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Oral History Interview of Frank E. Morris

Conducted by Robert L. Hetzel

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Frank E. Morris: I have a Ph.D. from the University of Michigan.

Robert L. Hetzel: And what year did you get that?

Frank E. Morris: 1955.

Robert L. Hetzel: Your first job after that was?

Frank E. Morris: I went with one of my thesis advisors. Gardner Ackley was made Chief Economist for the Office of Price Stabilization during the Korean War. So I went to Washington with him and learned all about the problems of price control. You really have to be involved in it to understand how the price system works, you know? So that was a great education.

Robert L. Hetzel: Ackley was very involved with the wage and price guidelines when he was Chairman, so I guess that experience stood him in good steed.

Frank E. Morris: Yeah, he was the Chief Economist for price control during the Korean War. As it turned out, we had a very good fiscal and monetary policy and we didn't need price control. That's really the gist of it. Truman didn't believe in financing wars the way Lyndon Johnson did, and so he raised taxes and the Fed followed a tight policy, and we found ourselves in a situation where we didn't have any inflationary pressures to deal with.

Robert L. Hetzel: The Fed and the Treasury, though, perceived that there was a problem with inflation in '57, but by today's standards it was not significant.

Frank E. Morris: Well, this I'm talking about now was back in '51-'52. But then I was still working on my dissertation part-time. And the only other employer when they were closing down the Office of Price Stabilization--the only one hiring economists at that time was the CIA. So I went to work for them for a year-and-a-half and I decided I had to get out of there. I was not a spy. I was an analyst.

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Robert L. Hetzel: Sure.

Frank E. Morris: There's the covert and the overt side. I was on the overt side and I wrote an analysis of--I was in the area that dealt with the Soviet Union, and we were just starting up the economic research on the Soviet Union. So everything was at a primitive stage. So it was interesting in that sense, and we did discover some things that turned out to be quite significant. We discovered that the Russians were producing guided missiles. And the guy who was Secretary of Defense at the time--Wilson, who had been President of General Motors, didn't believe that. He didn't believe me. He said, "I was over in Russia during the war, and those guys couldn't put nuts on bolts."

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

Frank E. Morris: "You can't tell me that they're going to put a man in space or anything like that." So the CIA was vindicated when the Russians sent up Sputnik, which caused great consternation and surprise in the rest of the government.

Robert L. Hetzel: So where did you go to work after you got your degree in '55?

Frank E. Morris: Well, these are two that I had before I got stationed.

Robert L. Hetzel: Right.

Frank E. Morris: And then I became--I was only in the CIA a year-and-a-half. I became a Research Director for the Investments Bankers Association, which was in Washington, and I learned about the underwriting business and that was very interesting. But then in 1960 I was asked to become Assistant to the Secretary of the Treasury in charge of debt management. This is in the Kennedy Administration.

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Robert L. Hetzel: Dewey Daane told me a story. He said that you told him early in 1960 that there was going to be a recession and that he arranged a session between you and some Treasury economists and you did your presentation. Apparently, the Treasury…

Frank E. Morris: The current Secretary of the Treasury, Robert Anderson, was there, Secretary of the Treasury, and Charls Walker. You know who had been with the Dallas Fed and was then Assistant Secretary of the Treasury I think.

Robert L. Hetzel: Yes. Do you know if he's still around? Is he still alive? Walker?

Frank E. Morris: Yeah. He's a lobbyist. He's a big-name lobbyist in Washington.

Robert L. Hetzel: Right. I just haven't seen the name for a while.

Frank E. Morris: Yeah.

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Robert L. Hetzel: Okay. Can you tell me that story? How they respon… Was this in the Spring of '60? When would this be?

Frank E. Morris: It was in the Spring. It was in May of 1960, and I was on a panel at the American Statistical Association in New York. They had their annual meeting. I'm at one of these forecasting sessions, you know. And apparently somebody from the *New York Times* was there, so I was forecasting a recession and nobody else was doing that. So I guess that was newsworthy, so I got a story in the *New York Times*. And when I got back to Washington, my boss was all upset because the Secretary of the Treasury called him up and said, "What is your man talking about? This is an election year. Your man's talking about a recession." And he was very upset, But Dewey and Charls Walker arranged to have me come over and have lunch with the Secretary and explain to him why I felt we were going into a recession. By the National Bureau's dating, the peak was dated at April, so we were already one month into the recession at the time. But I couldn't convince any of the--he had all of their economic guys around the lunch table and I couldn't convince anybody that there was any risk of going into a recession, much less being in one.

Robert L. Hetzel: You were following leading indicators? The kind of thing that you see in the newspapers all the time today or you just had a sense of how the economy was doing?

Frank E. Morris: No. I'd been following the indicator system for, oh, beginning early in the 50s, and I wrote a few pieces for the National Bureau.

Robert L. Hetzel: Arthur Burns was predicting a recession too, then? I guess at least that's the famous story about how he told Nixon there was going to be a recession.

Frank E. Morris: He could be. I don't know. I've never heard of him forecasting one, but it could well be that he did.

Robert L. Hetzel: So was it on that basis that you got the job at the Treasury?

Frank E. Morris: Oh, I don't really think so. There was change of administration, for one thing, from Republicans to Democrats. But Dewey Daane was very instrumental. Dewey and I had been friends for some time. I think it was primarily the fact that I was a friend of Dewey's because he was in the job that I later got that was in charge of debt management.

Robert L. Hetzel: Oh, he was already at the Treasury at that point.

Frank E. Morris: Yeah, he'd been at the Treasury on leave from the Minneapolis Fed.

Robert L. Hetzel: Okay. I thought he came in with Kennedy.

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Frank E. Morris: No. He was in the Eisenhower Administration, and Douglas Stone came in and Bob Solow. No, not Bob Solow but Bob Roosa was the Undersecretary on the financial side of things.

Robert L. Hetzel: Right.

Frank E. Morris: So Roosa wanted Dewey to stay on as his assistant for international business, and I was going to be the domestic guy. So Roosa had two assistants, one international, one domestic. That was a wonderful job for me.

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Robert L. Hetzel: Didn't Peter Sternlight go to the Treasury about that time?

Frank E. Morris: Peter went there afterwards, but at that time we had a lot of very bright people there. Paul Volcker was there. He was starting up a research unit at the Treasury.

Robert L. Hetzel: Do you have any Paul Volcker stories? Any recollections of him?

Frank E. Morris: Well, yeah. I'd never met him until I got in the Treasury, but he immediately impressed everybody about how bright he was.

Robert L. Hetzel: Yes.

Frank E. Morris: And Dillon was a very wealthy man. He used to buy up several tables at all of these $100-a-plate dinners. I don't know what they are now. He didn't like to go to them, but he would support these. He would buy up tickets and give them to his assistance, you know. We would go out with the Volckers to one of these fancy affairs on Douglas Dillon's money. We had a wonderful time and Barbara, Paul's wife, Barbara, loved the whole Washington scene. She really loved it. My wife was not so enamored with it. She thought a lot of these Washington social affairs were rather stuffy and there was an awful lot of people there that she didn't particularly care for.

Robert L. Hetzel: Sure. What about Paul Volcker's attitude? Did he…

Frank E. Morris: Volcker didn't like it. He's never liked it. He's really a very introverted guy. Big parties are never his thing. He'd much rather be out fishing than going to a good party, but Barbara, his wife, loved it. She had diabetes, but at the time it wasn't a handicap to her. But later on--it's a terrible degenerative thing.

Robert L. Hetzel: Right.

Frank E. Morris: But in her case it turned into severe arthritis.

Robert L. Hetzel: Right. Yeah, I know that.

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Frank E. Morris: So when he became Chairman, she stayed in New York and he went back to New York on weekends. But if she'd been able to get around, she would have been dragging him to all those fancy parties and he would have been miserable, you know. But she loved it. It's just one of those…

Robert L. Hetzel: Yeah. Did you have any contact with economists? What about Kennedy's advisor, Seymour Harris? Was he at all…

Frank E. Morris: I don't think of Seymour Harris as being a Kennedy advisor.

Robert L. Hetzel: I think he was an advisor of Kennedy during the campaign and then he went to Treasury for a while initially, but I think his intellectual affinity was with the Council.

Frank E. Morris: Well, yeah. I had a lot of contact with the Council, particularly Jim Tobin. Jim thought we shouldn't sell any long-term bonds. And every time we sold one, he'd write a nasty letter to the President.

Robert L. Hetzel: And then you'd have meeting of the Quadriad and Martin would be under pressure to buy more long-term bonds.

Frank E. Morris: Well, that came up when we had this period of…

Robert L. Hetzel: Operation Twist?

Frank E. Morris: Operation Twist, yeah.

Robert L. Hetzel: But from the point of view of the Fed, that was a good thing. It took pressure off the Fed to keep short-term rates low.

Frank E. Morris: Well, yeah. Actually, we were pushing short-term rates up. The Treasury was supposed to do everything it could to push short-term rates up, and then the Fed was supposed to bring long-term rates down by buying in the open market, buying long-term insruments. The reasons for pushing short-term rates up was because of our balanced payments problem. Our short-term rates were not very competitive with European rates.

Robert L. Hetzel: That's right.

Frank E. Morris: And we had an outflow of capital and we were trying to deal with that in part by Operation Twist.

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Robert L. Hetzel: Yeah, I guess our rates were somewhat below three percent, and rates in Europe were around five percent. But the Council really believed that you could work on the term structure in that way. So it took the heat…

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Frank E. Morris: I was on a panel--I forget. It was held at Fairfield University, but I forget who the sponsor was. Anyway, I was on a panel with Walter Heller and this was not more than ten years ago, and he was still advocating Operation Twist. And I told him I was involved in the twisting on that thing, and it just didn't work.

Robert L. Hetzel: Yeah.

Frank E. Morris: I told him what we would do is to create a temporary disequilibrium in the short-term money market by selling short-term--the problem is Treasury sells short-term securities in forms that the market didn't want.

Robert L. Hetzel: Yeah.

Frank E. Morris: We would sell strips instead of like today where you bid for 30, 60 and 90-day bills or you just put 90-day, six month and one-year bills. We bid for 13-week bills, 14-week bills, 15-week bills and you had to buy a package. And the investors were not acclimated to buying bills on that day. And so we created temporary disequilibrium and Treasury bill rates would go up by about ten basis points. In the long-term market, we did an internal study of what happened in regulation under Operation Twist. What we found is that we had a temporary influence occasionally on short-term rates and we did tend to reduce the spread between Treasury bonds and corporate bonds, but we didn't have any impact on corporate bonds used on mortgage rates, which was what Tobin wanted.

Robert L. Hetzel: What was Roosa's attitude? I mean, this was his idea. Was he as enthusiastic as the Council about influencing the term structure? Or did he view it more…

Frank E. Morris: No. I don't think he was--my recollection is he--one thing I should alert you to early on in this is that memory is a very difficult--it's a hazardous thing.

Robert L. Hetzel: Well, I'm trying to talk to a number of different people. So that's the reason to get more than one recollection.

Frank E. Morris: But my recollection is that Roosa was not enthusiastic about it, but it was something we had to do.

Robert L. Hetzel: Yeah. His concern was more with balance of payments and keeping short-term rates high enough to…

Frank E. Morris: Short-term rates up, yeah. He didn't think that we could really do much to influence term structure by purchasing long dated instruments.

Robert L. Hetzel: How long did you remain with the Treasury?

Frank E. Morris: Pardon?

Robert L. Hetzel: How long did you remain with the Treasury?

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Frank E. Morris: I was there about two years.

Robert L. Hetzel: So you were there through '63?

Frank E. Morris: Yeah.

Robert L. Hetzel: And then what did you do?

Frank E. Morris: Then I came to Boston. I never made any money and I decided that I was reaching the age where I was collecting kids and I really should do something to get in a position where I might be able to make some money. So I went with an investment management house, Loomis, Sayles and Company. And that happened to work out very well. I was there for five years. Just a few months before I went into the Fed--I went into the Fed August, '68 and Loomis Sayles was sold to a life insurance company in May of '68 and I was one of the partners. Junior partner, but still a partner and so I had the great experience of buying at book and selling at market, which was--it's the first capital I really ever accumulated in my life, and it was a great experience.

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Robert L. Hetzel: But during that five-year period you weren't involved in macroeconomics the way you were…

Frank E. Morris: No, I wasn't. I was the economist with the firm and I later became head of the institutional department, which managed corporate pension funds and college endowment funds.

Robert L. Hetzel: So was it a rather straightforward transition for you, then?

Frank E. Morris: It was pretty easy because I'd been in the Treasury. We were concerned about the economy, concerned about interest rates, Federal Reserve policy. But when I came to Loomis I had to be concerned about the very same things. It was a very easy transition.

Robert L. Hetzel: And I suppose there was a search committee from the directors at the Boston Fed and you were on their list and interviewed.

Frank E. Morris: Yeah. It was kind of interesting. I got a call from Howard Johnson, who was then President of MIT. And he invited me to have lunch with him at the President's house on Memorial Drive, right on the Dulles River. He didn't tell me what he wanted to talk to me about. I hadn't known him that well. I'd met him a few times. But it turned out he was Chairman of the Board of the Federal Reserve Bank of Boston, and he wanted to know would I be interested in becoming President of the Reserve Bank. And this came to me at a very awkward time because I had just planned to leave Loomis Sayles to go with the Putnam Company. Putnam, at that time, was strictly a mutual fund company and they wanted to broaden out and become managers of institutional funds. And so they offered

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me a really wonderful financial deal if I would go with them and start up their pension fund and college endowment fund business. And they told me they were going to sell the company within five years. So I would go to another one of those things, buying at book and selling it at market, which I thought would have been a wonderful thing to do again.

Robert L. Hetzel: Sure.

Frank E. Morris: So I paced back and forth for a few days, trying to figure out whether I really wanted to make money or whether I wanted to be a Federal Reserve Bank President. And I finally decided that I wanted to be a Federal Reserve Bank President.

Robert L. Hetzel: Good.

Frank E. Morris: And I've never regretted it.

Robert L. Hetzel: Yeah, you'd done the other. So when was the first FOMC meeting you went to? Would it have been in '68?

Frank E. Morris: Well, yeah. It was either August or September, '68.

Robert L. Hetzel: Well, that was a very interesting time that you came in. The FOMC was--at least after the fact, monetary policy had been very expansionary from about the middle of '67 through the end of '68. Do you have any perception at the time of how the FOMC viewed its monetary policy in terms of whether most members thought of it as being expansionary or not? What kinds of complications were raised by the passage of the tax cut in June of '68? The tax surcharge.

Frank E. Morris: Well, there were two elements in this situation that I think led to the Fed's action the way it did. One was that the conventional wisdom was that the tax increase--there was a ten percent surcharge on the income tax.

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Robert L. Hetzel: That's right.

Frank E. Morris: It was going to have an effect of slowing down the economy. And this was the one time where the FOMC got extremely bad forecasts from the staff. The staff bought the…

Robert L. Hetzel: Council's forecast.

Frank E. Morris: …general conventional wisdom hook, line and sinker. And when the evidence started coming in that the economy wasn't slowing down, the staff did nothing to alert the FOMC to it. They were so wrapped up in the conventional wisdom. And I thought--coming in on the FOMC for the first time, I felt a little reserved about that as soon as I got on board.

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Robert L. Hetzel: Sure.

Frank E. Morris: But I was a follower of the indicators. The leading indicators were very strong. They were showing no sign of the economy weakening. Quite the contrary. They were suggesting the economy was strengthening despite the tax increase.

Robert L. Hetzel: The Board's chief economist, Dan Brill--he was pretty much straight Keynesian? I've never heard his economics described, but I just assumed he was Keynesian.

Frank E. Morris: I think so. He's a bright guy but, again, here's a case where he--and Lyle Gramley was there and if you talk to Lyle, the whole bunch of them just fell asleep in this thing. But at the October meeting, I argued that the economy was not slowing down. It was really accelerating. I didn't dissent, but I made that argument. Then in November there were five dissents. No, there were four dissents in favor of tighter monetary policy. Myself and three other bank presidents.

Robert L. Hetzel: Yes.

Frank E. Morris: So four out of five bank presidents voted for a tighter policy in November and none of the Board did.

Robert L. Hetzel: Well, presumably Martin was under some kind of duress at that point.

Frank E. Morris: I think so. I don't know for sure, but this is what I think happened.

Robert L. Hetzel: He had lobbied heavily for the tax surcharge.

Frank E. Morris: But I think he made a commitment to Lyndon Johnson that if he got the tax increase through, interest rates wouldn't come down.

Robert L. Hetzel: Yeah.

Frank E. Morris: And I think because he was so astute--he had a tremendously good judgment on policy. I just can't believe he didn't pick up what was going on, but I think he was just got himself trapped into this commitment to Johnson.

Robert L. Hetzel: Of course, he did believe that deficits caused inflation.

Frank E. Morris: Oh, yeah.

Robert L. Hetzel: And so from his perspective, getting the deficit down was the most important thing. And then I believe the Fed was really stung in '66 when it pushed rates up and housing fell. So housing starts fell so dramatically and Congress suddenly became very aware of the Federal Reserve System. So I think Martin just felt that the way to go was restrictive fiscal policy and let that carry the…

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Frank E. Morris: No. I think that all of the people of Keynesian persuasion--myself and Gardner Ackley and Tobin—the whole lot of us were arguing from 1965 on for a tighter fiscal policy. We had to finance the war properly or there was going to be inflation.

Robert L. Hetzel: Sure.

Frank E. Morris: So this is pretty broadly held. I would say the whole Keynesian school believe in this and, of course, I think they were right. But they couldn't get the--the President thought he couldn't get his great society program through if he talked about raising taxes to finance the war.

Robert L. Hetzel: Sure.

Frank E. Morris: And nothing happened. Finally in 1968 we agreed to do it.

Robert L. Hetzel: Right.

Frank E. Morris: I don't know. I know that Martin thought this way, but the only way I can reconcile what happened to what--if you look over his whole record as Chairman, that's a pretty damn good record.

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Robert L. Hetzel: Yeah. Well, this time he had the combination of Lyndon Johnson and Wright Patman that he was working with.

Frank E. Morris: Yeah. He had the combination.

Robert L. Hetzel: The two Texan populace. Anyway…

Frank E. Morris: Dan Brill--I was having a drink with him once. He had gone with commercial credit.

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

Frank E. Morris: Yeah, and I had met him somewhere and he was a really good guy. I liked him and he was an able economist and he told me. He said, "We just fell asleep at the switch." And he said, "You know, George Mitchell came up to me." George is a member of the Board. "And you know what he said to me? He said, 'How come four out of the five bank presidents knew what was going on in the economy and we didn't?' But Brill thought he was sort of persona non grata around there and so he left the Board and went with CIT.

Robert L. Hetzel: As a consequence of the missed forecasts in that period, although I've looked at Art Okun's forecast from the Council of Economic Advisors and they really thought there was going to be a recession. And so they were obviously putting the heat on the Fed to the point where they suggested legislation to Johnson to take the regional reserve bank presidents off the FOMC.

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Frank E. Morris: There was just one of those things. But as I say…

Robert L. Hetzel: But the governors themselves--I mean, weren't they at that time fairly oriented toward Keynesian policies of lowering unemployment. Maisel and Brimmer--weren't they fairly kind of strongly oriented toward unemployment objectives?

Frank E. Morris: Well, Maisel was. I would say Brimmer was less so than Maisel is my recollection of him. But I think if they had really understood how strong the economy was, they would have voted for a different policy. It was just a misassessment of all this going on. And they thought so strongly that the forecast was right that they sort of discounted the data coming in, you know, as temporary aberrations. And that's not going to persist.

Robert L. Hetzel: Yes. That's a good point.

Frank E. Morris: We're talking about a short period here.

Robert L. Hetzel: But when things turn around, the data's always mixed initially. So you can look at it and see what you missed.

Frank E. Morris: Well, it was only--the tax increase went into effect in July and we had a unanimous vote for tighter policy five months later. I mean, that's not an incredibly long period.

Robert L. Hetzel: No.

Frank E. Morris: But if you have a strong theoretical doctrine for example if you're a monetarist and you see the money supply growing gangbusters and the data and the economy comes down very weak, you tend to say, "Well, the data…"

Robert L. Hetzel: Yeah, lags in the policy process.

Frank E. Morris: But obviously you can't mean a recession because we can't have a recession with all this money. I think we had the same kind of situation there.

Robert L. Hetzel: So policy became restrictive in early '69 and that was pretty much a consensus policy of the FOMC because inflation was rising and the economy was…

Frank E. Morris: By that time, the whole concept that the economy was going to slow in its growth--I mean, that doctrine was no longer in force and people were acting on the basis of the data they were looking at, which was pretty strong.

Robert L. Hetzel: Yeah, and unemployment got down to 3.3 percent that year, which seems pretty amazing now. Bill Martin began to back off from the restrictive policy later in that year, about the summer. Do you remember that? He's given some accounts and he says he himself began to back off from it before the FOMC did. Does that ring a bell at all?

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Frank E. Morris: I don't know. He may have. I don't have a recollection of that, no. That's one thing you can--we do have the minutes of that period that would give you an answer.

Robert L. Hetzel: The minutes, sure.

Frank E. Morris: But I don't have any…

Robert L. Hetzel: Of course, he tends to give a consensus view. So it's not always--in the minutes it's not always exactly what he was thinking. Apparently, during the coffee break, he would meet with Al Hayes and Governor Robertson and come up with what they thought the consensus was going to be. So the statements in the minutes don't necessarily give you kind of a direct insight into what he was thinking. Okay. Things changed, of course, in February 1970 when Arthur Burns became Chairman.

Frank E. Morris: You can say that again.

Robert L. Hetzel: Do you remember the February 1970 meeting? Maisel writes it up in his book and he says it was the most acrimonious FOMC meeting he ever attended. Basically, his account is that Hayes on one side felt that the Fed shouldn't lower rates until inflation actually began to come down, and Burns thought that that would send the economy into a really severe recession, maybe a depression. Do you remember any of that?

Frank E. Morris: Well, there was acrimony between Hayes and Burns throughout the whole time they were both on the committee. They never did see eye to eye. But we didn't have that kind of overt acrimony during the Martin years. Martin was a really amazing guy. I mean, he was just one of these natural-born leaders who knew precisely what course ought to be taken and somehow managed to get the rest of the group around his point of view. Or at least if he couldn't get it all of the way, he got it most of the way. But he did so in a very--I was once asked to give a war stories talk to the retired officers of the New York Fed. They have a dinner once a year and Jerry Corrigan asked me to give a war story talk.

Robert L. Hetzel: Well, if you can remember any of them, that's exactly what I'd like to get on.

Frank E. Morris: When I was talking about the Chairman, I said that Bill Martin ruled with pure charm and that, I think, is a good description of Bill because everybody loved the guy and you were willing to just go out of your way to accommodate him if you could. But he was very differential to everybody, even the most junior people there and very differential to the staff, too, and everybody felt he was an important part of the Federal Reserve when Martin was there. He made them feel that way.

Robert L. Hetzel: Burns came into FOMC meetings--at least this is what Bob Black and Jim Parthemos said, giving you the impression he'd already made up his mind about what the FOMC should do.

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Frank E. Morris: Oh, yeah. I told the New York Fed people that night at the dinner--I says, “Martin ruled with pure charm.” And then I said, “Burns did not rule with charm.” And they broke out the audience.

Robert L. Hetzel: How did he interact with Al Hayes? I mean, Hayes had been there since I guess ’56-’57.

Frank E. Morris: I don’t really know whether there’s any prior history of difficulties between the two, but they just seemed to be antagonistic to each other right at the outset and it never really changed.

Robert L. Hetzel: When Burns wanted to exert his authority, would he lecture? I mean, he obviously knew a lot about the business cycle. He’d studied a lot about the economy. Would he lecture in a professorial way about the character of the business cycle? Was that the way he dealt with different point of view that he wanted to squelch?

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Frank E. Morris: Not really lecture, no. It was really sort of putting down any other point of view except his.

Robert L. Hetzel: So he could be personally antagonistic or hostile is the word during a meeting.

Frank E. Morris: Oh, yeah. And he didn’t like dissents. I’ll tell you one of my war stories. In the Fall of ’77--I think it was September or October. I thought monetary policy was too expansionary and so I dissented. And the only other guy in the committee who dissented with me was a brand-new president of the St. Louis Fed.

Robert L. Hetzel: Yeah, Larry Roos?

Frank E. Morris: Larry Roos, yeah.

Robert L. Hetzel: In fact, you dissented in September and October in 1977.

Frank E. Morris: Yes.

Robert L. Hetzel: And then Roos…

Frank E. Morris: When I went into the meeting in October, Burns said that he would like to see me before the meeting. And so I went in to see him and his message was that he didn’t think people should dissent unless they had a fundamental difference with the majority view. And I told him I agreed with that, but that I had a fundamental difference a month before, and that’s why I dissented. I didn’t think it was dissenting on any trivial difference. So anyway, I went to the meeting. And when it came time to vote, I dissented again for the same reason or the same situation.

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Robert L. Hetzel: Wow.

Frank E. Morris: But Larry Roos did not dissent. And I thought "My God." Arthur had gotten to Larry Roos and gave him this lecture. And he could be a very intimidating guy, you know.

Robert L. Hetzel: Yeah. I interviewed Darryl Francis and Francis said that Burns even called him Sunday morning. I won't use the language Francis used because it's kind of earthy language. But he said Burns called him Sunday morning and chewed him out. Apparently, Francis felt like he could put up with it.

Frank E. Morris: And Burns was also difficult to get along with in administrative affairs, too. You only need to sleep four hours a night.

Robert L. Hetzel: Yes, I read that.

Frank E. Morris: And he didn't like to delegate anything to anybody else. I don't think he really thought that we ought to have an FOMC. He thought it ought to be the--you shouldn't have to go running around trying to get all these guys to vote with him. But he also got involved in administrative affairs, and I was building a new building for the Boston Fed and Richmond was building a new building at the time. And Bob Black and I were continually getting pummeled by Arthur Burns in one way or another connected with the building.

Robert L. Hetzel: Yes, and Governor Sheehan was the other name that was mentioned as a headache.

Frank E. Morris: Just to give you one example, they had approved the budget for the building. Then we went into competitive bidding on the building, and the lowest bid came in $7 million under the budget they'd approved. And the budget they'd approved had a five percent contingency allowance. You know, it was the standard for major buildings. So I resubmitted a revised budget, $7 million lower. This is typical Burns horseshit, you know. When I got the new budget back, they had cut it by more than $7 million because they cut the contingency allowance from five percent to two percent. And I was furious. Here I had come in with a reduction in the budget of $7 million, not an inconsiderable sum, and they did that to me. They shafted me with that.

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Robert L. Hetzel: Well…

Frank E. Morris: That was as a consequence.

Robert L. Hetzel: Yeah. They did the same thing to us. They simply cut the request by ten percent. So now most people park…

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Frank E. Morris: It was really infuriating, and Paul Volcker was then in the earlier stage of finding a building for the New York Fed.

Robert L. Hetzel: Yes. That's a whole other story, too.

Frank E. Morris: And so one time after the FOMC meeting, Burns said to us, "You know, some of you presidents are building new buildings and I hear talk around that you're unhappy about the way I prop my involvement in the building. And why don't we get together for lunch and talk about this thing." You know, he was very gracious. So we got the building. I got to lunch and Volcker said, "Well, Mr. Chairman, I don't see how you as Chairman of the Federal Reserve Board and Chairman of the FOMC can spend as much time as you've done on the characteristics of the flagpole…

(Tape one ends here at 00:47:08)

(Tape two begins here)

Frank E. Morris: Apparently, Volcker had been going back and forth with Burns on the nature of the flagpole. But he just got involved in every little picking detail.

Robert L. Hetzel: Did you have to become involved when Burns became Chairman of the Committee on Interest and Dividends in terms of contacting firms and banks about price and their pricing policies?

Frank E. Morris: No. I didn't do anything like that.

Robert L. Hetzel: Okay. Some banks did. I know our bank had to be…

Frank E. Morris: I didn't believe that that made any goddamn sense, and I wasn't going to put my personal reputation at stake in trying to get bankers on something like that. I didn't say a word to anybody.

Robert L. Hetzel: Yeah. I know our president resented that. The other thing that was particularly resented here was Burns' recruitment of the directors to lobby Congress over the Patman GAO Audit Bill. We thought that was inappropriate. I guess different banks felt differently about it. I don't know. That would have been in '73, I guess. I don't know if you got involved in that.

Frank E. Morris: What was this? The Patman GAO?

Robert L. Hetzel: Well, Wright Patman had a bill that would have required a GAO audit of the Fed, including the monetary function as well as the…

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Frank E. Morris: Yeah.

Robert L. Hetzel: And there was no GAO audit at that time, at least not since 1935. And Burns asked the presidents of the regional Federal Reserve banks to ask their directors to inform Congress that they didn't think this was a good idea. And subsequently, a Congressmen from Wisconsin.

Frank E. Morris: Proxmire?

Robert L. Hetzel: The other one, the one from Milwaukee. Anyway, he found out about it and held hearings on it.

Frank E. Morris: Oh, you're probably thinking of Henry Reuss.

Robert L. Hetzel: Yeah, Reuss. Well, anyway, then apparently your directors didn't get involved in that.

Frank E. Morris: I don't recall getting involved in that, no.

Robert L. Hetzel: Monetary policy then became moderately expansionary in early '70 when Burns became Chairman. It became more expansionary toward the end of '70. Maisel writes in his book that twice the governors lowered the discount rate right before FOMC meetings and Maisel says as a way of sending a message to the FOMC that the Board wanted lower interest rates. And then in '72--we can talk about that in a minute. But monetary policy did move to some degree at least with shifts in thinking that the White House--at the time, what did you think about Burns' relationship with the White House? Did you have any feelings about the relationship he maintained with people at the White House? Or at the time it wasn't something that occurred to you?

Frank E. Morris: I didn't worry about it too much, but I thought that kind of continuing contact was simply not appropriate for a Fed Chairman. It cannot lead to any good result.

Robert L. Hetzel: Do you remember early 1972 the FOMC began an experiment with reserves control, which was pretty much aborted from the beginning because Burns established bounds on the movement in the federal funds rate?

Frank E. Morris: Yeah. It just never got off the ground.

Robert L. Hetzel: And apparently Andy Brimmer, in particular, was disturbed by the unwillingness of Burns to allow the funds rate to move. Do you have any recollections from 1972 in terms of Burns' relationship with the full committee? Was he challenged at all? For example, in Spring of 1972 when the dollar came under attack, Hayes from New York was critical. Do you have any other recollections from that year?

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Frank E. Morris: Well, I think one of the most destructive things he did was to put on a campaign for wage and price control.

Robert L. Hetzel: Yeah. That began…

Frank E. Morris: That is really--for the head of a Central Bank to get involved in something like that is really bad. And furthermore, to be semi-successful in doing that it means you're losing a lot of information about the effect of monetary policy on the economy.

Robert L. Hetzel: That's a good point. That's exactly right.

Frank E. Morris: No question. If that happened, I'd think that to the extent that you suppress inflation, people tend to forget about it and follow more expansionary policies than they otherwise would.

Robert L. Hetzel: Well, Burns really believed in the wage and price controls. At least I read parts of Sapphire's book and he describes a meeting at the very end of 1972 between Burns and Herb Stein and they're trying to set guidelines for price increases in 1973 and Burns is arguing very strongly for a two percent guideline. Of course, things just blew off in '73, but he must have really believed that this would deal with price pressures. And then monetary policy could bring unemployment down to four percent.

Frank E. Morris: Well, it was just terrible advice. And, of course, me from my background in price control, I left there as I think most people did. Most economists left the Office of Price Stabilization. Galbraith is the only one I know who felt differently. But the market is a wonderful thing, and to screw it up with price control is just not going to work unless you have extremely unusual conditions, such as World War II. I should run now. Can we pick this up again?

Robert L. Hetzel: Burns anticipated the depth of the recession that would follow the restrictive policy he pushed, especially in the last half of '74. And if so, do you think that he thought the recession was primarily due to Fed actions? Or do you think he thought it was due to the rise in the price of oil?

Frank E. Morris: I think we all anticipated that we would generate recession from policy. I thought that was the inevitable cost was increase in the price of oil, but the primary inflation was from spreading into rate of increase in wages.

Robert L. Hetzel: So there was a lot of concern that rise in prices produced by the oil price would spread generally through the economy.

Frank E. Morris: Yeah. And, you know, I think most of us felt that some of this was inevitable. I mean, oil is such as basic commodity. I mean, it's reflected in--most of the prices are commodities. Manufactured goods--it would be hard to find one, but the price of oil was irrelevant. And I think in retrospect, the mistake in '73-'74 was not that we generated

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a recession. The mistake was that we came out of the recession too fast. I think what happened is that inflationary expectations were building up.

Robert L. Hetzel: Yes.

Frank E. Morris: They'd been building up before the oil price shock. But that really reinforced them tremendously. And we really needed to—I say this all in hindsight.

Robert L. Hetzel: Sure.

Frank E. Morris: Nobody makes a mistake in hindsight.

{00:57:08}

Robert L. Hetzel: Sure.

Frank E. Morris: But we needed to deal with inflationary expectations and we didn't do that. The recession was too short, and we came out of it with inflationary expectations essentially intact.

Robert L. Hetzel: Yeah. I think that's right. Actually, inflation itself came down quite dramatically in '76, I guess it was. But then monetary policy became--well, if not expansionary, at least it certainly stopped being restrictive in '77. How would you assess the governors in '77 in terms of their willingness to pursue restrictive policy, as opposed to a policy aimed at unemployment? Some of them like Charles Partee were pretty much interested, very much concerned about real things, weren't they? Wasn't there a lot of talk about the danger of aborting the recovery?

Frank E. Morris: Oh, yeah. Partee was always on--I can't recall when Partee ever led a discussion in favor of higher interest rates. And I did a little study once. It hasn't been published, but I gave a lecture on it. What I did find is quite a pattern of the policy maintenance. I found that you'd expect that the average policymaker would have some dissents for tighter policy and some dissents for an easier policy. But, in fact, that isn't the way it worked out. I was one of the few who were on both sides. And, in fact, had two dissents in '77 for a tighter policy. But most people either had all their dissents on the expansionary side or all their dissents on the restrictive side. And Partee was one of those who had all of his dissents on the restrictive side. This was for the period I think--I'm trying to think of when I started. 1960 through 1990. It was a long period.

Robert L. Hetzel: Right.

Frank E. Morris: And so some monetarists in the group almost all--they didn't have any--I don't recall that they had any dissents on the expansionary side, but we had people like Partee and quite a few others who had all their dissents on the expansionary side, in favor of more expansionary policy.

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Robert L. Hetzel: We've done that, too, and we also found that there really is quite a difference between presidents and governors. If you omit Wallich in the 1980s, presidents are much more likely to dissent in favor of a more restrictive policy than governors.

Frank E. Morris: Yeah, and that was my conclusion, too. In fact, Henry Wallich had--the governors in general had very few dissents to be more restrictive. Very few.

Robert L. Hetzel: There were a few. Brimmer dissented in '72 in favor of more restrictive policy. He was obviously on the outs with Burns. And I think Coldwell…

Frank E. Morris: Yeah, Coldwell. Yeah. He tended to be very conservative.

Robert L. Hetzel: Of course, he'd been a bank president.

Frank E. Morris: That's right.

Robert L. Hetzel: These governors really don't--the names don't mean too much to me anymore. Steve Gardner, Philip Jackson, Monroe Kimbrel, David Lilly.

Frank E. Morris: Kimbrel was very conservative on policy. The others--who were the others you mentioned?

Robert L. Hetzel: Jackson, Gardner.

Frank E. Morris: I don't really have any particular image of them. When I look back at it, I can think of a few guys who were always very conservative on policy and a few who were very expansionary. But most of them were in between, you know.

{01:02:24}

Robert L. Hetzel: Yeah.

Frank E. Morris: It was a normal curve.

Robert L. Hetzel: Sure.

Frank E. Morris: I'd have to look up--my own recollection is that I don't recall those guys dissenting from the majority in any significant way?

Robert L. Hetzel: What about '77, Burns' last year? Do you feel like he was constrained by the fact that he was up for reappointment at the end of the year?

Frank E. Morris: I don't think so. I don't think Arthur was ever really constrained by anything or anybody. He had his own beacon and he followed it pretty restrictively. I don't, for example, believe that Arthur was as political a Chairman as most people think. I don't think he was dominated by the White House at all. In fact, knowing him, I'm sure he thought his judgment was much better than anybody in the White House. He thought his

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judgment was better than anybody, period. It's just that his judgment was not very good on monetary policy. And that's true of a lot of distinguished scholars. I was on a program with Jerry Jordan recently. Maybe I told you this, but this was at the Western Economic Association Meeting, a year ago June it was. And he and I were a panel on monetary targeting. And what tale was I leading up to?

Robert L. Hetzel: On the ability of chairmen to make good judgments on the correct monetary policy.

Frank E. Morris: And we agreed that most scholars tend to have very bad judgment of policy. I name, for example, Jim Tobin. I can't recall a time ever when Tobin was for a more restrictive policy.

Robert L. Hetzel: Yes. We used to read the red book and he always thought if you lowered the funds rate, he'd tell you how much the bond rate would come down and that would be a good thing. That was a regular…

Frank E. Morris: And Jordan said the same thing is true of Milton Friedman. Friedman's judgment of policy was terrible.

Robert L. Hetzel: Well, Friedman thought in 1970, for example, that the Fed should pursue a gradualist policy and Burns pushed the Fed away from that. And, in fact, it turned out that if the Fed had been sharply restrictive in early '77 and brought the inflation rate down quickly…

Frank E. Morris: Yeah, we were too gradual.

Robert L. Hetzel: But, you know, the political system didn't have the patience to stick with an anti-inflationary program for three or four years.

Frank E. Morris: Yeah.

Robert L. Hetzel: And it turned out not to be a correct judgment about what was feasible for policy.

Frank E. Morris: Well, also I think that if you're dealing with inflationary expectations, a small reduction in the rate of growth in money supply is not going to have any effect on that. You need interest rates so high that the money becomes in real terms becomes too expensive to go ahead with anything. And to get interest rates that high, they would have severely restrictive effects in the rate of growth of the money supply.

Robert L. Hetzel: Well, Summer 1981.

Frank E. Morris: But if we tried to put in gradualism in '80—in '79--let's say we tried to gradually work the money supply down. I don't know how long it would have taken us to get the inflation rate down, but it would have taken one hell of a long time because

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gradualism in a situation like that where you have wrongly inflationary expectations, it just won't work. You're not going to nudge people by small changes in policy in that context.

Robert L. Hetzel: Well, Burns, for all his knowledge of the business cycle, really wasn't a financial or monetary economist.

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Frank E. Morris: No.

Robert L. Hetzel: His thing was the real side in leading indicators and he was very good at predicting short-term movements. And for a lot of purposes, that's very important. But for the strategic purpose of controlling inflation, that skill didn't serve him very well.

Frank E. Morris: Yeah. And he was essentially very timid when it came to making policy. He was the guy that had the combination of talking extremely tough on monetary policy. But when it came to changing policy, he was very timid. And so I used to get really--be amazed at the contrast between the public image of Burns, this fierce inflation fighter and the actuality of Burns as a policy maker, and he was anything but a fierce inflation fighter.

Robert L. Hetzel: Was that because he would say things like, "A sharp change in interest rates would disturb financial markets and it would hurt confidence."? Do you think that he was primarily concerned with financial markets or do you think he was concerned that he really would affect unemployment or do you think he was concerned about the politics of the situation? He was under a lot of pressure from a hostile Democratic Congress and White House that wanted four percent unemployment. Why the timidity?

Frank E. Morris: I think it's just hard to understand, but I think it's just part of his character. I'll give you one example where we had one day a long discussion of intervening in a foreign exchange market, and the committee decided that the dollar was acting like a rock and the Committee decides that we're going to have a major intervention program. And the way we're organized, we have this committee. The FOMC determines policy, but the operation is determined by this committee chaired by the Chairman.

Robert L. Hetzel: Right. Yeah.

Frank E. Morris: So I thought, you know, who, really, is going to intervene? We only intervened to the extent of $30 million. You can't have any impact on market psychology with $30 million in the dollar market.

Robert L. Hetzel: Yeah, and I'm sure he didn't raise the funds rate, either, or the discount rate.

Frank E. Morris: Oh, no. But he didn't even want to intervene on any scale that would possibly make any difference.

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Robert L. Hetzel: That was probably 1973.

Frank E. Morris: I can't remember the timing, but that's a good example of his thinking. He was talking of intervening. But when it came to bite the bullet, Arthur could never bite the bullet. He could never bite the bullet.

Robert L. Hetzel: Yeah. I remember one experience in--I think it was March 1977 and the staff sent down right before an FOMC meeting a memo on how we'd been missing our M1 target for over a year and that wasn't acceptable. We were going to get inflation. And we went up to the FOMC meeting all excited thinking we're really going to raise the funds rate and in this recovery we're going to stay on top of inflation. And we got up there and Burns said, "Well, I just got back from a meeting at the White House and Carter's going to announce his energy program next week, and we don't want to disturb financial markets. They can only take so much bad news at one time." And nothing was done.

Frank E. Morris: Well, that's typical. But he just didn't have it in him. He just was constitutionally not well adjusted to being a monetary policy maker. Of course, this is true of a lot of brilliant people I guess, like Tobin, Friedman. We could make out quite a list of people.

Robert L. Hetzel: But with Burns it seems almost inexplicable in the sense that he certainly individually was both a dominating and a domineering person. He did not care for dissent. He wanted to dominate any kind of environment he was in. You would think that that would carry over to a sort of ruthlessness and willing to…

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Frank E. Morris: He had this combination of dominance and indecisiveness and that's a rare combination, but that's exactly how I'd describe Burns. Dominant personality but indecisive when it came to actually making a decision.

Robert L. Hetzel: Well, it sounds like a psychological study. I'm not sure how far we can get on that, but you're absolutely right in those observations. Well, let's go on to '78 and G. William Miller. He'd been on your Board, right?

Frank E. Morris: Yeah.

Robert L. Hetzel: And was he the Chairman?

Frank E. Morris: He was Chairman at the time he was appointed.

Robert L. Hetzel: And you've always had a very distinguished Board in Boston. People like Solow have been on it. In terms of a representation of intellectuals and successful business people, there's really not many boards like Boston's in the country. As a Board Chairman, how did he work?

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Frank E. Morris: Well, he was a big disappointment to me because, first of all, the guy is very bright.

Robert L. Hetzel: Yes.

Frank E. Morris: And I thought he learned about monetary policy in the years on our Board. First of all, he was a very political Chairman. That was a disappointment to me. There's no question. He was more, I think, more political in his orientation than any other Chairman, including Burns.

Robert L. Hetzel: You think he felt like he owed something to the Carter people or it was just that he felt like…

Frank E. Morris: I really think he thought he was part of the Administration. And he may argue this with me. He's an awfully nice guy. I like him personally, but he certainly acted that way. Second, he'd been head of a large corporation for many years and he was not used to working in a collegial fashion. He was used to saying, "This is what we're going to do and let's go do it." And he was very frustrated on the Board. One of the first things he did was he was death on smoking. And first thing he did was try to get the FOM to ban smoking at FOMC meetings and he was defeated. At the time, Volcker was smoking cigars. Henry Wallich smoked a pipe. I was smoking cigarettes and we had quite a few smokers around there. We didn't have a majority of smokers. But when it came to changing the rule, he didn't get any support at all.

Robert L. Hetzel: Yeah, I can remember I think Bob Black and Jim Parthemos coming home saying that he'd put out the "no smoking" signs on the table and he was sitting between Volcker and Wallich. And you could hardly see him or the "no smoking" signs for all the pipe smoke and cigar smoke.

Frank E. Morris: He would tell the staff, "Get rid of all the ashtrays."

Robert L. Hetzel: Yeah, I'd forgotten that.

Frank E. Morris: So the first thing that the smokers did when they came to the meeting, they had to scrounge around and find an ashtray and bring it into the committee room. But he was really uncomfortable in an environment in which he had to develop a consensus in order to get anything done. It was just not his style.

Robert L. Hetzel: Yes. I was here at the time. And the two things we remember was the way he limited the amount of time each speaker had. That was the first thing. And the second thing was that what he really wanted was kind of a prediction derby. He wanted you to come up with your numbers on what the economy was going to do and then he kept track of them and kind of evaluated how well you did. But he was really--what he wanted was the numbers you had for the economy. He wasn't really interested in discussions.

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Frank E. Morris: He was just not well suited to be Chairman. And I would think most heads of large non-financial corporations would probably not be that much better. I mean, you got Welch from General Electric. He'd been on a New York Fed board. Would he be a good Chairman? I doubt it.

Robert L. Hetzel: Yeah.

Frank E. Morris: You need someone with a good financial background to be Chairman. Otherwise, he's operating with a tremendous handicap. It's hard to make up that lack of background in a hurry. And on the other hand, I think Miller, when he became Secretary of the Treasury, was a pretty good Secretary of the Treasury. He was very supportive of the Fed and he didn't try to ever put pressure on the Fed. I think he was very instrumental in appointing Volcker as Chairman to succeed Burns or to succeed himself, rather.

Robert L. Hetzel: That's interesting. I know in the first half of '77 Volcker dissented a number of times. So Volcker was not, at least at that point, being a passive member of the FOMC.

Frank E. Morris: I'm sure he had a big input in the election of Volcker because here was a guy who had been Chairman of the Fed and was also Secretary of the Treasury and certainly any president would be strongly inclined to take his advice, particularly when Wall Street was telling him that's what they wanted.

Robert L. Hetzel: Yeah. Miller remained a good friend, particularly of Walter Mondale.

Frank E. Morris: Yeah.

Robert L. Hetzel: And so that was just a personal friendship?

Frank E. Morris: Yeah. Miller has been very active in Democratic politics in Rhode Island. He was among the movers and shakers in Democratic politics in Rhode Island, and I'm sure he was involved in a lot of national Democratic things, too, and so he knew the Democratic political people pretty well.

Robert L. Hetzel: Our impression was he really didn't have a strategy for changing the funds rate other than doing it very cautiously and kind of looking out the window and seeing if it was going to have any effects on the real economy.

Frank E. Morris: Well, actually, if you look back on that period--if you look back on '78-'79, we really did move the Federal funds rate a long way. I mean, the Federal funds rate had gotten up to 11 percent by when Volcker took over, and 11 percent funds rate, even though it was a negative real rate, was in nominal terms extremely high. I mean, nobody had ever seen the rate that high. But I think one of our problems in the '70s, one of the problems of the policymakers and also a problem of the bond investors was this fixation on nominal

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rates. You know, we're all running around saying, "Gee whiz, 11 percent funds rate. That's just enormous." And the bond investor--you look back and see what long-term bonds were selling at in those years. We had for a very considerable period of time negative real returns on long-term government bonds.

Robert L. Hetzel: Yeah.

Frank E. Morris: So the bond investor was thinking very much like the policymakers. They were caught up in the high nominal rates, thinking that that had to be very restrictive. And we went on like that for a considerable period of time until we finally began thinking in terms of real interest rates. That came very late. There wasn't much discussion on real interest rates in my recollection at the FOMC table. And so we finally started thinking, this came rather belatedly, if interest rates are so high, how come the economy's so strong? And we finally decided at that famous October '79 meeting that we don't know what level of interest rates it's going to take to turn around inflationary expectations, but it's got to be extremely high and high enough to cause all kinds of political turbulence if we stayed with an interest rate targeting thing. But we've got to move to monetary targeting to give us a little political freedom for moving interest rates as fast as we think they're going to have to be moved.

{01:23:14}

Robert L. Hetzel: Yeah. Let's come back to that in just a second.

Frank E. Morris: Yeah.

Robert L. Hetzel: In the first half of '79, the board staff thought there was going to be a recession and Miller signed onto that. So there was a split within the Committee and also within the Administration over how aggressive monetary policy ought to be? Does that ring a bell?

Frank E. Morris: My recollection's kind of fuzzy on that. I don't have a strong image of what the thinking was about the--I don't really recall talking much about a possible recession, it may have happened, but maybe somebody's model might have shown that the 11 percent funds rate is bound to cause a recession. I don't know.

Robert L. Hetzel: Well, the Board staff was there. The greenbook predictions were for a recession and some of the governors took it quite seriously and Miller apparently, too.

Frank E. Morris: I had forgotten that. I didn't know the staff at that--well, that would help to explain it, too, because apparently the staff had the same nominal interest rate problem in they're thinking that the policymakers did. With interest rates this high, the economy's got to slow down.

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Robert L. Hetzel: Right. Miller didn't care so much as other Fed Chairmen on consensus within the FOMC. He was willing, for example, to be outvoted on the discount rate, and it didn't occur to him that that would weaken his position as Fed Chairman.

Frank E. Morris: Yeah. I told him that when he took the job, I said, "One thing you can't do as Chairman--you always have to be on the majority's side because once you're recorded as being in the minority, your influence and your image in the street is just going to go down the chute." And that's exactly what happened. He was outvoted on a discount rate move. Well, from that day forward, nobody--hold on. I've got somebody at the door.

Robert L. Hetzel: Sure.

Frank E. Morris: …he never stated his position until everybody else had talked.

Robert L. Hetzel: Yeah.

Frank E. Morris: So he knew where the consensus was. Sometimes he would make a few remarks to try to nudge a consensus in one way or another, and very often he carried out policy in a little different fashion than the majority wanted him to because he had more control over execution of policy than any other Chairman because the directive was not quantified. It was a very fuzzy directive.

Robert L. Hetzel: That's right. It was in terms of free reserves, and nobody quite knew what that meant.

Frank E. Morris: Really, Martin would essentially, within broad limits, do whatever he wanted to in terms of execution. And very often, not often, but occasionally, a member of the Committee would start criticizing the manager for not following the directives. But it wasn't the manager's fault. It was Martin telling him what he ought to be doing.

Robert L. Hetzel: Well, Martin was on the phone with the manager. Yeah, I just looked over 1959. I was talking to Raymond Saulnier and I went back and looked at that period. And for the last half of '59, the FOMC was just setting a given target for free reserves, and yet the market rates rose pretty sharply in August and again in December. And Saulnier thought that the Fed set its targets for free reserves and walked away from it and policy wasn't tightening. And that had to have been all Martin because I went back and I looked.

{01:27:35}

Frank E. Morris: Oh, yeah, it was.

Robert L. Hetzel: I read through the FOMC minutes and…

Frank E. Morris: Only Martin could have gotten away with that because, as I say, he had this--nobody wanted to--everybody loved him and everybody had high respects for his

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judgment, too, because it had been so good, you know. And so that's why I think in '68 he didn't have any choice but to go with the wrong policy. But his judgment was just amazingly good. He didn't like to talk about economic statistics. He didn't want to talk about the money supply at all, and yet here was a guy that didn't discuss economic statistics, didn't think it was sensible to control the money supply short run and yet under him we controlled the money supply better than under any other Chairman. But it's just because policy was correct under him. And if you have correct policy, the money supply's going to perform pretty well.

Robert L. Hetzel: Well, he had a real suspicion of inflation.

Frank E. Morris: Oh, sure. Yeah.

Robert L. Hetzel: The sense that it creeps up on you and you have to stay on top of it. And that was very different than Burns and Miller.

Frank E. Morris: Yes, exactly. He would never have permitted the--if he'd stayed on instead of Burns, policy in the '70s would have been a lot tighter under Martin. I don't have any doubt of that. We would have made a lot fewer mistakes. I asked him once. He could not have been reappointed because the Federal Reserve Act permits a governor to serve only one full term and he was Chairman for 19 years, but only because he served first a…

Robert L. Hetzel: Filled out McCabe's term.

Frank E. Morris: …prior term of five years.

Robert L. Hetzel: Yeah.

Frank E. Morris: Oh, I got another guy at the door. Hold on. I'll be right back.

Robert L. Hetzel: Just finishing up with Bill Martin. Of course, also you had Al Hayes at the New York Fed and he carried a lot of weight and he was very concerned about the international situation, the dollar, the balance of payments. So the combination of his international concerns and Martin's domestic concerns for inflation were the dominant influences.

Frank E. Morris: Another thing, he was concerned about inflation control as well as the international effects of it. He wasn't strictly towards the balance of payments.

Robert L. Hetzel: Of course, Martin was careful, too, about changing policy abruptly. And as long as you had an environment of stable inflation, that could work. But once you let the cat out of the bag and…

Frank E. Morris: He consistently moved to tighten policy before any increase in the inflation rates showed up. I mean, he was running it properly. I think it's interesting that apart from the '68 problem which I think was an exception to the rule, if you go back over

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that whole period and try to second-guess him, you really can't come up with much to complain about during his regime. It was a hell of a good period for monetary policy.

Robert L. Hetzel: Let's talk about Volcker. How did Volcker bring along the doves on the Board? People like Teeters and Rice and Partee. The move to the non-barred reserves, monetary control procedures. That was a unanimous vote. Did Volcker have to do quite a bit of juggling to bring everybody on board, do you think?

{01:32:06}

Frank E. Morris: No. No, he didn't. What happened is that after that point in time--as I say, we had been overly influenced by high nominal interest rates. I think at about that time, everybody on the Committee came to the conclusion that monetary policy has not been as restrictive as we thought, that we're obviously going to have to have much higher rates and that we've got to have an operating procedure which gives us leeway to produce much higher rates. I think we all came to that conclusion at about the same time.

Robert L. Hetzel: Yeah.

Frank E. Morris: And that's why this was the most revolutionary meeting we had in the 20 years I was going to FOMC meetings.

Robert L. Hetzel: Yeah, I think that's right.

Frank E. Morris: There's no other meeting that compares with this one. Here we were not only making a major change in policy--making the biggest move in policy we'd ever made in one jump, but we were changing our operating procedures at the same time and the majority of the Committee was not monetarist in their thinking.

Robert L. Hetzel: Sure.

Frank E. Morris: So given that, you'd have to say how in the hell did we get a majority, much less a unanimous judgment. And I think it's just the weight of the evidence had gotten so enormous on all of us that we had to change. What we'd been doing up to that point in time was a complete failure and we had to do something radically different. And without that…

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