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Interview of Bruce K. MacLaury

Conducted by Robert L. Hetzel

November 14, 2001

Bruce K. MacLaury: ...worked at the Boston Federal Reserve Bank. And the summer between my first and second years of graduate work at Harvard. That was one of the things that kind of intrigued me about the Fed—it paid my lunch that summer and for much of the rest of the year.

Robert L. Hetzel: One of the intriguing things is how many Fed people went through the Harvard program with John Williams and Alvin Hansen—really an extraordinary number. So—but you were there a decade later than—

Bruce K. MacLaury: That's right.

Robert L. Hetzel: So—

Bruce K. MacLaury: They had large—they had retired by the time I got there. So I was not one of their students. Their names were obviously very much in the air, but I did not have them as professors.

Robert L. Hetzel: John Williams especially must have been part of the sense of institutional knowledge and a sense for policy—

Bruce K. MacLaury: Right.

Robert L. Hetzel: Ambiguity, and sort of the difficulties in actually making a policy. Were there professors that you particularly felt influenced by or were useful to you later on?

Bruce K. MacLaury: Well I think Jim Dusenberry certainly was one of the ones. He was a thesis advisor and very much a monetary economist, along with a lot of other things. But he was probably the person that—in this field—was the light.

Robert L. Hetzel: He'd worked on the consumption function—did you work in that area or was it—?

Bruce K. MacLaury: Not directly. If not—I'll tell you. I came with an undergraduate degree out of Princeton and the Woodrow Wilson School, which was an international affairs school, as you may know. And it was a [chuckles] multiple major of history, economics, and politics. And I came to Harvard not prepared in terms of economics out of an undergraduate degree for what I was running into as a graduate student. And so there was a certain amount of catch-up that I was playing while there. And it was—this is probably something you aren't interested in, but it occurred to me—I would call myself one of the last to escape through the net at Harvard—or probably other places—with a couple of languages as my requirements rather than a mathematics requirement. And that forever crippled me as a professional economist thereafter. [Chuckles] In any case, that's a little bit of background personally.

Robert L. Hetzel: Yes. So Dusenberry was a member of the CEA in the mid-'60s; did you still have contact with him at that point?

Bruce K. MacLaury: Yes. I did not have close contact in any continuing sense, but I will never forget that when I left the Minneapolis Fed to jump ahead in 1977—I remember a call from Jim Dusenberry to me at the time that his friend and, I guess college roommate, Bob Roosa—who had been my mentor really throughout and who had been the vice president in charge of research at the New York Fed where I landed after graduate school—I guess Bob Roosa or somebody else had put Jim Dusenberry up to giving me a call without telling me what it was about, to see whether I [chuckles] would be a fit at the Brookings Institution as its president. So in that sense, I stayed in touch with Dusenberry, but it was by no means a professional continuing—or even a personal continuing relationship.

Robert L. Hetzel: When did you start at the New York Fed?

Bruce K. MacLaury: In '58. I got—I did my two years of graduate work at Harvard—'56 to '58. Was very happily lured away from Harvard by Alan Holmes—who was the vice president and Open Market manager—who offered me—at the cattle call of the American Economic Association one December—the possibility of coming to the New York Fed and then going—getting—working for a while, then getting a paid leave of absence for six months to do my dissertation, which is what attracted me to the New York Fed. And that's in fact what I did.

Robert L. Hetzel: Rosa was still at the New York Fed at that point. Did you have any contact with him?

[00:04:33]

Bruce K. MacLaury: Yes, he is the kind—he was my boss when I came in as a lowly economist in '58. And he went to the Treasury department—I'm trying to remember the dates now...

Robert L. Hetzel: Well it would have been after—

Bruce K. MacLaury: Sixty-one?

Robert L. Hetzel: Yes. It was with the—

Bruce K. MacLaury: Right.

Robert L. Hetzel: Advent of the Kennedy Administration.

Bruce K. MacLaury: Right. Right. And then—so he was very much at the New York Fed when I arrived there. And yes I did have contact with him, even at those early days.

Robert L. Hetzel: He was intellectual...easy to get along with? But he really had the New York Fed sort of culture...he disagreed with real bills and—

Bruce K. MacLaury: Yes.

Robert L. Hetzel: Replaced it with Operation Twist. But he must have had a pretty impressive personality.

Bruce K. MacLaury: Yes. He did. He was an intellectual, but he was very, very approachable. And I think—I don't know whether—even as early as those days—but later on when he left the Treasury Department and went to Brown Brothers Harriman, the partner, he consciously mentored people. Meaning bringing them in explicitly for—I don't remember at Brown Brothers whether it was a year or a couple years, something like that—and used them in the best sense of the word—trained them—and they went on to other positions thereafter. And he was doing that even at the New York Fed, though I didn't really realize that at the time.

Robert L. Hetzel: Did you go into the Foreign Exchange trading desk right away? Or you were in the Research Department then initially?

Bruce K. MacLaury: In the Research Department for the first year, year and a half—I can't remember now the dates...they could be somehow discerned. But in the Research Department [chuckles]—again one of the amusing things to me was that I joined the Foreign Research Department at the New York Fed and at that point I was assigned to follow developments in Canada as a neighbor nation. But it was at that point categorized within the Fed structure as part of the British Empire Unit [chuckles], which had a very quaint ring to it. I'm sure it's long since changed, but in any case, I was assigned to the Canadian desk. And...

Robert L. Hetzel: Canada had floated its exchange rate earlier in the '50s. Had it re-pegged by this point, do you remember?

Bruce K. MacLaury: It was still floating, if I recall.

Robert L. Hetzel: This seems like a piece of trivia, but I'm interested if that experience made you more open to alternative monetary arrangements and ultimately floating the dollar, or did you remain as committed to Bretton Woods as Al Hayes, Paul Volcker, and the other Fed people?

Bruce K. MacLaury: I did not. I did not remain as committed to the peg. Even though—again, jumping around here now—when I went to the Treasury Department for Paul Volcker back in ’69 I guess it could have been, he was very much concerned as Under Secretary for Monetary Affairs with the gold peg and whether we should stay—and assigned to me as his deputy to try to write a defense of the gold standard and staying with it, which I did my best to do with not feeling as though I was...dealing with my— not crossing my conscience to do so. But what I remember going back into the New York Fed days, Peter Fousek—I don’t know if that’s a name you come across or not—

Robert L. Hetzel: Oh, yes, certainly.

Bruce K. MacLaury: But he was the head of the Foreign Research Division in the Research Department at the time. And I remember being very much impressed by Bob Triffin’s work *Gold and the Dollar Crisis* while I was at the New York Fed. And that was a book that was anathema in the precincts of the Fed. But I thought that was really hiding our heads in the sand; that Triffin was on to something, and the only question was when, not whether.

Robert L. Hetzel: Well, by the mid-‘60s, with all the discussion of SDRs, he was vindicated certainly.

Bruce K. MacLaury: Absolutely. Absolutely. But that was a no-no. I remember I was explicitly discouraged from pursuing that particular line of inquiry at the New York Fed.

Robert L. Hetzel: Did you have contact with Paul Volcker at that point?

Bruce K. MacLaury: Not—no. I really didn’t. He had preceded me, I think, at the New York Fed. And then I went to work for him at the Treasury Department thereafter, that’s where I really came in close contact with him for that two years I was there—’69 to ’71.

[00:10:04]

Robert L. Hetzel: So ’69 was the first time you really got to know Paul Volcker?

Bruce K. MacLaury: Got to know him, yes.

Robert L. Hetzel: So who recommended you to Volcker? This jumps ahead, but would that have been Roosa?

Bruce K. MacLaury: I think it—I think so.

Robert L. Hetzel: Do you remember when you went to the Fed, the concern about the dollar losses, the gold losses—

Bruce K. MacLaury: Oh, yes.

Robert L. Hetzel: That must have been an exciting time to be there.

Bruce K. MacLaury: Well, yes. And what was really interesting was being transferred from the Research Department to the Foreign Operations Department under Charlie Coombs, who himself had been in the research function theretofore, but then was transferred over as the vice president in charge of the Foreign Operation's Department, as it was called. And he was very much a gold peg person. And our function and role—his role—was very effectively, I thought, at the time—was building up these so-called swap arrangements with the foreign central banks as currency defenders.

Robert L. Hetzel: The swap arrangements came in '61, '62 didn't they? They came a little later than the '58...?

Bruce K. MacLaury: Yes. I think—yes, that is correct.

Robert L. Hetzel: So I'm interested in your recollections about Coombs. He had a view that the central banks of the world had to defeat speculators. He was the, sort of, quintessential keep-the-secrets person who could interface with other central banks. And, you know, knew everybody and—

Bruce K. MacLaury: Yes. And he—I'd say that he was a consummate operation's guy. That is to say that he didn't have a lot of smarts, but he was a tough cookie. And he had very strong views. And I know that he felt—he, Coombs felt—that Volcker was just playing with fire and letting the Treasury, more broadly, in going—and again, the time period here is when I was down at Treasury, '69 to '71—he thought the country was going to hell in a hand basket because the Treasury was not doing all that it could to defend the dollar. And so there were strong—there were strong rivalries between the New York Fed and the Board of Governors, which is not new, it goes back—it's part of the history of the culture of the Fed, going way back.

Robert L. Hetzel: [Chuckles] Yes.

Bruce K. MacLaury: Back to Ben Strong's days and Allan Sproul and all the rest.

Robert L. Hetzel: Absolutely.

Bruce K. MacLaury: But that certainly continued in the '60s. And Charlie Coombs as—I think he was called Special Manager of the Open Market Account, to mean the foreign operations, the foreign exchange transactions—as opposed to Alan Holmes as the Manager of the Open Market Account. And let's see, Bob Rouse before him. And—I'm jumping around here; I hope you can make some sense out of this—

Robert L. Hetzel: No, it's very interesting. I'm comparing the period '59, '60 with '69, '70 and they were both periods of dollar crisis. And yet there's a different response. In the earlier period, the Eisenhower administration and the Fed were willing to raise interest rates. But it was interesting what you just said to me, that Charlie Coombs was concerned that the Treasury wasn't doing enough. Why wasn't he concerned that the Fed wasn't doing enough? That the Fed wasn't—of course, in '69 it was.

Bruce K. MacLaury: Yes. Right.

Robert L. Hetzel: But in '70, it began to lower interest rates. Did he have the view that the ultimate defense of the dollar was discount rate policy, or did he kind of see it in an operation such that it applied to speculators?

Bruce K. MacLaury: I think I may—again, you're going to have to sift through—

Robert L. Hetzel: Sure.

Bruce K. MacLaury: -- these accounts, but my—one of my recollections is that Charlie Coombs felt strongly that the problem was not the dollar, the problem was the mark. And that—and appreciation of the mark was the way to take care of this problem, not a devaluation against gold, the dollar to all other currencies. And so that—when—that was his strong view—let those who are in surplus take their medicine. [Chuckles] He wouldn't have described it that way, I'm sure, but that's how I describe it. Rather than push us off a peg, which would destabilize the entire world currency system.

[00:15:03]

Robert L. Hetzel: Or produce a domestic deflation which was the alternative—

Bruce K. MacLaury: Hm-mm. [Affirmative] Yup.

Robert L. Hetzel: That was the Triffin dilemma—if you weren't going to let the price level fall to increase the real value of reserves, then you had to come up with other reserves.

Bruce K. MacLaury: Right. Exactly.

Robert L. Hetzel: And as you got central banks to use more and more dollars as the reserves, our position became more precarious.

Bruce K. MacLaury: Right.

Robert L. Hetzel: So I'm interested in your experiences at the New York Fed. Did you get an impression of Al Hayes? How effective he was as a policy maker?

Bruce K. MacLaury: I think he was principled, but he was not powerful...is kind of my take. I liked the man personally very much. And I think we got—he and I—I would consider him a friend as well as my boss—big boss, way up the line. We were—became colleagues when he was still at the New York Fed and I then went out to the Minneapolis Fed.

As president we were colleagues, whereas before he had been on the 10th floor at the bank and I don't remember where in the basement I was. [Chuckles] But it was a very different relationship obviously.

One thing that sticks in my mind—and I—it bears on your question—I think this jumps ahead to '72, and I remember that—I think that's the right year—when I dissented as a member of the Open Market Committee from the decision I thought that interest rates at that point should be raised to deal with the inflation. And Arthur Burns felt strongly the other way. And the way the Open Market Committee discussion went—it started with—in those days—with Burns and went around the table. And I think Hayes was one of the first, if not the first, to speak, given the seating arrangements. And I came in—chimed in—probably three or four others, just by the seating arrangements at the table. And I'll never forget that after—when I—he had voted in favor of keeping rates where they were, as Burns had wished. I dissented, and felt that they needed to be raised. But he told me afterwards that had he known that I was going to dissent, he would have himself felt that there was a case for raising rates, and dissented. And I thought that didn't speak well for his stature.

Robert L. Hetzel: Well, did—obviously this was before my time, but I've read the minutes and two things come out. One is that Hayes goes to FOMC meetings with beautifully crafted statements, reads them, and then doesn't take part in the debate. And as you know as an FOMC member, it's the debate that—you know, where the decisions get made.

Bruce K. MacLaury: Right. That's right.

Robert L. Hetzel: And the other thing is he can make very strong statements about the dollar, and then he would recommend and eighth of a percentage point increase in the fund's rate. So you wonder, well—he's like he's...[chuckles] It seems like—

Bruce K. MacLaury: Well, as I say, I think you're reading things correctly in that respect. I—even after the fact, I hate to say not good things about somebody, but it was not the kind of strength that the New York Fed subsequently under Jerry Corrigan and Volcker had. It did not have that kind of clout under Hayes, in my view.

Robert L. Hetzel: And the New York Fed was the defender of the Bretton Woods system. I mean, certainly everybody was committed to it in the '60s. But in terms of some special charge, it was the New York Fed rather than the Board that was committed to the Bretton Woods System. And especially later when you got the democratic appointees Mitchell, Brimmer, Maisel—

Bruce K. MacLaury: Right.

Robert L. Hetzel: They were much less committed than the earlier individuals.

Bruce K. MacLaury: Right. Yes.

Robert L. Hetzel: So in the—can you tell me just a little bit more about your—sort of, how you spent your days at the New York Fed? You were there during the entire decade of the '60s?

[00:19:50]

Bruce K. MacLaury: Yeah, until '69. I had gone to Paris for a year. Again, Roosa had arranged that when he was Under Secretary for Monetary Affairs. The United States had just joined OEEC when it transformed itself into OECD—do those names mean things to you?

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

Bruce K. MacLaury: Okay. All right. More often that soup sometimes doesn't mean things to me, so—[laughter]. In any case, he had arranged that I be assigned to OECD for a year in the early '60s. I think it was '60, '61—something like that. I can't—I lose track of it at the time. But—

Robert L. Hetzel: Well, '61 the Berlin—isn't it '61 the Berlin Wall goes up? And then there's the German Revaluation Crisis. Were you there at that time when Germany revalues? Only by 5% at that point, but—

Bruce K. MacLaury: Yes. I was in Foreign Operations. And I'm trying to remember now...I think it goes—I can't remember the months, but from '58 to '60 I was at the New York Fed. From '60 to '61 I was at OECD. And then went back and worked for Roosa briefly; this was just a four month period when he took over as Under Secretary of Monetary Affairs. And that would have been '61. And then went back to Foreign Operations and stayed there from '61 to '69.

Robert L. Hetzel: So did you spend your days at the trading desk or were you doing—involved in research and in reports and research?

Bruce K. MacLaury: Not so much research. I would not—I mean, there were operational kinds of research, but it was building—working as Coomb's deputy, so to speak, in trying to build up this network of credit arrangements around the world to bolster the dollar. And that—and so in that period, the Kennedy Assassination in October of '63 stands out because Coombs really did take charge and put orders into the market through the trading desk that—whether they were needed or not—they certainly did their job of providing a sense of stability and somebody in charge in the Foreign Exchange Market at a crucial time. So it was building up and using those arrangements to—in effect—defend the dollar. And more generally to give an earnest of the intention to stay with it for the gold price.

Robert L. Hetzel: You may not know this but at the Treasury, did Dillon rely primarily on Roosa or was Dillon—had enough foreign background that he could independently be a policy maker in his own right?

Bruce K. MacLaury: I would say the latter. In fact, Roosa was definitely his right-hand man in this area, but Charlie Walker was equally a right-hands man in the politics and taxes and so on. So—and Dillon, I think he is not as forceful a speaker, but he knows [chuckles] a heck of a lot, knew a heck of a lot, and knows a lot. And knew what he wanted to do. So I would say it was definitely a partnership. Not somebody out of—as the secretary—as a figure head relying on Roosa as the man who knows everything. Now Roosa was very much the innovator. He was kind of the—the Roosa bonds and various other things. And he was hand in hand at that time in building up the swap network with Coombs. The two of them were very much partners at that period of time.

Robert L. Hetzel: Roosa—do you think he was the primary mover behind Operation Twist?

Bruce K. MacLaury: I think so, yes. That's my understanding.

Robert L. Hetzel: I mean, I would think so at the—you would think given his background as the New York Fed and the—

Bruce K. MacLaury: Right.

Robert L. Hetzel: And the New York Fed's views on bills only that this would have been something that would have been a natural for him, and one of the outer defenses he was building around the dollar.

Bruce K. MacLaury: Yup.

Robert L. Hetzel: And, you know—

Bruce K. MacLaury: And he was very heavily into the Interest Equalization Tax as well.

Robert L. Hetzel: Did you get involved in capital—they didn't call them at this point capital controls—

Bruce K. MacLaury: Capital controls?

Robert L. Hetzel: But the voluntary credit—

Bruce K. MacLaury: No. Not really. I was not personally involved in that at all.

[00:25:00]

Bruce K. MacLaury: That truly was a Treasury operation and the board.

Robert L. Hetzel: Volcker in his autobiography says he was heavily involved in the Interest Equalization Tax too, and it turned out to be—

Bruce K. MacLaury: That could well be.

Robert L. Hetzel: Something of a beaurocratic [chuckles] nightmare as they got into the details of it.

Bruce K. MacLaury: Yup.

Robert L. Hetzel: In the first half of the '60s, it appeared that U.S. balance of payments problems was structural—something that would take care of itself on its own. We were running a trade—a current account surplus. The problem was investment in Europe and the feeling was probably right that when Europe developed its own capital markets, the problem would take care of itself. But in the last half of the '60s with the war and inflation in the U.S., the character of the problem changed. The dollar became overvalued.

Bruce K. MacLaury: Absolutely. Yup.

Robert L. Hetzel: And we sort of had a period of lucky breaks in the sense that France had its student riots and—

Bruce K. MacLaury: Yup.

Robert L. Hetzel: In May of '68. And '69, of course, we pushed rates up because of the recession. But already then, we were sort of stumbling through. Did you have any sense in March of 1968 when we finally closed—stopped selling gold on the London Gold Market—that March of '68 could have been August of '71? That events could have forced a closing of the gold window at that point?

Bruce K. MacLaury: I do not have that recollection. That may be just my distance from ground zero. But that did not—I was aware—it's a very foggy memory I must say, Bob, of ending gold sales on the London Market. So I can't help you out on that question.

Robert L. Hetzel: Before I go on to your Treasury experiences, is there anything else about this period in terms of people you came in contact with? Alan Holmes or...? Was Sam Cross at the New York Fed at that point?

Bruce K. MacLaury: No. He came, I think, after I left. So we knew each other well, but he was at Treasury when I knew him.

No, Alan—I mean, just to say —Alan Holmes was a—just one of the finest people one would ever met, as well as [00:27:56 unintelligible]. And I don't know how to say it any other way than that. Coombs was cold and frosty. I mean, he was very good. He was a much cooler character. Alan Holmes was a much warmer individual, for what that's worth.

Robert L. Hetzel: Coombs had a connection with Kennedy; they were roommates at Harvard—somebody told me that.

Bruce K. MacLaury: Well, you're—that I would never have known. I did not know that.

Robert L. Hetzel: I think Joe Bar—somebody like that—told me that.

Bruce K. MacLaury: Hm, interesting.

Robert L. Hetzel: And you did go to some FOMC meetings in the late '60s?

Bruce K. MacLaury: Oh, yes.

Robert L. Hetzel: That's what I thought.

Bruce K. MacLaury: A lot of the—Coombs was at the table as Special Manager. And I was in the back row, like [chuckles] many people are, as his deputy. And so I attended. I couldn't —I can't now remember, but it was a regular attendance at Open Market Meetings throughout much of the '60s as his deputy.

Robert L. Hetzel: Did you go with Coombs to Basel, to the monthly meetings?

Bruce K. MacLaury: Well, he went monthly, I went maybe—I'm trying to remember—once every three or so months. Yes.

Robert L. Hetzel: Did you feel like those were—meetings were productive? That central banks needed to know what each other was doing and traded information and was always useful?

Bruce K. MacLaury: In those days, I think it was—I don't know whether to say essential—but it definitely was productive, people - it certainly showed me the advantage of being able to ring—in my early business years, being able to ring somebody up and get them to answer the phone and in fact talk turkey with them was invaluable. And that was just cemented in Basel. People looking at it from the outside, I think might get the impression that it's like diplomats kind of pushing cookies around. But that—it made a strong personal base.

[00:30:02]

Bruce K. MacLaury: John—Johann Tumbler —John Tumbler—he had the Bundesbank for example, was a close friend I would say. And collaborator and colleague. Not to the—not in any sense to the disadvantage of his—Tumbler's main responsibilities of the Bundesbank. But there were opportunities to talk turkey. And the same thing was true with Bank of Japan and the other central banks—that Coombs really cultivated that network. Not just in setting up arrangements, but in being able to talk and talk candidly and forcefully with counterparts.

Robert L. Hetzel: At these meetings were the French our main critics? Or as the '60s went on, especially after '68, did other countries join in? Were these meetings sometimes—?

Bruce K. MacLaury: No. We got lectures. We got lectures. But I remember back [chuckles]—the year that I was at OECD, sitting in the back row when Roosa would come over for the Working Party 3 Meetings. We would get lectures there too, from the various Treasury officials. But after '68, probably the more so—I mean, the—there was just no denying that we were trying to fight a war without paying the taxes to support it. And that was pointed out to us time and again.

Robert L. Hetzel: Yeah. Yeah.

Bruce K. MacLaury: Not just the French.

Robert L. Hetzel: Yeah, sure. Well, you know—

Bruce K. MacLaury: The French took the bull by the horns in terms of cashing in their chips—dollars—for gold.

Robert L. Hetzel: Yeah.

Bruce K. MacLaury: That was—nobody else had the temerity to do that. de Gaulle did.

Robert L. Hetzel: [Chuckles] So you went to Treasury in, I guess, January '69.

Bruce K. MacLaury: Hm-mm. [Affirmative]

Robert L. Hetzel: And you began to work with Volcker right away?

Bruce K. MacLaury: Correct. That—I went—I signed on...he hired me at Roosa's suggestion, as far as I know; I don't know all the background. And I immediately became his deputy—his Deputy Under Secretary. But there was also—then there were other parts of the Treasury, like John Petty, who was Assistant Secretary for International Affairs—I think was the title. So there was a whole—another ring. We were monetary affairs, and that was the debt and the Foreign Exchange Operations. But there were other operations in which the Assistant Secretary for International Affairs would be the key guy.

Robert L. Hetzel: And William Dale was IMF...?

Bruce K. MacLaury: Yes. Right. He was the Executive Director, and closely worked with Paul.

Robert L. Hetzel: Among the economists—John Auten —were there others...?

Bruce K. MacLaury: Yes. Gosh...Ed Snyder as debt management. And Frank...boy this gets to be ancient history.

Robert L. Hetzel: Well...

Bruce K. MacLaury: I'm afraid I can't do you much help on those. But there were number of key advisors on whom Volcker relied. They were Treasury civil servants. And they were good.

Robert L. Hetzel: So Kennedy—Treasury Secretary—you know, everybody liked him as a man of integrity, but he didn't have the background that Douglas Dillon had in international relations. So he must have relied primarily on Volcker when it came to international issues, I would think?

Bruce K. MacLaury: I think it was—I don't know. You know, Kennedy came as having been chairman of Continental Illinois, which was even then an international bank. So I would not put him in the category of not being familiar with international operations. I think it's much more a case of personality. That Secretary Kennedy was a delightful person—a lovable person—but he was a fish out of water in Washington. He just did not have the force and the savvy, and the political—the politics—of the game. So the Treasury did not have its strong voice that it then got back when John Connelly came in as his successor.

Robert L. Hetzel: Well you had a little bit of overlap with Connelly, didn't you? A few months?

Bruce K. MacLaury: Yes, definitely so. That was like night and day. And kind of everybody's spine stiffened up when Connelly—partly because he made it stiffen up. But Kennedy relied on Volcker. In my judgement not because Kennedy didn't know, but because Volcker was a very strong operations guy in the legacy of the—I shouldn't even say legacy of Coombs—but in parallel with a Coombs.

[00:35:01]

Bruce K. MacLaury: And an innovator. And he played cards very close to his vest—Volcker did.

Robert L. Hetzel: Let me ask you about Volcker. Did you feel close to him philosophically or did you feel like he was more committed to the Bretton Woods System than you were?

Bruce K. MacLaury: I did not feel philosophically at odds with Volcker at all. No, I think—but to speak of being close to him...I think he was a very difficult person to be close to. He's doesn't—he's not—was not, at least in my experience, a—somebody who shared—what he was thinking. He would always find out what you were thinking, as he should. I mean, this is a very effective strategy, I think. I'm not condemning it in the least. On the contrary I'm admiring it—but it was played in a way that I did not feel personally close.

Robert L. Hetzel: Yeah, I've—other people have told me that. I said, "Well, what do you think Volcker thought about this personally?" And they said, "Well—" you know, "I don't know because he came to meetings, he was very effective, he represented the Treasury point of view, but there was never any sense that he was..."

Bruce K. MacLaury: Open.

Robert L. Hetzel: Yeah.

Bruce K. MacLaury: He was not an open person. And I think that that was very effective.

Robert L. Hetzel: So what kinds of day-to-day responsibilities did you have? Let's see, if you came in '69...you were there three years in the—?

Bruce K. MacLaury: Two. Two, really. Sixty-nine to '71. Maybe it was—maybe it was two and a half. I guess two and a half.

Robert L. Hetzel: So in '70, then—oh, I see. Sixty-nine, 70, and then—

Bruce K. MacLaury: I left, I think, mid-'71.

Robert L. Hetzel: Hm. Well, what kinds of day-to-day responsibilities did you have as Assistant Under Secretary? I guess every—?

Bruce K. MacLaury: Oh, as Deputy Under Secretary—

Robert L. Hetzel: Sorry, Deputy.

Bruce K. MacLaury: Was the title at the time. And it was in the two key areas that the Under Secretary had responsibility. It was working with Ed Snyder and Frank Cavanaugh [00:37:37 phonetic] and...now I can't remember who else—on debt policy issues. Refinancings and refinancings of the public debt. Working with John Carlock who was the fiscal Assistant Secretary, I think his title was. And then working with Volcker on these—as—there was the working group, the Volcker Working Group. I can't—I was...was and was not part of it. There was a—he had various people working on all kinds of questions about the dollar, what to do going off gold...and it was a very...George Willis is somebody who was a consulate functionary. A great—very interesting guy. But he worked very closely with Volcker on international financial matters.

So I was—personally I was working with—and giving—and representing Volcker when Volcker couldn't be everywhere, I was his alter ego in these discussions with the Treasury civil servants in both Debt Management Operations and in Foreign Exchange Operations. And working with—keeping in touch with the Fed in New York. Not so much the Board of Governors.

Robert L. Hetzel: Yeah. Would you say it that it was at the end of 1970 that Volcker became concerned that the exchange rate—that this dollar really was overvalued and the existing pattern of exchange rates was not defensible? That we needed...?

Bruce K. MacLaury: Yeah.

Robert L. Hetzel: And so—

Bruce K. MacLaury: I wish I could—I really can't tell you the time period. I was—had thought that it went back further than that; that it was earlier than the end of '70. But I really can't tell you that. I think the question—the interesting question would be that to look to get any kinds of records that may be available on the so-called Volcker group.

[00:40:02]

Bruce K. MacLaury: I've not—to my shame—I have not read Paul's autobiography. But whenever that Volcker Working Group got under way, that was the beginning of planning for the end, so to speak.

Robert L. Hetzel: Well it had to have been sometime late in the '70s because the Feds started in 1970 with interest rates very high. That's when Burns came in.

Bruce K. MacLaury: Yeah.

Robert L. Hetzel: And then he began to work them down and gradually had worked them down to low-levels by fall.

Bruce K. MacLaury: Right.

Robert L. Hetzel: And so as interest rates went down, those short-term capital inflows reversed. And that's when the underlying problem became—

Bruce K. MacLaury: Yup. Apparent.

Robert L. Hetzel: Apparent. It must have been quite a change of outlook and quite a shock to think about dollar devaluation closing the gold window. It must have been difficult for the people involved. Hard to imagine now, but at the time it must have been extraordinary to—

Bruce K. MacLaury: Well, yes. That I am—that is—there's no doubt of that. I think it was not...I don't know whether one felt that the system would come apart. It was partly a matter of the system coming apart that one worried about. It was also U.S. prestige. And that we were in the midst of a war still. And the United States would suffer a humiliation. And they were seen as such. It really was seen as a matter of character—national character. Maybe wrongly, but that's how it was—at least how I sensed it was seen.

Robert L. Hetzel: Well we had asked our allies—Germany and Japan—to hold dollars instead of gold, and we had assured them—we had promised them that we were not going to devalue. And they had accommodated us—

Bruce K. MacLaury: Absolutely.

Robert L. Hetzel: Britain to some extent too. So I think that there were grounds for doing that. And the system rested on trust. So I can understand, you know, why people felt that way. Now it seems like if you think about all the—the European monetary system where you had periodic devaluations against the mark—

Bruce K. MacLaury: Right.

Robert L. Hetzel: Seems you could have done—you know, Japan could have revalued and so on. But I think that the system—it wouldn't—the whole system—as soon as you started talking about that—

Bruce K. MacLaury: Where does it end?

Robert L. Hetzel: Gold would have been out of the window in a minute; the thing would have broken down.

Bruce K. MacLaury: Yes. Right.

Robert L. Hetzel: So it's very hard to think about how to change...The dollar of course ran into trouble in spring of 1971 and Germany floated the mark. Do you remember any feeling at the time the Feds should have been more attentive to what the dollar was doing? And less attentive to, you know, its domestic concerns? I mean, to my—

Bruce K. MacLaury: Yeah.

Robert L. Hetzel: Recollection, the Fed never made a move that could be identified with the dollar. Why do you think that was? Politically unacceptable on all sides or...?

Bruce K. MacLaury: I think that...I'm with you in your interpretation. I cannot remember a time at the Open Market Committee—either when I was attending as a junior staff guy, or when I was attending as president in the '70s—when foreign considerations dictated at policy move at the expense of what we thought was required on the domestic side. At least during that era. And then the question of why. I think the why is that we still saw ourselves—and may still see ourselves—as the center of the universe. And that the help of the U.S. economy—not just politics—but the help of the U.S. economy was, in some sense, the engine for the world even back then. But perhaps less so; less interdependence. But that at least would be a rationalization for what—for the relative neglect of foreign considerations. But the fact, I think, is very hard to argue with.

[00:44:57]

Robert L. Hetzel: Well it was a readily open U.S. market and export growth to the United States. The powered European and Japanese recovery—

Bruce K. MacLaury: Right.

Robert L. Hetzel: And then, you know, the growth of the Asian Tigers. So there was definitely something to that. A slightly different note, did you see it change when Connelly replaced Kennedy in the beginning of ’71 in the Treasury? Did you have any contact with Connelly that kind of—

Bruce K. MacLaury: Well I definitely had contact with Connelly. And it—but I don’t think I can shed any light on how Connelly versus Kennedy saw the issues. I think the times were—as you have indicated—the times were changing. I think that Connelly has—as I’ve indicated—was just a much—I don’t have to indicate it, he was a consummate politician and a hard-bitten guy. And he was going to do what was good for the United States as he best saw it. And to hell with the consequences. Now Kennedy, I don’t know whether he would have had that—he just wasn’t that kind of a personality.

Robert L. Hetzel: Well, Connelly put together the Camp David, August 15th package—

Bruce K. MacLaury: Right.

Robert L. Hetzel: The combination of wage controls for the businessman and then you had to do something for labor. And labor got protection; it got the surcharge and the devaluation that was packaged as creating jobs.

Bruce K. MacLaury: Right.

Robert L. Hetzel: So at that point, Connelly was in the driver’s seat. Although later in the fall, the difficulties with our allies apparently brought Kissinger into the game. So you ended up with—well, Shultz had lost the battle for voting exchange rates, so apparently he sided with Connelly and Volcker over the need for a large depreciation. And then the other side was Burns and Kissinger who wanted to get back to fixed exchange rates and, you know, get on with it. And were willing to make more concessions. Does that sound right to you?

Bruce K. MacLaury: It sounds right, but I have to tell you that having migrated from the Treasury in mid-’71 to Minneapolis, my take on what was going—

00:47:30

[END OF TAPE 3, SIDE A]

[BEGINNING OF TAPE 3, SIDE B]

Bruce K. MacLaury: ...The Camp David discussions and so forth. So I can't really add to what you know. I think beyond—from this perspective beyond mid-'71. I was held on—Connelly, in effect, tied my leg to the desk until we—the Treasury managed to get through, the loan, through Congress. That became a big issue in my final days—months—at Treasury.

Robert L. Hetzel: To get what through Congress?

Bruce K. MacLaury: The guarantee of the loan to Penn Central and to Lockheed. And those became big issues for the Treasury Department and in the monetary area and the precedents that were being set.

Robert L. Hetzel: Well, Penn Central was what—June 1970? But Lockheed was May of '71, I think.

Bruce K. MacLaury: That's right. Right.

Robert L. Hetzel: Burns testified in favor of the Lockheed bailout.

Bruce K. MacLaury: Right. Yup.

Robert L. Hetzel: I assume he did that just because he thought it was a good thing. He was always concerned about fragility and confidence in the financial markets and just didn't want any problems.

Bruce K. MacLaury: Oh, a lot of commercial paper outstanding. That has been a recurring theme at very large corporations that are going—like a Lockheed or a Penn Central—that have huge amounts of—relatively huge amounts of—commercial paper outstanding. Could bounce back on the banking system pretty quickly in non-financial markets. So that was definitely a consideration. It was also jobs in the case of Lockheed.

Robert L. Hetzel: Yeah. And Lockheed was in California, and California was a big electoral state—

Bruce K. MacLaury: Yup. Yup.

Robert L. Hetzel: So it was not something that escaped the notice of the Nixon Administration.

Bruce K. MacLaury: Correct.

Robert L. Hetzel: [Chuckles] Well as I'm curious about the Minneapolis Fed—your relations with your directors. I came somewhat after that, but what I was told is that, you know, the directors as representatives of the business community, were very strongly in favor of wage controls. And, you know, they accepted the price controls because they got the wage controls. There was a lot of strong feelings about labor unions and their monopoly power and the feeling like government should do something. Does that sound right to you?

Bruce K. MacLaury: Well...I'm trying to think now back to...First of all, a general comment. The directors of the Minneapolis Fed—A, B, and C for that matter—were very much community leaders. And so I would say—though I can't speak with any authority for the 12 other—eleven regional banks—the Fed was a biggish fish in a smallish pond in the twin cities—in the region up there. And the directors took their responsibilities really very seriously. At the same time, I think they understood—and certainly I understood—that their role was as counselors, advisors to [00:50:47 unintelligible] to what was going on economically in the region. And political allies when the need came for—for example, with a Wright Patman or something of the sort—to do battle for the independence of the Fed. And they did.

This was all not responsive to your specific question about whether they—that particular set of directors in Minneapolis would have been more activists—or government activists. I don't have a strong impression one way or the other. It would be just the notion that given the Scandinavian heritage of the ninth district, [chuckles] one—that seems in sync with what they would be thinking.

Robert L. Hetzel: Well let me—

Bruce K. MacLaury: They were activists.

Robert L. Hetzel: Let me follow up on what you just said. Was your reference to the involvement of the directors—was that with respect to the GAO audit that Patman threatened and Burns had contacted the directors? And then the directors contacted their congressmen? I mean—

Bruce K. MacLaury: Yes. Yes. I mean, that was one of the—that was the most specific case. Yes. I remember that battle well. But I guess I'm getting a little confused with my New York Fed days where I also sat-in on some of the directors meetings, again in the back row.

[00:52:15]

Bruce K. MacLaury: And that would be when Patman was not just threatening to get the GAO in, but was talking about the expenses of the Feds and coming to look at the reserves of the Fed. He was just a constant critic of the Fed, and it carried over from the New York Fed to the Minneapolis Fed. But I think your citation of the GAO is right, chronologically.

Robert L. Hetzel: Yeah. Patman would make surprise visits to Richmond since we were close. And he would go to the auditing department, pull out orders, and we'd have to defend them. [Laughter] For example, we had to defend why we ordered the second to the least expensive BIC pen, rather than the least expensive BIC pen. [Laughter] And we had to defend why we had a subscription to *The Washington Post* and *The New York Times* in our library.

Bruce K. MacLaury: Incredible.

Robert L. Hetzel: Yeah. [Chuckles]

Bruce K. MacLaury: Well, in any case, the answer—we're kind of going back to the bank directors, directors of the Fed—they were very assiduous in their interviewing process. I remember when I came onboard out there. I was filling the shoes of a beloved local son, Hugh Galusha and a tragic end that he suffered in the—

Robert L. Hetzel: Yes. I know that.

Bruce K. MacLaury: So I definitely was seen as an East Coast-type. But they were very generous, I must say, in their support of even an East Coast-type. They went out on a limb.

Robert L. Hetzel: Do you think Bob Holland was the one who identified you as potential president initially or—?

Bruce K. MacLaury: That's an interesting question. And I can't remember now who...I guess I don't—it's not a matter of remembering—I don't know what inspired the look in my direction from the Minneapolis Fed. I don't know.

Robert L. Hetzel: So I'm interested in general—you started going to FOMC meetings in mid-1971. Do you feel like William McChesney Martin and Arthur Burns both controlled the committee? They both got what they wanted? Obviously they were—had extraordinarily different kind of ways—management techniques. But did they both get their own ways basically, but just very differently or...? How would you compare the two?

Bruce K. MacLaury: Very interesting question. I hadn't thought about that from that angle. I have focused [chuckles]—because it is so obvious on the difference in style and tactics...I would say that—my recollection of Martin—and I really, again, counted him as a friend—was that, yes, when he thought it made a real difference, he would—his style—I'm not...I'm getting at it indirectly here, but his style was to let the committee through its deliberations come to a "sensible conclusion." That's mine—not his phrase, but mine. Sensible conclusion with which he agreed.

If he felt strongly—and I can't remember the specific instances, which is what you should want to know but I can't remember—he would, on rare occasions—I can remember maybe twice during my many years in the '60s—state what he thought the committee's conclusion should be at the beginning of the go-around. Very rarely done. So I think that—and to come back to your question to whether he got what he wanted—when he thought it made a difference, he definitely got what he wanted. And we would—it would be a very strange person who would not rally around the chairman when he made it very clear as an unusual case that he was seeking their support. Which is the way he went about it.

Robert L. Hetzel: Well that wouldn't be recorded in the minutes. But what you do see when you read it is that if he didn't get the consensus he wanted, he could say, "Well, you know, there are lots of cross-currents here."

Bruce K. MacLaury: Right.

Robert L. Hetzel: And, "We're going to meet again in just three weeks, so I think we should—" you know, "put this off and then..." And so, well yeah, there's three weeks, you know, get a little more information. So if he didn't get the consensus he wanted he could, you know—he could—

Bruce K. MacLaury: Dismiss it.

Robert L. Hetzel: Get put off, yeah.

Bruce K. MacLaury: Yeah. I think you're right. I hadn't really focused on the question you asked—whether both of them, in their own ways, got what they wanted. And I think the answer is probably yes. I don't think either of them was frustrated by the committee. They didn't lose control of the committee I guess is the way to put it.

[00:57:29]

Robert L. Hetzel: When I came to the Fed, you know what I heard about Martin was that, well you know, everybody—he was everybody's friend, everybody had a good word for him; they really liked him. But as I look at the period more, I think he really had a very strong character and personality.

Bruce K. MacLaury: Oh, he was tough.

Robert L. Hetzel: He was a real leader, even though he never came across as someone who dictated—

Bruce K. MacLaury: Absolutely. I think you're right, Bob. And I think coming from where he came, his—it—one—it—you don't push through the Accord with the Treasury and the Fed back in—when he came after the Second World War to Assistant Secretary of the Treasury—without having a very strong personality. I think Bill Martin had a very strong personality masked—masked is not even right, but wrapped—softened by the personable style that he engaged in.

Robert L. Hetzel: So going back to the period after August 1971. Did you feel at all that the price controls were a constraint? I mean, initially they were in the odd sense that the FOMC didn't want to lower rates right away; it didn't want to be perceived as pursuing an expansionary monetary policy along with—

Bruce K. MacLaury: Right.

Robert L. Hetzel: And then actually money growth fell in the fall. And it appeared very briefly that the economy was stalling out. And there was lots of consternation. And then of course the FOMC moved rates down quite significantly. But did you feel like—ultimately that in order to understand this period in Burns' behavior, you have to understand the wage and price controls?

Bruce K. MacLaury: I do. I mean, that was the basis for his and my disagreement—to put it that way—about the '72 incident. I can't remember when—what day or month it was—but it's really the only recorded dissent that I ever registered as a voting member. And I only voted, of course, once every three years. And it was that I felt the economic circumstances required an increase in rates. Inflation was still a real problem. And he felt, given the hot bed of politics in Washington, that for the Fed—and given his chairmanship at the...what was it, the..I can't remember...he was chairman of one of the price wage—

Robert L. Hetzel: Committee on Interest and Dividends.

Bruce K. MacLaury: Yeah. Interest and dividends, that's it. And that—for the Fed to raise rates would have pulled the rug out of any influence that he had with the other committees—and Washington in general—in holding prices down. Because in that context, interest rates were a price. And if the Fed asserted its independence to raise a price in the context of controls on prices, he would have been a non sequitur.

Robert L. Hetzel: Yeah, I think that's a good way to put it. He was very aggressive in trying to get the administration to set a low-wage guideline.

Bruce K. MacLaury: Yup.

Robert L. Hetzel: He thought that would lower labor costs. And if you had normal productivity growth, then you could keep corporate costs under control and that would keep inflation under control. And expectations would come down. And that's really where he centered his efforts. And I think he—there's no question but what he sincerely disliked inflation and he thought that he was the country's premier inflation fighter.

Bruce K. MacLaury: Yes. I think that's right. And so...I don't know where that leaves us, but I think the answer to your question is—his—the Fed did have some kind of shackles on it during that period of price and wage controls. I think.

Robert L. Hetzel: Would you use that explanation for the period July, August, September 1972? The Fed had procedures in place that the market understood, whereby it had a quarterly objective for M1 growth.

Bruce K. MacLaury: Right.

Robert L. Hetzel: And it also had shorter run targets. And as you got into July, it was very clear that M2 and M1 were going way over the top of the ranges.

Bruce K. MacLaury: Right.

Robert L. Hetzel: And initially—so the Feds said, "Well, okay, we've got a two month growth rate range, we'll set a high target for August and then—but we'll have a low one for—" I'm sorry. "A high target for July, a low one for August—"

[01:02:43]

Bruce K. MacLaury: Right.

Robert L. Hetzel: "It'll average out." But you got into August, it didn't average out.

Bruce K. MacLaury: Right.

Robert L. Hetzel: And the markets began to raise rates in anticipation of what the Fed would do. And so that was a time of a lot of...what should I say...vigorous debate within the FOMC. Do you remember that period?

Bruce K. MacLaury: I do. Yes. I think—yes, I definitely do. And all I can say is that I think the Fed was constrained. The Fed was constrained during that period of time. It did not do its functional performance—functional role—in the way that it should. And I described that to the political context of Washington in which it was operating. And specifically the price and wage controls.

Robert L. Hetzel: Were you a voting member that year? I don't remember—

Bruce K. MacLaury: Yes. I think that was the—that was the period when I decided that—I'm almost positive, I can't remember exactly—but that—it was in '71. I'm sorry—'72.

Robert L. Hetzel: Yeah. People have different recollections of this; I've not been quite able to pin it down. But the FOMC meeting that was later described in the *Fortune* magazine article by, I guess his name was Peter Rose—

Bruce K. MacLaury: Yeah.

Robert L. Hetzel: He didn't give a date for that. But the people I've talked to said that it must have been in this period. Do you have any recollection of which meeting that would have been? August or September of—

Bruce K. MacLaury: No. I'm afraid I can't help you on that score. I just don't know.

Robert L. Hetzel: Burns certainly never talked to the White House. My best guess is that if you read these minutes carefully, there are times where he says, "We have a national program. The President and Congress are in agreement."

Bruce K. MacLaury: That's right.

Robert L. Hetzel: And basically says, you know, who are we to thwart this national program? And then of course there are breaks and periods where he discusses how to ward the directive with the New York desk and so on. Then he comes back. So somebody on the side must have—I think—well, this is a—I think this is probably what happened, you know? Just interpreted that as, you know, Burns' message from the White House. And then so the rest of it sort of got put together in a non-related—

Bruce K. MacLaury: That—to my knowledge, I had never heard that allegation. And I would—I'm sure—I would never know if there had been any such. But Burns, I think, would have been kind of the last person on Earth to take orders from the White House.

Robert L. Hetzel: Well, sure. And your authority as chairman comes from your independence; so the last thing in the world any—

Bruce K. MacLaury: Right.

Robert L. Hetzel: Chairman is going to do is to suggest that somehow ultimate authority doesn't rest—

Bruce K. MacLaury: With you. Right.

Robert L. Hetzel: With you. But it is—

Bruce K. MacLaury: I agree with that entirely. I think that he was obviously affected by the context in which he was operating. But it was his interpretation; it was not suggestions, to my knowledge. Or certainly not orders from anybody else. He would not have taken orders.

Robert L. Hetzel: Yeah. Yeah. So then early '73 we go into Phase III. And things seem pretty good at the beginning of '73. And then inflation takes off, especially in commodities. The Fed becomes pretty concerned about money growth and—I don't know if you remember, but I have the feeling the Fed did a pretty good job from thereon. Until autumn of '74 when it became very, very restrictive. And it was trying to walk a middle line in this period.

Bruce K. MacLaury: How do you—how does the Fed—there are a couple of conundrums that are disparate, but I think they have some relation to each other. One—how does the Fed deal with supply-side shocks, which the oil shock was. That's one question. The one that it reminds me of, is how does the Fed deal with asset levels, as it has had to worry about in the '90s? And in neither of those instances is the Fed a very good or effective way of dealing with those phenomenon.

Robert L. Hetzel: Yeah. Burns apparently thought that the economics slow down after the oil price shock—was due to the oil.

[01:07:35]

Robert L. Hetzel: He would say the problem's not a lack—the problem is not a lack of money, it's a lack of oil.

Bruce K. MacLaury: Right. Right.

Robert L. Hetzel: And felt like there wasn't a lot that the Fed could do at that point, beyond some short-term...there was a reduction of rates after October '73, but as soon as it looked like the auto industry had recovered, then the Fed began raising rates again.

Bruce K. MacLaury: Right.

Robert L. Hetzel: And my recollection—my interpretation is that the Fed became—was trying to walk a middle ground then, but it became quite restrictive in the fall of '74. And here I'm—I guess I'm asking if you had any insights? My feeling was that Greenspan and the Counsel, and Burns as chairman, became very concerned about congressional efforts to increase the deficits—despite the recession. And they thought it would be in and of itself inflationary, either because the Fed would have to monetize it or it would scare the financial markets. And we hadn't had really big deficits up to that point. And they weren't willing to lower rates in that environment. Does that sound right to you?

Bruce K. MacLaury: It does. Yes. And I don't—I could not have told that story to you, Bob, I realize, but it sounds very much on.

Robert L. Hetzel: So you stayed until '77. Did you—when did you leave in '77?

Bruce K. MacLaury: Let's see...I think it was toward the end of the year. It would have—let me—no, I guess...I'm trying to remember now when I came to Brookings...I'm sorry, I can't recall, within the year, when it was in '77. I think it was toward the beginning of '77 that I came. Because I remember the call from Bob Roosa, who at that point was—among other things—chairman of the Board of Trustees of Brookings. I got a call on Thanksgiving Day and that must have been—I think—Thanksgiving Day in '76. And then I left the Minneapolis Fed in early '77.

Robert L. Hetzel: Well the Fed, I think, did very well from basically '73, '74, '75, '76, and early '77. So I assume you get some credit [laughter]. Or we'll put that on the tape at least.

Bruce K. MacLaury: That's great. Thank you. [Laughs]

Robert L. Hetzel: So you would have left at that point. Did you remain connected in the sense that you felt like after that—especially as you got into '78—that the Fed was taking its eye off the inflation ball and...Because—

Bruce K. MacLaury: I really did not—I was not focused on what the Fed as—I mean, sure, reader of the press.

Robert L. Hetzel: Okay, sure.

Bruce K. MacLaury: But, I really was not—I was more worried about funding at Brookings and getting the writings out the door.

Robert L. Hetzel: Did—I'm going to let you go before too long because I feel like I'm sort of abusing my welcome—but did you feel like—that this period of time that you sat on the FOMC from '71 to '77—that your views as a policy-maker evolved over this time? Your understanding of, you know, how a central bank operated and, you know...Did—?

Bruce K. MacLaury: Well, of course I'd been sitting in those precincts throughout much of the '60s. So it was not as though there was some new veil that was lifted from the eyes. I guess I would say a couple of things about the experience on the—as a voting and speaking member, sitting at the table, so to speak, as opposed to sitting in the background. One was that there were tactics for gaming the open market discussion. And one could use the econometric model that the Fed board was running, and then you would get—at Minneapolis we had rational expectations guys who were very skeptical of whether you could in fact game—through monetary policy—the economy.

[01:12:30]

Bruce K. MacLaury: And I was—so I had the benefit of that, kind of at my right hand at home in Minneapolis. And could use—did use, to put it bluntly—did use the model results from the board's model, to make an argument in the policies that—when I chose to do so. [Chuckles] That is to say I would pick and choose the battle results that I thought were worth emphasizing in the discussion and at the Open Market Meeting. And in that sense, I learned to do that kind of game, if you will.

And similarly I think you learn in the speeches—as you characterized Hayes as reading his notes—you learn to be effective around that huge table by adjusting the way you perform and the number of times that you choose—you choose your targets carefully because with that many people around the table, you don't want to—you don't have the opportunity to have more than a couple of bites of the apple. So you use them—you learn to use them. And in that sense, yes, I learned. I don't think it was so much revelation about what monetary policy—how it got created.

One other thing that occurs to me is that as the era of money supply focus and the Freidman-ites came more and more into view, Burns was consummate in fending that off, I thought, on the hill. By defining not just M1 through three, but up to 12 or 15. And so there was—he created a [chuckles] nine yards and a lot of smoke to disarm—and I will put it—I certainly felt that it should be disarmed, that monetary aggregates, from my point of view, were useful when they were useful, but not reliable. And though I hate to hark back to the Martin—leaning against the wind, but there was an awful lot of truth in it.

Robert L. Hetzel: Was that the—were you getting arguments on that score from your Minneapolis academics and consultants at that point? Or were...?

Bruce K. MacLaury: I think they were—the intellectual brain child of the University of Minnesota—and therefore the Fed—was rational expectations in which world monetary policy or the opportunity to adjust the economy is very, very limited. So, that was when I was catching. I didn't swallow it. I thought it was a very interesting line of inquiry to pursue, but as a basis for—we might as well have packed up our bags as the Fed if we believed it wholeheartedly. And I was not there. And I don't think it was just job security that kept me—

Robert L. Hetzel: Oh, sure. [Laughter]

Bruce K. MacLaury: Away from rational expectations.

Robert L. Hetzel: Can I ask you, sort of in parting, if there were any anecdotes you remember about the great people of this time—Volcker, Martin, or Burns—that were—sort of stick out in your mind that would be interesting for me to know about? None may come to mind immediately, so...

Bruce K. MacLaury: ...Well I remember Burns was not happy at the one dissent that I registered. And I remember being—crafting the language which described it as carefully as I could. Because what I really meant was that I did not like the fact that the FMOC was, in effect, taking marching orders from the chairman. I thought that that eviscerated those notions of a committee. And so I think the words still stick in my mind that I crafted it. It was to the effect that I did not have confidence in the procedures of the Open Market Committee in needing to—a right "result." So there was a very vague—nobody else who didn't know what I was trying to say would have caught that inference. But that's different from what you're asking. But to his credit—

Robert L. Hetzel: No, that's interesting.

Bruce K. MacLaury: I must say, it was not long after that dissent in '72 that Burns came out at my request to say a benediction at the opening of the new Federal Reserve building in Minneapolis in '73.

[01:17:35]

Bruce K. MacLaury: And he could not—he was very unhappy with me at the time, back in '72, but he could not have been more gracious in coming out and blessing the activities of the Fed in the 9th District in '73. That's one vignette.

Robert L. Hetzel: Yeah, that's interesting—

[END OF RECORDING]