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Oral History Interview of Raymond Saulnier

Conducted by Robert L. Hetzel

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Robert L. Hetzel: In your note to me, you said would be happy to speak with me on monetary matters "as I endured them at the CEA."

Raymond Saulnier: Yeah, the chairman endures them.

Robert L. Hetzel: Well, the choice of words…

Raymond Saulnier: That you have to put up with it. It's on how, you know, you don't have any control over it. You have no control over it. Not as the President for that matter. But yet it is the policy that has the most direct and important effect on the economy. And while you don't have any control over it, you get the wrap if it doesn't go well. That's an important point. You don't want to miss that.

Robert L. Hetzel: I had the feeling with Bill Martin that you talked to him regularly. He was very willing to exchange views. He was very willing to listen and that he tried to maintain at least a general agreement among the Council with what he was doing. So you did have, you know, if not—you certainly had an opportunity to exchange views.

Raymond Saulnier: No question about that. You have plenty of opportunity.

Robert L. Hetzel: You had the ability to influence his thinking. And, of course, he was…

Raymond Saulnier: Well, you could tell him how you thought about the economy. But, after all, all I said is that you didn't have any control over what was done.

[0:01:48]

Robert L. Hetzel: In general, you were in agreement with Martin over…

Raymond Saulnier: Not always. No, not always. No, by no means. I don't think—we were not in agreement for example in 1957 when money policy was screwed up and we went into recession.

Robert L. Hetzel: You wanted Martin to ease as of October.

Raymond Saulnier: Well, I thought it was—I thought the economy didn't need restraint at that time, but it got it. And we had a recession. Now, maybe we would have had the recession anyway if the Fed had not raised rates. After all, you know they raised the discount rate just about on the threshold of the beginning of that down turn. And then they cut it back after—well, it only took about four months for them to realize that that was—that they had to take a contrary move. I've told incidentally all of these stories in that book of mine, which is not—hasn't had any great circulation but that story is told there.

Robert L. Hetzel: Okay. Can you give me? I'm sorry. I apologize. I have not read that. Can you give me the title?

Raymond Saulnier: Oh, no. Very few people have.

Robert L. Hetzel: Can you give me the title and I'll…

Raymond Saulnier: It's *Constructive Years: The US Economy under Eisenhower*, University Press of America. And I think probably, you know, if you want to take the time to look at that book.

Robert L. Hetzel: Oh, absolutely. Sure. Absolutely.

Raymond Saulnier: You get the story in a more systematic and a more complete manner than, you know, I can give you in the conversation.

Robert L. Hetzel: Sure. Martin met with you and Hauge. Did I pronounce his name right? H-A-U-G-E.

Raymond Saulnier: No. Hauge.

Robert L. Hetzel: Hauge. Sorry. And later on Anderson, after Humphrey left and occasionally Eisenhower. I mean, if the three of you—Anderson—the four of you: Anderson, Eisenhower, Hauge. I mean if you were—if you all felt strongly, I mean, would Martin still go his own way? That seems—I mean he would at least…

Raymond Saulnier: Well, look, we all felt strongly. You know, if we all descended on him, in great force is one thing. But the circumstances didn't call for that.

[0:05:07]

Robert L. Hetzel: Sure. And Martin got along well with Anderson and Eisenhower?

Raymond Saulnier: Yes. I think so. I got along very well with Bill Martin and saw a lot of him at the time. Not only reporting to him, you know, more or less officially in the sense that it was part of my duty as Chairman of the Council to go over and talk with Martin and Balderston fairly frequently. I don't mean by that weekly, but you know every three or four weeks. And then I saw him apart from that a good deal. I have seen Bill Martin a lot after the Washington period and since he retired from the Fed. And he's just not in very good, you know. He's not in very good health and hasn't been for the last few years. But I have seen him even within the last couple of years. And always had very good relationships with him. I have a very high regard for Martin. We didn't—I didn't always weigh the evidence about the economy exactly as he did but I always had great respect for him.

[0:06:38]

Robert L. Hetzel: He got along well with Anderson and Martin because he shared their conventional views about the budget?

Raymond Saulnier: "He" meaning?

Robert L. Hetzel: Martin?

Raymond Saulnier: Oh, yeah. Well, yes.

Robert L. Hetzel: And Martin thought that what really caused inflation was excessive government deficits. That was the main? What do you think Martin's…

Raymond Saulnier: Well, I wouldn't say. Well, Martin was not a rigorous theorist. You wasn't talking to a college professor when you were talking to Martin. He wasn't a monetarist. He wasn't Keynesian in any strict, academic sense. You wouldn't expect that. That wasn't his background. But he was a person who felt very strongly about the necessity of holding prices fairly stable in the US and anti-inflationist in that sense. So was Anderson. So was the President. So was Professor Songhai [phonetic 0:07:59].

Robert L. Hetzel: And you were right. Absolutely. No question.

Raymond Saulnier: Right. And we all believed that it was important that we—that it was important that the US dollar continue as a stable, key currency of the world. And that people have confidence in the continuance of its value and a fairly stable level. We thought these were important things.

Robert L. Hetzel: Well, they were and you turned out to be right. That's absolutely true.

Raymond Saulnier: I think so.

Robert L. Hetzel: Martin's view of inflation was formed partly by the experiences of the Depression. He thought that the Depression had been brought on by speculative credit extension and inflation in the twenties.

Raymond Saulnier: I really don't know. I never talked to him. I don't think I ever talked to him about that. The whole question of what caused the Depression, as we call it, in the 1930s never been very well stated. You know, probably the best-known book on the subject is by Ken Galbraith and God knows that's not—has no great standing as a base of economic analysis. But I never talked to Bill Martin about the Great Depression. I never had occasion to.

Robert L. Hetzel: His approach towards economics was that he would stay informed on the economy and try to move interest rates in a sensible—what he seemed like—what seemed to him like a sensible way. I mean sometimes he would emphasize inflation and sometimes he would emphasize growth and employment.

[0:10:05]

Raymond Saulnier: Yes. He was not—he was no mono-maniac. He was not a fella was focused on any one thing. He had a broad view of the economy. He took account of its growth. He was concerned about the inflation rate. He was concerned about the international position of the United States, the stability of the dollar and what I have said as the key currency of the world. And you may recall that in—the big thing that happened in 1939, '60 when we had dollars—the dollar was pegged at $35 an ounce. It's only $400 now. The big thing that happened was that there was a great outflow of gold from the United States.

Robert L. Hetzel: That begin in '59.

Raymond Saulnier: That's correct. And after all you know if you're Secretary of the Treasury or if you're Chairman of the Federal Reserve Board and you have certain responsibilities for the nation's gold stock and it's disappearing. It's going out. You're bound to be concerned about it and he was. So was Anderson and so was the President.

Robert L. Hetzel: And so that would have been a major factor in…

Raymond Saulnier: It was a major factor. No question about it.

Robert L. Hetzel: In raising interest rates in 1959.

Raymond Saulnier: Yeah. Right.

Robert L. Hetzel: Do you think rates went too high in '59 or that was about right? And then they came...

Raymond Saulnier: Well, look, '59 was a strange year.

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

Raymond Saulnier: It was a very strange year. And mind you…

Robert L. Hetzel: Are you talking about the steel strike?

Raymond Saulnier: Yes, of course. We were stuck with a steel strike for six months of 1959.

Robert L. Hetzel: So it was very hard to get a reading on the economy and especially things like inventory.

Raymond Saulnier: My principle job as Chairman of the Council in 1959 was following the steel strike and writing the brief that went to the Supreme Court that got the confirmation of our—to stopping of that strike.

Robert L. Hetzel: Yeah, the Taft-Hartley Injunction.

[0:12:45]

Raymond Saulnier: Yes. And you know when that kind of thing is going on you've got to be—you've got to have really an odd sense of priorities to be worrying too much about esoteric questions of taxation—tax policy and money policy. You're over the barrel. We were put over the barrel by the United Automobile Workers— the U.S. steel workers.

Robert L. Hetzel: Yeah that's an interesting comment I hadn't…

Raymond Saulnier: And you know another thing that people haven't understood about policy in that period. They were now, "Why didn't Eisenhower cut taxes?" Well, because he did cut taxes on two occasions. But in '59, for example, should have cut taxes. Well, as he used to say to me, "I am not going to engage in a tug-of-war with the Federal Reserve System." He was not going to cut taxes in order to the spur economy while the Fed had its foot on the brake in order to keep the economy from going up. Now…

Robert L. Hetzel: I have not read that. That's interesting.

Raymond Saulnier: No. Of course you—no. I'm sure you haven't because it's not part of the literature.

Robert L. Hetzel: Certainly. Yeah. No, it's not.

Raymond Saulnier: Oddly enough.

Robert L. Hetzel: I've read Stein's book. He has a long discussion of this period. But he doesn't…

Raymond Saulnier: Oddly enough. But why shouldn't it be? You see, because after all this is the—really is the essence of the problem of economic governance in this period. Well, that incidentally all of these things. When I sat down to write that book of mine, I decided to do it on a cyclical basis—to organize it on a cyclical basis. And so after a couple of chapters on Eisenhower's underlying philosophy and strategy, I have four chapters that deal with the four major phases of the cycle from '53 to '60. And then—but as I did that, I realized that that didn't tell the whole the story. And that there were a number of aspects of policy that really had to do with relations with Congress. So I did an additional set of pieces in what I call "Confrontations with Congress." And this deals with agriculture, and housing, and international economic policy and so on.

[0:16:27]

Robert L. Hetzel: And that's in your book?

Raymond Saulnier: That's right.

Robert L. Hetzel: Okay. Yeah.

Raymond Saulnier: So the book then is—has really two parts. The cyclical part and then the part on the legislative history.

Robert L. Hetzel: I mean at this time there was very little congressional interest in the Fed and monetary policy. That mostly came in 1966.

[0:16:50]

Raymond Saulnier: Less than there is now, but there was interest of course. But far less than there is now. The world is full of Fed watchers now.

Robert L. Hetzel: Yeah. I mean Congress really became concerned…

Raymond Saulnier: Everybody's an expert.

Robert L. Hetzel: Right.

Raymond Saulnier: But I can tell you substantively the problem has become more complicated—infinitely more complicated actually. Whole financial system is a different thing today than it was in the 1950s. So the problem is more complicated and the understanding of it has gone backwards in my estimate.

Robert L. Hetzel: I think I'm afraid you're right about that.

Raymond Saulnier: Well, look, I don't want to take further of your time. I've got to leave in any case here. But why don't you take a look at that book of mine and if you have some questions give me a call.

Robert L. Hetzel: I mean I would like to talk to you for just a little bit more. Should I call you back?

Raymond Saulnier: Well, I have to leave at this point. I won't be back until tomorrow. I won't be back until next week. You can give me a ring next week.

Robert L. Hetzel: Okay. What day would be a good day?

(Recording ends. Recording begins again.)

Raymond Saulnier: …Moore and he was a kind of institutionalist with his theoretical affiliations in the business cycle camp. Walter Heller, using him as an example only of the second camp, wasn't interested really. They were not business cycle economists. Their whole orientation was toward the rate of growth, the rate of employment, unemployment.

Robert L. Hetzel: I hadn't thought of it that way. But that's…

Raymond Saulnier: And that is true.

Robert L. Hetzel: Yeah, that's a very good point.

Raymond Saulnier: It is very true. And now Arthur, as I say, was in the business cycle camp. Incidentally, now this doesn't mean that he didn't understand or didn't know anything about Keynes. Arthur probably wrote what was probably the earliest and most effectively critical essay anti-Keynes that there is. And going back wrote that—I don't know what the date. I don't recall the date now but it's pre-World War II.

Robert L. Hetzel: Yes.

Raymond Saulnier: So he was a critic of the Keynesian approach. Now, I came up in a rather different way. I wrote a dissertation incidentally, published in 1938. The title of which is contemporary monetary theory. And it published by the Columbia University Press. And it has four chapters—main chapters in it. One is on Keynes. One is on Dennis Robertson. Another is on Hayek and the fourth is on a chap who is less well known but was very—he wrote a great deal, Ralph Hawtrey.

[0:21:02]

Robert L. Hetzel: Oh, sure. Oh, yes. He's very well known.

Raymond Saulnier: And economist at the Bank of England.

Robert L. Hetzel: Yes. Absolutely.

Raymond Saulnier: Right. Now, I wrote that. And so really, you know, going back. Real back. Far back. I was deep in theoretical monetary theory. And I found myself as you would see if you were to get a hold of that book and read it quite critical of the Keynesian approach. I didn't find it as useful as I found some of the other things, especially Robertson. Now, I can tell you if I were to write something about Keynesian Theory today I think it would be rather different and I would hope a lot better than what I wrote 1938, which God knows as you know is nearly 60 years ago. But beginning in 1938 when I published that book I went to—I was invited to join the staff of the National Bureau in the Financial Research Program. And we were at the time making a study of consumer instalment credit. At the time, a little known part of the financial system.

And so beginning in 1938, I wasn't working on the theoretical side. I was working on the institutions of the financial system—consumer credit, business credit, loans to agriculture, so on for so forth and so on. And if you know—if you go back into the publications of the Financial Research Program you will see a long list of—a long shelf of books that we did, which are basically institutional studies of the financial system. Now along the way while I was doing that, Wesley Mitchell retired. Arthur Burns was on the staff of the National Bureau working on business cycles, especially in the construction side of the business cycle—became the director of the Bureau, Director of Research. And very almost that same time that he became Director of Research, I succeeded Ralph Young, who had been the Director of Financial Research Program.

Robert L. Hetzel: Oh. That's interesting. I didn't know that—Ralph Young was at the board for a long time. And I just didn't know where he'd come from.

Raymond Saulnier: Well, he was directing the Financial Research Program.

Robert L. Hetzel: Do you know when he went to the Board of Governors?

[0:24:35]

Raymond Saulnier: Yes, he went to the Board of Governors in 1946, I think. He went to the Board of Governors when I went—when I became Director of the Financial Research Program in '46. Now, that meant that I was working side-by-side with Arthur Burns. And Arthur was—I reported to Arthur. He was the director of the whole research program in the National Bureau. I was directing the financial side of it. So that's where it began. That's where our association—I knew him of course before that—before he was director and was on the staff. But it became—the association became closer when I had that new administrative responsibility. So it was—now, Arthur and I. So you see Arthur—I was the more institutionalist financial economist. And Arthur was the business cycle economist and neither could be classified as Keynesian.

Robert L. Hetzel: Burns had a couple of things in common with the Keynesians, didn't he? I mean he didn't believe that the economy was self equilibrating. He thought that government needed to intervene periodically.

Raymond Saulnier: Well, it needed to intervene in order to stabilize the business cycle.

Robert L. Hetzel: Right. But Burns' main difference there was that he thought the government should intervene much more quickly in the earlier stages.

Raymond Saulnier: Than who?

Robert L. Hetzel: Than the Keynesians. That he thought it was important to prevent this equilibrium from developing at an early stage.

Raymond Saulnier: I don't know. Maybe. Maybe. I don't know. I've never thought of that as being part of—descriptive of Arthur but maybe.

Robert L. Hetzel: So as far as his interventionist character—his concern for unemployment and when he was Fed Chairman that makes sense in terms of his view of the need for government to stabilize cyclical fluctuations.

Raymond Saulnier: Yes. Right.

Robert L. Hetzel: Why do you think he underestimated the amount of inflation that would arise from that intervention? Or do you think he did?

Raymond Saulnier: Well, not in the Eisenhower period. Not during his years with Eisenhower I wouldn't say.

Robert L. Hetzel: I guess one way to ask my question is that what Burns did, the kinds of things he recommended during the Eisenhower Administration as head of the CEA make a lot of sense in terms of what I know about from the National Bureau.

Raymond Saulnier: No that's what I'm speaking of.

Robert L. Hetzel: But later on when he became…

Raymond Saulnier: No.

Robert L. Hetzel: Fed Chairman in 1970…

Raymond Saulnier: Talk to somebody else.

Robert L. Hetzel: Okay. Well, no. That's fair enough. That's a fair comment. I'm just trying to put the two together. I didn't know if you had any insight.

Raymond Saulnier: No. No. Arthur is not—Arthur isn't really. You know monetary economics, the monetary system, the financial system was really never Arthur's big thing. He was—that was not his thing.

Robert L. Hetzel: Yes. I had that feeling that he was really in his element as head of the council where he…

Raymond Saulnier: He was in his element when he was talking about the business cycle.

Robert L. Hetzel: When he could do near-term forecasting.

Raymond Saulnier: Correct.

Robert L. Hetzel: But do you think it's fair to say that he confused his ability to do near-term forecasting with his ability to control the behaviour of the economy. That he overreached in the early years of…

Raymond Saulnier: Oh. I don't think Arthur ever—I don't think Arthur ever thought that he—never really over estimated his ability to control short term movement of the economy. Nobody worked closer with Arthur Burns at the Council for four years than I did. See. I went down there—I was the first person to be brought to the Council after Arthur got there. Everybody else at the Council was already on the staff. See. Dave Lusher, Asher Achinstein, Collis Stocking, etcetera, etcetera.

[0:30:17]

Robert L. Hetzel: Charlie Schultze.

Raymond Saulnier: Charlie Schultze was there as Dave Lusher's assistant. I went down and I probably would have been gone in as a member of the Council in 1953. I started—I don't recall exactly what the date was but it would have been April or May, something like that. But the administration was new and had feelings of purity about itself. And part of purity is that you didn't have two members of the Council from the same university or college. You sort of spread around and here was—here I would be, both were from Columbia as Arthur was. From the National Bureau as Arthur was, and so I went down as a consultant. And Arthur enlisted two others. One at his own—well, it was his own idea and a very good one, Walter Stewart.

Robert L. Hetzel: Now, he had been with the Fed in the 1920s.

Raymond Saulnier: Oh. Walter Stewart went back 100 years, including having served, the only American that ever done this, served as economist for The Bank of England.

Robert L. Hetzel: Yeah, his speciality was international.

Raymond Saulnier: He speciality was wisdom.

Robert L. Hetzel: So he was brought in for his general experience…

Raymond Saulnier: Yeah. That's correct.

Robert L. Hetzel: …with policy of all sorts.

Raymond Saulnier: Right. And the other was Neal Jacoby who was my research partner at the National Bureau and joined the staff. Was invited by Arthur at my suggestion and served very effectively. So I worked side-by-side with Arthur. And if I may say so, took him through some of the elementary steps in understanding the financial system. And continued right through until 1956 when I succeeded him as Chairman. Arthur was, as I say, was not—he was not a financial specialists, monetarist. He was not a monetary theorist.

Robert L. Hetzel: Did he realize that?

Raymond Saulnier: No, I think so. Well, I don't know. I don't know that he never—he certainly didn't worry about it nor did anybody else.

Robert L. Hetzel: That's a very insightful comment. That's got to be…

Raymond Saulnier: Oh, look. My friend I'm going to have to leave.

Robert L. Hetzel: Well, I think I've asked my last question. I want to thank you.

(END OF RECORDING)