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Oral History Interview of Jerry Jordan

Conducted by Robert L. Hetzel

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Jerry Jordan: I'm Jerry Jordan. My doctorate is from UCLA. I was a graduate student there, 1963 to '67. I was a research assistant to Karl Brunner. And during that period of time, two accidents happened. One was Milton Friedman took a sabbatical leave from University of Chicago and spent a quarter at UCLA and conducted his famous mini workshop at a time when I was at the dissertation proposal stage. And Homer Jones, the director of research at the St. Louis Fed, who had been both a teacher of Friedman's and a student of Friedman's, took a sabbatical from the St. Louis Fed and spent two months at UCLA so that he could also attend that workshop. So I became acquainted with Homer Jones, and as a result of that, my first job was at the St. Louis Fed in 1967.

Robert L. Hetzel: It must have been interesting to listen to the dialogue back-and-forth between Friedman and Jones at that point, since Jones had had so much experience in Washington in policy.

Jerry Jordan: Yeah. Homer was an agnostic about most economic theory, in fact, agnostic about most things, and constantly questioning, never quite satisfied with either the theoretical foundations of an argument or with the empirical evidence. And Milton in that sense was much more disciplined and willing to go with what the evidence suggested at the moment. It was also an interesting period in that Brunner and Meltzer were conducting their investigation [unintelligible 01:51] outgrowth of their targets and indicator conferences. And this was a period of time when the Friedman, Meiselman, Ando, Modigliani, Hester, Mayer, when debates were all taking place over the role of money and economic activity.

The St. Louis Fed was at that time already publishing money supply statistics that the Board of Governors was still refusing to do. So for a period of time in there, the only source of money supply data was the St. Louis Fed publications, which they collected the raw numbers and did the seasonal adjustments themselves until the Board of Governors finally developed a parallel series.

Robert L. Hetzel: So St. Louis sort of shamed the board into doing it right.

Jerry Jordan: That's right. And then the same thing later happened with the monetary base. So when I got to St. Louis in 1967, my task, in addition to finishing a dissertation, was to continue this Friedman/Meiselman-type debate over the empirical evidence about the relationship between money and economic activity, and also to develop the concept of the monetary base as the way of thinking about the thrust of central bank actions and economic activity.

Robert L. Hetzel: So the Andersen-Jordan model, its intellectual heritage was the Friedman-Meiselman regressions of…

Jerry Jordan: Yeah. We viewed it as simply using the latest techniques—the Almon lag regression techniques that had been felt at that time—better computer powers to empirically test a Friedman/Meiselman-type relationship which became known as reduced form tests.

Robert L. Hetzel: But you put in the deficit, that was the big thing, and it caused a consternation. You must have been astounded at how much attention your regressions got.

Jerry Jordan: We were pure empiricists at that time in that we would have a parade of visitors coming through and we would ask them what measures they looked at to summarize the thrust of both monetary and fiscal policies in economic activity, and they would cite various measures of government spending or tax receipts or deficits, sometimes first differences, sometimes growth rates and similarly for monetary measures. And we catalogued these plus statements that were in the public record by members of the Open Market Committee, governors and presidents, as to what indicators they looked at to indicate whether policies were expansionary or contractionary. And we simply would punch it into the cards and send it off to the computer to see whether there was any statistical basis for the kind of conception that they claimed that they had when they actually were conducting policy, but included both real policymakers at the time and very well-known members of the profession—Otto Eckstein, Jim Tobin, a lot of people that Karl Brunner later labeled the fiscalists, had all told us what their favorite summary measures were, and we simply tested it.

[00:05:18]

Robert L. Hetzel: Did Andersen have a quantity theory background? Or did he come at that after you'd done this work? Leonall Andersen.

Jerry Jordan: Oh, Andy Andersen had had a fair amount of exposure to monetary analysis by that time, partly because he worked for Homer Jones in St. Louis. But he was a Minnesota student. He had good price theory from Os Brownlee, but his macroeconomics was Walter Heller. So he had not…

Robert L. Hetzel: Hmm, I didn't know that.

Jerry Jordan: …before that time really thought of himself as being a monetarist. But he was a pure empiricist. Andy was willing to simply torture the data and see what it confessed. And he became persuaded by the work that we did then in '67 and '68 and subsequently published.

Robert L. Hetzel: Would you be willing to comment on Homer Jones's quantity theory ideas? Did he go back to Irving Fisher and then he just picked up Clark Warburton and his experience in Washington and he said empirical bent in an intellectual curiosity and he sort of mixed all these things together? I mean, can you classify him as a particular kind of quantity theorist?

Jerry Jordan: Well, he was. Though, again, it was the power of the evidence in Homer's mind. He was always still skeptical about any discretionary activist approach to conducting monetary policy to alter outcomes—a very healthy skepticism. He was based on the teachings of not only Irving Fisher but Herb Simon, Frank H. Knight—he had been a student of Friedman's in his later years—and to some extent also of George Stigler, though that didn't relate as directly to his views on money. Warburton did have a lot of influence on him at that time.

He, in the fifties, had not had much success in getting a voice, and it was only after he got to the St. Louis Fed and was starting to attract a staff to really do the work and training a couple of presidents that he was able to find a voice and get some recognition for making a contribution on the way we even thought about monetary policy. It still was in the Bretton Woods gold standard world, and so it was constrained, but Homer saw that the kind of things that were being done in the way of free reserves and these other conceptions of tone and feel, fine tuning kind of notions, were unscientific, and Homer if anything was a scientist.

Robert L. Hetzel: The bank presidents, Delos Johns and then Darryl Francis, they were not economists. The criticisms…

Jerry Jordan: Well, Darryl was. He has a master's degree in ag econ from the University of Missouri, and he's from St. Joseph, Missouri. He had pretty good economic theory. Coming from ag econ, he understood price theory. And in that period of time especially, ag econ departments preserved a lot of what we would call microeconomics or relative price theory as a basic part of what they taught. And then the second thing about Darryl Francis was he was essentially a Harry Truman of the Federal Reserve. He was very much a show-me kind of a person. And if you would demonstrate to him, especially some empirical relationships, he was very willing to adopt it and to work with it as this framework.

Robert L. Hetzel: So he obviously developed a good working relationship with the staff. What about Delos Johns? Did he work primarily with Homer Jones and…

Jerry Jordan: Johns was before my time. Darryl was the president by the time I got there in '67. I didn't know Johns at all. And there was another in between. Harry Shuford was in between the two of them for two and a half or three years.

Robert L. Hetzel: Okay, that I didn't know. So when did you go to the Council on Economic Advisers?

[00:09:53]

Jerry Jordan: I was the macro member in Reagan's first two years, '81 and '82.

Robert L. Hetzel: Right. But weren't you involved with some staff work in the early seventies at the Council?

Jerry Jordan: Oh, well, that was a loan kind of thing. Andy did more than I did. But at the time that Nixon took office in January of '69, of course they inherited Lyndon Johnson's economic staff, and they appointed Paul McCracken, Herb Stein and Henry Houthakker as the economists, but they didn't have any staff to work with. So Andy Andersen and Elaine Goldstein from our staff went down there pretty much full time for six months. And I did some shuttling back-and-forth, as did some other members of the staff—Michael Keran on international, Keith Carlson on fiscal, developing high employment budget deficit kind of measures—to try and provide them with some transition support until they could recruit their own staff.

Robert L. Hetzel: Did you get involved at all in the forecasting exercises that the Council was involved in?

Jerry Jordan: I had quite a few discussions with them at that time because they didn't have any ability on their own to—I would call them more projections than forecasts—but to set a policy framework in terms of money. We principally used M2 because Paul McCracken was more of an M2-type person—probably still is—than a narrow money person and didn't have too much confidence or understanding of the monetary base. And by then Milton Friedman and Anna Schwartz had so popularized M2 and its velocity in relationship to nominal GDP that everybody was most comfortable working with that. And so we provided them with a time path out into the future—I don't remember what the horizon was—of what M2 growth should be consistent with, what kind of a nominal GDP growth, and, therefore, inflation and output.

Robert L. Hetzel: So both McCracken and Stein were sympathetic to your ideas. But you wouldn't call either one a quantity theorist, would you? McCracken was more of a business economist, and Stein had sort of made his fame writing the book on fiscal policy…

Jerry Jordan: Yeah.

Robert L. Hetzel: ...and advising the CED. So neither of them came out of the Friedman school, but they were…

Jerry Jordan: But Herb was not hostile to monetary analysis, and Paul was fairly sympathetic. I think that that was partly the environment of the time with George Schultz at the OMB, with—well, let's see, at that point he was probably at Labor.

Robert L. Hetzel: Right.

Jerry Jordan: He was in and around there.

Robert L. Hetzel: He went to OMB in the summer of 1970.

Jerry Jordan: Yeah. And then Milton Friedman had a good relationship with President Nixon. Arthur Burns was a counselor in the White House. So there was a lot of influence of Chicago school, and neither Herb, Paul or for that matter Houthakker, none of them were at all hostile to Chicago school kind of thinking in monetary and fiscal matters.

Robert L. Hetzel: At this point, the St. Louis model also provided a way of breaking nominal output growth down into real output growth and inflation and then through an Okun's Law going from real output growth to the unemployment rate, so you offered that forecast also?

Jerry Jordan: Well, that was mostly Andersen and Carlson and definitely reflected their underlying Keynesian framework and Minnesota school influence that I think continued. They never did quite escape from that way of thinking about things but broke down, as you say, through an Okun's Law kind of a relationship. Not only the nominal spending—nominal spending came from money growth and the money demand philosophy relationship—and also, they would use the Fisher equation to break down the nominal interest rates into a real and inflation premium component.

Those kind of things, I'm not sure now looking back on it, how constructive they were. What happened inadvertently was that we wound up giving what I now think of some fairly naïve policymakers what they thought was an alternative handle for conducting short-run discretionary, highly activist monetary policies. And once they started jiggling those levers and didn't get the kinds of engineering precision that they were all hoping for, then they became disillusioned with what they thought of as being monetarism. Somebody at the time, I think Henry Kaufman, had labeled it pragmatic monetarism or something. We had a couple more bouts later of pragmatic monetarism too.

Robert L. Hetzel: Yeah, I think that's a good way to summarize it. Were you involved at all in the 1065 forecast in 1970 with Arthur Laffer?

Jerry Jordan: No. Art did that on his own because he was an OMB staff at that time.

Robert L. Hetzel: Right.

Jerry Jordan: And that was a part of what's called the Troika process, putting together a set of numbers. Art now likes to point to the fact that after many, many revisions many years later, it turns out he was right.

[00:16:11]

Robert L. Hetzel: So the trips you made to Washington, when were they? Were those in '69 then?

Jerry Jordan: Sixty-nine.

Robert L. Hetzel: I see. So you weren't involved in the forecast for 1971?

Jerry Jordan: No. By the end of '69 I was in exile from research, running data processing, planning, accounting, data systems stuff for the St. Louis Bank for a couple years with a couple years in operations, and I had nothing to do with really putting what became known as the Andersen-Carlson model or those forecasting exercises. The St. Louis Fed for a couple of years there even put out alternative forecasts, they were called, in their publications, They weren't forecasts because all they were were extrapolations of the implications of a framework given steady-state money growth. And they usually would have three alternatives—a three percent, six percent or nine percent narrow money growth—and holding all else constant, here's what kind of nominal GDP would be associated with that. But it tended to be portrayed in the press as though these were forecasts in the same sense as to what the econometric modeling firms and private business forecasters and others were putting out, and they compared very poorly with those, so ultimately abandoned because they were being misunderstood.

Robert L. Hetzel: So starting in 1970, there were several years where you were not involved in the regular working of the research department.

Jerry Jordan: Yes. Because when I finished my tour up in operations, I was only back in the research department a few months and I went off to Germany to work for the Bundesbank for a while. And so I wasn't active in the department until the summer of '72. By then Homer was retired, and Andy was the director of research and I was the number two in research.

Robert L. Hetzel: When were you at the Bundesbank?

Jerry Jordan: I went there in the fall of '71 and back in the summer of '72.

Robert L. Hetzel: This is just slightly off the subject, but I want to ask since you were there. At that point, had it become clear from the top down at the Bundesbank, the monetary consequences of pegging to the dollar, absorbing dollars, letting the German money growth expand in inflation, and were they thinking in terms of monetary control and somehow debating how to reconcile Bretton Woods with control of domestic inflation? Or was there still a lot of intellectual confusion about what they were doing at the time?

Jerry Jordan: Well, there was certainly a lot of intellectual confusion so there was an opportunity to have an influence. The reason I was invited was because they did recognize that they were importing US inflation. Their revaluation upwards of the Deutschemark in 1969 was a reflection of their dissatisfaction with US economic policies. And by that point they were already using the term—they and the Swiss and a few others—that the United States was exporting its inflation as a result of the Great Society Vietnam programs. That caused a breakdown of the German's, what they called free liquid quotas—free liquid reserves and liquidity quotas which is analogous to free reserves that we had had also in the Bretton Woods period.

I arrived there shortly after Nixon had floated the dollar and closed the gold window, and I was there during the period that the so-called Smithsonian Agreement was negotiated to try to re-establish a Bretton Woods system. But the Germans were particularly interested in what they later labeled central bank money. We were calling it the monetary base. Milton Friedman had called it high-powered money. Tobin had called it demand debit, the government sector. Brunner and Meltzer had called it the source base, extended base. It had a lot of different names over time. And we gave it the name monetary base, and the Germans, we helped them develop the balance sheets so that they could construct and develop data series and do some empirical research with what they called central bank money.

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Robert L. Hetzel: In terms of the origin of terms, what's the origin of the term, monetarism? That came out of the St. Louis Fed in…?

Jerry Jordan: July 1968. Karl Brunner used it in a paper where he talked about two rival conceptions of how government policies influence the macroeconomy, and we used the labels monetarist and fiscalist to summarize those two frameworks.

Robert L. Hetzel: Did you maintain close relations with Andy Andersen through this period that you were not in the research department? Or did you…

Jerry Jordan: I had very little contact with research then because I was an operations officer and had very little time to think about economics, except attend occasional seminars. And most of what he did with Berger, Carlson, oh, half the staff probably, of articles that he worked on during that period of time—Michael Keran—I was not involved in.

Robert L. Hetzel: Can I ask you about the meeting that Andersen attended, later there was the flap with Fortune Magazine and whether Arthur Burns called the White House? Did you have any involvement with the briefings on that meeting or discussions, or you were just…

Jerry Jordan: If it occurred at all, it happened in '72 while I was in Germany. But later, well, I do recall from the time, Arthurs Burns said something along the line of, it never happened and I'm going to find out who leaked. Which is an interesting pairing of phrases.

Robert L. Hetzel: Yeah.

Jerry Jordan: And he did have an FBI investigation and there were a lot of people interviewed who were attending meetings or briefings around that period of time. Andy wrote later, either said or wrote, that there was no single source, that the origins of the story came from, I think it was a Boston Fed conference, one of the ones they were running at either Bald Peak or Nantucket. And there was a dozen or two dozen Fed people attending the conferences—or frequently are—and he was able to piece together a story that characterized a situation. And I don't recall now whether he in this article used quote marks or claimed that there was the infamous phone call or anything like that, but rather the idea that White House concerns were very much a factor in policy in '71 and '72 during the controls period (Tape skips 00:24:04) vote, so that all 12 presidents could participate for the record as well as the seven governors.

Robert L. Hetzel: This would have been the final directive? This would have been the meeting in, what, March of 1976? Is that the timeframe? Or was it earlier?

Jerry Jordan: No, it was earlier than that because I was gone by '76. And by '76 we already had Concurrent Resolution 133, so this was well before that. And it was the 19— There were four alternatives that were being debated by the committee. One of them was a flat-out reserve aggregate money linkage of open market operations to economic activity.

Robert L. Hetzel: This was probably in March of 1972 then.

Jerry Jordan: Yeah, about that. Well, it couldn't have been March '72 because I was in Germany. And then there were three essentially money market conceptions that were put forward. So you had four alternatives and three of them were some variation of working on the price axis and only one of them working on the quantity axis. And the vote came down to—indication of preference came down to seven people in favor of the one that operated on the quantity axis, and four, four and four of the three alternatives that operated on the price axis. So Arthur Burns declared that clearly 12 people were opposed to the one operating on the quantity axis even though it had a plurality. And so he ruled it as having been eliminated, and only the others would be considered. And all the rest of the discussion from that point was only on price axis approaches [unintelligible 25:56] on any monetary policy.

One of the people I'm pretty sure was at that meeting was Mark Willis, representing Philadelphia Fed at that time. He may have been substituting for Eastburn at that time. But I do remember Mark—if I've got the right meeting in mind—being at that meeting.

Robert L. Hetzel: So the operating variable ruled out probably would have been reserves available to support private deposits?

Jerry Jordan: No, it was the total—I'm not sure we were that precise. Because RPDs was actually a subterfuge all along. We never had the data to compute the damn thing for three weeks afterwards. But for about a year and a half, Arthur liked to play this game of saying we were using reserves available for private deposits as an instrument of monetary policy. But it never was true and couldn't be true because under lagged reserve accounting framework, we didn't have any ability to control the thing.

Robert L. Hetzel: Right.

Jerry Jordan: But it gave the press something to chew on and took attention away from whatever it was they were really doing and tried to have the appearance of making it all coherent more so than it was. I think that the directive, I think that this may have been the Morris effort. And it was just a straightforward total reserves to money to a reservable money, probably a narrow money. I don't think at that time they were still willing to talk about or include the monetary base. And so I think it was the total reserves to M1 to nominal GDP kind of a linkage.

Robert L. Hetzel: Well, okay, was that meeting—There were several reports on the subcommittee on the directive. Was this before you went to Germany or after that…?

Jerry Jordan: I don't remember that.

Robert L. Hetzel: Okay. Well, I can probably figure it out from the minutes.

Jerry Jordan: If you don't find the Morris briefing…

(END OF RECORDING)