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Interview of Lawrence Roos

Conducted by Robert L. Hetzel

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Robert L. Hetzel: …or you joined the…

Lawrence Roos: I was president of the St. Louis Federal Reserve Bank from '76 to 1983.

Robert L. Hetzel: Hm-hmm [affirmative]. And you were city manager of St. Louis before that or?

Lawrence Roos: No. I was the county executive, the chief elected official of St. Louis County, which is a county of about a million people.

Robert L. Hetzel: Okay. I came in '75, so my recollection of that—I remember your appointment, but, you know, I didn't remember all the details, so.

Lawrence Roos: I had been a commercial banker prior to that.

Robert L. Hetzel: I see. And that's why some of the directors recommended you to replace Darryl Francis; it was your background in commercial banking primarily?

Lawrence Roos: Well, I had a rather positive image as a civic leader. I'd been involved in a lot of... My political or official experience was essentially (Tape skips 00:01:16) type of endeavor rather than the typical political thing. (Tape skips 00:01:23) the integrity and the efficiency of an emerging county government, and I think I stood pretty high in public esteem at that time and, therefore, (Tape skips 00:01:39). But I—certainly my commercial banking background was a (Tape skips 00:01:41).

Robert L. Hetzel: (Tape skips 00:01:43) ...on a list that the directors were looking at in their recruitment, I suppose.

Lawrence Roos: Yes, they had a list. I was on vacation, and I received a call asking from the Chairman of the Board of the St. Louis Fed whether I'd be (Tape skips 00:02:00) to them about becoming president.

Robert L. Hetzel: Hm. That must have been a surprise.

Lawrence Roos: It came out of the blue.

Robert L. Hetzel: You'd never been a director of the St. Louis Bank, had you? I mean, you'd never been on the Board.

Lawrence Roos: No.

Robert L. Hetzel: Hm-hmm [affirmative]. So, you must have had a crash course in a lot of different subjects including monetary policy.

Lawrence Roos: No question about it. And fortunately, the bank at that time and before that time and since that time has been known for having a rather—having an excellent—even though people may have disagreed with philosophy— (Tape skips 00:02:52) of importance in economic research. And the research (Tape skips 00:02:56) is really competent, and still is, in my opinion.

Robert L. Hetzel: Yes that's for sure. So, Anatol Balbach would have been the primary person?

Lawrence Roos: Balbach was the Chief of (Tape skips 00:03:11) throughout my seven-year tenure.

Robert L. Hetzel: Hm-hmm [affirmative]. So you jumped right in to FOMC meetings just as a politician who'd been in lots and lots of meetings; what were your initial impressions of the way Burns ran a FOMC meeting? Did it seem—well, I don't know what questions...

Lawrence Roos: Well, Arthur Burns was a very strong personality as an individual and a (Tape skips 00:03:45) persuasive both within the FOMC and (Tape skips 00:03:50). His image was one of a strong inflation fighter, but his policy let, or at least contributed to, high inflation. And we at the St. Louis Bank (Tape skips 00:04:07) from what was the popular point of view at that time, because we felt we (Tape skips 00:04:13) good deal of emphasis on money supply growth, and money was growing very quickly. The St. Louis Bank had a strong monetarist flavor,—

Robert L. Hetzel: Sure.

Lawrence Roos: —and we were dissenters on frequent occasions.

Robert L. Hetzel: Well did you have a sense of what Burns thought caused inflation? He thought it was cost push, labor unions and kind of monopoly power, and there wasn't a lot the Fed could do unless it was willing to tolerate high unemployment. He just didn't, you know,—he thought monetary velocity was so unstable that money really wasn't that significant.

[00:04:48]

Lawrence Roos: Oh, I think that—I admire Arthur Burns as an individual, but I think that he was somewhat (Tape skips 00:05:08) that were interpreted as being strong anti-inflation. But policy was inflationary. I think the results indicated that.

Robert L. Hetzel: Hm-hmm [affirmative]. Well, initially in 1976, that was the last year of the Ford administration, monetary policy was fairly restricting money growth, it was variable, but it wasn't all that high. So, I presume, initially, St. Louis didn't have that many disagreements with Burns, at least your first year?

Lawrence Roos: Well, again, I'm not evading your question, but I really don't recollect—

Robert L. Hetzel: Yeah.

Lawrence Roos: —when we dissented and when we didn't. But traditionally, I think the St. Louis Bank was, and I believe still is, strongly anti-inflationary in its policy.

Robert L. Hetzel: My recollection from the time was that monetary policy became expansionary in '77, the first year of the Carter administration. That's when we became concerned that the Federal Reserve System wasn't willing enough to raise the funds rate. And that turned out to be Burns' last year as chairman. Of course, he didn't know that. He was up for re-appointment in December of that year.

Lawrence Roos: Right.

Robert L. Hetzel: Do you remember having any disagreements with Burns in the last year of his, you know, when he was chairman?

Lawrence Roos: The FOMC?

Robert L. Hetzel: Yeah.

Lawrence Roos: I really don't recall.

Robert L. Hetzel: Hm-hmm.

Lawrence Roos: I know that we felt that policy was inflationary.

Robert L. Hetzel: Hm-hmm.

Lawrence Roos: I'm sure we expressed that (Tape skips 00:07:08).

Robert L. Hetzel: (Tape skips 00:07:10) remember perceiving any change between '76 and '77 when—

Lawrence Roos: No. I don't—

Robert L. Hetzel: —Ford left and Carter—

Lawrence Roos: (Unintelligible 00:07:18) recall precisely—

Robert L. Hetzel: —came in.

Lawrence Roos: I really don't.

Robert L. Hetzel: Hm-hmm. Well what about-what were your general impressions of Chairman Miller? He came on in February, '78. So that would have been your third year.

Lawrence Roos: I felt that he was (Tape skips 00:07:40) a strong chairman. He was somewhat (Tape skips 00:07:44) to be—I don't think that he was a—I wouldn't put him in the same category of expertise as a…(Tape skips 00:07:55).

Robert L. Hetzel: Hm-hmm. At the time, did you feel like he was primarily reflecting administration views? Or did you feel like he was…

Lawrence Roos: Oh, I think he was, yes.

Robert L. Hetzel: Hm-hmm. Did you have a feeling by the end of his tenure, middle of '79, that the regional bank presidents were splitting off from the Board and from the…

Lawrence Roos: (Tape skips 00:08:20) remember that. I think there was always a (Tape skips 00:08:25). One of the things that impressed me was the fact that the regional bank presidents did not caucus, did not get together. They were an independent thinking lot. And there really wasn't a position by the Reserve Bank presidents at any time during my tenure.

Robert L. Hetzel: Well that would have been considered, you know, especially by Burns, that would have been considered unexpectable-unacceptable, right, for the presidents to get together—

Lawrence Roos: I can remember—

Robert L. Hetzel: —and come up with a common position.

Lawrence Roos: —on numerous occasions having dinner with several of the presidents the night before FOMC meetings, and we never—underscore never—discussed what our policy position was going to be the following…

Robert L. Hetzel: Did the secretary of the FOMC, I guess it would have been Art Broida then, did he ever call around before FOMC meetings to try to get your opinion on subjects or how you felt?

Oh, we use to have, as part of the FOMC process, each Reserve Bank (Tape skips 00:09:42) the bank or the research directors (Tape skips 00:09:49).

Robert L. Hetzel: …have an impression of who the most influential and articulate members of the FOMC were apart from the chairman; were there people who stood out?

[00:10:00]

Lawrence Roos: Oh there were for any one of several reasons. Some of them were (Tape skips 00:10:07). Some of them were obviously, or at least apparently, interested (Tape skips 00:10:13) independent we arrived at point of view.

(tape changes volume)

Lawrence Roos: No. We were known as the maverick bank.

Robert L. Hetzel: Yeah.

Lawrence Roos: We said it as we saw it, and if it upset a chairman, so be it. We were interested in what we thought was best for the economy.

Robert L. Hetzel: Yeah. I remember, you know, Jim Parthemos's, Bob Black's impressions of people, and I had the impression that you never really became part of the clubby Fed environment, that you always maintained an independence that was…

Lawrence Roos: (Unintelligible 00:10:58) struck me as interesting, how many—maybe this was just to be nice—but how many of the other guys, after they had disagreed with our position—after the meetings would come up and say, you know, "I really was impressed by your point of view, but we couldn't go along with it."

Robert L. Hetzel: Why? Because they were more concerned about unemployment? Or they were sensitive to the—

Lawrence Roos: I think some of them were concerned about their own reserve bank budgets. They wanted to be on the right side of the chairman and the board. You know, I mean, there was politics in the open market committee, just as there is in every aspect of life.

Robert L. Hetzel: So individual bank presidents, perhaps including Richmond's at the time, would be willing to push an independent point of view, but not to the point where they would take the chairman on directly—

Lawrence Roos: That's right.

Robert L. Hetzel: —for a variety of reasons, one being that they had a very large organization to run, and they had to get along. There were pressures to get along.

Lawrence Roos: Some of the presidents were career presidents. The Federal Reserve Board in Washington has the option of vetoing—I have the, you know, of making life miserable for a president who didn't go along with the party line. I had the good fortune of having had, first of all not depending financially on my job and never considering that mine would be a career—a long-term career situation. I had a, I think, a—I stood in the support and esteem of most of the St. Louis community, and I just didn't have to worry about whether the chairman liked me or disliked me as being a factor in whether I could send my kids to college. You know what I'm trying to say.

Robert L. Hetzel: Oh, yeah. People are human, and they—

Lawrence Roos: But I—

Robert L. Hetzel: —have a variety of concerns that they have, you know, that they take in to account, say, running a big bank. And I think it's a fact that some presidents were concerned about their salaries. It was a time of inflation and, you know, they have problems like the rest of us.

Lawrence Roos: Right.

Robert L. Hetzel: Yeah. I remember a speech, in fact, I was there, you gave at CATO at the end of your tenure, that was 1983. And it was quite an independent speech, it was quite critical. In fact, it was one of the most critical speeches I've heard. It was pretty insightful, too, of the FOMC procedures.

Lawrence Roos: (Unintelligible 00:14:05).

Robert L. Hetzel: And I remember thinking that that's, you know, that was not a speech that could have been written by, you know, a staff member, and, you know, at most—

Lawrence Roos: (Unintelligible 00:14:14)

Robert L. Hetzel: —Federal Reserve banks and past up.

Lawrence Roos: But this was a tradition of the St. Louis Bank—express what it thought was a proper point of view and let the chips fall where they may. Darryl Francis did that. I mean, this was almost... And the directors of St. Louis Bank encouraged an independent point of view being expressed.

Robert L. Hetzel: Yes. That's very important having directors who will stand behind you and who are kind of willing to push for discount rate increases, maybe when it's not the popular thing to do. I mean, Darryl Francis just had an independent sort of personality, though. I mean, didn't let Arthur Burns push him around. It was just basically his personality, right? He came up within the system.

[00:15:07]

Lawrence Roos: Well, of course, I believe that the system was originally conceived of where you'd have the Board of Governors and then 12 independent banks expressing their own independent points of view. But, you know, I think that was what it was originally intended to do. But like any organization, you have different degrees of determination on the part of the participants of whether or not they're willing to rock the boat.

Robert L. Hetzel: Sure. Sure. Do you remember impressions of the other governors; do you remember Volcker being at all articulate while he was…

Lawrence Roos: I think Volcker was a brilliant chairman. Yes. I think very knowledgeable, very articulate, and very effective in getting a majority of the open market committee to support his points of view.

Robert L. Hetzel: But you'd seen him for a couple of years before he became chairman; where you surprised at the amount of leadership he exerted when he became chairman, or…?

Lawrence Roos: I think he was always a fairly strong personality.

Robert L. Hetzel: What about before Fall '79; were there other governors who were concerned about inflation, or was that a religion they got after inflation-after the high inflation of 1979? Governors like Wallich and Gramley and Partee, who later supported Burns. They weren't particularly hawkish before '79 were they? Or am I mistaken?

Lawrence Roos: I really, honestly, my memory doesn't serve me to the extent of—I could say generally that there were—I can't name them—there were some governors who were more hawkish than other governors.

Robert L. Hetzel: Coldwell, perhaps?

Lawrence Roos: I honestly—

Robert L. Hetzel: Yeah.

Lawrence Roos: —and I'm not being evasive.

Robert L. Hetzel: No. No.

Lawrence Roos: I don't remember.

Robert L. Hetzel: Sure. Sure. Well, it's been what, a decade, since 1983? A little more?

Lawrence Roos: You know, you could probably get better information from Ted Balbach if you were able to find him.

Robert L. Hetzel: Yeah. I'll give him a call, but—

Lawrence Roos: Because he'll remember specifics better than I.

Robert L. Hetzel: Oh sure. But everybody had different impressions.

Lawrence Roos: Oh sure.

Robert L. Hetzel: And, you know, it's just fun to get down. As I say, I'm interested in history, but you go back and you think you've got things figured out, but really, you know, it more complicated than you thought, and…

Lawrence Roos: But one of the impressions that I had as a non-economist was that really the world places much more emphasis on what happens at particular open market committee meetings than is really merited. We would spend hours and sometimes days arguing these things and come up with a product that involved maybe a quarter of a percent move one way or the other, and targets, which targets were never met. I mean, it was almost—it was like a, in my judgment, monetary policy making was frequently like an elephant giving birth to a mouse.

Robert L. Hetzel: Yeah. That was my impression—one of my first impressions when I came here, that the chairman could control the format of the FOMC meetings, he could control what you talked about. And if your only choice was to snug up a little bit or ease off a little bit, you know, you were really restricted in how much influence you could exercise, even if you could talk indefinitely.

Lawrence Roos: I mean they'd move the targets, the monetary growth targets, maybe an eighth or a quarter of a point, and then they'd never come close to hitting those targets.

Robert L. Hetzel: Sure.

Lawrence Roos: So it was really a gigantic effort. And there's still this mystique about, you read in the financial journals, that the important Open Market Committee is going to meet next week. And everybody waits breathlessly and very little usually happened.

Robert L. Hetzel: Yeah. Although, when Volcker became chairman, there was a period of a couple of years where that was not the case. It must have been an exciting time.

Lawrence Roos: It was.

Robert L. Hetzel: The early '80s.

Lawrence Roos: And Volcker, of course, did, at least for a while, switch from targeting interest rates to targeting money growth, which was a major change. Do you remember?

[00:20:10]

Robert L. Hetzel: Oh, yeah. Do you remember the October 6, 1979, meeting where you changed the procedures,—

Lawrence Roos: I remember it.

Robert L. Hetzel: —the Saturday meeting?

Lawrence Roos: That's the one prag-then pragmatism set in again, I think, you know.

Robert L. Hetzel: Well, the Fed came under enormous pressure in 1983. Congress came pretty close to changing the Federal Reserve Act to make it explicitly target interest rates and GNP and…

Lawrence Roos: Oh this is a constant threat, and it's used constantly as an excuse by monetary policy makers not to make tough decisions, because if we do they may take away our independence. And my argument always was what's the use of being independent if you're not independent? (Unintelligible 00:21:03).

Robert L. Hetzel: Absolutely. But, as you say, you know, people think about this decision and they think gosh, well there's lots at stake here, you know. Lots of people work for the Fed, and we need to keep the organization going so it-people…

Lawrence Roos: Well that's rationalization.

Robert L. Hetzel: That's rationalization.

Lawrence Roos: My own personal feeling is that—

Robert L. Hetzel: People would call it pragmatism.

Lawrence Roos: —Congress is very reluctant to take away the so-called independence of the Fed, because the Fed's always a handy target when things don't go right. It's better to criticize than to have part of the responsibility.

Robert L. Hetzel: I think that's right, especially in the first half of the '70s, I think that really the Fed could have been pretty independent, and Congress was not willing to mess with the Fed. There was very little explicit legislation in the wings. But, at that point, the Fed thought we should target unemployment, and—

Lawrence Roos: Yeah.

Robert L. Hetzel: —what they got was inflation. Do you remember when Volcker first became chairman, in particularl, the early 1980s, the credit controls, for example; do you remember anything about, say, about the credit controls, Volcker's attitude toward them?

Lawrence Roos: I remember when Bill, wasn't Bill Miller, wasn't he chairman when they tried to invoke price, was it price controls or credit controls? (Unintelligible 00:22:33).

Robert L. Hetzel: The credit controls came in in March of 1980, and Volcker had been chairman since August the previous year, '79. (Tape skips 00:22:50) Do you remember anything else about that year? It was a wild time. First, money growth fell in 1980—

Lawrence Roos: Oh, I really don't remember.

Robert L. Hetzel: —and the economy seemed to tank. Okay.

Lawrence Roos: —the policy at that time.

Robert L. Hetzel: When you went out in '83, do you remember feeling that monetary policy was too easy? Money growth was high and, you know, subsequent in '84, we had to push interest rates up sharp; do you remember anything about that period?

Lawrence Roos: No. I don't remember year by year—

Robert L. Hetzel: Sure.

Lawrence Roos: —Other than know we consistently—the St. Louis Bank consistently…If it were a choice between easy money and the prospect of increased inflation or tighter money, we were inflationary hawks. In other words, we resisted inflation, because we…

Robert L. Hetzel: Do you have any kind of general observations on why in the 1970s especially the Federal Reserve System was, well, I don't know, remiss in pursing inflation? Why it let things get so far out of hand?

Lawrence Roos: Oh, I think there were political factors, and I think that there's a very real difference of opinion amongst economists. There are the Keynesian people. There are the people who want to-who think you can conduct monetary policy by manipulating interest rates. There were the monetarists who believed in controlling money supply, and there was no clear focus or consistent focus. I don't think there ever has been or I question whether there ever will be. So-called pragmatists react to political pressure. They react to philosophical differences of opinion, and monetarism becomes more difficult as a concept when monetary, or when financial instruments change as they have.

[00:25:06]

Robert L. Hetzel: Sure.

Lawrence Roos: I'm not an expert on those subjects.

Robert L. Hetzel: Well, but you were head of a group that was, you know—

Lawrence Roos: I think we were—

Robert L. Hetzel: —you were the expert in that area. So you...

Lawrence Roos: As soon as I recall, your Richmond Bank became more allied with our point of view in the latter years of my involvement than originally.

Robert L. Hetzel: Yes. I think the Richmond Bank was always philosophically aligned with your point of view. I think it was more a problem that our president, Bob Black, didn't want-never wanted to take Burns on.

Lawrence Roos: He was a wonderful guy, but he didn't want to rock the boat. He didn't want to take the administration on.

Robert L. Hetzel: Right. And then I think with Miller, Miller seemed so out of the Fed culture that we were more willing to challenge him, and Miller seemed kind of—well, I don't know, our president would say it was like he was running a Textron Board meeting. He didn't really care so much about consensus. He just wanted that you had a decision to make, and he'd give you...

Lawrence Roos: More interested in—

Robert L. Hetzel: Get through and make it, and whether you agreed or disagreed, he didn't seem to really care. Like Burns, you know, he would keep you there until he finally got—

Lawrence Roos: Oh yeah.

Robert L. Hetzel: —his way.

Lawrence Roos: That's right.

Robert L. Hetzel: Then he let you go.

Lawrence Roos: Miller was not the most effective chairman, as I remember.

Robert L. Hetzel: And, of course, then we, you know, we supported Volcker. So that was, in a way, that was an easy thing for us because, you know, he came around to our view-St. Louis's view, at least for a while. Actually, when he went out in the middle '80s, monetary policy had become expansionary again, but not so much as in the '70s.

Lawrence Roos: I think you can get a better reflection, I really mean this, from Ted Balbach.

Robert L. Hetzel: Well, but your observations are very interesting to me. So I'm very, you know, very glad to have talked to you. Ted went to Seattle? Didn't he and his wife both retire and...

Lawrence Roos: Yeah. I don't know what his number is, but I think if you called the St. Louis Research Department...

Robert L. Hetzel: Yeah, I'll do that.

Lawrence Roos: And if you had any other—I'm going to have to head out—

Robert L. Hetzel: Sure.

Lawrence Roos: —because I've got a 10:00 o'clock.

Robert L. Hetzel: Well this is fine. No, I don't have any other questions, but if you think of anything else.

Lawrence Roos: If you have any as time goes on don't hesitate to call.

Robert L. Hetzel: Okay. Well I certainly enjoyed talking to you.

Lawrence Roos: Nice talking to you.

Robert L. Hetzel: Thanks a lot. Bye.