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Interview of Charles J. Partee

Conducted by Robert L. Hetzel

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Robert L. Hetzel: But let me ask you some questions about Chairman Martin. Martin was of the old school, at least relative to your new class school. He'd come up through the financial markets and had an understanding of how financial markets worked, and saw monetary policy through the optic of the psychology of the markets. You were of the newer generation of quantitatively-trained economists, knowledgeable about model-building, econometrics, and…

Charles J. Partee: Not really econometrics. That was beyond me. I was a general economist. I had come from a bank, too, you know.

Robert L. Hetzel: Yeah, okay, but you had the interface between a staff that was increasingly…

Charles J. Partee: That's true.

Robert L. Hetzel: Technically competent, and between this generation represented by Chairman Martin. And although this didn't occur on Chairman Martin's tenure, there's a memo I pulled out, just for sort of the amusement value now, though it probably wasn't funny to you at the time. In November 1972, Governor Sheehan visited your shop, and apparently wasn't overly-impressed by the anti-war posters he saw on some of the other…

Charles J. Partee: Yeah, right.

Robert L. Hetzel: Sorts of pictures, and so you were…

Charles J. Partee: Might have been a few people in sandals, and that kind of thing, yeah.

Robert L. Hetzel: Yeah, so you were obviously interfacing between two different cultures. What did the -- how did…

Charles J. Partee: Sheehan was not really the old culture, you know. He came in from a management group, and was a very difficult personality. But he really wasn't at all like them. The better example is Governor Shepherdson. Remember Governor Shepherdson?

Robert L. Hetzel: Yes.

Charles J. Partee: Well, I recall that we used to give chart shows to the open market committee, and they included forecasts, and so you you'd have a chart, you know, a time-series chart, with maybe five or ten back years, and then the next four or six quarters of projection. And one time, Shepherdson says, "You notice one thing about these charts? That the right-hand side was much smoother than the left-hand side." He wondered why that was, yeah? But that's a good indication of the difference in cultures, I think.

Robert L. Hetzel: Martin would make statements like, oh, you know, "No more economists." And yet he did support efforts to develop a highly-trained staff. Why do you think that was?

Charles J. Partee: Well, I think he realized that his advantage was in having a staff that was qualified, and could present some new information to him, that was useful. I mean, it was a broad-minded point of view that Martin had. Although I think you're quite right that he wasn't statistically, or certainly empirically-oriented in that way. His favorite stories would be what he learned when he talked to people in the lines at the box office in New York.

Robert L. Hetzel: Yeah, that's what Dewey Daane told me.

Charles J. Partee: Yeah, he'd go up and down, talk to people about what do they think. And that's a crazy thing, you know. What in the world must these people have thought? This guy going up and down, asking them what they thought about the economy, or how things were, while they were standing in line to buy a ticket to some Broadway show.

Robert L. Hetzel: What did you think of Burns as a -- I'm sorry, Martin, as a monetary policymaker? Did you think of him as old-fashioned, or did you see him as having an intuition about policy that made up for a lack of training in economics?

Charles J. Partee: No, he was, you might say -- we used to distinguish, in those old days, between the bankers' school and the economists' school, and he was one of the banker's school. With his practical banking experience, and that banker point of view, which many of the board members had at that time, toward these issues, and that's not necessarily wrong. It's not old-fashioned, even, and as far as I can see, it might have worked out just as well as any other approach. He did have some intuition, I think. But he also had a very wide range of acquaintances, that gave him a sense of things he didn't get, looking at the statistics or the publications.[05:00] And I think that held him in very good stead.

Robert L. Hetzel: The board did change in the 1960s. The banking school individuals -- Balderston and Shepherdson, Dewey Daane, of course he stayed into the '70s, but that school. On the other side you got Brimmer and Maisel, and Mitchell. Did that make a difference?

Charles J. Partee: Yeah, that was a change. There was a change. I don't remember too clearly. Well, there was a whole change in the position of the board. The board used to consider very small things in board meetings. Of course, they had them every day, and which were done in time so that Martin could go and play his game of tennis. But you know, they, for example, one I think I recall -- I don't know why it sticks in my mind -- is that there was an exception to labor rates, that always had to be approved for the Federal Reserve Bank of Chicago, having to do with the pay of marble cutters and Chicago. Well, that's something the board took up. Three, six months or something like that. And there were many little bits of trivia of that kind that used to be in board meetings, and they all dropped off over time. And so the character of the thing did change, significantly, with the passage of time.

Robert L. Hetzel: Well, Burns changed that too, right? I mean, one of the first things he did was make all of the administrative responsibility for the staff subject to his approval, as opposed to [inaudible 06:38]

Charles J. Partee: I don't know quite how… that certainly happened, without my knowledge. And I don't know quite what it involved, but apparently prior to that time, a chairman didn't have a stated authority as great as Arthur Burns insisted on when he came in. And it did involve total ability to control, administratively, the staff of the board. Which I guess wasn't there before.

Robert L. Hetzel: Well I think all the promotion decisions and so on were considered by the entire board.

Charles J. Partee: That's right. And you know, they were afterwards, too. I can't really think of the changes that occurred, but it seemed to people to be important, in terms of a written policy.

Robert L. Hetzel: So that when decisions were made, for example, to promote you to be Director of Research, that was considered by the entire board. That was not Burns's decision?

Charles J. Partee: Oh yeah. No. Well, as a matter of fact, I became Director of Research before Burns came.

Robert L. Hetzel: Right, right.

Charles J. Partee: Just before. And my recollection on -- and later on, when I was a board member, was that questions of promotions to official staff, at least, always considered by the board as a whole.

Robert L. Hetzel: Let me ask you about Martin's attitude toward inflation in 1969. Martin felt like monetary policy had been too easy. We talked about that before, the business about the income tax surcharge, and how late that was getting through Congress, and so on. And monetary policy was restrictive, in 1969. Do you think Martin was willing to put the economy through a recession, if that's what it required, to get the inflation rate down?

Charles J. Partee: I don't know. Nothing ever got…

Robert L. Hetzel: Sure. That would never have been stated, of course.

Charles J. Partee: On those specific terms. And I really don't know, I don't think he had anything like the willingness to do what Volcker did later on. But, I noticed, he would have been more of a compromiser all around, I think, you know, get a little on inflation, get a little on employment, that kind of thing.

Robert L. Hetzel: Well, what about relative to Burns? Burns agreed with the gradualist policy of the Nixon administration, which meant primarily the Fed could concern itself with inflation, but the unemployment rate should not rise much about 4%. So in terms of the continuum, Burns was more concerned about unemployment and the kind of, the by-product of getting unemployment down through a rise in -- getting inflation down through a rise in unemployment?

Charles J. Partee: I'd say that's probably right. I'm not really all that clear about that, because I don't know that much about Martin's views. [10:00] So as far as Burns is concerned, one of the great, great things of the whole period, and perhaps until recently, has been the fact we did have the Employment Act of 1946. And you had to testify on that, and you know, we had people like Wright Patman and the Congress who were very, very critical of the Federal Reserve for its tendency to let employment drift. And he had to testify many times, you know, and sometimes it came very close to a vote in Congress that would have lost that authority, that flexibility for us. So that was probably the major concern that he had, rather than anything about the administration.

Robert L. Hetzel: Let me ask you this. This is a very general question, but it seems to come through in reading things about Burns. Burns, when he became Chairman, saw a country that was divided very deeply over race issues. There was the culture issue, there was the war issue. Burns felt like the country could not withstand a major recession, a high unemployment rate, given the divisions and the social tensions that already were existing. The country just couldn't handle a recession. Does that sound right?

Charles J. Partee: I think you're reading too much into it. Burns's principal characteristic was that he was a scholarly academic-type economist, schooled in the business cycle. And so he had a feeling of all these things interacting. And so he was more aware, I think, than his predecessors had been, that action that would limit prices would probably raise unemployment, and vice versa. But it was from a business cycle orientation, rather than any social thing. I don't remember social issues being much discussed, in those years. In the Board, anyhow.

Robert L. Hetzel: Sure. Toward the end of 1969, it looked like the economy was beginning to weaken. It must have been a very confusing time, though. The unemployment rate went to 4%, I think, in October, I guess that would have been seen in November, but then it drops back down to 3.4% in December, and it's not really until, oh, I don't know, March or so, or April of 1970 that it begins to look like the unemployment rate is climbing above 4%. But there's evidence, toward the end of ‘69 that the economy is weakening. And at that point, there's a division of opinion within the FOMC. You have doves, like Brimmer, Mitchell, and Masiel, and then you've got the hawks, Martin, Hayes, and Presidents like Caldwell.. Does that sound right?

Charles J. Partee: Yeah. I'm not sure about the timing, but that does sound like the way the thing would line up, as we start to see some weakening. I don't -- my recollection is that we weren't all that concerned about a weakening economy in late '69. I think probably that came a little later. We tended to be a little late in seeing the changes in the economic environment, and I think we were probably a little late then. And of course, a lot was contributed by the Penn Central crisis in 1970.

Robert L. Hetzel: In a sense of urgency?

Charles J. Partee: The feeling that the financial structure was a little shaky, weak. And that that would be made worse by the climb in the economy.

Robert L. Hetzel: So there was a -- that cost a significant change in attitudes, in the sense that…

Charles J. Partee: Yeah, that was probably late spring of 1970, wasn't it?

Robert L. Hetzel: Yeah, it was May of 1970. So there was a feeling that monetary policy was stressing the financial system, the level of interest rates…

Charles J. Partee: It became -- yeah, yeah, yeah, that's right. It became much more of an issue. Because, you know, it wasn't just Penn Central, it was the commercial paper market that virtually collapsed on us. [14:58] And so, you had all the -- all of these things that used to develop that people didn't know much about until they happened. There had been this culture, this tradition, that was having commercial paper backed by lines of credit, and it was about then we discovered that many of the big issuers didn't have enough lines of credit to cover, and so not only was it a question of it coming back on the banks, but of the banks being able to say no, because there wasn't an established line of credit. The people liked Chrysler, who was a major player then. And there were these demand notes, what they called demand notes, that were issued by the commercial paper issuers, that might have said 60 days or 90 days, but they were callable in 24 hours' notice. And there was a common trust instrument, trust departments bought them in volume. And so it became a very shaky thing. And so as I say, there was inadequate -- of course, you needed to have more bank credit to support the decline of the commercial paper market, to substitute some other credit for the credit that used to go through that. And so that became a big consideration. And that tends to stick in my mind more clearly than any really serious recession talk before that.

Robert L. Hetzel: Banks weren't naturally ready to step into the breach and get the business that had been going elsewhere? This was not a great business opportunity for them? Or they were timid about it…

Charles J. Partee: Well you know how it is, when there becomes a question about the credit fitness. Why, banks become reluctant. And so they were being presented with this opportunity, you might say, at the very time that the credit worthiness of the borrower came into question. And so they weren't all that enthusiastic, no.

Robert L. Hetzel: So, were you involved in the firefighting? Calling banks, and…

Charles J. Partee: Yeah, yeah, yeah. See, I didn't actually call banks. The presidents did that. But I was involved in dealing with that crisis, yeah.

Robert L. Hetzel: So basically the bank presidents would call on the phone and say, "The discount window is open, if you need it to meet demands.

Charles J. Partee: Open market committee and they all called leading banks in their districts, to say that they would be supportive, that the Federal Reserve would be supportive as credit was extended, as a substitute for this commercial paper.

Robert L. Hetzel: So it was -- the peak of the business cycle is dated December, 1969…

Charles J. Partee: I agree with that.

Robert L. Hetzel: It was a mild recession, but in reading the documents, up until -- my recollection is up through June of 1970, the Council of Economic Advisors was not particularly concerned about recession. They saw weakness, rather than recession. It wasn't until -- now that you mention it, about that time…

Charles J. Partee: I think that's right, I mean, that it was the commercial paper crisis that focused everyone's attention. And that was at about the time we had many more signs of weakness in the economy, too. And so they came together in the spring and summer of 1970.

Robert L. Hetzel: One thing that appears in the documents is a debate between the Fed and the Council of Economic Advisors, on the language in the Economic Report of the President, having to do with monetary policy. In particular, the Council states very explicit goals with respect to the unemployment rate, the kind of thing you just mentioned. And then apparently, the McCracken Council wanted to make explicit assumptions about monetary policy, and that was debated back and forth between the Board and the Council. Who would have done that sort of negotiating with the council? Would that have been Bob Holland?

Charles J. Partee: Well it would have basically been Burns.

Robert L. Hetzel: Okay, okay, okay.

Charles J. Partee: But people who represented Burns and him were myself and Lyle Gramley. That was an unusual thing, too, because it was -- as I recall, the magic number was 1065, and the question was, well what do you have to do to get the GNP at 1065, and the Council's answer to that was all you have to do is provide a particular monetary policy. [20:09] And it was all based on a, sort of the back of an envelope, econometric model that Laffer, who was a sort of a protégé of Schultz's, had developed, saying that the effect of GNP of monetary policy was immediate, and this was demonstrated by the, on-season, the adjusted figures. And that was all that was required. And you know, that was almost brought by the council. And if it hadn't been for McCracken's willingness to compromise and to meet the objections of Burns, why, that would have come out in the report. That 1065 was an easy thing to achieve, given a particular monetary policy. And that got taken out of the report.

Robert L. Hetzel: I remember that. I was a graduate student at the time, and Laffer had been an Assistant Professor at the Business School at Chicago, and here was this regression of not seasonally-adjusted GNP, or not seasonally-adjusted…

Charles J. Partee: And he was I think with the Budget Bureau, at the time.

Robert L. Hetzel: Yeah, he was working for..

Charles J. Partee: For Schultz, I guess.

Robert L. Hetzel: For Schultze. But even so, Schultze wanted in 6% M1 growth. McCracken wanted seven or 8% M1 growth, Stein wanted whatever it took, Burns said, you know, forget all the numbers, it's really the confidence of the businessmen that counts. So at that point there was a very public debate between Burns and the Council, which Nixon finally ended in June. Let me ask you about that. When the Council first came out with the 1065 number, the Board staff was skeptical. It was considerably above standard forecast at the time.

Charles J. Partee: Yeah, that's right. That's right. And we were particularly skeptical of the model that Laffer had, and as a matter of fact, there used to be an econometrician at the Board named Jim Pierce. You remember Jim Pierce?

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

Charles J. Partee: Well, he spent quite a bit of his time that summer developing a critique of the Laffer model, to show that it couldn't be true. It was a fairly large enterprise, on the part of the research department, to deal with this critical thing. And again, you need to understand, it's trying to pin the Fed with the responsibility for a particular outcome, based on a particular policy that was objectionable here. And that particularly, in the context of the Employment Act of 1946. And if the administration were to say was, "All we need to do to get this favorable outcome is have this monetary policy," which involved a particular increase in the narrow money supply, why, then that would make the Federal Reserve fully accountable to the Congress, under the Employment Act. So we just couldn't have that. We just couldn't have that occur.

Robert L. Hetzel: Well the same -- this jumps way ahead -- but the same issue exactly came up with the Humphrey-Hawkins debate, that Senator Humphrey and Representative Augustus Hawkins wanted to make 4%, legislatively, the official target,.

Charles J. Partee: Yes, yes, that's right. That's the target.

Robert L. Hetzel: And then the Federal Reserve System, then, was -- its job was to estimate whatever it took, in terms of monetary growth, to get that 4%.

Charles J. Partee: A lot of people forget that, but that was such a big issue in those days. And you reminded me, when you were talking about 1969, that we indeed, we did have quite low unemployment rates, through 1969. As I remember, as a matter of fact, we were the wonder of the world, with those very low unemployment rates. And they disappeared, but not before they became a major cause for debate in Congress. And the Humphrey-Hawkins testimony came out of that. The two-times-a-year appearance of the Chairman.

Robert L. Hetzel: Right, right. The performance…

Charles J. Partee: [24:55] I think that was the compromise, that rather than adopting some rule, and living to that, why, the Federal Reserve would testify twice a year, as to its intentions and how it thought things were working out.

Robert L. Hetzel: Right. The 3.4% unemployment rate that you got in December, that was like a benchmark that everything was judged against, and it was unrealistic, and that was sort of always in the background.

Charles J. Partee: I thought I hadn't remembered that, but that was a strange -- but that must have been an aberration, to drop like that in that one month.

Robert L. Hetzel: Well…

Charles J. Partee: I mean, it was a little above four, and then it suddenly dropped to 3.4. Strange change, to get that much.

Robert L. Hetzel: Yeah, and it came -- it only began to move up slowly in 1970, so I think that was one reason why monetary policy was restrictive in 1969, is that the economy looked very strong. At least, I mean, the labor markets seemed very strong. Let me ask you about Burns's attitudes toward economic recovery and incomes policies. Your mention of 1065 brings up the subject in that Burns had advocated some form of rolling mod incomes policies as early as May of 1970. But the serious discussion of an incomes policy began, I believe, in December of 1970, with his Pepperdine speech. So, it looks like what you get is the administration's policy of achieving 1065 pressure on the Fed, and then Burns responds and says, "Look, there's only so much monetary policy can do. We got this -- you want a monetary policy that will promote economic recovery, and we're in agreement with that, but there's only so much we can do, as long as wage rates are rising at inflationary levels." So it looks like, from the record, that that's the point where you begin to get a serious discussion and kind of debate back and forth between the Nixon Administration and the Fed over the role of incomes policies. Is that right? December 1970?

Charles J. Partee: Yeah, I think that's probably right. I don't remember the dates just exactly. But it's certainly true that incomes policy became a major consideration around them. And again, let me remind you -- which now, because of this, there is no replaying -- incomes policy was very popular in the world, at that time. Many countries had incomes policy goals. And indeed, the OECD had a subcommittee on incomes policy that met regularly, and discussed ways to work it, and to regulate income. So it was much, much more popular in those days than it is now.

Robert L. Hetzel: Right, but in the United States, it seems like the key -- you're right, as far as the OECD countries goes, incomes policies are a standard part of the economic apparatus throughout the 1960s, and of course, even in the United States, you get the guideposts from 1962 on. But as far as this period is concerned, it seems like what was key was the fact that in 1970, you begin to get a rise in the unemployment rate. The unemployment rate moves up to 6%, ultimately, stays there until whatever, early summer of 1972, and doesn't seem to have any effect on the inflation rate. The inflation rate just seems to be stuck up there at 6%, and that -- my impression is that that just caused an enormous amount of, I don't know, soul-searching and distress within the economics profession, that, how could you get this rise of unemployment, above 6%, and not get a fall in the inflation rate? [29:58] And 99% of the economics profession went to the view that this is cost-push inflation. So that was a view within mainstream economics within the Nixon Administration. It was certainly the view at the Treasury, and I think it's fair to say that within the Board staff too, that was the standard interpretation of that, what I guess was later called stagflation.

Charles J. Partee: Yeah. Well, I remember it was the beginning of the ratcheting up of the full employment price stabilization rate, whatever they called that. The Phillips Curve was re-evaluated, and it was decided that unemployment really had to be higher, as a result of that experience in the early '70s.

Robert L. Hetzel: Right, but that only came very slowly. That didn't come until, no, '73, '74, right? I mean, at this point, there was almost -- looks like to me going back and looking, there was -- the year we're talking about now, 1970, 1971, 1972, there was almost complete consensus within the economics profession that 4% unemployment was a pretty good objective.

Charles J. Partee: Yeah, that certainly was true.

Robert L. Hetzel: And within the Fed, governors like Andy Brimmer thought it was an interim goal. He thought that eventually, you know, policy ought to push unemployment below 4%. At least that's what he said a number of times.

Charles J. Partee: Well I think that's right. 4% was a touchstone. No question about it. And I guess, you know, everyone reluctantly gave ground on it, simply because there wasn't much to be done, as the employment rate went up above that. But probably the most reluctant were people like Brimmer and Mitchell. And those who were more willing to accommodate it were the remaining banker members of the board, who said, "Well that's life," you know.

Robert L. Hetzel: Say that again. The banker members were closer to the business community, and the business community, they were really the driving force, ultimately, behind price controls, because they wanted the government to restrain the demands of unions for wage increases. Wasn't that…

Charles J. Partee: Speaking of the unemployment rate target. The price control question developed a little more gradually and a little later, basically in 1972. And that was, you know, that was fore ordained. I remember we used to have informal seminars in the Research Department, about the efficacy of price and wage controls, and how they might be, and so forth, long before the administration had a program on it.

Robert L. Hetzel: Well, within the administration, it was primarily Schultz and McCracken who opposed the controls. But beyond that, there was considerably support for them.

Charles J. Partee: Oh yes, yes. Yes, that's right. And there was -- you know, the foreign element was a part of it, too, the uncertainty about the dollar, and all that. So that -- as a matter of fact, it seems to me that little crisis in '72 was principally a question of the dollar's declining, wasn't it?

Robert L. Hetzel: Well, that was a key…

Charles J. Partee: [Inaudible 33:54] that particular point in time.

Robert L. Hetzel: The dollar was overvalued, and something had to be done about it, and that sort of forced action, and if the dollar's overvalued, one thing you can do about it is restrain domestic inflation, and the wage controls seem, you know, work well as part of an overall package. Let me ask you a little bit more about Burns. Burns, of course, was a very eminent economist, but he was not a mainstream economist in the sense that he never signed on to a Keynesian model or a monetarist model. He was his own, sort of, NBER, [inaudible 34:48]

Charles J. Partee: Yes, that's right. That's exactly right. I would say he would say that he was main stream, and that the others were out of tune. But he was a business cycle economist. [35:01] National Bureau associated. You know, he was a very, very good friend of Milton Friedman…

Robert L. Hetzel: Yes, I have that.

Charles J. Partee: And Milton Friedman fully expected that there would a monetary approach to policy, when Burns was made chairman, and I think one of his great unhappinesses was that that never occurred, because Burns was never prepared to accept rigid rules, which of course, at that time, why, Friedman was all for.

Robert L. Hetzel: Well, and -- this is part of our discussion, but in terms of -- it wasn't that Burns didn't -- I mean, there was constant discussion about money, but Burns emphasized the velocity part. For Burns, what drove things was the confidence of the businessman, and their willingness to invest. And if you had that confidence, then velocity would expand, and that's where most of the action would be, rather than in the quantity of money. So it wasn't that Burns wasn't looking at money, it was more that he was emphasizing the velocity part, and Friedman was emphasizing the quantity.

Charles J. Partee: Yeah, Friedman took the position that velocity was unchanging, and therefore entirely a matter of the money increases.

Robert L. Hetzel: Burns wanted to promote economic recovery, particularly 1970, 1971, when it became clear that there had been a recession, and the fourth quarter of 1970 was a problem -- the auto strike added to the problems of the recession. But Burns, for him, the issue was, how you restore the confidence of the businessman, so he begins to invest. Well, the businessman has to see profits down the road, but if he's going to see profits down the road, the businessman has to be able to control his costs. He's got to have the feeling that he can control wage increases, and that caused Burns to emphasize the incomes policy.

Charles J. Partee: I think that's a reasonable view. It's certainly more specific than anybody ever did at the time. But I think it's a reasonable hypothesis, and [inaudible 37:42]

Robert L. Hetzel: And Burns also, from a point of view of where he felt comfortable, he felt comfortable on Boards of Directors, talking to businessmen. So he had that perspective, on terms of where you came down. He was hostile toward the unions, in that sense, thought they were aggressively trying to push wages beyond levels that would -- you know, that were compatible with price stability, and so there was a tension, always, between kind of Burns on one side and media, kind of organized labor on the other side, that was part of the -- at the time, the general environment, the sort of, what we talked about earlier, the divisions, in this case, between business and organized labor. Burns just felt more comfortable with the business community, and that was sort of his source of support. Does that sound fair?

Charles J. Partee: I think that's probably right, although I must point out to you that we used to have millions of the economists, academic economists, and I had many a meeting with people like Dunlop and so forth, who were talking about labor objectives. And there was an effort to keep that channel open, but I don't think it ever was as comfortable as the relationship with business and finance.

Robert L. Hetzel: So, Dunlop, he was a labor -- had he been in Harvard, and he was a labor negotiator, and then he came in with the Cost of Living Council?

Charles J. Partee: Yeah, I guess he had been at Harvard. There were a couple of them. There was another who was at Pittsburgh, who was prominent for a while. That was probably later. Dunlop was the first one. And, you know, we used to have, in the program for academic economists, there were subjects, and you'd invite people in to lead the subjects [39:58]. Actually, I remember, at labor discussions -- and they often were led by people who had this industrial organization background. And whom, Dunlop, was I guess a leading example. There was a guy -- Arnie Weber was in Pittsburgh.

Robert L. Hetzel: That's right. He was at Carnegie Mellon.

Charles J. Partee: Now, that's right.

Robert L. Hetzel: He had been at the Chicago Business School when Schultz was Dean, so he was sort of a protégé of George Schultz. And then when Schultz came to OMB, I guess at that time he brought Weber in to work with him.

Charles J. Partee: For a while, my main recollection of Weber is as an academic, appearing in Washington. [40:54]

Robert L. Hetzel: Let me ask you a little bit about your working relationship with Arthur Burns. When Burns came in in February 1970, he was obviously an eminent economist, but had not studied the Fed. His own work had been on the business cycle, rather than financial policy or monetary policy, so that, as eminent as he was, he still needed to learn the ways of the Federal Reserve system, how it worked, how policy got made, and so on. Who worked with him, primarily, when he came in? Did you have immediate contact with [inaudible 41:46]

Charles J. Partee: Yes, I did, I did. And Lyle Gramley was his speechwriter, and I had a lot of contact with him. And you know, it was a little bit treacherous, for the staff, to have this fellow come in from New York with a lot of possible additions to the board staff, if he wanted. It was a question of getting that all worked, out, which we did pretty well, with him. And it probably was, because he felt a bit uncomfortable in the financial and monetary side. Steve Axilrod was also a monetary economist at the time, and dealt with Burns, but I would say principally it was Gramley and myself.

Robert L. Hetzel: So, you developed, very quickly, a good working relationship with Burns.

Charles J. Partee: Yes, I did.

Robert L. Hetzel: And that was -- any reasons why? You just had a natural…

Charles J. Partee: Laughs. I tried, I tried.

Robert L. Hetzel: You could understand how he looked at the world, and would you argue back and forth about things, did you debate…?

Charles J. Partee: Sure. I was talking about these little seminars we used to have within the Research Department. Well often, Burns was the invited guest, and he would come up. And we would all go right to it, with Burns at the table, to discuss these issues. And we had a good relationship with him. Now you tell, he was a very dominating personality, and in the end they would never want to argue if there was anything that was put into his mouth, that he wasn't willing to have. [Inaudible 43:34]. But he was pretty good in discussions. Better than you would think, looking at his public personality.

Robert L. Hetzel: Let me ask you about your working relationship with him, in terms of FOMC presentations. I visited the Ford Library at Ann Arbor, and looked through Friedman's notes. So apparently.

Charles J. Partee: Through whose notes?

Robert L. Hetzel: I'm sorry. Sorry, through Burns's notes. Burns's papers. So apparently, the way you worked for FOMC meetings is that you would write out briefing notes for Burns before the meetings, and you would go over what you thought individuals like Alan Holmes would talk about, and then you would suggest a line of argument for his statement. And then he would take those briefing notes, and then he would go back and work off them. It doesn't look like he ever, you know, just completely discarded them. It looks like what he did primarily was to edit them, and you know, off your copies. Is that right? [44:58] I mean, it sounds like you worked pretty closely with him from the beginning.

Charles J. Partee: Yeah, you're making it a little more personal, I think, than it was. Of course, the staff was deeply engaged in preparing material for the open market meetings. And a lot of it was for the board as a whole. The person that took the greatest interest was Burns, and so there was more deep involvement with Burns than with other board members, on the thing. And so I don't -- to think it's a little too glorious to say that we prepared briefing notes for Burns, but we did have background material, which he used. And I don't know that -- you know, you mention Alan Holmes. I can't remember Alan Holmes every having a function with the committee that would lead it in any way. He was very much an operator. He did what the committee told him to do.

Robert L. Hetzel: Sure. I was just referring to the sort of [inaudible 46:09]. There would be a…

Charles J. Partee: Charlie Coombs might have had more of an independent role.

Robert L. Hetzel: Right. There would be a summary of the desk actions, and then as you said, there would be an international, and initially that was Charlie Coombs, and later Bob Solomon. And it looks like, then, Burns gets some, you know, notes on what's likely to be covered in those briefings.

Charles J. Partee: He might have, yes. And I think -- you mentioned Bob Holland earlier. I think Bob Holland might have provided him himself too. I didn't mean to slight that relationship at all, because Bob was a very close assistant to Burns. In a wide variety of things administrative, as well as policy-oriented. And so there might have been notes that were provided to him, but one doesn't think of Burns as the kind of a person… [47:06]

[END TAPE 45, SIDE A]

[START TAPE 45, SIDE B]

Robert L. Hetzel: Sure, that goes without saying, but it looks like, from the material that's available, that he went into the FOMC meetings with a lot of preparation, and he pretty much knew where he wanted to come out, at the time of -- when he went into, you can look at it either way he did.

Charles J. Partee: I think that's right. One of the differences in the Open Market Committee is that when Martin was Chairman, Martin spoke at the end, after everybody else had indicated their position. Burns spoke first. And that was pretty notable.

Robert L. Hetzel: And then you had an important role in FOMC meetings, too. At key points, when there was -- issues were hanging, and there was division, at times, Burns would turn to you and ask your opinion, and you would make statements, isn't that right?

Charles J. Partee: That's true.

Robert L. Hetzel: So it was more than -- sort of, the way the format is now, is that there's a standard set of presentations that commence the FOMC meeting, and then that's it. The staff's -- you know, I mean, except on rare occasions, you know, the staff sort of just fades off. But there were times when you were actually kind of involved as a participant in the discussions.

Charles J. Partee: And we were fairly active participants. Not just myself, but any informed staff that might be there. And, as a matter of fact, when Burns turned to me for a comment on something, I might well refer to somebody else, like Gramley or maybe Jim Pierce, or maybe Axilrod for a professional view of the matter under discussion.

Robert L. Hetzel: One of the -- I haven't done a lot of interviewing yet for the later period, when you become Governor. I've just talked to people a little bit. But everybody says that you were a very effective governor; that you were very effective in terms of influencing the debate, and how the committee would come out. And that experience, as a staff member at this point, that must have been very valuable to you later on, when you became a governor. I mean…

Charles J. Partee: Yeah, I would say just one thing melded into another. And after a while I moved out of the Research Division, and we had an office for monetary and economic policy, and I was head of that. Still exists.

Robert L. Hetzel: We'll come back to that in just a second. The decision to go to wage and price controls in August of 1971 -- the period before that, spring of 1971, the economy was not growing strongly, it was not recovering strongly, and there was a lot of concern about the real economy and balancing growth off against inflation, and money growth, which had appeared to sort of be stagnating at the end of 1970 and early '71, then revives very strongly, moves to eight, 9%, by spring and late summer of '71. And so…

Charles J. Partee: Though we might have had a revision in statistics there, too. We were plagued by that in the early '70s. And they were almost always on the upside. And they came as a surprise, and you know, but that had to be accommodated.

Robert L. Hetzel: The financial markets, then, apparently, become nervous in sort of May, June of 1971. Bond rates start going up, so the administration is getting significant M1 growth, which it wanted. Apparently, it always wanted more than it was getting.

Charles J. Partee: That's probably true.

Robert L. Hetzel: [52:05] Then, in early July of 1971, the Council of Economic Advisors does its forecasts of the economy, and it's gloomy in that they aren't on the 1065 path, and they don't appear to be on a path that's going to bring the unemployment rate down to 4.5% by summer 1972, which was the acknowledged objective within the administration. So there's a feeling that they're not on path. Policy has to become more expansionary. On the other hand, you've got financial markets that are becoming concerned about high money growth, high inflation. You've got continued high wage growth, and this is the environment that kind of makes the Nixon Administration susceptible to, you know, kind of rethinking its policy about wage and price controls. If you're going to have policy that's going to kind of encourage recovery and push the unemployment rate down, what are you going to do about rising bond rates, about militant labor unions that are demanding high wage increases? You've got a postal strike at the time. Does that sound like the kind of background that pushed the Nixon Administration into the controls? I mean, what recollections do you have…

Charles J. Partee: I think you're about right. That is, that the cost price pressure was intensifying, and it seemed very difficult to deal with. And in addition, I would again mention -- it was either a weakness in the dollar or we were losing gold, I can't remember what it was that contributed to, in the end, to the meeting at Camp David that led to wage price controls.

Robert L. Hetzel: Well, the mark was floated in May, I think, for a while. There was a rising current account deficit, so it was becoming pretty clear to the staff by late spring and early summer that the dollar was overvalued, and something was going to have to happen -- that the treasury just sort of been putting off and putting off, but it was becoming clear that something would happen. From reading the documents, though, my impression is that the Nixon Administration was talking -- at least, I mean Schultz and Connally and Nixon -- that they were talking seriously about controls in most of July, but they were always afraid that once you put on the controls, labor would challenge them, and the thing would break down. You'd have a strike, and the government wouldn't be able to enforce its guidelines. So that they were talking about early '72, and then what happened -- and maybe this will ring a bell with you or not, but there were wage negotiations with the steel union that resulted in inflationary wage settlement, and fear that that would spread; steel was viewed as a bellwether at that time, and the fear that wage increases and the resulting price increases on steel would spread to other industries. So at that point the decision was made to go to controls, but -- in fall of 1972 -- but then the dollar crisis forced everything, and ultimately the controls were announced on August 15th. Does that?

Charles J. Partee: '72?

Robert L. Hetzel: '71.

Charles J. Partee: Or '71, yeah. I could have been a year off. Yeah, yeah, I think that's right. There was certainly growing concern throughout the period about the cost pressures. And you know these -- you speak of these settlements in a particular industry, like steel. Well, steel has ramifications all over the place. I mean, a lot of people that the steelworkers had organized, other than steel mills. And you got an increase in the leading contract, there, and it spreads all over the place. So that the ramifications of a major settlement. This was also true of autos, you know. They were very much involved in agricultural machinery, and trucks, and truck engines and that kind of thing. And so one settlement might lead to 50 settlements, in a pattern way. And if they are too high, then everything is too high. [57:04] And you've got a lot of cost pressure.

Robert L. Hetzel: So the Nixon Administration, in a way, it felt like it was over a barrel. If it wanted to keep the inflation rate down through standard fiscal monetary policy, it was going to have to -- given the militant labor environment at the time, it was going to have to go through a series of strikes, and that would, in itself, be depressing of economic activity. And if it wanted to continue kind of moving the economy toward recovery, it had to do something about labor, kind of going through a year of strikes was not, just wasn't considered, you know, acceptable politically.

Charles J. Partee: Way too destabilizing. Yeah, I think that's right. Think that's right. And of course, you can't have wage controls. They're not acceptable unless you do something on prices.

Robert L. Hetzel: Right. Yeah, absolutely. The Nixon Administration thought that the problem was the…

Charles J. Partee: The whole -- the main emphasis on wage, but prices had to be included.

Robert L. Hetzel: Well, you know, the argument was, and sort of may be hard to disagree with -- if you have a cost-push inflation and wages are 75% of your costs, you have to start with wage guidelines. And if you're going to have wage controls, then you got to have price controls to make it acceptable to the labor unions. And, of course, that's where the Fed came in, because the unions said, "Well, price controls, you know, that's got to be interest rates, and profits, and dividends, and everything else."

Charles J. Partee: Oh, that's right, that came in. Interest rates, dividends, and profits. And so it became a much more complicated system, pretty quickly.

Robert L. Hetzel: Did you have any sense of when Burns moved away from incomes policy to willingness to support price controls, which sort of jump beyond an income policy which is primarily [inaudible 59:26].

Charles J. Partee: No, I don't, really. I think that it certainly was mainly a discussion of income policy, but then once it got into the decision-making, it quickly became prices, too. I wasn't a party to those discussions. And so I -- and then he went along, and I don't know. And I think it just came out of the discussion with the administration, of summer '71.

Robert L. Hetzel: But you were talking about your responsibilities. Your responsibilities did change after Camp David, because you became Burns's representative to the Cost of Living Council.

Charles J. Partee: Well I did do that. I wouldn't say that that was a formal assignment, except that I did that. Attended, either attended with him or attended in his place the major meetings, the Cost of Living Council and of the wages group, can't remember the name of that now.

Robert L. Hetzel: The Pay Board?

Charles J. Partee: Was it the Pay Board? It might have been, I'm not sure. And so I spent a lot of time with that, in the fall and winter of '71, and into '72.

Robert L. Hetzel: Were you involved in the design of the control structure, the Cost of Living Council and the Pay Board? Were you involved in those discussions?

Charles J. Partee: To a degree. The working group that I was on was chaired by the Council, and Herb Stein was the Chairman. And we did get into these things, but the actual structure of the organization, I can't remember. I mean, it quickly became a large bureaucracy. And I don't remember participating in those discussions, except that when you do something, then you have to follow through. And, you know it was quite a few people that were -- and I guess the biggest group really became the Cost of Living Council operating group. The Pay Board was never that big, I don't believe.

Robert L. Hetzel: Is your impression that the major decisions on the structure of the Price Control administration, that sort of the broad outlines were decided by Schultze and Burns? [15:00]

Charles J. Partee: I don't -- I wouldn't be prepared to say that. I would say the main outlines were decided by the administration, and I don't know how much of a role Burns would have played in that, and I think when you're talking about those things, you ought to include Connally, too. Because it wasn't just Schultz, Connally was quite important.

Robert L. Hetzel: That sort of -- yeah, I haven't talked to very many people from the treasury. I had the feeling that…

Charles J. Partee: And the representative up there at Camp David for the Treasury was Paul Volcker.

Robert L. Hetzel: Right, right. Definitely on monetary issues, Volcker was the key -- I mean, on international issues, Volcker was the key person. And I guess Charles Walker must have been important on the domestic.

Charles J. Partee: Charles, I had forgotten about Charlie. But Charlie certainly would have had a voice. But Connally was the strong figure there.

Robert L. Hetzel: Basically, Nixon delegated responsibility for domestic policy to Connally, first of all, because he was more interested in foreign policy than domestic policy, and second because Connally was running his re-election strategy, so Connally was…

Charles J. Partee: I guess you're right. Connally became the first economic spokesman, didn't he?

Robert L. Hetzel: Yes, that's right. That happened in June of 1971. There was considerable debate between -- open debate between Burns and the administration over the issue of incomes policy, and then there was considerable debate between the Council, the OMB, and the Treasury over a variety of issues of how to get 1065, the role of money growth, and the role of fiscal policy, and also whether the administration ought to push countries like Japan into revaluing the Yen. When the Watergate papers came out in June, and Nixon decided to crack down on dissent, he wanted to end this public, sort of, debate about policy, and then he made Connally the spokesman, and then everything had to go through Connally after that. And then Connally was very good at aggrandizing his own power. So he gradually, or not so gradually -- by the time of Camp David, then he replaced Schultz as the major actor in, kind of, economic policy.

Charles J. Partee: Schultz did sort of back out partly because, I think, because he was opposed to the control approach, whereas Connally wasn't.

Robert L. Hetzel: Yeah. And it must have been that environment, too, that caused the Nixon attack on Burns in July of 1971, that is, at the JEC, Burns attacked the Nixon Administration for being passive on economic policy, and pushed for the incomes policy, and then Nixon, through Colson, floated these false rumors about Burns wanting a pay increase.

Charles J. Partee: I had forgotten that. I had forgotten that altogether. It must not have been all that much moment to me.

Robert L. Hetzel: I think it was a lot of moment to Burns, and Burns won that round, I think in part because he had such good relationships with Congressmen. Congressmen like Senator Sparkman were outraged, and Nixon realized he'd pushed too far.

Charles J. Partee: Well, when you get these policy manipulations into the hands of people like Colson and Ehrlichman, god knows what might come out, you know, kind of thing that I don't know that Nixon would have been involved in, except that's what his staff thought of, as a way to get at Burns. So I don't remember this being all that big an issue. You're making more of it than I would have.

Robert L. Hetzel: Than you remember…

Charles J. Partee: Than I remember.

Robert L. Hetzel: Well, in terms of what you just said, Burns distrusted Connally's ability to conduct international policy, and that was a factor in the fall of 1971. Do you remember any of the debates that went on over how the Bretton Woods system was going to be reformed, at the time? [Inaudible 1:07:12]

Charles J. Partee: No. I wasn't really involved in that.

Robert L. Hetzel: Yeah. What about the committee on interest and dividends? Did you go to those meetings? Were you involved in that?

Charles J. Partee: Yeah, yeah.

Robert L. Hetzel: And at this point, did much happen other than letters to corporations tell them to, you know, limit the size of their dividend payments? Was there much action there at all, or was it just sort of a…

Charles J. Partee: No, it was a letter-writing and oral campaign. I don't recall that we did it. We had some people working on the subject who kept track of dividend announcements and that kind of thing. But I don't believe that it ever became very regularized, as a program. Interesting was mainly an effort to avoid having interest rates specifically covered. I mean, there was, at that time, a considerable demand to control interest rates, by putting limits on them.

Robert L. Hetzel: Do you have any recollection that when the Economic Stabilization Act was passed in December of 1971, whether at that point there was a real possibility that interest rates would be included in the act?

Charles J. Partee: There was, I think. We came within one vote in the House of losing that.

Robert L. Hetzel: And that was in -- the other time this was hotly debated was when the Act came up for renewal in spring of 1973. So the close vote -- that was in…

Charles J. Partee: I think so. You've got nine -- I don't know. I can't recall.

Robert L. Hetzel: I can check that. But I think you're probably right, it was probably…

Charles J. Partee: It was a hazard throughout that we again, just couldn't hold to an arbitrary interest rate limitation, because it would mean that -- there's no telling what would occur in terms of balance, in terms of the monetary policy required to support it, and that kind of thing.

Robert L. Hetzel: But Burns always believed that he could handle that by limiting the interest rate increases, or spreading them out, that banks charge to politically sensitive groups, small businessmen, and farmers, mortgage rates. And as long as the Committee on Interests and Dividends influenced those rates and kept them from increasing too rapidly, then he would be free to move open market rates to the extent that was necessary to make monetary policy predictions.

Charles J. Partee: I think that's true. Administered rates were the focus of attention. And I would include the prime rate in that. And we enlisted the help of the Federal Advisory Council.

Robert L. Hetzel: Would that have been in fall of '73, with the two-tier prime, or would that come before -- was that sort of ongoing, the…

Charles J. Partee: Oh, I can't remember.

Robert L. Hetzel: Sure, well, there are minutes, so I can look that up. What do you remember about the two-tier prime in, I guess it was March of 1973? Inflation had begun to move up noticeably, and money market rates had begun to move up. The rates banks had to pay on CDs were moving up. Some banks raised their prime rate, initially, I guess, in February, and then again in March, and Burns telephoned them, and I can't remember, they either pushed it back or kind of limited the amount of the increase. Do you remember that?

Charles J. Partee: The two-tier prime was an effort to keep rates more stable for small businesses, are they? Yeah, I don't remember very much about it now.

Robert L. Hetzel: Okay, that was primarily to keep Congress from extending controls over interest rates?

Charles J. Partee: Which would be stated in general terms, you know.

Robert L. Hetzel: When the -- yeah, okay. So, did you spend much time on these intergovernmental committees, at this time? [1:12:04] Or was most of your work still of working with the green book, and doing forecasts and you know, administering the Research Department?

Charles J. Partee: It was principally that. The main work with the intergovernmental groups was as the thing was being set up in late '71. And then it was a reduced effort from then on, from our point of view. We did have these couple of committees that we were responsible for, on Interest and Dividends, principally, I guess. And so that did involve staff input.

Robert L. Hetzel: Under Martin, there was communication between the forecasting staffs of the council and the Fed. But under Burns, there was none of that. You had no contact with any of the rest of the administration economists at this time?

Charles J. Partee: Well, we had the usual weekly meetings with the Treasury. And sometime through there, but I can't tell you just when, we initiated periodic meetings with the Council, too.

Robert L. Hetzel: So this continued under Burns?

Charles J. Partee: Yeah.

Robert L. Hetzel: So you met with the staff of the Treasury, and Council, the forecasting staff, the economists? Or were these just general meetings with other governors?

Charles J. Partee: It tended to be with the principals. I don't know that the technical staffs got together. There was some interplay there, but not a great deal, I don't think.

Robert L. Hetzel: But these were more -- the discussions at these lunches would have been very general sorts of -- I mean, you didn't exchange…

Charles J. Partee: Sure, sure. Yeah, without a specific agenda -- I might have had an agenda, in the early days, with the Council luncheons. But not with the Treasury. That had gone back for just years and years, and it was a regular, a regular luncheon meeting every Wednesday, I think it was. But the Council was more like once a month or once every two weeks. And there might have been an agenda, in the early days. I just can't remember.

Robert L. Hetzel: Okay. Let me ask you about monetary policy in 1972, because…

Charles J. Partee: We're running out of time, here, Bob. It's taken a long time to go through these years. I wouldn't of thought I could have remembered that much about it.

Robert L. Hetzel: Well, I got a lot of information from you on the 1960s, so you must -- I don't know. Have you talked -- what year did you retire?

Charles J. Partee: '86.

Robert L. Hetzel: '86. And so it's been 12 years. Have you talked about monetary policy since then?

Charles J. Partee: Not really.

Robert L. Hetzel: You really have…

Charles J. Partee: I retired.

Robert L. Hetzel: Have returned.

Charles J. Partee: I've left the Board, and seldom been back.

Robert L. Hetzel: And it was the grueling character of the work schedule? Just sort of the incessant demands on your time, and you just finally decided that you needed to…

Charles J. Partee: Well, I wanted to retire. And I had, as the years went by, because the Chairman was so much involved in monetary policy, I spent more and more time on bank regulatory policy, and then the banking system started to collapse. Yeah, well first the -- I was going to say, first the savings and loans, but I guess the first thing was the farm credit situation, and the oil banks, out in Oklahoma and so forth, and the midland Texas. And then that spread over to the savings and loans, and finally many, many banks faced difficulty. So I was quite pleased to be able to get out of it when I did. And I didn't want to be -- you know, I didn't want to involve myself with a bank because I couldn't tell what kind of difficulties the bank might get into. And so I didn't do anything like that.

Robert L. Hetzel: Well, let me ask you about 1972, and just whatever your impressions are. Burns, because of his involvement in the wage and price controls, he needed to at least maintain a working relationship with the administration and Congress. He was always very much concerned about the standard at which the -- the price standard and the wage standard in particular. [1:17:05] He wanted the wage standard of 5.5% to be lowered over time, to work the inflation rate down, to sort of get the inflationary psychology kind of behind the country. So he had to maintain good, at least working relationships with Congress and with the administration.

Charles J. Partee: That's true.

Robert L. Hetzel: And so Burns himself emphasized sort of the broad factors we talked about, like confidence of the businessmen, and particularly he was always very kind of interested, or concerned with fiscal policy majors, investment tax credit, depreciation allowances, and that kind of thing. But the Nixon Administration was focused on M1 growth. That was their -- I don't know, call it obsession, but that was their focus, by 1972. So, Burns had to be sensitive to that aspect of…

Charles J. Partee: Well, I think he was, yes. Because you're quite right, there was a constant drumbeat from the administration on keeping the money supply growing. That was the objective.

Robert L. Hetzel: And so really, the first time it must have been extremely difficult for Burns, feeling caught between hawks on the FOMC, and between the administration was kind of fall of '71, and early '72, when M1 growth drops off, significantly, after the controls. And the administration -- people like Schultz, and at this point McCracken and Stein, for them, there's a sense of consternation. They can't believe that money growth is falling off. From their perspective…

Charles J. Partee: It's quite consistent, though, with the reduction in the pressure of demand for money that would have occurred, as you've got a leveling off in prices and wages. But that's the position we took. (laughs)

Robert L. Hetzel: Well, initially, when the weakness appears -- and this is October or so -- Burns is looking ahead until, to spring of '72, he's looking forward to a strengthening of economic recovery, a rise of interest rates at that point, and he argues that if we let rates fall too far now, then we'll have to raise them too much next spring. So, initially, he's reluctant to respond to slower money growth, with the reduction [inaudible 01:20:07]

Charles J. Partee: That's right, and we let rates catch up, all through '72.

Robert L. Hetzel: But then money growth continues weak in December of '71, and January, February of '72 it does pick up, but it doesn't become clear until later on, I suppose March or April, that it has picked up. So Burns is then having to juggle a lot of balls, and in the fall of 1970, the board staff and the New York staff in particular, they're forecasting a revival in M1 growth.

Charles J. Partee: In the fall of '71?

Robert L. Hetzel: Yeah, and early '72. So they're forecasting a revival in M1 growth. And according to the procedures at the time, where the FOMC would set these benchmark goals for money growth, and then the board would evaluate them, relative to the predictions, there's no pressing need to lower interest rates. It looks like money is going to come back on path. I mean, in fact, that's what happened, but it wasn't obvious at the time that was going to happen.

Charles J. Partee: Yeah, yeah. That's right.

Robert L. Hetzel: So then there's this tension between -- or I don't know tension, but there's a vigorous debate at FOMC meetings in December of 1971 and January of 1972 about how far to push rates down. And Burns is very aggressive, wanting a reduction in interest rates, and sort of has to pull the committee along with him. Does that sound right? I mean, that's not quite right, because Brimmer and Mitchell, and people like that were always supportive of Burns in this period. [1:22:06] Dewey Daane and a number of the President's, certainly Richmond's President Aubrey Heflin was always supportive. But there was -- at this point, there was a debate.

Charles J. Partee: Yeah, yeah. Well again, remember, you have to remember that some of the principals, including presidents, were money supply people. And they tended to push on it pretty hard, the St. Louis guy, in particular, as I recall.

Robert L. Hetzel: Yeah, Darryl Francis.

Charles J. Partee: Darryl Francis, that's it, that's it. And so it was an issue throughout the period. And I guess -- I don't know how we dealt with it. This was a worldwide thing, too, you know, all these central banks were running rates of growth versus targets, for something or other, in Germany and England, in particular. And then we were too, and it fell down, low in the range, or even below the range, and then question will be what to do about it.

Robert L. Hetzel: Yeah, yeah. Okay, but I do want to ask you some of these questions about Burns, because I want to get it right in my history, and so much mythology has now developed about this period, and it's developed by people who have not gone back and read the documents, and I want to try to sort it out. The January meeting is the meeting that seems to be the most difficult and ultimately the most controversial. January 1972, that appears to be the meeting that would much later on be the source of the Fortune Magazine article, the rose thing. You write a statement for Burns which he pretty much paraphrases, he says, "I can't overestimate to you the importance of achieving promptly a significant upturn in the narrowly-defined money supply. It is of critical importance to the system, as a political matter, we are coming under increasingly severe criticism in Washington and elsewhere for undermining the President's new economic program." I mean, Burns did have to be concerned about the perception that the Fed was undermining the program that had been set out in Camp David. I mean, that's a fair statement, right? And he said so. Is it possible that the person who kind of was the source of the Fortune Magazine kind of article information that he was sitting at the side of the room, and Burns is soft-spoken, he doesn't really hear what Burns is saying, but he's very agitated. He interprets these statements as Burns sort of pulling authority and saying, "Well, we've got to do this because the White House says it." So by the time this gets through the journalistic…

Charles J. Partee: I don't remember. I mean, there certainly was the feeling that there was somebody in that room that provided that information, but we never found out who it was. And I don't think there was too much content to it. Sitting at the table, it seems to me that it was much more judicious, that discussion of the problem of declining money supply, than was ever suggested in Fortune or in BusinessWeek, I know had an article. And it was -- and I doubt very much, and I can't recall that Burns ever said, "Well, the White House wants this or that."

Robert L. Hetzel: Yeah, don't misinterpret me. For even, sort of on the most purely self-interested grounds, a Chairman is never going to say that, because his whole kind of ability to influence the course of affairs and exert leverage, that comes from his independence. That's what we talked about on the 1065, and you know, who sets the objectives and the role of the Fed. So it's inconceivable that a Chairman would ever say that, because it's like he's sort of giving away the source of his authority.

Charles J. Partee: That's right.

Robert L. Hetzel: I mean, no Chairman's going to do it. But there is, these stories did arise, and so I'm trying to figure out where they came from, and my best guess is that the staff member sitting at the side of the room, who was the source of this information, he was feeling very agitated about the sort of imperial way that Burns could exert his authority, and when the references to, you know, to the need to support the administration's policy came up, he interpreted that sort of, as political pressure, and that's ultimately the way the story came out. [1:27:14]

Charles J. Partee: Certainly could be. To be totally frank with you, you know, the only intermediary with the administration, really, was Burns. Nobody else, and so only Burns knows what occurred over there. He met from time to time with the President. Frequently with, what do they call it, the Troika or something?

Robert L. Hetzel: The quadriad.

Charles J. Partee: Quadriad, yeah. And no one ever attended those meetings, except for Burns. And so I don't know what occurred, but I don't remember anything like that in a meeting in the FOMC. Now, Burns did speak low. He was famous for saying, somebody would say, "Well, could you speak up?" And he said, "Well, when I have something important to say, you'll hear me." It could well be -- and we didn't have a very good system in those days of microphones and all that -- and it could be that there was some confusion about what he had said with his pipe, and looking down at the table and so forth. But I don't think that that ever occurred. Our concern was, there was a decline. [Inaudible 01:28:24], it wasn't expected, and it was inconsistent with what everybody thought should occur. But we weren't prepared to go very far to turn the thing around. So the main impression I had of 1972 as a year, was one of increasing interest rates, against tremendous opposition from the administration.

Robert L. Hetzel: Well, Connally had become the chief spokesman for the administration, and of course he resigned in about June, but that was the critical period. But he was a straight out Texas populist, and he was opposed to any increase in interest rates, flat-out.

Charles J. Partee: Hardly ever. Yeah, that's probably true. And he was right about it. Look what happened when he went back to Texas.

Robert L. Hetzel: Well, I think there were other problems he had, because his friendships with the Milk lobby caused him some problems. Did you yourself ever get sort of, coercive statements by the Nixon people? Colson, Haldeman, Ehrlichman, and that group of people? Did you ever have contact with them, or they were sort of obnoxious with you?

Charles J. Partee: Very little. My main contact would have been with people on the Council, not with the White House people. There was a guy in the White House whose name I forgotten. Flanigan?

Robert L. Hetzel: Flanigan. Pete Flanigan. He apparently interfaced with Burns on quite a bit.

Charles J. Partee: Then I did have some run-ins with Flanigan, but not with the others.

Robert L. Hetzel: Flanigan's still around. You see his name in the New York Times every once in a while. He was from Dylan Reed, and then was managed, got financial support for Nixon's re-election committee in the late '60s, and he was always involved, but sort of what role he played is a little unclear. It seemed to be more sort of working out problems. What was your impression of him, as an individual? Because his name comes up a lot in these memos, and he obviously talked to Burns a lot.

Charles J. Partee: My principal impression is that he was difficult, opinionated, and didn't know very much.

Robert L. Hetzel: Yeah, he was not an economist.

Charles J. Partee: No, Peter Flanigan.

Robert L. Hetzel: Yeah, Pete Flanigan. He…

Charles J. Partee: Yeah, but, as I said, he was certainly the point at -- he was sort of second-level, but he was certainly a point of contact with the White House.

Robert L. Hetzel: And so you did talk to him, occasionally?

Charles J. Partee: Occasionally. He would come about technical issues, he would come and talk to me. And as I mentioned before, these revisions in the money, so we had a big one in '71, and it was hard to deal with. It had to do with banker's checks, London banker's checks that we had been missing, and we had to -- I think we raised the money supply considerably, in the summer of '72, rather. [1:31:43]

Robert L. Hetzel: Yeah, it was on -- the float that was generated…

Charles J. Partee: Yeah, it was a technical thing.

Robert L. Hetzel: Yeah, I don't think the staff ever figured out just exactly what the effects were. It was some way of circumventing Reg D by lending over the weekend.

Charles J. Partee: That's probably right.

Robert L. Hetzel: That generated float, and when the float was deducted from net demand deposits, that reduced the money supply. But nobody ever really sort of figured out exactly how it worked.

Charles J. Partee: Or what it could possibly mean.

Robert L. Hetzel: Yeah, well, sure.

Charles J. Partee: That's right.

Robert L. Hetzel: Then let me ask you about going into the summer of 1971.

Charles J. Partee: '71 now?

Robert L. Hetzel: '72, I'm sorry.

Charles J. Partee: '72, okay. We've got to stop pretty soon, Bob.

Robert L. Hetzel: I don't -- you know, five more minutes, ten more minutes?

Charles J. Partee: Okay, okay.

Robert L. Hetzel: It won't get much longer. I just want to get through this business and then we'll get it behind us. At the end of July '72, the FOMC got big, big growth rates for money for July, and then they changed the two month target so that you would have a big increase in July, not much in August. But then money growth, even though it did subside, it did continue, picked up in September. So the FOMC was getting money growth over its target ranges, both the two-month benchmark rates, and also the six-month benchmark. It was getting estimates like 9%, for the third quarter and 7% for the fourth quarter. And Burns did not want the FOMC to raise rates. The FOMC let them drift up a little bit, but not as much as it would have under its regular procedures. What do you think was going through Burns's mind at that point? You think it was the kind of thing I was talking about earlier, about how he had to -- you know, he wanted to influence the pay schedule, and what the pay guideline was going to be, and in general just didn't want…[1:34:11]

[END TAPE 45, SIDE B]

[START TAPE 44, SIDE A]

Charles J. Partee: Was of importance, in terms of the appearance. And then I also would have to say to you that you have to remember that the fall of '72, we were going into an election period. And no one ever mentioned those things. I feel the same is still true of Federal Reserve, it likes to keep its head down during these election periods, because it could very easily become a target.

Robert L. Hetzel: Yeah, yeah, well --

Charles J. Partee: It was very difficult. The timing was difficult.

Robert L. Hetzel: Well, the one thing people ignore when they go back and look at this period was that the policy of -- an expansionary policy, that was a consensus policy within the political system. There was no -- the idea that somehow an expansionary policy to promote economic recovery was somehow associated with the Nixon Administration, that was not right. There was a general consensus that that was the policy that they should be following.

Charles J. Partee: That's right, that's right. Certainly was very true of Congress.

Robert L. Hetzel: Yes, that's for sure. At the September meeting, Burns mentions a couple things. He says that there's a -- he's having discussions with Congress over ceiling for expenditures, and if the Fed were to raise interest rates at that point, that would complicate his discussions, because Congress is assuming that if it passes, the expenditure ceiling, that will work to keep interest rates down. Does that ring a bell?

Charles J. Partee: Well, that's occurred repeatedly.

Robert L. Hetzel: Yeah, '68, I know, in a different context.

Charles J. Partee: Yeah, and it's very possible, because of course that would be the period in which you would be discussing limits on expenditures. And it's always assumed that if you limit expenditures, reduce the deficit, it will reduce interest rates. Much less direct relationship, as you know, than that. But it's the simple way of looking at it. And so the chances are, in the early fall of '72, that that was an issue. We'd have moved around -- we had moved by then, the October fiscal year, so that we were approaching a new fiscal year.

Robert L. Hetzel: Burns also says that it would cut -- an interest rate rise would complicate his role on the committee and interest in dividends, that there's a movement within the committee to have an explicit ceiling on interest rates, and then a rate rise at that point would be a problem for his dealings with the CID. Does that ring a bell at all?

Charles J. Partee: Yes, definitely. Was it with the committee itself? I can't remember exactly who was on that committee.

Robert L. Hetzel: Well, the key member would have been the Secretary of the Treasury, he was the nominal head of it. Of course, he would send Charlie Walker to the meetings, but at that time, Schultz would have been the head of it. Then there would have been, I guess, the head of the other regulatory agencies, the FDIC and the Controller of the Currency, and…

Charles J. Partee: I doubt it. Maybe, but I really doubt it. It was probably mainly Treasury, and maybe the Council was represented. Well, it strikes me as being reasonable, you know, if you're trying to limit the increase and incomes, and trying to lower prices, and interest rates are going up, it's a rather natural thing for people to say what goes. And that's just one of the difficulties of a control mechanism. That’s a balance, and fairness and all that interferes with economics. And so I don't remember it specifically, but I wouldn't be surprised.

Robert L. Hetzel: I had the feeling that…[1:38:37]

[END OF RECORDING]