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Interview of Sherman Maisel

Conducted by Robert L. Hetzel

April 16, 1996

Robert L. Hetzel: Did you grow up in California?

Sherman Maisel: No. No, I-I'm from Buffalo. And actually I went to Harvard, and my first job out of college was at the Board. I was at the Board and it was for, well I guess a year and a half or two years in the International Division.

Robert L. Hetzel: So when would that have been?

Sherman Maisel: I worked for the division. You know? It was just a small thing. That was '39 I spent--. All right. What happened was I had talked to a man during the spring of '39. But I was having another thing to do in Washington, so I wasn't in any hurry. Then when war broke out in Europe they decided they'd better get more people in the division to follow what was happening in Europe. And so they sent me a wire and we were supposed to come as soon as possible. And so I-I came in the middle of September of '39.

Robert L. Hetzel: So you had trained at Harvard?

Sherman Maisel: Right. As an undergraduate.

Robert L. Hetzel: So when you went to the Board, you, you had a BA Degree?

Sherman Maisel: Right.

Robert L. Hetzel: Had you studied economics at Harvard?

Sherman Maisel: Yes. I had.

Robert L. Hetzel: Did you have any of the names at Harvard? Hansen?

Sherman Maisel: I worked with Hansen and Williams. I'd taken them, their undergraduate and graduate courses. And Seymour Harris. So.

Robert L. Hetzel: So a very large fraction of the people who ended up in the system were trained by Harris and Williams and Hansen at Harvard, a very illustrious group of people. I suppose they inculcated an interesting policy. And of course it must have been an exciting time to be a student in economics. Did you read Keynes's *General Theory* at that time?

Sherman Maisel: Yes. As I say, in the, in Hansen's graduate course there were, the book had just come out by six young guys there at Harvard. And we read that. I didn't read the *General Theory* itself. But I forget what they called the six. I wrote it down. It must have been, it was the first sort of simplification of the *General Theory*.

Robert L. Hetzel: So who, who was running research in international at the Board at that time? The names—

Sherman Maisel: Walter Gardner was, was very small—Walter Gardner was there and Jan Morris [phonetic] was his Deputy. And the day I came in, Bill Salant and George Jaszi left. That was why they needed me right away. They were going back to, Bill went back to Harvard, and I think George did, too. And I shared an office with Andy Kamarck. And that was the four of us were the only four economists in, in the International Division at that point. And then very soon Burke Knapp came in, and then Charlie Kindleberger came in. But as I say, that for, oh, the first four or five months they were, there were just four people in the international part.

Robert L. Hetzel: Did you have any contact with the economists who were so important by the '50s? Riefler and Thomas, Ralph Young?

Sherman Maisel: Not really. I knew Goldenweiser, who was head of the division. I had some contact with him. And with Emile Depres and somebody else who went over to the White House with Currie. And I can't think of—

Robert L. Hetzel: Lauchlin Currie?

Sherman Maisel: Yeah.

Robert L. Hetzel: Oh, so you knew him?

Sherman Maisel: Big, no. But I-I, I mean, he was working with Emile Despres. I mean that was the early work on GNP and things like that.

Robert L. Hetzel: Did you have any contact with Treasury at that point?

Sherman Maisel: Well, Andy Kamarck left the Board to go over as a special assistant to Morgenthau. And so I saw him and a few other people. I'd see him occasionally, if I remember.

Robert L. Hetzel: So even by that time much of the technical expertise in Washington resided at the Board of Governors.

Sherman Maisel: Right. On, on -- business cycle stuff. But not so much the monetary. It was the, it was much stronger in terms of other things. Then just as I was leaving to go to the Army, the international division sprouted with all sorts of people. I think Triffin and people like that came. But that was after I—when I was there, as I say -- Gardner, Morris, Knapp and Kindleberger were the only ones.

Robert L. Hetzel: So later on did you maintain contact with— I know you had a very active interest in the international in the '60s. So did you make contact with Triffin and Kindleberger or with Gardner?

Sherman Maisel: Well, as I was finishing my Army career, since it looked like I was going to be stuck for a long time, I went back to Washington to see what was happening. And Kindleberger was forming the German-Austrian division in the State Department, and to handle the operations. So I went to work for him. But I-I was in Washington for two or three months waiting to get out of the Army and backing up the reparations conference. And he, John Williams and the guy who was later—he probably went to Texas.

Robert L. Hetzel: Rostow?

Sherman Maisel: Yeah. Rostow. Well, Rostow was Kindleberger's assistant at that point. And as I say, I worked with Kindleberger for about three, three months. And then I went to Brussels for a year on the, with the Negotiations on Reparations and also the so-called Gold Pie [phonetic]. And then I had planned it only for a year. Then I wanted to go back and get a degree.

Robert L. Hetzel: So you already had a practical knowledge of economics by the time you went back.

Sherman Maisel: Right. I had worked as an economist for about 2½ or 3 years. I was five years in the Army.

Robert L. Hetzel: Where were you in the Army?

Sherman Maisel: Well, I started out as an infantryman and eventually I was a Coordinates Officer. I ran a base in the Air Force.

Robert L. Hetzel: In Europe?

Sherman Maisel: Albuquerque. And I was attached to going overseas with the [unintelligible] after the war ended. There's a group over there.

Robert L. Hetzel: Where did you go back to school?

Sherman Maisel: Harvard.

Robert L. Hetzel: And you studied under the same group of individuals? Williams and Hansen? Anything—?

Sherman Maisel: Right. Yeah. I think I was the, I had Mason with our section and the two of us were in this section. And then for Hansen and Williams. And I wrote my dissertation under Mason and Hansen.

Robert L. Hetzel: How much Keynesian Economics did Williams teach in his courses as opposed to institutional retail about the international military situation?

Sherman Maisel: Well, I still remember how mad some people were because he was a, sort of an agnostic or a skeptic with respect to economics. And there were people who felt, graduate students who felt strongly that anybody who was that much of a skeptic oughtn't to be teaching a graduate course. If you were going to teach you ought to teach something and ought—

Robert L. Hetzel: You've got to really believe that.

Sherman Maisel: And not, not, not simply be a skeptic.

Robert L. Hetzel: So he was, I've associated him with Keynesian ideas, but he was skeptical of any received--?

Sherman Maisel: Background. We had to be cautious and so he was still, we knew he spent half the time in New York in the Center of the Research Division of the Bank, and half the time in Cambridge.

Robert L. Hetzel: He continued his relationship with the New York Fed for a long time, didn't he?

Sherman Maisel: Right. Yeah. I think until he retired.

Robert L. Hetzel: And so from Harvard you went to?

Sherman Maisel: I came up to Berkeley.

Robert L. Hetzel: So what year was that?

Sherman Maisel: I came to Berkeley in '48.

Robert L. Hetzel: And so you remained at Berkeley until you became a Governor?

[00:09:39]

Sherman Maisel: Yeah. But I, what happened was I was interested in construction and housing -- from the Board I was interested in the business cycles. And it seemed to me that construction was a part of the business cycle that had never been, didn't get its due that it was more important, but nobody was studying it. And so I, so Berkeley was setting up the program on real estate and urban economics in the Business School. And I came out -- the two of us started it really.

Robert L. Hetzel: You and?

Sherman Maisel: Fellow named Paul Wendt.

Robert L. Hetzel: Did you consult with the-- the S&L Industry was growing very rapidly in California in the '60s. So you didn't consult with them?

Sherman Maisel: Actually, I-I did a major study. Actually I don't have to be modest. It was the best thing that's ever done on the house building industry. I got the first big grant from HUD. I was their first research grant they gave, I think. It was a major study of the, of the house building industry. And still, I think, pertinent to what the industry is like. And, as part of that, I got to know the people in that industry fairly well. But also we had an advisory group, and it included the head of the Mortgage Bankers Association, the Head of the National Association of Realtors and so on. Because California was very active in all of those groups. So I did that. And I did some, I didn't do much consulting. I did one major project on the S&L just before I went to the Board.

Robert L. Hetzel: So when you went to the Board, you had no idea how important housing was going to be in '66. And that was just fortuitous that you would be here in the center of?

Sherman Maisel: No, it wasn't fortuitous. No, no.

Robert L. Hetzel: So you were chosen because of your interest?

Sherman Maisel: No. It was a more complicated thing than that at that point. So I-I, all the time I was at Berkeley, my field was housing and macroeconomics. And in somewhere around—I'm trying to think what the timing is… '61 or '62, right when computers were just coming in, Larry Klein and Jim Duesenberry got the idea that you can now build a major model of the economy. That was the so-called Brookings Model. There were about, I don't know, 25 or 30 of us. But I, in fact, had the construction part of that model. So—

Robert L. Hetzel: So that was already at Berkeley when you were doing that?

Sherman Maisel: I, yeah, I was doing that from Berkeley.

Robert L. Hetzel: And then the people at the Board later on who worked at that, like Duluth. Did you know any of those people at that time?

Sherman Maisel: Duluth was probably, the, the Board's representative of the group originally was Dan Brill. And Dan realized that neither he nor the Board knew enough about what was happening to get any kind of metrics to be able to offer much. So he hired Duluth to really represent the Board in the model. This is my memory. These things have to be checked very carefully. But the—

Robert L. Hetzel: Sure. I've actually talked with Duluth.

Sherman Maisel: That, that was—was he doing it?

Robert L. Hetzel: Yeah.

Sherman Maisel: Yeah. So he did the monetary section. As I say, I forget the guy from the Council, but the academics were appalled at how little the people from Washington knew at that time.

Robert L. Hetzel: Yeah. For a while Goldfeld was at the Council and I think maybe he worked on. Stephen Goldfeld.

Sherman Maisel: No.

Robert L. Hetzel: Duesenberry, of course, later was a member of the Council.

Sherman Maisel: Yeah. No, because as I say, you know, but Dan Brill realized that he, that the Board didn't have this -- they brought in Duluth. So I had been working on econometrics and model-building and stuff at Berkeley but as part of the Brookings Project. There was about a three-year project. We met every summer and then met a couple times during the year to criticize each other's work.

[00:14:37]

Robert L. Hetzel: Okay. I really want to jump into '66 because, but let's, I don't want to jump ahead. So, so tell us how you became a Governor?

Sherman Maisel: The, it was clear that the Home Loan Bank Board was in trouble. And somebody approached me and said, "Would you be willing to be on the Home Loan Bank Board?" And I was sort of dubious. I was going east. And I said, "Well, you have to go and talk to them in Washington." I was really rather dubious because they had a very weak place and it needed somebody. It needed a good economist. So I did. And they said, "Oh, you're just what we're looking for" and so on and so forth. And I was processed through the FBI and thought that I was going to be on a Home Loan Bank Board. And then it turned out that I was just ignorant of the whole thing. I knew nothing about politics. But basically the savings and loan industry didn't want a strong person on the Board. So I was vetoed politically.

Robert L. Hetzel: And the other Board members were afraid of an economist?

Sherman Maisel: Not only the Board members, but the industry. And they had veto power politically, basically. So that suddenly I found a very weak guy had been appointed to the Board, the Bank Board. And forgot about Washington for a couple of weeks. And then the White House called me actually. The Consul of Economic Advisors and said, "Would you be interested in being on the Federal Reserve Board?" I said, "Seriously? Well, who are you kidding? Just passed me over for the Home Loan Bank Board."

Robert L. Hetzel: So by this time it was Ackley? Or was it still Heller?

Sherman Maisel: It was Ackley. Yeah. And so he said, "No, we're serious." And he said, "Let's talk." We talked on the phone for about a half an hour or so. And then he said, "Well, we're going to call you back in about two hours." And he said, "Well, can you come to Washington?" And I said, "Yeah. I can go, I'm running a conference in England next week, but I can come in two days." He said, "No, take the red eye." So I went, went in and talked to the President for an hour or so. And he said, "Have you ever met Bill Martin?" I said, "No." He said, "Well, we're swearing in Fowler as Secretary of the Treasury at noon. Why don't -- why doesn't Martin come over and meet you here. He's going to be here anyway so you can talk." And I said, "Okay." So I talked for half an hour. And then we were going into the swearing-in. Martin said, "Well, we better not go in together because people will wonder who you are and stuff if we do." So I, he went in one door and I went in another. And I was just standing in the back and suddenly Johnson says, "I have an announcement to make." And he brought up a piece of paper and read my bio and said, "I'm sending his nomination to the Senate."

Robert L. Hetzel: Wow. What kinds of things did Johnson want to know about you?

Sherman Maisel: Mainly he was interested in how I had just beaten a recall election through the Berkeley School Board. So I, he, he was interested in the fact that I had been through a couple of political campaigns that level.

Robert L. Hetzel: That must have seemed funny to him, huh?

Sherman Maisel: I'm told—I don't know whether it's accurate or not. But people have told me that actually the night before that he had gone to bed with two or three files, with mine and a couple of others who were being considered for the Board. And had picked my name out of the three. And then just wanted to confirm.

Robert L. Hetzel: So presumably Martin had, had looked at the selection of files before. I mean Martin knew who you were?

Sherman Maisel: Yeah. He knew who I was. Or at least Martin told me at one time that he thought he could have vetoed anybody, you know, but he didn't feel it was his function. That if the person was qualified, he didn't feel it was his function to try to veto it. That he had raised historically. He could have stopped it in-house. But it was the same thing

I'm sure was true of Brimmer, that he didn't want Brimmer there. But he didn't feel it was his function to fight or qualify a person.

Robert L. Hetzel: Is it true that Martin had a preference for non-economists on the board, or at least a skepticism towards economists? Or did you not feel that? That was just a story that-- ?

Sherman Maisel: Well, he, I-I'd put it the other way. You asked about how Martin, what Martin's view was. And Martin's view very clearly was that what was important was the way the market was working. And that you got a feel for the market. You didn't have to know anything about it. But he, he was [unintelligible] -- But now when I went in, still as a result of Young, there was a rule against any forecasting at the Board. Young simply had a-- he'd fire anybody who made a forecast basically. So there was a strong holdout. I went to Martin and fixed it. You know? "These economics are, are terrible. We've got to do more." And sort of the Greenbook came out of that.

Robert L. Hetzel: The first Greenbook came out in November 1965.

Sherman Maisel: Yeah, but then it still had no forecast. The first forecast would have been some time during, in '66. Hardly as a result of, of-- there was a big fight during, you know, the first half of '65 where the discount rate had gone up, but the reserves were going up rapidly and the money supply was growing rapidly. And that brought in, as a matter of fact, the Proviso Clause came out of that.

Robert L. Hetzel: Well, a number of the staff members retired about that time. Riefler, of course, had already retired, and Thomas and then Young and then, but, but Brill was kind of the continuity between the older and younger generations?

Sherman Maisel: Right. Yeah. And before Brill, right after, let's see. Thomas I think was still there the first month or two… Let's see. I came in, I was sworn in, I think, May 1, '65. That's right. Yeah. So that's when-- the Greenbook came after that. There was a man in between them who left, who left after, a year or two become chief economist for Morgan bank.

Robert L. Hetzel: It'll come to me in a minute. I know who it is. And then there was a number of younger staff members who came in at that time. While they'd been there, but they moved up to positions. Axilrod and Partee and Gramley, Pierce later on.

Sherman Maisel: Yeah. But Powell and Partee were the two main ones. And, and the guy at the mortgage banker. All three of them became Governors. The fellow who—

Robert L. Hetzel: Gramley.

Sherman Maisel: Gramley. Yeah. Those, those three were, came up with Brill. Or Brill was above them, but then Powell in effect became co-equal. Maybe Partee did. I forget how, how, but those four would have been the ones who took under sort of the new regime.

Robert L. Hetzel: You felt that they were all competent, as economists? And so you felt that that, at that time the Board and the staff changed? There was a change from the old guard to a new guard and that it was, positive the change?

Sherman Maisel: Well, yeah. As I say, there was, the fact that the Greenbook then had forecasts and beyond that, you had the Bluebook, which supposedly showed how, what the effect of money would be. All, when I came to the board, there had been a so-called Directive Committee, which was a joint committee of Governors and Presidents of some of the banks. And I think Mitchell was Chairman. I know Swan from here and Frank Morris were members. There were probably a couple of other governors and things about. And theoretically that Directive Committee was to develop a theory of what the Board was supposed to do.

Robert L. Hetzel: Yeah, there was a credit proxy added to it.

Sherman Maisel: Well, they say the Proviso. But that was, so there, there was a, a recognition of a lack of theory. Well, again, because the Board was under lots of academic criticism from, starting with Friedman, but Gruner and Meltzer were the chief ones. And as a matter of fact, the system was reacting to that criticism.

Robert L. Hetzel: But even so, I mean, your, your goal as a governor was to bring some rationality to decision-making to have clearer objectives and a clear strategy for going from the policy variable to objectives. So you must have brought that with you?

Sherman Maisel: I was the first academic economist from, since Miller on the first Board. And I think Mitchell may have been the first economist.

Robert L. Hetzel: Yeah. I think Miller taught at Berkeley, too.

Sherman Maisel: Yeah, he did.

Robert L. Hetzel: In the early 1900s.

Sherman Maisel: But Mitchell was the first economist at that point. And then it came to being. But then I-I was the first academic, but [unintelligible].

[00:25:54]

Robert L. Hetzel: But perhaps this jumps ahead, but neither Martin nor Burns were at all interested in having analytical procedures where you worked back from an explicit objective? They were willing for you to work on the directive, but neither were sympathetic to the kind of systemization of procedures that you wanted to pursue then?

Sherman Maisel: I'm not sure. Sure, I've always admired Martin for this. One, Burns' appointment was announced, and there was going to be about a six-month interregnum where Burns was in the White House. And I think this is part of it, because it was about six-

months. I went to Martin and said, you know, "I realized the first year I was here we had lots of arguments and a lot of that, or at least part of it was that the Board has its own language and systems that you knew and I didn't know. And therefore it took a year or more for me to—

Robert L. Hetzel: Yeah. You talk about that in your book. Yeah.

Sherman Maisel: Really understand. And I forget, and, I didn't realize I had it. But then I suggested that I, that I be appointed sort of liaison with Burns, or at least a committee to explain to Burns what, what the things meant. And so that was, again, an outgrowth of -- I think maybe at that point I was already Chairman of the Directive Committee or something. So whether it was that committee or whether it was an ad hoc committee, I hoped I would remember this point. But I-I think as a result, when Burns came in, he knew a lot more. He, he was surprised at how, again, little he knew.

Robert L. Hetzel: That's right. I mean he had never studied financial markets. In a way you studied real markets. So in terms of the housing market, for example. Or becoming—

Sherman Maisel: Yeah. He also just didn't quite -- He, he thought he knew what the Board did, but I don't, but it turned out I think he didn't. And the other surprising thing—and again, I don't remember whether it was in the book or not—was that Martin was willing to take the responsibility, in effect, of acting in his last meeting to take some of the pressure off Burns. But when Burns came in, we had a directive drafted in terms of reserves and so on.

Robert L. Hetzel: Well, okay. Why don't we jump back to—and then work forward—from fall 1965. So obviously we need to start with the discount rate increase. Martin had been telling Johnson since September of '65 that he thought interest rates needed to go up. But their, Johnson had his gallbladder operation and there was a lack of communication. And, in fact, later on, by November, Martin had already started moving interest rates up. The funds rate had started moving up, at least if you look at the series. The discount rate hadn't moved, but the funds rate was inching up.

Sherman Maisel: Right. But the critical thing was, was there was a basic argument. It was clear in the Board that it was three to three with Dewey in the middle. It wasn't clear how he was going to jump. And in the, both the Treasury and the Council felt very strongly that there had to be a [unintelligible] inflationary policy. But they thought two things: one that they could convince Johnson to go for a tax increase. And they very much preferred that because they were, still had a wage-price policy. And they were afraid that if the interest rate broke then there was no way of keeping wages down. In other words, if a major price move came from the money side, that that would bust their whole policy.

Robert L. Hetzel: But some, but on exactly the opposite side, some of the governors felt that it was inappropriate for banks not to be able to raise the prime rate as their cost in money rose. So some of the governors wanted to raise the discount rate as a way of taking the heat off the banks.

Sherman Maisel: Well, I don't, that doesn't sound right to me.

Robert L. Hetzel: That doesn't sound right?

Sherman Maisel: No. As I said, the fall, the basic argument was one of, "Do you want to tighten, but more than that how you want to tighten? Whether you want to do it through fiscal policy or monetary policy?" And because the administration felt that fiscal policy was a much better way of doing it, and also they felt that if you didn't try to do it through the interest rate you would bust the whole wage-price thing wide open, they were arguing that it ought to go through fiscal policy, and that they couldn't convince Johnson to go for a tax increase. And Martin was simply convinced that you couldn't. And in effect, when Johnson was stuck out on a branch, I think Martin saw this as his opportunity to, to be able to do it. And he convinced Daane to go with him rather than with the Treasury.

Robert L. Hetzel: Let me ask you this about Dewey Daane. In reading the minutes when he was the governor, I mean he seemed to always side with the Chairman. So was it really a question of?

Sherman Maisel: Well, after that he did, but—

Robert L. Hetzel: There was a time before.

Sherman Maisel: There was a time before when it was unclear. In other words, I would say it took Martin a month or two longer than it would have taken him to convince Daane. Because see, you know, he had come from the Treasury and he still felt some loyalty to the people who had gotten him appointed.

Robert L. Hetzel: Right. And so he was in transition between the Treasury and the Fed. That makes sense. What, what about Mitchell. He was an economist from the Chicago Fed. Was he a business—?

Sherman Maisel: He was director of finance in Illinois under Stevenson.

Robert L. Hetzel: Oh, so he—okay. So he had been part of the Stevenson Campaign in the '50s, and then he had a position when Stevenson was—?

Sherman Maisel: Was Governor.

Robert L. Hetzel: Governor.

Sherman Maisel: Of Illinois. He was the Director of Finance. And then whether he, yeah. And then he must have gone back to the Fed. Or he may have gone to the Fed from then. He may have been at Adam Bank and then gone with Stevenson.

Robert L. Hetzel: Yeah. I should find out. Usually Fed people don't get involved in political campaigns. So I'll have to find out.

Sherman Maisel: Well, they say that whether Stevenson appointed him from the Fed, or whether he had been with the bank. He may have been at one of the Chicago banks.

Robert L. Hetzel: Was he a business economist, or a regular Keynes? How would you characterize his economics?

Sherman Maisel: It, well, he was primarily a tax—I mean he came out of the budget-tax.

Robert L. Hetzel: Oh, I see. So even though he was Director of Research at the Chicago Fed he was not trained as an academic style economist?

Sherman Maisel: Not at, no. I don't think he would have had to have been at that time.

[00:34:35]

Robert L. Hetzel: Did you find him easy to talk to in terms of his economics?

Sherman Maisel: Oh, yeah. But again, as I say, the, at that point you had Mitchell and Daane as the economists, but both who had come from the system, and neither who had kept up really with what was happening in terms of where the field was going.

Robert L. Hetzel: Right. How about Robertson. He, I mean he was a lawyer and he had been in the system since 1952. He had been something of a populist originally. What was his thinking?

Sherman Maisel: Well, he was, I would have said he would have come out of the Nebraska program. And the other thing, in terms of regulation, he was overly strict. I fought with him all the time because he had been Deputy Comptroller of the Currency. He had been in the regulatory function there. So his background was primarily regulatory. And there he, you know, there was the whole problem of the Comptroller now that becomes far more liberal in regulation.

Robert L. Hetzel: Saxon. Yeah. James Saxon. Yeah.

Sherman Maisel: James Saxon. And he, as a matter of fact, Robertson was, was playing him. But again, I don't, this is his background. I don't think we should report this. But I did fight with Robertson over several issues relating to regulation. And finally, I forget at what point, I won and Bill Martin thanked me. Boy, it was that he, at any time if Martin didn't want to do it, he could have gotten it over, but really his whole view, I think, was that he had so many chips and they weren't to be spent.

Robert L. Hetzel: So was this over Regulation Q in 1966? Or this was over something?

Sherman Maisel: No. It was, it was over functions of banks.

Robert L. Hetzel: And allowable activities?

Sherman Maisel: Allowable activities and so on. You know? And Martin could have, because it was finally balanced. Because I said no matter who it was that was running the bank, the difference. It was listen to me instead of Robertson. But at that point Martin said, "Well, you were obviously right. We should have done this a long time ago." And so I, but he could have done it—if he had spoken out for me at all during the two or three years.

Robert L. Hetzel: He let you carry the water. Yeah. Later on Robertson pushed for, by the end of his term as governor under Burns, he generally pushed for restrictive monetary policies. So perhaps he changed by the end? Or he just thought inflation was more of a problem?

Sherman Maisel: Yeah. I think so. But as I say, when I came, he had been the strongest low, low-interest. But I think it was from a low interest rate point of view that high interest, high interest rates were bad for farmers. Things of that sort.

Robert L. Hetzel: The Broken Bow, Nebraska view. Yeah. What about the other two governors on the other side, Shepherdson and Balderston? Were they strong figures, or did they follow the Chairman?

Sherman Maisel: Balderston was a very strong figure. Shepherdson was not. He was an Agricultural Economist and had been Dean of Agriculture at the Texas A&M or something like that. And he didn't really have much to offer at all. Balderston was a strong guy, but he, again, he was not an economist. His field was management, and he had had business experience as dean at Wharton, he had been on a couple boards and things of that sort.

Robert L. Hetzel: Okay. You knew, you must have known then President Swan who was at San Francisco.

Sherman Maisel: I hadn't known.

Robert L. Hetzel: You hadn't known. Were there any strong presidents? Not as strong as the governors?

Sherman Maisel: No. There weren't. Hayes in New York, New York was fairly weak. The, the strong ones was Swan and Morris and the guy from Philadelphia.

Robert L. Hetzel: Well, it was Bopp and then—

Sherman Maisel: Yeah. Bopp and then an Eastern, Eastern—

Robert L. Hetzel: Eastburn. He's, yeah. David Eastburn.

Sherman Maisel: Both was. And then the guy from Atlanta—

Robert L. Hetzel: Bryan?

Sherman Maisel: Bryan was sort of a populist type of thing. The man from Texas was a—

Robert L. Hetzel: Watrous Irons.

Sherman Maisel: Oh, yeah. No, Iron, Iron, Iron was, he was, he was, when he the Alabama one?

Robert L. Hetzel: Well, he was the, from the Dallas Fed.

Sherman Maisel: He was the popular one. What was he? I don't know if it was Stewart or somebody like that. There was, maybe it was, maybe that was a little later. But there was a guy.

Robert L. Hetzel: Caldwell replaced Irons in Texas.

Sherman Maisel: Well, then I don't, thought Stewart was.

[00:40:33 recording stops and resumes]

Robert L. Hetzel: So Martin must have been surprised at the reaction from Johnson over the discount rate increase. He knew, he knew there was going to be a storm.

Sherman Maisel: Well, as they say, what I was surprised at was how rapidly it was done.

Robert L. Hetzel: You said there was no preparation at the Board meeting. No discussion?

Sherman Maisel: No. It was an emergency meeting, and there was no paper or anything. It was just passed. No discussion.

Robert L. Hetzel: As soon as Daane got back from Florida and could be there.

Sherman Maisel: Yeah. And Johnson wasn't there.

Robert L. Hetzel: And then of course Martin goes to the ranch. Ackley said he had a long walk with Bill Martin and they had a congenial conversation. So at that time Ackley must have explained to Martin his strategy for trying to dampen the expansion with fiscal policy, with the tax—

Sherman Maisel: Well anytime, it must have, it was on for—

Robert L. Hetzel: So they had been conversing for—

Sherman Maisel: Several months.

Robert L. Hetzel: Some time. Did you have contacts or conversations with members of the Council at that time?

Sherman Maisel: Yeah. in fact, we had Okun, I forget at what point Okun took over for Daane.

Robert L. Hetzel: Oh, I think it was the beginning of ’68.

Sherman Maisel: I think so. It was exactly that. And that was—

Robert L. Hetzel: But then after that, in early ’67, Martin kind of pulled back. He, in fact, Martin was not aggressive about--

Sherman Maisel: Well, you know, there was this big fight in June, July and August of ’66.

Robert L. Hetzel: That’s what I meant. Early ’66. Yeah.

Sherman Maisel: Yeah. There was a fight within the Board, because at that point everybody agreed then that we oughta monetary policy, and he asked, the question was, “Well, given the rate at which the money supply was expanding, were you using it or not?” And that was when the whole question of the open mouth policy came back.

Robert L. Hetzel: Right. But wasn’t there an odd flip-flop between positions that the move toward higher interest rates and that summer was led by the liberal members of the board—Maisel, Brimmer and yourself and Robertson signed onto that also. But Martin was in the hospital in July?

Sherman Maisel: Maybe he was. I don’t remember. But as I say, the, it was, the question was the rate at which the reserves were growing and so on. And the argument therefore that you weren’t being restricted. That if you were, interest rates were going up, but they weren’t having the effect you expected because the money supply was, and bank credit was growing at such a rapid rate. That’s what led to the letter.

Robert L. Hetzel: Did you yourself ever feel like you were under pressure from the administration? Did anyone ever call you and complain about high interest rates? Or you said you were supported by the Council over this period. Tell me about the divisions over Regulation Q. The board raised Reg Q in December when it raised the discount rate. And—

[00:44:30]

Sherman Maisel: That was primarily Mitchell’s interest. He felt that he, that the Q should be out, out. That it was a hindrance rather than a help.

Robert L. Hetzel: But even though Mitchell voted against the discount rate increase, he was in favor of increase in Regulation Q. Because he was concerned with the money market costs of funds to banks was rising.

Sherman Maisel: Well, he thought you were putting it up, that it just ought to exist. That if—

Robert L. Hetzel: So did you argue with Mitchell over that issue? At that time it was not?

Sherman Maisel: No. As I say, the theory was raised so high in theory to get it out of the way so banks would make their own decision.

Robert L. Hetzel: But then and starting in the spring of 1966—

Sherman Maisel: Well, that Board came under pressure from Congress from Patman particularly because the S&L's were in trouble.

Robert L. Hetzel: Did you hear from the—did you yourself hear from the California S&L's at that time, that they had—?

Sherman Maisel: Well, they came in to see Martin and Martin asked me to be with him once when they came, came in. And as a matter of fact, the answer was that we really can't do anything about your, your problem. You can't put the genie back in the box after, after it's out.

Robert L. Hetzel: But the California S&L's were the ones with the major problems because they had attracted money from all over.

Sherman Maisel: Money from all over.

Robert L. Hetzel: I guess what later became known as "Hot Money". So they were hurting the most. And of course Patman just wanted lower interest rates. Did he ever get to the point where there was some threat that he could have legislated a low rate of interest, that banks could have paid him all their deposits.

Sherman Maisel: Well, but he could have forced Q back.

Robert L. Hetzel: And so there would have been a major disintermediation from the money-centered banks. And was it that threat of congressional legislation that, that got the Board over its differences between Reg Q and got them to support—?

Sherman Maisel: A coordinated policy. Yeah. It was a new set-up under, I guess it was under legislation. Yeah. You had, in effect, you couldn't move Q without a discussion with the other financial agencies.

Robert L. Hetzel: Yeah. Especially the Federal Home Loan Bank Board and the FDIC. Did—

Sherman Maisel: That was the compromise with Patman, in effect.

Robert L. Hetzel: How did the Board split over that? My, my recollection is the Board was split on that issue, and Martin didn't want to enforce a uniform position, so when there was, there was the governor's testimony before Congress was different positions on Reg Q.

[END OF TAPE 92, SIDE A]

[BEGININNG OF TAPE 92, SIDE B]

[00:47:57]

Robert L. Hetzel: Whose idea was it to have differentiated ceilings? To have a somewhat higher ceiling for the S&L's than for the banks?

Sherman Maisel: Well, as I say, that was part of I think the compromise with, with Patman.

Robert L. Hetzel: And so that idea presumably came out of the S&L industry?

Sherman Maisel: Yeah. Out of the S&L. And out of Congress.

Robert L. Hetzel: You weren't a, that wasn't your idea. You weren't a key? I thought perhaps because of your interest in the California S&L's perhaps you, you brokered the arrangement between. So Congressional relations, working on the way they're handled now between Martin or the Chairman and a Congressional liaison, primarily the Governors didn't get involved with talking to Congress?

Sherman Maisel: Well, I was friendly with the California delegation, but I don't remember any, it was usually the other way that I was trying just to sell them on what the policy.

Robert L. Hetzel: You were trying to explain the Feds?

Sherman Maisel: The Fed policy to them. Dick Hanna as I recall was the California Member of Banking and Currency. He was pretty powerful.

Robert L. Hetzel: So Patman had support on Congressional legislation to impose a, it was a 4% ceiling on the interest on all bank deposits. But his other crusade, to limit the independence of the Federal Reserve System, he never had broad support for that. So Fed independence itself was never under threat. It was just the Congress might—

Sherman Maisel: It provided a legislative ceiling on bank interest rates.

Robert L. Hetzel: And you felt at the time, and you still feel like it, that the Fed did the right thing. That that was the way to go.

Sherman Maisel: Yeah. As I say now, whether, whether if I had just knew more about it and thought more about it, whether I would have been in favor of moving up Q as much as we did, I don't, I don't remember or know. But all I know is I hadn't really thought about it that much. It came as, it just wasn't anything I—there just, there were certain things, you know, that that had never occurred to me. For example, when I was on the Board a couple of months, the guy who was the Chief Economist for the New York Stock Exchange asked if he could bring his boss in to talk to me. And I said sure. And he came in and talked to me. And not until after the conversation did I remember that the Board had anything to do with the Stock Exchange.

Robert L. Hetzel: The margin.

Sherman Maisel: The margin and things had never really come up. Then Q was sort of in that same category of—

[00:51:07]

Robert L. Hetzel: Then of course there was the credit crunch, as you mentioned. There was this letter to try to get banks to ration credit to large corporate customers rather than raising rates higher. And then—

Sherman Maisel: Well, it was more than that. There was a real threat that scared the banks. I mean they acted on it. They, I mean, the threat was that if you come in for reserves.

Robert L. Hetzel: And the discount window.

Sherman Maisel: And you haven't followed in accordance with the letter, why, you may have trouble getting reserves.

Robert L. Hetzel: And that was something that the Council and the Board worked out jointly as a way of mitigating the effect of high interest rates?

Sherman Maisel: I don't, I'm sure that that [unintelligible] would have supported it, but I don't remember [unintelligible] the two who primarily pushed it.

Robert L. Hetzel: And then in September the, the desks begin to back off slightly on interest rates to move them down. There was presumably, I mean it seems like at that time there was an understanding or at least a hope that if the Fed began to back off on interest rates and kinda back away from this policy that was falling heavily on housing, that Johnson would go for a tax increase in his January State of the Union Address.

Sherman Maisel: Well, a I say, I don't remember what the timing was, whether it was that year or the next year. Because as I say, I do remember, you know, the agreement and as I say, at that point I know I-I did some lobbying on, you know, I had lunch with the whole California Delegation and stuff to explain the theory. And I remember talking to Wilbur Mills about it to ask him about it. [Unintelligible] So Mills—

Robert L. Hetzel: So, but, but—

Sherman Maisel: But I was at that, without going back over the records that I don't remember the exact timing of this.

Robert L. Hetzel: But there was, at some point there was an understanding between the Council and the Board that if Johnson could be persuaded to push for a tax increase then, then you would have the substitution between the fiscal policy. You were in agreement with the Council, that fiscal policy should bear more of the burden of the restricted policy.

Sherman Maisel: When, when the tax was passed, the Board moved faster than it normally would to lower rates. But that was partly because the election was coming up. In other words, the Board really had a policy that you don't want to do anything after, by August. If you're going to take any action you ought to do it at the beginning of the summer and no later.

Robert L. Hetzel: Well, that jumps ahead. But there was also the, there, there was a lot of uncertainty over how much impact the tax surcharge would have, especially since it had been combined with significant expenditure cuts at that some, at that point. And there was a feeling that, that monetary policy had to be the counterbalance. It had to encourage a flow of funds to housing, and that would take a, there would be a six-month lag or so. And if the, if the interest rate cut weren't taken promptly in early July of '68 than the economy could be in a recession by the elections.

Sherman Maisel: But it also was the fact that I think we would have waited for another month or so if it hadn't been trying to get out of the way of the election.

Robert L. Hetzel: Well, let's jump back to—was Wilbur Mills, did he come across as a populist on interest rates? Or was he more—?

Sherman Maisel: No, I don't remember. As I say, all I know is Johnson had, it was I'm sure part of his general policy. But at that point on policies of that sort, he would have Ackley or Okum call or however many members of the Board before he called me. And then also at one point Johnson called and said, "I told Wilbur Mills you're my economist there at the Board, will you go talk to him?"

Robert L. Hetzel: So this was in '66?

Sherman Maisel: '66.

Robert L. Hetzel: Over the credit crunch, the credit crunch period when, after the discount rate increased. So you talked to Johnson on the phone once. That must have been interesting.

Sherman Maisel: And once Robertson and I, he'd call us in and at that period. He was trying to put pressure on Martin. This was after that.

Robert L. Hetzel: And, and that was to carry out this, out of this came the strategy to try to mitigate the impact of high interest rates by, with the, with the letter. Mm-hmm. That's interesting. So, so presumably—well, as a fact, Johnson was talking to Martin at Quadriad meetings. So he just thought he needed to—

Sherman Maisel: Yeah. But that was an interesting thing. Again, I don't remember that was in the book or not. I was annoyed at Martin—he, he, he took the attitude and apparently Greenspan takes it even more now—that he was on the Quadriad as an individual and not as a representative of the Board, so that he didn't report to the Board what was going on at the Quadriad. And he didn't ask for the Board's opinion as to what he ought to say there. He, he felt he was there as an individual advisor to the President, not as a, not as a representative of the institution.

Robert L. Hetzel: Well, maybe that was his sort of defense for Martin so he felt like he, if he said, "I'm not," if he said he was representing the Board, then if he took a position he would be committing the rest of the Board. Maybe he felt like he could, that gave him an out. He could say, "Well, gee, you know, I really can't commit on this one, but I'll go back and talk it over."

Sherman Maisel: I don't know.

Robert L. Hetzel: But he did not go back and talk it over.

Sherman Maisel: Yeah. The Board didn't have much impact. That was the effect of it. As I say, I'm told Greenspan is the same way.

[00:58:30]

Robert L. Hetzel: Well, Arthur Burns must have been the best example. So in early, well, let me ask you about Martin. Did, did, you said there was this division on the Board in 1965, which was finally resolved when Dewey Daane came over. In general, did, did Martin exercise control over the Board in the, with the FOMC in the sense that he pretty much always got what he wanted?

Sherman Maisel: No. It was exactly the opposite. He only felt it was worth of using his position at critical times. Otherwise he always spoke last. And I never heard him speak first on anything except monetary policy. And even then if he didn't think it was important, in other words he only changed policy once a year really, or something like that. He could, he would go for six or seven months with the policy. And, but then at that time in

’65 when he wanted a change, he began talking earlier in the meetings. And I think you’ll find this in the minutes. And this is how the people who didn’t know how to vote learned how to vote because at that point he was doing it. But, you know, as I say, the example I gave of regulation, he never did, and he always voted with the majority. I’m sure you’ll never find a vote that Martin isn’t in the majority. This is ‘cause he voted last. The only other time that I thought he used his power—and again, he had changed—was I started to push for reserves against Euro-dollars. Again, I don’t remember when.

Robert L. Hetzel: ’69.

Sherman Maisel: That, well, but when we started to push for it, I don’t know -- when I introduced sort of resolution in the Board and so on and saying, “We ought to have.” And Martin never let that come to vote. He just kept it off the agenda. That was the only time I ever had with him when he used the control of the agenda for a policy. Now it turned out later, and we did vote it finally. What happened was that I, again, I had some inkling of this, but really didn’t know, and can’t really say how clear it was. He met with the five or ten biggest bankers in the country there once a month or once every two months or something like that. And on the Euro-dollar thing, he thought he had an agreement with them that if we didn’t put in reserves they would be reasonable in the amount of reserves, the money they brought in that way. And then what happened is he did come to me. He said, “[name redacted at interviewee’s request] called me last night and said that [name redacted at interviewee’s request] has broken the agreement and he no longer can--”

Robert L. Hetzel: That sounds right. That sounds right. I didn’t know that. But—

Sherman Maisel: He no longer could stick with it. So we had to adopt the policy now. And on that dumb quote, you can quote it in general terms, but no names. But.

Robert L. Hetzel: Yeah, sure. Underneath Martin’s kind of congenial, pleasant, homey exterior, I mean he knew what he wanted and he would move toward it. And if he had to retreat and wait to get it, do you feel like he was a very strong individual? Or was he more of a consensus person?

Sherman Maisel: No. He knew, no. He knew and he, but as I say, it was only really on monetary policy that he felt strongly. But he felt very strongly that he knew what was happening in the market and that his theory of the market was the right theory. And he saved all of his efforts along those lines. In other words, on all the others, on questionable appointments of staff and stuff like that, he didn’t take a strong view. And the only one along the other line that I can remember where he felt very strongly was on that question of reserves on Q. And that was, as I say, turned out was because he thought he had an agreement with all the banks that were involved, and, you know, there was a lot to say for that, that he would be made—there’s the whole theory of that, that you’re better off with a gentleman’s agreement than you are with a regulation. A regulation you can always get around, whereas if you agree to a gentleman’s agreement is that what you’re trying to do you can’t evade it.

Robert L. Hetzel: So in ’67 then the economy weakened. Perhaps it was an inventory recession. That’s what the staff said at the time.

[01:04:21]

Sherman Maisel: Broker recession.

Robert L. Hetzel: Yeah. And Martin, the unemployment rate didn’t rise, but industrial production fell. And Martin pushed interest, or the FOMC pushed interest rates down fairly strongly. There was a feeling that recession was unacceptable and if the Fed made certain to the administration that it was not going to allow a recession then there would be more of a likelihood of persuading Johnson to, to go for a significant tax increase.

Sherman Maisel: I think so.

Robert L. Hetzel: And then in June of ’67 when the economy began to strengthen again and it was obvious to everyone, it wasn’t just a prediction, that at that point Johnson was unwilling to send a tax proposal to Congress. So the FOMC began raising interest rates at that point. Does that sound right?

Sherman Maisel: That’s probably the impression. Yeah. He must have been at the beginning of his State of the Union in ’68 asked for the tax increase?

Robert L. Hetzel: No, he asked, he had actually, he had, he had, he’d asked for a tax increase in his State of the Union Address in 1967, but he didn’t send it to Congress. And he didn’t send it to Congress until August of ’67.

Sherman Maisel: Exactly. I’m trying to remember things.

Robert L. Hetzel: And then at that point the economy was growing strongly, but the FOMC, most members felt that if they raised interest rates then Congress would say, “Oh, we don’t have to bite the bullet and raise taxes. The Fed has done the work for us.” So there was reluctance at that time to raise rates.

Sherman Maisel: As I say, I don’t remember the timing. I remember, I do remember spending some time on the Hill. The only real time I did trying to get the tax, to explain the reasoning behind it all.

Robert L. Hetzel: So earlier you talked about visiting Congress about Reg Q. But this was about the tax hike. So this was a separate.

Sherman Maisel: Yeah. And I had talked to the, as I say, I talked to the California delegation and then I was going to dicker with the, whatever the liberal caucus was of the Democrats. I forget what they called it.

Robert L. Hetzel: So you presumably argued that, well, if we don't get a tax hike the Fed is going to have to raise interest rates, and that will have repercussions for housing. And so the California delegation must have been sensitive to that.

Sherman Maisel: But as I say, that also took—well, I forget what they, they had a group of us named or something like that?

Robert L. Hetzel: Excuse me?

Sherman Maisel: I'm trying to think of what the, the caucus was called.

Robert L. Hetzel: Yeah. Americans for Democratic Action?

Sherman Maisel: No. This was just congressional. It was the first sort of so-called caucus word. People put up. It had a staff and so on. You know? Like the Black Caucus does now and everything. This was the first one. It was the, it was the liberal democratic caucus. And I remember that the guys from California asked me to talk to the whole group of 75 congressmen or something like that. Yeah. And why the tax increase would be better from a liberal point of view.

Robert L. Hetzel: Then there was the, there were problems on the international front. The end of '67 the pound first came under—well, the pound is always under attack.

Sherman Maisel: Well, I was appointed because the pound was under attack.

Robert L. Hetzel: Because of an interest in international?

Sherman Maisel: No, because of the, of the fear that they had left the seat vacant and that Martin would use the attack on the pound as a reason for raising interest rates. And that they would feel very guilty if they lost, if interest rates went up by a lack of a vote.

Robert L. Hetzel: So that's why they were in a hurry to fill, to fill the seat. Was it Mills' seat that you were?

Sherman Maisel: Yeah. They went for three or four months. And that, that was what surprised me that suddenly it was in such a hurry when it was, when that was the, that was the reason they just felt they would be terribly embarrassed if he's sitting there. But by the way, did, what happened out of the country? Did the Senate act on Brill and Meyers?

Robert L. Hetzel: I think it's—[tape skips 01:09:02] at the end of '67 and the end of '68, Martin was unwilling for the Fed, the FOMC to raise interest rates because he was afraid it would put pressure on the pound and if the pound failed then speculation would spread to the dollar. You became very actively involved in international.

Sherman Maisel: Not very. Just, just a little on, on the gold thing. Right from the start I felt that we ought to get gold out of the, out of the system. And I figured that was the only issue I had much to do with internationally.

Robert L. Hetzel: I remember in the minutes you were, you criticized the decision to intervene in the Euro-dollar market.

Sherman Maisel: That was for a different reason.

Robert L. Hetzel: Because you were critical that we were doing one thing in the foreign arena, trying to keep the interest rate down in Euro-dollars through the BIS deposited funds and the Euro-dollar Market. At the same time, domestically we were working for a different objective. We were working for, to try to restrain a strong economy domestically, and yet we were keeping interest rates down in the Euro-dollar Market, at least that was the idea. I remember you were critical of that.

Sherman Maisel: As I say, I don't remember that. The one issue I do remember strongly was the question of whether the Fed ought to use its funds at the request of the Treasury or not. And my feeling was that there ought to be firm commitments from the Treasury and so on. That this was, that this was an area of relationship that was equivalent to other similar issues in the Fed had a, should be, had been independent and had its own view in those matters.

Robert L. Hetzel: So was your objection more to the fact that the Board was excluded from these discussions? Or was it you, you thought in March of '68 that the dollar should have been devalued at that point? Or Foreign Central Bank should have made a stronger commitment to revalue their, their currencies. You don't remember that.

Sherman Maisel: I don't remember at this point.

Robert L. Hetzel: Do you remember the split of opinion between the New York Bank and their directors and the, they wanted a sharp rise in the discount rate at that time. And when apparently, I mean it appears that Martin had come to an agreement with other central banks about coordinating rate increases domestically and abroad and I can remember reading a memo that is in the files that Andy Brimmer wrote criticizing the New York Fed for trying to second guess the Board on that. Do you, do you remember that debate or?

Sherman Maisel: No, but it sounds right. I mean there are always two, two debates with the New York Fed, with Hayes and whoever was head of the -- Charlie.

Robert L. Hetzel: Coombs.

Sherman Maisel: Coombs. Coombs always wanted to have a clear attack. He just loved the idea of a bear attack and he, he was always eager. He'd recommend it every, every time.

Robert L. Hetzel: Yeah. He wrote a book just, just to highlight the time that he was allowed to coordinate a bear attack among the central banks. You could tell it was the high point of his life.

Sherman Maisel: Well that, as I say, and the fact that both Hayes and Coombs we always did feel put much too much emphasis on the foreign thing in their votes and recommendations. And so I don't remember the specific.

Robert L. Hetzel: What about the discount rate reduction in the summer of 1968. I mean in general the FOMC, at least the bank presidents were reluctant. They wanted to actually see the economy weaken before pushing rates. You said it was a timing issue.

Sherman Maisel: The timing issue was the critical issue.

Robert L. Hetzel: So Martin basically relied on the staff forecast and their forecast that the tightening of fiscal policy would act to depress the economy and we needed to go ahead.

Sherman Maisel: As I said, I don't know that he would have been with a, I think the Board as a whole, at least in this case, felt that we couldn't take a chance of not doing it and not being able to do it because of the election. That you had to go with the forecast, you know? Under ordinary circumstances you would have waited. But you didn't have time to wait.

Robert L. Hetzel: When the FOMC began to tighten in 1969. I mean initially, you know, that was a unanimous move. But as the year went on, by fall of '69 then there were, there were divisions again. And so on the one side it would have been Mitchell and Brimmer and you feeling like we had pushed too hard. And that was one reason you wanted to get the FOMC to look at, at reserves as opposed to interest rates.

Sherman Maisel: Yeah. I, again, I'd have to go back. Again, I remember there was one period—and it was probably that. It was the only time I ever called my own press conference. And it was because the, I felt that the press was misreading the action of the Board. Now almost all the time I was on the Board I argued, there's always been this argument, "You can't do things because you'll be misinterpreted." And I always argued that that was a terrible argument. You wanted to say what you were doing there so that you could do things and not, not do things because a fear of being misinterpreted. Anyway, at some point there I felt that what was happening was being misread and—

Robert L. Hetzel: And that was all right with Martin. I mean you presumably talked it over with him, and he felt comfortable with that? I mean Burns would never have—

Sherman Maisel: He didn't feel -- I think he urged me not to do it, but felt I had the right to do it. He, there was, the Board public relations staff called it.

Robert L. Hetzel: So who was the equivalent to Joe Coyne then at the?

Sherman Maisel: Joe was there. And he was the assistant already.

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

Sherman Maisel: Yeah. The senior guy [unintelligible], but I don't actually remember his name. There was just the two of them.

Robert L. Hetzel: Then when, when Burns came on in February 1970, in your book you say that was the most divisive of the FOMC meetings that you attended. I think you used the word "bitter." So there was a group that was watching market psychology and thought that until they, there was an end to the inflationary psychology they just had to keep rates up with no, no reduction. And presumably that group would have been led by Hayes?

Sherman Maisel: Right. Yeah. I guess at that point.

Robert L. Hetzel: And then do you remember anything from that initial meeting, how Burns established—I mean he, he, he moved the, moved the committee. Do you remember of anything of how it established his--?

[01:17:57]

Sherman Maisel: Well, I-I think we had a better majority and stuff. But after that, I never had it with him. But apparently there were two or three of the bank presidents that he would call in and spend a day with, putting pressure on them. But it was confusing his convincing personality in a way. I mean, but he, he would meet with individual bank presidents, I know for lengthy periods, if he felt he needed it to convince them.

Robert L. Hetzel: Why do you felt like he needed to, he felt like he needed to maintain such control? Do you feel like, do you feel like he was negotiating with the administration over fiscal policy and if the system had appeared divided he would have been less effective?

Sherman Maisel: No. He was always afraid of that. He always used to cite the fact that the Council was almost abolished and he saved it, and it was almost abolished because they were split and talked too much and stuff like that. He always used that as an example of why it was important to have a unified view. On the other hand, he tried to censor governors' speeches, and we didn't agree. He never would have gotten Robertson to agree.

Robert L. Hetzel: Well, you had several governors with very strong personalities at the time. I mean Robertson, as I understand, would think out a position very carefully. Once he'd come to a conclusion on a position then he felt like he, you know, it was right that he should stick with it. And I mean, Andy Brimmer was a fairly strong person.

Sherman Maisel: Yeah. That's funny. He would drive Burns nuts. He would never understand why, what it was about him that was driving Burns nuts.

Robert L. Hetzel: In the minutes it doesn't come across as Brimmer is challenging Burns. Brimmer's generally in favor of, was in favor of the low-unemployment kind of expansionary policies that Burns followed. But toward, toward the end, the summer of '72 it did sound like Brimmer was—

Sherman Maisel: Well I was gone by that time.

Robert L. Hetzel: Yeah. But it is, but it is, but he must have irritated Burns in some way because—

Sherman Maisel: Way before then. I've seen Burns stamp out of the room and Brimmer sort of looked at me surprised and, "What did I do that caused him to get so mad?"

Robert L. Hetzel: So that must have been in meetings of the, of the Board as opposed to the full FOMC. So Burns would, he wasn't just a gracious urbane, witty sort of a person. He could lose his, he had a temper. He could lose his temper and would become angry if he felt like he was being challenged.

Sherman Maisel: Challenged. And as I say, Brimmer, several things I him-- And Brimmer, and Brimmer didn't have any feeling for what it was that was getting Burns so mad.

Robert L. Hetzel: He just wasn't sensitive to kind of the way things were, were going. Oh, that's interesting. But you had an equally strong personality, but you were more sensitive to Burns' feelings and would know when it was appropriate to push him and when not to.

Sherman Maisel: I think so. I-I got along fairly well. And at the end I got along with Martin. Martin was the, after the discount thing, Martin wouldn't talk to me for two or three months.

Robert L. Hetzel: Two or three months?

Sherman Maisel: Yeah.

Robert L. Hetzel: That seems out of character with what one hears about Chairman Martin in terms of what a gregarious, friendly, affable sort of person he was.

Sherman Maisel: Yeah. As I say, I don't know. We, we must have had lunch together and stuff, but it was, I had no discussion with him, I know, for—and then what happened that finally there was a, he felt he had to write a letter. I guess it was on that Q thing. It had to do with whether we would be, a law would be passed forcing us to have lunch with the Treasury and the Council [unintelligible].

Robert L. Hetzel: But you did that anyway, right? Oh, but you began to do it in a regular?

Sherman Maisel: Well, and, but so, in answer to that threat of the law, he sent a letter saying that we would do it, and that a law wasn't necessary. And at that point he came around to see me to get my agreement to it. And we had a long talk and we were friends again after, after that. But he felt, I think, that I had gone too far and stuff. I-I don't know. And the testimony on the discount rate. Did you ever look at that testimony?

Robert L. Hetzel: No, I haven't done that. Did you testify on that?

Sherman Maisel: Yeah. We all testified.

Robert L. Hetzel: Okay. Then that I have to, I have to get that. Our library doesn't, didn't, wasn't getting things then.

Sherman Maisel: Yeah. It would have been in January. And this was the, I'm pretty sure the bank-- the House Banking and Currency Committee. And I think he felt I insulted them-- In my testimony I was rather intemperate, perhaps.

[01:23:50]

Robert L. Hetzel: Well, you expressed, I remember reading about it. You expressed the administration's point of view that it should have been coordinated. Let me ask you this. This is jumping ahead. But you, you, one of your objectives, one of your goals—and I think it really ought to be the goal of every economist—is to move toward analytical procedures where you have well-defined objectives and some model that relates changes in your policy variable to misses and objectives. But you also say it a number of times in reference to fall of '65 and also fall of 1970 and fall of '71 that you think the administration should set the objectives for monetary policy. So if the administration sets the objectives and we have these analytical procedures then does that, does it follow that you, you think that Fed independence then is not, is not a substantive concept?

Sherman Maisel: No. I-I think the concept is that the Fed has the right to speak out and criticize, but that having done so, if, if there's no groundswell or congressional supporters of it, that it ought to resign.

Robert L. Hetzel: So for example, in November and December of 1970 when the standard forecasts for GNP for 1971 were about 1050 and continuation of 6% unemployment, and the administration wanted to get the unemployment rate down by the end of the year to 5%. So they came up using Okun's Law with 1065. And then Art Laffer ran a regression of GNP on money. Neither seasonally adjusted. That's where I came in. I was a graduate student then. And you speak in your book rather derisively of the procedures and results.

Sherman Maisel: Yeah. No, I gave quite a few speeches at that point trying to show why this made no sense. In other words I gave, I remember one I gave to an agri-, you know, an agri-, annual agricultural forecasting—

Robert L. Hetzel: Yes. And you debated Herb Stein. That was in the book. Yeah. That must have been fun to hear. That must have been kind of a big deal for you. But it must have been fun for the audience.

Sherman Maisel: I don't know. Well, as I say, it was just so good of me because you had to define money any way you wanted to and defend. What I had was a table with M1, M2, M3 or maybe various versions. And showing that they varied by 10 or 20 or 30% there.

Robert L. Hetzel: Well, in fact, in both of those periods, the fall of '70 and the fall of '71, M2 was picking up long before M1 was. And so if you looked at M2, policy looked like it was becoming expansionary. But, so, but even so, then your support for interest rate reductions, late in '70 and early '71, you based those on the fact that the administration had set this objective of 1065. And you thought that the system shouldn't support it since it was properly stated.

Sherman Maisel: Right. Well, I-I, my reading of the Unemployment Act says that, too.

Robert L. Hetzel: But how, how do you, if Congress had objected, then since, since under the Constitution we, we, we're under Congressional oversight -- So if the banking committees had objected to that then you would have felt differently?

Sherman Maisel: Well, again. Then I-I, again, would differentiate between the committees and votes of the, of the bodies. I, it would seem to be there you would have to interpret whether you think the committees are representative or not. I-I would never automatically assume that the committee was representative.

Robert L. Hetzel: And what, how do you handle the possibility that the administration might have been setting its objectives to further its own political goals? Because that's the, the congressional check?

Sherman Maisel: I think, I think it has to be, therefore, a public debate. It's, that's, that's why it seemed to me that it's important that the Fed talk to the President directly and not through the Treasury. But sort of one of the things that independence means is that the Fed has a direct channel to the President, not through others. But that given that channel and the threat to speak out and telling the President what it would mean if there was a fight that you try to convince him of changing policy that way. But he can't run two different policies.

Robert L. Hetzel: So this gets to the coordination of fiscal and monetary policy again. Do you feel like Andy Brimmer basically intellectually felt this sort of way. I mean you both had this Keynesian background and—

Sherman Maisel: I'm, I'm not sure.

Robert L. Hetzel: Yeah. What about the, do, do you feel like Burns was a little heavy-handed with the FOMC toward the end of '70 and early '71? Or do you feel like that

was appropriate, given the clear articulation of the administration objectives? I know December ’70 and January ’71, January ’71 meeting, for example, Burns pushed up the date by a couple of weeks and didn’t let the FOMC discuss the Smithsonian Accord. There were other things, the directives clearly were, I mean the options A and B were clearly his choice. Or do you feel like—?

Sherman Maisel: I-I don’t, I just don’t recall at this point.

Robert L. Hetzel: I mentioned the January ’71 meeting in particular because at the February meeting you were scheduled to discuss the report that you and Swan and Morris had put together on reserve control. And Burns wanted to move in January to reserves control. He was under pressure from the administration to get money growing again by getting reserves growing. And there was a lot of opposition at that time to moving to reserve control without having the full report and not having the discussion. And didn’t you dissent at the January ’71 meeting on that basis? I’m trying to remember.

Sherman Maisel: I don’t remember.

Robert L. Hetzel: You don’t remember that, that debate?

Sherman Maisel: Well, I-I remember the, you know, I just have a feeling about the debate, but I don’t remember the time.

Robert L. Hetzel: Okay.

[Tape skips, 01:31:40]

Sherman Maisel: We had gotten, in fact, followed the committee so that if Congress was willing to go out on a limb to say that they would pay, if necessary, then it would be a sound loan. But since they weren’t willing to do that, then we held that the loan couldn’t be made.

Robert L. Hetzel: In terms of individuals on the FOMC who were particularly effective or ineffective, Hayes led a group who attached a lot of importance to the international situation, but he read his statements. And so his statements didn’t come. He, he didn’t take part in the give and take of the—?

Sherman Maisel: Oh, he wasn’t—my, my feeling there was that there were quite a few presidents, that you had to make an argument today that they could take back to their staff and come up and have a view the next meeting. You couldn’t bring in something fresh and expect a certain number of them to have an opinion at that meeting.

Robert L. Hetzel: On their feet, were, were Coldwell and Morris effective in terms of presidents? So they were pretty strong.

Sherman Maisel: Well, Coldwell didn't participate that much. Morris was always one of the stronger.

Robert L. Hetzel: Swan from San Francisco primarily stuck to his statements?

Sherman Maisel: No.

Robert L. Hetzel: He would participate.

Sherman Maisel: Yeah. Because again, it's hard for me to say because I worked closely with, with those, with the two of them on the—

Robert L. Hetzel: On the directive. Yeah.

Sherman Maisel: On the directive. And they obviously had lots of views and so on. I worked with Galusha and Morris. We revised, you know had a [unintelligible] 203B or—I put that, got that through, but on that, you know, both of them were very strong in terms and things of that sort.

Robert L. Hetzel: You, you felt at the time that the committee would work better if the regional bank presidents were, were off the FOMC. That it was too large to be?

Sherman Maisel: Yeah.

Robert L. Hetzel: And most of their expertise was sort of managerial in terms of running the banks.

Sherman Maisel: Right. Plus a certain amount—and more now. But they didn't have as much as they would have had. I-I felt local knowledge was somewhat important, or could be more important. But that it, that it, it's, it's useful. But on the other hand if you didn't have a way of-- the Beige Book is obviously a better way. There was no way of, of knowing beforehand what was, whether they would have local knowledge on critical questions or not. So that's, that's a more useful function. But on the other hand, the book could be done without all of them there or anything. Maybe the people who drew that up were committed each time to, to bring you, or maybe just at that point the staff that would have it. I think that the local knowledge is of some importance or some usefulness.

Robert L. Hetzel: Mm-hmm.

[END OF INTERVIEW]