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Interview of James Pierce

Conducted by Robert L. Hetzel

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Robert L. Hetzel: …internal, and I think him and Chairman did a take.

James Pierce: I think that very much. There seemed to have been a consensus, at least among the economists. Which could be wrong, that a short sharp recession would stop the inflation that was building up, and then you go about the business having the economy that looked like the '50s and the '60s.

Robert L. Hetzel: Well the Council should have talked of a small rise in unemployment above 4%. They talk about 4-1/2%.

James Pierce: Correct.

Robert L. Hetzel: Unemployment and that was going to end…

James Pierce: Right, yeah. And the story was short sharp, and it was the—I rarely feel sorry for Nixon. This was a time that he made the terrible mistake of listening to the economists. They told him that this was going to work.

Robert L. Hetzel: Well, Milton Friedman…

James Pierce: I know that.

Robert L. Hetzel: …and the gradual policy. You just worked it down with the soft landing…

James Pierce: Well, they weren't using that term then.

Robert L. Hetzel: Well, because the way of the moon landing…

James Pierce: Right, right.

Robert L. Hetzel: …it was in ’69, and I think that’s where they got the terminology.

James Pierce: And so, it was a view, and so I think they went along, that it wasn’t going to take much. Things got rattled in ’69, Martin did that. If you talk about gradualism, I mean he did a couple credit crunches. He knew how to get Administration’s attention, which is what he was up to, in both times. He didn’t get much for his efforts, but he tried.

Robert L. Hetzel: But he still wanted to influence the fiscal policy.

James Pierce: Oh, sure, no, that’s exactly what he was doing.

Robert L. Hetzel: Yeah.

James Pierce: And he got a surtax, which didn’t do any good, but…

Robert L. Hetzel: But even in ’69, the surtax was in ’68.

James Pierce: Right.

Robert L. Hetzel: But even in ‘69…

James Pierce: Right, well ’66, in ’69, do it again, he said let’s do it again…

Robert L. Hetzel: That’s all he’s concerned about.

James Pierce: That’s right. And that crunch didn’t work nearly as well because markets, this was probably the first real example of rational expectations at work. Everyone got surprised in ’66, they didn’t get nearly as a surprised in ’69. And the mechanism was there to go to Europe, Euro dollars, and so on. And so the effect of it was much less. In ’66 it was a big effect. But anyway, yeah so Martin was gradualist in a sense, but he could do things when he wanted to affect fiscal policy, take some of the heat off of monetary. Now quite appropriately, I think, I mean like anything, if you have a very expansive fiscal policy, it’s very difficult for monetary policy to offset, you know, to politically offset it, so you’re better off with a balance, but be that as it may. And when Burns came in, he started immediately on talking about incomes policies, even before he took office, I had a conversation with him about it. And the idea was, now we’ll get to do that, or at least we’ll talk about it and we’ll have this recession to get things back under control. Early, implicitly early in the administration, this was the political wisdom or some sense to it. And Nixon went around, you know, fiscal policy, monetary policy. Tighten the recession and inflation went up. And that’s when everything came apart, I believe.

Robert L. Hetzel: And unemployment went up.

James Pierce: Yeah. Unemployment went up, well unemployment went up, absolutely, but so did inflation.

Robert L. Hetzel: Yeah.

James Pierce: And then everything came apart, they couldn't. You couldn't trestle economics anymore, the old economics doesn't work, you have to try something new, call it wage and price controls and away we went.

Robert L. Hetzel: Sure. Even…

James Pierce: That was a big event at that time. And I think economists bear a much bigger burden or blame than has been put upon them. They totally, well not all economists, but mostly economist, totally lacked a sense of dynamics, how much inflation they're building into the system and how much catching up had to occur. And that they simply formed of what we had to do, is push that unemployment in. And almost immediately prices which come back under control, wasn't true.

Robert L. Hetzel: Well, I mean seen it in '66, but they…

James Pierce: No, but…

Robert L. Hetzel: …understand that change in the way it might work.

James Pierce: That's the point.

Robert L. Hetzel: Expectations were formed.

James Pierce: Much more. Absolutely, expectation now, the policy was no longer credible as it was.

Robert L. Hetzel: Well they talked about in some of the memos I've read, that where they begin to realize this is from the Board that.

James Pierce: Right.

Robert L. Hetzel: In '66, you got wage contracts, multi-year contracts, which provided a one-year catch-up and then they went back to.

James Pierce: That's right, that's right.

Robert L. Hetzel: But this time around, you begin to get the multi-year contracts.

James Pierce: Sure.

Robert L. Hetzel: All the way out you were building in protection…

James Pierce: That's right, that's right, sure. Which, rationally, labor should do.

Robert L. Hetzel: Yeah.

James Pierce: And they did it, but it shouldn't have been as big a surprise as it was, but they got a lot of information there. And economics would have been nice to use in economics, rather than simple-minded stuff.

Robert L. Hetzel: Right. One of those cases where economics learned more from the economy than.

James Pierce: Well, and I mean, it was one of those strange intersections where the leftwing economist wanted to believe in fine-tuning, they thought it really worked. And the rightwing just wanted to slow money growth, everybody agreed and said, "Do this!"

Robert L. Hetzel: Yeah.

[00:05:04]

James Pierce: We're going do it. Well, you know, it would have, it had an effect.

Robert L. Hetzel: Even in '70, Burns still believed he could avoid a recession. I mean, he never thought, yeah we're going to have a recession.

James Pierce: I don't know. I don't think that's true.

Robert L. Hetzel: Okay.

James Pierce: It's hard to say, I mean I've talked to David Romer about this, he and Christy did a paper on this. They wanted to measure monetary policy tightening by saying, you know, when people started talking about we're calling it a recession, you almost never said that.

Robert L. Hetzel: Sure, oh, yeah, sure.

James Pierce: I don't think now they say it.

Robert L. Hetzel: Oh no, okay.

James Pierce: Their code words, a lot of wishful thinking, you don't focus on that part, you focus on, they didn't, on reducing the unemployment. Excuse me, reducing the inflation, I'm sorry. And somehow they were going to do it just right and. You know, maybe if you want to play people, but no, see I don't think they, no. But I don't normally put much import in that. I think they we were willing. If they could get away with not having a lot unemployment, and get inflation reduced, they'd be happy. But if they took some unemployment, they'd do it. I don't think Volcker in '79 got, you know, I haven't seen those, I guess nobody has seen them, those minutes. And said we're going to cause the biggest recession this country's had since the 1930s because we're going to do that to get rid of inflation. He didn't say that, I just know he didn't.

Robert L. Hetzel: Yeah.

James Pierce: But on any inside information whatsoever, you just don't do that.

Robert L. Hetzel: Sure, sure. There's a, what seems curious now, at the end of, toward the end of 1970 and early '71, M1 growth fell rather dramatically and of course that very much concerned George Shultz and Richard Nixon and the Administration. If you read through the minutes, the desk was doing just what the FOMC told them to do. If money growth projections were low relative to the targets, lower the funds rate, and it was pretty much following through. But Burns blamed the New York desk for this and said the desk was too much under the control of Hayes, and certainly spread that view within the administration, and talked about taking control of the desk away from the New York Bank, and making Holmes an Officer of the Board. Was that just for administration consumption, or was that?

James Pierce: Burns was a fascinating man. He did to others what the administration did to him, but he never sort of got the point you're not supposed to behave that way. He got really hurt when the administration rattled their sabres and he talked about Fed independence, Burns wasn't all bad, and he's one for pay raises and all that crap they did to him.

Robert L. Hetzel: Sure.

James Pierce: But he had no compunction whatsoever turning around and poor old Hayes who wasn't bothering anybody. And the Desk it's in the law, or I don't know if it's a law, it's in the regulations or whatever you call them, in the rules, that Desk works for the FOMC.

Robert L. Hetzel: Oh, sure.

James Pierce: And there's just no doubt about that.

Robert L. Hetzel: All right.

James Pierce: I just didn't go to FOMC meetings, I went to Bluebook meetings, I went to Carl's, I did all these things.

Robert L. Hetzel: Sure, that's what Martin.

James Pierce: It was not a problem.

Robert L. Hetzel: Martin took that power away from Sproul in '56. So that was decided.

James Pierce: Right.

Robert L. Hetzel: In 1956.

James Pierce: And, right and the idea is it works for the FOMC, and it does. During my entire time there, and I'm sure since, the Desk was on such a short tether. Steve Axilrod was running monetary policy, it wasn't Al Holmes. You know, he was doing, he was watching it.

Robert L. Hetzel: Okay, so.

James Pierce: They never had any real independence. Maybe a day.

Robert L. Hetzel: Every once in a while, during this period, there was an example where they misjudged reserves and the funds they…

James Pierce: Sure.

Robert L. Hetzel: …rose and.

James Pierce: Right.

Robert L. Hetzel: And you know, Burns was very upset. So, it would have been Axilrod who was on the phone with him?

James Pierce: Oh, every day.

Robert L. Hetzel: With the, so.

James Pierce: At least once a day.

Robert L. Hetzel: Okay. I knew that after I came to the system, I came in '75, that that was the case and especially under Miller. But I didn't know if Axilrod was the interface between Burns and the [unintelligible 00:09:37]…

James Pierce: Well, I have to be careful now.

Robert L. Hetzel: …at that point.

James Pierce: I'm going to be careful. It wasn't Axilrod, it was Holmes, I believe it was Holmes.

Robert L. Hetzel: Right, okay.

James Pierce: It was some board the senior staff…

Robert L. Hetzel: I can ask Bob Holland.

James Pierce: It probably was Holland.

Robert L. Hetzel: He's [unintelligible 00:09:47].

James Pierce: The seniors. During my entire time there, there was a senior staff member at the board, hate the word interface, who had the responsibility of dealing with the desk.

Robert L. Hetzel: Yeah.

00:10:03

James Pierce: There was a pro forma of the subcommittee that does the form and nobody can understand what anybody is talking about.

Robert L. Hetzel: Because they go on and on and on about everything in the world, it just about drives you crazy, they should hang up if they don't have anything to say, yeah.

James Pierce: Well, I mean, they're talking about seasonally unobjective reserves, and what are you supposed to do with that? I mean, just to.

Robert L. Hetzel: Yeah, I know.

James Pierce: It's there to make people happy, I mean, I quit going there, they said. I used to go to those and I said, I won't go, I can't understand a word, they're ridiculous. And then all that, but that was really an honor, and I guess it was, but it was terrible. What else was said on the Board? There's no question that Chairman said, all during the time I was there. Including Martin, I mean, you don't question who runs things. But it's funny, it's fascinating that Burns blamed it on, poor old…

Robert L. Hetzel: Hayes and Holmes.

James Pierce: and Holmes.

Robert L. Hetzel: Yeah.

James Pierce: And so they're out of control and again they have some deniability, but they put a lot of heat on these people, needlessly and blaming, and he didn't professionally care. There was a, what do you want to call it, cultural problem. That the Desk had always been on money market conditions and tend to move things gradually. And had troubles thinking in terms of the aggregates. They got a little bit better, but then by the end Burns didn't like the aggregates anymore.

Robert L. Hetzel: Well, they still talk about, in their defense, they say, you know, yes, we moved the funds rate, but if there's a criticism, it's because we did it gradually. Because they say that if we had done it abruptly it would have set off the inflationary psychology in the markets again, and we would have lost control.

James Pierce: But they can, I remember during that period. And I always thought, you know, they applied gradualism to the wrong instrument. Moving an interest rate gradually is a very dangerous thing to do. And central bankers tend to be conservative and not move things, not like to move things and they don't like to upset markets. The Desk doesn't like to, you know, they're talking to dealers all the time and they were hearing this tale of woe.

Robert L. Hetzel: Yeah.

James Pierce: And all that and you can't blame that, but yet that's one of the reasons [unintelligible 00:12:33] they don't talk to the dealers.

Robert L. Hetzel: Yeah, the treasury people are traitors too.

James Pierce: Sure. But just went up there and pro forma lunch you have with the Treasury, and then when you're all through, and that's fine, it sort of works. Because the traitor can say we talked to the dealers and they're worried about financing, and New York talks to them and then the Board tells them what to do. But, you know, you're always seeing how much to move things. There's a certain amount of judgment, this is not a rule, or anything. And the Desk probably did tend to stabilize the fund rates more than what's necessary. But there's a lot of talk about it on the FMOC and they have a lot of trouble switching over. They always wanted their cake and eat it too, they didn't want the funds rate to move very much, but they wanted you to control the aggregate.

Robert L. Hetzel: Yeah, well one of the surprising things to me, was to read back through and realize how much individuals like Frank Morris were oriented toward money market conditions as confident and experienced as he was. Even someone like that was very much loathe to move the funds rate very much, very quickly.

James Pierce: Well, see what you never know in those discussions, is how much was a penchant for stabilizing the money market. How much would not wanting interest rates to go up? And it's very hard.

Robert L. Hetzel: Yeah.

James Pierce: To disentangle those two things. I had an impression that Frank was a little bit of both. He probably wouldn't have been nearly as concerned about dramatic reductions in interest rates.

Robert L. Hetzel: Well, that was certainly the case with Burns, although there's difference in…

James Pierce: Well, but I mean, I think there was a liberal plan, one that involved increases in interest rates.

Robert L. Hetzel: Yeah.

James Pierce: Then the liberals, the more liberal people, would be concerned about unsettling the money market. When it would involve reductions in interest rate, we somehow didn't hear about them anymore.

Robert L. Hetzel: Yeah.

James Pierce: It wasn't symmetric, which suggested there's more going on than just stabilizing interest rates.

Robert L. Hetzel: Yeah. Well, you're…

James Pierce: And vice versa I would add for that, for the other side.

Robert L. Hetzel: Let me ask you about staff organization of FOMC meetings. How much did Chuck Partee work with the Chairman on the forecast? I mean, just as a pattern, I don't want to be critical and later on toward the middle of '72 he becomes hawkish. But it seems like there's a pattern reading these minutes. Partee comes out strongly at the beginning of the meeting for Bluebook C, and then Burns comes out for B. And that makes Burns look moderate and that yet in fact both B and C are very, you know, kind of like often aggressively expansionary. I was just surprised in reading this and how aggressive the staff was, and particularly Partee in recommending to the committee which alternative they ought to choose. And what their priorities ought to be. You know, they would never do that now.

00:15:44

James Pierce: Is that right? See, that I don't know. The whole time I was they did.

Robert L. Hetzel: Oh, yeah. They're very—I think they've been burned by divisions. Kind of whipsaw between different groups, and they found it safer just to kind of retreat.

James Pierce: Well that's too bad. There's great redemption in the influence of the staff, I think.

Robert L. Hetzel: I think that's right, yeah. Yeah, yeah, and the staff in the Greenbook has become much more [unintelligible 00:16:14] in the sense that…for a while in the toward the end of 1980s, the staff was quite aggressive. That is they would take a target for inflation and then they would work back through their model, or whatever it was in.

James Pierce: Right, right, that's what you had to do.

Robert L. Hetzel: In Prell's head, and then say, you know, the fund rates got to go up pretty substantially. And they were pretty open about this. And they really got tromped on by a Binder and Yellen for telling the committee what, you know, taking policy away from the committee. So, now they go, you know, they just say well all, you know, the fund rates is never going to change. So, they've got these forecasts that's hard to understand them because if they're made on the basis of no change in the funds rate then, you know, it assumes that the FMOC has no reaction function to what's going on in the economy. And other peoples, it's hard to know what to do with those people's expectations. So, it's, you know, it's kind of a, anyways, so. So they've back off. And so it's hard to know what to make of there.

James Pierce: They need and it's really too bad, and shame on Alan.

Robert L. Hetzel: Well, Alan doesn't believe the Greenbook forecast.

James Pierce: Well, that's fine he didn't say that.

Robert L. Hetzel: He thinks he can do it on his own. So he doesn't…

James Pierce: Well, that's fine.

Robert L. Hetzel: …so.

James Pierce: I mean he's a smart fellow, but he's not that smart. And he doesn't, in fact, we had this this thing about our resources. Surely, you try to evaluate it, you don't disagree, you ask questions. If you don't have any great faith, then you go change the staff. But any policy making by or anybody in authority, needs trusted advisors, who tell them things sometimes they don't want to hear. Whether it's the President of the United States, or whether it's the FMOC, it doesn't make any difference. And I'll assure you that Alan Binder, when he's in another role, will just say things, right? Because a person deserves to know them, right. Now if you can't get an agreement and if you don't trust the advice of somebody that the staff person or advisor is giving, then change the advisor.

Robert L. Hetzel: Yeah.

James Pierce: But you need it.

Robert L. Hetzel: Yeah.

James Pierce: And that's really too bad.

Robert L. Hetzel: Do you feel like there was good give and take say between Partee and Burns over the Greenbook and the forecast with Burns?

James Pierce: No.

Robert L. Hetzel: Burns just lorded it over everybody?

James Pierce: No, no. I mean, no.

Robert L. Hetzel: Okay.

James Pierce: These are, that was theatre. The policy had already been set.

Robert L. Hetzel: Yeah.

James Pierce: Before the FOMC ever met.

Robert L. Hetzel: Alternative B.

James Pierce: And you found it, didn't you?

Robert L. Hetzel: Yeah, well B, for Burns.

James Pierce: Right B for Burns. I told you the story once, I guess you'll find the minutes, I can't remember what year it was. Burns was trying something sneaky, and he had four alternatives. And we thought, oh, my God, they're not going to know what to vote for. And we used to make jokes and go around with signs saying vote B Prime, or whatever the hell it was, because they always voted for B, right? But anyway, that was theatre. What wasn't theatre, was the give and take that occurred between FMOC meetings. The staff would meet with Burns and would meet with other board members. And now that I'm out of there, from time to time, would meet with Reserve Bank Presidents and express their views and why it is that they had to do something, and which we thought they did. And it had to be done informally.

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Robert L. Hetzel: You mean the staff would express its views.

James Pierce: Yeah, right. And there'd be a lot. They would be very open, give and take, because you know, nobody's.

Robert L. Hetzel: And Burns would be there?

James Pierce: Yeah, well we met with him, or we met with somebody else.

Robert L. Hetzel: You would initiate that or, you know, it was just.

James Pierce: No, it would just be meetings and. I wouldn't always in on them.

Robert L. Hetzel: Yeah.

James Pierce: But Partee would or Axilrod or O'Mally or somebody. I would too, from time to time, depending on how obnoxious he wanted to hear the advice. There was a lot, there was a lot of work that went behind the scenes of talking to other Governors. You can see why that is, you can't, someone is going to have to run that thing, he's a very powerful man. You're not going to go up against him at a FMOC meeting and say the Chairman is wrong, Governor or President such-and-such, I think you're right, you ought to do this now. That's asking too much of anybody, and it's just, the system can't work that way, so you'd would never do that in an FMOC meeting. But you could certainly do it other times, and people did.

Robert L. Hetzel: So, who were the Governors you could really interact with? What about Brimmer, he was pretty serious about his responsibilities?

James Pierce: Oh, yeah.

Robert L. Hetzel: And really cared about economics. On the other hand, he was, he really thought unemployment ought to be 3-1/2%. So, it's hard to know how. I mean, at one point there's a discussion here about 4% unemployment, and he says that's unsatisfactory. If you have 4% unemployment, you still have four million people unemployed. So, he's pretty concentrated on.

James Pierce: Well, remember it's theater again.

Robert L. Hetzel: Right, yeah.

James Pierce: Typically, what happened in that, with Brimmer in an FOMC meeting. Let's call them the doves, the Brimmers, who would always talk about unemployment, they'd never talk about inflation. The hawks would always talk about inflation and never talk about unemployment. And so you never got a discussion or trade-offs of things you read about in text books. They just never, you know, I would defy you to find it in a minute anyplace where that happened. They were simply making a statement, I guess for history, I don't know.

Robert L. Hetzel: Yeah, well that's the way the minutes read. You get often just a series of statements.

James Pierce: Yeah, and that's all here.

Robert L. Hetzel: Although every once in a while, you know.

James Pierce: Every once in a while.

Robert L. Hetzel: You'll say, I'd like to associate myself.

James Pierce: Right, right.

Robert L. Hetzel: And then you could see there's actually some interaction and you kind of…

James Pierce: But it never went anywhere. They wouldn't associate themselves enough to go against the chairman. Back to Andy, my time, a lot of my time spent with Andy was trying to. He's a very conscientious and bright man, I like him a lot, and I still see him from time to time.

Robert L. Hetzel: Yeah.

James Pierce: I was talking about the difference between having to get, trying to get the economy back under control, so that the best way to prevent people from getting unemployed, is to keep inflation under control and then you don't have to bomb the economy.

Robert L. Hetzel: Right.

James Pierce: Because it's certainly true that the people who get hurt by and large, are those who can least defend themselves.

Robert L. Hetzel: We've had an experiment and that's basically why the thing works in the 80s and early 90s, because we stay on top of inflation.

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

Robert L. Hetzel: At this point of course, that was…

James Pierce: That's right.

Robert L. Hetzel: …in the future.

James Pierce: There was just, during this period, I think a little better later, but an incredible myopia on both sides. They just thought they could do something right away. And see, spend most of your time being a spoil sport, and saying "You can't do that." I just doesn't, there's no evidence, it's just common sense telling you, you can't push around the economy this size, in a quarter. That takes a long time. And that, and talking about how much you can do with monetary policy, and solving social ills and trying to, you know, put pressure to get rid of, you know, the structural problems and the formation and all those things that existed and do exist. But you never can be sure, but I think I know, you know you're going to be in the minority anyway. You might as well make your statement for the other side. And sort of try to disassociate yourself a little bit from what's going on. I got the impression that's what Andy was doing in part. If he had been closer in the view to Burns, I think he would have made some of the statements. I mean, it's just a matter of, you know, he's not going effect policy anyway, you might as well make a statement.

Robert L. Hetzel: Could you say those same things about Sherman Maisel?

00:24:55

James Pierce: Yeah. Sherm, had a lot of trouble of being coherent.

Robert L. Hetzel: He felt very strongly about this.

James Pierce: He felt really strongly, but he had terrible communication problems, he felt very strongly about those things. And I think he was a good economist, he would just get all caught up in his words.

Robert L. Hetzel: Yeah.

James Pierce: But I think that there's some truth there, and I mean both of those people are very frustrated.

Robert L. Hetzel: What about Mitchell? He was an old Fed hand for a long time.

James Pierce: Yeah, I'd love to understand Mitchell, yeah.

Robert L. Hetzel: He felt strongly about unemployment. I mean wait, the people who were capable, kind of basically agreed with Burns about pursing an expansionary policy. So, it's hard to know whether they, how effective it could have been opposing him if it felt more strong. But they differed with him as far as objectives go. But he's still alive, but apparently he's not can't talk, yeah. So…

James Pierce: He always played, in FOMC meetings, he played things very close to the chest. He's a very hard—I didn't know him that well, I didn't socialize with him. He's always, when I was around, he played things very close to the chest. You never could be sure where it was coming from or why. You know, he was a real survivor, as well.

Robert L. Hetzel: He cared unemployment a lot, he was a member of the Daley-Stevenson Chicago political machine.

James Pierce: Right, right. But he wasn't, he worried about it. But he wasn't willing to use up a whole lot of political capital of doing anything about it. I think that he had other things to try and keep his sight in. He was going to be the paper, you know, the money-less, paperless society guy and all that. And so long as he kept busy doing those things, he was sort of happy. And so he had all these sub committees and Burns never asked about them.

Robert L. Hetzel: Well, that's one rule of the Chairman is to keep the governments happy.

James Pierce: You've had, you know, it would cost a couple more staff people. So long that they were willing to replace them with somebody else. It didn't make a lot of difference at the end to oversee them.

Robert L. Hetzel: And of course, some of the new Governors that Burns got in, Bucher and Sheehan, initially, at least, they were.

James Pierce: Well, initially.

Robert L. Hetzel: Because of course he said later on, I mean this was a surprise to me that Sheehan.

James Pierce: Sheehan, I was always blamed for the guy that wrote this one speech he made, I didn't write it, I didn't talk to him. I mean I talked to him a lot, but I didn't write it. He had…it was a real awakening for him. And Bucher just sort went along, he wasn't nearly... He's much more of—Sheehan really, you know, man he cared, I mean. He's willing to, you know, he got…he told the story of Burns chasing him down the halls, screaming at him and all that. He was very proud of that, he could hardly wait to tell us.

Robert L. Hetzel: Well, I'll ask him, he's still around.

James Pierce: Well, yeah. I like him a lot.

Robert L. Hetzel: I'll have to give him a call.

James Pierce: Yeah.

Robert L. Hetzel: Daane of course, was just money market sort of, you know, let's probe and.

James Pierce: Oh, I know he just wanted to go off to Europe and have a good time.

Robert L. Hetzel: So, were there—who were the governors that you talked to in terms of exercising influence?

James Pierce: Well, that was part of the great frustration.

Robert L. Hetzel: Yeah.

James Pierce: Well ultimately, Sheehan and Bucher, more Sheehan. He'd listen. He really wanted to know everything. And he could separate, he'd say, you know, he'd just ask the right questions. He'd say look I'm—he was sort of a bull in a china shop. And he didn't have any of the Fed culture, and he didn't know you weren't supposed leave socks in the office and stuff like that. But he'd do made his secretary to pick them up. You know, part of the staff you don't hear about, when you got to mollify the secretary and take care of all this, and somebody's got to go tell him this.

Robert L. Hetzel: So, what is he doing, off to the gym?

James Pierce: Yeah. You just can't do this.

Robert L. Hetzel: Yeah.

James Pierce: But at least you can do that with him. I mean, it wasn't so that you could, you know, he'd do it. Anyway, he wanted to hear the best advice you had to give and then he decided what to do with it. And that was always fair enough. There was a lot of problem at the beginning because, well over time, not exactly. What year did he come in?

Robert L. Hetzel: Sheehan, I think he replaced Maisel, so I think it was end of '71.

James Pierce: Yeah, yeah.

Robert L. Hetzel: Early '72, early '72.

James Pierce: It seems I think it more difficult. He came in with just a total cheering section with Burns, but then over the years.

Robert L. Hetzel: Yeah, yeah.

James Pierce: And so the advice he was hearing and the events that he was observing just didn't correspond to what Burns was saying. And it got him to thinking, that's to his credit. It was certainly tough for him.

30:10

Robert L. Hetzel: Robertson had been in the system since '52. He was this…

James Pierce: Yeah, I didn't really talk to him.

Robert L. Hetzel: …populist, broken bones, brassed up.

James Pierce: He had this speech he always used to make about broken bones, right? We used to give…it was pretty hard not to start giggling during it.

Robert L. Hetzel: He did became hawkish toward the end, so there was a transformation in his thinking. But he was always a lawyer, I mean.

James Pierce: Right, I had no contact with him, I just can't say.

Robert L. Hetzel: Yeah. Okay, in '71, Burns had an interest in fiscal policy, wanted to liberalize depreciation rules and various sorts of tax cuts. Did the staff get involved in analysis of those kinds of?

James Pierce: Yeah.

Robert L. Hetzel: Did you have any sense of what kinds of fiscal policies he was particularly concerned with in his early period?

James Pierce: I will say, that when it came to the monetary policy, Burns was great at fiscal policy. He was almost always right-minded on the fiscal policy side. I guess because it wasn't his parlance, who knows? But he was interested in stimulating investment. And a stimulating real growth and using, I think quite reasonable instruments for doing so, like investment tax credits and things like that. I mean he did a lot of work on those. I had the impression we had much more affect on fiscal policies on the staff, than we did on monetary policy. Because staff—because Burns was come in with the goods and a mix of people. I mean they really didn't have anybody that was very good, or lack of, I guess. And…

Robert L. Hetzel: Well, yeah, the people in Treasury seem to be more sort of, Charles Walker…

James Pierce: Yeah, I mean they.

Robert L. Hetzel: …you know, obviously and the Secretary of the Treasury was a weak initially, I mean until.

James Pierce: They really had no stamp, and having a stamp really gives you a lot of talk. And they specifically would come in with goods, what's your, and be against this, and it'd just be gobbledy-gook.

Robert L. Hetzel: Well actually, I guess we can talk him now too. Mayo, who was head of OMB.

James Pierce: Right.

Robert L. Hetzel: And then became president of the Chicago Fed. He was apparently a weak.

James Pierce: Yeah, he was surprising.

Robert L. Hetzel: At least from what you read in the Haldeman Diaries, and so on. He was at least viewed as a weak.

James Pierce: He was.

Robert L. Hetzel: He doesn't say much in the FOMC meetings, and you think of all his experience.

James Pierce: I know, I know.

Robert L. Hetzel: He would be…

James Pierce: And we were so excited. You know, here's a party that we understand and he just didn't…I don't know, it was all a mystery. That's right, I had forgotten about that man. Nice man.

Robert L. Hetzel: Yeah, he's still around, and I have his phone number, but I haven't called him yet. Burns at this time thought that the major problem was that businessmen were concerned about inflation and they didn't know how much of their income they were going to be able to keep in profits later on. And that was depressing investment and depressing growth, and they had to do something about inflation.

James Pierce: Right, right.

Robert L. Hetzel: So, liberalization in the incomes policy seemed to be the way to go as long as monetary policy had to get the unemployment rate down.

James Pierce: I'm not aware of any staff member whoever encouraged Burns on his income policy, not in my presence. It was his baby.

Robert L. Hetzel: Well, apparently, everybody on the Board of Governors was for it, because he would testify. He testified to Congress and said, you know, this is the view of the Board of Governors, so.

James Pierce: You have to, okay. I guess that wouldn't be in the minutes. Burns would have his speech essentially written. There'd be a board meeting. It would be presented to the board as fait accompli, and then he'd say, do you want to go along with this or you want to ruin my reputation in the world in effect. And they'd always agree, I mean there was no substance in that. At all. But he could then say, and it was true, that the board agree with this. I mean there was no discussion. Boy, I have forgotten all about those meetings, they were terrible.

Robert L. Hetzel: Okay, well I won't spend too much time on…

James Pierce: No, I wouldn't spend a lot of time on that one. So, you have to be, the theatre in all this. Even though these are written, and these, the minutes are very accurate. I used to, you know, and this committee went through the damn things. And so the State Department always took out anything that had to do with them. And the Treasury would take out a little bit, and we never took out anything, except fix the grammar. Or, you know, an obvious slip of the tongue.

35:07

Robert L. Hetzel: The Treasury looked at the minutes?

James Pierce: Oh, yeah.

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

James Pierce: State, Treasury, I don't know who else, those two anyway. And they would both go after more the international. We couldn't say anything about, you know.

Robert L. Hetzel: Oh you still can't. And those were still missing and you still can't get those all the way back to…

James Pierce: Yeah, I think, yeah.

Robert L. Hetzel: Sixty-five, or so. I called Bernard and asked him if I could get some of those, and he said no, you still can't get them. Ted Truman won't release them.

James Pierce: Well, let me tell you, it's a lot like all these other secrets, you read them, they're so boring, you can't believe it.

Robert L. Hetzel: Yeah.

James Pierce: Anyway, and back then, the things had to do with international and with both the Treasury and the international. We didn't have any real effect on monetary policy, so not having that is bothersome. But it isn't disguising a whole explanation of why monetary policy was the way it was. Despite the accuracy, there's so much theatre going on, that you have trouble interpreting. You quite clearly pointed out the dog and pony show that Burns and Partee went through every FOMC meeting. It was clear, they should be doing more than they were. Burns didn't want to do anymore than he was, so Partee would be the good cop. Make the staff feel good, I mean, terrible morale problem in all this, you know, he had to have a new person ironing your case and Burns understood that. And so, Partee would argue the case, and he said, well, at least we got our day in court. And then Burns would say, well, I think, you know, we're more moderate than that. And we had already know, these B was only one we ever talked about and we just sort of made up A and C, just for something to talk about.

Robert L. Hetzel: Well, they were a little different than.

James Pierce: Yeah, yeah.

Robert L. Hetzel: Yeah.

James Pierce: Right. And, you know, there was some political things going on, not directly, these never got discussed again. Sometimes, he'd come in and want a bigger change in the interest rate than other times, like tease him, usually you hardly want any. How come you want a big one this time? Well, the reason Burns I think really wanted it, is to have something bad to talk about, to be, right? So, but it was no.

Robert L. Hetzel: On the incomes policy thing.

James Pierce: Well, let me back up. Running away was this thing that Steve would say, and others would say to Burns, "Look it, the longer you put this off, the longer you." Particularly, you know, in the way into the 70's, put this off and keep expanding, the harder it's going to be. This isn't going to go away.

Robert L. Hetzel: Yeah.

James Pierce: And so, he was hearing it.

Robert L. Hetzel: That comes across, especially in '72.

James Pierce: Right, right.

Robert L. Hetzel: Long before the economics profession becomes concerned.

James Pierce: Yeah.

Robert L. Hetzel: The staff was really concerned.

James Pierce: Yeah, yeah. But anyway, it was theater, as you sort of observed there.

Robert L. Hetzel: On the incomes policy, Partee does say the number of points. He doesn't know what he can do about inflation, given the constraints on unemployment because of the cost-push nature of inflation. And Partee was Burns representative on the whatever it's called, the wage and price. No, no, yeah, the CID.

James Pierce: Yeah.

Robert L. Hetzel: He would go and Burns and didn't go. So, Partee must have accepted the cost-push view. And if you accept that, then wage, you know, was…

James Pierce: Well, it was true. I mean, given what…what he said was correct.

Robert L. Hetzel: Yeah.

James Pierce: If you're not going to use monetary policy…

Robert L. Hetzel: Sure, yeah.

James Pierce: Then there's not a whole lot that you can do.

Robert L. Hetzel: Yeah.

James Pierce: Because there will be a way out there that's correct.

Robert L. Hetzel: Yeah, yeah, well that's right.

James Pierce: So, he wasn't incorrect. It was just sort of an empty statement.

Robert L. Hetzel: Yeah. Just one more thing on the fiscal policy. I mean it seems a little surprising now, you would never see this now, but often Burns as Chairman said that the Fed had to maintain the confidence of the administration so that he, Burns can, you know, impact other governmental policies. It seems well, I don't know, maybe there wasn't enough sensitivity…

James Pierce: To what?

Robert L. Hetzel: …to appear independent of the administration.

40:00

James Pierce: See, yeah. Okay, I don't think that that's why he was saying that.

Robert L. Hetzel: Okay.

James Pierce: If you look, I'm almost sure, every time he did one of those, and he didn't do them that long. It was because there was some kind of mild challenge, or people were raising questions. And he would then haul out that argument. And what it was, I think, the sense of what was coming across, he was saying that I'd have to have the confidence of Administration so I can have the confidence of the Congress. So I can have the confidence of all the world leaders and were you through, what you would be told here, is this is an immensely powerful person, and don't mess with me. But in a way, that you were pursuing the national interest. Of course, monetary policy is doing the right thing, we don't want to do anything to impede your ability to function.

Robert L. Hetzel: Yeah.

James Pierce: And if you challenge me, you're going to impede my ability, the administration will laugh at me or you'll lose [unintelligible 00:41:04] wears off. But that's what's really what he was saying. It wasn't, in some way was in independence. But he was saying, look.

Robert L. Hetzel: No, that's.

James Pierce: All right, I mean that wasn't really. He had a different way of doing it, but it was very effective. He had this down to an art. And these poor guys, you know, some of them may have been to Canada or something.

Robert L. Hetzel: Yeah.

James Pierce: This guy you know he'd have dinner with the Prime Minister, you know, heads of state, and going all over the place. It was really difficult.

Robert L. Hetzel: Yeah, that makes sense.

James Pierce: That's what he was doing. And he was a master at that.

Robert L. Hetzel: Well, he I guess it's one of the things that seems odd now, but to the significant extent, the Treasury was willing to allow him to manage international economic policy.

James Pierce: Oh, yeah.

Robert L. Hetzel: Which seemed strange. On the other hand, that was something the Administration that could give him, to keep him on board, but he needed this backing of the Fed and of the Administration if he was going to go, you know, travel to BIS meetings and all over and speak for the government.

James Pierce: Yeah.

Robert L. Hetzel: And he had to.

James Pierce: The Administration might have wanted some deniability, I don't know. I mean, they did very little, in which the deniability was not a factor. And so, for all I know someone had some of these Machiavellian theories, you know, let Burns go out there and then if this thing we think might happen, happens, we can blame it on him. There was very little that wasn't political.

Robert L. Hetzel: Yeah.

James Pierce: But there's no question that he was the International. He had a great influence. I think, you know, when he went on stage, it looked good most of the time. I don't think there was any real conflict most of the time. And there was no Secretary of Treasury that wanted to take it away from him, or try.

Robert L. Hetzel: But one of the striking things about the international is how much importance Burns assigned to the international situation. He seemed to really believe for example, that if went to floating exchange rates, we would raise up the kinds of problems we had in the depression.

James Pierce: Right.

Robert L. Hetzel: Competitive devaluations and protectionism. So he signed enormous importance to the international situation, also to him being part of it. Especially when Connally was Secretary of the Treasury. But on the other hand, when the dollar was under attack, there was never, never any consideration of doing what Hayes wanted, which was raising interest rates to deal with. You know, so there is this.

James Pierce: Well, Hayes had the right idea.

Robert L. Hetzel: There's this contradiction.

James Pierce: Well, I think one you have to—with Burns you have to remember at all times, he was an interventionist. We talked about this earlier, conservatives back then aren't the way they are now. They were a real busy-bodies, they were just busy-bodies in a different way. Burns believed fundamentally that there is a set of people, the elite, I guess, who really knew how to do things and that the world was better off with this instrument of being able to intervene in foreign exchange markets, peg the exchange rate, peg the interest rate, peg this, set wages, set prices. Do all of these sorts of things, and they knew how to do them, and it was going to work. I think he just fundamentally believed that. And whether in his deepest recesses of his mind, he knew that was screwy—it made him immensely powerful. He was never a man to throw away an instrument or a bit of power. And if you had flexible exchange rate, there wasn't a whole hell of a lot for him to do in international markets, he knew that.

Robert L. Hetzel: Well that's interesting to say that. That's certainly the tradition that comes out of the New York Bank. Sproul and then Sproul's protégé Robert Roosa.

James Pierce: Right.

Robert L. Hetzel: These people were certainly Republicans, but they were part of this group that they thought had to manage the international monetary system.

[45:03]

James Pierce: That's correct, yeah.

Robert L. Hetzel: Then Paul Volcker came out of that tradition too.

James Pierce: Yeah, and Andy.

Robert L. Hetzel: And Andy too, yeah.

James Pierce: And he's very much like.

Robert L. Hetzel: During the 80s, he wanted…

James Pierce: Absolutely, no he's still believes in that, I know. So, and it's so easy to lose track of it now because our current set of conservatives don't seem to be so much that way. Nixon did some of the most interventionist policies of any American president, oh my God.

Robert L. Hetzel: OSHA, EPA, the whole raft of stuff.

James Pierce: I mean revenue sharing all the stuff Republicans hate, those are Nixon's programs.

Robert L. Hetzel: Yeah, absolutely, yeah.

James Pierce: So, he didn't want to give that up. I must say, on the Central Banks and Finance Ministries and treaties cost tax payers zillions of dollars during this period. I mean, and the big discussion is part I guess you don't see in the minutes, really had to do with who was going to eat the cost.

Robert L. Hetzel: Oh, sure. Well, there's analysts, you know, when should we finally close off the swap line of Switzerland and.

James Pierce: Right. But I think that might have been, I can't remember, but I don't know if they're around. I read them, but I don't remember them. Who's going to eat those losses, and so.

Robert L. Hetzel: Well, a lot of the missing sections in the minutes are discussions with the Treasury in that issue.

James Pierce: Yeah, right.

Robert L. Hetzel: The Treasury wants them out, because the Treasury didn't want any losses in the 60s, but then with Burns the Fed ate a lot of it.

James Pierce: Well, but they would make deals with their Central Banks.

Robert L. Hetzel: Yeah.

James Pierce: Which won't be there, but you know, I imagine to this day that happens. I mean, did the Japanese really eat all those losses themselves when they're protecting, I bet they don't, I bet they don't. But I don't know that as a fact.

Robert L. Hetzel: No, I don't know. They're the ones with the money.

James Pierce: Well, maybe so, but they'll say, you know, when time comes later on and we have to do on the other side…

Robert L. Hetzel: Oh, sure.

James Pierce: You know, these guys scratch each other's backs.

Robert L. Hetzel: Oh, yeah, sure.

James Pierce: But there's immense cost, that's a real cost.

Robert L. Hetzel: Yeah, well we lost a lot on it in '71 when we...

James Pierce: Yeah, no that's…

Robert L. Hetzel: Because we covered a lot of dollars, so.

James Pierce: Absolutely. Until it just became untenable.

Robert L. Hetzel: Yeah.

James Pierce: You know, I think that's another way to read history. Talk about courage, I mean they did what the British and the Italians had to do. I mean, you just at some point you got to go…

[END OF TAPE 6, SIDE A]

[BEGINNING OF TAPE 6, SIDE B]

[00:47:25]

Robert L. Hetzel: They were pretty much economists. What about Axilrod, did you argue economic issues with him, the way you could with the others?

James Pierce: Oh, sure. In some ways better, easier. Steve's very bright.

Robert L. Hetzel: Oh, yeah.

James Pierce: I think in IQ in the bunch, he's the highest. He has a lot of impatience with what he saw as academic stuff. And Steve, because he's a money market guy, tend to be a little shorter sighted, but you'd get him aside, sure, he would. Steve, it was sort of a division of labor and they were very careful. One of my functions was to try to bring some coherence between the Greenbook and the Bluebook. Because Gramley and Partee wouldn't talk to each other, I mean Gramley and Axilrod wouldn't talk to each other. Steve would have one set of assumptions and Gramley would have another. And I was supposed to make them mesh. So I was the only one who went to both sets of meetings. And so Steve stayed out of that, I think just for political reasons. He didn't want to look like he was stomping on others toes. But also, I don't know if you know but Gramley always said very little about money market and stuff. Me, I didn't give a damn, I'd…

Robert L. Hetzel: Oh, yeah.

James Pierce: …just say it.

Robert L. Hetzel: Yeah, I know he never said anything.

James Pierce: No, right. And see that, so it looked like Steve did, but he was doing so. He had to be careful about it and I think, you know, Lyle had to be careful about that money market stuff.

Robert L. Hetzel: So, how did you handle disagreements over the Greenbook? I mean, in terms of putting together the Greenbook forecasts. The staff and Enzler would have been important and then there was you and Gramley and Partee and you just get together and talk these things over…

James Pierce: Well, I tried, I never really succeeded, but I tried to sort of get everybody on the same page to begin with. Always seemed to me like a good idea. Like everyone starts with the same set of basic assumptions, they're more likely to have a consistent outcome.

Robert L. Hetzel: Well, it's hard to do with the way the Greenbooks are.

James Pierce: Well, I don't.

Robert L. Hetzel: Since it's so judgmental.

James Pierce: No, but part of me for doing that, was saying, you know, I know you got model, I don't want you own the model, I got a lot of problems with models myself. But you have to have in the back of your mind some assumption about what's going to be happening. Because otherwise, you're saying monetary policy has no effect, and if it didn't have any effect, we all ought to go home. So you, I mean, this is all coming back to me. This is my little speech.

Robert L. Hetzel: Yeah.

James Pierce: So, you must have something in the back of your mind about what you think is going to be going on with monetary policy. We should try to make sure that this thing that you have in your mind is what others have in their mind, so that we aren't going, you know, downward at cross purposes. Oh, that was hard. Well, because they really can't admit that they weren't doing anything with monetary policy. What they were, they were doing a lot of regressive forecasting, but they wouldn't admit it. They spent incredible amount of resources doing something the computer could have done easily. We really know how to do all regressive forecasting, even back then. You know, things don't change very much in any one quarter.

Robert L. Hetzel: No, it's the same, yeah.

James Pierce: They sort of reverse the trend and those things. And that's what they would do, but with incredible talk and. But you know, it worked pretty well. Regressive forecasting, you know, could be okay. And so…

Robert L. Hetzel: But it tells you nothing about how to constrain.

James Pierce: Oh, ever.

Robert L. Hetzel: The policy actions to achieve all of the objections.

James Pierce: Absolutely, of course not.

Robert L. Hetzel: That's why you're a model.

James Pierce: It's a random lesson. The whole purpose of that model was in short, I mean like there's a battle ahead, I never could win it. In part because there's an awful lot of politics going on, like they wanted the model as a fall guy, something to blame. I'm saying that its purpose isn't short-term forecast, if you guys can do it better, two or three quarters ahead. Or, you know, if you want to have want to spend some resources, we can probably beat them short term, the purpose. But that's not the issue, the purpose is to have a structure to remind you of certain things. That there is a long term. And that these things do have implications. And things with long legs take a long time to offset. And you don't need specific parameters to do that. And, you know, and I gave lectures on it. I said, fine, change the parameter, I don't care. What you're going to see doesn't make a particle of difference.

Robert L. Hetzel: Yeah, long run.

James Pierce: Right.

Robert L. Hetzel: You could get any inflation rate you want to.

James Pierce: That's right.

Robert L. Hetzel: But you got to let interest rates move up…

James Pierce: The one thing I insisted.

Robert L. Hetzel: …[unintelligible 00:52:05] move up.

James Pierce: Yeah, I insisted, and it made Frank [unintelligible 00:52:10] at me for a while. Is that every time we did a simulation, that Phillips curve in the long run was vertical, it didn't get to have any slope.

Robert L. Hetzel: Yeah.

James Pierce: I never wanted that to get in the way, because I never, because you know, you could, well long run economics is just classical economics and it's got to be correct or we all go home. And so, it would, inflation would be accelerating over time if we continue and that seemed to me just had to be true. And you didn't want the model to get in the way of that. All right, even though the model parameters suggested that they'd have some slope. Every time we estimated that during this period, they got steeper and steeper of course.

[00:52:39]

Robert L. Hetzel: Yeah.

James Pierce: Anyway. That was the story they kept trying to tell. And they kept trying to force poor Gerry to do one quarter forecast, and he was a good soldier and he would do the best job he could. Until finally, we finally – we never wanted to use that model that way, we wanted to talk about the long run and how monetary policy might be able to affect inflation and things like that, right? So, we need to [unintelligible 00:53:21] forecast. We forced the model to the judgment, it was really a consensus forecast. As time went on, it was give and take. One of the judgmental guys would come on, it just can't be can't true because you forgot about the next link of identities, you know, I mean just. And I'd say, but this is true and we'd interact, and we end up with a consensus forecast. Then we force the model to that, to adjust in your terms. And then do alternatives off of it. So, it was never a matter of Burns always wanted to get me on, you know, what do the models say? Well the model says it's judgmental. You don't want to hear about the model by itself. What the model says is, you gotta worry about the long run. And so there was quite a bit of give and take. But we want to make sure, you know, because just for no other reason just to stop the embarrassment. Making sure that the assumptions in the Greenbook were the same as in the Bluebook. That in effect we were doing B in the Greenbook, and assuming something about how it was going to continue. But that was one of my roles to do that because these guys, you know, they didn't communicate a lot.

Robert L. Hetzel: Were there any of the President's in FOMC meeting that were at all affective. There were a couple of instances where Hayes and Burns go back and forth and can see that they are in a dog fight. But typically he read his statements and there wasn't much…

James Pierce: I'm just going to give you the answer no.

Robert L. Hetzel: Yeah. Norwell makes some fairly off-ish statements, but he's kind of pontifical and he…

James Pierce: Yeah and read again, I mean he. I'd get so frustrated, I work on these guys.

Robert L. Hetzel: Yeah.

James Pierce: And then, you know, in private, and then they come and they just read the damn statement that had been written for them before they even saw the Greenbook. Usually, or just after, I mean, they just wouldn't deviate from it.

Robert L. Hetzel: Hayes.

James Pierce: Now Hayes would some.

Robert L. Hetzel: He had a pretty good staff at New York, did you ever interact with their staff people at all, or?

[Crosstalk]

James Pierce: Excellent staff, on technical stuff, money market stuff.

Robert L. Hetzel: Yeah. That was more of their desk people than.

James Pierce: Sure, well but that's really, you know, an international, they ran the international.

Robert L. Hetzel: Yeah.

James Pierce: They really knew all about that and the nitty-gritty. They had to know a lot about behavior of the giant banks. You know, all things you expect New York to be an expert in. They had very few people working on macroeconomic things. And it was Byzantine, I mean there were different departments and they wouldn't talk to each other. So, I think the answer is, there's not really much on. I don't know who Dave's talked to.

Robert L. Hetzel: Yeah.

James Pierce: I could never figure out what's going on there.

Robert L. Hetzel: Well, I think to this day, the New York Bank Presidents, important than big names and have lunch with them, and they get their ideas from these people. Plus, at least for a long time, I think it was a tradition that the President of the New York Bank would go and talk to the Chairman before FOMC meetings. And so, in a way, the board co-opted New York by making feel like an insider, like an inside bank. And if you're an insider, then a lot of prestige comes with that, on the other hand, you can't challenge.

James Pierce: Right, right. I can't remember, did Burns meet with Hayes, I don't know if that's true?

Robert L. Hetzel: I'd have to go back, that's a good question.

[00:57:21]

James Pierce: He might be the one to do it, but boy it's out of character.

Robert L. Hetzel: I know he met with Martin.

James Pierce: No, Martin never, he had a very different way of operating. He would do that. He, in his way, was dictatorial if you will.

Robert L. Hetzel: A lot of crowds, controlling.

James Pierce: Controlling, is the right word.

Robert L. Hetzel: Yeah.

James Pierce: But with old school, you're doing it.

Robert L. Hetzel: Yeah.

James Pierce: So, you know, you didn't know you were getting, or I liked it. He was a master at it. And never, and so he wouldn't even do all of these things.

Robert L. Hetzel: Yeah, well, he was also more patient. If he wasn't getting the result he wanted, well you were going to meet in two or three weeks, he'd have more information and that's, you know, we got these cross currents.

James Pierce: Well, and so nice.

Robert L. Hetzel: I'll put it off and.

James Pierce: I think people found it very hard…

Robert L. Hetzel: Yeah.

James Pierce: …to go up against him. I mean you couldn't be all tough because nobody's screaming or anything. I mean he was just a very mannerly, courtly manner. And so he usually would get his way. And you're right, you were just going to be in a few weeks anyway, what difference did it make? Which is also during this episode, that's I only wanted to meet twice a week a year, but that was such a, we'll wait until next time to decide. I mean that's a beautiful way to just put off doing anything. But more frequently you meet, the more easier it is to put it off.

Robert L. Hetzel: Yeah, well. That's the way from keeping from raising the funds rate too much. Burns had a—Burns didn't like dissents, obviously there…

James Pierce: He didn't like anything.

Robert L. Hetzel: Dissents. There's a few FOMC meetings, not too many, but there's a few FOMC meetings that are very contentious and Burns is clearly riding over the… He's not trying, he's not trying to get a consensus, he's simply telling the committee, you know, this is what you're going to vote on and, you know, like it or leave it and not very many people leave it. There aren't very many dissents, it's just sort of, I guess a scary thing to dissent because of his intellect and because he was unpleasant about it.

James Pierce: Intellect, unpleasant, overbearing. He was always sort of very mannerly about it, I mean he didn't cuss at you or anything, right?

Robert L. Hetzel: Not in public.

James Pierce: Well, right. I mean at the FOMC meeting, never. I've heard a lot of people who are much rougher than Burns. But the intellect, the thing that, you know, he just acknowledges he's going to beat you and this thing that I was describing, he'd haul out how he had to deal with heads of state, don't mess with me.

Robert L. Hetzel: Well, you're…

James Pierce: I'm got to go over and talk to the President of the United States, and then I've got to get on a jet and talk go talk to the Prime Minister of England, the Premier of Germany, and all that stuff. Do you guys do that? So, what nerve do you have of challenging me? It was amazingly affective. He meant it some too, and sometimes he did get a little rough with it. He got tired of hearing some of this stuff. I mean, I might say, I always wondered, do you think at least these speeches they could have varied them a little bit. Almost always say the same thing, what's his name from St. Louis…

Robert L. Hetzel: Yeah, Francis.

James Pierce: You know, take a leak break at that time, you know, everybody go take a leak, then it's, Jesus, heard that the last time. And it was totally ineffective, it was sometime they could get a little grumpy at that, if you're annoyed, it would be no fun.

Robert L. Hetzel: But Burns still got angry with them.

James Pierce: I know.

Robert L. Hetzel: I mean, I talked to Francis.

James Pierce: I know, he'd get real angry at them.

Robert L. Hetzel: And…

James Pierce: And I couldn't figure out what.

Robert L. Hetzel: Because he got tired. He said Burns would call him Sunday morning and chew.

James Pierce: Chew him out.

Robert L. Hetzel: His word, chew my butt off. And you wonder what's the point this guy Francis is sort of a Rotarian type.

James Pierce: I know.

Robert L. Hetzel: He's just reading the speeches the staff gave him. So, why is he…

James Pierce: It was sort of a joke.

Robert L. Hetzel: Why is he so upset?

James Pierce: I don't know. Well St. Louis was…

Robert L. Hetzel: Of course, they were getting publicity.

James Pierce: They were getting a lot of publicity.

Robert L. Hetzel: Yeah.

James Pierce: And there was pressure. For a while I was always seeing computer and research budgets for the Reserve Banks. And there was a lot of pressure to try and cut back on St. Louis, I wouldn't do it. It's funny, Burns never worry you were going do something, but…It was the publicity. And there was this group, you know, lead by Milton Friedman, that...

Robert L. Hetzel: Well, they had their own people who were pretty good at publicity, you know, Leonall Anderson and…

James Pierce: No, right.

Robert L. Hetzel: …and Jerry Jordan.

James Pierce: No, sure, right, right.

Robert L. Hetzel: Those people.

James Pierce: And combined with Milton, I mean that was, the press loved it because, you know, I had once—I always argued that the press could never follow an argument if it had more than one step in it. And the nice thing about monetary only has one step. So, boy is that simple, and they could write about it.

01:02:35

Robert L. Hetzel: Well, if it's a cat fight, they can understand.

James Pierce: No, but they like that, but also see, they could write—they loved a cat fight. But also they could write articles on monetarism, because they were so damn simple.

Robert L. Hetzel: Yeah.

James Pierce: It was this other side saying, you know, it's a complicated world, and you're not looking at everything, blah-blah-blah. Well, that doesn't make good stories. They want stories says all you got to do control money growth when the world is perfect. And so that's why he did it, I think it was the outside, it was giving him criticism. Not within the FOMC, Francis had no effect whatsoever. Because you see, I mean, he just reads the same damn thing over and over again, I guess they change the numbers. The, what was that, oh, yeah, it's coming back to me now.

It cost us some staff time, because they always had some screwy forecast and [unintelligible 01:03:31] adjust these things just like Laurie Pine did, I mean, shifting this way around. Anyway, we'd have to spend staff time worrying about their forecast, and explain to Burns why it was wrong. I mean it cost us quite a bit, just putting up with those guys.

Robert L. Hetzel: All right.

James Pierce: Didn't accomplish anything positive. We were saying the same thing, but in a different way.

Robert L. Hetzel: In terms of Governors and Governors who ended up being on the outs with Burns and maybe how reliable they are. I talked to Sherm Maisel, last time I was here, after I left you, and he told me an interesting story, and I just wonder how reliable it was. He said that in early '72, Arthur Burns was talking to a group of new directors who had come in from the regional banks. And he told these directors, I hope you all understand how important it is to re-elect Richard Nixon. Does that sound like a reliable, I mean would he have?

James Pierce: I don't really know, I never went to those meetings.

Robert L. Hetzel: Oh, I'm sure you didn't.

James Pierce: I wouldn't be surprised if in effect he said that.

Robert L. Hetzel: Yeah.

James Pierce: But I would be very surprised if said it the way Sherm said it. Burns just didn't talk that way.

Robert L. Hetzel: Yeah.

James Pierce: It would be a lot of hyperbole. But he wouldn't say re-elect him. So, maybe to that extent it would be selective memory. It's conceivable, but.

Robert L. Hetzel: Yeah.

James Pierce: You know, you probably remember that, I don't know if he ever used, he always said the President, I don't think he ever said Richard Nixon.

Robert L. Hetzel: No, oh, no.

James Pierce: No. So, I don't…

Robert L. Hetzel: Well he said the Administration.

James Pierce: Oh, yeah, right, right. I don't know.

Robert L. Hetzel: It's important for us to maintain the confidence of the administration, or would say, the administration has a program and Congress has approved…

James Pierce: Oh, okay.

[Crosstalk]

James Pierce: So, here's a different statement. He was—I was never sure how much he cared about this and how much it was, it was just such a great tactic.

Robert L. Hetzel: Yeah.

James Pierce: On worrying about independence.

Robert L. Hetzel: Well.

James Pierce: And we all had the—that's why you always had to have a consensus. You know, Andy, I know you disagree with me 100%, but go with me, because the Administrational will seize on this, Wright Patman will, or somebody…

Robert L. Hetzel: Yeah.

James Pierce: …And we'll lose our independence and that would be bad. And he managed to, okay, create a huge esprit de corps of the directors and Reserve Bank Presidents, and so on, all on the same team, all doing the same thing, right? Protecting the Fed against the world. You know, he'd go to great lengths talking about some stupid congressional hearing where he just knew, but that's all theater too, everybody knows exactly. Because I've been on the other side, I've seen that up front and close. Everybody knows exactly what everybody else is going to say, you say it and move on. The—because you weren't on the record. But he would make the sound as though this was a great greatest threat. Somehow poor old Wright Patman who never affected anything was, you know, the greatest threat to internal stability more than any human being in the whole world. And he would use that. And I think it got everybody on the same page and sort of identified. He, better than anyone, I think understood the political power that came from having Reserve Banks and Directors and all of that. He really understood that.

01:07:32

Robert L. Hetzel: Well, Martin spent an enormous amount of time on the Directors and their selection. So, I think Martin really created…

[Crosstalk]

Robert L. Hetzel: Made him feel part of the family.

James Pierce: Absolutely, right.

Robert L. Hetzel: So, he understood…

James Pierce: Well, maybe that's okay, I stand corrected. I think Martin created it in a large part, and used it in a Martin-esque way. Burns used it in a very positive.

Robert L. Hetzel: Well, he…

James Pierce: They lobbied for him.

Robert L. Hetzel: Yeah, on the…

James Pierce: Just lobbied.

Robert L. Hetzel: GAO audit.

James Pierce: Not only that, but on…

Robert L. Hetzel: On business stuff.

James Pierce: …on anything that covers the proposal is against it on bank bills that Burns wanted, he'd get all the Directors. I mean, tremendous pressure was brought to there. I mean, there was quite a lobbying force, and I just know Martin would not operate that because that wasn't his style. He might accomplish the same thing, but Burns actually mobilized on it. They would get on the phone and they'd call their buddies.

Robert L. Hetzel: Yeah, well we have…

James Pierce: And there's been congressional testimony about this, it isn't just hearsay.

Robert L. Hetzel: Oh, sure it was our—we had a Chairman…

James Pierce: Well, you know about that.

Robert L. Hetzel: …the Chairman on our Board named Lawson [phonetic], he's still around, after the Fed succeeding in killing Patmen's GAO audit bill he said, "It's just wonderful what the Bank of the United States can accomplish…

James Pierce: Right, right.

Robert L. Hetzel: …when they get together."

James Pierce: You know, and these people had to do this. I mean, Burns understood it wasn't just an audit, that's just the first step. And he understood that, you know, the only reason the Fed is independent, is the budget is separate.

Robert L. Hetzel: Oh, yeah. And that's why he hated…

[Crosstalk]

James Pierce: Absolutely, he understood that.

Robert L. Hetzel: That was the first step.

James Pierce: Absolutely.

Robert L. Hetzel: To putting the Fed on budget, and he…

James Pierce: Right, he put the Fed on budget, now you got.

Robert L. Hetzel: You create this presumption that there's a need for oversight and you got a…

James Pierce: No, you can punish them in it.

Robert L. Hetzel: Yeah.

James Pierce: Punish them. Congress can do to the Board, what the Board does to the banks, right?

Robert L. Hetzel: Yeah, I've got a wonderful dialogue between Patman and Wilbur Mills on this. Where Patman is trying to educate Mills on how you can take seigniorages of flow and let the Fed keep its share, or you can just take it as a one-time stock transfer. It's just a matter of accounting, but if you take it as a one-time stock transfer, then the Fed got to come to us for money. And so, the guy may have been idiot, but on this issue…

James Pierce: I don't think he was an idiot.

Robert L. Hetzel: …he was very sophisticated.

James Pierce: He was.

Robert L. Hetzel: He sounded like an economist on this issue.

James Pierce: Some things he had just right.

Robert L. Hetzel: Yeah. I guess he went to his staff and…

James Pierce: Yeah, they were going for it.

Robert L. Hetzel: …staff, you know, yeah.

James Pierce: I don't think he's an idiot at all. He…

Robert L. Hetzel: No, no.

James Pierce: …he got old. And he had some, you know, he's had this hobby horse that, you know, he gets obsessed with things and you lose perspective, but no, he wasn't an idiot.

Robert L. Hetzel: On the Hayes and the Hayes's attitude toward the dollar. In the one hand, it sounds very good when you read his statements, he wants to follow a classic central bank policy, or raising the discount rate, and the bank rate, and the dollar is under attack. But when you read it, then he's talking about a quarter of percentage point. So, I mean, you know, like even if he had—even if Burns had acceded to him, it wouldn't have made any difference. It seems.

James Pierce: I think that's the thing that I think, pleasant is one thing that drove me out of there. He's fight and fight and fight and fight. And then he'd end up with a quarter of business points. Spent a whole week doing this, right? Which is nothing, I mean, it's just zero, right.

Robert L. Hetzel: Well in '71 and '72, it seems like what's going on is that the end in early '71 and early '72, Burns succeeded in pushing the funds rate down so far, but then for the rest of the year, yeah, you feel like you're doing something, because each meeting you're push the funds rate up. But you started with a real rate of interest of zero.

James Pierce: That's right.

Robert L. Hetzel: So, you're so far behind to begin with, that you're overwhelmed.

James Pierce: That's right.

Robert L. Hetzel: But you got this feeling that, yeah, you know, he's giving them something, he's giving this quarter point, but you started in the hole so far.

James Pierce: No, no, absolutely. Right, that's right, that's right. And so, Hayes is saying the right thing, but those orders are small. I mean, if they had pursued what he wanted to do 25 basis point, it wouldn't have made a difference.

Robert L. Hetzel: And Charlie Coombs, he was just finding speculators all the time and didn't seem to be that there would be kind of…

[01:12:11]

James Pierce: Oh, yeah, he was so bad…

Robert L. Hetzel: …how to relate it to monetary...

James Pierce: Must have been related to somebody else doing this someplace. I don't know, he was almost like a caricature.

Robert L. Hetzel: Yet, he was well connected, I mean…

James Pierce: Oh, no, no, no, he was an old style.

Robert L. Hetzel: …he could walk into the Chairman of the office because he was the guy that wanted the BIS meeting and negotiating with the others. So, he was the…

James Pierce: He's like a caricature, a movie guy, I don't know whether went Yale or not, but he's a Yale type.

Robert L. Hetzel: He was the…

James Pierce: And knew everybody in the world, and would all set and kibbutz and everything but he hadn't the foggiest idea of what he was doing.

Robert L. Hetzel: He was a roommate of Kennedy's in Harvard.

James Pierce: Yeah, so Harvard…

Robert L. Hetzel: So he was connected.

James Pierce: …I'm surprised he wasn't at Yale

Robert L. Hetzel: He was conYale usually does the financial stuff. But anyway, it's that approach. I mean, just all you have to do is know a lot of people. And know a lot of inside stories and he regaled people of these stories, I mean Jesus. And I guess there was some influence, indication of his influence. But usually they started with him, he'd give his talk and then he'd leave and then we get the monetary policy. I mean, when he had nothing to do with anything.

Robert L. Hetzel: But yet it seemed very important because he was bringing in this news of…

James Pierce: Well, but it was just such gobbedly-gook, you didn't know what to make of it and they loved, and these guys and Holmes did it some too. They really got off on punishing speculators.

Robert L. Hetzel: Well, that was his thing. Lay a bear trap.

James Pierce: Yeah.

Robert L. Hetzel: That was his, he lived for that.

James Pierce: I know. And now wait a minute. Holmes did it sometimes too. In part, I think to get them a little bit deniability, but probably that was also too, and then these guys were so much in bed. I mean, I was shocked, I was this young kid, I went to New York and I went to a meeting where the New York Fed met with the dealers to talk about things. And I thought now wait a minute, these guys already got so much inside information, you can't believe and I was going to give them some more. I mean bad, I mean you're not supposed to do that. They should have...

Robert L. Hetzel: Well, they were certainly still doing that when I came to the Fed, because I went up there in '78 and every morning they had this meeting with the dealers and they kind of exchanged…

James Pierce: Yeah, exchanged.

Robert L. Hetzel: …information like when all the information's with the Fed. See, you wonder what that…

James Pierce: Yeah, something wonderful exchange, right?

Robert L. Hetzel: Yeah. Wonder what you…

James Pierce: I mean, if I was a dealer, would I go to those meetings? You bet you I'd go. But that was sort of the mentality, right. And so I guess once in a while they had to punish these guys, they made them, several big during the years and they'd take 100 million away from them once in a while just to show that they weren't—it was something like that, I don't know. But it was—all I can tell you during that period.

Robert L. Hetzel: Oh, it was a real problem if the Desk ever behaved in a way that kind of made them lose money kind of by surprise.

James Pierce: Oh, man, that's what…

Robert L. Hetzel: So, you talked about whatever…

James Pierce: …you know [unintelligible 01:14:57].

Robert L. Hetzel: …bloody third. They're all kind of…

James Pierce: I don't know if you're aware of this, but that, and this whole Operation Twist bullshit. The Fed could by long-term, but they couldn't sell. That was just an unwritten law because they might…

Robert L. Hetzel: Yeah.

James Pierce: …and so you will never find an instance where the Feds sold long-term security.

Robert L. Hetzel: That's the New York.

James Pierce: Yeah, and so he never did. And then it's really hard to twist that way. You go straight, you go one direction. But yeah, no and so they would do things like New York would have that kind of influence didn't really matter to me, but other than, I mean, Burns used them too. I mean, sure you had the money in the water, you got this guy come up telling stories.

Robert L. Hetzel: Yeah. I never heard this expression, but somebody used it in talking about FOMC procedures. Where you were trying to say you had money targets and at the same time you were setting the funds rate and he described those procedures as murky wawa. He thought it was a good.

James Pierce: That's a good one, that's right, that was a tough one.

Robert L. Hetzel: Yeah. In early '71, there was a lot of concern about the wages of construction workers and Burns had attached a lot of importance to the repeal of Davis-Bacon and in this…

James Pierce: Fear of cause celeb thing, right?

Robert L. Hetzel: Yeah. And so, I mean, he apparently really thought that was important that there was this psychology that where if one group was getting these big wage gains then that would ripple across to other…

James Pierce: Well, I mean, there was the problem was something too, it's hard to, again, memory say that back then unions were a lot more powerful than they are now. And it's conceivable, I mean, economics eventually has to be the thing that determines. But in short term, you might get some more.

Robert L. Hetzel: Well, I guess it's like what the comment you made with respect to RT, it depends on what you're willing to do with the unemployment rate.

James Pierce: Right.

Robert L. Hetzel: If you're willing to go through a period of establishing credibility, where you say, you know, the unemployment rate goes up, it goes up, we don't care.

James Pierce: Right.

Robert L. Hetzel: Then you can exercise some influence.

James Pierce: Sure.

Robert L. Hetzel: But if you don't want to go through that, then you're forced back.

James Pierce: And this jawboning stuff. So you never got any criticism, and this was during this whole period and I blame liberals a lot for this. Jim told them, you should know better. Always believed in jawboning and somehow, even though, I mean he's a good, he's a great economist.

Robert L. Hetzel: Well, he recently signed advertisement in the *New York Times* for minimum wage.

James Pierce: Yeah, I know, look I don't have any.

Robert L. Hetzel: I think that…

James Pierce: Jim's a good friend, but I just never.

Robert L. Hetzel: I'm mean, they're political too.

James Pierce: Yeah.

Robert L. Hetzel: And it's a little hard to understand, but they want to maintain their credentials as Democrats, and they want to be professional economists, they want it both ways, so.

James Pierce: I know. And so, there was no criticism coming really from anyplace, except some business people. Except Burns was always clever. He wanted to get the Union, they went against it. Well the Unions complained, but. He was trying to talk thing down. There was going to be wonderful if it worked, got to admit, just be a great thing. Work.

Robert L. Hetzel: Well, he must have felt that the Unions were the ones that had sabotaged his plan for reconciling deceleration and inflation with full employment. He didn't believe in the Phillips Curve, he thought he could get it—he thought he could put in place enough different policies and if he had presidential leadership to bring the country onboard, he could show the country how to bring inflation down without a Phillips Curve drop off. And it was the Unions that were in the way.

James Pierce: I always wondered if he just happened to catch it in that phase where prices have gone up and then wages were catching up.

Robert L. Hetzel: Yeah.

James Pierce: And so, it was very much in the interest of business point, if they could just keep those old wages down, then they'd really make some profits, because everybody's got their prices up. If it would have been the other way around.

Robert L. Hetzel: Oh, sure. And…

James Pierce: If wages had moved first and then prices had to rise, would he really have been on those guys not to raise their prices, I don't think so.

Robert L. Hetzel: Well, it's what you say about people's memories and about change in what we think of as a Conservative. But the overwhelmingly, the impetus for wage and price controls came from businessmen.

James Pierce: Absolutely, because they were…

Robert L. Hetzel: Because wages were pushing up, and with the restrict--early restrictive policy, businessmen weren't able to raise their prices.

James Pierce: It was amazing…

Robert L. Hetzel: And businessmen were willing to put up with government regulation if somebody would take care of militant labor. I mean the directors at the Richmond Bank, they were the most pro…

James Pierce: And see, people forget that.

Robert L. Hetzel: …controls and, you know, the whole the country got into this program where the most expensive set of controls out of wartime that you'd ever had and there was almost no conservative opposition…

James Pierce: No, because they had their…

Robert L. Hetzel: …you know, freedom.

James Pierce: I mean it was really interesting that they were willing to give up a lot of freedom in order to keep those profit margins. I don't know, that's right, I mean and that was just a fact. And I think it's certainly, if that had not been a fact, you would never have gotten wage and price controls.

Robert L. Hetzel: Yeah, and that was Connally's political genius that he realized, that he realized that you could put together a coalition. On the one hand, give this businessmen wage and price controls. But the unions, you know, they knew that that would—they'd get the short end of that. But for the unions, you know, give them protectionism, you know, attack the foreigners. And so he was able to put together the surcharge and the wage and price controls and bring together the unions and the businessmen.

James Pierce: Now there's remarkably little labor fighting resistance. Everyone went along.

Robert L. Hetzel: In early '71…

James Pierce: And what we—I mean they stayed within their grounds.

Robert L. Hetzel: Yeah. And ultimately what brought the guidelines down, was that in '73, wages were within the guidelines.

James Pierce: Absolutely.

Robert L. Hetzel: And yet, prices…

James Pierce: How about that?

Robert L. Hetzel: …were double.

James Pierce: How about that?

Robert L. Hetzel: Were double digits and…

James Pierce: That's right.

Robert L. Hetzel: …it turns out that if you control the average cost of business, somehow or other market clearing prices…

James Pierce: Yes, I know.

Robert L. Hetzel: But it's funny how many economists bought into the idea that if you control the average costs, somehow you could control market clearing prices which were determined by marginal conditions, but they weren't. Well anyways, I suspected.

James Pierce: Well, just on one interesting on this wage-price episode. It's one of my favorite bureaucratic stories. They had this huge giant agency out of nothing, right?

01:22:23

Robert L. Hetzel: Yeah, it's.

James Pierce: Well guess, and, and.

Robert L. Hetzel: The Offices of Emergency Preparedness—it was some Army thing to begin with.

James Pierce: Yeah, right.

Robert L. Hetzel: That had been left over from World War II.

James Pierce: And every agency had to send over so many people.

Robert L. Hetzel: Yeah.

James Pierce: Well, we did what everybody else did. I was involved doing this. We found every guy we couldn't fire. Every dog was put out on the corner. At least the Fed was rich so they could put people in corners. We shipped them over there. So, that was the—it was an entire agency of misfits, every one of them. I mean, would you, you know, running an office and somebody says, send me some people. Are you going to send your best people? Of course not. You would send your worst people. But we got rid of some really doggy people, and they ended up making all this, you know.

Robert L. Hetzel: Well.

James Pierce: And then have to explain some of the crazy things that were going on. I remember, I would get so involved in this. No wonder nobody got any sleep. They couldn't do construction, because nobody would make a door because the price of door, I mean, it's like the Soviet Union. And I kept saying it, it made Burns really mad. But, you know, I mean, there's a reason we have prices.

Robert L. Hetzel: But I mean, Burns should have understood that because that was microeconomics, he was good.

James Pierce: Right.

Robert L. Hetzel: And he had written this thing on guidelines and…

[Crosstalk]

James Pierce: He's not allowed to just have these general things. And price levels made up of all these little teeny parts. So you have to—somebody's got to figure out what's the fair price of a door.

Robert L. Hetzel: Yeah, get the relatives.

James Pierce: Right. And if they get along.

Robert L. Hetzel: The relatives still have to be right, even though you get the airman checked.

James Pierce: It's remarkable having to give lectures on constraints. And this thing can be a little tiny. You know, like my kingdom for a horse, like. You can't build a house without doors, so if you get the doors wrong. And that's what happened.

Robert L. Hetzel: Because that was more, wasn't that more '73…

[Crosstalk]

James Pierce: Well, because it, you know, initially it didn't make any difference. Well, you know, for a while our prices were about right.

Robert L. Hetzel: Yeah, because the policy being…

James Pierce: But of course, it's all in the report.

Robert L. Hetzel: …had been restricted.

James Pierce: But these guys, this crack staff they had, it didn't occur to them that they're going to have to, I mean, these people, just terrible. They have to worry about such things. Wage and price controls got in the way of energy, I mean, it couldn't get stuff built. But, you know, just all kinds of problems.

Robert L. Hetzel: Well, that went on until the early 80s.

James Pierce: Yeah, yeah.

Robert L. Hetzel: In fact, California still has these windmills that you've got to buy energy from. And then all those were after the fact that we had wage and price controls and…

James Pierce: And investment type spending got abused, and I have a friend made a zillion dollars being an attorney setting up all these deals. But a lot of windmills.

Robert L. Hetzel: In '72, and especially in the, well, after the wage and price controls are put into place, in '72 when money growth is so high, especially after July. Burns was telling the FOMC that you can't raise interest rates because if you do that, he won't be able to get the kinds of guidelines for wages that he wants.

James Pierce: I was going to say, he owned that one up.

Robert L. Hetzel: It's hard, you read that, it's hard to know how important that is and how important it is for him to remain his, whatever we talked—the argument we talked about earlier retain the confidence of the administration. Remain a player within the administration…

James Pierce: Well, I think you're still misinterpreting. When he was doing that, that was no different from saying, I got to go meet with the head of state. Here I am, you guys don't have problems like this. All you do is clear checks and talk to business people. I had the weight of the world on my shoulders.

Robert L. Hetzel: Yeah.

James Pierce: And I defend—I have to try to keep interest rates under control, you know, and get the whole wage price thing, and you're going to cause me problems. Don't do it! That's what he's saying.

Robert L. Hetzel: Yeah, just let me run it.

James Pierce: Let me run it. Because and he's evincing all the influence that he had. In this case, he used to used that damn interest rate things to drive you crazy. He wouldn't hold that argument out. He didn't give a damn about it any other time, just when somebody wanted to raise an interest he didn't want raised. I'll give you some idea, I mean, typically when Burns went into something, you know, we got the best staff and we work on, you know, and this one, I don't even, I don't know who the hell worked on this. I didn't, I had nothing to do with [unintelligible 01:27:09]. But Arthur, he cared, it was way he had influence. It wasn't like a meeting of fiscal policy, where he cared, you know, where he had to actually to act with martial arguments and split hairs, he just never. But that's how I would interpret that law.

00:40:06

Robert L. Hetzel: Yeah.

James Pierce: You know, but it had the same effect, which was to keep them from raising interest rates.

Robert L. Hetzel: I'd like to. I'd like to ask you about a period after the wage and price controls. My reading, that period is that well, before the controls, you were having very high money growth, double digit. With the controls, then money growth falls and my reading of that is that inflationary expectations fell. So, with the given funds rate, the real rate of interest rose.

James Pierce: Well, first of all, for a while wage and price controls were working. So that, remember money was demanding in terms of setting an interest rate.

Robert L. Hetzel: Right, yeah.

James Pierce: And with growth and nominal spending, much lower than it was before, you got less money growth, I mean, it's just arithmetic.

Robert L. Hetzel: And initially, during…

James Pierce: And of course the real interest rate did. In fact, there's one issue I use on my students. There was a freeze, right, for 30 days or something, I can't remember, Nixon announced it.

Robert L. Hetzel: Right, 90 days.

James Pierce: Ninety days. The bill rate fell exactly. I mean, I was—you talk about a perfect example, that next day, it fell by exactly that amount. Because with certainty you knew prices. I mean, you want to know can't people take care of inflation expectation. Well, look what happened to the 90 day bill rate.

Robert L. Hetzel: Yeah. I mean initially, Burns argued that the FOMC should be very careful about lowering the funds rate, because he said I'm going to have to raise it again next year, and I don't want to lower it too much right now. But that all turned around as the fall went on and I have some incredibly nasty letters that Nixon sent to Burns during this period. So, Burns was under a lot of pressure from.

James Pierce: The administration policy.

Robert L. Hetzel: Yeah, absolutely. Then there was a series of meetings well, the December 1971 and then in January…

James Pierce: It was not that way.

Robert L. Hetzel: Early '72.

James Pierce: See, how we blame Burns, I always figured as Burns as wanting Nixon want to get all of the votes. Nixon wanted all the votes and was trying to get them out of Burns, okay.

Robert L. Hetzel: Yeah, well. If you're interested, I could send you some…

James Pierce: Yeah, I'd like to see those.

Robert L. Hetzel: …some of these letters.

James Pierce: Yeah, I'd like to see that.

Robert L. Hetzel: Yeah. They must have been written by Nixon, because they're rambling, they go on and on and on about the New York bankers and how they tried to sabotages. About, you know, we can't retrieve 1960 again. I mean Burns, I mean Nixon—this whole story about how Burns thought he lost the election because of the Fed, and because of Martin, he really believed that.

James Pierce: Right.

Robert L. Hetzel: And he wasn't going to, you know, he wasn't going to let that happen. Again, that's not made up. So, at that point, the FOMC had these procedures where you would set projections for money growth, and then change the fund's rate when money deviated.

James Pierce: Yeah, how many, I can't remember, how many monies did we have back then?

Robert L. Hetzel: Well, they looked at M1 mostly, and then some M2. And the December meeting, I mean, most the staff was predicting that the fallen interest rates would cause an upsurge in money growth in the first quarter. And a lot of the FOMC members signed onto that. And you were getting high M2 growth as of November and December, '71. And M1 growth was picking up and it was coming in above the projection so, if the Desk had done anything, it should have raised the funds rate, lowered the funds rate. So, Burns was departing from the agreed procedures and at the December meeting, the Smithsonian agreement had just been passed. And the New York Bank took that very seriously, and the idea was with the Smithsonian agreement, that now this outflow of funds from the US to Europe, that would be reversed. That those funds would come back now. And but then it didn't come back, and but New York wanted to have rates in the US higher than the rates in Europe so that would happen. At the same time, the Board of Governors had right before the December FOMC meeting, had reduced the discount rate. And the directors at the New York Bank hadn't gone along with that. Something they had done under Martin and had gotten away with. But so…

James Pierce: Kind of a perk.

Robert L. Hetzel: Yeah. And at the December meeting they had a special session after the meeting to talk about the discount rate. And that's not recorded in the minutes, but I assume Burns laid down the law and said, look, you know, if we have a discount rate reduction, you know, you're going to have to follow it because this looks like dissention in the system. I'm just inferring that…

James Pierce: I don't think I went to that meeting

Robert L. Hetzel: Okay.

James Pierce: I don't think...

Robert L. Hetzel: Then the most contentious meeting.

James Pierce: If I do, I know what you're talking…

Robert L. Hetzel: No need to record me…

[Tape stopped]

James Pierce: And you can find the minutes. I and some other people were just uninvited to the FOMC meeting. Taken off. And I think it was during this period—so I don't have knowledge of this.

Robert L. Hetzel: So, the.

James Pierce: I'm almost sure this was the period, it was so embarrassing and amazing.

Robert L. Hetzel: The most contentious meeting, that January meeting that gave rise to the…

James Pierce: I don't know, I wasn't there.

Robert L. Hetzel: There, in that meeting, there are a lot of appeals that we just talked about supporting the policy in the United States which is also the policy in the administration and the government.

James Pierce: See, and that one I wouldn't have, since that happened so often. I wouldn't have any specific recollection. But there was an interval then, Sam Chase and I and I forget some other people. It was just really restricted and, you know, I don't know why. I mean a little [unintelligible 01:34:32].

Robert L. Hetzel: Okay, so for that.

James Pierce: I think so.

Robert L. Hetzel: Period end of '71, early '72.

James Pierce: I think I wasn't there.

Robert L. Hetzel: Although then…

[END TAPE 6, SIDE B]

[START TAPE 36, SIDE A]

[01:34:35]

James Pierce: …was in awe that he got away with that. That's not the one where we had to have four alternatives in the Bluebook, but he actually…that amazed me. Yeah, I remember that.

Robert Hetzel: A few people, several people dissented. I think that was probably a record.

James Pierce: [unintelligible 01:34:51]

Robert Hetzel: There were three dissents. On the other hand, but what [unintelligible 01:34:55]–

James Pierce: [unintelligible 01:34:56] sat there with your mouth open, yeah, yeah. Yep, I remember that one.

Robert Hetzel: And then as we said, it was the classic situation, where the funds rate was down like 3.5%.

James Pierce: I just can't remember.

Robert Hetzel: And then by the summer they'd worked it back up to 5%, but then you got into the pre-election campaign–

James Pierce: Right.

Robert Hetzel: And then Burns ordinarily was willing to work the funds rate, move the funds rate. It's just that he didn't want to move it very much. But as of July, when money growth really took off, he wasn't willing to move at all. So from then on, and the election, the funds rate stayed at 5%, or maybe it went to 5.25%.

James Pierce: That's right. That's right. [Unintelligible 01:35:38]

Robert Hetzel: Eventually– Yeah.

James Pierce: [Unintelligible 01:35:40] Well, no, nice way to get really fast money growth.

Robert Hetzel: Well, he wanted 6% and one growth, and so did Shultz, which seems high, in retrospect. It seems odd because you were getting 3% velocity growth, but–

James Pierce: Was this the Laffer thing? This was probably the Laffer thing.

Robert Hetzel: No, the Laffer thing came in late '70, this 1065 GNP growth, and there was the big thing, was the board staff going to forecast 1065 GNP growth?

[Break in recording 01:36:29]

–interest rates and dividends, and it had nothing to do with–

James Pierce: That's the motives. I mean, it was also this remarkable coincidence that prevailing interest rates were going up, gave you some pretty rapid money growth after a while, I don't know. It doesn't matter how you want to interpret what he did. On paper, in words, he said, you know, he had to worry about his interest rate committee and all that stuff, but there was this very high correlation.

Robert Hetzel: Okay. Let me just finish up. Let me ask you just one more question and then I'm going to work through the labor period, and maybe I can talk to you again. Monetary policy did become restrictive again later on. It looks like in '73 it went back to 1970; it went back to the gradualist policy, and then in in '74 - at least after the last half of '74 - it went back '69. It went back to the 'cold turkey approach.' Was it because Burns kept a consistent way of looking at the world, and he just saw the objective conditions around him changing and thought that there was an inflationary boom in investment going on that had to be controlled? He saw profits rising and taking off and he thought, well, you know, as part of this consistent policy, sometimes you stimulate and sometimes you have to be restrictive to keep things from accumulating and getting out of control. So nothing with policy changed, but nothing within Burns' framework changed? Or do you think that he got burned by the inflation and did change his attitude somewhat? Or was there a change in the political situation? How did you work through these things? Of course, forget about ’77 when you come back out the other side.

James Pierce: You’re talking about ’74? That’s OPEC.

Robert Hetzel: Yeah, well, I’m talking about the last half of ’74, of course, was when policy was really restrictive.

James Pierce: Right.

Robert Hetzel: And the first couple months in ’75.

James Pierce: I think it was probably all of those things. In my lifetime, I think that – at least adult lifetime – the U.S. economy never had a shock like that. And it just wasn’t at all clear what to do. And so a lot of confusion. I think Burns was smarting from criticism of helping Nixon, and he sort of got so blatant there at the end, right? You know, I’m sorry you got those letters from Nixon, but boy, you sure jumped. A lot of criticism, and I think quite justified. I think he was smarting from that. Obviously the wage price thing was not wonderful. I just never knew where the man was coming from. For a while there he was saying money can’t grow faster than 6%. Very…Certainly there’s evidence I think you can control it if you want to. That was the time when Holmes was just coming to Washington every day to make sure he did his job. I can’t say the motives. I think during that period– For all you talk about his knowledge of microeconomics, which I guess was there, but so, a lot of confusion about economics. I think just simply a constitutional inability to question stop-go type policies. It’s back to this interventionist stuff, you know? We got this shock, we’ll show them.

[01:40:49]

Robert Hetzel: We talked about that before.

James Pierce: Right. And I think that was a lot of it. None of us talked about– a shock like OPEC, it’s really a shock to the level of prices, and if you don’t continue to underwrite it you’re okay, but you’ve just got to live with those higher prices unless you’re willing to force all of the price adjustment on every other price. If you’re willing– you know, you’d have to deflate the economy horrendously to do that, and so to underwrite that kind of inflation – it really wasn’t underwriting inflation – it was underwriting something somebody just cut some of our resources, and relative prices had to change. Well, he didn’t want to hear that argument. He said, well, inflationary expectations and blah, blah, blah, and you say, well, not if you tell people what you’re doing, and why. But he wouldn’t do it. The Japanese did a better job during that period, I think, than we did. I mean, they just put up with higher prices and that was the end of it.

Robert Hetzel: Well, they put in, in effect, the restrictive monetary policy would be continued, but–

James Pierce: No, sure, but I mean they didn't underwrite– They essentially countenanced or just accepted the higher level of prices, but then no more money growth. That's fine. That's what we were saying we ought to do. Or at least that was a– do it, but you needed credibility. And see, I think this was so much– nobody used those words back then, because the Fed had lost its credibility. It was much less able to do things, but what it did was just confused. And I don't know what to say other than that. I mean you just knew, if the Fed came down extremely, quite harsh, because you know, interest rates were high as well. Money growth was low, but– well, that was another conflicting thing. Go back and look at it. Real money growth fell a lot. But you look at real interest rates, the real fund rate was negative. I mean, I thought which one, is it tight or is it easy? See, this is why it was such a confused period. We had never–

Robert Hetzel: That's right. That's right.

James Pierce: Right, I mean, this was not easy.

Robert Hetzel: Yeah.

James Pierce: And a lot of hindsight was on this baby, but nobody– boy, we'd never seen anything like this. Nobody had seen anything like this, and anybody who said they knew what they were doing, you didn't want to listen to them. A lot of confusion. But common sense tells you– take the obvious things, like this price level thing. Everybody agreed on that. Even Allan Meltzer, you know, he was on our side on this. But don't underwrite the inflation, which means there's going to be some unemployment. You can't avoid that. I mean, good luck. But he just kept talking and pushing expectations. That's about all he had.

Robert Hetzel: Yeah, well–

James Pierce: And then of course he couldn't maintain it. I–

Robert Hetzel: He thought– I mean, I remember our president said that he'd say, 'Well, the problem's not money - the problem is oil.' So when he really...

James Pierce: Well, he had that part right. Well, actually he didn't have it right. If we hadn't had the inflation, it's unlikely we would've had the oil, that's number one.

Robert Hetzel: Right. But he may not have thought– Part of the implication is he didn't think that the recession was due to monetary policy, that it was just the oil price shock, and that–

James Pierce: Well, and there was some real havoc.

Robert Hetzel: Yeah. Well, sure.

James Pierce: So in that sense he got the story right.

Robert Hetzel: Yeah.

James Pierce: But the nominal magnitudes make a difference in the short run, and there he didn't quite have it. But I must say in his defense, during that period, remember that we had these conflicting signals. Interest rates said monetary policy is incredibly easy. Money growth says that it's really tight. Now which one was it?

Robert Hetzel: Yeah. When you talk to someone like me or somebody like Gramley, you may disagree with them, but as an economist you know where they're coming from. You say, oh, you know, I'm a quantity theorist and you're IS-LM, but when you talked macro with Burns, you said his motives were unclear.

James Pierce: I don't think he had a macro theory.

Robert Hetzel: When you talked micro with him, you knew the framework in his mind. I mean, you know, supply-demand, but macro–

James Pierce: Well, at that level, yeah. I mean, you know, investment tax credits, you could do that one, but you have to realize then that–

Robert Hetzel: But you never had the sense that you were talking to somebody as a professional colleague, that this is an economist, and I may disagree with the model, but I know the model–

James Pierce: No I didn't. No. No.

Robert Hetzel: –and I can argue model-to-model.

James Pierce: I must say, I'm sorry to say it. When I met with him I never really had a feeling I was talking to an economist. I just didn't. He was trained so long ago, and I don't think he was all that good to begin with. No. Look, Milton Friedman and I really have big disagreements, but boy, there is a great economist. That's an economist.

Robert Hetzel: Yeah. Well, Burns' career peaked at the end of the '40's, so–

James Pierce: Yeah. But I mean when I talk to other people who–

Robert Hetzel: Public policy was a rebirth–

James Pierce: –are really trained, well-trained in economics, if you want to say Well, the Fed and micro-economics, those guys would know about that door.

Robert Hetzel: Yeah. Everybody.

James Pierce: Yeah, I mean, it's sort of Econ 1, but it's there. He knew data. I think that's a better way to describe him. And sort of made a career of knowing data. He eschewed theories. He didn't like theory, which meant that he had no– I mean it was just stupid. I mean, he was a smarter man. I think maybe he just felt inadequate, or what? But you've got to have some framework for God's sake. You just can't wallow in data. But because I think he lacked some kind of theoretical framework he didn't have that discipline.

Robert Hetzel: Maybe the framework he had, the NBER, the Mitchell Framework, it wasn't the good framework. And he never had–

James Pierce: Well he had measurement without theory. That's correct.

Robert Hetzel: He never had the willingness to jettison all that and say I'm going to use somebody else's–

James Pierce: Right. Well, no, but he felt perfectly secure in taking whoever's theory happened to fit what he wanted to do.

Robert Hetzel: Yeah, well, that's where we started talking last time.

James Pierce: Yeah, and I think it's right. So I wouldn't put a lot of significance in it, other than that theory was congruent with what he wanted to do.

Robert Hetzel: I mean, this is what we said last time. If you view yourself as making policy period by period, no economic policy is going to tell you what's going to happen next month, and what you need to do to affect things next month. But if that's your framework, then economics doesn't tell you anything. So you're all back to intuition and feel, and Burns thought he was great at it.

James Pierce: And I must say, I mean, that was a great problem. Lyle was better than the other ones, but the staff came from that era, and they wallowed in data. And they kept talking about something leading in another one and all that, and you say, oh yeah? Well so what?

Robert Hetzel: Yeah.

James Pierce: And so he was getting a lot of that from the judgmental guys. And I was sort of in the middle.

Robert Hetzel: Yeah. Today, he's a business economist. He didn't go back to academia.

James Pierce: Well, no, he couldn't. Maybe a business school, but no. And Lyle's got great instincts, but he's not well trained. But he's a decent economist. But Partee also, they used to call themselves business economists, which just meant they didn't know anything about economics. And Partee really never understood any of this stuff, but he was a smart man, so he'd listen anyway. So I don't know. Burns had no overarching theory, and – I'd forgotten about this, but – for all his arrogance, I'm sure when the staff met with Alan Blinder, they knew they were talking to an economist, right? Now maybe an economist who he thinks he knows more than he does, but there's an economist. You never had that feeling. You were talking to a politician. You're talking to a manipulator, to a man who's somehow on a different level -- plane, doesn't have to be affected by economics, you know?

Robert Hetzel: Yeah.

James Pierce: And so–

Robert Hetzel: And that's just one input for him.

James Pierce: –he had very little–he never–it's interesting. Most economists will ask, well, why is that? They're full of why's. It's just how we operate. He would only ask why if he wanted to have an answer for a political argument; Congress or a meeting with the administration. And as I say, we'd have these sessions, and I could tell him why he was wrong, and he wanted to hear that, not because he was going to then do what I think was right, but he wanted to hear the argument, and he wanted to hear it from somebody who'd give him the baddest time you could think of, so then he'd be ready. And he was. I mean, he was always ready for those– If he'd spent as much time trying to do monetary policy right as he did all this other crap, he'd have been pretty good. Anyway... And I think that's consistent throughout. And you'll see it in the minutes, so he was consistent in that. His policies weren't consistent, but his approach…

[END OF RECORDING]