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Interview of James L. Pierce
Conducted by Robert L. Hetzel
April 10, 1996

James L. Pierce: Are you going now?

Robert L. Hetzel: Yeah.

James L. Pierce: Just to qualify some things that you said, I—or to maybe amplify on some of them. It's easy to forget, in this day and age, that back in Burns' time, during Eisenhower's time, Republicans were interventionists. They weren't the way they are now. Somebody could be a conservative and be a rate activist. Well, the government was just a different activist role, and the Democrat believed it.

Robert L. Hetzel: Right, like Sproul, who was head of the New York Bank. He was very interventionist...

James L. Pierce: Right, absolutely.

Robert L. Hetzel: ...so you go back and you, how could this guy be a Republican, conservative sort of guy and he wants to control things.

James L. Pierce: And my example is, I mean, on Republican administration, and Arthur Burns is Chairman of the Fed wage and price controls, and Burns was influential in that. That's about interventionist as—No Keynesian would even dream of trying that. And so it was natural to intervene. It was just—The arguments back then concerned the *form* of intervention. Who was to benefit? Who was to gain? What sectors would be helped? Which hindered? It was an allocation-allocated argument. It was not anything philosophical, except that probably the Nixon people—and I would include Burns in that group—were more willing to intervene than probably any group I've ever seen of either party. They really thought they could do these things.

Robert L. Hetzel: Well, let me start, for example, with McCracken.

James L. Pierce: I think they were not really influential, and neither were, well McCracken in particular.

Robert L. Hetzel: Hm-hmm.

James L. Pierce: Let me, one more response before you get to those names.

Robert L. Hetzel: Oh, okay, sure. Sure, sure, sure.

James L. Pierce: Because I'll forget.

Robert L. Hetzel: Yeah.

James L. Pierce: I remember teasing the colleagues who were—[unintelligible] who worked with me on a lot of these things.

Robert L. Hetzel: Yes.

James L. Pierce: That if we could have the same influence over monetary policy that we have with fiscal policy, we'd be something else.

Robert L. Hetzel: Hm-hmm.

James L. Pierce: That we spent most of our time not working on monetary policy issues but rather pushing a fiscal agenda of Burns and debunking absolutely harebrained schemes that were coming out of the administration and out of Congress. And on those levels, Burns was immensely influential and usually right. If he just had stayed away from monetary policy, he would have been a great force in that administration.

Robert L. Hetzel: That was the job with the Council.

James L. Pierce: Right.

Robert L. Hetzel: And yet...

James L. Pierce: And he was very—I mean, now we're coming back to his horse trading and so on, he got his influence various ways. One way, he had a staff that nobody else had. He was able to back up these arguments with things that they couldn't refute. The Administration would send over these little kids who were supposed to know all about things, and they didn't know anything. And, of course, they'd get swatted down. And it was embarrassing. He was not adverse to dealing with members of Congress on these issues in private and so on. He was immensely influential, and I would argue basically beneficial when it came to fiscal things and stopping that Nixon bunch from doing some really awful things. For example, Project Independence when the United States was going to be independent of oil in three years or six years or some ridiculous thing like that, and we were ready to start a whole set of interventionist policies to do that.

Robert L. Hetzel: Now this would have been after the oil price shocks?

James L. Pierce: Yes. Right.

Robert L. Hetzel: Hm-hmm.

James L. Pierce: And it turned out Burns took over. I ended up being Washington's Energy Czar of all things. I didn't know anything about it. He took over the energy thing because it was crazy.

Robert L. Hetzel: This was '74?

James L. Pierce: Yeah. And it turned out then—I did know more than anybody else, which was really scary.

(Laughter)

James L. Pierce: And I didn't know anything. But at least I knew some economics, and so we were able to stop a lot of really crazy things. And so, yes he did have a much wider agenda. I'll never really know why he founded, or did—I'll never know the reason why with that really quite sound fiscal approach, fiscal policy approach and sort of conventional economics, we had such bad monetary policy, and in the sense of way over expansionary and why he was such a fan of wage-price controls. I think that psychology—I don't know if anyone will ever know why. I think he was trying to endear himself with the White House people, Haldeman and Erlichman and Nixon. And if you read the White House transcripts, you'll see how badly he missed. They had contempt for that man.

Robert L. Hetzel: What transcripts are you referring to?

James L. Pierce: Well, you know, the Watergate stuff.

Robert L. Hetzel: Hm-hmm.

James L. Pierce: Where they would talk about Burns, calling him "that Jew." I mean ugly stuff that's on the public record.

Robert L. Hetzel: I haven't seen that. .

James L. Pierce: You ought to read it. It's really disgusting.

Robert L. Hetzel: Where is that?

[00:04:58]

James L. Pierce: It's in the White House—It's in the Nixon tapes, the ones that were published. They're still available. You don't necessarily have to listen to them. I have them at home, all bound. I spent many nights reading those.

Robert L. Hetzel: Are they indexed at all, or...

James L. Pierce: I don't remember. It's been too many years. I read them when they came out.

Robert L. Hetzel: Okay, so you don't have it right at-- ?

James L. Pierce: A valuable source—Haldeman's diary was better than I thought it would be.

Robert L. Hetzel: Right.

James L. Pierce: But the best source, I think, in terms of their attitude towards him are their candid, off-the-record conversations about him.

Robert L. Hetzel: Okay, so...

James L. Pierce: And they went out and tried to destroy him for what Haldeman and Ehrlichman did. Embarrassed him.

Robert L. Hetzel: That was in July of '71?

James L. Pierce: Yes. Accused him of trying to engineer a pay raise for himself, when he explicitly said, "I don't want... It's the next Chairman to get a pay raise, not me."

Robert L. Hetzel: Right.

James L. Pierce: I mean, they embarrassed him in his class at Washington Week. And he kept coming back for more, and I never understood that.

Robert L. Hetzel: Well, he thought that he deserved his place.

James L. Pierce: Well, that's an interpretation. See, we'll just never know.

Robert L. Hetzel: He was suffering...

James L. Pierce: All we know is what he did.

Robert L. Hetzel: ...thought of himself as a suffering servant.

James L. Pierce: That may be. That may be. But he was a very arrogant man. When he didn't—He seemed to have the self-confidence and ability to exert his really remarkable presence in an active, good way when it came to fiscal things. They didn't push him around on those things. He embarrassed them. Because he had the goods, and they didn't have anything. I mean, they had no close to it. But, somehow, when it came to his own bailiwick, he acted in a very different way. And I never understood that.

Robert L. Hetzel: But, he's on record many places. For example, this book he wrote in 1957 on prosperity and inflation, I think, saying that he thinks that monetary policy doesn't have a lot of influence, at least then, he had a very conventional view of monetary policy in terms of the cost and extension of credit, and the Fed didn't exercise a lot of influence on the extension of credit because of a whole variety of other intermediaries, and, also, change in the cost of credit wouldn't have a large effect. Very conventional sort of view.

James L. Pierce: If that was true, then he wouldn't have resisted as actively as he did efforts to try to rein him in. He resisted that, believe me, with great force.

Robert L. Hetzel: Sure, but his control over...

James L. Pierce: So he had to have believed that being expansionary had effects that were consistent with his agenda.

Robert L. Hetzel: Sure.

James L. Pierce: Like I always joked in '72 it was for Nixon to get all the votes. He...

Robert L. Hetzel: Well, I hope not in front of, I hope not in front of Burns.

James L. Pierce: No, no, that one I didn't. I did some outrageous things, but that one I didn't. But, I mean, that's what it looked like. I mean, you couldn't even imagine why he was doing this. The guy was going to win anyway. It was a landslide. He had to have believed that it was going to accomplish some end, or why bother. I could believe he thought with wage-price controls he had two instruments and two targets, and that he was going to be able to pull this off.

Robert L. Hetzel: But certainly part of the reason he resisted being constrained was not because he thought monetary policy was so powerful but that that was the source of his leverage, and if he didn't independently control monetary policy—if he wasn't the Federal Reserve System, he wouldn't have nearly the influence over a variety of...

James L. Pierce: He could have had—He could have picked any— at that time— Believe me. He could have picked essentially any monetary policy that he wanted and pursued it. And he would have had the same influence. He simply dominated. There was no one that was even remotely close in terms of FOMC meetings. He suffered them. And that was about all. No, I don't think so. It wasn't that he picked this extreme thing, and that was the only one that he could have done. He could have taken a restrictive policy, one that he did for a little while, for example, and pursued that. I think he believed that he could do something you alluded to, which is he'd found a way to have price stability and high employment. You take care of the price stability with wage-price controls, and then you get high employment with expansionary monetary policy.

Robert L. Hetzel: That was the task that was left to them...

James L. Pierce: Right, and for a while...

Robert L. Hetzel: ...to show how you could reconcile...

James L. Pierce: Right, right.

Robert L. Hetzel: ...low unemployment...

James L. Pierce: And he hated hearing...

Robert L. Hetzel: ...and price stability.

James L. Pierce: ...well, from people like me that that wasn't going to work.

Robert L. Hetzel: But that's what I said earlier. Maybe this is a good time to talk about that. When I said one problem with powerful people is that ordinarily they don't like to surround themselves by people who are as capable as themselves who are willing to challenge them.

[00:10:00]

James L. Pierce: Well, he get really angry at me at various times (laughs). First of all, I never did it in public. I only did it in private. And I would never do it to a reporter, I mean, I wouldn't do that. But one reason he had me around was I was sort of his—He used me to practice with. He'd have some policy he wanted to pursue, and he'd say, "Mr. Pierce, what's wrong with this?" And I'd tell him. Dr. Pierce. He always called me Dr. Pierce, and I'd call him Mr. Burns. It was fun. Anyway, because he wanted to hear the best argument that he could, so that he would be ready for—so he could respond.

Robert L. Hetzel: But that's different. That's so he can articulate...

James L. Pierce: No, that's why. But he'd hated for me to—.

Robert L. Hetzel: ...his response. But that wasn't... So, am I really thinking about this in the right way. He didn't then change his mind again.

James L. Pierce: Oh, no. Hell no.

Robert L. Hetzel: Well.

James L. Pierce: No, no, I was there. It took me a long time to figure that out. I kept thinking, you know, I kept it up a long—That's one reason I left. I kept thinking *if I keep at this long enough, I'm going to be able to talk him into this*. It finally occurred to me, I know why he had me in there was so that he figured I could argue this better than other people and he might want to hear the best argument so then he could think up some excuse. He

would go bananas if somebody would ask me a question in an FOMC meeting which they would do from time to time, because he couldn't control me at that point. And, aw, he'd play rough, because he was afraid then that I would say—because I would, as a matter of fact if they asked me. Same sort of thing that I might say in the privacy of his office. No, I valued my job and also at that time I worried about long-run relations with him, so I wouldn't be too obnoxious. But he hated that. He didn't—He wanted me under control, so it was only in private that he would want to hear these arguments. When it came to monetary policy, he was perfectly happy to have me opine on fiscal things and tell him why people substitute oil for other things and things like that. I think he wanted bright people around him, and trained people around him, not because he valued the training. I think he didn't. He had quite a low opinion, of sort of modern-day economists. But he wanted to hear the best argument that anybody could come up with, because he was always preparing. You never saw him sort of really at ease. He was always working.

Robert L. Hetzel: And he only slept about four hours a night, so...

James L. Pierce: Yeah, always working. And (laughs)—If nothing else worked, he'd ask me something at an FOMC meeting, and I'd say something, and he'd say no that's not right, because, you know, in one month, something-- unemployment never been this high. Anything, or inflation never been this high. He says there was one month in 10/66 when it was higher. So he'd always add something. One time, I said, "Who cares?" (Laughs) I mean it would get me so mad. He could always fall behind, and he browbeat people with his incredible—I didn't even know if it was all right, because nobody would ever go check it. But he was willing to just could make these claims, and I, you know, most people don't have that kind of memory or wouldn't want it.

Robert L. Hetzel: Well, he could...

James L. Pierce: But he had an agenda that he pursued with great vigor, and he realized, quite correctly, that— how important the independence of the Fed was to pursue the kinds of agendas that he had. That's why—That's the thing that made him so immensely popular. And that what made Volcker popular. And made Greenspan popular. He knew that. He understood it very, very well. And, so, he became unhinged with any attempt to rein in the Fed at all.

Robert L. Hetzel: One anecdote that Bob Black brought, that he said that once Arthur Burns asked you at an FOMC meeting to explain the balanced budget multiplier, and you gave a classic explanation, and then Burns said, "No, no, no, that's not right." And then, so he...

James L. Pierce: Sure. No, he would do that.

Robert L. Hetzel: He would set people up so he could exposit his...

James L. Pierce: No, and I knew he was doing that.

[00:14:40]

Robert L. Hetzel: ...his view. Yeah.

James L. Pierce: Right. No, he would do that.

Robert L. Hetzel: Yeah.

James L. Pierce: That's right.

Robert L. Hetzel: Let's come back to the staff in just a minute, but let's not, let's not leave the wage-price controls completely. Even when Burns was councillor to the President in 1969, he wanted the government to intervene in the construction industry to control wages, and...

James L. Pierce: Right.

Robert L. Hetzel: ...at that time, he sent over—He got a memo from Governor Robertson very early on—this was in '69—advocating an incomes policy, and Burns circulated it within the government and said you should listen to this. And this was before the, you know, the recession was—it was obvious that we were in a recession. And then in May of '70, when the Nixon administration was still firmly committed to conventional conservative monetary and fiscal policies for reducing the inflation rate, that's when he began his public campaign for an incomes policy. That was very early on, so that could not have been to ingratiate himself with the Nixon administration, because it was a source of real conflict.

James L. Pierce: Could I back—I was going to comment on that, and I forgot. The—I don't know what Burns' role was in this, but the Nixon administration, as you said, early on was very conventional concerning fiscal policy. And they had explained to them that if we had a short, sharp recession, then we could break inflationary expectations, and the economy could then go back to a reasonable growth path. And monetary and fiscal policy went along. There was a tightening of fiscal policy quite a bit. Monetary policy was a credit crunch.

Robert L. Hetzel: Sure.

James L. Pierce: Unemployment rose and so did inflation. And at that point, I can remember, old economics didn't work. People didn't realize—now Burns should have for sure—how entrenched inflation can be. He believed in expectations too much. Wages and prices were still catching up to the earlier inflation, policy didn't have any credibility, there were good reasons why prices continued to rise. But this conventional wisdom that came, including from a lot of Keynesians. Remember, that was back when people knew how to fine-tune. And I wasn't one of them, but there were people who thought they did, that all you had to do—They just knew what to do and it was going to work, and it didn't work. And from the administration, I do remember was this talk about the old economics doesn't work.

We've got to try something different. You can't trust economists, blah, blah, blah. And it then became much easier to sell incomes policies, because the old economics, the same way they claimed the British had tried it, and it hadn't worked. Then we tried it, and it didn't work. And so we had to try this more radical medicine. I think that that was a crucial ingredient in getting wage and price controls, that episode.

Robert L. Hetzel: Well, absolutely, and it was also part of the environment at the time where people felt that they were being threatened by powerful forces they didn't understand. The businessman was willing to live with an intrusive government if it would protect it from...

James L. Pierce: The Fair Labor Act.

Robert L. Hetzel: ...government protection from a militant labor.

James L. Pierce: Absolutely, which was only a matter of time.

Robert L. Hetzel: And consumers wanted protection from greedy corporations.

James L. Pierce: Markups were high at that time. Management was going to go through, because there was, we were just about ready for another round of wage increases, and the time was just right to bring these on for public administration. I think economists, generally, that was not their finest hour. Once they got the politicians to listen to their advice, and the advice was bad, they simply didn't understand how powerful inflationary forces were. It was so funny, we got wage price controls with a rate of inflation lower than anything we saw for the year and probably decades after. It was under 6% as I recall when we got the wage and price controls.

Robert L. Hetzel: That's right, but, at that point, there had been no deceleration and wage—

James L. Pierce: No—

Robert L. Hetzel: —and nominal wage changes. And that's what economists...

James L. Pierce: (Crosstalk) Absolutely.

Robert L. Hetzel: They thought it was, you know—

James L. Pierce: Well, it was a simple minded—

Robert L. Hetzel: —markup over average cost determines—

James L. Pierce: —and no set, and no sets of dynamics that people had to catch up, and the real wages had been rooted, and that all the things that we understand much better now, and the things of which empirically— that how hard it is to push around inflation rates

by ordinary methods, which is one of the reasons you don't want to get us started to begin with. It wasn't well understood. You just don't really want to do that.

Robert L. Hetzel: But I do think that Burns was not so important or so dominating that he could just get what he wanted, because when Burns pushes publically for an incomes policy, it's at those times when he feels that he has the most leverage.

[00:20:10]

James L. Pierce: Well, that would be right after that recession. We had all the unemployment. People were pissed off.

Robert L. Hetzel: [crosstalk].

James L. Pierce: And, in fact, it was like the last recession. This country was white collar workers who vote Republican. It was not a popular thing at all. These were, you know, defense workers and middle management people. It wasn't the ordinary people who become unemployed. I remember that one vividly because I remember saying, well suddenly you care about unemployment if a guy wears a white collar; they find that obnoxious.

Robert L. Hetzel: Yeah.

James L. Pierce: That, I think he knew how to seize on a moment. I mean, that man, he was very good at that. And very forceful. I mean it's, and very smart, very smart.

Robert L. Hetzel: Well, he had no compunction about attacking the administration in very embarrassing ways, very public forums and ways that would politically—

James L. Pierce: Well, in ways, it was hard to go after him, too. I mean, he wouldn't—You know he wouldn't come at it like a Ralph Nader. I mean he could be very indirect, but people would know what he was doing, but he would be so much on the side of the angels, or it would appear on the side of the angels that it was very hard to go after him. Yeah. He was—That's one of the things that made him very influential.

Robert L. Hetzel: Hm-hmm. Was there anybody that he confided in in terms of his own thoughts and strategies? I mean, he was very...

James L. Pierce: I don't know. I don't know. Nobody, none of the people I knew. If they did, they didn't tell me, I'm pretty sure—

Robert L. Hetzel: Yeah.

James L. Pierce: He wouldn't—I don't know the answer to that.

Robert L. Hetzel: Yeah. I doubt it.

James L. Pierce: That wouldn't surprise me.

Robert L. Hetzel: No.

James L. Pierce: He was very—He must have been a good poker player. He played things very close to the chest, and he told you the things he wanted you to know, ask the questions. He would realize that questions would reveal positions, so he would be careful how he asked his questions.

Robert L. Hetzel: Let me ask you one sort of technical question before we get back into the politics, where we started from this NBER, old NBER Mitchell view of the business cycle. It wasn't a framework constrained by a simple theory that yielded clear implications, such that you could take the implications to the data and reject the theory.

James L. Pierce: Right. That's right.

Robert L. Hetzel: It was such a complicated world that it would always fit along some dimensions.

James L. Pierce: Right.

Robert L. Hetzel: But maybe not others, and when it didn't fit on some dimensions, you went back and tinkered with it. So, in that sense, I think Burns' failure was a more general failing for much of the economics profession that even though they should have known about identification problems and the Cowles Commission stuff. The models weren't...

James L. Pierce: Makes [unintelligible] that theory, right?

Robert L. Hetzel: Yeah, right.

James L. Pierce: Wrote a famous article.

Robert L. Hetzel: Well, yeah, exactly. Well that's what I, yeah, but that's what's on my mind. But Burns didn't have a, didn't carry—I mean for all his brilliance, he didn't carry around in his head the kind of model that would force him to address identification issues, so that when he saw high unemployment, and he didn't see the price level falling the way it had in 1870 or whenever, then he could turn to an ad hoc explanation, and without feeling like he had to change his view of the world. That he could say, "Well, you know, this isn't union, an abusive monopoly power, and we need a special way, you know, tools for dealing with it."

James L. Pierce: When I was there, all the meetings, I would almost immediately forget that he was an economist. And it was almost virtually nothing he said, other than his incredible memory for numbers and dates that would really give much of a hint that he was an economist. And I guess I'm agreeing with you. There wasn't this model, but somehow he thought he knew what he was doing, but he wouldn't share, particularly, how he came to that conclusion and was really—He was a good debater, so he was very adept, whenever someone

would take a position he could shoot holes in it, as he could in any argument that particularly when it involved policy. Well, for example, I mean, we have people, Board members and Reserve Bank presidents, who were not far removed from economics, and they would often say—I remember it always fell on me to give the forecast, and I, first when I was young, I thought, *well, isn't that nice of them*. I didn't understand that they always like to shoot the messenger. Partee and Gramley weren't about to do this, or Axilrod, so I got to do it. And I'd always argue that, you know, that if they keep, well, if we keep this up we'd get inflation, or, secondly, that later on when we tried to slow down inflation, it was going to take time. I'd hear the argument; I'd believe it when I see it. And I'd say, well, by the time you see it, it's too late. Now you'd expect that argument from someone totally untrained in economics. You know, Burns would say that if it fed his purpose. "I'll believe it when I see it." Then you'd go — I mean there's no way to really respond to anything like that. Have you seen it yet? No. (Laughs) It doesn't work that way.

[00:25:45]

Robert L. Hetzel: Yeah, or he would, then he would say, "well, you know, you know, this is my framework," and then he'd say, "well, I'm not a Keynesian. I'm not a monetarist."

James L. Pierce: Well, he'd say that, but he wouldn't then...

Robert L. Hetzel: [crosstalk].

James L. Pierce: ...tell you what his conclusions were.

Robert L. Hetzel: Well, his theory seemed to be, as we said, this sense of empirical regularities that asserted themselves over the business cycle that were driven by psychology, so it wasn't—and if something didn't fit that pattern, well institutions, the institutions that shape the lags and the adjustment of the prices, and those would change over time. And, but you know, you had to be smart enough to see that and understand it, and he, Burns, could do that, and he could do it without an analytical framework that would tie him down or...

James L. Pierce: But it had to be because of agenda again, because he was perfectly amenable to analytic frameworks when they had to do a fiscal policy. I mean, then you knew you were talking to an economist. It was really remarkable.

Robert L. Hetzel: Or if you wanted to defend free markets, he was a Marshallian economist, and he knew all about supply and demand.

James L. Pierce: Well, but he could do it, he could do that, absolutely, right? If you don't know the prices, incentives and all those things, then your wide investment tax credit might work, and maybe administration couldn't order a trillion dollars' worth of real resources to go into energy and stuff like that. He understood that.

Robert L. Hetzel: Yeah.

James L. Pierce: And clearly elucidate it. And was perfectly willing to accept economic arguments there. Was he a knee-jerk sort of Hayekian? No. I mean, he didn't believe that everything was smooth. Things like that.

Robert L. Hetzel: There are some things... I mean, there is, and you could just say, well, if you look at mainstream macroeconomics at the time. If you look at Keynesian macroeconomics, Keynesian macroeconomics had not integrated price theoretic decision-making into their models. There was macroeconomics and then there was price theory, and in macroeconomics, you had shocks and you had quantity adjustments.

James L. Pierce: Well, yes and no. I mean, when we were doing macro on...

Robert L. Hetzel: So you could say, Burns was not—I don't believe this, but you could say Burns was not that different. He just, the quantity adjustments in his macroeconomic model just derived from a different source, the confusion between nominal and the confusion introduced into the price system by money illusion in the way it evolved dynamically over time.

James L. Pierce: Well, if it is, I mean, he wasn't easily shaken. I mean, he must—I don't know how many boring lectures he got on money illusion, and why we refused to build it into our model except for stanchion things. I don't know. I don't know if it's that simple. I really don't.

Robert L. Hetzel: Well, I don't either, but that's why I'm—

James L. Pierce: He certainly heard the arguments... What I mean is—I don't know if it's macroeconomics. Microeconomists, there are some good ones and some bad ones. If you'd asked Tobin or Modigliani or Samuelson or someone to explain why the investment tax credit could be a powerful instrument, they would have given [unintelligible] a more technical— But they would have given the same sort of argument that Burns did. I mean, there wasn't— and that's macro. You try and affect a major sector of the economy. He was at least superficially adamantly anti-monetarist. But I was never sure, but that was because monetarism was really get in his way. Or whether he believed it. And see, this is the problem I always had.

[00:30:02]

Robert L. Hetzel: Yeah, you don't want anybody telling you what to do in monetary policy.

James L. Pierce: Right, and, you know, you keep saying—I mean I almost the king of monetarists for a while, till I kept saying, gee, there's got to be some way to control this. So, I got them to put in the Bluebook that money growth rate, you know, not a rate but a level, so that they could track it. And he went crazy over that, but we kept it in for years.

Because he'd just, you know, he had the famous ran walk. He'd always say, "well, we had to move fast last month but now we'll make it grow slow," and we'd just move the base up and do it again. And so we put the level in there to show what happened with the trajectory. I just, I think he knew what he was doing.

Robert L. Hetzel: Well, he was brilliant, but he wasn't an original thinker.

James L. Pierce: But he was very pragmatic. I mean, it seemed to me that...

Robert L. Hetzel: Well that's like Mitchell, then, I suppose that— [crosstalk].

James L. Pierce: Well, just a contrast. I don't want to give them same [unintelligible]; I think Milton's completely brilliant. But if Milton Friedman ever had a flaw it was he would tend to get caught up in his debates, and Milton would argue only money matters. You know, [unintelligible – 00:31:15] and he'd say "almost only money matters." But he knew better than that.

Robert L. Hetzel: Sure.

James L. Pierce: Still does. Always has.

Robert L. Hetzel: Sure. Well, he loves to win a debate.

James L. Pierce: No, right, but I think money gets in his way.

Robert L. Hetzel: Sure.

James L. Pierce: Right? And so, but Burns was always far too pragmatic to ever get in a position like that. You can say, "Well, Milton's fine. He's academic and he's making argument, and he's taking an extreme point." But you wouldn't expect this man of affairs, which Burns really was, who understood all the complexities in the world and spent so much time talking about them, would totally disregard a major part of economics, that— And, believe me, we tried ways other than money growth. You can tell the monetary story 82 different ways.

Robert L. Hetzel: Oh, sure.

James L. Pierce: We tried doing it in model [crosstalk].

Robert L. Hetzel: Well, I mean, you would look at interest rates.

James L. Pierce: Absolutely.

Robert L. Hetzel: And Burns pushes interest rates from 6% to 2 ½% in the two months, and...

James L. Pierce: Sure. Sure. I mean we did all those things. And we did it with bank credit. You can do it all kinds of ways.

Robert L. Hetzel: Well, you did it with the money projection. You'd say, okay, you can have it either way. You'd push interest rates to that level. This is what's going to happen in the money growth. And you guys were actually right in the first couple of years. So you can see it either way.

James L. Pierce: No, right. And so it wasn't a matter doctrinaire.

Robert L. Hetzel: Yeah.

James L. Pierce: So you'd say, "Look, you could be a Burns and Mitchell guy, and believe in bank credit," because they have big stories about bank credits. So we'd fight really hard telling stories on bank credits. Didn't make any difference at all. He didn't want to hear them either. And so I don't think it was monetarism. I think he had an agenda.

Robert L. Hetzel: So you think it was if he had been constrained by a particular framework, it would've interfered with the political agenda...

James L. Pierce: Yeah.

Robert L. Hetzel: ...that he was trying to follow.

James L. Pierce: Yeah, uh huh, yeah.

Robert L. Hetzel: And he thought he was so smart, but he could not constrain himself in that way. It may have had something to do with his own personality. He was such a commanding presence, he may have projected his own personal abilities to influence individuals and give himself an ability to exercise a control that no one individual has in Washington because of the dispersion of power just because of the dispersion of power, just because how government is constructed, he—

James L. Pierce: Right. No, right. Yeah. Yeah.

Robert L. Hetzel: —simply grossly overestimated his own ability to control the situation.

James L. Pierce: Well I think that is correct. But there was always a way to solve it, whether it's with incomes policies, some kind of other form of intervention, but if it got too far out of whack, we'll fix it, without knowing exactly how to fix it.

[00:34:00]

Robert L. Hetzel: Well, there's a little bit of that in Keynes, though, because Keynes went to monetarist Keynesian and Keynesian. And towards the end apparently was going back the other way. He had these statements—

James L. Pierce: He didn't mention it.

Robert L. Hetzel: ...that, you know, I can come up— He was asked, don't you think your framework can be used to encourage the inflationists, and he says, "Then I'll make, you know, at that point, I'll come up with another framework."

James L. Pierce: No, right. I think if you scratch interventionists, that's what you get. As I said, you might have different methods, but there's a sort of arrogance that "I can fix it." I may not be able to tell you exactly how I'm going to do it right now, but when the time comes, we'll figure that out. And, economists have learned since, during [unintelligible 00:35:01], there are situations you get into that are very hard to get out, and you're just much better off never getting into those situations to start with.

Robert L. Hetzel: Well, people...

James L. Pierce: Now that sounds sort of lame and commonsensical, but that's sort of new.

Robert L. Hetzel: No, but as an economist, you have to make a choice. I mean, you think that well, you know, you can take a middle line, but you think about, there's one— There are two different ways to think about policy. You can assume that you can make policy in an optimal way by making decisions optimally period by period, and those individual decisions will cumulate to an optimal policy, or you can decide where you want to go and then constrain decision-making period by period...

James L. Pierce: Right.

Robert L. Hetzel: ...by, you know, with the model and with your alternate objective. So, those are inverse ways of doing things. You really have to make a choice, and if you're dealing with, if you've got a political agenda that you want to be able to trade in an ongoing way or at least take account of other people's, of other agendas in a way that shows that, yeah, I understand your problems. I'm not insensitive to that. Then you can't really advertise this other sort of constrained way. You can't say, "Well, look, you know, this is our objective and this is the model and that's what I've got to do this period if I'm going to achieve the objective. Well, you know, well, you can wait, you know, really you can wait till...

James L. Pierce: I'll wait till—

Robert L. Hetzel: I'll do it next time. I'll do it tomorrow.

James L. Pierce: I'll believe it when I see it, sure.

Robert L. Hetzel: Yeah.

James L. Pierce: Right. Now, one thing in terms of strategies, Burns figured out very quickly—and I guess Martin had, too. Given that, if you want to dominate, you want to have very frequent FOMC meetings. And, not only they should meet like every month, but then you get a couple of meetings in between, because that always means you can always, you know— never do anything now. We can do it next time.

Robert L. Hetzel: That's right. Martin was very good at that. He'd have three boxes, and he'd say, you know, this is the box for kind of bad news, good news and neutral news, and, of course, you've got 19 people. You're going to have news in each box, and so you say, "Well, we've got these cross currents."

James L. Pierce: I know. I know. Well [crosstalk].

Robert L. Hetzel: Things will become clearer. It's only going to be three weeks until we meet again. Let's be patient, and then, you know, it'll be clearer. And so he could put off, you know, he had this ability to control the timing. So even though you knew which way you wanted to go, if you can control the timing, then you have a lot of control over it.

James L. Pierce: Oh, absolutely. And Burns understood that. And we frequently, if it looked like someone even was making noises that might challenge his policy, then he'd say, "Well, you know, if something happens, why don't we have a little meeting. What are you going to do then, say, "Well, no, we're not going to. I'm going to force you to sign now." No.

Robert L. Hetzel: Yeah, and I have to say, I'll find that, I'd find that disturbing, because there's—With a telephone meeting, it's a totally different psychology. Every individual is isolated so that there's no way of knowing...

James L. Pierce: (Laughs) I know. And [unintelligible –crosstalk]

Robert L. Hetzel: ...what kind of support you have. The Chairman dominates it, and...

James L. Pierce: Well, even more so.

Robert L. Hetzel: It's bad enough to sit around the table and feel like you're going to say something stupid, and 18 people are going to think you're dumb, but when you talk into a telephone, you have no idea of what reaction you're getting.

James L. Pierce: Yeah, absolutely

Robert L. Hetzel: There's no reinforcement. You say something controversial, and then there's just this silence. You know, it's floated off, and you have no idea, no support, so, anyways, I'm not a fan of telephone conferences...

James L. Pierce: But that's what he did. I mean, he—I know that there's been a lot written about Darryl Francis. He made a caricature of himself. I mean, he had no influence at all.

Robert L. Hetzel: Yeah.

James L. Pierce: He could have had, but, obviously, he couldn't control himself, and he had a staff that was like [unintelligible 00:39:05].

Robert L. Hetzel: Well, you read the FOMC... I mean, you're going along and then here's this beautiful little statement about monetarism, but it just kind of doesn't, you know, there it is. It's like, you know, when it comes his turn and he reads it, and then you go on, and people don't, it doesn't quite fit in.

James L. Pierce: That's correct. So he didn't. There weren't any challenges. It was really remarkable.

Robert L. Hetzel: Well, yes, that's the feeling I had in reading the minutes, and even the people who, really very competent individuals, capable people, people like Frank Morris. They didn't challenge him either.

James L. Pierce: I was a friend of Frank's, so I asked him, "Why don't you do it? What do you care?"

Robert L. Hetzel: I think he finally did maybe in '77.

James L. Pierce: Aw, it took him a long, long, long time.

Robert L. Hetzel: But what, I mean, he became... he went on the FOMC in like '68 or '69.

James L. Pierce: A long time. I mean, I would if the staff would, and not just me. We'd lobby.

[00:40:04]

Robert L. Hetzel: And there were -- Eastburn was capable, and he could've, because he was capable. Although, some of them...

James L. Pierce: —believe me. I mean if you took them on, you had to be prepared to fight. I mean, this is not—it's not gentlemanly anymore.

Robert L. Hetzel: And if you did, then he would say, "Well, you know, starting with the 1870 recession, and he would go, you know, he would—and, how could you come back to..

James L. Pierce: Well, you could, I mean, if you...

Robert L. Hetzel: You could if you...

James L. Pierce: You could say, "What the hell has that got to do with anything?" And then you go on.

Robert L. Hetzel: But...

James L. Pierce: That's the history of doing economics. I mean, you could slap 'em down, but...

Robert L. Hetzel: Yeah, you spend all month running your bank, and then you suddenly have to have to jump into that...

James L. Pierce: No, I—Well, I [unintelligible –crosstalk]...

Robert L. Hetzel: You don't know what...

James L. Pierce: ...you have to be a very confident person.

Robert L. Hetzel: Yeah.

James L. Pierce: And since Burns had so much more command of all of that than anybody, including Frank. And Frank is a really nice guy, and cares, really cares a lot.

Robert L. Hetzel: Yeah.

James L. Pierce: He just couldn't do it.

Robert L. Hetzel: So how did Burns interact with the staff. When I read the FOMC minutes, I was surprised at how aggressive, say, Chuck Partee was in expressing an opinion for policy. I had the feeling like in those days the ABC were switched around, so I think C was the easiest, and B was next easiest and A was kind of moderately tight.

James L. Pierce: I guess so, right.

Robert L. Hetzel: And so...

James L. Pierce: You're always supposed to vote for B, that's all I know.

Robert L. Hetzel: And so Partee would come on at the very beginning and say, you know, he would give his rundown of the economy, and then he would say, "I think we ought to go for C." Very explicitly, and then Burns would say, "Well, I think we should do B." So Burns would sound reasonable, like okay, you know, let's be cautious about this.

James L. Pierce: Right, right.

Robert L. Hetzel: So they must—Do you think they worked together and talked this over before meetings, or Partee just had a sense of where things were going, or he just naturally wanted the kinds of policies that Burns thought was appropriate?

James L. Pierce: Well, let me—I can give you facts. All right. Because, again, motives are hard to do. As there must be now, there would be a Bluebook meeting where we would set the alternatives. And alternatives would come, Steve Axilrod would come in to talk to Burns, and he'd come back, and we knew what alternative B was. We also knew that was the one that was always voted on, because that's the one Burns wanted. So only one time I can remember that he was playing some games, and there were four alternatives, and we thought we were going to have to carry around a sign and tell FOMC members what to vote on. But the message came across. The policy that was going to be adopted was set about a week before the FOMC meeting. It was just set in stone. It was always an interest rate. Chuck knew that. (Laughs) Of course, he knew it. Everybody knew it and watched it. I mean, he just—He would come in with his thing. And then, our job was to try to figure out what money growth would be consistent with that interest rate, and then if that didn't agree with Burns, then Steve would find some way to make it fit. It got pretty bad. The idea was to sell that interest rate, and that was good.

Robert L. Hetzel: But that's like the, I guess what's called the Prell assumption now. The Greenbook starts with an interest rate path. It's nowhere made explicit except in a quality...

James L. Pierce: Absolutely, absolutely. Isn't that remarkable, even in this day and age?

Robert L. Hetzel: Yeah, even today, it's...

James L. Pierce: I know, I know, I know.

Robert L. Hetzel: It's conveyed by telephone.

James L. Pierce: See, the Greenbook—it can't be much different from that now—was sort of, I think we can keep the staff happy and sort of for PR, because it never seemed to have any effect on anything.

Robert L. Hetzel: Well, but it seemed to do—I mean, it would provide a consistent story of—because the Greenbook imposes an accounting consistency on a wide variety of series...

James L. Pierce: When the Greenbook [unintelligible – crosstalk]...

Robert L. Hetzel: ...so that you can tell a story that's consistent [unintelligible – crosstalk].

James L. Pierce: But the Greenbook would never show much change no matter what. And so, yes, you got all your accounts to add up.

Robert L. Hetzel: It would set the tone for FOMC meetings also. If you wanted to come in and argue something very different from the Greenbook, you kind of had your work cut out for you.

James L. Pierce: I know, but the Greenbook would only be so reasonable. Do it the other way around. This interest rate that Burns selected somehow, was always claimed to be consistent with the Greenbook. Now, the staff all knew the Greenbook had been set long before we even knew Burns' interest rate, and nobody ever did interest rates. 'Cause I used to cause trouble and say, "What interest rates are you assuming here, for God's sake." I'd say, "We're monetary policy aren't we?" [unintelligible – 00:45:20]. (Laughs) I said, "I'll just have my academics assume monetary policy is given. Monetary policy is not supposed to assume monetary policy's given." And so they—And there'd be this reasonable thing, right?

[00:45:30]

Robert L. Hetzel: You know, it's like making long-term predictions of inflation.

James L. Pierce: Sure.

Robert L. Hetzel: You control inflation...

James L. Pierce: Right, right.

Robert L. Hetzel: ...next quarter. But, you know, six, eight quarters from now we're predicting inflation.

James L. Pierce: And so, there'd be this reasonable thing, and they'd never—There's another problem we had with models, that the judgmental guys are always better a quarter or two out, because I don't know where else on regression, our regression would beat them as a matter of fact. But the damn economics starts to kick in, right? (Laughs) And so, we said that times would show that a model, anything, not just a structure or a so-called structure model, but time series stuff, too, would show that the economy might slip into recession and was going to take off the other way, and that would really get me ejected, because they had this rule that nothing could change more than such and such a quarter. So it was a very placid-looking thing. Then, Burns' interest rate was deemed consistent for that. So, now what's the FOMC got left to talk about? Chuck would say, "No I think we ought to be tougher because we've got inflation," and Burns would say, "Well, [unintelligible – 00:46:43]. Inflation was coming back and under control. It's not going to take off, or whatever the story might be. And, I guess nobody except for Frank Morris, who wouldn't speak up, would want easier policies, so now you got it, so Burns was the reasonable guy. I think there might have been good cop, bad cop. I don't know. Or Chuck might have felt... He typically argued for a tighter policy. It was during that period it was correct. And it might have been that it was a way for him to live with himself.

Robert L. Hetzel: Well, in...

James L. Pierce: In a way that...

Robert L. Hetzel: Well that depends, I mean, in '70, '71, he typically argued for easier policy.

James L. Pierce: Right. But I think he...

Robert L. Hetzel: And Burns would...

James L. Pierce: Right, right, right.

Robert L. Hetzel: ...if it had been later on, he wouldn't.

James L. Pierce: But I think that—Burns was always very—He knew he needed the staff. He already knew that. And he knew the staff was good, too. And...

[00:47:39]

[END OF TAPE 8, SIDE A]

[BEGINNING OF TAPE 8, SIDE B]

Robert L. Hetzel: Why did he need his staff to get prestige to give...

James L. Pierce: Prestige...

Robert L. Hetzel: ...to give a prediction [unintelligible – crosstalk]

James L. Pierce: ...and to sort of overwhelm the opposition.

Robert L. Hetzel: ...like it's going to be okay to raise interest rates.

James L. Pierce: That he would go to a meeting at the White House or Congress or even an FOMC meeting, and somebody would venture an opinion, he'd say, "Well, we've got these 32 people who studied this thing, and their answers are very different from yours. You want to take on these guys?" He wouldn't say it that way, but, in effect, that's what he'd be saying, and it would be very difficult to take that on. And that the resources were there. He also realized that he needed a staff that by and large could dominate the staffs of the Reserve Banks. So the Reserve Banks would be very— wouldn't want to take them on. I can't believe that's very different now, because, you know, anybody who's Chairman of the Fed won't do this.

Robert L. Hetzel: Sure.

James L. Pierce: Huh?

Robert L. Hetzel: Sure, absolutely. Oh, yeah. It hasn't changed.

James L. Pierce: And so he needed—He knew he needed that. And so he was very careful, and he was also very gentlemanly. He'd cut your legs off, but he was also very civilized about it and sort of collegial. I guess that was the academic side of him.

Robert L. Hetzel: But he could be sarcastic, too.

James L. Pierce: Oh, absolutely. No, no.

Robert L. Hetzel: I mean...

James L. Pierce: Sure, sure, sure. But he, no, he wouldn't absolutely embarrass you. He'd pick on me sometime. I was sort of his guy who'd stand up so he could beat on me in the FOMC meetings, but I was young and dressed funny, so that was okay. So, the—but Partee wouldn't do that with him or Axilrod.

Robert L. Hetzel: They wouldn't...

James L. Pierce: I guess it wasn't acceptable. I was okay to beat upon. I could take it, too. And sometimes I didn't like it, but I didn't get destroyed by it. And, also, I think he needed those people. They did, and I can't again believe this is very different. They did a lot of telephone interviews with Bank presidents, and staff of Reserve when it started to look like things weren't going to quite work out right, and apply pressure. You needed a lot of prestige and influence to be able to do that.

Robert L. Hetzel: What?

James L. Pierce: Be the alter ego. The governors wouldn't do it. It would be me, Partee and Axilrod.

Robert L. Hetzel: I assume that was—I think now that would primarily be the Secretary of the FOMC.

James L. Pierce: Sure.

Robert L. Hetzel: Then Bob Holland.

James L. Pierce: Yeah, Bob less, I think. The Secretary was much less important back then.

Robert L. Hetzel: Yeah, well it's Don Kohn.

James L. Pierce: Yes, Don would do it. I bet Bob [unintelligible – 00:50:27]

Robert L. Hetzel: Bob?

James L. Pierce: I meant Don Kohn. I bet he...

Robert L. Hetzel: Oh, sure.

James L. Pierce: Sure. And so you don't want to beat him up in public.

Robert L. Hetzel: Yeah. It's, yeah, it's kind of a good cop, bad cop thing where Don Kohn is everybody's friend and he's got a handshake and a smile for everybody. He'll call you on the phone and just kind of wanted to know what you were thinking about this. And you know he's getting information for the Chairman to see how the votes are lining up. And, Prell can be the bad guy who takes the strong position and can get angry and so it's...

James L. Pierce: Well... So I think they were—My guess is, and in none of the formal meetings did that get discussed, and it was just such a pattern, that I think so. But I will assure you that that policy was set well in advance—

Robert L. Hetzel: You mean the—When you talk about that policy, are you talking about the interest rate assumption or...?

James L. Pierce: Yeah, hm-hmm. Yeah, Yeah. It was always B.

Robert L. Hetzel: Hm-hmm. What about the personalities of some of the governors. They all supported wage-price controls, because Burns would go testify before the Joint Economic Committee and say, you know, the Board has this unanimous position, and we think that we, you know, we need an incomes policy. So at least on that issue everyone went along with him?

James L. Pierce: “Went along” is different. Another way he was very effective. How do I want to say it. He would elucidate things that were just obvious with Martin, so Martin would never have to say them. But Burns would say them, which would be how important it was to show to the outside world the united front. And he would push that and how that it would be in effect saying—he didn't say it, but in effect saying that it would be doing a disservice to the country to go on record as opposing various policies.

[00:52:40]

Robert L. Hetzel: Well, he would call individual presidents and chew them...

James L. Pierce: Oh, no, he'd do that in private. But I mean in a meeting where it looked like, sure, when he'd do it, staff would do it and so on. Yeah. And so the fact that when it went to a vote, or went to an expression in a public thing, or when we were doing minutes, it didn't necessarily mean everybody may agree with it. And another thing I think that he was also really good at. He would remind these guys, you know, that he'd just met Mrs. Thatcher, he'd met with the President and he'd met with—I mean these guys don't meet with these people. This is an immensely powerful person. And do you really want to take him on? No. And that gives the Chairman of the Fed an immense amount of power.

Robert L. Hetzel: There's three different ways of thinking about Burns' attitude toward dissent. One is that he wanted to make it completely clear that he was speaking for the Fed which would give him the maximum amount of leverage...

James L. Pierce: Correct.

Robert L. Hetzel: ...with the Administration. Another one is his view on the need for leadership and inspiring confidence in government...

James L. Pierce: Right, that's right.

Robert L. Hetzel: ...in terms of how the public would perceive policies, and the third is just his own personality that he disliked, but he wanted control.

James L. Pierce: Both those first two are remarkably consistent with wanting to have all the power. That's right. Now, he would only argue the first two. But there was always, you know, it fit very much with his disposition. And I think not having a particularly favorable view of his colleagues or the FOMC's opinions on things... I can't ever remember him saying something like, "Well, I wonder what X would think?"

Robert L. Hetzel: No one ever really challenged him, but clearly there was—The chemistry differed between Burns and individual members, and I've been reading some letters and things between Nixon and Burns, and Burns apparently scapegoated individual members, and so if there was a problem, the administration wasn't getting the money growth it wanted—

James L. Pierce: He'd blame it on somebody...

Robert L. Hetzel: He would blame it on Hayes. He would say, "Well, the New York Fed is the one that's controlling the money supply, and, you know, I'm having some problems with the New York Bank, but I'm going to get it under control." So he would blame Hayes, and he'd also blame Brimmer, and...

James L. Pierce: Well, there was one period, if this is the same one, where, apparently—and there was some gaming going on—and, I can't think of his name, the manager of the Desk.

Robert L. Hetzel: Holmes.

James L. Pierce: Yeah, Alan Holmes was in Washington every day. Every day.

Robert L. Hetzel: That would have been late '71 probably.

James L. Pierce: Burns was mad...

Robert L. Hetzel: It would've been late, it would've been November or December of '71.

James L. Pierce: That was his period when he wanted—He didn't want money growth to exceed 6%, as I remember. This was tight monetary...

Robert L. Hetzel: Oh, no, this is when they trying to get it up.

James L. Pierce: Whatever, I can't remember. Anyway, I think one—there were two. The episode I remember was seeing Alan who I knew [unintelligible – 00:56:10] everyday he'd go do his whole market operation, then got in his plane to come up and gets his ass chewed by Burns. I mean, he was really on him. So there might have been a tiny bit of truth to that. But, believe me, he got that under control in a big hurry.

Robert L. Hetzel: Sure.

James L. Pierce: So it's just nonsense to say that somehow he couldn't control them.

Robert L. Hetzel: What was—There was—Was there conflict? I mean there's academic things between Brimmer and [unintelligible – crosstalk].

James L. Pierce: Yeah, and he treated Andy poorly. Andy's a good friend of mine, and Andy wanted in the worst way to be the international governor, and he just really wanted that.

Robert L. Hetzel: Well, so did Dewey Daane.

James L. Pierce: Yeah, well, but after Dewey, right? I mean Dewey was over and done with, an embarrassment. Anyway, when Dewey finally quit, poor Andy was going to get it, but he wouldn't give it to him.

Robert L. Hetzel: No, Dewey outlasted Brimmer.

James L. Pierce: He quit going for some—I can't remember what happened now. Anyway, he didn't like Brimmer particularly. Andy would speak up, not a lot. Andy, obviously you don't know him very well, but he's certainly not somebody who's...

Robert L. Hetzel: I talked to him once.

James L. Pierce: ...likes conflict

Robert L. Hetzel: ... [crosstalk] he's a very congenial person.

James L. Pierce: He is. He doesn't like conflict.

Robert L. Hetzel: [Crosstalk]

James L. Pierce: I like him a lot.

Robert L. Hetzel: A serious economist.

[00:57:22]

James L. Pierce: Yeah. I like him. But he doesn't like conflict, but he would argue the liberal line. It's just that, you know, you just knew... You get the story from Alan and Francis on the one side, and you wait and you get Andy and [unintelligible – 00:57:45] with Sherman Maisel on the other side. You just knew what they were going to say and didn't do anything. I don't think Andy ever really caused them any trouble. Andy's not the kind of person who would. You know the only person that really took him on was Jack Sheehan towards the end of his time here. That was remarkable. He was so proud of it. He had Burns chasing him down on the hall screaming at him. He was really proud of that. [Laughs]

Robert L. Hetzel: So that was in '77.

James L. Pierce: Yeah. He came when Jack Sheehan and I left. He's a business guy, and he didn't know about monetary, and Burns was his absolute hero. Over the years you sort of watched this, and he was a smart guy. And he says he can't seem, you know, he'd [unintelligible – 00:58:25] them. Then the other staff people would say, "What's going on? It just doesn't fit." And we'd say, "No, it doesn't." And pretty soon, and he finally got very disillusioned.

Robert L. Hetzel: Hm-hmm.

James L. Pierce: And he actually made a speech. Burns, I'm sure, thought I wrote it. I didn't. I didn't have anything to do with it, but I don't know who wrote it. Nobody was sure. I never could find out who wrote it. Who wrote it and what took him off. He read it. He knew that he was going to have to...

Robert L. Hetzel: But Coldwell seemed to be fairly conservative.

James L. Pierce: Yeah, but I think he's sort of blocked and not very clever, so he never did anything of value [unintelligible].

Robert L. Hetzel: Because he was fairly, surprisingly outspoken when I went back and read the record. And, of course, Hayes would, Hayes obviously disliked... Hayes was very attached to the Bretton Woods system. For example, in the spring of '71, when the dollar was under attack, he thinks you ought to raise interest rates. And it appears that the '68, '71, the directors of the New York Bank must've been very aggressive. So there seemed to be a lot of tension between those two, and I'm told Burns treated Hayes rather shabbily.

James L. Pierce: Right, I think so; that's what I heard.

Robert L. Hetzel: The first February 1970 meeting where the FOMC was still maintaining a policy of not reducing interest rates until they began to see a change in

inflationary expectations in a cold-turkey policy, when Burns wanted to move toward the gradualist policy administration, he felt that Hayes was the one who was organizing the opposition to him and, basically, I'm told, never forgave Hayes for that initial opposition.

[01:00:23]

James L. Pierce: Could very well be. I mean, we're supposed to take them on.

Robert L. Hetzel: Although, ultimately, Hayes never really took him on, because Hayes was a money market person and didn't want to raise interest— Even when he would challenge him, he was challenging him over a quarter of a percentage point in the funds rate.

James L. Pierce: I'm aware of this. I agree with all of this, but I remember when I was doing all my logging, and trying to get [unintelligible 01:00:48]. I talked to several Reserve Bank presidents. I remember having this discussion with Holland and another, and I'd argue for hours, and I'd get 25 basis points out of them. Forget it. I mean, (laughs). That was part of the brilliance of Burns. All the arguments ended up being over orders so small, and he'd dig in his heels, purposefully I think, over this 25 basis points, and finally, once in a while he'd give in next meeting. Well hell, I mean, 25 basis points didn't do anything. And, so, he was able to cull out the money market guys very easily...

Robert L. Hetzel: Well...

James L. Pierce: ...because of that.

Robert L. Hetzel: ...and just, as you say, you could talk about the continuity, but... What about Maisel? Somebody like that, he seemed to think like an economist, but he didn't seem to be able to fit into the discussion. He wanted to bring about big changes in the way the Fed did things...

James L. Pierce: Right.

Robert L. Hetzel: ...and yet people didn't know quite how to deal with him, because if the Chairman wasn't sympathetic, so he kind of went his own way and never...

James L. Pierce: Well, I think he got—Sure, he's always had difficulty with articulation, and I think he, he must've been in some way something of a threat to Burns, because Burns for example I think made him, as I recall, Chairman of this Directive Committee that went on forever and didn't amount to anything. Just burned up an incredible amount of everybody's time. So they could report him essentially nothing. He wasn't much of an influence. I think if you look—I think reading the minutes probably will give you as good an indication as any. I mean, there wasn't anyone who had much of an influence. It was sort of a—There would be times I had to be dragged to an FOMC meeting. I didn't want to go. I knew what was going to happen. It was just boring and depressing, but...

[01:02:52]

Robert L. Hetzel: Many of the Governors, or some of the Governors, were naturally—When Burns wanted expansionary monetary policy, it seems that just by temperament that's what they wanted, too. For example, Mitchell, he wanted low unemployment, and so did Brimmer and so did Maisel. So even though they had the intellectual wherewithal to challenge Burns if they had wanted to, they really wanted 4% unemployment, and they, you know, they believed that the administration's policies were the right ones, and they were...

James L. Pierce: Well, they always were just kind of being powers and effects. There'd be one group who wanted easier and another group that wanted it tighter, and Burns would always put himself in the middle, no matter what that was, and say his argument, his position was the middle, whether it was or wasn't.

Robert L. Hetzel: Hm-hmm. Yeah.

James L. Pierce: And I think it's just very difficult for an individual member of the FOMC to take on a Chairman.

Robert L. Hetzel: Hm-hmm.

James L. Pierce: And the reasons I have never really understood. There's this rule or agreement that you won't form coalitions, which I think is just bizarre, but...

Robert L. Hetzel: Well, it's not bizarre.

James L. Pierce: No, no, [unintelligible – crosstalk]

Robert L. Hetzel: It's an obvious reason...

James L. Pierce: No, no, bizarre that people would go along with that.

Robert L. Hetzel: Oh, I think the reason for that is pretty clear, because if you're the head of a large bank, you got maybe 1500 people in your bank, you've got to work with the rest of the system. You've got to get along with Washington. There's a big emphasis placed on being a team player. You can't get along in an organization...

James L. Pierce: No, I understand that. But there are ways, it seems to me...

Robert L. Hetzel: So, you don't...

James L. Pierce: Suppose...

Robert L. Hetzel: Right, you aren't going to take—I mean, if...

James L. Pierce: I'm not saying out and out, a la Sheehan, let's have a fight, but rather that sort of gently, over time, building a group that is speaking with one voice. But

you're absolutely right. I mean, it's very hard to do that. And, when I was there anyway, there were reprisals and punishments that occurred.

Robert L. Hetzel: Well, people talked about Miller, how he set people's, Bank presidents' salaries, depending upon whether you supported him or not. I assume...

James L. Pierce: Well...

Robert L. Hetzel: ...Burns just called up people on the phone and chewed them out.

James L. Pierce: ...all I knew about was reserve. Right. It was research budgets and things like that which I knew because I was part of that. I knew about that. I didn't look at Burns, I just approved everybody's budget, and he said, "No, you're not supposed to do that." I said, well I want to give more money to St. Louis because they're doing interesting, consistent— (Laughs).

Robert L. Hetzel: Yeah, we published some controversial articles in our *Economic Review*, and we got a terrible—This is the first year we were graded. We got a terrible grade. It was C- or something, and it was embarrassing for us, because then the directors are looking at our performance, and every department in the bank is getting an A, and research has dragged the Bank down. So it...

James L. Pierce: It's hard.

Robert L. Hetzel: Yeah.

James L. Pierce: I mean, that's one of the reasons why I personally have never wanted—I think there's too many members of FOMC and why it's a mistake to have Reserve Bank presidents on the FOMC. I think it gives the Chairman too much power.

Robert L. Hetzel: Yeah. Well, that's why Martin put them on. Originally, you just had this small group of Governors with, then either Richmond or Philadelphia would come to the meetings. And Martin brought the presidents on, because he wanted a counterweight to Sproul, and he knew that he could dominate the...

James L. Pierce: Right. So that had nothing to do really with whether they were appointed by the President or not. I think it made no difference. I mean, that's really nonsense. And so my opposition to composition has to do with it just gives—I saw what its effect was. They're not independent agents. They can't be.

Robert L. Hetzel: Well, because they have to get along within the big system, and they have all these other...

James L. Pierce: Well, what makes them?

Robert L. Hetzel: ...interests but not the...

James L. Pierce: They're not independent of Congress, because Congress doesn't control his budget. Well, if the analogy holds, the Reserve Banks could perhaps be independent if the Board didn't control their budgets, but it does, and so they're not independent. That simple.

Robert L. Hetzel: Sure. Well, they control the salary of the President. I mean, that's an obvious example.

James L. Pierce: Absolutely. That's cleared up.

Robert L. Hetzel: You know, they control whether he's going to be reappointed.

James L. Pierce: Oh, I can remember times when the crap about everybody had to fly tourist, and all this little penny ante stuff. It just drives me crazy, right? And you just knew the reason, and you knew how to make it stop. And so it stopped.

Robert L. Hetzel: Everybody had to what? You said fly...

James L. Pierce: Well had to fly, you know, they had to go coach, and...

Robert L. Hetzel: Oh, fly tourist?

James L. Pierce: Right.

Robert L. Hetzel: Yeah, right. Right, yeah.

James L. Pierce: And that sort of stuff. Whereas the Board, you know, somebody would come down and fly first-class, so you had to fly tourist. (Laughs) And things like that. And, it could make life unpleasant.

[01:07:58]

Robert L. Hetzel: Okay.

James L. Pierce: And I could argue the same thing, another way that the Chairman has over individual Governors, by controlling their assignments and so on. Gives him a lot of power.

Robert L. Hetzel: Sure, sure.

James L. Pierce: Perhaps, you know, it may have put this in context. Surely there was no one on the FOMC or Board back then that was remotely close to an Alan Blinder in terms of forcefulness or IQ or training. Yet Alan found it impossible. I mean, I didn't find it all surprising he found it impossible. But it will give you an idea how difficult it is.

Robert L. Hetzel: Well, as you just said, all power— all roads lead to the Chairman, and when there's—See the problem, the way things are structured as you just said, talking about the funds rate, is decision-making is always structured around policy actions, we never get to discuss policies, the Chairman sets the policy. So, all you can argue about is, you know, the kind of... But it's deceptive because you're—It looks like you're being given a choice, and it's the same thing with bank regulatory issues, too. And I think Blinder honestly thought he could enter into freewheeling seminar style discussions...

James L. Pierce: (Laughter) Right. Well, you know...

Robert L. Hetzel: ...where you would talk over policy issues, and the Chairman would listen to him.

James L. Pierce: I know.

Robert L. Hetzel: And he would have some...

James L. Pierce: A little naïveté there. He could have checked with somebody.

Robert L. Hetzel: But on the key decisions, the staff would check with the Chairman, and then the position papers come out or the Greenbook, you know, and the Bluebook are written, and then he can respond, but he's not... And I mean, and why would the staff member go into Alan Blinder's office to talk things over when the Chairman... It doesn't make sense.

James L. Pierce: No it doesn't.

Robert L. Hetzel: So, yeah, he was naive about that, although I think maybe it's sounds odd since our Bank is so monetarist, but we really liked having him on the staff— on the FOMC, because here was somebody whose ideas had substance, and we could debate.

James L. Pierce: No, [unintelligible – 01:10:28].

Robert L. Hetzel: So, we felt really bad that he —.

James L. Pierce: No, no.

Robert L. Hetzel: Of course, Larry Meyers did, too, but in a different sort of way. Meyers more in the Board mold of, you know, let's put everything in terms of the forecast. In a way, he's going to be much more effective when he gets off to—.

James L. Pierce: [unintelligible – 01:10:48].

Robert L. Hetzel: Well, Gramley and Partee.

James L. Pierce: Right, both of them. Was hard to argue.

Robert L. Hetzel: Because they seemed to be so reasonable in the way they were, you know, “These are all the factors, and these are the downside risks, and this is the upside risk, and, you know, this is where I come out,” and it sounds like they’ve weighed everything. And all they’re really talking about is the policy action, and you’re not allowed to decide how to constrain those over time.

James L. Pierce: Right, right, right. There’s an incredibly complicated way to just have one individual set monetary policy.

Robert L. Hetzel: Yeah, yeah. That’s right.

James L. Pierce: (Laughs) That’s what it comes down to.

Robert L. Hetzel: That’s right. Yeah, absolutely. In the early 70s, there was a subcommittee on the directive that people like Kalchbrenner and Tinsley worked on. There was some feeling that you could combine optimal control with model forecasts.

James L. Pierce: That’s when I refused to go to it. (Laughs) I know about that, yeah.

Robert L. Hetzel: In principle, if you could—and, let’s not talk about how you would do this. But in principle, one way of restraining an individual like Burns would be to conduct policy discussions in terms of a rational—. You’d have objectives, and you’d relate the objectives to your policy instrument in such a way that you could predict how changes in the policy instrument would eliminate deviation. If you discussed policy in that way, the policy discussions would be—they would be more transparent. It would be easier to bring your staff in and make...

[01:12:42]

James L. Pierce: That was the idea.

Robert L. Hetzel: ...criticisms, and, of course, ultimately, Burns simply dismissed it out of hand when it was presented at an FOMC meeting. But, so how did the—At that time—I don’t want to comment on now, but at that time, the Board staff was, in terms of what was going on in the economics profession, the Board staff was as good as anybody.

James L. Pierce: That’s right.

Robert L. Hetzel: And they were really top. You know, it was an exciting place to be. So you had a lot of really good people, and, in general, the kind of people that really cared about policy as economists, regardless of whether they were Bill Poole monetarist or Kalchbrenner Keynesian, how did they ultimately get along kind of with Burns? Was there friction, or they just kind of went their own way and Burns ignored them, or...

James L. Pierce: [unintelligible – crosstalk] When I was there—some of this would be after I left—but, when I was there, they had very little contact with Burns... once in a while. Burns was very much a top-down guy, so he'd talk almost exclusively with senior staff, and they're... often they were just data collectors. I mean, I was the only one that was exempt from that. I was watching Partee and Axilrod walking with numbers and reading his tables to him and all that kind of crap. We were early under optimal control, and we had some of this paper, a lot of the original work was done by Board people, Crane, Kinsley, people like that. And we were very much tied in to the guys at MIT who were doing that in engineering.

Robert L. Hetzel: Sure. Well, a lot of modern economics. It's just that kind of dynamic optimization.

James L. Pierce: It's not [unintelligible] and Dunn. You know, it was...

Robert L. Hetzel: Sure, it was the beginning of what we're seeing now.

James L. Pierce: And I heard all those people, and I think the idea wasn't that you could get the answer just right, but it was vehicle for doing just what you said. Stretching out horizons and explaining how it is makes a difference. The first move does make a difference.

Robert L. Hetzel: Yeah.

James L. Pierce: And that no, you can't necessarily just wait until you see it and then react. And it had some effect for a while when it became—I can't remember what year it was, but people started talking about soft landings. That sort of came from the moon landing, and the moon landing, in fact, was a series of linear approximations. We could do better than that. That (laugh)—and they listened for a while until, I think, it got in the way, and then it got misused. I mean, of all the places to try to use it, the directive—and that's one reason I've had very little to do with that committee. It was just, it's clear it was a setup. (laughs) [unintelligible – 01:16:00]. That's not where optimal control is particularly important. There you can reverse. Who gives a damn about the failed fund rate. I mean, let it fluctuate. It doesn't make any difference. The question was long returns, inflation and money growth and things like that. And so people sort of got hustled into the one area that was very hard to talk about. When there was an immense amount of noise in the money markets, and where, it's one of those places where brains seemed to work a lot better than computers. The Desk knows how to intervene to stabilize the funds rate.

Robert L. Hetzel: Sure.

James L. Pierce: To try to model that without that is really hard.

Robert L. Hetzel: Sure.

James L. Pierce: And see, you just hire somebody to intervene, and it works. They've never had any trouble stabilizing interest rates. But try to write down a model to do that with all this feedback and all that is really hard. And so I think it ended up being turned on its head. And Sherm [phonetic] somehow, was trying to get super scientific and an area where it didn't seem to pay. That wasn't where the problems lay, in the directive. By then it was all done. I guess there are two other—I'll make two more comments about this. One was a gigantic war which blew me off but also got me invited to Bluebook meetings for a while. We had a money market model that Thompson, Bob Ferry [phonetic] and I developed, and we used it to try to, you know, money demand and so on—

[01:17:44]

Robert L. Hetzel: Sure, sure.

James L. Pierce: And we didn't have any great faith in it, and almost no matter what you assumed, it required relatively large changes in interest rates to have any substantial effect even on the money market. Well, the money market guys didn't want to hear that, and they believe that since the Fed always moderated interest rates movements, you never saw big interest rate movements. You'd say no, that's right, but that's why you get big fluctuations in reserves of money.

Robert L. Hetzel: Right, yeah.

James L. Pierce: You're seeing the other side of that, so if you want to control money, it's going to take some interest rate movement, and they didn't believe that. So we go in there in the Bluebook meeting, and Burns would want interest rates to go up 25 basis points, and he'd say that'd make money growth fall, this is apocryphal, but— Two percentage points. We'd say, "Bullshit, I'm just going to fall an eighth of a point if you do that."

Robert L. Hetzel: So, he would actually be at some of these meetings?

James L. Pierce: Not Burns. No, Axilrod would talk to Burns.

Robert L. Hetzel: Okay.

James L. Pierce: And then he gave me a [unintelligible].

Robert L. Hetzel: Okay.

James L. Pierce: Burns just cared about the interest rate, and they were supposed to get a money growth and look happy with it.

Robert L. Hetzel: Yeah.

James L. Pierce: Right?

Robert L. Hetzel: Yeah.

James L. Pierce: And given that it would save us [unintelligible – 01:18:51].

Robert L. Hetzel: Yeah.

James L. Pierce: [unintelligible] demand in the economy that the only way you can maintain that interest rate was with very rapid money. Well, the model would show that, common sense would show everything, and Steve would say, “No, I have it. And if that wasn’t it, well you divided by four, he didn’t give a damn. And so...

Robert L. Hetzel: (Laughs)

James L. Pierce: We’d get that, right? And I’d end up forgetting, and I’d get really mad. I’d say, “Why do you [unintelligible]. I mean, I coulda done that on the back of an envelope!” And so, anyway, the hope was to try to show that yes, you’ll get much more, you’ll get more in both high frequency movements in the funds rate, but they’ll be self-reversing.

Robert L. Hetzel: Sure.

James L. Pierce: And you’ve just got to get the average level right that things won’t get out of control, and there’s a way to show that, and now you might build in mechanisms to try to assuage people’s fears. And, you know, if it really got too big, then yes you could. And we could build these bands and so on.

Robert L. Hetzel: Sure.

James L. Pierce: And there’s a lot of work we did on bands, which was sort of a—You could even argue with the bands on the funds rate, you could treat as sort of an optimal control problem with feedback. We showed them that. And so there was some benefit, but then Burns decided he didn’t like any of that stuff, ‘cause it was getting in his way, and he’d just pound on them. And by then I had left, but I knew it what was up. I think I’d left by then. And nothing came of that directive thing. In fact, I know, I went to a meeting about it. And I suppose it was too bad for Jack and Peter, since they really had no contact with policy. Until then, they weren’t really prepared to get beat up like that. And so they got beat up some.

[01:20:33]

Robert L. Hetzel: Would you be willing to just put on tape a kind of brief overview of your career? How you got into the Fed and what you started doing, and kind of where you came from.

James L. Pierce: Sure, sure.

Robert L. Hetzel: I'm trying to get as much of this autobiographical material as I can about individuals, because it's easier to—I mean, ultimately you go back and try to find vitas and things, but it's nice to have it all in one place.

James L. Pierce: I can do that. Could we do it now?

Robert L. Hetzel: Do it. Love it. Yeah.

James L. Pierce: Okay, I went to the Fed, I think it was '66 or '67. I was at Yale, assistant professor there, member of the Cowles Foundation. I got my Ph.D. in Berkley and then went to Yale to teach. And my interests had been on monetary questions in banking, and my thesis had been on banking, and I wanted to do some micro econometrics on bank behavior and try to build money supply functions—

Robert L. Hetzel: So that was just at the time when all the work was being done in the financial sectors in large scale econometric models. So it was a very interesting place to be.

James L. Pierce: It had just really gotten started then. And that's right. And I really wasn't particularly interested, and I actually never was.

Robert L. Hetzel: Yeah, Deloo [phonetic] was there.

James L. Pierce: Right, right. That's right and Gramley. I wasn't very interested in macro econometrics then and never really was.

Robert L. Hetzel: Are you serious?

James L. Pierce: Yes. Because I had no faith in it.

Robert L. Hetzel: (Laughs).

James L. Pierce: For good reason.

Robert L. Hetzel: Okay, can you—Let me catch my breath. Can you elaborate on that? That's an interesting statement. That's a provocative statement.

James L. Pierce: [unintelligible – crosstalk] my background. I was doing micro econometrics and trying to do micro foundations for macro. And the idea is you ought to be able to show how from interaction of banks you could— Everyone was getting slow response on money supply. If you did micro stuff then the response was very fast, and the question was [unintelligible].

Robert L. Hetzel: Right. Yeah.

[01:22:33]

James L. Pierce: And I was doing a lot of work with Hester, and we wrote a book on it. And you could do it. But my interests were micro in that sense. And, so I went there on leave from Yale to do this, because back then, particularly, data were really secret and you couldn't get any micro data without working for the Fed. So I got in, and I was approached to stay to build up a staff in monetary and banking things essentially to be the mirror image of what was going on on the macro side, with [unintelligible] which was tied in to Modigliani and Dan—

Robert L. Hetzel: So Dan Brill would have approached you on that?

James L. Pierce: Yeah, that was Dan.

Robert L. Hetzel: And so he was kind of over both of the banking and the forecasting.

James L. Pierce: Yeah, he was over the whole [unintelligible]. Then even more than now, all the research and everything was done in Research and Statistics and International, so. And I did a lot of soul searching. I just agreed to do it, because it gave me a lot of freedom to build up the staff and then to do my own work, and the idea was I would not get involved in day-to-day policy.

Robert L. Hetzel: And Martin went along with that just because...

James L. Pierce: Because of Brill.

Robert L. Hetzel: Brill wanted you to do it, and I suppose that was the time when they were working with the Council, so it was like the Fed's the good place to have the expertise.

James L. Pierce: Right. And to his credit, Lyle Gramley was there...

Robert L. Hetzel: The Council people come and go, and...

James L. Pierce: ...and he was a big pusher for that.

Robert L. Hetzel: Uh huh.

James L. Pierce: And so anyway, I agreed to come and I did my own research and sort of, it was unheard of. I actually resigned from Yale. I wasn't mad I wasn't promoted, I just left and decided to do this.

Robert L. Hetzel: Yeah.

James L. Pierce: And my first two employees were Tom Thompson and Bob Perry.

Robert L. Hetzel: (Laughs) Do you see Perry at all?

James L. Pierce: Oh, sure. Bob and I are good friends, yeah.

Robert L. Hetzel: Okay, good.

James L. Pierce: And he always tells people he used to work for me, which was true.

Robert L. Hetzel: (Laughs)

James L. Pierce: And I refused to have any contact with the macro econometric people and tended to sneer at them. And so there was a group that was really dominated by Modigliani – had to, Franco was a dominant figure. Hard not to be dominated by Franco. And there was a Board staff working on it, but it was clear that impetus was coming from them, and you have to understand, this was the beginning—When I went to the Board, they had a computer that was so small that I had to do my own programming, because you couldn't fit the thing in the computer. They had the most...

Robert L. Hetzel: I know, cards and the whole business.

James L. Pierce: It wasn't just cards. It had a memory so small you couldn't believe it. I had to learn assembly language so I could run regressions and things like this. It was so backwards; it was unbelievably backwards. I mean universities had at least, you know, reasonable computers. They had card readers, but they were at least big enough to run.

Robert L. Hetzel: Yeah.

James L. Pierce: The Board didn't have any of that. And so all the econometric work was done at MIT and Penn where they had decent computers.

Robert L. Hetzel: Yeah.

James L. Pierce: Matter of fact, I do a lot of my work at Bureau of Standards, because they've got a decent computer. Well, over time, I built up my staff in banking and that sort of thing, and so the micros side of things. It was econometric and analytical, but it wasn't macro in the sense of doing forecasts, except Thompson and Perry and I got interested, could we build a monthly model that had reasonable properties, because we were quite unhappy with the quarterly model things which was not constraining anything by wealth and it didn't have any known state properties, and it was really quite ad hoc. And we learned why they had done that after trying our own way, that it was really hard to do that. And the relatively small changes in specification led to very large changes in results which made me even more skeptical of this sort of thing. But it was better than nothing, and what I was learning, I sort of gradually got more and more involved in policy more with talking to people than anything else. I never did any presentations to the Board or any of that stuff.

Robert L. Hetzel: That's the way to move up, isn't it? You get—you move up doing a higher level of presentation.

James L. Pierce: That's right.

Robert L. Hetzel: And, finally, Monday morning you're doing the presentation to the Board staff.

James L. Pierce: And I never did that.

Robert L. Hetzel: And then you do the FOMC, and that's the...

James L. Pierce: That's right, that's right. And I didn't do that.

Robert L. Hetzel: Okay, that's amazing... (laughs).

James L. Pierce: I think I never... It may be true, and maybe it's only the last two years and I had never made a presentation to the Board. I just never did. And I knew them all and I was at the meetings, because they were like book reports, and I wouldn't do it.

Robert L. Hetzel: (Laughs)

[01:27:25]

James L. Pierce: (Laughs) Anyway, then Frank left to go over to the Institute; I can't remember what year that was. And I was pressed to take over the model which I really didn't want to do, but I had learned by then, even with the quarterly model, there weren't—Until our group came in, it wasn't just me, but it was [unintelligible] and so on, and sort of modern, more modern decently trained economists came in, they didn't do economics at the Board. They just didn't do any. They talked about the money market, and Dewey Daane could talk about tone and feel of the market, and [unintelligible]

Robert L. Hetzel: Yeah (laughs).

James L. Pierce: And the forecast was just people staring at the wall and coming up with a forecast. There wasn't any modern economics. And what I found was it was immensely helpful to Dan. One reason I had so much influence, just bringing in the structure like make the GNP accounts add up and having a method for doing that so that they couldn't make silly mistakes and being reminded that no—if you push this thing, it squirts out someplace else, and that these things have to be internally consistent. And I did find the people responsive. I mean, they, and they knew that there was a problem there. And if a person didn't push too hard, we could have some influence. We always had to deal with the problem we're the technicians. They knew all the buttons they could push that would drive me up the wall.

Robert L. Hetzel: Well...

James L. Pierce: I was technician.

Robert L. Hetzel: Okay, so the is before my time, but would you go over again who was doing the Greenbook, the consensus forecast and kind of what that crew was?

James L. Pierce: Well, Brill...

Robert L. Hetzel: And they were non Ph.D. economists originally...

James L. Pierce: Well Lyle, took it over...

Robert L. Hetzel: ...and Brill had gone back to school to get...

James L. Pierce: Absolutely. We had three places with no technical training. Lyle was self-taught. He was pretty good. But he doesn't have any [unintelligible]. He's a little better. He learned it on the job. He couldn't do econometrics and math or anything...

Robert L. Hetzel: He didn't come with a Ph.D.?

James L. Pierce: I don't know whether he did or not. Lyle was very smart. I had a high opinion of him. And yet, he has good sense to have some respect for this stuff. Brill was a business—Business economists used to mean somebody who just sort of told stories. Dan was a nice, smart man, but he didn't know anything about analytical economics. Neither did Chuck Partee. None of them did. Axilrod didn't. None of them, none of them. Lyle might have a Ph.D. Steve didn't. I don't think Chuck did. If they did [unintelligible] And then there was this young upstart. I was pretty young. I left there when I was 35 or something. I was a young idealist. And this young whipper-snapper telling them all this stuff. And so they knew that if all else failed, they'd just call me a technician. I'd get so mad I'd lose the argument. You know, the idea that...

Robert L. Hetzel: (Laughs)

James L. Pierce: ...it's inconceivable you could do economics and know some math or statistics. You've got to choose, either you're this grinding technician like a nerd, or you're this great person that knew everything. And just didn't deign to be able to solve an equation or something, which is an ongoing problem for me, because also my staff, the people who worked for me were viewed that way. Okay, Tinsley, no Peter was immensely smart. Peter is truly smart. He's weird, but he's really, really smart. And, you know, viewing him as a technician is bizarre. Anyway, so I took over the macro econometric guide after Frank left, and so I was running—Well there was this thing called Special Status Section which was [unintelligible] of the banking and [unintelligible]. I combined those into a big Special Status Section, and we did both micro and macro. And the idea was to make it more than just the Fed-MIT model. That there was more to central banking and running those things. [unintelligible] equations.

Robert L. Hetzel: [unintelligible – 01:31:45].

James L. Pierce: Right. Then it fell on me to be the model guy, so I worked with Jared Enzler, and we tried to do the best that we could. And we learned that if we, well we learned what Larry Klein had learned years ago, that you could be a hell of a lot better than your model by adjusting it, fooling around with it, using your common sense and then, you know, if you're a good economist, you could probably get the thing to help you think your way through the problem, which is really what it was doing, because these are hard dynamic problems.

Robert L. Hetzel: Well, how did you build the policy objectives into the model at this time. I mean, obviously you could have started with an objective function...

James L. Pierce: Yeah, that we never did.

Robert L. Hetzel: ...which included the inflation rate, and the unemployment rate—

James L. Pierce: Well, later on, we did optimal control. But back then, we didn't.

Robert L. Hetzel: But you simply took the "B" Burns interest rate assumption and built that in this policy, or policy came in ad hoc? How did you, what did you assume, how did you...

[01:32:44]

James L. Pierce: Well I'll tell you the first thing. This is before the model was used. The results are in the [unintelligible – crosstalk].

Robert L. Hetzel: I see, it's where you're still building it.

James L. Pierce: Right. Well, no. It was—it never really got finished, but...

Robert L. Hetzel: (Laughs)

James L. Pierce: ...back when it was used purely for forecasting and not for policy analysis, the extent to which it could be. Its first use was we were forced to run horse races with the judgmental guys. And we really objected, because that's really what—it was a small one, but we had to do that. But then it turned out that we had a very useful function, and this is where Lyle, much to his credit, would listen, that the model would, you know, show some things that weren't model specific, and even an identity model would have had this property. That if you maintain this interest rate for the next year, things are going to get out of control. Either they're gonna go to zero, or you're gonna get a lot of expansion.

Robert L. Hetzel: Yeah.

James L. Pierce: That you have to realize you can have this interest rate now, but over time it's going to have to rise.

Robert L. Hetzel: I gotta say this and interject. There are a couple of times at key points in the early '70s when the forecast in the Greenbook seemed unexplainably short. And it looks like those are times when things were running off in the wrong direction, and people are complaining and say, "Why do we get a forecast for only three quarters when ordinarily we get it for six or eight?"

James L. Pierce: That's right. That's probably, see, that's the best that they could get me to put up with.

Robert L. Hetzel: Yeah.

James L. Pierce: I mean after a point—

Robert L. Hetzel: Yeah.

James L. Pierce: And so, you know, so to try to keep people from leaving and getting so mad, they simply truncated the forecast.

Robert L. Hetzel: Yeah, didn't happen often. Once or twice.

James L. Pierce: No, no, that's right. That's right. That's right. There were a couple of times we even managed to get a longer one that was benign hoping that it would stay, but then it disappeared, too. Because we always tried to get them to extend it.

Robert L. Hetzel: And Partee would make those choices.

James L. Pierce: He always made them.

Robert L. Hetzel: Roundabout, yeah.

James L. Pierce: That would not be... Yeah, no. Chuck would run it by Burns, [unintelligible].

Robert L. Hetzel: That must've been a trip, I mean, because Burns who thought he could forecast, why did he need the model. So that must've been hard to handle.

James L. Pierce: Well, and I kept telling him it's not "the" model. What it is, is it's economists using it as a tool to guide their thinking. Well, they didn't want to hear that, because that meant I wasn't a technician. And I kept saying, if we adjust it. I said any fool would adjust it.

Robert L. Hetzel: Yeah.

James L. Pierce: That...

[01:35:19]

[END OF TAPE 8, SIDE B]

[BEGINNING OF TAPE 7, SIDE A]

James L. Pierce: Let me give you an idea, Frank Owen—and I was never allowed to talk about it—but that model was immensely sensitive to initial conditions.

Robert L. Hetzel: Sure.

James L. Pierce: They always managed to avoid that by starting with the same set of initial conditions. And it wasn't even, and it wasn't stable. So you had to—Well, it wasn't *per se* bad. It was a relatively short-term model, but you had to intervene and adjust it to keep it from blowing up or imploding.

Robert L. Hetzel: Sure, sure.

James L. Pierce: And also was remarkably sensitive to minor changes in specification, and if you could—So you just couldn't trust—I never trusted it in that sense, whatever a singular model says. I mean, you have to be a fool to say that [unintelligible].

Robert L. Hetzel: Hm-hmm.

James L. Pierce: But it helped guide your feeling. It helped you work through the dynamics, was really what it was doing.

Robert L. Hetzel: Hm-hmm.

James L. Pierce: So initially we did that. The model was very helpful, and Lyle would listen. I said, "Look you just can't assume that interest rate remains the same." Either the interest rate stays the same, which means then you're going to have to push up your forecast to show that the economy is going to overheat, or you're going to have to tell them the interest rate is going to rise, but you can't have it both ways. You know, and Lyle would do that much to his credit, although then of course you'd compromise, divide it by two or four, or something and if I'd like to move it forward, I'd get this little bit.

Robert L. Hetzel: Yeah. Well, that...

James L. Pierce: But hopefully in the right direction. The standard [unintelligible] problem. I didn't push it far, but I moved it a little bit.

Robert L. Hetzel: Yeah, the Greenbook seems to jump back and forth depending upon where the staff was getting the flak from. If the staff is aggressive in saying, "Okay, we're doing the forecast under this assumption of— that we're going to get this inflation

rate,” then Blinder jumps up and says, “You’re trying to tell us what policy’s going to be,” and then they go back and they say, “Okay, we’ll take the prevailing funds rate, and we’ll just hold that at its current level, and we’ll see which way...

James L. Pierce: Right.

Robert L. Hetzel: “... the model runs off,” which is kind of the same thing, but then if they get too much of an interest rate change, then anyone...

James L. Pierce: [unintelligible – crosstalk].

Robert L. Hetzel: It’s the same sort of thing. But you’re not exactly—You aren’t told. You read the Greenbook, and there’s no disclaimer at the beginning that says... Anyways.

James L. Pierce: Well, we used to [unintelligible – crosstalk], you know.

Robert L. Hetzel: I’m— that it has—It’s the same thing. I’m just, you know.

James L. Pierce: Well, I’ll give you an idea back then. It’s probably better, now...

Robert L. Hetzel: Well, maybe (laughs).

James L. Pierce: I was the only person who attended both the Greenbook and the Bluebook meetings. That was one of my roles. Gramley had the Greenbook, Axilrod had the Bluebook, and they never talked to each other. And I’d say, “Now wait a minute. Wait a minute. Lyle’s got this GNP. What you doing there, Lyle?” And that was one of my roles.

Robert L. Hetzel: Sure.

James L. Pierce: Partee, to his credit, had me doing that. Because they couldn’t go to each other’s meetings, apparently, they got mad. I don’t know what happened.

Robert L. Hetzel: (Laughs)

James L. Pierce: You would think that they’d all be determined jointly, right? But never. So we used it for that purpose of— And I always wanted it to be done that way. I insisted on a consensus forecast. And I finally got them to do that. When we started—As I remember, if memory serves me, and then I eventually started making what they called Churchills back then where they’d make their forecasts for the future, and they’d do it every six months or whatever. And Churchill could get a bunch of [unintelligible].

Robert L. Hetzel: So the consensus you’re talking about, taking the judgmental guys and the model guys...

James L. Pierce: Yeah.

Robert L. Hetzel: ...and making this come up with a similar...

James L. Pierce: And we would sit down and we'd try to come up—I argued it was a job of the senior staff to resolve those differences, and if we couldn't resolve them, to tell the FOMC where our doubts were. Or to tell the Board anyway or the Chairman, and let him resolve it, that this is as far as we can go. And tell them where our uncertainties were and where we were pretty confident. Where there was a big difference between what the judgmental people were saying and what this dynamic structure was saying, and we can't, and usually we could resolve it. When we can't, you've got to tell them. We just don't put that under the rug. So then it fell on me to make these forecasts, which they always wanted to make a model forecast, and I'd say, "No, it's not. This is consensus forecast." In fact, if you'll notice, our base forecast from a model is exactly the same as the Greenbook, and we could force it. You know, where's the difference? So we're not talking this. And then we do policy alternatives. And we say this would be the implications of a different interest-rate pattern or a different money growth or whatever it is.

Robert L. Hetzel: Exactly, done exactly the same way today.

James L. Pierce: Right. Well it's only one obvious way to do it.

Robert L. Hetzel: Yeah.

James L. Pierce: And so, you know, you guys choose. Right? We can't tell you what to--Some are pretty obvious and some aren't.

Robert L. Hetzel: Yeah.

James L. Pierce: Later on after I left, we tried at the time that—Well, I was afraid to do it actually; that's not right. Peter had them doing stochastic simulations for a while. But what that discovered was how bad the model was.

[01:40:30]

Robert L. Hetzel: Hm-hmm.

James L. Pierce: You could—In order, when you look at the whole various glorious matrix of the model structure, so-called structure, you'd have to include all possible events. I mean, there was nothing to resolve it. And that's right. That's just telling you Lucas and Sargent are right. You can't do it that way. But maybe you could use it to help you. I must say, and also in defense of what we were doing at the time, we were fully aware that a different policy could change expectations and behavior.

Robert L. Hetzel: Sure.

James L. Pierce: And we would talk about that.

Robert L. Hetzel: Oh, the Fed has always been very sensitive to expectations, because they have to with the financial markets.

James L. Pierce: Sure. And we would do that in the real side and say, “Look, this is a very different policy.”

Robert L. Hetzel: Hm-hmm.

James L. Pierce: And there’s no reason to think that people would behave the same under this policy as they had in the other one. And this is our best guess as to how it might work out, but you’ve got to understand it’s just guesswork.

Robert L. Hetzel: The problem was that when bond rates would go up, Burns was telling the committee that that meant monetary policy was restrictive, and we had to be extra careful about raising the funds rate, or we’d cause it to go up even more. So, you know, that was the problem on that end. It wasn’t on the staff end.

James L. Pierce: Yeah, I know. I know. As I say, see the gulf between the analysis and what was going on with what Burns was saying was just so big. It was really very difficult. Never had anything productive to say. But anyway, I mean, that’s how I built up and the staff got bigger and bigger and became two or three sections, and I sort of rose up in the hierarchy to end up with Associate Director which was different. There was only just Gramley and me, and Lyle spent all this time writing speeches for Burns, so I ran the place is really the way it worked out. He became Burns’ speech writer. Burns was giving a zillion—. I mean that not to mock Lyle at all. I mean, that was a full-time job, as I ran the place day by day till I just couldn’t take it anymore, and I left. I decided—I finally figured out, if I became, you know, head of research or whatever the highest person, Chuck Partee, I’d have about the same influence on policy as I did then, namely almost nothing, and it wasn’t worth it anymore. So I’d had enough.

Robert L. Hetzel: So, what year did you leave?

James L. Pierce: I left ’76, I believe.

Robert L. Hetzel: Hmm. Over this...

James L. Pierce: Oh, yeah, ’75 or ’76, can’t remember.

Robert L. Hetzel: Over this period of time, monetary policy went from moderately restrictive to moderately expansionary to varied expansionary to moderately restrictive to very restrictive. Did—and up through ’76. Did you have the feeling that Burns at all changed his way of looking at the world because of the experience in the first half of the 1970s, or basically he never changed the way he looked at the world. Burns was Burns and just policy was different because the situation was different?

James L. Pierce: I think it has almost gone full circle. I think that to Burns, everything was a special event. Everything was unique. So there was somehow that old economics not working and needing wage-price controls, then there were oil shocks. It was always something...

Robert L. Hetzel: Yeah.

James L. Pierce: ...that somehow you couldn't do anything about and you had to react to.

Robert L. Hetzel: Yeah.

James L. Pierce: All the time I was there, there was simply no respect for the longer run. And that the place where I always tried to preach where economics really had something to say...

Robert L. Hetzel: Exactly.

James L. Pierce: ...is in longer run.

Robert L. Hetzel: Yeah.

James L. Pierce: And we have very little to say about what's going to happen from quarter to quarter.

Robert L. Hetzel: Well, what we can do is—The one thing we can do is explain how to constrain the short run to get at the long run.

James L. Pierce: Right.

Robert L. Hetzel: But we can't, we can't—and this is, this is what we said before about people get into trouble is they think that they can manage the short run period by period. They aren't quite sure why their models don't give them that confidence, but their personal...

James L. Pierce: Right.

Robert L. Hetzel: ... self-confidence.

James L. Pierce: Well, we were—.

Robert L. Hetzel: And the people who compete for power, the people who compete to go to Washington, the Larry Meyers, those are the ones that have that personal self-confidence. They're, you know, they're kind of preselected to go there.

James L. Pierce: I was going to argue that for a while, and our controls, optimal control [unintelligible] some influence, was precise but we don't tell those stories. Now we

didn't do, never did pure optimal control, because often it's kind of like a [unintelligible] problem, but the fastest way to accelerate is to climb. And so you never could do counter-intuitive ones, so we always bounded it. And I, you know, it was just too hard a story. And so, subject to those constraints, we would show that what you do today will have importance for tomorrow, because it ties your hand. I mean...

[01:45:40]

Robert L. Hetzel: Yeah.

James L. Pierce: I mean, the story is so intuitive, and to be able to show that somehow with graphs and pictures and then with math. You know, you could do it with graphs. I think has an influence for a while until if we'd gotten away with what people wanted to do, and then they'd fall back on "I'll believe it when I see it." [unintelligible] everybody gets frustrated with [unintelligible]. He said why, and she said because. I mean, it's sort of like that. I mean, there's no response.

Robert L. Hetzel: Yeah, yeah. Well, we don't use a model, because we don't really know how the world works.

James L. Pierce: Right.

Robert L. Hetzel: However, we're still making policies. We're still making some assumptions about what happens when we change it. We just don't want to talk about it. Well, that's just one way the Chairman gets control...

James L. Pierce: I do want to stress it was never a matter of trying to ram a model down anybody's throat. Far from it. We tried to use it as a tool. It was always presented that way. Burns always wanted it to be on its own so he could knock it. And so he'd say, "Well, Mr. Pierce, what's the model show?" And I said, "I don't know, you adjusted so much, what would you like it to show?" And we go around and around. (laughs) Because I knew. By then, I knew the game he was playing. He always wanted this to, you know, you could make it do silly things.

Robert L. Hetzel: Hm-hmm.

James L. Pierce: An impression that the world isn't any different. What's changed is, we're just real lucky lately. There haven't been any big shocks. It's pretty easy to do monetary policy.

Robert L. Hetzel: Hm-hmm.

James L. Pierce: And they're doing it pretty well. I mean it's hard to fault it, but I have no confidence that if we were to get hit with a series of shocks like the 70s or another war or whatever, Vietnam, that policy would be conducted any better.

Robert L. Hetzel: Well, we've also had two extraordinary chairmen who lived through the 70s, and, personally, were committed never to see net recur. Paul Volcker and Alan Greenspan.

James L. Pierce: Right.

Robert L. Hetzel: Those are extraordinary individuals with extraordinary backgrounds in government.

James L. Pierce: Well, but they could respond to one problem.

Robert L. Hetzel: Right.

James L. Pierce: Now, if we had some other kind of shock. There certainly are shocks that would require very rapid monetary expansion.

Robert L. Hetzel: That's right. Neither one of them are economists in the sense that they're trained as economists, so that's, that's right.

James L. Pierce: Now, there's one intervention that I totally approve of. Burns was a master at this, Volcker and Greenspan, is that when there's any—when the market doesn't seem to work anymore and there's panic, you just dump in reserves, and they understand that. And I think that's just right.

Robert L. Hetzel: Are you thinking Penn Central?

James L. Pierce: Yeah, Penn Central was Burns. He was masterful.

Robert L. Hetzel: Continental, I suppose.

James L. Pierce: Continental.

Robert L. Hetzel: That was a little different, maybe that was [crosstalk].

James L. Pierce: [crosstalk], Continental was one, Penn Central for sure.

Robert L. Hetzel: Well, I guess the stock market crash...

James L. Pierce: Stock market crash.

Robert L. Hetzel: ...okay.

James L. Pierce: You know, you pick up the pieces later. The point is, you're trying to have credibility and you're trying to break expectations...

Robert L. Hetzel: Hm-hmm.

James L. Pierce: ...and you want to understand what's creating them. That's lender of last resort, and I think that's appropriate.

Robert L. Hetzel: Hm-hmm, hm-hmm.

James L. Pierce: They don't happen very often. It's always a big danger to have a Chairman that won't do it.

Robert L. Hetzel: Yeah. Hm-hmm.

James L. Pierce: So someone's wondering what happened if my money fund really went under. The Fed would say, "We'll show those guys. We don't like them." It was weird to me, they're not a bank. [Entire section unclear/unintelligible]

Robert L. Hetzel: Yeah, except that they don't have to maintain the par value of their accounts the way —.

James L. Pierce: Well they tried. See, the money fund, that's where I take the money from. They tried. And I think nothing would make some people in the Fed happier than watching them break that. So banks would get a competitive advantage. I...

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

James L. Pierce: And that's what worried me

Robert L. Hetzel: Yeah.

James L. Pierce: They're so well run that they've been able to avoid that.

Robert L. Hetzel: So after all of your years of experience of getting along with Burns, how did you fall out with him at the end?

James L. Pierce: I don't know. Well, I'll give you—I think some was miscommunication. And part of it was paranoia. I left the Board. I had no idea how frightened he was of me until I think in my last month, when you don't do anything. Because, you know, you're not supposed to...

Robert L. Hetzel: Yeah, right.

[01:50:03]

James L. Pierce: Secrets get old, right? Associates get a month's vacation. So I was going around signing people, and I had a copy of *Burns and Mitchell* which I—he didn't understand the joke. When I was a grad student, I bought it for a dollar down on Telegraph Avenue. And I'd really been proud 'cause I'd got it for a dollar, and he signed it for me. He said when I was [unintelligible] we'd need to talk. And I said yeah, sure. So we had a couple of times to chat with him. Very buddy-buddy and "esteemed colleague" He got a little heavy-

handed. I think the last time I was in there, he said, “I really want to talk to you, but I have to go talk to Henry. That was Kissinger. So we went down in the private elevator. I got in the limousine. We drove across the street with him to show him how, to show me how important—here he is meeting with Henry Kissinger how I was so important. I couldn’t believe it. (Laughs). I mean it really pulling it all out, and he was afraid, and I think the reason was, I was the most senior person ever, at that point, ever to sort of just leave the Fed.

Robert L. Hetzel: Yeah.

James L. Pierce: You didn’t do it. And I agreed—I was going to—I just got fed up, and I told them, you know, I’m going—as soon as I get an offer I’m leaving. And, you know, I had some fallout.

Robert L. Hetzel: It was because you’re feeling that the staff—that Governors were not listening to the staff, and...

James L. Pierce: The Governors weren’t listening, and I was sick and tired of being called a technician and telling me I could do things when I was ready, and all this. It was insulting. And I wasn’t having that much influence on policy, and I was worn out. I mean that was a lot of work. But you have to understand, because I never wanted to leave academia, I was doing research all this time and publishing and doing all sorts of stuff all the time I was there. I was a busy person. And I never had Potomac fever. In any event, so I said I was going to leave, and I knew I— about the academic year, I had to wait and it wasn’t the right time to get into academics, and I got this call from Henry Reuss, whom I didn’t even know, and the Board staff doesn’t get involved with these guys except for people Joe Coyne and Chairman of the House Banking Committee, would I be interested in doing this, and I said no and [unintelligible]. I’d just remarried, and my wife, he offered her a job as Senior Economist, you know, which was great for her ego, and then she really wanted it. He’s a smart guy, you know, [unintelligible].

Robert L. Hetzel: (Laughs)

James L. Pierce: And so I said, “I’ll do it.” You want to do financial reform, I said, “You’ve got to understand I won’t do monetary policy. I won’t do it. I won’t talk to you about it. That’s just totally inappropriate. I won’t do it.” But I’ll do financial reform— This was a fine study with S&Ls and...

Robert L. Hetzel: Right. Yeah,

James L. Pierce: ...bank reform and so on.

Robert L. Hetzel: I remember the period, yeah.

James L. Pierce: And, he said, “Well, how about reform of the Fed.” And I said, “depend on what you want to do.” I said, you know, “I think there are some things that ought to be done like such as my concern about having too many members on the FOMC and things

like that. Well, apparently, this just freaked Burns out. Just freaked him out. And—because I joined the enemy.

Robert L. Hetzel: So, at this point, you had maintained cordial relations with him?

James L. Pierce: Yes, right, yes. And I went there, and I had no inkling that this was going to happen...

Robert L. Hetzel: Hm-hmm.

James L. Pierce: ...until I started working on it. And I got a call from Bob Holland, who I guess was still Secretary; I don't know if he was on the Board. I can't remember. Whatever.

Robert L. Hetzel: Yeah.

James L. Pierce: Whatever, go ahead...

Robert L. Hetzel: He was on the Board then.

James L. Pierce: Yeah, okay. The go-ahead— Yeah, I think that's right. The go-ahead went through. And I said, "Sure, Bob." It was unbelievable. I was just plain-ass stripped. Bob was worried about my career, that I would do the wrong thing. It went on awhile, and I said, "Bob, fuck you." And I left. I just couldn't believe this was happening. You know, it was all threat. in the same way, you know, people get phone calls. I mean, out of the blue, I hadn't said anything. My wife was working on monetary policy stuff. I did—I had nothing to do with it. I—and I told her, I said, "You don't have to do any of this secret stuff." I mean just—I said the big problem was Burns wouldn't talk about what's going on in the economy. You know, a couple of guys asked what's going on in the economy. Seems to me in a democracy, Congress has a right to ask that. And I was sitting there, and I refused to take part in any of the monetary policy hearings. I sat there and listened to Burns just flat-ass lie. There weren't any minutes, he said. I just knew that was a lie. And there were several. He just, you know, lied to Congress. I didn't say a word. You know, it's not the Pentagon Papers, to hell with it. And then it just escalated. It's clear the members of Congress used me to try to bug Burns. There was a couple of times that I was on a— Unknownst to me, he was on a panel, and I appeared, and it pissed him off. I guess I don't blame him for that. It wasn't my doing, and you know, I maybe with a bit of hindsight I wouldn't have done it. Burns started circulating— Burns— the Fed started circulating that I was leaking secrets and what I had told the senators were out-and-out lies. That I had stolen things like examination records. I didn't even know where they kept them.

[01:55:33]

Robert L. Hetzel: Yeah.

James L. Pierce: I mean, it got really bad. They did to me what Haldeman did to Burns. And it wouldn't end, wouldn't stop. Now, I was going into academic life. I came to Berkeley. I could have gone to Stanford. Anyplace I could have gone, he couldn't hurt me. Except it was really unpleasant. And I've had friends tell me, you know, it's still going on. Somebody said, you know, I mentioned to my Chairman of the Bank. I mean Bob Perry was saying this. Chairman of the Bank, we could have a study. How about Pierce. Not Pierce. He's this guy that leaks secrets to the Fed. What's his name... Crap! can't remember his name. He was before Bob Perry, President of the San Francisco Fed. Balles.

So he refused—He wouldn't let me in the building. I was once going to go to a meeting, and I was barred from the building. It was pretty bad.

Robert L. Hetzel: Well, well Friedman was a visiting scholar at the San Francisco Fed for three months...

James L. Pierce: Now Friedman could do whatever!

Robert L. Hetzel: ...and when that was found out, Balles got a call from Burns, and Balles thought that Burns was going to congratulate him on this, because here's Friedman...

James L. Pierce: Great man.

Robert L. Hetzel: ...he was Burns' student, and Burns chewed Balles out for letting the enemy in.

James L. Pierce: Right. And for some—I was viewed as a great threat. I remember doing a finance study, and I was—I can't remember the details. Had to do with bank holding companies. Most of the reforms ended up occurring, and it wasn't a wild thing at all. I can't remember what it was. I just wouldn't be able to tell you.

Robert L. Hetzel: Yeah.

James L. Pierce: And I was talking to the CEO of Wells. And his secretary came in—I can't remember the guy's name—But anyway, the secretary said, "You have a call. Would you take it in the other room." And he came back and said, "I'm sorry, I can't talk to you." And I said, "That was Burns, wasn't it?" He said, "Yeah." No, Burns knew that I'd flown to San Francisco and was meeting with Wells Fargo. Now, man, that's getting pretty tight.

Robert L. Hetzel: So who worked...

James L. Pierce: And I guess the guy doing it was Joe Coyne. I'd be happy to get him, but I can't prove it. And it kept cycling. It didn't end... it must have gone on... over five years. Well, it cost me—I was the only person ever to—Imagine anybody in my position, I never got offered to consult at all by anybody.

Robert L. Hetzel: Have you talked to Ed Kane, because he has a similar story, and he feels that it—he knows that it was Joe Coyne.

James L. Pierce: Right. Oh, I know it was Joe, I know—See, one thing I got to see the year I worked for Congress, to see the side of the Fed that other people don't see.

Robert L. Hetzel: Yeah.

James L. Pierce: Is the relationship with Congress and all the dirty stuff that Joe does. Sure, I know who did it. I know.

Robert L. Hetzel: Well, Burns was afraid that somebody would take power...

James L. Pierce: I guess.

Robert L. Hetzel: ...away from him. You were for him or against him, and...

James L. Pierce: And I guess they—I mean, he must really know how to get to me. I mean, to have my integrity and my honesty impugned really bothers me. I don't like that one bit. I really, you know, I hated it. It wasn't the money. I mean, sure, it cost me a lot of money. But it was—You know, I think that people actually think by God, maybe I really was a guy who stole stuff, did those ugly things.

Robert L. Hetzel: Yeah, I guess that went on before. When, you know, Martin didn't like—Martin and Sproul competed for control of the desk, and ultimately Sproul lost all the battles and resigned. And then, you know, Martin played hardball and vetoed Sproul's successor.

James L. Pierce: Right.

Robert L. Hetzel: So you got Hayes. So that kind of Board hardball has always gone on. But Burns will—You're right. And Burns would do things to the, you know, lower, a guy named—What was his name? I think of Rutledge. Think of it in a second. Did a study on seasonality and interest rates and one of the—At one of the Congressional hearings, Burns was criticized for raising interest rates on the basis of money growth and told them, look, this study shows that this was just seasonality. And the next day, the guy was gone.

James L. Pierce: Right.

Robert L. Hetzel: He was at the Kansas City Fed. I'll think of his name in a second. And he was just an economist who'd done this study of seasonality...

James L. Pierce: That one I didn't know about.

Robert L. Hetzel: ...in the—I'll remember the details in a second. I think it might have... But he'd done the study of seasonality and the money supply, and this was used at the hearing.

James L. Pierce: Right.

Robert L. Hetzel: I think this would have been like spring of '76 or '75 when they were raising rates.

James L. Pierce: Right.

Robert L. Hetzel: And the guy was gone the next day, and he was just (laughs)...

James L. Pierce: [unintelligible – 02:00:41] There was this weird phenomenon, and I believe it. There was like two times in a row or three times they tightened up during the summer and did something that— it got built into the seasonals.

Robert L. Hetzel: Yeah.

James L. Pierce: And we really worried about that.

Robert L. Hetzel: Yeah.

James L. Pierce: And we had to deseasonalize it. And Friedman got really mad at us for mucking around, and I said, “No, cut it out. I mean, this is—Just go fight another war. This isn’t the right one.”

Robert L. Hetzel: Yeah.

James L. Pierce: (Laughs)

Robert L. Hetzel: Yeah, right.

James L. Pierce: It’s not our fault they did this thing three times in a row, but...

Robert L. Hetzel: Yeah.

James L. Pierce: ...if you just blindly run this stupid program. I can believe that. I mean, I remember—See he never treated me like that when I was there, but we had this—He and I had this big war. He wanted universal reserves back then, because, you know...

Robert L. Hetzel: Member bank problem.

James L. Pierce: Sure.

Robert L. Hetzel: But the reason that was a problem was because you had so much inflation. Interest rates were so high, the tax was...

James L. Pierce: Of course. Of course.

Robert L. Hetzel: ...the tax was...

James L. Pierce: [unintelligible – crosstalk]. Of course.

Robert L. Hetzel: Yeah, but...

James L. Pierce: But anyway...

Robert L. Hetzel: ...the Fed got what it deserved.

James L. Pierce: ...and so his solution was to make them all belong, right?

Robert L. Hetzel: Yeah.

James L. Pierce: And he wanted—He said, “You know, show them that we lose control of the money.” And I kept saying, “I’m sorry.” I said, “We tried. We can’t do it. There’s just no way.” He said, “Try again.” I said, “I’m going to try one more time.” So we tried, and, of course, we couldn’t. So one day I just said, “I’m sorry. I mean, my instincts tell me it has to work in that direction, but we can’t find any evidence that it does have any effect whatsoever on monetary policy. So you’re just going to have to...”

Robert L. Hetzel: Well, not with a funds rate target. But who was that— They can’t, for the, in the monetary...

James L. Pierce: Of course, and that’s what I told them. But then he got what’s his name, Dick Porter, to do a simulation. You can do anything with a simulation! He did a simulation that should have really caused a lot of problems.

Robert L. Hetzel: Yeah, there was another guy who is now at Temple University that got to carry the water on that. What was his name?

James L. Pierce: I forget, I know they had Dick Porter.

Robert L. Hetzel: Yeah, there was one other guy working with him, and he had to go and testify before Congress that we’d lose—We couldn’t have monetary control if...

James L. Pierce: Definitely. I’ll give you some example I think why Burns got mad at me. And he shouldn’t have threatened my career and all that, right? But, anyway, it came up about these universal reserves...

Robert L. Hetzel: Yeah.

James L. Pierce: And I said, no, he was for universal membership, and I said, “Well, at a maximum, we don’t need—at least, the best you can argue is that we need universal reserves, we don’t need universal membership. You don’t have to belong to the Fed to put up reserves. Oh my God, he came unglued. Because there went his whole argument. (laughs) Matter of fact, that occurred, right, by imposing reserve equivalents on S&Ls and others, but it put them through a third party, and they don’t trust the Fed. They don’t have to do it.

Robert L. Hetzel: Well, the ironic thing now is that we're undoing reserve requirements...

James L. Pierce: Of course.

Robert L. Hetzel: ...by allowing these sweep accounts...

James L. Pierce: Of course. Well, if...

Robert L. Hetzel: ...which is just an evasion of the—and nobody's talking about monetary control now.

James L. Pierce: Last time I looked, last time I looked, reserves were 2/10 of 1% of liabilities. I think they're about zero. I mean they're nothing. That's right, because of sweeps and most things aren't reservable anyway. Well, Ed Ettin was telling me, and I believe it, that for most banks they need to reserve economists with their ATMs. Because they've got enough cash. The cash they hold anyway.

Robert L. Hetzel: But, but now with the sweep accounts, when your account gets over a certain amount, they sweep it into an MMDA.

James L. Pierce: No, sure, that's what I'm saying.

Robert L. Hetzel: Yeah, right, so...

James L. Pierce: So the amount of required reserves that are left.

Robert L. Hetzel: Yeah. Yeah.

James L. Pierce: They can't hide the repos and sweeps...

Robert L. Hetzel: Right, right, right. Yeah.

James L. Pierce: ...are being met by the cash they'd hold anyway. I mean, they're essentially zero.

Robert L. Hetzel: Hm-hmm.

James L. Pierce: I suppose—I mean, I've never been a strong fan of tenure, but certainly my experience with Burns is this is an example of perhaps why tenure's a good idea.

Robert L. Hetzel: Hm-hmm.

James L. Pierce: I mean there's no way for him to get me.

Robert L. Hetzel: Hm-hmm. Because, you left in '76, and Burns was going at the end of '77.

James L. Pierce: Yeah, because he kept up.

Robert L. Hetzel: Even though he had left the Fed.

James L. Pierce: Yeah, yeah.

Robert L. Hetzel: There was still this scurrilous...

James L. Pierce: I don't know if it had a life of its own with Joe Coyne or whatever. I tell you, this same cycle just kept going.

Robert L. Hetzel: Well, since I do know that it sounds like the story of Ed Kane that went on for a long time. Kane thought he was going to be selected for the, as a council member, and that Burns fought that. Well, Burns thought he had a...

James L. Pierce: Well, that's a lot better, though, than being called a liar and a thief. That's really tough to take, and being threatened or really concerned about your career. I don't think Ed ever had anybody sit down and tell that.

Robert L. Hetzel: Burns ultimately deluded himself about his own importance.

James L. Pierce: Right. But Ed's paid a big price, I think, for...

Robert L. Hetzel: Excuse me?

James L. Pierce: Ed Kane has, for being, I think, intellectually honest and sticking to his guns.

Robert L. Hetzel: Yeah.

James L. Pierce: And that's to his credit.

Robert L. Hetzel: Yeah. No, he has a high sense of integrity.

James L. Pierce: No, he does.

Robert L. Hetzel: Yeah.

James L. Pierce: I'm a fan of his.

Robert L. Hetzel: Yeah, so am I.

[END OF RECORDING]