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Oral History Interview of Frank E. Morris

Conducted by Robert L. Hetzel

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Frank E. Morris: The problems of controlling monetary aggregates, we never discussed it and I was on a committee on a directive appointed by Bill Martin in the aftermath of the '68 situation, there was a committee on the directive chaired by…

Robert L. Hetzel: Holland?

Frank E. Morris: Sherman Maisel—no, this was…

Robert L. Hetzel: Maisel first—yeah.

Frank E. Morris: Chairman Sherman Maisel and Eliot Swan, who was President of the San Francisco Fed and I were the other members and we had Axilrod—we had a good tremendous staff, we had Axilrod, Sternlight, and the guy who headed the board, Asworth [phonetic 00:00:53] which is voluminous with Jim Pierce, who's now, you know, at Berkley. And we met for probably nine or 10 months before we came out with a report and we had a body of staff work that was about 18 inches tall. It was an exhaustive study. We submitted it to the committee and Martin did not put it on the agenda.

One of the powers of the chairman is that he set the agenda and, although Martin picked the committee, he didn't like its conclusion and Martin did not believe that Bertram's [phonetic 00:02:01] control of M1 or any of the monetary aggregates made any sense as a way of doing business. And so, all of our work, we just—you know, when you put in that much effort and you don't—when it isn't even discussed, you know, you grow a little upset.

And I, as a non-monetarist voted for it on the ground that it appeared that at that time, the rate of growth of money supply would be a good indicator of how fast we ought to be moving interest rates.

Robert L. Hetzel: Yeah, well Maisel wasn't a monetarist either, but wasn't the feeling that these procedures [unintelligible 00:02:58] in quantities would allow you to put more movement in the interest rates, which would be desirable, both up and down?

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Frank E. Morris: Well I think—yeah that was my thinking and I think the rest of them as well, but the problem in '68 was that we were—actually interest rates did go up in the last half of '68, but they didn't go up anywhere near enough to control the rate of growth in money supply or bank credit. People at that time were mostly looking at bank credit rather than monetary aggregate. But, I think we—you know, our charge as a committee was, what do we have to do to change our procedures so it can avoid a repetition of the last half of '68? And we told him, if you want to avoid that, then you've got to have some indicator that will quickly tell you whether your policy is restrictive enough or expansionary enough, depending on the context.

Robert L. Hetzel: Well, but the committee itself in the early '70s did begin to move in the direction of watching the aggregates and reserve control. The Bluebook began to make predictions of what money growth would be, given different choices in the funds rate, you had the RPD experiment in the beginning of '72, but Burns didn't like that stuff either and it didn't…

Frank E. Morris: And we dusted off our—when Burns came in, we dusted off our report and resent it to him, but it was not long after he came in that we had done it. So, it didn't take much revision. But you're right, Burns—we had the same response from Burns, you know, I don't believe in controlling money supply as a…

[00:05:03]

Robert L. Hetzel: And I think the logic was probably a little different. Martin thought that you should watch credit markets and credit flows and Burns thought velocity was completely unstable and what was important was peoples' psychological expectations, their confidence in velocity just moved along with that and that he could read business confidence directly and he didn't need to look at, you know, money. So, I think the reasoning was somewhat different, but the results were somewhat the same.

Frank E. Morris: Well, I think that Martin—my impression of Martin was that he got a very good sense—he knew an awful lot of people and he spent a lot of time on the telephone talking to businessmen and other people about, you know, how the economy was doing, developed this—he didn't approach it in a quantitative sense. I mean, he was very impartial and I talk about the increase in durable goods orders and stuff and he used to accuse me of having statisticalitis. He thought I was just too much enamoured with statistics and of course I thought he was too intuitive and not analytical enough.

Robert L. Hetzel: Of course, Burns was the other way around. Burns was very much interested in statistics, but he mostly watched the real statistics and…

Frank E. Morris: But he didn't a very good job in real statistics either. I mean…

Robert L. Hetzel: Well, he tried to do it all himself. He wasn't really willing to listen to the staff. He thought he was chairman and staff all in one [cross talking 00:06:51].

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Frank E. Morris: Oh yeah, and I talked to people at the National Bureau and, in fact, Anna Schwartz was on this panel I was on at the Western Economics—Anna Schwartz was a discussant and—in response to some question from the floor, I think the comment is that Arthur Burns was arrogant [unintelligible 00:07:18] that, you know, that's putting it mildly [laughter]. Oh, she was just—I had nothing—and a lot of people at the Bureau felt that way, you know, he was such a tyrant that…

Robert L. Hetzel: So, Anna Schwartz agreed with you on that?

Frank E. Morris: Oh yeah. I was kind of surprised, but you know, he had been working with—there are guys that had been working with Milton Friedman for 30 years, but he had, you know, no concept that controlling the money supply was a sensible thing to try to do.

Robert L. Hetzel: Yeah. Well, that was why in a sense the October 6, 1979 meeting—that was a watershed not so much because of monetary control, but for the first time the Fed explicitly accepted we're the organization that has responsibility for inflation, that's our job. And I think individuals had thought and believed that before, but there was lot of kind of feeling, well you know, maybe corporations cause inflation or government causes inflation and, you know, it's—you know, there's not a lot we can do sometimes if we're not willing to put up with a lot of unemployment. And I think that way of looking at things, you know, and what the Fed's principle responsibility was. You know, October of '79 was the key date [cross talking 00:08:50]…

Frank E. Morris: I didn't really look upon it that way.

Robert L. Hetzel: Oh, okay. Well, I'm interested in what you think then.

Frank E. Morris: I don't think that the Fed was more oriented toward inflation control as it was in the Martin years. I think in the Martin years, the Fed was more oriented about inflation control than it was during the Burns years.

Robert L. Hetzel: Well, and Martin cared a lot about inflation. I think he thought that speculative credit extension would cause inflation, that would cause imbalances and that would cause recession.

Frank E. Morris: And he caused a lot of recessions, you know? He was criticized for having, you know, these frequent mild recessions and everybody—I read one set of hearings where Tobin and Friedman both criticized the Fed for having too restrictive a policy…

Robert L. Hetzel: Yeah, probably '74, '75.

Frank E. Morris: …generating all these recessions, you know? But if you look at the period, you know. Well, I think you better get me a new one because…

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[00:10:10]

Robert L. Hetzel: …about the recessions under Martin. I mean, one thing about them is that you go back and look at them, and they were short and really rather mild. They thought a recession—well, I guess in 1958, the unemployment rate got up to 8%, but I think '53, '54 and in the '60 recessions unemployment didn't get much above 6% and the recessions really weren't very long. You didn't really begin to get the big recessions until '75.

Frank E. Morris: You don't get a big recession until you have a big boom.

Robert L. Hetzel: Big inflation, yeah.

Frank E. Morris: And if you have—if you cut off the big boom before it really gets going, then the recession—you may have a lot of recessions, but they're going to be pretty mild because you don't have the kind of excesses in the system that are a long boom can generate.

Robert L. Hetzel: Let's get back to Volcker, but let me just ask you before we move on to Volcker, do you think G. William Miller would be willing to talk to me? Is he accessible or not?

Frank E. Morris: I think so.

Robert L. Hetzel: Would you have an address and phone number for him? Is he still working or is he retired?

Frank E. Morris: As far as I know, he's still working. He's in the venture capital business and he's in Washington.

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

Frank E. Morris: I can't recall the name of his firm, but I'm sure the people at the Washington Fed ought to have a number. I don't. I think I've got an old one in my computer, I can give you that if you like, the last one I've commented—I talked to him at.

Robert L. Hetzel: Under the new operating procedures—the post-October '79 operating procedures, didn't Volcker didn't have the kind of control over the funds rate that Martin exercised in the '50s and '60 in the sense that the FOMC set a target for board reserves, the board would set the discount rate and that gave Volcker a lot of ability to influence the funds rate, didn't it?

Frank E. Morris: Not as much as Martin had because, I mean, you had, you know, targets for the rate for the growth and reserve and that didn't give the chairman much leeway as far as interest rates are concerned. I mean, if you're really going to meet a reserve target, well then you don't have a hell of a lot of—there was a—you know, the committee often set

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limits on the fluctuations funds rate that was pretty broad, but even though they were broad, we had to keep changing them in between meetings.

We had a lot of—we thought we had a band wide enough to do most anything and a number of times we had to widen it before the next meeting.

Robert L. Hetzel: Yeah, I went back and read notes from the October '79 meeting and...

Frank E. Morris: But the chairman has always had some authority, no question about that. The thing about Martin was that the directive was so loosely written that it could be interpreted in many different ways, whereas the directive was pretty quantified under Volcker.

Robert L. Hetzel: Yeah. Yeah. How did you evaluate the credit control experience? Was that just something that was kind of forced on the Fed...

Frank E. Morris: It was forced on the Fed and we didn't want it. Volcker didn't want it and tried to get out of it, but there was—you know, it was strictly a political—I mean, I'm not sure who—I suppose someone on the council or the Treasury—somebody who didn't like high interest rates thought there was a substitute for it, you know, sort of like wage and price controls, you know?

Robert L. Hetzel: Yeah, I once had, just totally by accident, at lunch sat next to Charlie Schultz and he told me that the council came up with a anti-inflation program that looked very conservative and that Carter at that point was worried about running against Kennedy in the primaries and so he said, look this looks like a Republican program, throw in something that makes it look Democratic. So they dreamed up the credit controls.

[00:15:04]

Frank E. Morris: Well, that sounds like as good as any other explanation. It did sort of come out that of the blue and we opposed it and the committee members asked Volcker to fight it as hard as he could because we'd had enough of that horrendous experience with Burns as chairman of the committee on interest and dividends [unintelligible 00:15:27] back in the early '70s. That was a disaster, an absolute disaster.

Robert L. Hetzel: Yeah. Did you get involved in sending letters to corporations at that time?

Frank E. Morris: No, I didn't do anything. I refused to do anything.

Robert L. Hetzel: Yeah. But this credit control program was a real headache for the Fed, wasn't it?

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Frank E. Morris: Yeah, but I think—you know, since we were instructed to do it, they put Fred Schultz in charge of executing it and he decided if we have to do it, we might as well do it right, you know? And so, you know, we talked pretty tough at the banks, you know, we [unintelligible 00:16:12] expect them to comply with this thing and its consequences had a tremendous impact, you know? And the public somehow got the notion they weren't supposed to use their credit cards and I don't know where they got that idea, but people were just not—all of a sudden were not charging to the credit cards and the impact of it was just enormous. Well, none of us would have forecast the impact that it had.

Robert L. Hetzel: Yeah, nobody thought it would have much effect and it really—it was really incredible. People stopped spending...

Frank E. Morris: Yeah, it was really was.

Robert L. Hetzel: Well, people thought that somehow or other their credit was—the credit would be cut off, they weren't sure what was going to happen. How much do you think Volcker watched the bond markets in setting policy? Do you think he tried to read inflationary expectations and keep policy restrictive as long as thought inflationary psychology was rampant?

Frank E. Morris: Oh yeah. Oh sure. I think he did that and most of all of us did, you know, because—yeah, we needed to have a big inflationary premium in bond yields to make this thing go. And we got it in spades.

Robert L. Hetzel: Yeah. Do you have any recollections of summer '81 when the funds rate went almost to 20%? That must have been something to have lived through.

Frank E. Morris: I don't—yeah. None of us I think even vaguely contemplated that we'd have to send the funds rate that high. But then we were caught—you know, we had—the effect of that was to produce the big decline in the growth rate of the money supply and we were then stuck with this and we were telling the public that we were weren't controlling interest rates, we were controlling the money supply money. And so, here without washing out inflationary expectations at all, we had to lower interest rates in order to respond to the decline in the growth rate of M1, you know? But we had the remarkable back to back recession thing, you know? We had a deep recession followed by an extremely short expansion and then another deep recession. But there was no way to avoid that as long as we were committed to controlling money supply.

Robert L. Hetzel: Yeah, well if it hadn't been for the credit controls, it would have worked very differently. You probably could have had a shorter recession in 1980 and it would have been over with sooner, it would have been better for the Carter Administration and everyone. But, of course, it didn't work that way.

Frank E. Morris: Well, I'm not sure. I think it took a very severe recession to deal with the inflationary expectations that had been built up by that point. I mean, they were—I

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mean, I look at what people are doing in those days. All my doctor friends were out buying land in Vermont or New Mexico or...

[00:20:00]

Robert L. Hetzel: That's right.

Frank E. Morris: ...people were getting out of dollars and financial instruments and putting it into gold and land and God knows what else [unintelligible 00:20:14], but all my doctor friends bought [unintelligible 00:20:19] in Vermont in land, you know? And it's never been valued so highly as it was at that time.

Robert L. Hetzel: I had a dinner with a person from Merrill Lynch and he told me that they were sending people to South America to learn how to live permanently in a inflationary environment. That was not an inspirational time. What pushed Volcker off these procedures in the summer and fall of '82? Do you think it was the international situation primarily or just a change in inflation numbers?

Frank E. Morris: Well, the international situation contributed to it, but what happened, and I was arguing—from 1981 to '82, I was arguing that we had to get off the regime of controlling monetary aggregates because the linkage between the monetary aggregates and the nominal GNP had just been broken. I mean, there was no predictability to it and if we kept following this blindly that we could really, you know, create a tremendous financial catastrophe because what we had—you know, going into '82, we had the economy sinking into a very deep recession, not only the U.S. economy, but the economy worldwide.

At the same time, one was growing very rapidly and yeah, I looked around, and I thought the only thing that was growing was M1 and everything else was shrinking. And I thought, my God, we can—you know, I thought there was real potential for the first time of having an excessively restrictive monetary policy.

Robert L. Hetzel: Hm-hmm [affirmative]. And do you feel like there was a danger of kind of collapse in international banking institutions what with all the LDC debt, and you know, the public commodity prices and, you know [cross talking 00:22:54].

Frank E. Morris: Well, that came later. I mean, I was concerned strictly on the domestic side. In March of '82, which is before the international thing...

Robert L. Hetzel: Right, we had just pushed rates up again in the spring.

Frank E. Morris: ...I gave a paper at a conference sponsored by the Atlanta Fed. I would label this paper the death of money and I argued that now that M1 was interest bearing, that it had become very [unintelligible 00:23:39] and therefore, that being the case, that it was no longer going to be stably related to nominal GNP.

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Robert L. Hetzel: So, you thought the Fed ought to look directly at the rate of growth in nominal GNP?

Frank E. Morris: Well, that was one. We had to do something besides target M1. I was thinking that—I didn't want to—nobody wanted to abandon the aggregate targeting because we learned that it gave us tremendous political [unintelligible 00:24:21] and therefore, we didn't want to—we were sort of reluctant to give that up.

Robert L. Hetzel: Well, initially the FOMC [unintelligible 00:24:37].

Frank E. Morris: ...borrowed reserves was the vehicle for hitting our monetary target.

Robert L. Hetzel: Well, yeah. I mean, they were [unintelligible 00:24:47] in '79 and then they went to borrowed reserves targeting, which put [cross talking 00:24:53].

Frank E. Morris: So that—borrowed reserves targeting was a synonym for interest rate targeting.

[00:25:00]

Robert L. Hetzel: Right. Right.

Frank E. Morris: That's got nothing to do with what we were doing in '79 and '82, but we were really controlling the rate of growth of reserves and money supply.

Robert L. Hetzel: Right, but it put one more layer between targeting the funds rate directly in the FOMC. But the FOMC moved away from that. The FOMC moved back to kind of setting a direct pick for the funds rate.

Frank E. Morris: We had to. I mean, the—yeah, I was talking this way in the spring of '82 that I was really concerned that you'd have excessively restrictive policy [unintelligible 00:25:46] then in the summer, we had the eruption of the Latin American debt problem. So, on top of our other problems, we had a lot of our major banks in serious potential problem with their Latin American debt [unintelligible 00:26:09]. So, that was not the—in my thinking, that was an additional reason to turn away from active targeting, but that was not the primary one I think, but that was sort of the last straw you might say.

But then we backed away from this, but we tried to hide the fact that we were backing away from it back to interest rate targeting by saying we were controlling borrowed reserves. And we may have gotten away with it. I think that, you know, up to this day the directive reads entirely in terms of reserve targeting, yet everybody knows that that's not we're targeting at all.

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Robert L. Hetzel: Yeah. And then after—you know, beginning in '83 you had to maintain the relatively low inflation rate of 3.5%, but, you know, made no further efforts to get it down again until '88, '89.

Frank E. Morris: Well, yeah I think it was—I think what we did was correct at the time. By the time '83 had come along we really had done a big job on inflationary expectations and that was reflected in big declines in interest rates and bond yields that came down. At the time, I was—in '82 I was in charge of the committee to invest the Federal Reserve Thrift Plan and Pension Plan and one of my triumphs in the Fed is that I got with the Thrift Plan a big commitment by the Traveler's Insurance Company to pay us 17.75% for eight years. I look back...

Robert L. Hetzel: I personally benefited from that.

Frank E. Morris: If there's anything that gave me great joy, it was pulling off that deal. 17.75%.

Robert L. Hetzel: Yeah, I'm somewhat richer today for that fact, absolutely.

Frank E. Morris: But the rates really started plummeting, you know, after we began to put a hole in inflationary expectations. So many people were going bankrupt that people didn't worry about inflationary expectations anymore. They were worried about survival and we had, you know, really accomplished a great deal, but at the same time, we had to—however the economy started growing at a very rapid rate, we pushed interest rates up again.

Robert L. Hetzel: Well, early '84.

Frank E. Morris: Early '83 for example, the economy had just gotten started—the upturn had just gotten started, it was only about five months old when we raised interest rates.

Robert L. Hetzel: Yeah, I think that was June of '83...May or June.

Frank E. Morris: Yeah, it was May. And that's quite remarkable for...

Robert L. Hetzel: And the unemployment rate was still around 10% I believe, so that was...

Frank E. Morris: So that was quite remarkable, but I think it reflected the fact that by God we learned our lesson from this. And we sustained that right through. Whenever the economy started growing too rapidly, we tightened up. But even, you know, the last one of those was prior to this more recent one was in the late '89, early '90s, you know, when the inflation rate started bobbing up and we leaned against it.

[00:30:14]

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Robert L. Hetzel: What about—well, ’84 again, spring, early summer ’84, the Fed rate [unintelligible 00:30:21] again got on top of inflationary expectations, how do you assess ’85, ’86? Subsequently, in light of the moderate rise in inflation in ’88, ’89, do you think in that period, ’85, ’86, first half of ’87, monetary policy was too easy or do you think it was about right?

Frank E. Morris: Well, I think it got a little too easy in ’89.

Robert L. Hetzel: In ’89?

Frank E. Morris: And so yet, we had to begin to tighten up a bit.

Robert L. Hetzel: When it did it become a little too easy?

Frank E. Morris: I’m just going on memory now, maybe it was ’88 or ’89, in terms of the response of the economy and in terms of the CPI, the CPI started growing at about, in the early ‘90s, around 5, 5.5%. So that was—you know, there was first big upshoot in placement that we’d seen but we leaned against, and I think that was the right thing to do. A lot of people say, you know, we caused the recession in 1990. I don’t believe that. I think that it was the Gulf War. Without the Gulf War, I don’t think there would have been a recession, but it is true that when the Gulf War dampened the economy, it came at a time when the Federal Reserve was already dampening it too and where we had, you know, long term bond yields got over 10%.

[00:32:04]

Robert L. Hetzel: Hm-hmm [affirmative]. Do you think the new appointees to the board in ’85, Johnson and Angell and Kelley and Seger, do you think they pushed Volcker and the Fed into an easier monetary policy at that time?

Frank E. Morris: No.

Robert L. Hetzel: So you think, even though Volcker after being outvoted on the discount rate decrease, went along with discount rate decreases after that? You think he still had control of the...

Frank E. Morris: Well, I think he had the Presidents on his side and I don’t—and Paul never was upset about dissents. You know, Burns was hyper about dissents. Volcker didn’t give a damn as long as he had the majority, he didn’t give a damn whether he had dissents or not and the Presidents were pretty solid. I mean, they weren’t—there were not—I can’t recall any real rifts in policy between the Presidents and Volcker in those years.

Robert L. Hetzel: Yeah, I’m sure that’s right.

Frank E. Morris: So, he went into the meeting, he only had to get, you know, one of the board members, one of the six to support him.

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Robert L. Hetzel: Well, he had Wallich.

Frank E. Morris: He had Wallich, yes. Well, he had—he'd go into the meeting in a pretty strong position.

Robert L. Hetzel: So, Greenspan came on in summer of '87 and his problem was bond rates were rising, there was concern about the falling dollar. It was a really difficult time. Do you have any reflections on that period of late summer '87 and the concerns over the dollar and inflation bond markets? And then, obviously the stock market crash and what might have set the crash off?

Frank E. Morris: Well, I think what set—and I was in the investment business where it came before I came to the Fed and I've been following the market for a long time, and clearly what—the two things that killed the market in '87 were, one, the overvaluation of—you had—the market was selling way over 20 times earnings, plus the upturn in inflation had scared the bond market. The bond market rose—my recollection is that the long bond was about to run 10/40.

[00:35:01]

Robert L. Hetzel: Yeah, it was pretty high.

Frank E. Morris: That's pretty tough competition for stock. You can imagine if we had a treasury bond over 10% now, where the stock market would be. It looks pretty queasy right now anyway, but it sure as hell wouldn't be where it is if we had—you get 10% on the long treasury. So, I think that's what killed the stock market, the combination of overvaluation and high bond yield.

Robert L. Hetzel: But then when the economy began to strengthen in '88, then Greenspan and the Governors developed the soft landing strategy where they would try to keep real growth at least moderately below the economy's trend rate of growth and try to bring inflation back down without a recession?

Frank E. Morris: Yeah. And, you know, I think it would have succeeded but for the Gulf War. You know, people can differ on that, but looking back in 1990, clearly the economy was slowing down in response to a tighter policy which is what, you know, the Fed wanted. But, certainly I would not have forecast—there's nothing in the situation that would have led to a forecast of recession and I don't think—I can't recall any forecast of that nature around. But, I think they were moving for a soft landing and I think they would have gotten it.

Robert L. Hetzel: Yeah. I've pretty much run through my questions. You've been on the FOMC since '69 and you've been following monetary policy since the late '50s, and you've seen the broad cycles of inflation and disinflation. Do you think there are any institutional arrangements changes the Fed should make to preserve the progress the Fed has made over this period in formulating monetary policy?

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Frank E. Morris: No, there was a time when I was younger when I thought that institutional arrangements were the answer, you know, when I was on that committee...

Robert L. Hetzel: Yeah, the Maisel committee.

Frank E. Morris: ...effective, but I think all my experience tells me now that there's no simple rule or set of rules that you can use that will lead you to a proper monetary policy, with one exception I think. If I were going to throw out some rules, it would be—I'd have two rules. One, that the Fed should tighten whenever the economy was growing beyond its long term potential rate, unless there was an awful lot of slack in the economy. And two, that the Federal Reserve should never permit negative real rates to develop. And I think those are not very—those two rules don't make a very delightful theoretical structure, but I think that's about as far as you can go with rule making and deal with an economy that's continually in a state of change and a financial system that is reinventing itself so rapidly, you know?

Robert L. Hetzel: Okay. Well, we've covered a lot of territory. Do you have any more general observations or anything you'd like to put on the record? I feel like I've learned a lot from you and I appreciate talking to you. And if there's any other—I'm sure you'll think of things I left—you know, we should have talked about and didn't talk about and if there's anything else that's on your mind that you want to mention or whatever, I'd be delighted to get it down.

[00:39:49]

Frank E. Morris: Well, I think we've covered the fundamentals of that period and why policy failed in the '70s and why it succeeded in the '80s. As I say, I think I in the '80s, we did a very good job of following my two rules.

Robert L. Hetzel: Yes, I think you're right. We began to move interest rates when the economy moved, not just when inflation began to pick up.

Frank E. Morris: We moved interest rates well before we had any sign that we're getting close to capacity and we haven't had periods of negative real interest rates since 1978.

Robert L. Hetzel: Right. Okay. Well, if you think of anything else that we left out, for sure drop me a note. I've got a little bit of room left on the tape, I'd love to fill it up.

Frank E. Morris: Okay. If you have any more questions, please give me a call.

Robert L. Hetzel: I really appreciate this.

Frank E. Morris: Okay.

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