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Interview of Peter Keir

Conducted by Robert L. Hetzel

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Robert L. Hetzel: …Alvin Hansen and John Williams as professors?

Peter Keir: Yes. I—actually I had Alvin Hansen. I didn't—I didn't have Williams. I did hear—you know, I sat in on some of his stuff, but I didn't take his course.

Robert L. Hetzel: The reason I mention that is that it's become apparent to me in talking to people that a whole generation of Fed policy makers went to Harvard, at least for some years, had courses from Williams and then went to the New York Fed or other places.

Peter Keir: Yeah, that's true.

Robert L. Hetzel: So it's interesting to me how many people went through that background. They did not come out as Keynesians. I think Williams must have had a very general interest in policy and the kinds of policy problems he was interested in were things like the—whether the pound should be devalued and they didn't obviously lend themselves to Keynesian analysis.

Peter Keir: Right, right.

Robert L. Hetzel: Do you remember anything about your course work at this point? Did you feel like you came out a Keynesian or how did you feel when you came out of Harvard?

Peter Keir: Yeah, I think that very much concerned about the economic fluctuations in the country and what might be done about it in terms of policy, yeah. But I think I would say I was certainly tinged by Keynesianism.

Robert L. Hetzel: And where did you go to work after Harvard? What was your first job after Harvard, after your education in economics?

Peter Keir: I went to Amherst College and taught for about three or four years.

Robert L. Hetzel: Isn't Amherst College where Walter Stewart and Winfield Riefler taught?

Peter Keir: Yeah.

Robert L. Hetzel: Of course, that would have been prior, but that's interesting.

Peter Keir: Yeah, but when I was there at Amherst, we did talk Winfield Riefler to come up and talk to our honor students. So he was there for a couple of meetings with our students.

Robert L. Hetzel: He's especially interesting to me, because…

Peter Keir: And in fact, when I went to the Board, I wrote to him and said I was interested in the job and he's the one that sort of passed my letter onto the division of Research and Statistics and then I interviewed with them and went to work there.

Robert L. Hetzel: Did you have contact with Riefler in the '50s?

Peter Keir: Oh, sure.

Robert L. Hetzel: Now, you mentioned yourself as at least tinged with Keynesianism. He was an older generation, yet influenced by the environment in the '30s, that made government responsible for aggregate demand. Just sort of using your imagination, what was it like to talk to him about economics and monetary policy? Did you get a sense of how he thought about things, what he thought caused the Great Depression, how the—what the Fed's responsibilities were for the controlled inflation? Did you get any sense of him as an economist?

Peter Keir: Mostly I guess we were—my contact with him were on particular issues of the time that were coming up, that is what policies was going to be in the next—at the next meeting and also one of the things that he wrote a paper on at that time that a lot of us had some input on was the question of the yield curve and whether you could adjust the yield curve and get long-term rates down by having the Open Market Desk buy long-term securities in the market.

Robert L. Hetzel: So was this part of Bills Only or was this later with Operation Twist? It wouldn't have been Bills Only, because I think he retired in like '58? Is that right?

Peter Keir: I can't remember exactly, but it was after the Bills Only policy.

Robert L. Hetzel: But this issue of influencing the term structure, that was part of the New York Fed board Bills Only debate?

Peter Keir: Yes. And he was the one that—he was the—let's see, the analyst and economic theorist behind the board's position that the New York bank was wrong and it wasn't very particularly useful to operate outside of the bill area to try to jump the yield curve, because all it had was a very temporary influence.

[00:05:08]

Robert L. Hetzel: I recently have gone back and looked at this period, because I wrote an account for our economic quarterly on the Accord and how it was reached. Actually, I wrote it with Ralph Leach, since he was at the board at the time, and I had taped recollections from—with him from an earlier time. And I had the feeling that Riefler must have felt that if they were going to—if the Fed was going to become independent, if it was ever going to get the Treasury off its back, there's no way it could be intervening in the market at all different maturities, because the Treasury would always have its own opinion and it would be very hard for the Fed to sort of shake Treasury influence. Did you have any of that—does that sound right?

Peter Keir: I'm not so sure if the—because, you know, Bill Martin was in the Treasury at that time.

Robert L. Hetzel: Right, until March of '51.

Peter Keir: Yeah. It was a really Harry Truman, the president, that had a strong view that he didn't want to stop pegging the security prices because in—after World War I, he remembered that some of his colleagues out in the hinterlands had gotten really stung when bond prices feel.

Robert L. Hetzel: Right, but this—but the Bills Only debate took place after the Accord was reached in 1952. And I think that was how to give content to…

Peter Keir: That was part of it. It was part of the Accord. It was—the Bills Only policy developed through the—oh, you mean the Accord with the Treasury?

Robert L. Hetzel: With the Treasury, yeah.

Peter Keir: Yeah. Okay, yeah, it was after that.

Robert L. Hetzel: So, I mean, there were two aspects. One was, you know, who was going to sort of practically oversee and implement monetary policy, whether that center of gravity could transfer from New York to the Board. And the other one, I think, was the feeling by Riefler that if we were going to try to influence the whole term structure of interest rates, then it would be very hard to sort of shake the Treasury loose because they'd always be on the phone with us, wanting us to do this or that. And it would be much simpler just to—just to influence short-term interest rates and let it go at that, let the market go. And the New York Fed had a very hard time shaking loose its idea that it had to intervene all the time in all the maturities to prevent a disorderly market. And Riefler and Martin were kind of much more optimistic about it, government bond market, kind of standing on its own legs.

Peter Keir: Well, they—I think that the—what they were really trying to do was to get away from pegging so that you wouldn't be pumping reserves into the market indiscriminately, not—unrelated to what you were trying to do with the economy, just to maintain the prices of Treasury securities. As Eccles said, it was an engine of inflation when you were pegging the securities prices at a time when interest rates otherwise would have been tending to rise.

Robert L. Hetzel: So what was your specific responsibility in the 1950s in the Division of Research and Statistics? Did you follow the economy then?

Peter Keir: Oh, sure. I was the chief of the Government Finance section following guys like Ralph Leach and Dick Youngdahl and…

Robert L. Hetzel: Yeah, I've talked to both of them.

Peter Keir: And Don Miller.

Robert L. Hetzel: Yeah.

Peter Keir: I came right after Don Miller as chief of the Government Finance section. And so that—at that time because those other guys had preceded me, that section was very much involved in helping to run open market policy. That is—and to liaison with the Federal Reserve Bank of New York in terms of the guys that were operating on the Desk.

Robert L. Hetzel: So did you have regular contact with the New York Desk?

Peter Keir: Sure, every day.

Robert L. Hetzel: What would—did you start going to open market committee meetings after the executive committee dissolved and they began having a larger format?

[00:10:05]

Peter Keir: Not immediately. I think—but the guy who was the chief of the Government Finance section did and it was Don Miller when I first got there. Ralph Leach was there for only about a month or two after I got there and he then went up to—Morgan Guaranty. But Don Miller then was the head of the section and he went to all the meetings and he told me pretty much what was going on. We had access to the minutes. And then when he left, I took his position and started going to open market committee meetings.

Robert L. Hetzel: So how did the staff prepare for open market meetings? What sorts of briefings did you do? When the regional bank presidents started coming, they didn't have their own economic staff and there was no Greenbook at that time. So did you start each FOMC meeting with a rundown on the economy and a discussion of the recent economic statistics?

Peter Keir: Yeah. Both Riefler and Woody Thomas, at that time, would make statements to the open market committee, but it was not anywhere near as well organized as later, after Dan Brill and others became section chiefs, I mean, division heads.

Robert L. Hetzel: So were you working—where you were working with Dan Brill at this time, he came early-on, too. I never had the opportunity to talk with him before he died.

Peter Keir: He went to the board, I think, in about 19—I think right after he got out of college. I'm not totally sure as to when he got there, but when I got there he was in charge of the flow of funds program that was going on at that time. They were still developing the flow of funds system and he was in charge of that. And then subsequently he became the chief of the Capital Markets section and after Jack Noyse [phonetic] left the head of the Research division, he became the head of the Research division.

Robert L. Hetzel: Did you have much contact with Noyse?

Peter Keir: Yeah. I had quite a bit at the beginning. But then he left not too long after that.

Robert L. Hetzel: Well, it's an interesting group of people. Did you talk over with these individuals the—what you thought the FOMC should do so the staff went in with some idea of what you thought monetary policy should be? Or was it just simply these are the economic developments?

Peter Keir: Oh, when I was—yeah, I was still—initially I was just an acting head of the section and I suspect that the head of the Research division at that time, which was Jack Noyse, and perhaps Al Cook [phonetic] who was the assistant director of the Research division. They may have talked with Woody Thomas and with Riefler about policy to some degree. But it didn't go much beyond that. It didn't go down to the rest of the division.

Robert L. Hetzel: Riefler and Thomas were the key advisors to Martin?

Peter Keir: The two primary advisors to the open market committee in those early years, yeah.

Robert L. Hetzel: What difference was there between Thomas and Riefler? Thomas was more of the statistician and more of the person involved with numbers and Riefler was more the economists?

Peter Keir: Oh, I think they were both very much involved with the numbers. Riefler was, I think, fully recognized as the more substantial economists than Woody Thomas was. Woody was more of a person that worked up through the system and was using his—the expertise that he had learned while at the board.

Robert L. Hetzel: Do you have any recollections about Riefler's personality, what he was like as a human being?

[00:15:00]

Peter Keir: He was a nice guy. He was very helpful to the staff and willing to talk to them and—about policy issues as they came up. He was a little bit removed, though. He did talk to the staff from time to time, but he didn't have quite as close contact as some of the people that came after, like Bob Holland, for example. But Bob had worked—Riefler had come through the staff side, too. So it's possible that my memory of what he did with the staff is—because in those early stages, I was not a key member of the staff. I was just the acting chief.

Robert L. Hetzel: Sure, sure. Well, the Fed faced a number of challenging in the 1950s, a recession developed in summer of 1953 and when into '54, and then after recovery, there was a rise in the inflation rate in '56 and ' 57 and then the economy went through a recession again summer of '57. Do you have any kind of recollections about views of Riefler and Martin on those issues, what they thought about the Fed's role and responsibility? I mean, I know in general, you know, Martin and Riefler developed the Feds lean against the wind policies and they pushed interest rates down sharply and recessions, raised them and recovered. But do you have any special recollections of what they thought about those cyclical events, the recessions and the inflation of the mid '50s?

Peter Keir: I think that it was probably Riefler that identified shifts and timing of the recessions. He was the one usually that spoke-up in terms of when you have to change policy and all. But much of this was done, you know, behind the scenes with him talking to Martin directly. And the staff wasn't particularly privy to that sort of information. So I couldn't say exactly what they were talking about at that time. I know what they talked about at the meetings, but what they talked about behind the scenes, I don't know.

Robert L. Hetzel: Do you have any recollection of the problem with the gold outflows that began especially in 1958 and 1959 and what Riefler and Martin thought about the problem of the dollar and Bretton Woods?

Peter Keir: Oh, that was—the focus there was— with the International division…

Robert L. Hetzel: Right.

Peter Keir: And I guess I was not too close to that particular discussion.

Robert L. Hetzel: Did your responsibilities change in the 1960s, or did you continue working with Dan Brill in the division of Economics and Statistics?

Peter Keir: Well, they kept changing our titles as we went along. I can't remember how many years I was chief of the Government Finance section, several years. And then I took a year off and went to Brookings with a fellowship where I was studying the term structure of interest rates. And when I came back from Brookings, they made Steve Axilrod the head of the Government Finance section and I became the head of the Capital Markets section.

Robert L. Hetzel: Would this have been after Operation Twist with the Kennedy administration or at the same time?

Peter Keir: That was supposed to have occurred while I was over at Brookings. But I guess you know that it never really happened.

Robert L. Hetzel: Well, it depends on who you talk to. The administration took it very seriously and I talked to Ann-Marie Meulendyke some years ago, some casual conversation and she had written in her history that Operation Twist was ineffective. And she said she got a very irate phone call from Robert Roosa. This would have been, I don't know, early '80s, I guess, who said that Operation Twist did work and was important. So I think it was viewed differently by the Treasury and…

[00:20:19]

Peter Keir: Oh, to the best of my knowledge, to define Operation Twist, the initial impetus for Operation Twist, I think, came out of the academic studies that were being done. I've forgotten what the name of the group was that put out the report just before—right at the end of the '50s.

Robert L. Hetzel: McCracken was…

Peter Keir: No, it was a study by one of the—it was promoted by one of the academic, you know, financed research outfits.

Robert L. Hetzel: Commission on Money and Credit or something like that?

Peter Keir: Yeah. It was setup by—I can't remember which one of the research groups. But anyway, there were a lot of studies, a whole series of papers and they're all published. And one of them was about Operation Twist that the academic community was arguing that the Federal Reserve should not have just a Bills Only policy, but should actually do some of its business in the long-term market in order to bring long-term interest rates below what they would otherwise be and help in the housing industry and other areas. And this—it was assumed, therefore, that when this Operation Twist was announced by Chairman Martin, that this is what the Federal Reserve was trying to do.

And I've looked through the minutes of the—I wasn't there in that particular period. I was over at Brookings. So I didn't know for sure what they had decided and what they were trying to do. When I went back to the board, I went back and looked at the minutes specifically to try to find out what their policy had been. And it was fairly clear that at the start there was quite a bit of swapping around of short-term for long-term securities. That the Trading Desk had said, "boy, we are liberated and we can do all these things that we were denied the possibility of doing when the Bills Only policy was in effect."

And they did quite a bit of swapping in the beginning, but then Governor Robertson of the board said this isn't what we meant; you're not supposed to do that. That screws-up the market. They don’t know what prices ought to be if we’re in there for non-profit considerations continually messing-up the market. And so they—the board then said that there would be no more swap transactions, that you could buy long-term securities outright and hold them, but you couldn’t swap them back and forth, just to do it only for reserve purposes, rather than buying long-term securities when you needed to provide reserves.

One of the reasons that I think that the Operation Twist lost its momentum was that the Treasury was doing all these advance refundings. And what they were doing was switching short and medium-term securities out into the long-term so that they were adding substantially to the government assets in the long-term end of the market while the Federal Reserve was just sort of nitpicking away here and there, now and then, on long-term securities and it was quite clear they weren’t going to have—override the effect of the Treasury’s advance refundings. So most people sort of in the—I think within the system lost interest in doing anything in that range.

Except for the bill rating, and what Bob Roosa did was to peg the bill rate at the short end so it wouldn’t go down, because he was doing this for dollar reasons and trying to keep—trying to avoid such a discrepancy between US short-term rates and other short-term rates that would encourage dollars to flow abroad.

[00:25:16]

Robert L. Hetzel: Right, but it wasn’t Roosa that was pegging the short-term rate; it was the—it was Martin, right? I mean, Roosa was…

Peter Keir: No, it was Roosa. He was—well, he got—what he did was to—because they were doing all of these swaps of short and medium-term bonds out into the long-term on these advanced refundings, the short end of the market began to lose a lot of the Treasury debt that was out there and Roosa didn’t want this to push short-term rates down. So he wanted to add to the supply of short-term securities and he did it through the bill market. So they put bills—they kept issuing a lot of new bills, not only in three-month bills, but I guess some of the bills that were six-month and I don’t know when they started the one-year bill. I can’t remember now. So the—I think that the Treasury was probably more involved in pegging that rate than the Reserve was. Although, the Federal Reserve did sell bills quite often to try to support the rate, too.

Robert L. Hetzel: So you think that the Treasury, by influencing their supply of short-term Treasuries, was the dominant influence on the level of the short-term rate?

Peter Keir: Well, what they were trying to do was to replace some of the short-term debt that was being switched-out into the long-term. They did it all on the bill market, as the debt—as they expanded the supply of bills substantially in that period. And I think that that had a—probably a bigger impact on the bill rate than if some of them had been in other kinds of maturities.

Robert L. Hetzel: But the FOMC must have been coordinating or at least Bill Martin.

Peter Keir: I'm sure they were.

Robert L. Hetzel: Bill Martin must have been talking to Roosa and they must have been coming up with some mutually acceptable…

Peter Keir: Yeah. Martin and the Secretary of the Treasury and Roosa was probably involved in it, very much so.

Robert L. Hetzel: But Roosa was a protégé of Sproul, and he had come out of the New York Fed, so surely Roosa believed in Operation Twist and what it was doing. But in a way, it was…

Peter Keir: I don't know how much he really did. I didn't talk to him at that time because I was over there at Brookings. And I'm not sure how much—I think what Roosa believed and what the New York bank believed was that the manager of the Trading Desk should not be restricted to operating only in bills, that they should—they should have the leeway to operate in other securities when there seemed to be good reasons for it. And my impression was that that was the main thing that the New York bank wanted, that they weren't really trying to twist the yield curve that much as they were just trying to get the leeway to get the restriction off of them that the Bills Only policy had imposed.

This is my impression that I've got from reading these things. I haven't talked—I didn't talk to Roosa and ask him this. And I didn't even talk to Axilrod because I thought he wouldn't tell me at that time, because he knew I was working on an outside paper.

Robert L. Hetzel: But in a way, it was the best thing that could have happened to the Fed, because the—with Bills Only, even though you had Operation Twist, it's the short-term end of the market you work on. And if the Fed had leeway to raise short-term rates because of balance of payments reasons, then it had flexibility to conduct monetary policy. So in a way, the Fed had it easy in the Kennedy administration. I mean, as far as you're aware, there wasn't any real conflict between the Treasury and the Fed, was there, in this early period?

Peter Keir: No, I don't think so. I think the fact that Roosa came right out of the Fed and Volcker was there, too, as his assistant.

[00:30:03]

Robert L. Hetzel: Yeah. That's a good point. Do you remember how the environment changed after Kennedy's assassination and Johnson came in? Johnson really didn't care about Bretton Woods and…

Peter Keir: …in the budget that the Vietnam war and things developed. You know, Art Okun was the—Art Okun and the guy that's—Maryland [phonetic] or was it Maryland?

Names escape me at my age. They were the economic advisors to Lyndon Johnson, and they tried hard to get him to make the policy move, that it would be needed in fiscal policy in order to constrain the inflation at that time. But they didn't succeed. But I think that's the main factor in generating the inflation push.

Robert L. Hetzel: Well, Gardner Ackley was the head of the Council of Economic Advisors. So I think he was the one who was…

Peter Keir: It was before…

Robert L. Hetzel: Walter Heller. It was Walter Heller initially, and then it was Gardner Ackley.

Peter Keir: Then they guy who is now the—he was a professor at the University of Maryland and he's a well-known economists that often makes good speeches. He's an old fellow now. I just can't think of his name.

Robert L. Hetzel: Where was he—was he in the administration?

Peter Keir: He was at the council.

Robert L. Hetzel: Well, as I say, Walter Heller was head of the Council of Economic Advisors and he was succeeded by Gardner Ackley and then Art Okun.

Peter Keir: Maybe it was at the Treasury then at the time, because he and Art Okun did…

…he listened, but he didn't act on it.

Robert L. Hetzel: That's interesting to me, because when you talk to people, they say—at the Fed—they say, well, things were going along fine until the Vietnam War and then you begin to get the inflation. So I have the feeling that with Martin, Martin was constrained by the Johnson administration in his ability to raise interest rates. You remember the famous problem with the discount rate rise in December of '65. So what do you do if you're the chairman? Well, you attack what you think is the root cause. If you can make the deficit go away, then you don't have the same problem with raising interest rates. Does that sound right?

Peter Keir: And then you push for a tax increase or?

Robert L. Hetzel: Yeah, yeah. I mean, if you're the head of the chair—if you're the head of the Fed, you know, there's some level of interest rates that's going to control inflation. But if you're under lots of pressure not to raise rates, well, then the next best thing is to deal with the source of inflation, which you see is the deficit. So you get this period where Henry Fowler, who's head of the Treasury, is working with Bill Martin and Gardner Ackley, and they're trying to convince Johnson that he should submit a tax increase. And in this period, the Fed is then reluctant to raise interest rates. It's hoping it will get a tax increase instead.

Peter Keir: Well, I don't know what the—obviously they didn't say that at meetings very often.

Robert L. Hetzel: No. Of course.

Peter Keir: And I think more often when they have a problem with the Treasury or like that, they try to mollify them verbally, but go ahead and act if they think they have to anyway. And I'm not sure how much they were constrained at that time.

Robert L. Hetzel: Well, Martin begins to be constrained though, because when he gets governors that are sympathetic with the administration's position of kind of keeping interest rates low, because Mitchell came in with Kennedy, but then you get Brimmer and Maisel. Robertson's a populous. So Martin begins to have problems with his own governors in terms of what he can do with interest rates. He's got to worry about keeping…

Peter Keir: I think that the guys like—Sherman Maisel, particularly—used to talk pretty aggressively at meetings, but nobody paid much attention to him.

[00:35:06]

Robert L. Hetzel: Talk aggressively about?

Peter Keir: About not threatening the—not overdoing the restraint and monetary restraint.

Robert L. Hetzel: So you felt that at this—your recollection of FOMC meetings is Martin basically always got what he wanted?

Peter Keir: I don't really know what he wanted for sure.

Robert L. Hetzel: Yeah, of course.

Peter Keir: Because I can't read his mind.

Robert L. Hetzel: Yeah, absolutely.

Peter Keir: But, I—he didn't very often feel that he wasn't getting what he wanted out of the meetings. There were—Brimmer quite often would make statements that were at odds with what Martin wanted to do, and I think Maisel did, too. Also, now, what was the name of the other guy you mentioned?

Robert L. Hetzel: Well, George Mitchell was a Kennedy appointee and he…

Peter Keir: George would often make arguments to the effect that you have to be watching out for considerations in going it too tight, but he didn't ever vote against—he usually did not vote against the chairman. He'd just make his statement and then go along. The other two guys were more likely to vote against him. But I think that Martin, at least this is the way I recall it, you'd have to go back and look at the votes to be sure. But I think Martin did pretty much what he thought he needed to.

Robert L. Hetzel: This was the period of optimal policy mix and the board staff thought that well, if you could lower the deficit then you could have lower interest rates. But Martin's point of view was simply that it was the deficit that was the primary source of inflation and you needed a tax increase. I mean, he felt strongly about that. That's your recollection?

Peter Keir: I can't say for sure without going back and looking at the record, but I'm not sure how often he actually asserted it that clearly and strongly. Quite often he was fairly fuzzy in what he said. But he got what he wanted that way.

Robert L. Hetzel: Yeah.

Peter Keir: In not forcing the issue verbally.

[Tape Paused]

Robert L. Hetzel: …then no inflation in this period if there had been no deficit, that that was the primary cause of inflation? And that the reason you began to get inflation in the '60s is it was just a more difficult period for the Fed to deal with because of the fiscal side of monetary policy, the fiscal side of policy? That's your feeling?

Peter Keir: I think also in that period there were—the Fed was not always looking as clearly as it should have at some of the indicators that—they didn't pay much attention to the money supply until Milton Friedman forced them to.

Robert L. Hetzel: Do you think that would have made a difference, they would have been more willing to raise rates and—do you think the Fed, despite what you said about the deficit, was too slow to raise rates in the last half of the '60s and we wouldn't have ended up with 6% inflation if the Fed had been more aggressive?

Peter Keir: I think probably perhaps marginally so, but not—I was not of that opinion at the time. I would be only looking back that I might come to that conclusion, at least to some degree.

Robert L. Hetzel: You mentioned Milton Friedman. He came to the academic consultants briefings with the Fed. Were you in on those academic consultant briefings in the mid '60s?

Peter Keir: Yeah.

Robert L. Hetzel: And so that's when the discussion of money would have occurred within the Fed, when Friedman…

Peter Keir: Well, there many people in the Fed anyway, that were bringing those issues out, from the reserve banks, as you know.

[00:40:00]

Robert L. Hetzel: You mean St. Louis, primarily?

Peter Keir: And some others got on board, too.

Robert L. Hetzel: What was the attitude towards St. Louis? Was it viewed as sort of oddball or?

Peter Keir: I think in the early stages, yeah. It was—Homer Jones was the head of the department out there. And he had been at the Fed and he was a little bit of an oddball.

Robert L. Hetzel: Yeah. Was…

Peter Keir: He's a nice guy, but he was a little wild occasionally.

Robert L. Hetzel: In his economic theories?

Peter Keir: Yeah. He was not as careful in the—as fully considered, as he might have been.

Robert L. Hetzel: You're saying he wasn't diplomatic or tactful in the way he expressed himself always?

Peter Keir: No, it's just that he got on a particular type of analysis and pushed it without considering a lot of the other considerations.

Robert L. Hetzel: So one-dimensional in terms of his approach toward policy?

Peter Keir: Right.

Robert L. Hetzel: Was Darryl Francis at all effective in FOMC meetings?

Peter Keir: As I recall it, I'd have to go back and look at the record to be sure, but I thought he was—he was a nice guy and quite useful.

Robert L. Hetzel: Who were the effective governors in the '60s, the ones who could influence debate?

Peter Keir: The governors?

Robert L. Hetzel: Yeah.

Peter Keir: I think Mitchell has been a good governor all the way along and he's a good analyst, and quite often brings things up that they don't necessarily want to hear, but he's a good analyst. You'd have to remind me who half of them were now.

Robert L. Hetzel: Well, we mentioned the…

Peter Keir: I think Brimmer was—who was a good guy, although he would sometimes ride a hobby horse a little bit and people didn't pay as much attention to him as they might have if he hadn't pushed it as aggressively as he did. But he was a useful analytical voice in the discussion.

Robert L. Hetzel: There was a dispute with him and I suppose Maisel over whether the Fed should become involved in international monetary relations, whether we should push other countries to devalue—revalue their currencies relative to the Fed. That occurred in '68 and then just disappeared for a while, but then came back. So I know he was aggressive at that.

Peter Keir: Well, Brimmer for quite a while was the liaison with the international groups on the board.

Robert L. Hetzel: That wasn't Dewey Daane who was the international liaison?

Peter Keir: Well, he was, too, but also Brimmer went to a number of these international meetings and until Burns came in and Burns didn't like some of the things that Brimmer said, so he cut him off and put Wallich in charge of that.

Robert L. Hetzel: That's interesting. I had the feeling that Brimmer and Burns didn't always get along well with each other, but when you—but most of the policy record is FOMC materials and Brimmer typically was—wanted to lower the unemployment rate and wanted the Fed to aggressively address high unemployment. And so he—I think—on policy, he and Burns very often came out at the same point so that—at least at FOMC meetings there didn't seem to be lots of reasons for them to clash.

Peter Keir: Well, he didn't vote against him except in a few rare occasions. But sometimes in the discussion he would push ideas that I'm not sure that Burns was totally in agreement with, in sympathy with. And it was in the international side, that I think that he just wanted to have his own man in there, Burns did, and the thought Wallich was more his own man than Brimmer was.

Robert L. Hetzel: Yeah, that could be. That could be right, although Wallich had been around forever, since the early '50s.

Peter Keir: Yeah, he was at the Treasury for a while.

Robert L. Hetzel: Yeah.

Peter Keir: And he was a good guy, a good man.

[00:45:00]

Robert L. Hetzel: Yeah. Yeah, I know people liked him a lot. He was a real gentleman.

Peter Keir: But he was a good analyst, too.

Robert L. Hetzel: So before we pass to the Burns period, in 1969 when the Nixon administration came in, inflation got up to 6% and Martin pushed interest rates up and there was a split within the committee of whether you should keep interest rates up until you got on top of inflationary psychology and inflation, that would have been Martin and Al Hayes and I guess President Coldwell from Dallas and the people who traditionally supported Martin, like Dewey Daane and—and then the other side you had the people we mentioned, Mitchell and Maisel and Brimmer. Does that sound right to you, that if maybe Martin had been chairman of the FOMC for another year, if he'd been chairman through 1970, the Fed would have gotten on top of inflation just because Martin was willing to hold rates up high enough to do whatever it took to bring inflation down?

Peter Keir: I don't know that I can assert that for sure or no. I don't remember it well enough at this point to…

Robert L. Hetzel: Well, do you remember the change that took place when Burns came in and Martin left; that shifted the emphasis within the committee from hawks to doves on…

[00:46:49]

[END TAPE 60, SIDE A]

[START TAPE 60, SIDE B]

[00:46:52]

Robert L. Hetzel: I thought Brill left before Burns came.

Peter Keir: Well, he knew he was coming, so he got out.

Robert L. Hetzel: That wasn't some disagreement that occurred between Martin and Brill, that was because Brill didn't want to work for Burns?

Peter Keir: I think so, yes.

Robert L. Hetzel: How did your position change? You were still involved in FOMC briefings under Burns, right?

Peter Keir: Well, he changed the nature of the briefings. Originally under Martin, that the—just before Burns got there, we sort of rotated the briefings so that the same people didn't have to do it at every meeting. And when Burns came in he said no way do I want to hear from anybody but the best and so he insisted that only, I guess at that time it was Partee and Axilrod would do the briefings and the rest of us would no longer be involved.

Robert L. Hetzel: Well, that was a sort of strange way to put it; I only want to hear from the best. That seems…

Peter Keir: I don't know what he said. That's the way I interpreted it. Well, he didn't want to hear from anybody at great length, because he thought that he knew what he wanted to do anyway and he thought a lot of the open market meeting time was taken-up with unnecessary discussion of things that weren't that important. But one thing he was—before then, Martin would always let the presidents of the reserve banks come in and give an oral report on what was going on in their district, and that was a good part of the go-around at the time of the meeting.

Robert L. Hetzel: Yeah, it still is now, under Alan Greenspan.

Peter Keir: Okay. But Burns said I don't want to hear what these presidents have to say. If they have something that's important, have them write it down and submit it and that was when the Red Book started. And for that reason, a lot of the people who had been talking at some length at the meetings no longer did, and that's what speeded the meeting up some so that more time could be spent on the actual discussion of policy.

Robert L. Hetzel: But that was not necessarily because Burns wanted more discussion, he just wanted to hear less of what the presidents had to say?

Peter Keir: Well, he—what they had, he thought, was ten statements written by their staff and what he wanted the discussion to be was an actual, you know, intellectual discussion of the issues meeting.

Robert L. Hetzel: So there was some validity to his point of view?

Peter Keir: Oh, sure. Sure, there was a lot of time wasted in the meeting with things that were not really important to policy that day.

Robert L. Hetzel: Well, I know something about the briefings, because I looked at Burns' papers in Ann Arbor at the Ford Museum. Chuck Partee would write a draft of Burns's statement for the FOMC meeting and then Burns would go through it and make changes and then Partee would rewrite it. But basically, Burns's statements were written by Partee, just with change of emphasis. And then Partee would come in and make an initial statement and you can read these and it's pretty consistent. Partee would be very aggressive for, say, for typically for lowering the funds rate, which I think was alternative C in the Bluebook.

Peter Keir: Yeah.

Robert L. Hetzel: And then Burns would read his statement as though it were completely his own, and he would come across as much milder, much less aggressive and he would come across for B, and kind relative to Partee, it seems like sort of a middle of the road. But it was where Burns wanted to be, and of course, he got B from the committee. But he clearly worked very closely with Partee on the statements and maybe he just wanted to work with one person and that's why he changed the…

Peter Keir: Well, I think he did. I think you—he didn't—well, every now and then when he was mulling an issue over in his mind that he thought was pretty important, some kind of policy question, not necessarily monetary policy question, quite often more general economic policy. He would get a staff group from the Research division together and they'd have a sort of a free-wheeling go-around to discuss the issue. So they quite often he was reaching out to the staff to get policy input beyond just Partee. But that was usually some special kind of question that had some up and not necessarily related to monetary policy.

[00:52:28]

Robert L. Hetzel: Do you—would they have been, for example, discussions on wage and price controls and sort of the variance of a wage and control board that would—that Burns was pushing for? Do you remember those?

Peter Keir: I can't remember right off hand, but that would be the kind of thing that…

Robert L. Hetzel: On the need for some kind of governmental suasion to control wage growth, there was no—there was no disagreement over that issue among the governors and the staff was there? There was pretty much a consensus that it would be helpful to have something other than monetary to help control inflation, something other than monetary policy to help control inflation? Does that sound right, in the early '70s?

Peter Keir: I would think that would be the case. I can't assert that I can remember a situation right now that would confirm that. But I think that was generally true.

Robert L. Hetzel: Do you remember any of the FOMC debates that occurred in the early…

Peter Keir: …fuzzy at this point.

Robert L. Hetzel: Sure, sure.

Peter Keir: I'd have to go back and refresh, I think.

Robert L. Hetzel: Yeah.

Peter Keir: …a lot of it was sort of after the fact. Somebody you should talk to about that whole period in there is Bob Holland.

Robert L. Hetzel: Yeah, I have talked to him.

Peter Keir: He's the one that was directly involved with Burns on a lot of these issues.

[tape skipped]

…and Axilrod and then Jerry Zeisel would have been—and Murray Wernick would have been involved in the wage-type questions, wage issues.

Robert L. Hetzel: Do you feel like they were—that group was generally supportive of Burns and his positions or they became critical over time of his positions? Do you feel like Burns enjoyed broad staff support in this period?

Peter Keir: No, I don't think he did completely enjoy completely broad staff support, but I think that, as I said, Bob Holland defends the decisions that were made in that period, very strongly.

Robert L. Hetzel: Well, in a way he does. I mean, he defends them as apolitical.

Peter Keir: Yeah. Oh, I think they…

Robert L. Hetzel: And others—there are others within the system who do think that Burns was politically motivated, at least—not in a partisan way, nobody has ever said that, but in the point of view that he was overly concerned about maintaining relations, good relations, with the Nixon administration so he could influence a broad variety of policies. For example, he could influence the number that was set for the wage guideline, acceptable wage inflation. He could exercise influence on the budge, he could exercise influence over decisions on the dollar. And so, that he would—he was willing to—well, especially before the '72 election, he was very cautious about raising interest rates for fear that he would rupture or damage his relations with the administration. I think that's maybe the way to say he was too political.

Peter Keir: I think that was true. I—but whether it really resulted in a different monetary policy than would otherwise have occurred, I couldn't say for sure.

Robert L. Hetzel: Do you have any recollections of the period before the…

[00:56:53]

Peter Keir: My general attitude at that time was similar to Bob Holland's, that I thought that most of the decisions that were made could be explained on grounds other than politics, but as economic analysis rather than just political consideration.

Robert L. Hetzel: Yeah, and actually, I agree with you on that. People thought that the unemployment rate, the full—the natural rate of unemployment was 4% and there was excess capacity and there was pretty much universal agreement that government had a responsibility to expand output and lower unemployment. And the debates took place after the inflation rate rose and the price controls broke down.

Peter Keir: Right.

Robert L. Hetzel: Who did you kind of debate and argue with at this time? Where all of the people available that you mentioned, Partee and Axilrod and Zeisel and Ensler, I guess, the people doing the model? Where there…

Peter Keir: Jim Pierce was also involved in that period. He's an interesting and bright guy.

Robert L. Hetzel: Where there sharp—where there divisions among this group or did people pretty well—were they pretty well in accord, did you pretty—usually come to consensus and kind of support what the FOMC kind of ended up doing?

Peter Keir: The kind of meetings that we were involved in, we got a lot of people around the table discussing them more often what you're going to do on the specific policy dimensions that went into the Bluebook. That kind of discussion is the one that I remember best.

Robert L. Hetzel: And that was Jim Pierce?

Peter Keir: That's—Jim Pierce was involved in that, yeah.

Robert L. Hetzel: And the arguments there were over what level of interest rates you need to control money growth when you came up with the choices or the alternatives?

Peter Keir: Right. And the range of decision making wasn't very wide, anyway. So that the…

Robert L. Hetzel: So it was not too hard to come up…

Peter Keir: It wasn't a knockdown, drag-out fight as to which particular alternative you should go for.

Robert L. Hetzel: So it was not that hard to come up with the actual Bluebook numbers?

Peter Keir: No.

Robert L. Hetzel: What about the Greenbook forecasts? Was Burns ever involved in that exercise or did he completely keep hands off of the staff forecasting exercise?

Peter Keir: I don't know whether he talked directly to Partee, for example, on this. But certainly in our discussions of it and the formulation of the Greenbook, there wasn't any talk about what Burns thought and what you had to do for Burns, that sort of thing. It's a fairly independent staff projection and I think that he was perfectly free to make a different statement and a different judgement at the meeting, and sometimes other people did, but I don't remember him doing it very often.

Robert L. Hetzel: I'm interested in what you said about the way Burns interacted with the staff. You said he did get them together and have spirited discussions. So he did value their opinion…

Peter Keir: But particular issues came up. Well, he'd ask Partee to select from the staff the people that would have the most knowledge about a particular issue and then they would be the ones that would meet with him. And it would be a wide-ranging discussion of—everybody was free to say what he wanted and then Burns took it all in and then made his judgment afterwards.

Robert L. Hetzel: So on the issues of monetary policy, though, do you feel like he, you know, felt like he could make policy without the staff? He pretty much, you know, was his own man or do you feel like he relied on the staff?

[01:01:48]

Peter Keir: Well, I think that he talked to the staff leaders independent—separate from all the rest of us. But I'm sure he sat down and discussed this sort of thing with Axilrod and Partee and Holland when he was not a—well, even after he was a governor, he probably talked to him, too.

Robert L. Hetzel: Do you feel like ultimately Burns was a good head of the Federal Reserve system or—and he was just, we've got inflation because he was overwhelmed by outside shocks like oil price increases or ultimately the history is going to be kind of very unkind of him as chairman of the board?

Peter Keir: Well, I think that on balance he was fairly—he was pretty good. I think it's clear that you probably already have discovered this, that a very large proportion of the staff were good Democrats and—then, anyway. And he clearly wasn't. So we had differences of opinion with him about a lot of things that he said in his speeches and some of the administration policies that were going on at the time. But on monetary policy, I don't—there were some people who, I think, like Jim Pierce, who were quite often at odds with him on that, too. But not generally, I don't think, not everybody.

Robert L. Hetzel: So given the intellectual tenor of the times and what people knew about economics and given the kind of shocks, exogenous shocks, the continuation of the war into the early '70s, you don't think monetary policy would have been—I mean, this is completely conjectural, but you don't think monetary policy likely would have been a lot better if Nixon had chosen another chairman for the Board of Governors? You think that Burns was…

Peter Keir: You mean if Paul Volcker had been chairman?

Robert L. Hetzel: Well, I don't know. This is sort of a dumb question, because Paul Volcker had a—was clear when he became chairman that the job was to bring inflation rate down, and you know, Burns—if it was clear to Burns, Burns could have done the same thing and pushed the funds rate up to 20% and done the same thing. So it's not really comparable. But you can go back, to some extent, and say, well, you know, Burns really didn't listen to the staff enough or some of his ideas, even in the context of the times, were wrong. He—but as an economist, in the context of the time, you would not be critical of him?

Peter Keir: Not very much, no. I think that after the fact, there was some—as things worked their way out, you could go back and say, well, we should have been—done a little bit more. But in particular…

Robert L. Hetzel: Sure, after the fact.

Peter Keir: Well, I think, as far as I'm concerned, it would be after the fact. There were people in the Fed that—who were disagreeing, but I think in some cases on the other side, rather than towards more tightness.

Robert L. Hetzel: Oh, yeah. Governors like Brimmer thought that 4% was way too high as a target for unemployment and that there was sort of an interim, you know, it was sort of something you should take as an interim target, but then go below and well, he would, of course, he had a special interest. But he would say, if you have 4% unemployment, that's still not going to do enough or Negro unemployment, that kind of thing. So they were definitely people pushing…

Peter Keir: And there were some staff people that were—agreed with that sort of analysis.

Robert L. Hetzel: So what names come to mind?

Peter Keir: Well, I'm thinking Jim Pierce and I'm—I don't know about Sam Chase, whether he was in that group, too, or not. But…

Robert L. Hetzel: I talked to Pierce, you know, this has probably been 10 years ago, but I did talk to him and he portrayed himself as an inflation hawk. But he thought Burns was too easy, but maybe that's not—maybe at the time, he was not as...

[01:06:51]

Peter Keir: Well, maybe I was misinterpreting.

Robert L. Hetzel: Well, I don't know. This is—I mean, when people defend their positions ex post, they have an interest in…

Peter Keir: Okay. That may be exactly what he was…

Robert L. Hetzel: Well, that's not very important. I was just curious what you remembered about the individuals and their positions. When did you retire from the Board or from the staff of the Fed?

Peter Keir: In—I think it was 1980, December '80, somewhere along in there.

Robert L. Hetzel: So you went through two more chairmen. You went through G. William Miller and Paul Volcker. Did you feel like the monetary policy, kind of the way Burns thought about the world and the role of monetary policy, inflation, do you feel like that changed before his retirement, or do you feel like Arthur Burns was always Arthur Burns. He always had the same view of the world?

Peter Keir: I guess I wasn't close enough to him to know on that.

Robert L. Hetzel: When Miller came in, I mean, he obviously came from—he had been chairman of the board of directors at the Boston Fed, but he came in from Textron. He didn't have the background that—like Paul Volcker had. So who were the key advisors, the key staff people who helped Miller kind of survive while he learned what the—what an FOMC chairman does? Who are the key people at the time who were—who had to have been talking to Miller and advising him?

Peter Keir: I think just the people that were the heads of the divisions at that time. And I guess Axilrod, right at that time—Partee was a governor then, wasn't he?

Robert L. Hetzel: Right. Yeah.

Peter Keir: And so was Gramley.

Robert L. Hetzel: Well, Gramley went to the—was on the CEA, at council.

Peter Keir: CEA and then he came back and…

Robert L. Hetzel: But when he came back on Volcker's watch.

Peter Keir: Yeah, that's right. So it would have been Axilrod would be—would have been sort of the monetary policy person and on the Research division, I guess Kichline was the Research division.

Robert L. Hetzel: That sounds right.

Peter Keir: Probably Axilrod had more influence than anybody else. Although, Burns—I don't mean Burns, I mean Miller was really not very interested in monetary policy. My impression was that he got bored with the nudge-y little details of moving the federal funds rate and the discount rate. And he was much more interested in doing things where you could see results more directly. And that's part of the reason he went off to the Treasury later on.

Robert L. Hetzel: Yeah. I think that's right. I remember our people said that he wanted the—our president who was Bob Black then, and Jim Parthemos said he wanted to run the FOMC meetings the way he ran board meetings at Textron. You would have an agenda, you would make decisions and, you know, you'd have so much time to talk about it. You go and you make the decision and then you walk away from it. Monetary policy wasn't something you just lived with all the time and kept coming back to and kept adjusting and…

Peter Keir: And a lot of the argument was about rather minor changes in federal funds rate or required—I mean, net bond reserves. So that, he got bored quite easily and quite often you could see his eyes close and he looked almost as if he were asleep.

Robert L. Hetzel: Well, we've…

[01:11:29]

[END OF RECORDING]