part of the staff involved would be working hard to tell him what we thought was a fair word to use. Honest, fair words to use. I mean, they—and as you say, we were using more explicit words than before. And that was Burns' inclination.

But he also felt that that more explicit wording was enough control over the desk. And I—gosh, I never remember, you know—I sat on those 11 o'clock morning calls almost all that stretch of time and I never recalled Burns walking in and listening to them. The—I remember sometimes going down to tell him about a ripple or something like that. But I don't remember ever coming away from that with any direction by him to do anything than let the desk go ahead and do what it thinks was right and in conformity with the instructions. He just—that just wasn't his bag—his territory where he wanted to plow a lot of time.

Robert L. Hetzel: In terms of authority, the full FOMC—or at least the voting members—

Robert Holland: Yeah.

Robert L. Hetzel: Has the authority. So in principle—

Robert Holland: Sure. That's right.

Robert L. Hetzel: In principle, it could delegate it to the chairman or subcommittee the way it did in the executive committee or the way it did with foreign exchange intervention. But that's never been something that's been—

Robert Holland: Well, and then as you say—as we reminded ourselves, you know, this time when they were—they gave Greenspan the discretion as to when to make the change. You know? Some discretion on the timing of the change and so forth. So that's another, kind of, a way of doing it.

Robert L. Hetzel: But it's very different than saying that the chairman, as chairman, has some inherent discretion to change the directive or the funds rate between the meeting on his own, you know, within—

Robert Holland: I would not say that. Although I must say, Bob, if something happened seriously enough for any of the chairmen I've known to have felt like they had to tell the desk to do something, and there wasn't even time to do a telephone conference—or at least there might be a telephone conference scheduled, but maybe it's going to be in three hours or tomorrow or something, but something that needs to be done right away—I wouldn't expect any of the voting members of the FOMC to challenge a chairman—any of those chairmen's decisions that we..."I had to go ahead and do something because of *dadada*..."

Robert L. Hetzel: Well, I think that happened in October of '87.

Robert Holland: Yes.

Robert L. Hetzel: The Stock Market crash.

Robert Holland: But Greenspan got to the rest of the committee pretty quickly, didn't he?

Robert L. Hetzel: Yeah, that's my understanding. That within an hour or so—

Robert Holland: Yeah.

Robert L. Hetzel: He had—was on with the phone—and I think that was to his advantage in the sense in that he can then say the full FOMC stand—you know, the full Federal Reserve System stands behind—

Robert Holland: Yeah.

Robert L. Hetzel: The provision of liquidity and, you know, we'll do whatever it takes—

Robert Holland: Yeah. And I don't think—well, you may know the history on that one better than I, but as I recollect there wasn't a single voice raised in objection to him doing that before the teleconference.

Robert L. Hetzel: Yeah. Sure.

Robert Holland: I mean, he did it and they were glad he did it and they were glad to back him up. Yeah.

Robert L. Hetzel: Okay, well can I ask you some more general questions about Fed history?

Robert Holland: Sure.

Robert L. Hetzel: We left off in 1969—the last time we talked. Let me ask you just a little bit about the individuals on the committee. Of course, 1969—monetary policy was very restrictive—however you measure it. Real rates of interest, the level of market rates in and of itself...money growth...and there were hawks and doves. And the hawks—

[00:15:00]

Robert Holland: Yeah, with retrospect it doesn't look necessarily like it was as tight as it should have been, you know?

Robert L. Hetzel: Well, let's get to that. But—

Robert Holland: Well, I know. Twenty/twenty hindsight is not very kind to those of us who are trying to tighten [00:15:16] money, I don't think, in that stretch of time. I think we've got—there are plenty of reasons why we went as far as we thought we could. And—but some divisions among us—as you say, the hawks and doves. But in 20/20 hindsight, I don't—I could do a better job. [Chuckles] No, no. I could come closer to the right policy than we did at that time, I think. I think we still suffered from too little and too late. A little too little, a little too late. That's a personal judgment.

Robert L. Hetzel: Well, at that point it was probably too late, but whether it was too little in '69—I think the issue then was to whether to persevere with high interest rates—

Robert Holland: Yes. Yeah.

Robert L. Hetzel: Until you had a real change in market psychology, or whether you should go with the gradualist policy of trying to wind inflation itself down over a long period of time.

Robert Holland: Well, that was essentially the argument. The doves weren't arguing that we shouldn't do anything to fight inflation, they were essentially—it was a difference I think between gradualists and digging your heels—push harder. Or keep pushing, I guess I should say, would be a better way to say it.

Robert L. Hetzel: Well, really it was more like Martin was more like Volcker in 1981 that I think he felt like you had to get on top of the speculative—

Robert Holland: Yes, he did.

Robert L. Hetzel: Psychology in the markets. And it was very important what you did in terms of interest rates and your actions. And until you got on top of that psychology, you couldn't—I mean, you just had to stand tough. It wasn't like you could, you know, stick with money targets or whatever and just work things down gradually. And then—

Robert Holland: No. That's right. That's right.

Robert L. Hetzel: But tell me about how the people split up. Obviously you had the Kennedy and the Johnson appointees, you had Brimmer and Mitchell and Maisel—and they were in the perspective of the time. They were more modern looking, they were more quantitative, on the other hand—actually, they paid less attention to expectations than somebody like Martin did—

Robert Holland: That's right.

Robert L. Hetzel: So in a way, Martin turned out to be, in his own way, modern in the sense that he was very concerned about the psychology of the market and expectations. This is just sort of—I'm just sort of—

Robert Holland: Yeah. Modern is...you know. If you look back over the Fed history, it seems to me we have—you know, sometimes it's been wise to pay attention to expectations, sometimes it's been better to pay attention to the fundamentals or the—you know, the aggregates and so forth. And the fact that what was coming out as I saw it was—yeah, they got called doves and hawks, but it was—the more thoughtful of the doves were trying to give—were giving increasing attention to the magnitudes. And as I recall, the magnitudes were...how should I say it? The magnitudes were behaving in a way so that the Mitchell's felt like they could—that they didn't have to call for as high a rate as they thought—high an interest rate—

Robert L. Hetzel: That's right. If they had had a—

Robert Holland: As they thought would come from the Martin and New York styles.

Robert L. Hetzel: I think there were two things: that if you had a quantitative guide in the form of reserves or money, first of all, you would be more likely to ease—you would go from restriction to ease more quickly over the cycle. And at that point, you would have had a restrictive monetary policy majored by the aggregates, but with a lower level of interest rates.

Robert Holland: Yeah.

Robert L. Hetzel: And I think—and this is in terms of what we were talking about before—in terms of influencing policy—the idea of changing procedures to a more quantitative orientation had to be related to the interest of Brimmer and Mitchell and Maisel to try to change the center of power away from, at that time, Martin and Hayes and, you know, some of the hawkish presidents.

[00:20:09]

Robert L. Hetzel: They must have felt like, well, maybe that would give them a little more influence.

Robert Holland: Well, I think the Brimmer/Mitchell/Maisel group was also significantly influenced by—remember, back in that time we had that academic advise—not advisory group, I'd forgotten what we called it now—but we would meet about twice a year with a big group of academics that Lee Bach put together—

Robert L. Hetzel: Sure...Academic Advisory Group, I think that's probably what it was called.

Robert Holland: Yeah. I had forgotten the particular label of it and so forth, but Lee was very good at getting some of the very best financial economists on that group, and also balancing the ones that are there. I mean, so we'd get Friedman once in a while, but we'd get others who were—and did get Modigliani on the other side of the fence or, you know, at least further away and so forth.

Robert L. Hetzel: Sure.

Robert Holland: And I think that not so much Friedman by himself, but Bock and Jim Duesenberry and some of the others who weren't quite as ideological as Friedman, were starting to talk more about the aggregates as something that should be paid attention to. And I think—I know—that made a difference to George. Because he would question those guys very much about that when they came in, and we would talk sometimes about it afterwards and so forth.

So there was—those kinds of—a gradual learning curve, I think, that was going through the members of the Board who were learning-inclined—members of the FOMC who were learning-inclined on this kind of business of monetary policy and how do you step on the brakes and how do you look at it and how you measure it and so forth. And I see that as a significant contribution to why Mitchell and Brimmer—and Maisel, less convincingly—but I think Sherm was also affected by this very thing—yeah.

Of course then they—you know, George was careful to do it in a way that he felt was constructive for the FOMC. Both Sherman and Andy had a little bigger ego quotient than

George did. [Laughter] But they pushed a little different. But they were—it was—you could feel that kind of thing going on, going through. And—

Robert L. Hetzel: Well, and my understanding is that they did a lot for the staff in terms of keeping the staff involved professionally—

Robert Holland: Who?

Robert L. Hetzel: Those three individuals. Particularly Maisel and Mitchell—

Robert Holland: Yeah.

Robert L. Hetzel: Were very concerned that the staff be as professionally good as the best economists in academia.

Robert Holland: You bet. You bet. And they worked hard to keep it that way, they wanted it that way; they wanted the staff to be respected that way too.

Robert L. Hetzel: Hm-mm. And they were. [Chuckles]

Robert Holland: And they were. They were. You know, and that—with Martin it was kind of almost a little humorous in a way. Because Bill Martin was about as strong a defender of the staff—as anybody. The—and, you know, he didn't blast the staff when it said some things that were different than what the thought—what he was feeling and so forth. He was very courteous. He really wanted a good staff, not only at the Fed but out in the Reserve Banks too. But particularly the staff at the Board—he really wanted it and he backed this one. We were struggling with some of these things—they were starting to push in certain directions—but he actually—I don't think—was ever very fully convinced by the staff about the—how important the aggregates ought to be.

Robert L. Hetzel: Sure.

Robert Holland: So while the staff was moving gradually more in an aggregate's kind of...well, never to the end. But I mean, the balance within what the staff was putting forward—the aggregates were getting more attention than what the staff—gradually than what the staff was putting forth. And Martin let that happen. It was okay with him; it was fine with him.

[00:25:01]

Robert Holland: The—we'd look for the words that would leave room for that and give attention to it. And I never had him say, "No, don't put that in—" like, what you're writing, or you know? Or water down—that kind of thing. He was always very, very accepting of what went into the record about what the evidence was, and so the discussion around the table and so forth and that kind of thing.

But in his own convictions, you know, he gave the market a—he continued to give the market a significantly larger weight in his own decision-making. And he'd sort of roll with the committee—he was very adroite [00:25:46] at rolling with the committee, but the—he'd keep the committee also—I mean, he never completely gave into the committee, he simply, sort of, moved a bit and accepted some of the language and so forth that was drifting around the committee...is the way I took it. And those of us on the staff who were drafting that kind of stuff for him and the committee, were trying hard to do what we thought was accurate and fair. And it wasn't easy in those days to find the right words. Partly because, you know, some new phrases were coming up as to—as part of what was going on and so forth. But he was—Bill Martin was just as straight as a string on—it would be—on sticking with the recognition in the documents and in the records of that gradual drift toward more attention to the aggregates that developed during that stretch of time.

Robert L. Hetzel: In terms of the—

Robert Holland: He had bigger problems on his mind, you remember?

Robert L. Hetzel: Oh, sure.

Robert Holland: Because he was getting...I'd better be careful. I don't want to say he was "getting"...he was much concerned about the kind of pressure on the economy that the whole increased military effort was applying. And he was getting information from the CEOs of the major manufacturing companies that were making that stuff and that kind of thing, besides what we were picking up in our own statistics and so forth. Remember he and—he had his own contacts, and he was very careful that they were [00:27:48 unintelligible] contacts. He would ask—he would check with these people, ask what's going on, what they sense in their thrust of orders and so forth, and he was trusted for his integrity. And I don't mean anybody broke security, but he was gathering input from that side that gave him a sense of that. And on the other hand, there was brewing—

Robert L. Hetzel: Let me just say—

Robert Holland: In various parts of the administration. You know, these price control/wage control ideas. And he sure didn't like that.

Robert L. Hetzel: Yeah, let me just say this is spring of '65. And just put that on the tape. But, yeah, that's interesting what you mentioned about the price controls. Because of the discount rate increase that came in early December—

Robert Holland: Of which December?

Robert L. Hetzel: Nineteen-sixty-five.

Robert Holland: Yeah.

Robert L. Hetzel: That—the Fed had already began to move market rates of interest up, so in terms of—

Robert Holland: Yeah, but I told you, didn't I, what it—about what we didn't know factually about that? In our earlier conversation? Or did I not? Did we not get to that part?

Robert L. Hetzel: About what? About—I think you did, but about...? What you did not know factually...

Robert Holland: Yeah, about the fact that Lyndon Johnson was deliberately keeping from the Federal Reserve the information about the GMP impact—expenditures that were being pushed up through the Defense Department and so forth.

Robert L. Hetzel: Right. Right. Yeah. So the orders were going out, but they weren't—and that was affecting the economy—the military orders, but it wasn't being—

Robert Holland: Yes, yes. But we didn't know it.

Robert L. Hetzel: It wasn't being—

Robert Holland: It wasn't being told to us.

Robert L. Hetzel: Right.

Robert Holland: And I—I may have told you this once before, but I remember how frustrated Dan Brill and I—and in his own territory, Bob Solomon—were at that time, by the sense that something was happening in the economy that the numbers didn't describe—that, you know—we were looking at the—at, sort of, the tradition old GMP generating magnitudes, you know?

[00:30:04]

Robert Holland: The ones that would end up producing GMP. And none of those statistics had the growing bulge and the military expenditures in it—military orders and military expenditures in it. And the market was—I mean, the manufacturers were hearing it and they were hiring, but they weren't hiring fast enough so that the information we had on unemployment was up to date with that, sort of, sense of strong pickup that was blowing through the economy. I remember...gee, I remember one time Danny and Bob and I went over to Brookings where Art Okun was—I'm trying to think of who else was there with him...Charlie Schultze—

Robert L. Hetzel: Kermit Gordon at that point.

Robert Holland: So I don't think Kermit [00:31:04] was in on this discussion. We particularly wanted to listen to Art because we had a lot of respect for the way Art read the economy and so forth. We went over and in effect we said to him, “Look, it feels to us that there’s more happening in the economy than the figures say—” that there’s more push than the figures say. “What do you know? What do you think? How are you showing up in your analyses?” and so forth and this kind of thing...struggling trying to find if there was a—if there were analytical techniques we weren’t using yet, that Okun had. Or just his own judgment as to what was going on with the GMP and the upward pressure on prices and so forth. And to try to get a stronger basis on which to describe to the FOMC the strength of what was happening. And Art didn’t have the information either. Johnson had been very determined to keep that information—

Robert L. Hetzel: Well, who was the director of the budget then? Was that Schultz? The Bureau of the Budget? Wasn’t that Schultz?

Robert Holland: Oh, maybe that’s—yeah.

Robert L. Hetzel: So I don’t think he had the information—

Robert Holland: No, no. We didn’t have Charlie at the meeting, that’s right. Because Charlie was over at the Bureau of the Budget.

Robert L. Hetzel: But I don’t think he had the information either.

Robert Holland: No. No. Johnson was [00:32:32 unintelligible]—Johnson was an absolute tiger about keeping that information quiet. The—and he made it stick. I mean, it only—it never did really—well, I guess eventually started—the numbers—the activity—the orders began to become hires and the shipments and we could begin to see it showing up in the numbers. And that made it much easier to justify the tightening move and continuing it and that kind of thing and so forth.

But I remember there was a whole stretch of...a bunch of...I believe it was a couple of months when we were—those of us on the staff who had a responsibility for making sense of all of this—were baffled. And it was, you know—it was—we were operating on partial knowledge—our instincts—and so that what we were seeing told us that there was more there than there was, but we couldn’t prove it. And the staff that’s supposed to produce facts, you know, was—we were trying to get roots for the facts so we could tell them what we felt was happening. And we did get to the place where we were telling them we thought there was an extra lift here, but we couldn’t prove it.

Robert L. Hetzel: You said one thing that was very interesting to me—Martin’s attitude toward the guideposts at the time—the talk about controls and informal wage controls. I know that Johnson had pressured the New York City Banks to keep the prime rate down—

Robert Holland: Yes.

Robert L. Hetzel: And the cost to them of funds was either close to or above what they were getting on their loan. So they were in big trouble. And the increase in the discount rate was one way for the Fed to take the lightning onto itself so that the banks could raise rates—

Robert Holland: Yeah.

Robert L. Hetzel: Without...so philosophically, Martin disliked the ideas of controls because he disliked the idea of government intervention?

Robert Holland: No, he didn't think wage and price controls were very effective for very long in our kind of economy. And he hated to see them drawn into the picture.

[00:34:59]

Robert Holland: That is—and he thought they would—well, that was basically it, you know?

Robert L. Hetzel: So philosophically he just disliked—

Robert Holland: Yeah. Philosophically he disliked those kinds of controls. The—he's too pragmatic a person to stand on that ideology and act on it, but he disliked them. And he was made uneasy by the increasing, sort of, talk about that kind of thing that was coming around. And he thought tightening monetary policy was a better way of dealing with it.

Robert L. Hetzel: Yeah. I mean, that's why I want to bring that out. Because people who are philosophically interventionists think, well, they can use these sorts of controls as an alternative to monetary policy. But if you don't feel that way—if you have a visceral dislike for government intervention—then you're much more likely to say monetary policy is the instrument for dealing with inflation. And I think you're likely to hit better monetary policy.

Robert Holland: Yeah. No, no, that's what it was. And he—no, he began to let the—well, you saw the write-up in the booklet about the conversation he had with Johnson. He was trying to tell Johnson they were going to be raising interest rates. [Laughing] Johnson used every argument he could think of to try to slow Martin up. And Martin slowed up just enough so that—to keep Johnson from blowing up. But that code—that crack, when Johnson said he went through a lot, "I'm in the hospital with that gallbladder operation..." and I thought Martin's answer was the neatest and most [00:36:37 unintelligible], "No, Mr. President, we'll wait until you to get out of the hospital." You know, it's a three-day operation. [Laughing] You know, for him to be in the hospital for some length and...

Robert L. Hetzel: Yeah, what I read was that Martin said, "Well, Mr. President, I had my gallbladder out and it wasn't all that bad..." [laughter]—

Robert Holland: He might of.

Robert L. Hetzel: "So why not just go ahead and do it."

Robert Holland: And, you know—have I told you the—you know, of course that Johnson called Martin down afterwards?

Robert L. Hetzel: Right. Yeah. And you told me about the metaphor with the rock and the Pedernales River and—

Robert Holland: Yeah. That's right, that's right. That was, sort of, the way that Martin saw the need to get—you know, the holding the prime rate down was creating these kinds of things. And raising the discount rate that would let the prime rate go up would actually help the flow of credit improve.

Robert L. Hetzel: I have the feeling—just kind of reading back into the record—what must have happened with...Martin went down to the ranch and he had a long walk with Gardner Ackley by himself. And I think the two of them—

Robert Holland: At the ranch?

Robert L. Hetzel: Yes.

Robert Holland: Yeah. Gardner—I've heard—I remember Gardner saying something about that, yeah. Go ahead.

Robert L. Hetzel: There's no record of what they said, but I have the feeling that from then on, Martin and Ackley and Fowler were very much in the same mind of what government should do about fiscal policy. And so the three of them were really, sort of, working as a team in terms of working as a team in terms of trying to get Johnson to propose a tax increase to counter the war expenditures. And so—

Robert Holland: Pay for them. You know? Yeah.

Robert L. Hetzel: Yeah. So that's what setoff the, sort of, long, sort of, back-and-forth on monetary policy—that Martin was willing to hold off as long as he thought, you know, he was really going to get a tax rise. And then he kept just being disappointed about—like everybody else—about how long it would actually take to get a tax increase through—

Robert Holland: Yes. No, that's right. That's right.

Robert L. Hetzel: In '69, when Nixon comes in, Martin doesn't resign because he's just concerned that Nixon's going to do the right thing with fiscal policy?

Robert Holland: Well, no. Remember Martin is a strong institutionalist, you know? And he had a term as a member and a term as a chairman that still had some time to run. And that's—the institution was set up for its chairmen to have those terms, because that was thought to be in the best long run interest of the way the institution functioned. And resigning would be, in effect, a departure from the kind of terms that were thought to be in the best long-range view of the system. He had a real feel for the system as a system.

Robert L. Hetzel: So he did the same thing with Kennedy then? That's my understanding.

Robert Holland: I think so.

[00:39:56]

Robert L. Hetzel: Because I had heard different stories on that. But what the—in interviews, what the—Walter Heller said was that Martin did not want to resign for that reason. He didn't think that, you know, if the President got his own man right after the election—he thought that would be political.

Robert Holland: Yeah. Yeah. Yeah.

Robert L. Hetzel: Of course, they didn't want to let Martin—it turns out they didn't want to let Martin go because of the gold problem. But—

Robert Holland: Well, once they waked up to that...

Robert L. Hetzel: Yeah.

Robert Holland: Because, I mean, he was as essential to the resolution of the gold problem as we think of Greenspan today to the—working on some of these things. Not only in this country but in other countries as well—Martin's judgment on that gold thing was really impelling.

Robert L. Hetzel: Yeah. Do you think in '69 Martin felt like he was flirting with recession? That monetary policy might push the economy into a recession? And he was willing to go through it?

Robert Holland: I don't think so. Now, let me see, Bob, what I can conjure up in terms of...I mean, see, he—by the end of '69—or really by '69—we had a good reading on this military up thrust in the economy. And maybe we weren't getting the very latest numbers, but we sure could see the trends and get at a sense of what was going. And I believe that if one of us had asked him, he would have said, "No, no, no." He would have said, "That's—there's so much upward pressure coming from that military spending that recession is not a serious risk." That the problem is to hold down the risk of inflationary excesses coming because of it.

Robert L. Hetzel: Yeah. I think—

Robert Holland: I think that's the way he read it.

Robert L. Hetzel: Yeah, I think that's right. Except that in '69 the issue was whether Congress was going to extend the tax surcharge. And he was very much concerned that—

Robert Holland: Oh, that's right. I forgot about that. Yeah.

Robert L. Hetzel: He was first very concerned that Nixon wouldn't ask for the extension because in the election, Nixon had said he wouldn't. But then when Nixon came around to supporting the surcharge and sent it to Congress, Congress made it into, sort of, a Christmas tree of tax reductions for everybody. It got mixed up in the idea of reform, and Congress interpreted reform—

Robert Holland: Yup. They really messed it up.

Robert L. Hetzel: As tax reductions. So I think Martin was very concerned that the deficit would reemerge in—

Robert Holland: Yeah, but that's not a recession problem. I mean, that's an inflation problem.

Robert L. Hetzel: Well, that's right, but that's what you're suggesting to me—that Martin wasn't just thinking that—he was thinking that inflation might get loose again in '69.

Robert Holland: Yes. Yeah.

Robert L. Hetzel: And, I mean, Martin was of the generation—and maybe this is right—that if you let inflation get loose, then you're going to have a recession. It's going to follow. That's the correct—

Robert Holland: Well, but I don't—I wouldn't put it that way.

Robert L. Hetzel: How would you put it?

Robert Holland: That there are people from that generation who, you know—if it is a business cycle type of thing, and the business cycle...you know, the normal, traditional business activities well up—well, then, yeah, then it's reasonable to expect them to go back. And there—you know, there were some people there with the business cycle kind of thinking about it. And maybe Bill had some of that in him. He made money in the Stock Market on both going up and going down—not many people [00:43:57 unintelligible], that stuff pretty well.

But this push from the defense spending is not—it's an entirely different order. That's the kind of inflation problem that's not cyclical. And therefore, it's not reasonable to look and to expect there to be a quick—you know, an early downside that comes on the other side of that and so forth. There wasn't—I don't remember any talking about cutting back in government spending or cutting back in that military stuff and so forth.

Robert L. Hetzel: This is not a first order question, but I'm just curious because of your personal relationship with Governor Robertson. He was originally a populist, and in '65 he was among the individuals that was unwilling to raise the discount rate. And Martin had to worry about the—you know, Brimmer and Maisel and Robertson—

Robert Holland: Yeah.

[00:44:59]

Robert L. Hetzel: You know? He couldn't move—he couldn't raise the discount rate until he had gotten, you know, the majority. And that came with Dewey Daane. But Robertson changed over time, and by the end—by '72—he wasn't populist anymore; he was very hawkish on inflation. Do you have any recollections of, kind of, talking to him and how he—?

Robert Holland: Yeah, but...yeah. I think the...I think Robbie [00:45:30] didn't like inflation and he wanted to fight it. I think in that '65— Robbie was a guy for whom facts were important. And in that '65 thing—including all the way through that—the time when that discount rate was increased—there was not facts on the table that supported that discount rate increase. It isn't—it wasn't the facts on the table that supported it. It was the sense of the new euphoria in the markets and these things we couldn't measure that it turned out indeed were going on—orders going out all over the military world and so forth. And see, Robbie didn't get that information either. And he wanted evidence on which to base an increase. You know? And facts. And the Board didn't have them at that time. The system didn't have them at that time.

But when the inflation began to show—and it was showed in the numbers, not just in somebody's expectations or a forecast, Robbie moved along pretty quickly, as I recall, in his voting record. I was writing his statement—or drafting statements in the spirit of what he said he wanted to do. I'd sit and meet with him and we'd—tell him what I thought was happening, what I thought the numbers were doing. And he'd tell me what he thought about them. And I'd often times give him a short drafted piece that said what seemed be reasonable to be made. And we had a pretty good working relationship. That is I wouldn't—I was aware of his feelings when I drafted that stuff for him, but I also knew what I thought was the right economic analysis. And—

[00:47:26]

[END TAPE 53, SIDE A]

START TAPE 53, SIDE B]

[00:47:31]

Robert Holland: ...direction—I'd always tell him that it was there. I said it seems to me that kind of stuff is there and so I cast the language in this fashion. And the—I tried never to surprise him. And he took it like a man. I mean, he trusted me and I tried never to give him a curveball. But he—as I recall, once the evidence started coming in, he pretty well got on Board. However, getting on Board on the basis of the evidence meant we were doing some things—as I said—you know, the phrase I used a little earlier: a little too late and a little too little. And because Robbie was a facts man, he was part of the little too late and the little too little. And he had quite a bit of company.

Robert L. Hetzel: So let's talk about Arthur Burns. He comes in in February of 1970 and in a way, he could make common cause with the Brimmers and the Mitchells and the Maisels. Even though they were philosophically different, they both attached a lot of importance to the real economy as opposed to the psychology of the markets. And so he—Burns really had—I mean, he dominated the FOMC, but really there was—I mean, apart from the people like Hayes, who were more oriented toward the Bretton Woods system and the external value of the dollar and so on—you know, Burns had a common core of support within the governors and...

Robert Holland: Yeah. And with the presidents too. Insofar as monetary policy is concerned. You know? They all respected him as an economist and what he understood in his own right. He found a couple of economists who he could really work with that—as he went ahead. And Chuck Partee and Lyle Gramley were creating the report from the research division in terms of what was going on and so forth and so on.

Arthur met with—particularly at the earlier part of the thing [00:50:08]—met with them a lot and listened and talked to them and so forth. Didn't hesitate at all to ask pointed questions. Never—well, I don't know...I wasn't in all those meetings, but neither of those two guys ever gave me an impression that he tried to push them around and make them produce a different report than they thought. He may have said things like, "Go back and look at it again" or something like that. [00:50:38 unintelligible]Give some reason the numbers jibe too, or something like that. But it—he was respectful of them. And I was on the money market side at that time, and he never pushed me on that kind of thing. I'd tell him what I thought was happening and what was going on as we tried to work on the matter.

By that time—by the time Burns was in the—I remember thinking it felt to me like the hawk/dove division within the FOMC was...I started to say it was narrowing. I guess what I really mean is that the way each of those sides read the market were not as much—that what needed to be done—was not as wide as it had been at some time in those—in the late '60s.

Robert L. Hetzel: I think that's right.

Robert Holland: And let's see...we picked up another new governor along there too, before long. I've kind of forgotten when the timing was on this kind of thing.

Robert L. Hetzel: Well, if you're at the end of the '60s, you know, there were Sherrill and then as you get into the '70s you get—

Robert Holland: We had Wallich, don't we? Right in there?

Robert L. Hetzel: Yeah. Wallich and...well—

Robert Holland: When did Wallich come anyway?

Robert L. Hetzel: Oh, I don't think he comes until the mid-'70s. You get Bucher and Sheehan before—

Robert Holland: Oh, no, Wallich was there for several years while I was still there. It was not the mid-'70s. Wallich was there before the mid-'70s.

[00:52:32]

Robert L. Hetzel: Well, it definitely was not before '73 or '74. So I think it must have been in '74 or—if it was before the mid-'70s it was '74 then because he wasn't there in '73. He was still at Yale then, I'm sure.

Robert Holland: Well, I trust your recollection. If I had operated off my impression, I would have said I thought he was there at least a year earlier than that.

Robert L. Hetzel: How long were you a governor and what was your last meeting?

Robert Holland: Well, I wasn't a governor until '73. My last meeting was '76. But I remember when we went out to get Henry Wallich and doing the background studies for him and so forth. And I remember how it seemed like his kind of economic understanding would be a real help to the Board, and a real help to the committee. And boy, it seems to me...I was still an executive director and, sort of, Burns' right-hand man when it came to digging around with these nominees. And, gee, I thought I started some of that conversation about Wallich in '71.

Robert L. Hetzel: Hm. Well, I'll check that.

Robert Holland: Yeah. And maybe it was '72 before he got in, but...Burns negotiated with Nixon fairly early on. They—an understanding about new appointments for the Board. Do you know about this?

Robert L. Hetzel: No.

Robert Holland: The—he wanted to get good people on the Board. He did not want political turkeys [00:54:32]. He wanted good people on the Board. And he knew—Nixon well, of course he'd been his economic advisor before. And Nixon trusted Burns. So Burns thought up a procedure that he thought would be very good for the Federal Reserve System and good for Nixon. And he got Nixon's okay on it. And that is that when an opening on the Federal Reserve Board appeared, Burns—with his resources at the Federal Reserve Board—would bring Nixon a nominating list of three people from which Nixon would choose the person to be appointed. Burns said—he guaranteed to Nixon that all three would be good, well-qualified people who would not be a political negative for Nixon. That is, in effect—that's the way he put it.

And I thought Henry was the first nominee under that negotiation. Because I remember talking to the guys in the White House who were the White House's staff that was assigned to work on the nominees for the Federal Reserve. And I remember telling them about the names that were coming up and we would talk back and forth about their qualities and whether they should be there. It was actually a pretty friendly exchange because Burns had a sharp eye for the kind of talent he thought the Board would benefit from, and that would also redown [00:56] to the, you know, respect for Nixon. Not that—redown to Nixon's reputation as an appointer of good people on the Board.

Robert L. Hetzel: So in terms of the people you were talking to at the White House, did that include Peter Flannigan?

Robert Holland: No. I usually talked to Press...oh, gee, what was his last name...

Robert L. Hetzel: Martin came here—

Robert Holland: Martin. And I'd forgotten who it was I'd talked to before Press. I don't remember how soon Press got there.

Robert L. Hetzel: Hm. There was a guy named Cole who—

Robert Holland: I guess I talked to Cole before. That name sounds familiar. Yeah. But they were—the exchanges between us were friendly and professional. They knew about the understanding between Burns and Nixon. And we served them up very good choices. You know? They'd look at them and they couldn't find a thing wrong with them. They'd be three very good choices.

[00:57:28]

Robert Holland: I think Burns usually let Nixon know who he—which of the three he preferred, but there was always a list of three. And Burns said, "I will—you can take any one of the three and I will support it and support you" and so forth. "I will guarantee you they will all be really good people."

Robert L. Hetzel: I'm just curious in terms of the White House staff people you interfaced with—did you have contact with Peter Flannigan? And what did you think of him?

Robert Holland: No. Flannigan was the next notch up. I think Press Martin...maybe he reported to Flannigan on stuff like this. But, no, I didn't have to deal with Flannigan. I—the truth of the matter is I didn't trust Flannigan. But I was—and I was very glad I didn't have to deal with him. I'm not sure—not much of my distrust came from many direct contacts with him or even orders that came down from him. I didn't like what I heard from others, I didn't like what I read in the paper about him and what he was doing...I didn't like his relationship with other agencies—the way he dealt with them and so forth. And I was pretty—in my own mind I had a feeling Flannigan was not a person who acted in the best interest of the agency he was talking to. And so I was thankful not to have to deal with him.

Robert L. Hetzel: He had no respect for Fed tradition.

Robert Holland: My impression was that ranked pretty low in his priorities. Whereas I did quite a—I did a lot of talking to Press—and to some extent to Cole before—about the system, why it was the way it was...Yes, it's politically awkward in a number of respects and not—can't be too efficient, but the reasons why the structure is like it is, is rooted in a painful American history in good political science with 20/20 hindsight. And so that's why you have to put up with the press [00:59:56]...kind of thing, you know?

Robert L. Hetzel: As long as we're on this subject, in terms of the language that the Council of Economic Advisers included in the 1970 and '71 *Economic Reports to the President* where they wanted to make strong statements that monetary policy would support—well, in the second case, 1065 GMP. But they wanted to be very explicit about money growth targets. Much more explicit, of course, than Burns was willing to be.

Robert Holland: Yeah.

Robert L. Hetzel: You know? Rightfully, I mean, [chuckling] not wanting that to be, sort of, a backdoor way of giving instructions the Fed. So would Burns have negotiated those differences with Nixon himself and then settled that sort of issue...?

Robert Holland: I don't know. But it would be within his capacity to do so. And he didn't like that intrusion into the Fed's responsibilities by a council that didn't have the responsibilities that the Federal Reserve had. That is, in effect, he thought the council was making some advice that—where the council would not have to suffer the consequences if the advice was wrong, and therefore they could be a little more forthcoming on all this.

And he who knew full well what were some of the flaws of that measurement of the market—of the monetary magnitudes and so forth—thought they were being...well, I don't want to say...I started to say unfair, but that's not right. They were...they were taking a position that—for they were not constrained by the responsibilities of what would happen if their position was wrong. Yeah. And he felt very clearly about that. So I wouldn't be surprised if somebody handed you a note or told you that there was a tape that said Burns went over to the President and said, "Now, look. I know the council, I know those people, I know what they're saying..." and so forth.

[01:02:33]

Robert Holland: "They are saying something that is intruding into the independence of the Federal Reserve, and I want you to know that I object to it." I mean, he—I don't know that he said it, but he sure had a relationship with Nixon on the basis of which he could say it. And he had feelings about that statement by the council that would—that, you know, made him unhappy about it.

Robert L. Hetzel: Sure, absolutely. Well, just before we get back to, sort of, straight economics, just one—as long as we've raised the issue of interfacing with some of Nixon's subordinates—the thing that came up in July of 1971 where Colson circulated the false rumors about Burns wanting a pay raise. And at the same time the Nixon administration was floating rumors about restructuring the Federal Reserve System—adding governors and so on. Did you—at the time, did you get any stories about, you know, what, kind of, initiated—what precipitated that? I mean, why would the Nixon people think that such a clumsy sort of attack could have any influence or...What was the point?

Robert Holland: No. That's something I don't know anything about. I was—it surprised me too. I don't know anything about it. Don't know what led to it and so on.

Robert L. Hetzel: You know, Burns became chairman in February of 1970. And, sort of, over time through summer of 1971 the level of disagreements with the administration over a number of things grew. Initially there was not a lot of disagreement, but by May of 1970, it was pretty clear that there was going to be a recession. You had Penn Central; people became concerned about recession that fall. Government—the Nixon administration becomes concerned with—you know, begins to be concerned with money growth and whether it's high enough. And then you get—it seems like you begin to get a fair amount of disagreement. It really starts with the 1065 GMP prediction by OMB and the council and whether you're going to get money growth to achieve it.

I mean, and, sort of, in spring of '71 now—Burns wanted a strong economic recovery, right? But he wanted it in a way he thought that was sustainable. He felt like he had to do it in a non-inflationary way. That he was concerned about getting a restoration of confidence on the part of businessmen so they could feel like they could invest and get a return from that without their cost rising, without wage growth impinging into their profits.

Robert Holland: Well, he didn't mean just interest rates—interest rate costs. He had in mind real costs.

Robert L. Hetzel: Right.

Robert Holland: Yeah.

Robert L. Hetzel: So did you—so there were two points of disagreement with the administration. One was over the level of money growth; the other was over the role of an incomes policy and the role of the President in terms of influencing wage and price decisions. Do you remember discussions at the time among the governors at Board meetings on the issue of wage and—well, they weren't...incomes policy and moral suasion—they hadn't moved to wage and price controls then. Was there pretty much unanimity with Burns' position on that issue? He gave a—his first speech on this was in May of '70 before the American—I think it was the American—

Robert Holland: Remind me of the flavor of that speech.

Robert L. Hetzel: Well, there was that speech and then one that got a lot—even more publicity in December of 1970 in Pepperdine College. The flavor was not wage and price controls, the flavor was that the presidents should exercise a general—convey a general sense of private responsibility for controlling wages and prices. And that the President, through his office, could exercise an influence on a rise in wage rates that was unrelated to, kind of, economic fundamentals in terms of unemployment.

[01:07:40]

Robert Holland: Yeah. Yeah.

Robert L. Hetzel: And excess capacity in—

Robert Holland: Pepperdine speech.

Robert L. Hetzel: Yeah. And it was more—again, it wasn't controls. It was more to have a wage review Board that would flag excessive wage and price increases to bring public pressure to bear. And then in unusual circumstances to have the President himself sort of set the tone for what was acceptable and—

Robert Holland: Yeah. Yeah. Well, you know, at that stage of the game, that means—I think in Burns' mind that was a lesser of two evils. The price and wage controls were worse. He had some confidence in the ability of really perceptive, fully-informed leaders to help the rank and file of business leaders perceive what was in their longer run best interest.

Robert L. Hetzel: Yeah. I think you put that in a very perceptive way in terms of getting inside Burns' mind.

Robert Holland: Yeah.

Robert L. Hetzel: And kind of what he—the role he thought a President should—the kind of leadership he thought a President should observe.

Robert Holland: Oh, and he felt the same thing about himself as a chairman of the Federal Reserve. Although he was careful not to get himself cross-wise with other things, but he—you know, he would talk a bit that way too. Trying to help business leaders he would meet with understand what would be—what's economically a sounder way of dealing with this situation and so forth. By what they'd do.

And...he—you know, he didn't relish an alternative of raising monetary—squeezing monetary policy a lot tighter than it was. And he was smart enough and had enough of an ego so he did not exactly relish that being the first massive action he is famous for as a new chairman of the Federal Reserve. So, you know, he was—if by sharpening the mind—the perception—of business leaders, then it's better not to push these things up right now. Or push them up very far and so forth. If he can get that across, then he wouldn't have to raise—wouldn't have to tighten up monetary policies.

And of course, I don't mean he was convinced that monetary policy would shut it off right away, but, I mean, that's the alternative. And it was one he had to think about—we had to think about, you know? It was a nasty time, you know? There was—people were trying to—a number of different interests for a number of different reasons—were trying to do something to hold down inflation other than a traditional add inflation program.

Robert L. Hetzel: And do you think Burns related that to the fractures and the stresses of American society at the time in the—

Robert Holland: Some. Yeah, to some extent, yes.

Robert L. Hetzel: The combination of the Civil Rights Movement and the way that had split the middle class, and also the way the Vietnam War protests split the middle class. That he felt like given the deep divisions in American society, that it was important to get through this time without a recession and, you know, to have—

Robert Holland: Also without a sky-high set of interest rates trying to hold down inflation. Yeah. He didn't want either of those, you know.

Robert L. Hetzel: And do you think he felt that Nixon needed to exert leadership on these issues? And that he felt—

Robert Holland: He thought—well, needed to, yes. I think he also thought it could be an opportunity for Nixon—that it could be politically advantageous for him with 20/20 hindsight if he'd stepped out and been that kind of a leader and got that done [01:12:15—and carried the day with the country and that kind of thing and so forth. Yeah.

Robert L. Hetzel: And, I mean, Burns didn't necessarily trust the close advisors of Nixon, especially after the end of '70 with Connally.

[01:12:34]

Robert L. Hetzel: So Burns had strong public disagreements with Nixon, but he never pushed them to the point—

Robert Holland: Why do you say strong "public" disagreements?

Robert L. Hetzel: Over the incomes—issue of incomes policy there was a—kind of, a tension between them. Burns was willing to go public—

Robert Holland: Well, yeah. I just didn't—I thought your emphasis on—he—I mean, he expressed a lot of it privately. And I thought he expressed more privately than publically.

Robert L. Hetzel: No, I'm sure that's right—yeah. Okay.

Robert Holland: Yeah.

Robert L. Hetzel: Sure. Sure. But he always felt it was important to maintain a personal relationship with Nixon.

Robert Holland: Oh, yes. Absolutely. And he would often times try to give Nixon advice in the role of a personal advisor to Nixon as a President. And the—Arthur also would once in a while try to take some of those political considerations into account too. Not in the monetary policy, but in terms of what he talked to Nixon—what he'd say to Nixon.

Robert L. Hetzel: This is, sort of, tangential, but I'm—as part of a bigger picture, do you have any sense of how Burns felt about the war in Vietnam?

Robert Holland: ...No. I don't. By the time Burns came in, you know—

Robert L. Hetzel: It was winding down.

Robert Holland: It was winding down, the numbers—we weren't suffering, not being told what was going on...that kind of thing and so forth—the way that Martin had had to wrestle with. There wasn't that kind of problem...No. And I have no doubt that Burns had a private attitude about it, but right now I don't recall any expressions that I think I could tie to how he felt about Vietnam.

Robert L. Hetzel: Let me ask you—

Robert Holland: Glad it was winding down...I mean, that made the problem of monetary policy a lot easier. Yeah. Well, see, not easier...made the path we might have to talk with monetary policy—deal with in monetary policy—a lot easier. Quite a bit easier than if we were continuing to ride that doggone surge of military orders, you know?

Robert L. Hetzel: Let me ask you about the several months before the November 1972 election. And, kind of, let me tell you what I'm getting into. You know, I'm working on this history and I'm going to write it up. And you and I both know that Burns was not partisan political, he was politically astute; he attached a lot of importance to maintaining good political relations not just with a republican White House, but with the democratic Congress. And that's, you know, hardly partisan. But there are people within the Federal Reserve System who were on the FOMC at the time—and staff people—who did feel like he was political.

Robert Holland: Yup, I know that.

Robert L. Hetzel: And of course, later on—

Robert Holland: I'm not one of them.

Robert L. Hetzel: I know, that's why I say that. And I'm not either. Before I didn't know, but after, kind of, getting into, you know, reading the minutes, sort of, line by line and everything—you know, I'm not either.

But I want to—you know, when I write my book, I want to get this straight so when people come back to it they won't, sort of, pick up, you know, White House memos and letters that Nixon wrote Burns and stuff, and sort of fly off with those. So I do want to go through the period before the elections and talk about, you know, kind of how you see, kind of, Burns and how he's responded...I think there's, sort of, two periods here. You know, one is pre-price controls and one is after the price controls.

Robert Holland: Yeah.

Robert L. Hetzel: And after the price controls, there's no longer any public disagreement. But Burns is very much interested in influencing administration policy. I mean, as I read it, he very much wants a wage guideline that moves down over time from 5.5%.

[01:17:26]

Robert L. Hetzel: So he really wants to ring inflation out of the system. He wants to go to price stability. But he sees the wage guidelines—the 5.5%—as key. Does that sound at all right to you?

Robert Holland: Well, I remember he wanted the wage thing to work down a bit. The—to some extent...well, there's a couple—three—different things working here, I think. Burns had a—I think—I never saw him play what I thought was a core [01:18:15] partisan card in monetary policy. But I'm sure—he was aware of the standing of the administration and what society and whether—and he was concerned about whether society would accept price controls, how long it would accept it...I mean, as an economic analyst and a person who had in his earlier incarnation, done some advising in this kind of direction—and he was quite alert to, you know, the lessons of World War II where we generated it for a huge up thrust in military orders and the military demand to use American real resources. But a lid of price control was on it in the spirit or patriotism. And we got all the way through the war—World War II—with it. And he knew that.

He also knew the history of how it was unwound and it wasn't all that comfortable, and all the rest...but he knew there was a point at which the American public might—for national or patriotic reasons—be willing to put up with some kind of controls. He hoped the voluntary controls would capture the public's loyalty and response. And they didn't—at least not enough.

He also was concerned with the place that the Federal Reserve had, in the public eye and in the eye of the Congress. And we tried to be careful to not needlessly aggravate either of those feelings. I mean, after all there still were people in Congress who wanted to radically reform the Federal Reserve in ways that he and a lot of other Federal Reservers felt would be wrong. And so he was trying to not give them enough more fuel to throw on the fire to make it really, you know, uncomfortable or even likely that some of those other laws would get passed.

Robert L. Hetzel: You mean, you're talking about Wright Patman and the GAO Audit [01:20:36] now, and—

Robert Holland: Yeah. Well, and—gee, who were some of the others? Henry...

Robert L. Hetzel: Well, Reuss and Patman were the ones that made the most noise.

Robert Holland: Well, but so was Henry—the representative from Wisconsin, what was his name? Henry...

Robert L. Hetzel: Well, Proxmire was the most articulate critic but Reuss—Henry Reuss —

Robert Holland: But Henry was—Henry something, I forgot what else—also was—

Robert L. Hetzel: He was the democrat from the Milwaukee area.

Robert Holland: Yeah, yeah.

Robert L. Hetzel: A representative.

Robert Holland: And he was smart. I mean, he wasn't just throwing garbage around. So there were people in Congress quite willing—and even eager—to do some things to the Federal Reserve. And Burns didn't want what they wanted to do to be done to the Federal Reserve, so he had—he was attuned to the politics of that kind of treatment by Congress of the Federal Reserve. See? And in the larger sense, in terms of general public attitude toward the Federal Reserve. One other—those were considerations in his mind, and that kind of...

Robert L. Hetzel: In December of 1971 and also March of 1973—in the first case where Congress was passing the authority for the wage controls, and in the second case where it was extending them for a year and you got the two-tier prime—

Robert Holland: Yeah.

Robert L. Hetzel: business. Did Burns feel at those times, or any other time, that Congress might extend the controls to interest rates? You don't have to know the answer to that question, but did you have a sense that that was ever a concern?

[01:22:30]

Robert Holland: It rings a vague bell, but I can't...I don't know quite...I don't know quite how to take that into account. Hm...

Robert L. Hetzel: Well, do you remember the two-tier prime and the—

Robert Holland: Oh, yeah. Oh, yeah, I remember that.

Robert L. Hetzel: So what was the—was that because Burns felt that if he didn't do something about interest rates to businessmen and farmers that the controls might be extended to—

Robert Holland: I think that had something to do with it. But I've got to be careful now because now I'm starting to guess; I don't have...I don't have direct knowledge of that, so...The...I don't know where Burns got his advice from within the Federal Reserve on that. That may be something that was pretty much his own idea as a compromise...feeling that something had to be done and that that was better than the alternative. Both in terms of an initial action and in terms of its subsequent effects. He was a pretty good soldier once those controls were put in place. But they were distasteful to him. You know? He's basically a free market economist.

Robert L. Hetzel: Hm-mm. Hm-mm. But he did think that they would be effective in controlling inflation?

Robert Holland: Which?

Robert L. Hetzel: The controls.

Robert Holland: The price controls?

Robert L. Hetzel: Yeah.

Robert Holland: ...I'm not sure the answer to that is yes. I think he was a loyal supporter of them once they were enacted. I mean, he didn't decry them. But I think he was too good an economist to think that that would work out fine. He had a little hope—he had more hope, I think, for the volunteer stuff than he did for the fixed controls. Because he thought the volunteer stuff might be able to develop—the volunteer limits—voluntary limits—might be able to develop some of that American patriotism that helped us in World War II. I think. I think. Oh, I'm sure that that's the way he felt about voluntary controls, and I think he thought they would get—they may have a better chance of commanding that kind of patriotism than a strict fixed controls.

But when the fixed controls came in, you know, he was a loyal supporter and we ran some of those records—some of those controls [01:25:31] ourselves, you know? And members of the Board who were—to whom[01:25:38] controls were distasteful—accepted the role of being chairman of one of another of the control systems and they did a damn good job of it. I mean, they meant to do a really good job on it. And they did. I mean, administratively.

Robert L. Hetzel: Yeah, sure, sure.

Robert Holland: I mean, Louie Robertson ran a heck of a good program, you know?

Robert L. Hetzel: What was his involvement in the...?

Robert Holland: His was—wasn't his the Voluntary Foreign Credit Restraint?

Robert L. Hetzel: Yeah.

Robert Holland: I think that was his, yeah. He had one, Andy [01:26:13] had one...yeah. The...you know.

Robert L. Hetzel: So let me ask—again, I mean...I think you and I are in agreement on this, but still, I need to—I can't just state my opinion and have people believe it, I want to understand, you know, what was motivating Burns.

Robert Holland: Yeah.

Robert L. Hetzel: And of course the period that people point to—who'd feel that Burns was—the policy was influenced by a desire by Burns to see Nixon reelected—they point to the summer of '72. And in particular in July—

Robert Holland: Yeah.

Robert L. Hetzel: Money growth began to come in very high. And the Fed had these quarterly money targets and then monthly targets. And initially what they did was to rearrange them so that they would have very high growth in July with almost no growth in August. And so, in effect, kind of accommodated the high growth in July and hoping it was just a blip—

Robert Holland: This is July—

Robert L. Hetzel: This is July 1972.

Robert Holland: Seventy-two.

Robert L. Hetzel: Seventy-two. Right before the election.

Robert Holland: Yeah. I'm just—just a minute, I've got somebody at the door.

[Tape stops, starts back up at 01:27:35]

Robert L. Hetzel: ...keep you forever.

Robert Holland: Yeah, I've got to get to something. Go ahead.

Robert L. Hetzel: So initially the FOMC set the money targets to accommodate high growth in July and had, kind of, targeted minimum growth in August. But through August money growth continued to come in high, and then through September. And when you read the record, Burns is—the FOMC did move interest rates up, but very reluctantly. And Burns is very reluctant to move rates up. It's clear they're going to miss the targets.

And in September, the markets realize that the money targets are being, kind of, overshot. And the markets anticipate that rates are going to go up, so—you know, knowing Fed procedures—so they do move rates up. And Burns—in September, right before the FOMC meeting, Burns—or at least it must have been done with his knowledge—the desk actually moves the funds rate down to limit the rise in market rates. And there is a lot of tension at the August and September FOMC meetings; a lot of, kind of, strong, you know, criticism. How do you think about Burns' actions at that time?

Robert Holland: Well, first, I think you should look at this in a larger context. I don't know any chairman of the Federal Reserve...in the fall of a presidential campaign, who wanted to raise—who was eager to raise interest rates. That, you know, is—that creates—that has the potential to create significantly political problems for the Central Bank disproportionate to the benefit it is likely to produce. I've heard chairman after chairman, in effect say the kinds of things that it would—"Let's get through it, let's get through the election..." you know? "Let's—" Well, they never put it explicitly, but what they're really feeling was, "If we can avoid serious rocking the boat just before a presidential election, that's better for the Federal Reserve."

Robert L. Hetzel: It's no time to draw attention to the Fed.

Robert Holland: That's right. That's right. And that is regardless of what party's in order, so that's got—and I think Burns had that feeling. Just like I knew Bill—I know Bill Martin had that feeling. And I bet Paul Volcker had that feeling. You know? They—that's just—I think that's an understandable attitude for a chairman to have in any one of those—in that season of the presidential election year, regardless of whether the chairman is Burns and the president is Nixon.

Now there are some people who were at the meeting—there were at the Federal Reserve [01:31:01] meetings at that time—who hadn't—weren't aware that that's almost a historical attitude for chairman of Federal Reserve Banks, in the fall before an election—who interpreted this as—this kind of reluctance to move as it's—well, it's political because Burns was an advisor to Nixon and he's close to Nixon. I think first and foremost, it ought to be said that this was a traditional protect the Federal Reserve attitude of Federal Reserve chairmen in the fall of a presidential election year. And Burns had it—had that kind of attitude. How much more than that there was...I can only say I didn't see any more of that. Not from where I sat, you know?

Now there's things I didn't see—I never went with him when he went over to the White House to talk to the White House people. But I do know on the—I've forgotten now whether it was August or September one...

Robert L. Hetzel: Whether the—I didn't quite hear you, whether the...?

Robert Holland: I'd forgotten which of those two FOMC meetings it was when we had such a difference of views that the chairman—Burns—called for a break.

[01:32:29]

Robert L. Hetzel: Well, you know, that's never been clearly identified, but my guess is that that was the January meeting, not the meetings right before the September—

Robert Holland: Okay. My recollection can't place it particularly, but I know there was an episode where there was a division like that. Burns called for a break, picked up me and Allen Holmes, who was then the Money Market Manager in New York, took us through the door into his office and sat down. He said, "Let's work out a FOMC directive that'll pass, in the light of everything we've heard."

Robert L. Hetzel: Yeah. I think—

Robert Holland: And I know that there were some people who were hot on the other side of the issue, who surmised, guessed, and eventually sort of thought it was so, that Burns used that time to call the White House and get his—and check. And I never saw him pick up the phone all the time we were in that office.

Robert L. Hetzel: Okay, no, I'm glad to have this on tape. That was the January 1970 meeting. It was—

Robert Holland: Really? Was it that early? Nineteen-seventy?

Robert L. Hetzel: I'm sorry, I'm sorry; I've got that mixed up. Nineteen-seventy-two. And the background is that you'd had the Smithsonian agreement in December of that year, and by the time of the next FOMC meeting, which was the end of January 1972, the Smithsonian agreement was unravelling, The dollar was under pressure.

Robert Holland: Yeah.

Robert L. Hetzel: You know? It looked like it might come apart. And Burns moved up the date of the regular FOMC meeting by a week and announced that there was going to be no discussion of the international situation; all they were going to do is concentrate on the domestic situation and money growth. And at that time it looked like money growth had fallen, you know, well below the 6% level that the FOMC had targeted. And also the 6% that the Nixon administration thought it was going to get. And there were also a number—

[01:34:54]

[END TAPE 53, SIDE B]

[START TAPE 59, SIDE B]

[01:34:59]

Robert L. Hetzel: …increases. So it was a meeting in which there was a lot of, you know, difference of opinion. And I'm almost—well, I'm sure that was the meeting.

Robert Holland: I don't remember the precise date. I—but boy, I do have a clear recollection of that episode. I'm just not sure, in my own mind, what—it was somewhere in that—well…

Robert L. Hetzel: What was so difficult to work out was that the—what Burns offered the committee in terms of alternatives for the directive were different, because the Maisel committee was supposed to report in March on the RPD business and whether they should use reserves. And Burns offered two alternatives. One was to move to reserve targeting immediately, and provide for a generous increase in reserves that would push rates down to get money growing again. And the other alternative was to cut the funds rate rather significantly and it had already been cut.

Robert Holland: Well, I'll have to—I'll have to defer to your sense of the record on that dates and timings on this kind of thing. You've got all the records there, you mentioned. If you had asked me what was the environment—I mean, I have a very clear recollection of this episode, of us having—not being able to reach an agreement around the table, Burns grabbing me and Alan and taking us into his office and we worked-out a compromised language we felt would pass and we took it back and put it to the committee and it did pass. And as I say, in—while we were in Burns' office he didn't call anybody on the phone. So that—I remember that, because that's the allegation that was made back—now, I don't remember when it was, but I do have a sense that it was—that is was not the issues you're describing that was going on. I have the sense it was more the issues of July and August than September of 1972. But I'm not sure.

Robert L. Hetzel: Well, you know, I could be mistaken, because the meeting has never been identified in terms of when it…

Robert Holland: When it took a break?

Robert L. Hetzel: Yeah, well, what the article, the Rose article, the Sanford Rose article, in *Fortune* didn't identify the date of the meeting. So it just said 1972. And so I…

Robert Holland: I don't think the minutes show the break.

Robert L. Hetzel: No. No.

Robert Holland: And time, you know.

Robert L. Hetzel: No, but…

Robert Holland: Which I suppose…

Robert L. Hetzel: But the meeting where the strong debate occurs over the kind of the directive that's going to be adopted, and the meeting that seems to have the most sort of division seems to—I, just in reading the whole period, I just assumed it was the January 1972 meeting. I may be wrong. I could be wrong.

Robert Holland: Yeah. I have to leave you with that ambiguity. My impression is it was the earlier atmosphere that surrounded that episode. I remember the episode clearly. I don't remember the date. And so—the exact date. And so I leave it to you to…

Robert L. Hetzel: So the language would have been over the monthly money benchmarks that were being given to the Desk and how to make those consistent with the quarterly figures for M1 growth that the…

Robert Holland: Well, and the relative emphasis on that and on market conditions and so forth, interest rates and stuff, the relationship between them and so forth.

Robert L. Hetzel: Yeah. Well, the main thing is that—is your recollection of the break and the fact that you were involved with the chairman and Alan Holmes in writing the language. And people don't understand that this is a standard procedure that after the go-around, if there's difference of opinion, a lot of work is involved in getting a consensus and getting the right language. And that often there is a break in the meeting, the others go off and drink coffee and the chairman is working with the secretary of the FOMC.

Robert Holland: Yeah, well, it doesn't—the break—that was unusual for a break to be as big and as long as that one, in my experience. We'd often worked at it around the table, maybe just a short break. That was—that one was longer and more deliberate. But I do think this whole business of getting consensus out of the Federal—out of the FOMC through thick and thin, through times of [unintelligible - 01:40:02] is very underappreciated by the market. In fact, I think I told you that we've been thinking about developing a book of essays in honor of Bill Martin?

[01:40:13]

Robert L. Hetzel: Right, yeah, yeah.

Robert Holland: Yeah, yeah. And if we do, I think I'm going to write my essay on the difficulties of—the importance of reaching consensus around that FOMC table and how hard it is—how hard it can be and why it's so important. Well, first, the importance of it and so forth, and why it happens because of the structure of the system, da, da, da, da, da. I want to try to write an article that will put that in better perspective.

Robert L. Hetzel: Well, that's actually where we began our discussion in terms of the relationship of the chairman to the committee, and really, the Federal Reserve System and the committee is very much modeled after the federal structure of government we have, where we don't have kind of ruled by the philosopher king, we have government by consensus-building and discussion. And it seems sort of inefficient, but when you've been through the system, you realize that ultimately decisions are better arrived at in that process.

Robert Holland: Well, you're probably saying some of the words that I'm going to be putting in that. That's the kind of spirit I hope to do this. I haven't got it written yet, haven't even started. But I—that's what I intend to try to write. If I get a draft done, I'll send it to you, Bob, for you to look over and to make comments.

[01:41:35]

[END OF RECORDING]