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Interview of Robert Holland

Conducted by Robert L. Hetzel

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Robert Holland: ...you know, and the, the, so the conclusions that emerge are a subtlety of...

Robert L. Hetzel: But, but, but, that, that give and take then often, well, it, it disappears but it goes, even though the Chairman is a dominating figure, he has to, and in any one meeting, if he wanted to, he could say, look, you know, I need your help, this is a difficult time. But, but, he can't do that.

Robert Holland: But he can't extend that kind of good will very often.

Robert L. Hetzel: That, that, that's right. So, so there's this subtle interplay between the Chairman and the members of the committee where they reach a consensus and that's part of the fascination of the, of the game and...

Robert Holland: That's right, and the, the, the sort of, there's a larger [unintelligible 00:01:04] around that, that represents some of the things that are done before the meeting, you know. Where, you know, there's a, there's almost an unwritten law that most of the time in that pre-FOMC meeting, with [unintelligible 00:01:28], that you don't go and no, no governor goes, and even the Chairman, goes to try to really sell, you've got to get a guy to change his vote. But that's, that's a little, that's a little improper. But, you know, but it's, on the other hand, some days, geez, they, they're, they're, they're going to be divided and it's important. And the subtleties with which, you know, I've been sent down that hall a few times, too, but, say something or to learn something from a governor that would help either the Chairman or another governor do it, that, all with, all the sort of, sort of ethical constraints and how far I could go. And that's not in, that's not in print anywhere. And I'm, I think probably other secretaries at the FOMC had the same experience, but I, from what chatting I've done with Ralph Young, I certainly have a sense of that from time to time even he did that kind of thing with Bill Martin. But again, you know, it's variable, it's not lobbying, it's a very careful subtle thing with, among sophisticated, knowledgeable people. And as, as, you know, how you try to prepare to get to developing a consensus. I thought if I ever wrote a book, or wrote an article, I would write an article on consensus building and the FOMC. I think that's the most underappreciated aspect of the functioning of monetary policy.

Robert L. Hetzel: Yeah. Let me try something controversial out on you, because I don't know quite, I wouldn't know quite how to say it publicly. I, I wouldn't, but, I think when the Chairman, any chairman, goes into an FOMC meeting, he knows how the vote for that meeting is going to come out, practically. I'm, not, not always, but pretty much. And the reason is that when he talks to the Secretary of the Treasury on Monday, they've talked over what they think is going to happen and the Chairman doesn't want to blindside the administration and kind of catch them by surprise, so, so a Chairman has, before the FOMC meeting, he's talked to the most articulate governors, he's certainly talked with the, the Vice-Chairman, the President of the New York Fed, there are usually several presidents who are insiders who never dissent but feel like they get some inside advantage of discussing with the Chairman, so, so the Chairman has an idea of how the meeting's going to, going to come out. Now, I don't want to exaggerate that, because some, sometimes there, there's definitely tension there and the Chairman...

Robert Holland: Oh, I think it varies from one meeting to the next.

Robert L. Hetzel: Well, what I'm saying is, is...

Robert Holland: And how certain, the certainty the Chairman has of how the meeting is likely to turn out. Some meetings are in the middle of a kind of pattern or trend of monetary policy making, where it's, you know, you're, it's, it's clear how the votes are going to go because nothing important is, is controversial or at stake. There may be one dissonant president, but, but you can afford that, you know.

[00:05:19]

Robert L. Hetzel: Yeah, I may be exaggerating, but if you and...

Robert Holland: I've been to...

Robert L. Hetzel: ...that, that often a lot, the key governors are arguing not just for the current meeting but for the subsequent meeting. That is, they're not going to dissent at that particular meeting because the Chairman's talked to them, he, he understands their views, he’s respect, he respects them, but they’re, they’re making their case so that, you know, the Chairman knows that he can get a consensus that, that meeting without any kind of a...

Robert Holland: [unintelligible 00:05:55].

Robert L. Hetzel: ...spirit, but, but the next, but they’re argue, they’re making their arguments and the Chairman’s got to take account of those for the next meeting. There, there really is often arguing for the next meeting as much as the current meeting.

Robert Holland: Oh, sure, but I, I think you’re describing it as a, at least in my experience of that time, I wouldn’t sound, I wouldn’t give him quite that credit of that much certainty. Or, I wouldn’t give him the credit for quite that much clear cut communication between the various governors. The, at least that’s the way it seemed to me. In fact, I was, I was a little, when I first was down there, I began to see, I was first a little puzzled by how little communication there was governor to governor, and Chairman to governor. Even over their luncheon tables and so forth, that as, after I got into more of the inner processes, I realized, yes, there was more than I had seen and so forth. But, but it was subtle. It was, only once in awhile would some governor sort of try to make a case and usually it would be to another governor. And that happened, I think most often, when we had a lot of economists on the board. I can remember Sherm Maisel trying to persuade George Mitchell and Mitchell thought Maisel was off the, off the rails. But, but, Maisel’s style was really out of keeping with, with sort of the tradition of the Fed. Even George Mitchell, who was more outspoken than the average governor, seldom would push that hard. They were respectful of one another, there was a sense that, that lobbying one another wasn’t really that kosher. I mean, it was a, it was, that the stuff was not really, that it’s, it’s not quite in keeping with the organization.

Robert L. Hetzel: Oh, absolutely. The FOMC wouldn’t work if people went in with blocks. And it would be like negotiating in the Balkans or something. You wouldn’t get a consensus, you would just have divisions of...

Robert Holland: Yeah. So it’s a little bit like a super, Supreme Court, not exactly, but a little bit in that respect in terms of how there’s some communications back and forth. And some of their non-monetary assignments, they’ll, they’ll write the memos, had the staff write something on that area. But on monetary policy, it was, you know, I had, I had, one, one governor, the governor who [00:09:02] for several years, ask me to come in and, and, and listen to him and visit with him in sort of the week before the next coming FOMC and to give him, and then after we’ve talked, to capture in black and white a, the kind of statement that would be appropriate for him to make to the committee.

Robert L. Hetzel: Was that Governor Robertson?

Robert Holland: Yeah. Yeah. Once in a while another governor or two would ask me to do it, but Robby was the one that asked me most consistently.

Robert L. Hetzel: Yeah, he...

Robert Holland: And, and, he, he was careful. He never, he never showed that to anybody else.

Robert L. Hetzel: Is it fair to say that over time he changed from, I know this is an exaggeration, but from being something of a populous to being an inflation hawk, by the end of his career he seemed, to me, sort of all the prior traces that maybe I was kind of reading into out of his concern for, for interest rates and as opposed to inflation. That had all disappeared and he was very [unintelligible 00:10:14]

[00:10:14]

Robert Holland: Well, what happened is that, era is, as it went along we, we, we increasingly saw emerging some of the damages inflation could do. And, you know, and moreover, we also were getting impressions of, you know, how strong monetary policy was in dealing with the inflation and, you know, it was, I won't say got out of hand, but it sure got bigger than we wanted, even before the Volcker era, you know. The, looking back, every Chairman that I, both, both Martin and, and Burns, at the end of their term of service as Chairman, felt that they had failed in letting inflation to get further than it should have gone. But with 20/20 hindsight, it would have been better if they'd, if they'd been tougher earlier, that, that kind of thing and so forth.

Robert L. Hetzel: Yeah, I'm going to ask you about Martin in a minute, but let me just ask you about Burns...

Robert Holland: And I feel that way.

Robert L. Hetzel: Did, did Burns really, really leave with regrets? He had so much self-assurance, and he always thought that a lot of the inflation was coming from cost-push pressures from militant labor movements. Did you really think he ended with, with any regrets? I mean, this is a guy with just incredible self assurance that he was doing the right thing.

Robert Holland: It sure, it sure was. But, but, we had, there was more inflation going on than he regarded as desirable for the economy from the position of 20/20 hindsight. I'll put it that way.

Robert L. Hetzel: So, it was just what people say. He was too sensitive to, to the disruptive effects of interest rate increases, you know, before the fact, after the fact, he would have like, Volcker, he would have been much less concerned about what, say, the disruptive effects of, of interest rate increases on financial markets...

Robert Holland: Well, that's putting it, sort of, in an extreme terms, but, it, it's, yeah, you've caught what I think is the, the spirit of what I'm trying to convey, you know, that the, he, he would, looking back with 20/20 hindsight, he would rather have had less inflation and incurred the effort, the pains of all monetary tightening, but not a huge amount, but we were, didn't quite pull it down, he didn't quite pull it down as much as he would like..

Robert L. Hetzel: Did you ever have any conversations with Burns after he left the Chairmanship in...

Robert Holland: No.

Robert L. Hetzel: Yeah. Yeah. But, but, well, it's sort of hard to talk about individuals. Volcker was...

Robert Holland: Well, Martin was very outspoken. Remember that, that piece in that little book that we wrote about him, that where he got the governors together at about the end of his term, and just said finally, I've, I've failed. Inflation has gone too far. But then, I believed he's right. And they all tried to talk him out of it saying, gee whiz, Bill, you can't, you couldn't have done everything, I mean, we were, we were bucking a line of wind that, and resistances and threats and everything else. We, we tried as hard as we felt we could and still be allowed to be an ongoing organization with people like us in it. I mean, but don't we push much harder, Patman will get a bill passed that will, you know, carve the, the, the Fed up in pieces or tie us up in knots and so forth. We've, you know, we really felt constrained because of the threat of what a congressman fired by a Patman, well, one or two of those other guys over there who were a little more sophisticated than Patman and then but still wanted to take a chunk out of us, you know.

Robert L. Hetzel: Yeah, well, Proxmire and Royce were really...

Robert Holland: That's, yeah.

Robert L. Hetzel: They were formidable adversaries.

Robert Holland: Yes, they were. Yes, they were. And they...

Robert L. Hetzel: They were smart.

[00:14:50]

Robert Holland: So, so, we were, you know, we, they, they were, we, we, they, they didn't, we didn't define them much as, as a constraint. But boy, it was. And everybody in that room knew it. We, we, we tended to use different kinds of words in the minutes, you know, words that are a little more polite, and that kind of thing. But, that, that was certainly a, a constraint.

Robert L. Hetzel: I want to

[BREAK IN AUDIO]

Robert Holland: ...terms you've got it painted about right. The, now, now, Martin welcomed Mitchell as a, as a governor. Glad to have George there. He, he, he regarded George as somebody who would really call a state, well, first place, the smart economist, the person who really called a state at state; you never stab him in the back or anything. He could really count on George and who tries to think straight. So, he saw all that was a game. And plus which, I think the two just liked one another. So, but, Mitchell, Mitchell felt one of the things that needed to be done was for the, the, the gap between, let me go way back, the gap between the Fed and academia to be narrowed. Not in terms necessarily of positions, but certainly in terms of communication. And he came up with this idea of having that group that Lee, whatchamacallit, put together for him, every, you know, once or twice a year, a really outstanding economist coming in and meeting and talking to the Board. Informally.

Robert L. Hetzel: Yeah, the academics consultant group.

Robert Holland: Yeah. That was really George's idea. And he saw the gap, he thought there ought to be more communication, so that each side could understand more of the nuances and the what the other side had to contribute. And he thought if each of the sides understood better, that they'd work together, things would go better and so forth. And, once in a while, he'd say to me something like, you know, we've got to get across some of this new economics for the Board. And he, once in a while, he'd say to Bill, he'd say, you know, here's, here's, and he, he really meant to be talking about not the classic Keynesian, but about the, the kind of Bob Solo style about growth in this business of, underused resources and that the problem is really when you, when you use up your underused resources, then the inflation really hits. That kind of thing. But that appealed to George. And he, he thought it was good for the other governors to hear that discussed. I wouldn't say I think that's right and everything else is wrong, he said, I think this is stuff we need to take into account. We need to either expose the chairman to, well, and all the members of the Board and so forth.

Robert L. Hetzel: He came out the Chicago and, and had some support from the, from the Democratic Party in Chicago, there was some, commission there.

Robert Holland: Yeah, well remember, he had been, now, he was a democrat who, who wouldn't act like a democrat. He, he was trained as a fiscal expert. And that's what he was doing at the Fed, but remember, Bill Daley came to the Fed and asked for some fiscal help. In, in the sense of a guidance, his expertise. And, and in, in running the mayor's operation. And, the, the...

Robert L. Hetzel: He came to Mitchell, you...

Robert Holland: Mitchell. He wanted to borrow Mitchell as an advisor and I think, I don't know how formal that ever got, but for a while, Mitchell was advising the mayor on the fiscal side of how to get better control and handle better. That, that was his intellectual expertise, you see.

Robert L. Hetzel: Like Rivlin and the control board.

Robert Holland: Yeah. And, and Daley knew that, Mitchell was straight as a string and he said that's why I want him. Not one, straight as a string. Absolutely honest and an integrator. In here, helping me to deal with it[00:19:48]. So, Daley, for all the talk about, and he's a big political guy, just all kinds of things, he wanted Mitchell's integrity and he, he never tried to override Mitchell on that kind of score. Well, Mitchell was giving him advice, so he could ignore Mitchell's advice, but he treated George respectfully, see?

[00:20:08]

Robert L. Hetzel: Yeah.

Robert Holland: And he, he was going through a time of particularly tough financial stuff for the city. And some of what George told him was helpful enough to help him work out of it and Daley was really grateful. So, later on, in the evolution of the Democratic party rank [00:20:29], Adlai Stevenson comes into the picture and it's, and wins the governorship of Illinois. And, and when Daley sees him and all the celebration gatherings of the Democrats about taking over the, he says, Mr. Stevenson, if you ever have a, governor he called him, you know, if you ever have need for some financial help to run that operation right, I can sure tell you a guy who can do it. Because he did it for me. That's this guy George Mitchell up at the Fed. And that's how Stevenson heard about Mitchell and Stevenson began to see hey, in this, in this Illinois government, there's a lot of problems. I don't want to say corru--, one of which, you know, it was his problem.

Robert L. Hetzel: Yeah, well that was...

Robert Holland: So he called up and he, again, he asked the President of the Fed will you lend me George. And then that, for a while. And in that case, it was a formal arrangement and Mitchell went down and was the Budget Director for Adlai Stevenson for a while.

Robert L. Hetzel: Well, when did Mitchell begin his association with the Fed? It wasn't when he became governor in '61?

Robert Holland: Oh no, no, no, no.

Robert L. Hetzel: Okay. That I just didn't know.

Robert Holland: No, no. Mitchell went to school, graduate school, up in, up in Wisconsin, he was, he was teaching fiscal policy in the University of Wisconsin, I believe.

Robert L. Hetzel: Oh, wow.

Robert Holland: When the Fed wanted to add to its own research department in Chicago, to more strength on the fiscal side. And so, of, of, I don't know, somewhere they heard about a Bill, John Langham [phonetic] was running the research department at the Fed at the time. And he had, he was one of these guys who had an, an eye for a good talent and ways of sort of persuading. He was really good at that kind of thing. And if I tell you how good, let me tell you who he hired, at one time or another in that Federal Reserve Bank of Chicago research department. He hired three different people that became governors of the Federal Reserve Board. He hired, let's see, one who became a president of the Federal Reserve Bank, one who became the president of Fannie Mae and one who was the, the, the top economist for not only his own corporation, but sort of, the national organization of economists who made forecasts. He, he picked them all out. One after another. And hired them. You know, well, that's a pretty damn good betting average, don't you think? Well, and he picked up George, see. I don't, I don't know where John [unintelligible 00:23:34], but he, somebody, you know, he had a nose for that kind of thing. He was just a really good recruiter in that kind of thing in town. And, so, he, he picked up George and brought George down to be his assistant, be his, be his researcher for fiscal policy and then when George was, well, and that started it. See, and so George was in that kind of activity and then, then he was, then Adlai Stevenson asked to borrow him for, summer, and then on we'd go to where we were before. And that's how we got there.

Robert L. Hetzel: That's interesting. I didn't know that.

Robert Holland: Yeah. His, his wife, Mary Mitchell, is at my urgings, now working on a fairly extensive biography of George Mitchell. Because I think he's the kind of guy who played the kinds of roles in various places but really made a difference in American Society. And she's plugging right along. She sends me a draft every time she gets a chapter done and it's, she's doing, she's doing well.

Robert L. Hetzel: I'd like to talk to her, do you have her phone number, or?

[Phone number redacted]

[00:25:01]

Robert L. Hetzel: Okay. Great.

Robert Holland: Now, about her, her name is Mary Mitchell now, but she's, this, this is quite a deal. She was the statistician in the research, a statistician in the research department of the Federal Reserve Bank of Chicago when George was brought in by Langham [phonetic]. And, so, she worked there for a while under George, well, from, as a matter of fact, I came in, and some of that new blood Langham brought in, for a while she worked for me. And then I got promoted to the discount window and went off to Washington D.C. But, lo and behold, here, later along, comes George down to be governor and by that time, he was having divorce problems with his wife. She was a real harried, oh man, I know her well, I would, sometimes take steps that George would ask me to write to, to where he was someplace with the family, she, she, she was tough to take. Maybe, I don't know, maybe change of life or something, really changed what she was like, but she was tough. And eventually they got divorced. And then, let me see, George came down and was the governor, but would go back to Chicago, occasionally, he had family back there, friends back there and so forth, and he started to date Mary after he was out of the Fed of Chicago, he came to the Board[00:26:52] and so forth. But she, at that time, had been, she'd been, she got, had gotten divorced, too from what was a nasty and unhappy situation. And they began to date one another and eventually he married her. And then she came to Washington, she's a good statistician, and she wanted to work, each of them had children, but they were all grown up and away, so, theirs was a mature home. She, the FDIC wanted a statistician to produce some statistical discipline and all those, examiners were there that worked a little, a lot more on qualitative then quantitative deals. So, she took the job and she was a, oh, a mid-level person and, at FDIC, statisticians didn't stand very high at that time she was brought in. But, the guy who was the head of FDIC at that time really wanted some, to get some more statistical discipline into the way they were handling examinations and dealing with them and analyzing them and so forth. And he was right. They needed something in that direction. So, she was sort of, she really sort of ended up being, kind of, breaking a glass ceiling in terms of getting moved up gradually into more and more responsibility for the analysis of the examination things, creating the systems of how to analyze and what, what kinds of statistical data to get in order to, you know, focus into, to these various problems. All in a situation where most of the people who were above her were male and didn't think women could do that much. You know? Again, they also didn't think statisticians knew that much about examination. But they were sort of, she was really bucking a double bias. But she has, she has a real nice, quiet way about her. And isn't a, doesn't handle this kind of stuff as a threat. And the, the, the, the top guys at the FDIC appreciated what she was doing and the way she was bringing it along and she had then, eventually ended up at a fairly high job that was sort of put her over the examiners in terms of creating these analytical things and so forth. And all, see, all that was going on with her over there while George was doing what he was doing at the Fed. Yeah. And she continued to work for the FDIC even after George died. Well, no, I guess by that, I guess he needed enough care, I believe, so that she stepped down from the FDIC. I think that's the way it went. Yeah. But I tell you all this background because Mary is a special person. And she, even with all this background, Mary has a streak of modesty in her that, that is, is, is n-- I mean, it's nice to see. But it also leaves her, if you were just to call her up and ask her questions, she would, she would answer them politely. But, in a modest kind of way.

[00:30:08]

Robert L. Hetzel: Mm-hmm. [affirmative]

Robert Holland: So, you may have to, in a very polite kind of way, encourage her to be more forthcoming, more forthcoming, more forthcoming and so forth. She'll say, well, I really didn't know that, or I didn't know that, and, and, but, that's true in a way, but she also, you know, she and George were very careful about keeping the, what one of them, what they knew at the Fed and what they did at the FDIC separate. They were very aware that they didn't, they didn't want that to become an issue. So, and then, and then Mary knew she didn't know that much about monetary policy. So, she wasn't, she had her hands full, you know, and that kind of, but, you know, she's no dummy. And so, as they lived along, she picked up some knowledge, too. And she's got a lot of his papers and is using them now in developing this book, so she's got a, she's got a big reservoir to draw on.

Robert L. Hetzel: In terms of Mitchell's interest in making monetary policy with procedures that were understandable to academics, Maisel had some of the same ideas, right, but Maisel didn't have the same sort of give and take that, that, that Mitchell had. He was a more abrasive, you know...

Robert Holland: Yes.

Robert L. Hetzel: ...this is go along, this is my way, this, sort, sort, sort of thing, so he, he didn't have the same kind of way of getting other people, sort of, on board of...

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

Robert L. Hetzel: And that way, he was less effective, but, so, in terms of, of the development of the Greenbook, I mean, Martin was skeptical of, of forecasting exercises, but the, he was willing at the end of '65 and then as the '60s went on they let the Board staff develop a, a forecasting [unintelligible 00:32:20]...

Robert Holland: Yeah, now all that happened...

Robert L. Hetzel: With Mitchell or Maisel?

Robert Holland: [unintelligible 00:32:23]. No, no, no, no, no.

Robert L. Hetzel: With just...

Robert Holland: Sherm, you know, as you said, Sherm never had an idea that he couldn't oversell and, I mean, under [unintelligible 00 32:36] somebody he was talking to. Mitchell handled all this very well. Mitchell understood this is the way the Federal Reserve System worked. And, he, he worked on these kind of things, bringing in the academics, but in a way that didn't, didn't lead the academics blasting the governors and so forth, on the one hand, or back on the other. Mitchell handled that very nicely and so did Lee Bach. They were both very careful about that. That's just one of the things Mitchell brought in. And that was one of the ways indirectly he began to bring in some of these ideas about, of the, well you can call it the new economics, the growth economics, they, it's sort of Keynesian plus, I think. I, I don't like to call it just Keynesian. That's how I look at it, so.

Robert L. Hetzel: Sure.

Robert Holland: The, and, the, the Fed had in its research department, some guys who really wanted to go, to push forward with it. Dan Brill, Lyle Gramley, oh gee, who else was down there that, there was a guy who was into the Federal funds up to his ears, I fo--, I sh-- I'll remember his name. And so forth. And, particularly, particularly Dan wanted to try to make the Greenbook a more useful and more disciplined, and he wanted to use the economic models to do it. Models were, you know, were around quite a bit that stage of the game. Dan knew Art Okun very well. And Art was over, he was over at Brookings, I think, for at least a good part of this time, and then, of course, he went into the Council of Economic Advisors, but Art was, Art struck Dan as one of what I'll say, the most honest of the economists in this new area. That Art never told you what his results were without telling you what, if there was anything on the other side, like some problems, and so forth.

[00:34:56]

Robert L. Hetzel: Mm-hmm. [affirmative]

Robert Holland: And Dan liked that. So, Dan began to increasingly beef up the Greenbook in terms of forecasting. And he had more stuff behind him. He had guys who, who really could build models in forecasting. He got in Jim, aw geez, Jim, Jim, aw, I forgot, I'll think of it. But anyway...

Robert L. Hetzel: Yeah, Duesenberry? Or?

Robert Holland: No, you're thinking of the professor, right?

Robert L. Hetzel: Yeah.

Robert Holland: No, he, this is a guy that Dan hired, I think right out of Berkeley, who had a lot of...

Robert L. Hetzel: Jim Pierce?

Robert Holland: Yeah.

Robert L. Hetzel: Oh, okay. Sure.

Robert Holland: Yeah, yeah, no, no. And Jim had a lot of fire in this kind of thing and it stoked him up, you know? And Lyle Gramley was in there by that time and he wanted to get in there, too, and that kind of stuff, Chuck Partee was coming along, quite as big into the, sort of, the mathematics of those models, but boy he was sure, he sure helped to, you know, make everything fit together. And, George was encouraging him to beat the band. Mitchell. The, he didn't tell them what to do, he, he, he wanted the knowledge that could be distilled from this newer kind of, way of looking at the economy. To be at, at the, there to be used as one of the tools for deciding monetary policy. He knew it wasn't going to be the whole solution, no, no, no, but he knew it was better, but, you know, by that time, monetarism was also had some real advocates and George said, boy, that ain't right. This other system is better. And so, with, well, George again, to be fair, he and Lee would invite in monetarists, to those academic discussions, from time to time, and he, I mean, he was demonstrating and providing to the government a fair sample of the best of monetary policy in economic growth, thinking, even if some of it was stuff he disagreed with. And, both he and Lee were, were really bearcats that they, they wanted to make a fair, have a fair appreciation and whenever one of the, there was an academic who came in who put on a show, you know, to the governors, they didn't like it. And they, they wouldn't, they wouldn't criticize that academic in that situation, but they'd drop him out of the picture.

Robert L. Hetzel: Yeah.

Robert Holland: Well, anyway, so all of that is brewing and changing gradually the, the content and the acceptability of the content in the Greenbook. Then we got really a little fancier. We began to stick in, we began, we began the Bluebook. And using shorter terms of, not just forecasting in models and that kind of other things, to put in the Bluebook those short term forecasts of, you know, what would happen if you, you know, cut the rate so much, what would happen if you dropped it so much, what would happen if you stayed with current policy, and you know what I'm talking about.

Robert L. Hetzel: Oh, sure, yeah, absolutely.

Robert Holland: Yeah, yeah. And the, by that time, by that time the old guard of Young and Riefler and...

Robert L. Hetzel: Thomas.

Robert Holland: Oh...

Robert L. Hetzel: Thomas.

Robert Holland: Thomas, were gone. And there was a new, there was a new Troika. They called us a Troika. Dan and me and Bob Solomon over in the International Division. And the Board gave us quite a bit of leeway. Dan was pushing hard in this direction, I was, I was [unintelligible 00:39:16] him and doing my side on that kind of thing, by that time I think I was Secretary of the FOMC. And Bob was running the International. And the, the Board seemed satisfied with the way were doing things, and that this was developing and it, so it gradually unfolded into a, a more and more, I think I can fairly say sophisticated type of analysis that isn't tied to a single theory of how monetary policy affects the economy. Yeah.

Robert L. Hetzel: Mm-hmm. [affirmative]

Robert Holland: Yeah. Occasionally, one or another of the governors who had some economics background, Maisel or Brimmer, would argue with Dan about one of the things or would ask for some staff to work with him on one of those things. But, the, the, the Director of the Research Division and the Board and the Chairman were, well, and me too, I had, I had the job by that time of Executive Director of the Staff. We were, we were selfish about that talent. We didn't let individual governors borrow a lot to get in their own research and so forth. That made Maisel and Brimmer mad, but we thought, frankly, we needed them, we needed that staff to work on what we were building; a framework for analyzing and getting and to monetary policy in an increasingly modernized kind of way.

Robert L. Hetzel: Can I ask you some questions about things that I, I, I pulled out that, that have your name, name on them one way or the other? Apparently, at one time, you went around and gave some speeches to the Directors at the Regional Banks like Richmond and you talked in a general way about Chairman and their relations with Congress and so on. Do you remember that? I have some notes, so, from that.

Robert Holland: The, boy I've got to really think to remember, yeah, that's right, I did do some of that kind of stuff. The, the, I, I wasn't so much the selector of the subject, the, I had, I had talked to, well I talked to Church, I talked a little bit to the Chairman, I talked to who else was I dealing with on that kind of thing? Anyway, anyway, I said, you know, I think we need to work on improving the, the relationship between the Board and the Federal Reserve Banks. And between the, and I said, I think, I think, you know, we've got research and knowledge here and so forth, we're sitting on, I think we ought to share some of this and,

and the experience. I think we ought to share some of this with the Reserve Banks and, you know, the Chairman, and, Martin in particular, had been interested in who became the directors of the Regional Federal Reserve Banks. He saw that, too, as an important way of, that was an important part of, of keeping the Federal Reserve, liked and respected inside the country. It's if you had good directors on those reserve banks. And he liked to do things for them. I mean, he'd, we'd, he'd have new directors come down and he'd talk to them, that kind of thing and so forth.

Robert L. Hetzel: Yeah, yeah, the Chairman still, still does that. So it's, it's a [unintelligible 00:43:12].

Robert Holland: Yeah, no, no, no, well, but that, that's really Bill Martin, you know. Well, and I felt the same way about this, that there wasn't nearly enough cooperation, really, between the two organizations. There wasn't an optimal amount of cooperation. And sharing back and forth, one another and so forth. And, I shot off my mouth on that a few times in various circumstances, with some encouragement from, let's see, who was Chairman then? That time...

Robert L. Hetzel: What year is this?

Robert Holland: I don't know. I just remembered I did it for a while. It was, well, it's either late Martin or early Burns.

Robert L. Hetzel: Early Burns, early Burns. Yeah, because I've got this memo here, it says, "Attached is an outline of remarks I made to the joint meeting of the Boards of Directors of the Federal Reserve Bank of Richmond and its Charlotte Branch. Aubrey Heflin was so delighted with this subject, that he's encouraging the other presidents to invite me out to their board meetings to make similar remarks." I'm just curious...

Robert Holland: How does he, how did I define that subject that I talked about?

Robert L. Hetzel: Well, you were talking about the Fed's relationship with the rest of the government and Congress and [unintelligible 00:44:24] administration.

Robert Holland: Okay, well, that was, that was just me. I mean, it was my idea to try to improve communication at various levels and when I had somebody say, yes, let's do it, like Aubrey did or, or some, some other person did, well, that, Burns, Burns warmed to this idea as time went on. That is, this business of improving the Federal Reserve/Reserve Bank relationships. I, I have never said so publicly, but I think, you know, I've said more than once inside the Federal Reserve System, you know, that this, this Federal Reserve System we've got is a wonderful system that checks and balances to help all the various kinds of considerations being taken into account and so forth. But as the conflict runs, it's a very inefficient organization. It's structured with so many [unintelligible 00:45:24], I honestly, I, we need to work on making it, and on, not, I don't want to be a big reformer, I just want to oil the wheels so they work better. And that was a line I used for a number of years. Not only did I go out and give speeches, at some of these Reserve Bank directors and so forth, I also began to look around the system for really hot-shot, young, up and coming officers who looked like they might have the capacity to become a first vice-president or a president some day or something like that. And I would borrow them from the, I, I, I'd call up the president and say, you know, I've, you know, they, by that time I was pretty well running the staff...

[00:46:12]

[END OF TAPE 61, SIDE A]
[BEGINNING OF TAPE 61, SIDE B]

Robert Holland: ...predate the banking markets unit. I want to, you know, I want to see if we can't do something more with the examination reports and so forth. And you've got so and so in your, well, I know he's a fine up and coming person, wouldn't it be good training and development for him to come down and spend, say, six months at the Fed, at the Board? Work as my lieutenant so I can get him in to all the places and I'd use him on this kind of problem I'm concerned with and he learns a lot about how it works and he comes back and he, yeah, you know, I never got turned down. And I borrowed on guy after another from one reserve bank after another while I was still there. To do that kind of thing.

Robert L. Hetzel: Yeah, I'm looking at these notes here that you gave on your speech. You didn't, you've never said anything to me about Eccles and you've got a number of comments here about him. Eccles, Roosevelt, good idea man, courageous, aggressive, did, did, did you, I mean, Eccles would have been gone by the time you came in the system...

Robert Holland: Oh yeah, that's what I learned...

Robert L. Hetzel: From?

Robert Holland: From the graduate courses on money and banking and the working school.

Robert L. Hetzel: Oh, I see.

Robert Holland: And they had, they had, one of the guys who taught that course up there was a guy named Karl Bopp who was then the Vice-President for Research at the Fed of Philadelphia, and was an absolutely, was a wonderful teacher.

Robert L. Hetzel: Yeah, he's a, he was a mentor for Charlie Walker.

Robert Holland: Yeah, he was a mentor for me, too.

Robert L. Hetzel: And I put...

Robert Holland: Charlie and I and several others were in a group that, that really clung around Bopp and learned from him.

Robert L. Hetzel: Yeah, he...

Robert Holland: And so what I knew about Eccles, I got from Bopp. Well, and, and the professor who, who taught those advanced courses in finance and money and banking was also a whiz. His name was Whittlesey.

Robert L. Hetzel: Oh, yes. I know the name.

Robert Holland: Yeah, and between Whittlesey and Bopp, boy I got a lot of input on the Federal Reserve and they both had quite a lot to say about Eccles. And I had that under my belt from the time I was hired to go in the Federal Reserve System. One of the reasons I got ahead so fast. Because I had, I, I, I'd learned so much about the Federal Reserve System and how it operates, and even criticisms of what might needed to be changed from those two guys who were just about as sharp as anybody I knew in terms of, of the Federal Reserve System and how it works and what its strengths and weaknesses are.

Robert L. Hetzel: Wharton must have played an important role, because Balderston was, was Chairman of the Wharton Department, right, before...

Robert Holland: He was the dean.

Robert L. Hetzel: The dean, yeah, and so, I don't know this for a fact, but it just has to be the case that it was Balderston that got Riefler together with McCabe because...

Robert Holland: Might have been.

Robert L. Hetzel: My understanding is that McCabe went to Washington under the condition that Riefler would go with him as his advisor.

Robert Holland: Oh, no, I think its Bopp would go with him. He took Bopp with him. Now, he may have brought Riefler too, I don't know.

Robert L. Hetzel: Bopp, at this time, was director, had become Director of Research at, at the Philadelphia Fed?

Robert Holland: He did that while he was still teaching. I mean, that was, they, he was an adjunct teacher. Yeah. Yeah. No, Bopp was, was, and McCabe really liked Bopp, because McCabe, at that stage, I think, was Chairman of the Federal Reserve Board of Directors [unintelligible 00:49:58]

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

Robert Holland: And he'd hear Bopp make these presentations, you know, each time the Board, that the Directors met and he was, he, he really trusted Bopp. So he took Bopp down with him. No, Riefler, I, I, I think, I think McCabe depending a lot on Riefler too, in fact, I think Bopp was a fan of Riefler's. I believe. I mean, they knew each other.

Robert L. Hetzel: That had to have been the case.

Robert Holland: Yeah, and so, that, that I think is what, is the way that went.

Robert L. Hetzel: Yeah, yeah. See, this is a little scattered, I'm just looking through these various memoranda. There's some memoranda here from you to Arthur Burns and the memoranda sort of make it clear that you were a defender of, of, of the rights of people to speak, their mind. You, here's a memo where you're defending St. Louis and Darryl Francis in his speeches. Burns may have been a little bit concerned...

Robert Holland: Burns [unintelligible 00:51:07] Yeah, I just tried to calm, well, you can read it.

Robert L. Hetzel: Yeah, it says...

Robert Holland: I tried to calm him down.

Robert L. Hetzel: You say, I think he's entitled to say that. These are reasonable statements. So.

Robert Holland: Yeah, that didn't make Burns very happy, but it did calm him down. I figured, that was, that fits in with the role I saw for myself of, of helping the, oiling the wheels of the workings of the Federal Reserve System, you know? And if, if a Chairman tries to order presidents or you know, complain about what they say, or Arthur at one stage says, let's get that guy to, let's get Francis to send his speeches in here before he gets them and so forth and I said, Mr. Chairman, that, that's asking for a lot of trouble. I said, you know, they, the Federal Reserve System has a dimension of check and balance for a reason. Shut up these presidents, You'll, well, you know. I used whatever arguments I could use.

Robert L. Hetzel: This is a memo that's, I'm wondering if you remember it, this is a memo that you wrote to Howard Hackley. It's September 27, 1972. So it would have been a month before the elections. And you said in it, that you would like him to write a memorandum regarding the power of the President to remove the Chairman or Vice-Chairman of the Board, the implication of present loss seems to be that once the Chairman is designated by the President, he continues to serve as such for a period of four years without being subject to removal by the President. So, Peter Flanigan or one of Nixon's people, must have brought this subject up right before the elections. Burns must have felt like he was some, under some, some threat. Somebody must have said something.

Robert Holland: I don't, yeah, I think that, I think, I think that's right, but I don't quite remember. I don't remember the context. I remember my asking for this, because Burns wanted to know that. And, but I don't remember from where the pressure came, but it probably came from, you know, those guys up in, the, the, Flanigan's that were there were pretty unrestrained in terms of trying to push us around from time to time.

Robert L. Hetzel: Yeah, I gathered there was a very different, I mean, it was an unusual mix of, of people. People like McCracken and Stein and Schultz and, they were absolutely first class, but others were a little rougher, I assume, Flanigan, Flanigan came in and fumed around...

Robert Holland: Yeah. It was probably Flanigan. Flanigan rattling the cage or something and trying to get Burns to do something, or say something or, you know, or not do something. And he ruffled Burns' feathers and maybe even his security enough for Burns to say, what, what could they do me? You know?

Robert L. Hetzel: Yeah, Burns may have wanted to rattle back and say, look, you know, I'm, I'm, say what you want, but I'm, you know, the Fed's intended and there's...

Robert Holland: I'm it. Yeah, yeah.

Robert L. Hetzel: ... you know, if you want to ask Congress to impeach me, that's fine, but there's no, that's...

Robert Holland: Yeah, they, I think, I think you and I are guessing right on why it was asked, the information was asked for, but I don't know who, who did the cage rattling that led Arthur to-- you know, Arthur is, Arthur was a pistol when it came back on something. If something developed it concerned him. Some situation [00:55:03]. Boy, he, he, he wanted, he wanted the facts, man. And, you know, and he wouldn't just take anybody's, on an issue like that, it was pure Burns, get me a memo from Hackley, who, who was our top lawyer on this issue, you know. Give me the facts, that kind of thing. [00:55:27].

Robert L. Hetzel: Let's see. Who, how, how did you, how did you get involved in the Holland Subcommittee on the Directive? That was very interesting to me, when I got here in '75, I read all of those memos. I thought they were really very, very thoughtful and very interesting.

Robert Holland: Boy, you've got to help me a little bit in terms of memory...

Robert L. Hetzel: Well, there, there, there was an ongoing series of committees, Maisel was involved in them, they had, they started, well, I guess there that there was some, there was the credit proxy that would have been the first, but, but mostly they had to do , as time went on, what the instrument ought to be, whether we could have reserve aggregate targeting or interest rate targeting, and then it, it, and that would have been the Maisel committee. But then there was a Holland Committee on the Directive and there was quite a bit of interesting work. I remember Mike Keran talking about it, it, this, these, these finally came before the Board in, oh I guess, February or March of 1976 and initially the proposals were quite ambitious. Kalchbrenner was working on it and Tinsley, especially, and as a ways of structuring FOMC decision making, to get the FOMC to be more explicit about its directives and then given that explicitness to have the Board staff use it's models to generate funds rate paths that would give you a path over time rather than a particular value...

Robert Holland: Value.

Robert L. Hetzel: ...period by period and Tinsley and Kalchbrenner were the ones who did a lot of work on this, this...

Robert Holland: Work on that, yeah.

Robert L. Hetzel: ...this was a time of optimal control, the idea that you could use models to kind of iteratively kind of go back and forth between misses and your targets and how you change the funds rate. Do you remember any of those discussions and how they finally ended up?

Robert Holland: Vaguely, boy vaguely. I've, I, I'll need a lot of help to do it. To respond to it anyway. I do remember a, what, what was coming along here, was as a, as the research department developed, you know, more and more trustworthy models and shapes like that, and so forth, and on, on the economy, and were presenting them in a Greenbook and then presentations like that and so forth. Dan and I thought we ought to, we ought to try to bring some of that sophistication into the Bluebook. As I recall, though, the Bluebook already existed but its, for that up-close look at the market and so forth, but I'm not sure, but this is just my memory [00:59:02]. I think the Bluebook already existed, but those, the ranges of possibilities were, were not professionally developed, I guess that's what I would say. Were, were not rigorously developed. It was, you know, it would be what the Open Market manager of New York thought and what I thought and let's see, was Steve Axilrod there by the time?

Robert L. Hetzel: Oh, sure.

Robert Holland: Yeah, you know, it was, what do we think these, what do we think the range is here, what would be sensible and not only in terms of, of the external pressures on the economy and the market, but also in terms of the internal pressures within the FOMC and how much range they tolerate or they, you know, so you know, that, you know, we didn't want to come up with a range of, of, of three points and the Fed funds rate when we know from the discussions around the table that the governors and the, and the presidents are, are, are eager for narrower bands and that if they can get them. That kind of thing, see?

Robert L. Hetzel: Yeah...

Robert Holland: And, so, we were trying to build in this greater sophistication of, as you say, Tinsley and others are working on it and we were drawing on that to gradually stiffen up, I guess is what I would say, the, the projections that were in the Bluebook. I was, I was a big fan at that, what, in, in general, when I was working inside the Federal Reserve, I would say, look, I tend to have an attitude if we find something that represents a new area or a new subject or a new way of looking at things, let's, let's don't wait until we get it perfected before we show it to the FOMC.

Robert L. Hetzel: Mm-hmm. [affirmative]

Robert Holland: They, they need more help than that, is what I used to say. And I'd say, well, let's begin to feed it in bit by bit. That kind of thing. And they, we, and then we can learn from how they react to it. Then how the things work out. I mean, we can be a learn, an interactive kind of learning process, instead of the staff holding on to it until it gets everything exactly right and then boom, it goes into the Bluebook. That was my way of, and you think, marketing ideas inside the Federal Reserve System. That's essentially what the Holland Committee was, was trying to do.

Robert L. Hetzel: I think I'm going to let you go for lunch. I just have a couple more questions about your appointment to, to governor. So, you replaced Governor Robertson, that was interesting. So, were you from Kansas? How did that happen?

Robert Holland: I'm from Nebraska.

Robert L. Hetzel: Nebraska, I mean.

Robert Holland: Yeah, I was born and raised out there. In fact, at that stage of the game, my wife and I still owned a farm out in Nebraska.

Robert L. Hetzel: So you have probably even visited Broken Bow, Nebraska where Robertson was from.

Robert Holland: I don't think at that time I had ever been in it, but I sure knew about it, I tell ya.

Robert L. Hetzel: Did, did, did you meet the President when you became governor?

Robert Holland: Don't think so. Who?

Robert L. Hetzel: Would have been Nixon. It was still '73.

Robert Holland: No, no, I, no, this wasn't a big deal for Nixon. Who, I, I, who was the secretary, was it Fowler, still?

Robert L. Hetzel: Oh, Schultz.

Robert Holland: Schultz.

Robert L. Hetzel: Yeah, George Schultz.

Robert Holland: Schultz may have come over, but I don't, but I, I didn't rate the President.

Robert L. Hetzel: Were your nomination hearings controversial at all or were they not a problem?

Robert Holland: The, well, as soon, it took a while to convince them that owning a farm in Nebraska was enough to make me justifiable to be an appointment in the Federal Reserve District. And the fact it was my, when my wife had inherited it and I was simply, you know, co-owner because of the marriage. It took a while for the lawyers to get around that one. But, and, but, but, the hearing was a piece of cake. I mean, I'd been up there, quite often, and most of the staff up in those places knew who I was and what I had, what I did and there were, as I recall it, one sort [unintelligible 01:04:00] said, well, you've been working for Arthur Burns these years, you going to be a rubberstamp for him if you, if we elect you as a governor? And, I said, I'm not in the rubberstamp business. And the, that's about all that happened with that. But, I must admit, I remembered that and I think there was, well, I could understand why here and there among the governors and others who would wonder if, sure, Bob's now a governor, but geez, you know, he was, he was Burns' right hand man and he's probably going to do everything, just what Burns wants. Some of that, you know, it can get around in discussion [unintelligible 01:04:48], so before long I knew, I was going to need to vote against Burns sometime. The, and in order to, in effect, sort of generate a sense of integrity. And, they, I think I even remember going out and talking to George about it. I said, I've got to do something. But I'm not sure I did. I'm not sure when I talked to him about it, but, anyway, I think I kind of kept it to myself. But I felt it, so, I waited for what I felt was a juicy one, where I thought that the way the system was going was wrong and I wanted to vote against him and I'll tell you what it was.

Robert L. Hetzel: Sure.

Robert Holland: By that time we'd developed this technique called swaps. Which was a very efficient way of injecting reserves into and pulling back from the marketplace, you know. And we were doing this, and, and we used this in the, putting pressures on exchange rates, too, because we operated then as the Treasury's arm, but there was a lot of discussion between us back and forth. And so, we had swaps going. And they were intended to be short term, short term exchanges of, I mean, it's like the IOU's on exchange that helped smooth out the exchange rate balances. And, Charlie, what was Charlie's last name...

[01:06:15]

Robert L. Hetzel: Koontz.

Robert Holland: That, the guy who ran the foreign affairs, foreign department up in the Fed in New York and was our, and was the, the, the operator in the exchange rate in the exchange markets, for both the Treasury and the Fed.

Robert L. Hetzel: Charlie Koontz.

Robert Holland: Koontz. Charlie Koontz. Yeah. In one of those bounces, the Swiss Franc was, was by, well, more sensible standards of mis-behaving and Charlie ran, with the blessings of the committee, ran some swaps in there to smooth things out for a while. He thought it would turn around quickly. Well, it didn't turn around quickly. And so month after month we kept renewing these swaps to the Swiss. And I finally said, Charlie, when this FOMC [01:07:22] created swaps, they were intended to be short time, turn around sources in the marketplace. And it was never intended that they were going to be long term credits, it, it, that, that's not it. I said, it was, this is supposed to be a short term operation. And we went in to it knowing that sometimes in that exchange markets when you're dealing with those kind of things, you might lose a little money and sometimes you might make profits and so forth. But Charlie was very proud of the fact that under his authority, the foreign exchange market and the Federal Reserve System had never lost a penny. And he was, he hated, to, cash-out those Swiss swaps [01:07:58].

Robert L. Hetzel: Yeah, I remember there were endless discussions on those things. It went on and on and on and...

Robert Holland: Well, and I got, I got noisier and noisier and noisier about it. In the case of, I said, Charlie, you've got a wonderful record. You're batting a thousand thus far and not losing anything, but, I said, you got one here that, that, that didn't do what you and the committee thought and it ought to be, we ought to be, these are supposed to be short term things. It should be short term. We should settle up short term and go on. I said, that's, that is the rationale behind swaps. Well, I know you hate to accept that loss, but it's going to be one loss out of a thousand wins, Charlie. They, don't, don't let it keep hanging on. Well, Charlie had, Al Hayes who was the President of the Fed in his lap on that and oh they didn't want it. And so, when I came up for a vote, I voted against rolling it over. Well, Charlie was mad, but that's all right. But, but Burns was hot. And I didn't know that. Well, I thought he might be, I guess, no, I guess I knew he was going to be hot under the collar on it because, in effect, I was voting against an explicit recommendation he'd made. He said, well, let's move these Swiss things along. And let's, let's go with Charlie. And I don't, I think maybe one other president voted with me. I'm not sure. No, no, I think I was the only guy, I think I was out there all alone. But I didn't mind it, because I knew I finally had found the good case on which I could vote against Burns. And everybody would know I voted against Burns. And for a case that I thought I had analyzed correctly, and they were wrong. So, I thought I'd found a way to sort of take that stigma of I'm Burns' guy off of me as a governor. So, I was happy. I found out later, well Mary Mitchell told me this a long time later, she said, you know what happened after that meeting? I said, no. She said, Burns came storming down to George Mitchell's office. He was mad as heck. He said, George, well, what did, what do you think of this? He said, he said, here I was getting, George was about ready to run out of a term at that stage or something like it anyway, he said, here, here I think I'm grooming the next Vice-Chairman of the Federal Reserve and he goes up and he votes against me. What do you think of that, George? And Mitchell was just as good as he could be. He said, I think you ought to expect it once in a while.

Robert L. Hetzel: Oh, that's great. Well, so when did you retire as governor?

Robert Holland: '76. Later on in that year. Well, not that, no, not that year, but, you know. I think I went on in '73 and out in '76. I was only a governor about three years. The, but, I remember what Andy Brimmer said to me when I became a governor. And he said, Bob, you're going to be the only person who ever was demoted to governor. Because he thought I had that job of Executive Staff, [unintelligible 01:11:19] was, was more powerful than any single governor. He's probably right. Well, if you look at all the things that are involved, not just monetary policies.

Robert L. Hetzel: Yeah. I think I better let...
[01:11:32]

[END OF RECORDING]