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Interview of James Parthemos

Conducted by Robert L. Hetzel

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James Parthemos: Mitchell had been very active in the Adlai Stevenson campaign. And I guess there was a political element in his appointment. But Dewey, Dewey Daane, at the Richmond Bank, you know, and he operated with Volcker on the international stuff. And then they appointed him to the Board of Governors, much to the chagrin of Eddie Wayne, and he didn't like that appointment at all.

Robert Hetzel: Well, Bill Martin must have advocated the appointment.

James Parthemos: I don't know. Maybe he did. Shepardson was an older fellow, and he was supposed to be the agricultural representative. There was another guy whose name -- he was, I believe, from Utah, and I believe he was a Mormon. Usually I think of old what's-his-name.

Robert Hetzel: Eccles.

James Parthemos: Beckoning Frontiers.

Robert Hetzel: Sure.

James Parthemos: But this other guy was from either Utah or Oregon. We used to sort of make fun of him because you never knew exactly what he was going to advocate. At one meeting he would be very strictly conservative, at the other meeting he would be very liberal. You never could tell what his position was going to be. He didn't stay very long either. But Martin held them all together pretty well. And I liked Martin. I think he was a very friendly sort of fellow, and I guess he just had a lot of natural leadership talent. He'd go always last at the meetings and he would always start off by saying, "Well, gentlemen, I don't think we're very far apart on the issue today," or something like that, and then he would proceed to give them what he thought was a consensus, and everybody would agree with him.

Robert Hetzel: But it was his -- he shaped it.

James Parthemos: He shaped it, of course he did. And the presidents liked him very much because, you know, he was the one who started -- who really started working the presidents. He was the one who started the triweekly meetings of the FOMC, meeting every three weeks. And he brought the presidents into the inner family of the Federal Reserve side.

Robert Hetzel: Before that, FOMC decisions had been made by a subcommittee of a smaller number, so the presidents weren't really --

James Parthemos: That's right. That's right. The executive committee on which the presidents were represented, of course. The New York president was always on that. Martin really brought the system together as a unit, including all of the presidents. He was a natural leader all right and really I always liked him. On one occasion of which I had some doubts about Martin as an individual, Howard Hackley was a leading legal eagle up there. Hackley was a very capable guy.

Robert Hetzel: Yes.

James Parthemos: A real scholar, he did some very good work on the system. He tore into Hackley, and Hackley was such a gentle, nice sort of person, and I just thought it was terribly abusive of that nice guy.

Robert Hetzel: Wasn't that out of character with Martin? I never heard of that --

James Parthemos: It was very out of character. And I remember thinking while I was listening to that, I said, "My heavens alive, old Lord Acton was right, Martin has been around too long and he's had too much power and he's been corrupted by it."

Robert Hetzel: Well, we'll get to that, because monetary policy really got -- what we think of as stop-go monetary policy, started towards the end of Martin's career. Obviously, he was under enormous pressure at the time, but the question is whether he changed at all, or whether it was just simply a change in political pressures.

James Parthemos: You know, Martin was a guy who said the Fed always got bad press, because we always had to take the punch bowl away just when the party was getting good, you know. And I don't know, I think he was quite aware of the fact that the Fed did tend, in the stop-go-type policy mode, but I -- at the very last meeting that Martin presided over --

Robert Hetzel: In January 1970.

James Parthemos: -- January of 1970, at the very last meeting he indicated that he thought we ought to try to aim for a 3 percent rate of growth in M1. Could you look back on --

Robert Hetzel: No, I remember that. We were moving toward reserves control, too.

James Parthemos: That's right.

Robert Hetzel: We had a target reserves available to support private deposits.

James Parthemos: That's right. RPDs. That -- well, you see, what's his name, Malcolm Bryan was in on that business of getting some sort of a reserve target, but really, the big experiment with RPDs, I believe, was in the early days of Burns.

Robert Hetzel: But it was really an academic --

James Parthemos: Pardon?

Robert Hetzel: It was really an academic-kind of experiment in that there was a limit to how far Burns would let the funds rate rise.

James Parthemos: Oh, yeah, that's right.

Robert Hetzel: And so that --

James Parthemos: Well, Burns was a different order of animal altogether from Martin. Burns was a much more political person than Martin, although both of them, I think, realized that there was a certain political element in central banking that you simply had to pay obeisance to, you know.

Robert Hetzel: Well, Martin had been in politics ever since --

James Parthemos: Yes.

Robert Hetzel: -- the end of the '40s. He was head of the Export-Import Bank. So, I assume --

[00:06:52]

James Parthemos: He had been, you know, he was the youngest president of the New York Stock Exchange.

Robert Hetzel: Right.

James Parthemos: I think he was 31 years old or something like that. Then he was in the Treasury for a while, and then he was with the Export-Import Bank. Yes, he had been very much in on all of that in the Corrigan primary, wasn't it?

Robert Hetzel: Yes, from the Treasury side.

James Parthemos: Yes, that's right. The Treasury side.

Robert Hetzel: Douglas from the side of --

James Parthemos: Yeah, from the Senate.

Robert Hetzel: But Martin always tried to work with the Treasury.

James Parthemos: That's right.

Robert Hetzel: He had contacts. He always got along with people. Presumably, he --

James Parthemos: From the very beginning with the System worked closely with the Treasury. Secretary of the Treasury was an ex-officiate member of the Board of Governors in 1936.

Robert Hetzel: Right.

James Parthemos: So the contacts with the Treasury had been very, very close from the very beginning, and continued even after the reforms of 1936.

Robert Hetzel: Martin, presumably, was like Burns, even though Congress was constitutionally charged with the Federal Reserve System, his contacts would have been with the Treasury, not the congressmen, presumably.

James Parthemos: Well, if you look through some of the Senate hearings in the 1950s when Paul Douglas was chairman of the Senate Banking Committee -- see, Douglas was perennially reminding Burns that the Federal Reserve was a creature of Congress. I remember on one occasion he told Martin that he ought to put on his mirror when he goes to shave every morning a little sign saying, "The Federal Reserve is a creature of the Congress."

Robert Hetzel: Proxmire continued that tradition.

James Parthemos: Yeah, well, Douglas was the guy who really started playing that tune.

Robert Hetzel: I suppose the first time Martin really broke with administration policies, or the famous example is December '65?

James Parthemos: '65. That's right.

Robert Hetzel: What about earlier periods, the 1960 recession, do you remember at the time was the Fed blamed for that or did that come later, the perception that monetary policy had been too --

James Parthemos: I don't think the Fed was blamed for much of that because, let's see, from '57 to about '62, virtually, no inflation in the country. I think the wholesale price index in '63 was lower than it was in 1957. And Burns, you know, had been chairman of the Council of Economic Advisers for Eisenhower, and somehow or other it seems to me that Burns, plus the Federal Reserve, were credited, you know, with bringing inflation under control. And I don't remember that the Fed got much of the blame for the recession of '60, which, incidentally, was a very mild recession. It really wasn't -- I think the unemployment rate went up to about 7 percent. My impression is -- that's just when I came to work for the system. And my impression is that most everybody was giving the Fed high grades for keeping inflation under control.

And, you know, Kennedy, the election of 1960, was a key election in a number of ways. Kennedy had -- there had been a lot of talk about "the economy is dead in the water," and "on dead center," and the "missile gap," and miscellaneous other things, and Kennedy had a "New Frontier" arrangement, and he made some remarks that touched off a break in the London gold market, you might remember that --

Robert Hetzel: Yes.

James Parthemos: -- in the autumn of 1960. It occurred after, I believe it was after the election. I'm pretty sure it was associated with Kennedy, when [Unintelligible 00:11:51]. Anyway, things did manage to stabilize there and we did proceed to recover from the recession, and Kennedy got a lot of credit for that because I think he introduced at that particular time the investment tax credit which stimulated more investment and helped to pull the economy out of that recession. You might remember that, that Doug and I -- no?

Robert Hetzel: I think I was I high school.

James Parthemos: Were you in high school? Yes.

Robert Hetzel: Was there an understanding at the time of how the Bretton Woods system worked? Looking back at it, one sees 1961 as a pivotal year when there was an economic recovery in the United States, plus a balance of payments deficit of what seemed large at the time were around $3 billion.

James Parthemos: That's right.

Robert Hetzel: And the Fed raised the interest rate somewhat, but only very modestly, less than the Europeans wanted us to. And in retrospect, it was clear that the United States was not going to sacrifice domestic objectives for the discipline of the international balance of payments. But at the time would Martin, for example, have understood how the Bretton Woods system worked and --

James Parthemos: Oh, yes. Oh, yes. No question about that. A lot of the focus of public attention at that time was on our gold losses, and there was an awful lot of speculation back then on changing the price of gold. And I remember Martin made a big public speech once -- as a matter of fact, I was present when he made it, and the title of the speech was, "The price of gold is not the problem." You might remember there was some Frenchman -- who was that French economist?

Robert Hetzel: Rueff?

James Parthemos: Yeah -- not Rueff, no. No. No. There was some other guy. I'll think of his name. It as Josiah Stamp, the Britisher.

Robert Hetzel: Hm-hmm [affirmative].

James Parthemos: And they came up with plans, you know, to increase the price of gold, or something such as that. And Martin kept arguing, you know -- as a matter of fact, Martin was in favor of raising the interest rate primarily for balancing purposes. It was -- there was not a lot of popular understanding of the way the Bretton Woods thing worked. There wasn't a lot of popular understanding of the nature, you know, of the gold exchange standard linked to the dollar that everybody pretty much committed to maintaining parity or some type of parity with the dollar.

Our big problems really began there in the 1960s -- actually, I think we started losing gold in the late 1950s. That was more connected with the recovery of Europe than the restoration of convertibility.

Robert Hetzel: Right.

James Parthemos: As a matter of fact, I think most American economists felt that we all knew that it was wholesome for us to be losing gold to some of these other countries, so they could be in a better position, you know, to maintain the Bretton Woods thing.

Robert Hetzel: Let me ask you about an idea of how the Depression shaped attitudes within the Federal Reserve System, as opposed to academia. At times I thought that Fed system people attributed the Depression to the 1920s and to the inflation in the 1920s, which may or may not have occurred, it's a speculation. And the lesson that Fed people drew from the Depression was that you needed to stay on top of inflation and speculative credit extension. And academics, of course, Keynesians reacted very differently, and I'm wondering if it was -- the people who were on the FOMC in the1950s, I wondered if it wasn't that conservativism, that concern for inflation that in a way made monetary policy as good as it was?

James Parthemos: You know, Bob, I remember once upon a time developing a very strong feeling that if Benjamin Strong had been around, we might not have had the Great Depression.

Robert Hetzel: No, I'm sure. Irving Fisher and Milton Friedman think we would not have.

James Parthemos: You mean, if Benjamin Strong --

Robert Hetzel: That's right. He would have forced --

James Parthemos: I really think that. I would be hard put to document that as a historic statement, but I really believe that Strong had a, you know, a much better handle on what was happening, along with Strong and Montagu Norman were very close, you know.

Robert Hetzel: Right.

James Parthemos: And they had similar ideas of how to run central bank and what central banking was all about. Of course, you know, back then they called it sound money. And --

Robert Hetzel: But there was competition for control within the system.

James Parthemos: Yeah.

Robert Hetzel: The board was competing with New York, and New York had control of open market operations. And I think that -- I think, basically, Carter Glass, he didn't want to see the Federal Reserve System become a central bank dominated by New York. He and the board basically combined to keep New York from taking an aggressive posture during the Depression, and New York didn't have a leader as strong as Benjamin Strong. So System 28 [sic 00:17:51] drifted --

James Parthemos: That's right. Exactly.

Robert Hetzel: -- as a consequence of that division at that.

James Parthemos: Strong died at a very bad time. He died in 1928.

Robert Hetzel: That's right.

James Parthemos: But, anyway, I know the system really did not have very strong leadership. What's his name --

Robert Hetzel: McCabe.

James Parthemos: McCabe was really not much of a -- the guy from Utah -- his name slips from me at the moment -- the <u>Beckoning Frontiers</u> guy.

Robert Hetzel: Eccles.

James Parthemos: Eccles, that's right. Marriner Eccles. I never was particularly impressed with Marriner Eccles, for some reason or other. Were you?

Robert Hetzel: Well, he was a "New Dealer," and he was, like Burns, he was a presidential advisor and -- but he knew a lot about New Deal programs, but he didn't know a lot about monetary policy. You know, he was just a small town banker, but he had an enormous ego and he knew how the world worked, but there, basically, wasn't a lot of monetary policy while he was in office --

James Parthemos: No, there wasn't.

Robert Hetzel: -- because of the pegging, except for '37/'ht8 when we raised reserve requirements, and that was a disaster. Were there other FOMC members who could challenge Martin? What about Robertson?

[00:19:17]

James Parthemos: Robertson was about the only one, I guess, although Robertson was willing to follow Martin. Robertson had a little pet projects like unifying the super reg function, you know. You know, there's recent talk about some sort of a centralized regulatory authority. Well, see, Robertson kept pushing that the whole time that he was there. Robertson was a very interesting guy, a very articulate, a very good speaker, and he sort of liked the limelight, but he was never a serious challenge to Martin.

Robert Hetzel: What about regional bank presidents, were there any strong -- particularly strong presidents? Some had been around there a while. Boldt from --

James Parthemos: Boldt.

Robert Hetzel: -- Philadelphia?

James Parthemos: Boldt did a lot of writing and he -- Boldt was a pretty good economist. And he was influenced by the Keynesian revolution, but he was an old-timer, too. And I guess he would work on that, I imagine it would be, maybe late 1920s or early 1930s.

Robert Hetzel: Hm-hmm [affirmative].

James Parthemos: And he was good at writing. I remember reading a lot of his stuff when I was in -- I don't -- well, there was the New York fellow before Al Hayes.

Robert Hetzel: Sproul.

James Parthemos: Sproul, Allan Sproul, was -- he was certainly a very influential guy. He had left by the time I came. He was still living, and the New York people were crazy about him. I remember George Garvey used to worship Allan Sproul.

Robert Hetzel: Well, he was a straight money marketing person, tone and feel, that, for him, was monetary policy, how the market was feeling --

James Parthemos: Well, there was a lot of that. That was a fairly universal view in the system. Universally, it was a prevalent view. Hayes -- Al Hayes was a very gentle sort of person, very fine person, real gentleman, very soft-spoken, and he made a lot of speeches and it was very, very frequently quoted, but he wasn't a very vigorous voice in the FOMC meetings. The meetings were, those that I attended in the 1960s, were just heavily dominated by Martin. He made everybody feel like he was part of the game, all right.

Robert Hetzel: That's an interesting comment, because if you read the minutes, Martin doesn't talk a lot. It's mostly --

James Parthemos: At the end.

Robert Hetzel: Yes. And then he says, "Well, I think we see a" --

James Parthemos: Yeah, that's right.

Robert Hetzel: "I think I see a common ground here."

James Parthemos: "We're not very far apart today," or something like that. He just had the nice little personality about him that develops an appropriate consensus. And you had some interesting people, I remember old Watrous Irons, who was president of the Dallas Bank. You talk about tone, feel, and smell of the market, as we used to say, he used to say, "Well, I don't think we need to do a great deal today. I think we might be all right if you made you maybe raise the federal funds rate an eighth of a point, something like that. And the Treasury bill, I think the Treasury bill ought to be trading about 290" -- he was ridiculous. You know, you talk about fine-tuning the market, boy, I'll tell you, talk in terms of four or five basis points. And nobody paid much attention to him. I still can't think of the name of the guy who succeeded Johns as president of the St. Louis Bank.

Robert Hetzel: Well, eventually, it was Darryl Francis.

James Parthemos: Yeah, but there was somebody in between. But he didn't stay very long. He got a much better job somewhere than the system. Of the presidents, gosh, I don't believe that was a strong one either.

Robert Hetzel: Who was the head of the Atlanta Fed?

James Parthemos: Malcolm Bryan was the head then. But he -- Bryan was in poor health, and I believe he took an early retirement. And they made -- they put the first vice president in, a guy named Patterson. Patterson was an old guy then, pretty close to retirement -- and there was McKinney.

Robert Hetzel: Do you remember any of the details surrounding the December 1965 increase in the discount rate? Martin had been concerned for some time --

James Parthemos: I remember that very well.

Robert Hetzel: -- that inflation was coming back?

James Parthemos: Yeah. Well, you see, the Vietnam War was picking up. What happened then was that you had Johnson with a program to push the Vietnam War and at the same time push the Great Society program. And Martin just knew damn well we couldn't do both; that this was a definite road to inflation again. As a matter of fact, that's when inflation began to pick up, you know, in middle 1965. Up to that time we had virtually no inflation, ’57 to about ’64. I guess in late ’64 you could see a pickup in the indices. And then Martin was genuinely worried about it, and so was I -- all of us were. It was clear that Johnson was badgering the system to keep interest rates low. And Martin held his ground, even though he was called down on the farm, he really held his ground, and I admired him for it. He went ahead and raised it. And the thing about it is that it was clear that he had told Johnson about raising it. Johnson, you know, tried to make out like it came a just this big surprise to him that the Fed was pulling some fast one on him, but that wasn’t the case at all, because I’m just as sure as I can be in my mind that Johnson had given -- that Martin had given Johnson plenty of advanced warning --

Robert Hetzel: Yes.

James Parthemos: -- about that taking place. As a matter of fact, it might be shown in the minutes, but it was clear to all of us that this ploy that Johnson was pulling was the rankest kind of politics.

Robert Hetzel: The discount rate would have been discussed at the board, so I don’t know if there are any board minutes from that time. Probably there are, but the FOMC, would it have discussed discount rate changes?

James Parthemos: Yeah.

Robert Hetzel: I know that Burns and Volcker --

James Parthemos: They wouldn’t have discussed it in terms of approving or disapproving, but very frequently they would say, “We think that the discount rate ought to be increased or be increased to something like that”; you’d hear that frequently from the president.

Robert Hetzel: So that was Burns and Volcker wouldn’t let the FOMC discuss discount rate changes, that’s my recollection.

[00:26:46]

James Parthemos: They wouldn’t discuss action on the discount rate because that was strictly a board thing, but expressions of views about the discount rate ought to be, I’m pretty sure it took place on Burns and Volcker, just as it did on the market. It was clear that Martin had let Johnson know that interest rates had to go up under the circumstances to keep the economy, you know, on some reasonable, stable path.

Robert Hetzel: The governors were divided, though, weren’t they, at least for a while, or did they follow --back through their annual report --

James Parthemos: Back through their annual report of the governors. I think it was pretty uniform.

(Interview paused.)

James Parthemos: Shepardson was, you know -- I think Shepardson was from the University of Texas and it seems to me that he was an agricultural economist. I imagine with somebody like that, might have -- Texas, you usually associate with low interest people anyway, don't you?

Robert Hetzel: Except for Wright Patman.

James Parthemos: Yeah.

Robert Hetzel: Lyndon Johnson.

James Parthemos: Shepardson might have been opposed to it. And the guy from Utah -- I wish I could remember his name, but -- I couldn't tell what he was for or what he was against. Overall, Bob, I would have to say that there was no conceptions that Robertson was a clearly a very capable guy, so was Balderston. But a lot of the governors were very political appointees. They really, some of --

(Interview paused.)

James Parthemos: What was that, Abbott Mills?

Robert Hetzel: Yes.

James Parthemos: Abbott Mills, that's right.

Robert Hetzel: You can look at monetary policy, there's a -- the break seems to come in 1967. And then before that time there had been periods when inflation had risen, but then the Fed had brought it back down. But in '67 that was the first period where the Fed didn't stay with the restrictive monetary policy until it had brought inflation back down to basically zero, and monetary policy became easy before inflation had come down. So that was clearly a difficult year for the Fed. Two things were going on, Martin was up -- the chairman's position was up for reappointment, and there was the issue of whether Johnson was going to ask for a tax increase. Do you remember anything about that year and the kinds of --

James Parthemos: I believe that was '68, Bob.

Robert Hetzel: Well, '68 was the year they actually passed the --

James Parthemos: They actually passed the tax surcharge.

Robert Hetzel: -- tax surcharge. And then after that happened, the Fed lowered, and even though money growth was high --

James Parthemos: That's what made Dan Brill resign and --

Robert Hetzel: I didn't know that.

James Parthemos: Commercial credit -- let's go back just a little bit. There was a credit crunch in '66, you know. And as a matter of fact, there are some people who claim '66/'67 was a mini recession. Do you remember that?

Robert Hetzel: Oh, sure, it was. It was. It was almost another recession.

James Parthemos: The credit crunch -- a lot was made of the so-called credit crunch, you know.

Robert Hetzel: Oh, sure.

James Parthemos: And that --

Robert Hetzel: Housing was hurting.

James Parthemos: That's probably the trip down to the farm in December of 1965 when we were really trying to contain the economy because, as I say, you had a situation of speeding up defense expenditures with the Vietnam War, and then the Great Society Program going full blast. It was, you know, there was a question of trying to give the country guns and butter at the same time, and it just wasn't going to work. And the Fed knew that. I'm sure Martin knew that. And they kept plugging away, the administration, you know, to raise taxes. If you're going to do this thing, you're going to have to raise taxes to finance it, you see. And the Fed did put on that surtax. I guess they started talking about it in '67. And Dan Brill and company got to arguing that this surtax was going to have such a deflationary effect that it had to be offset by easing monetary policy. And we started that easing in 1968, I believe. And it just happened, you know, that that was also an election year.

Robert Hetzel: Brill was from the Philadelphia Fed?

James Parthemos: No; Brill was at the Board.

Robert Hetzel: I didn't -- I guess that's right.

James Parthemos: Dan was at the Board. Dan was a very interesting guy. He died some years back, but I always liked old Dan. I thought -- he was involved -- Dan was a pretty good economist. You might remember studying the Flow of Funds accounts --

Robert Hetzel: Yes.

James Parthemos: -- in school? I think Morris Copeland and Dan Brill were the guys who really put that together. Dan was a very resourceful sort of guy, but he was convinced that --

(Interview paused.)

Robert Hetzel: They were Keynesians and they thought --

James Parthemos: That's right.

Robert Hetzel: -- fiscal policy with, you know, the old thing, the IS schedule is going to shift --

James Parthemos: That's right. That's exactly --

Robert Hetzel: The LM schedule's going to --

James Parthemos: That's it. That's the thing.

Robert Hetzel: I mean, the Board staff was very Keynesian.

James Parthemos: Absolutely.

Robert Hetzel: And I don't know whether Martin believed any of that --

James Parthemos: I don't believe he --

Robert Hetzel: -- or whether or he had -- I mean, Congress wanted a reward for having passed the surcharge and it wanted, you know, something to show for the pain. And it wanted interest rates to fall. And he probably thought that, well, okay, Congress has carried through, monetary policy can be --

(Interview paused.)

James Parthemos: I think that's right. I think that typified thinking, at the professional level, at the level of the professional economist on it. It clearly turned out to be a mistake. And I think that's why Dan resigned and went over to a much better job in commercial credit where he made a lot more money.

Robert Hetzel: He didn't resign because he changed his mind; he resigned because it was realized that he'd offered bad advice.

James Parthemos: I think that's it. I think that's it. He was a pretty nice fellow, really.

Robert Hetzel: When we think of the modern Federal Reserve System, it was basically in place when Martin left. Everything we think of as characterizing the Federal Reserve System, as opposed to cord period [Phonetic 00:33:52] it really all happened under Martin.

James Parthemos: That's right. Oh, yeah, Martin's the guy that put the system together, as we know it today. Now when Burns took over -- let's see.

(Interview paused.)

James Parthemos: Andy Brimmer was a good governor. I remember having some doubts that maybe he was appointed just by way of helping Johnson, you know, pull together the black vote. But Andy Brimmer was a very -- was a quite respectable economist, and he did his homework very, very well. And, you know, he was a vigorous defender of his positions. They were all, for the most part, Keynesian positions --

Robert Hetzel: Hm-hmm [affirmative].

James Parthemos: -- but he defended them with vigor and pretty convincingly.

Robert Hetzel: Martin didn't like economists, per se, did he? I mean, he was opposed to Brimmer, because Brimmer was an academic economist initially. Isn't that the story?

James Parthemos: I really don't know. I wasn't aware of that. I wasn't aware of anything about that. Martin, as I say, was a very agreeable sort of person, and I think he had great confidence in his ability to -- Martin liked the presidents and the presidents liked him, and I guess he always felt that he had a good group of presidents who would always be with him and he didn't mind getting some opposition from some of the board over the staff.

(Interview paused.)

James Parthemos: The whole situation changed drastically with Burns. And Bob Black and I -- I was with Bob Sunday afternoon and we sort of reminisced -- the first meeting that Bob came to as -- after Aubrey died -- this was in '73, and actually, I guess, Bob was there as a substitute for Aubrey, shortly after Burns took over. As a matter of fact, it might have been Burns' first meeting -- I believe it was. And Burns announced at that meeting that, "We're going to make some changes, and that one change in particular that I'm very eager to go ahead and get started with right away, and that is from now on that at 10:30, 11:00, we're going to have a coffee break." And Bob says, when he announces some changes were going to be made, he thought surely he was going to run the first vice presidents out.

Robert Hetzel: Sure.

James Parthemos: But anyway, George Garvey, shortly after Burns was appointed -- who would be an interesting guy for you to interview, Bob.

Robert Hetzel: I wrote him a letter once and I think he died shortly after.

James Parthemos: Did you really? He might have died.

Robert Hetzel: Because I tried. Because he went all the way back.

James Parthemos: He sure did.

Robert Hetzel: And I thought, wow, I should talk to him.

James Parthemos: He is the guy you should talk to, that's right. And anyway, George, I remember told me once, we were talking about Arthur Burns, he said, "His favorite mode of conversation is the monologue."

Robert Hetzel: Yeah, well, he wanted to lecture.

James Parthemos: That's exactly right. He ran those --

Robert Hetzel: Professorial --

James Parthemos: He ran those meetings like a graduate seminar. And you knew who was king, it was King Arthur. And he was so different from Martin, because, you see, Martin always let everybody talk, you know, and very seldom interrupted. His only interruption would be to call all of them by name, by using the first name. Scanlon, the Chicago man, I forget his first name, but he would always call on him.

Burns, you know, he'd start at one end of the table and go around, and the next meeting he'd start at the other end and go around the other way, and that sort of thing. He had -- it was very structured. Everybody had to have his say when his time came. He used to say that, "Look, if we can't get this thing settled between 9 and 12, we aren't going to get it settled at all." And you could be sure that the meetings would be over at 12:00 with Martin there. We'd usually have a lunch afterwards and Martin would get up and say, "Well, this is another happy occasion," or some such as that. Martin was -- he was a very nice person, really. Burns was altogether different. "We're going to settle this thing if we have to stay here all day." He even started two-day meetings, you know. Burns started those. He wanted to hash things out.

Burns, I always thought that Burns was really one of the best representatives of the best in American institutionalism. I always associated him with Wesley Clair Mitchell as, you know, not the Glennian [Phonetic 00:39:09] or the Galbraithian-type of American institutionalist, but the really good economist types. And he just had very high grades as an economist. And I still think that his statements on policy were about as clear as he could get on them, in laying out the nature of the problem. Bob Black disagrees with me on that. Bob thinks that Martin is too political in the partisan sense of the word.

Robert Hetzel: Martin?

James Parthemos: No. Burns is. Burns. That's what Bob Black thinks, that Burns was very preoccupied with getting Nixon re-elected and that sort of thing.

Robert Hetzel: That's interesting. Burns viewed himself as the presidential advisor and so he always wanted to be on regular speaking terms with the President. He wanted to lecture the President the way he lectured everyone else. And I wonder if that desire to be right there at the center of power and to be in on all the major decisions -- fiscal, as well as monetary policy -- if it didn't inevitably involve him in compromises that he wouldn't have made if he had compartmentalized his role.

James Parthemos: I think there's a lot to that, but I also think that Burns was an ideological Republican. I don't think -- he just didn't like the idea of the Democratic presidents in there, like Lyndon Johnson and later on the Georgia boy, Carter. He just didn't -- he didn't have a lot of trust in the kinds of overall economic policies that the Democratic Party puts you into. And I think that he felt the country got along better, from an economic standpoint, with the Republican administration.

(Interview paused.)

James Parthemos: He might have, although I don't know -- I don't remember exactly. I hadn't challenge Bob Black on this, but I would like to see somebody document the position that he handled policy in the '71/'72 period in a way that helped Nixon get re-elected. I just -- if you look back over the behavior of the federal funds rate in that period, I think, as a matter of fact, that you might just make the reverse case, that it did not handle policy in a way that helped Nixon get re-elected. You know, in a broader political context, after the Democrats nominated McGovern, that Nixon was having trouble and all that, so that's why I think things had become so incomprehensible to me…

Robert Hetzel: So, about his views as an economist, we think of him as a major economist, which he was, but now everybody is a neoclassical economist, you know, utility maximizing, profit maximizing, marginal conditions. He really was -- preceded that school. He started from a vast study of empirical data --

James Parthemos: That's right.

Robert Hetzel: -- and he put them together in his own mind in a -- you know, taking into account, almost more of psychology approach to behavior. Didn't he think that economists' models were too simple to capture the complexity of the world?

James Parthemos: And that's why I always characterized him as an American institutionalist. Actually, he had a German background, too, you know, and I always felt that he had a little bit of a weakness towards the German gestalt theory-type thing, you know, a much broader-type model, like the American institutionalists, you know. The German historical school and that sort of thing. He was more German than Austrian, I think, although he grew up in Austria. And I think he associates better with the American institutionalism than the German gestalt theory and German historical student.

Robert Hetzel: Know too much.

James Parthemos: Then you got the man with the Austrian economy major. Burns was a very interesting person, as well as a very interesting economist, I think. He was very anti-Keynesian, I'll tell you that. He would have nothing to do with Keynesianism. And he didn't care for the staff. The staff didn't like Burns at all, incidentally. Jim Pierce detested him, and I think the feeling was mutual, because Burns really dressed Jim Pierce down good at a couple of meetings up there, because the staff was very, you know, ISM business, Burns just didn't have any -- wouldn't have any part of that foolishness.

Robert Hetzel: But Burns did believe that you could trade off inflation against unemployment and lower unemployment, because if you look at what he did, most of the time he was willing to accept inflation because he thought that if he didn't, he'd get higher unemployment. So, in terms of kind of an expansionary policy…

[END TAPE 91, SIDE A]

[START TAPE 89, SIDE A]

Robert Hetzel: The way Burns explains it in his writings is that he views inflation as something that's given to the Federal Reserve System, the monopoly power of labor unions, or irresponsible fiscal policy. And the Fed has to make a decision: it can accept that inflation rate, or it can raise interest rates and not accept it. And if it accepts it, it gets lower unemployment; if it doesn't, it gets high unemployment, the accrual number. And that's a trade-off, if you're willing to accept inflation, you can get lower unemployment.

James Parthemos: I'm not necessarily going to agree with you. My feeling is that the Phillip's Curve had begun to be questioned by that time, by the time Burns came along. And Bob Black and I used to rail against the Phillip's Curve all the time back then -- early on, you know. I don't know. The big proponent of the Phillip's Curve, I guess, was Dave Eastburn, more than anybody else, but I seem to recall a dialogue between Eastburn and Burns, where Burns really scolded him for believing in the Phillip's Curve. I don't know…

Robert Hetzel: Well, but Burns could say one thing just as a way of dominating -- I mean, what he would argue to get what he wanted wasn't necessarily what he --

James Parthemos: You know, I think we have to remember that the backdrop -- when was the --

Robert Hetzel: October '73 is when the embargo was. But then it was really '74 when prices -- oil prices began to --

James Parthemos: That's right. Oil prices began to go up and there was a -- I remember Burns arguing back then that the problem is --

Robert Hetzel: Not too much money. Not enough oil.

James Parthemos: Not too much money and not enough oil. That's right. Something like.

Robert Hetzel: Of course, at that time Nixon was weak and then Ford came in and he wasn't dominating. So at that time there weren't the political constraints, so that was the gesture hypothesis that the money policy we got was not so much Burns trying to trade off on the Phillip's Curve, but rather it was Burns trying to see what the political system would or would not tolerate and trying to walk a fine line in not ultimately being pushed, but being like a boat that tries to aim for the other shore, but he keeps getting pushed off.

James Parthemos: Burns was -- when Ford came in, you know, he started that WIN program, Whip Inflation Now. Do you remember that?

Robert Hetzel: Sure. He had buttons you could wear.

James Parthemos: Yeah, that's right. The WIN buttons.

[Interview paused.]

James Parthemos: But now Ford didn't last very long. I don't know -- I'm not sure that Burns would have preferred that Ford win the election, but by that time the Democrats had completely taken over the Congress.

Robert Hetzel: But Burns really blamed inflation on the political system, the welfare state, and the kinds of pressures that welfare states -- expectations the welfare state created. And he viewed his role as seeing how much he could challenge the political system and ultimately he had to --

James Parthemos: He had to validate the inflation tendencies in political systems, is that what you're saying?

Robert Hetzel: Yes. But then, period by period, the temptation was to try to walk a fine line and it was not a line anybody could walk, really.

[Interview paused]

James Parthemos: Burns was always lecturing the Congress, particularly on fiscal policy. And I always referred to him, Bob and I would sort of say, we always called him King Arthur, for one thing, but I always called him the "parcel of parsimony." And you know, some of those congressmen like Reuss and Proxmire, they began to turn the tables on him, you know, and they'd say, "Look, physician heal thyself. You've got all sorts of wasteful operations in the Federal Reserve." And the fact of the matter is that we did. We didn't watch our money very carefully at the Federal Reserve when I first came there. And Burns really turned that around. Burns made us very cost conscience, because he wanted to be sure that his house was in order. And he was preaching to the --

Robert Hetzel: Did anyone ever try to challenge him at FOMC meetings? There was really no one of his stature? St. Louis had their own view, but Darryl Francis could never articulate --

James Parthemos: No. And I thought of the name of that first vice president; it was Gene Leonard.

Robert Hetzel: Hm-hmm [affirmative].

James Parthemos: Gene Leonard was the guy --

Robert Hetzel: He wore the garish --

James Parthemos: Yeah, that's right. And he would come with these big, long crooked cigars and that's how he'd be. Anyway, Darryl always had a well-prepared statement and he delivered it very well. Every once in a while he'd get a challenge from Andy Brimmer and usually it would be a pretty damn good challenge to him. As I say, Brimmer did his homework. And I seldom agreed with him, but he kept a good account of himself. He had high marks as a governor, compared with some of the other nonentities that we had up there.

[Interview paused.]

James Parthemos: He would get a challenge from Volcker, when Volcker was president for the New York Bank.

Robert Hetzel: But Volcker wasn't an anti-inflation hawk in that period, was he? He didn't challenge Burns by saying, "We're going to get inflation" -- that would have been through '77.

James Parthemos: I don't remember that he was much of a -- sometimes he would challenge --

Robert Hetzel: Miller?

James Parthemos: No. Sometimes he would challenge Burns on a particular statement of the directives. You read the Blue Book, don't you?

Robert Hetzel: Yes.

James Parthemos: Do you still get the Blue Book?

Robert Hetzel: Oh, yes.

James Parthemos: Do they still give you all kinds of A, B, C?

Robert Hetzel: Of course.

James Parthemos: Yeah. And frequently Burns would, after he read the book, would challenge him on the writing of the directive or something. But Volcker had very little to say at these meetings, for some reason or other. And I was of the impression that Volcker was not all that good when he was president of the New York Bank. Now we had been poisoned somewhat, I think, by Charlie Coombs and some of the others. People like Charlie Coombs and George Garvey, to some extent, although this was especially the case with Coombs, they had a strong sense of loyalty to Al Hayes. They liked Al Hayes. It happened that Volcker had come to work for Coombs at the New York Bank, and Coombs didn't like him worth a damn. Coombs was very upset when he was made president of the New York Bank. And I remember walking with -- Bob and I walked with Coombs, and he was really reading the riot act on Volcker.

Robert Hetzel: Why? He thought Volcker was too much of a Washington-type with his Treasury background?

James Parthemos: He didn't specify exactly, but he just didn't like him. He just thought he was the wrong man for the job. But on the other hand, I used to say, I was pretty close to Peter Fousek, who was really a very nice chap, and I had a lot of respect for Peter. And he used to tell me that Volcker was the brightest guy that he had ever worked for. He said, "He was just terrific." He said, "He would sit there and just listen and listen and listen and not have much to say, and then all of a sudden he'd turn around upon you and he would tell you exactly the way things were." He said he was just remarkable. And the fact of the matter is that he turned out to be that way at the open market meetings.

So as long as he was president of the New York Bank, I'll tell you the truth, we just didn't see an awful lot there, frankly. We just didn't think --

Robert Hetzel: It would really have been the first Fed chairman whom we could have talked to about inflation. He thought inflation was a monetary phenomenon.

James Parthemos: Yes.

Robert Hetzel: It was too much money, and it was the Federal Reserve.

James Parthemos: And I think Burns thought so, too. I think Burns thought so. One of the first things that Burns -- when Burns came in, you know, he wanted to follow the Friedman Rule.

Robert Hetzel: Burns? That doesn't sound --

James Parthemos: Yes. Yes, he did. He most assuredly did.

Robert Hetzel: And I thought Burns wouldn't have anything to do with money. I thought he thought velocity was some psychologically unstable creature you couldn't rely on, and you looked at interest rates and credit flows, and everything except money.

James Parthemos: If you look back at those early meetings with Burns, he -- that's when you had all these experiments with RPDs and that sort of thing. I remember --

Robert Hetzel: But wasn't that something that was in place from Martin, and it just continued.

James Parthemos: Well, he --

Robert Hetzel: But Burns moved the system away from that.

James Parthemos: Well, he gave up on them. I remember at a meeting he says, "Well, I think right now from what we've seen, from our experiments here, we ought to go ahead and give RPDs a decent burial," he put it just that way. Because Bob Black, you see, was a big supporter of the RPD business.

Robert Hetzel: Yes.

James Parthemos: And as I was saying, even back in the early '60s, Malcolm Bryan was always having some sort of a high-powered reserve targeting a business end, but I believe that as I recall, the last meeting of -- Martin's last meeting, Martin specifically said, "Let's just go with a monetary target and try to achieve a 3 percent growth in money supply." And when Burns came in, he validated that. If you look back at the minutes of those early meetings, I think you'll find that he's continued to say, "Let's try to get a 3percent growth in money supply." And I think the thing that eventually broke him away from that is the notion that it was extremely difficult to define the damn things statistically, in the first place, and extremely difficult to know how you would get to the damn thing, in the second place. But, you know, we were going through all of that in that little period there of putting little spaces, intervals around a line that we wanted to get for money growth --

Robert Hetzel: Yes.

James Parthemos: -- in that --

Robert Hetzel: Tolerance range.

James Parthemos: -- tolerance ranges, that's right. And it was just, it turned out to be an extremely difficult thing in our kind of financial system, you know, to specify a thing that gave you a real world equivalent, this thing that we called M1, you know, in theoretical analysis. So I think it was that realization that tended to put him on the federal funds rate. Much of the '60s and the '70s, for that matter, were of an experimental nature. I guess we were probably the most experimental of all the central banks in the world.

Robert Hetzel: I think you could put it a different way, maybe less generously, first quantity theory views is that he couldn't get monetary control with the kinds of interest rates he found acceptable. But he realized that you need much bigger changes in short-term interest rates to hit targets than he was willing to accept. And maybe that was partly for political reasons and maybe --

James Parthemos: I would say that it was entirely for political reasons. But Burns was very much an anti-inflation man. He knew that inflation results -- he was trying to find some way that -- I think he -- I can't get into the man's mind, which is, of course, a hell of a lot bigger than my mind could ever be. I think he had gotten to the point where he looked at the federal funds rate as a sort of valve, you know, that you could open and close and let in a controlled amount of high-powered money that you were allowing to get out into the economy, to the point where he trusted that more than he trusted the figures that he was getting on reserves and money growth. I don't know, it's just speculation. But so far as his identifying money growth and inflation, there's no doubt in my mind that he did and inflation wasn't as much a monetary phenomenon.

Robert Hetzel: In the fall after he was appointed, I think it would have been fall of 1970, he was the first one to advocate wage and price controls. He wouldn't use that language; he would have said incomes policy. And at that time, Nixon was --

James Parthemos: Well, now, let me see.

Robert Hetzel: -- bitterly --

James Parthemos: That Burns was bitterly opposed to price controls.

Robert Hetzel: Well, he said, "We need an incomes policy."

James Parthemos: Well, I remember -- and we had a joint meeting with Atlanta Bank in April of 1971, and at that particular time the postal workers went on strike. And at about the same time the Teamsters were threatening to go on strike. And we had a member of the Charleston Branch Board who was in the trucking business, the Carolina Freight Company, and Burns was very upset. I remember, he used to stand up and he'd do his hands like this when he was talking frequently, and when he heard about the postal strike he said, "This is not a strike; this is insurrection."

Robert Hetzel: Well, he had that European view --

James Parthemos: That's right.

Robert Hetzel: -- that there was an indiscipline on the part of the masses; and that there was an elite that had to impose a discipline.

James Parthemos: Well, this --

Robert Hetzel: He turned the world over to kind of unbridled democracy.

James Parthemos: But I remember the follow-up remark was that, "This is the kind of thing that makes me think the unthinkable, because the unthinkable," because, you know, the unthinkable to him up to that time was wage and price controls. And that was when he began to think that maybe he had gotten to the point where some kind of incomes policy was necessary. That happened in 1971. But throughout 1970 he kept saying, "No wage and price controls." He was very adamant on that score. And at that particular meeting in Atlanta was the first time that I heard him say anything like that, "It makes me think the unthinkable," is the way he put it. And the unthinkable to him was some form of income policy.

Robert Hetzel: But in, I think it was December of the preceding year, he had given a speech at, I think it was Pepperdine College, and he said, "We need an incomes policy." So what did he have in mind, just informal guidelines of the sort that --

James Parthemos: I remember the Pepperdine speech. And you say that was in December of 1970?

Robert Hetzel: Yes.

James Parthemos: I don't know, Bob. I don't remember that he came out and say -- I heard him say, "It makes me think the unthinkable," because of the way things were going.

Robert Hetzel: In 1973, he was head of the committee on interests and dividends.

James Parthemos: That's right.

Robert Hetzel: And he was very actively involved in lobbying, I guess that's the word, individual banks and companies, not raise dividends and kind of raise interest rates on small -- I mean, that was a very intrusive form of control.

James Parthemos: Absolutely.

Robert Hetzel: So, presumably, he viewed that as the -- as a better alternative than controls imposed by Congress?

James Parthemos: Well, the controls had been imposed before that time, you know, '71 is when we closed the gold window and started --

Robert Hetzel: Right. But the Baten [Phonetic 01:03:00] system was the subject to those controls. That was the issue.

James Parthemos: No. I was on the committee with Steve Axilrod on that, you know, on the interest and dividends thing, and this was always an element in Burns' attitude towards the federal funds rate, you know, that the interest and dividends were a controlled thing on it. And it was, as you say, a very intrusive thing, particularly with respect to the regulation of bank dividend and interest policy of individual commercial banks. So, I don't know, the whole thing got tangled up into the monetary policy prescriptions also. So, I don't know. My own feeling is that all of that was very much out of the Burns' character, something that he did purely as a political expedient, just having to go along, that is, with the political current of the time.

Whatever you say about that price and wage controls, they were very popular at the time. They were very popular. All of our directives, for example, it got to the point where they felt like some price and wage controls were absolutely necessary. Of course what they had in mind was wage controls, more than anything else. But we were dogmatically opposed to them at the bank, Bob and I, all of us were, dogmatically opposed to price and wage controls.

Robert Hetzel: Did Burns explain the Camp David meetings in August 1971 where they closed the gold window and adopted wage and price controls? Did he brief the FOMC on that meeting? I wonder how he defended the outcome of the meeting, his role in that.

James Parthemos: I don't remember if it was specifically Burns that --

Robert Hetzel: That was the *Fortune* magazine article --

James Parthemos: That's right.

Robert Hetzel: -- by Pete Rose. Apparently, there was a lot of heated discussion and there was a break, and Burns retired with his advisors. And the story is that he --

James Parthemos: I was at that meeting, Bob, and nothing like that happened.

Robert Hetzel: I'm sure he huddled with his advisors.

James Parthemos: Well, he might have during the coffee break or something like that, you know, he might have gone out with somebody, but then the notion that he came back in and ordered the committee to do something that the committee was opposed to is absolute fiction.

Robert Hetzel: Or the idea that he would have phoned the White House, that was absurd. I don't know, the story was that --

James Parthemos: The story was fiction. I'll tell you, I have a pretty good idea of how that story got started.

Robert Hetzel: It was Andersen from St. Louis.

James Parthemos: Andy Andersen from St. Louis is the guy who, I think, planted that notion. Andy was -- had left the system shortly after that.

Robert Hetzel: He might draw attention --

James Parthemos: Pardon?

Robert Hetzel: Well, he went to Florida, I think.

James Parthemos: He went somewhere. Well, Andy was -- it was a shame, because Andy was a pretty damn good guy.

Robert Hetzel: He was very bright, yeah.

James Parthemos: Yeah. Very, very bright. I liked him very much. And I thought he did some very good work on monetary control and that sort of thing. He was -- he did much more solid work than Homer Jones did. I liked him, but he had that little way about him. He didn't like Burns, and you know, he just -- was too political. I think he must have talked to some people. I was on a program down at Hilton Head with the editor that came up with that story. And I told him, I said, you know, "Frankly, I was there. So far as I'm concerned, that's the way of getting at these things." And he said, "We did a lot of research on that and we just put together a little bit here, and a little bit there, and a little bit here, and we stand by that story." I said, "Well, so far as I'm concerned, you're standing by pure fiction." But he, apparently, was ready to defend it. And I believe probably the guy that he got close to that stuff on was Andy, Andy Andersen.

Robert Hetzel: Burns always wanted to communicate with the President and he was willing to adjust the timing of things ,and when you adjust the timing, you always do it in one direction. I remember a meeting in the spring of 1977 where we got a memo from the board pointing out that we were always missing our money targets on the same side. And we went up to the meetings very excited that we were going to push the funds rate up; and that's when we should have done it, early in '77. And we got up there and Burns had just gotten back from a meeting with the White House on the energy program. And he said, "Oh, we can't disturb markets now because when the details get out about this program, the markets will be unsettled." So he -- again, he was trying to walk a line between --

James Parthemos: I remember during Burns' tenure -- you know, I think Burns had been a professor of Milton Friedman's at Rutgers.

Robert Hetzel: At Columbia.

James Parthemos: Was it at Columbia? Homer Jones had also been an instructor.

Robert Hetzel: At Rutgers.

James Parthemos: At Rutgers.

Robert Hetzel: Yeah.

James Parthemos: That's right. Well, anyway, I remember thinking after Burns had been there a while, because he started off with this 3 percent rate of growth and money, you know, and that sort of thing, I remember thinking that a good subject for a cartoon would be somebody with a great big bottle labeled "Federal Reserve," and Burns on the inside looking at Friedman on the outside and saying to Friedman, "But it looks different from inside." And that's the impression that I have of Burns, you know, that he started off really very much in that mode of keep the rate and growth of money in the 3 -- 3, 4, 5 percent range, and then he discovered that, you know, as a political matter, it was extremely difficult to do that. And I think he started playing along with the politics of the situation. I don't know. That is an individual impression of mine.

Incidentally, on the Pete Rose article, shortly after that article appeared there were two letters to the editor published in *Fortune*, one by Andy Brimmer, and one by Governor Robertson.

Robert Hetzel: Well, no, Friedman wrote a letter, too, to the --

James Parthemos: I don't remember.

Robert Hetzel: -- *Wall Street Journal*, saying, "This could not have happened." So, that was generous, because Burns and Friedman broke over the wage and price controls.

James Parthemos: That's right. That's right. They did break over that. But anyway, Brimmer said, "That is pure fiction," and he was, just exactly the same impression that I had. And I believe Governor Robertson said the same thing. And -- I don't know. But a lot of people still believe that affair, you know.

Robert Hetzel: Well, if you go back and you read the congressional hearings from that time, the whole political system -- Democrats, Republicans, everyone -- was united beating on the Fed to keep interest rates down.

James Parthemos: That's exactly right.

Robert Hetzel: And almost the entire economics profession was joining in. It wasn't until the end of the year, 1972, that, you know, the employment numbers began to come down. So things looked very different afterwards. But at the time there couldn't have been more than a handful of people like Friedman who were offering other advice. People, of course --

James Parthemos: I remember we got a letter from Milton Friedman once.

Robert Hetzel: Yes. You published that in the -- in your review. That was right after I came. Because when I was in graduate school, we talked about that letter.

James Parthemos: Hm-hmm [affirmative].

Robert Hetzel: We worked with the letter at the money workshop, and then I came to Richmond and you had just published it. So that was very --

James Parthemos: And I remember one of the things that he said in that letter was that, "What good is the independence of the Fed if the Fed won't use that independence." The fact of the matter is, that the Fed cannot be independent.

Robert Hetzel: Well, that -- I mean --

James Parthemos: That's what I had in mind when I said, you know, Burns looking from inside, and it looks a little bit different from inside, when you have to deal with the Congress, and deal with the Treasury and, you know, why would we even think of ourselves as independent in the Treasury? We are not independent. We still have to --

Robert Hetzel: That's right. When the chairman wants to raise interest rates, he has to make sure that the political system can't form a coalition to take our independence away. So he has to have either the Treasury or the Senate or the house banking chairman --

James Parthemos: Or the economics profession is --

Robert Hetzel: Somebody's got to be on his side. On the other hand, I remember thinking, kind of vividly at the time, that if Burns weren't an intellectual elitist, if he didn't have this feeling that he towered over everyone, if he thought he could go and make his case to the public for inflation, we could have pushed much harder. But he was never willing to go directly to the public. He didn't trust the public. He always thought that he could play off people within the political system.

James Parthemos: I think there's a lot to that.

Robert Hetzel: Volcker really changed the character of the Fed in that respect. Where Volcker would begin talking directly to public opinion and taking full advantage of the media attention that the Fed received, Burns didn't do that. And I think if he had had Volcker's personality, he'd been willing to go directly to the media, I think he could have -- I don't think the country would have thrown us to the wolves.

James Parthemos: Well, Burns, as I say, was a very interesting -- and I think there's a lot to what you say about him. He was a pedagogue, in the better sense of the term, but I remember the University of South Carolina gave him an honorary degree. And heading down there as a commencement speaker, I forget what year it was, but anyway, they invited me down there as well. And I remember they had a reception for him at the Palmetto Club there in Columbia, and it just happens that Helen has a little nephew who lived in Atlanta at the time and he was going to Georgia State University there and he was a great admirer of Burns. And he came over from Atlanta to Columbia in the hopes that I could introduce him to Burns. And sure enough, he was standing outside the Palmetto Club and I went up and I could see him and I said, "Let me go and see if I can catch the chairman and see if he'll meet you."

I happened to catch the chairman by himself there and I went up to him and I said, "Mr. Chairman, I have a nephew who would give his right arm to come in and shake your hand." And Burns said, "What? Bring him on, bring him on." So I went out and got George, took and brought him in, and that was highlight of George's life, and still is. But he did have some degree of magnanimity about him, and he --

Robert Hetzel: He was a gentleman.

James Parthemos: He was a gentleman.

Robert Hetzel: He had a presence.

James Parthemos: Absolutely.

Robert Hetzel: And Milton Friedman said at his funeral --

James Parthemos: He was a gentleman.

Robert Hetzel: -- where Burns sat at the table, that was the head of the table.

James Parthemos: That's right.

Robert Hetzel: And when he walked into a room, there was Arthur Burns and then there was everybody else. He had that presence. But I wonder if he didn't feel like he could exert a control that really wasn't feasible for one person to exert; that, you know, he was a student of American politics and he felt like he knew enough about the system that he could guide the Fed through when he really should have kind of decided, well, you know, what are my principles? If it's inflation, then, you know, that's what we're going to concentrate on and I'm going to take my case to the American people and…

James Parthemos: He should have taken it to the American people, but, you know, again, he just didn't have that popular kind of charisma like Martin had, for example, or -- I don't think Volcker has an awful lot of it, but Volcker can be very effective, and I think Burns could have been, too. You know, he was getting some age on him, too, Bob. I remember when he first came to the -- you know, to be introduced there, you know that story when Martin introduced him and all of that, Burns, when he got up he said, "Well, this is a very interesting system that I'm joining." He says, "It's a system, some people leave it when they're 66 and some people come in when they're 66." And Burns was 66 years old and Martin retired. I don't know how that affected his physical energy. He -- sometimes I thought he could be a little bit mean.

Robert Hetzel: He could be vindictive.

James Parthemos: He didn't care for the New York Bank, for some reason, I don't know, but he remembered Benjamin Strong influence in the New York Bank, but he wanted to be sure that --

Robert Hetzel: Al Hayes.

James Parthemos: That's right. And sometimes I thought he could be insulting to Al Hayes and to Pete Sternlight, all of the, you know, the desk people. Although, I thought Alan Holmes always handled himself very well.

Robert Hetzel: Hm-hmm [affirmative].

James Parthemos: And I think Burns had a lot of respect for Alan Holmes. But he did pay a lot of attention to Charlie Coombs. Charlie Coombs was a very interesting person, and he played a very historic role, I think, in the -- in the system's programs, currency programs. And Milton Friedman --

Robert Hetzel: I read something --

James Parthemos: Burns, I remember at one dinner meeting we had some guests, among them Chairman Martin -- old time --

Robert Hetzel: Oh, yeah, absolutely.

James Parthemos: Burns got up and he started -- he said, "I'm going to introduce somebody who has really meant so much to the System and made such contributions to the System." And we all thought he was going to introduce Chairman Martin. And he introduced Randy Burgess instead, and didn't mention a thing about Martin, which I thought was very un-magnanimous. And that's why, as I say, he was a very interesting individual. And I think vindictive is the right word.

Robert Hetzel: Hm-hmm [affirmative].

James Parthemos: Well, anyway --

Robert Hetzel: Well, he wanted to run the system. There was not a federal Federal Reserve System.

James Parthemos: I think you're right.

Robert Hetzel: Whenever issues become very political, then the system tends to centralize. That's the pressure.

James Parthemos: Well, he was a hell of a lot better than what Carter replaced him with.

Robert Hetzel: Miller.

James Parthemos: Miller was a cipher. I think Miller was pretty popular with the board staff, because the board staff could really strut its stuff under a guy like Miller. And boy, they couldn't do that with Burns.

Robert Hetzel: I remember when Miller was appointed, the staff circulated, I think it was a *Newsweek* interview where Miller had said that reserve requirements are imposed on bank assets, not liabilities. So he kind of had some things to learn.

James Parthemos: Oh, he had plenty to learn. He just -- he was completely miscast. Just completely miscast. And anyway --

Robert Hetzel: Of course, it is ironic. I mean, if Burns had been reappointed, history would have been very different.

James Parthemos: I think it would be.

Robert Hetzel: Absolutely. On the other hand, Burns was trying to be reappointed --

James Parthemos: Yes, he was trying to be reappointed.

Robert Hetzel: And so he was trying to walk that line.

James Parthemos: That's exactly right.

Robert Hetzel: He told -- it was like 65, Burns told Carter that rates are going to have to go up, and --

James Parthemos: Martin.

Robert Hetzel: You know, Burns.

James Parthemos: Oh, yeah, you're right.

Robert Hetzel: And he did raise rates right before his reappointment was up. So, in that sense, he did the right thing. And this was an open signal and he wasn't reappointed. On the other hand, he did put off for six months, so --

James Parthemos: It should have gone up, no question about that. Well, it was very, very interesting. And then Volcker did a great deal to restore the public image of the system. But, you know a lot was going on at the same time, Bob. As I was saying to you the other day, throughout the '50s and '60s, the early '60s in particular, the Fed didn't have a very good image among professional economists, you know. We came under a great deal of criticism in the '50s and the early '60s from the professional -- we weren't doing a lot of very interesting research then either. We began to pull in some very good people in the 1960s, but a lot of those people like DeLeo were concerned that these big Tinbergen-type models, you know --

Robert Hetzel: Sure.

James Parthemos: Great models of the economy and were very clever economists -- you know, Jim Pierce, for the most part they were -- they had broken the neoclassical range, you know, and had gone off in another macroeconomic directions.

Robert Hetzel: Do you remember the debate over intervention in the foreign exchange market that took place in 1961 and became involved in that? Do you remember that at all?

James Parthemos: We used to talk about changes in the exchange rate structure in a lot of the meetings that we assisted the committee on the --

Robert Hetzel: This was the exchange stabilization had been basically lending its money to Latin American countries, and then it didn't have resources to intervene in the foreign exchange market. And the Treasury obviously didn't want to go to Congress to get authorization. So the Fed was under pressure to --I was just curious if you -- I have written that up and was wondering if you had recollections from that.

James Parthemos: I'd like to see what you've written up, it might jog --

Robert Hetzel: Yeah, I'll send that to you.

James Parthemos: -- some of those things. I remember that the Fed was really becoming very much involved in international discussions. And I remember Stan Siegel had gone off to -- Stan Siegel and Fred Kluckstock, do you remember them?

Robert Hetzel: Yes. They were interested in the Eurodollar market.

James Parthemos: That's right. That's right. I don't think remember if it was engineering --

Robert Hetzel: Okay.

James Parthemos: I think the swap arrangements that Charlie engineered were probably, part of this --

Robert Hetzel: Oh, yes. That was the debate.

James Parthemos: The exchange stabilization fund, you know, was established back in 1930, what?

Robert Hetzel: Six.

James Parthemos: '33, '34?

Robert Hetzel: Well, '34, I guess. Well, that was part of the business that Carter Glass didn't want the New York Fed to be a central bank. They wanted to take -- they didn't want New York Fed lending to the Bank of England, so they put it under the control of the Treasury. And the Board -- at that point, the Board went along with it. They didn't want New York to be a central bank either.

James Parthemos: It's very interesting to go over all of this.

[END OF RECORDING]