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Oral History Interview of Ezra Solomon

Conducted by Robert L. Hetzel

April 8, 1996

Ezra Solomon: ...in economics. And then a long departure from academia into the British Navy; in the Burma Division of the British Navy. And around 19 [unintelligible 00:00:20] the Rhoades Scholarship in terms of finance.

Robert L. Hetzel: This is vaguely reminiscent of the background of Phillips of the Phillips Curve, if you remember. Very similar. He was in the Navy in World War II, in the British Navy. And I can send you some [unintelligible 00:00:35].

Ezra Solomon: ...normally meant the Stirling area back expenditures after 1946 Stirling was blocked. I got into Cambridge where I wanted to go, but they said that [unintelligible 00:00:47] the US consulate stepped in [unintelligible 00:00:50] block Stirling [unintelligible 00:00:53]. He was there when I arrived. And clearly, an important person [unintelligible 00:01:02]. I was attracted to Chicago and names like Frank Knight. I didn't pick Chicago.

Robert L. Hetzel: When you wrote your book, 1975, I guess. You know, I'm talking about [unintelligible 00:01:17] overview of monetary policy.

Ezra Solomon: What sort of book?

Robert L. Hetzel: Paperback.

Ezra Solomon: A paperback.

Robert L. Hetzel: Yeah.

Ezra Solomon: A meant-for-the-layman kind of thing.

Robert L. Hetzel: Yeah. Well...

Ezra Solomon: The Anxious Economy.

Robert L. Hetzel: Yeah, but I wouldn't exactly call it a layman's book.

Ezra Solomon: Part of the portable standard series.

Robert L. Hetzel: Yeah. When you wrote that book, the quantity theory ideas, were you going all the way back to [unintelligible 00:01:41] or those ideas [skip 00:01:41].

Ezra Solomon: [Unintelligible] Rangoon, you could call it a [unintelligible 00:01:44] of conservative economists, strangely enough.

Robert L. Hetzel: So they had the Cambridge kind of [unintelligible 00:01:49].

Ezra Solomon: Oh, no. The professor, a sort of intellectual parentage with the Von Muselix [phonetic 00:01:56], Hyatt [sounds like] and things like that. The other teachers were all quantity theorists, essentially, I thought. You know, I went to Chicago, did [unintelligible 00:02:08] gains. It wasn't a single force in which gains was used as a textbook.

Robert L. Hetzel: [Unintelligible 00:02:16] when I went there in the sixties, so I don't know what happened. But so Friedman was brought there to teach Biner's [phonetic 00:02:23] price theory course. Did you take price theory from Friedman?

Ezra Solomon: Yes, indeed.

Robert L. Hetzel: But he only did a workshop in money, right?

Ezra Solomon: That's right. [Unintelligible 00:02:34] person teaching money.

Robert L. Hetzel: Lloyd Mints?

Ezra Solomon: Lloyd Mints, yes. Mints.

Robert L. Hetzel: Yeah. His work has a very kind of monetarist [unintelligible 00:02:44]to it. So he and Friedman must have interacted.

Ezra Solomon: I'm sure they did. Mints did the main course that you might call money. There was nobody there capable of teaching only fiscal policy. [Unintelligible 00:03:02] pretty much involved with his price theory. [Unintelligible 00:03:06]. And Lloyd Metzler came.

Robert L. Hetzel: Did you know a Marshall Kaplan? I've interviewed him too.

Ezra Solomon: Yes.

Robert L. Hetzel: So then, you were in academia for the entire time before you went to the Council...

Ezra Solomon: Yes.

Robert L. Hetzel: ...of Economic Advisers?

Ezra Solomon: I taught at Chicago [unintelligible 00:03:30] the business unit.

Robert L. Hetzel: And what years? [Unintelligible 00:03:32] How did you end up on [unintelligible 00:03:34]

Ezra Solomon: ...Ford Foundation had [unintelligible 00:03:36] underdeveloped countries. Give them a year's training [unintelligible 00:03:41]. And I was running that for several years. And then got tired of administration and was teaching full-time when I got a call from Paul McCracken.

Robert L. Hetzel: Did you talk to the President before you became a member of the Council?

Ezra Solomon: Yes. I had met Mr. Nixon as a member of the Hunt Commission, if you'll remember the commission. And I was a member of that.

Robert L. Hetzel: Right.

Ezra Solomon: In connection with that, I had met and talked to the President.

Robert L. Hetzel: So McCracken knew your views through your writings or professionally? Had you known him before?

Ezra Solomon: Yeah, we'd crossed paths. We both taught in a kind of summer course for life insurance officers that was run by Greenlist of Chicago. Life Offices Insurance Seminar [sounds like 00:04:44] it was called before it became the American Life Convention. Paul used to teach at that and I used to teach at that.

Robert L. Hetzel: So you were brought in for your expertise on financial matters, primarily?

00:04:55

Ezra Solomon: Yes. As a matter of fact, though, first of all, I had to do with giving him a hand writing him a chapter on, call it the corporate finance end of things that had taken place in 1970. Some liquidity problems of those corporations. And then I got to know Paul a little better. I'd go and—how do you put it—just sort of visit Council, read stuff, redo it and helping him almost as a member of the staff. And then when Houthakker left, Paul called me to join the Council. George Shultz was there, of course, at that time. George and I were old friends.

Robert L. Hetzel: When did Houthakker leave?

Ezra Solomon: He left about, oh, January, February '71. About that timeframe.

Robert L. Hetzel: So when did you actually arrive in Washington?

Ezra Solomon: You know, it's kind of strange. I arrived in Washington about March of '71. But I was stupidly concerned about the fact that Stanford was going to pay me till September. There was nothing I could do to prevent them paying me till September. You know, you get paid by the academic year.

Robert L. Hetzel: Yeah.

Ezra Solomon: I had done my year's work, in a sense. I had had time off. But I said I can't join the Council full-time till September because Stanford's going to be paying me all this time and it looks like a conflict of interest. I didn't know we could [unintelligible 00:06:32]. So I stayed on the Council receiving a sort of a per diem which amounted to the same thing as my salary. So it was strange. I was sworn in, I think, in June. But the records show that I went on the Council in September. I went on the payroll of the Council in September, but I was there from the late March. I wasn't teaching the spring quarter that year, anyway.

Robert L. Hetzel: We'll get into this more, but Herb Stein, obviously, had very strong ideas on monetary policy. Did your ideas match? Did you find yourself arguing with him a lot? How did you get along with him?

Ezra Solomon: I got along fine with Herb, except I was hooked on the idea that the biggest problem we faced was devaluation. And that was not a word mentioned, at least in the White House, certainly so. Again, talk about gatekeepers. I received two-fold the message from the gatekeeper, "Mention devaluation again, you'll be back at Stanford."

Robert L. Hetzel: So you had contact with Paul Volcker.

Ezra Solomon: Oh, yeah.

Robert L. Hetzel: Oh, you said Paul. Paul McCracken.

Ezra Solomon: Paul McCracken. But Volcker was there.

Robert L. Hetzel: Did you ever talk to him about these issues? Did you see things more sympathetically with him than with the Secretary of the Treasury at that time? It would have been Kennedy. Or, it would have been Connally.

Ezra Solomon: Kennedy had just left. I knew Kennedy quite well. Again, from the past, from Chicago days. John Connally had taken over the Treasury by about that time. Volcker was, I think, undersecretary. The big problem was to get Volcker to suggest that by

the time we had found it out, and we really had found out the devaluation by, first of all, denying that we needed one and refusing to confront the fact that changing the price of gold was necessary as part of the game of the, quote, “the American contribution,” as the foreigners would refer to it. But they were right; we [unintelligible 00:09:04] contribution [unintelligible] It wasn't France's problem, it was our problem. Obviously, France had to move to give us the correction we needed. It was very, very fundamental.

00:09:16

Robert L. Hetzel: But that's not the way Connally and Burns wanted to package it. I have a very bizarre letter that Burns wrote to Nixon in the Spring of '71 during the crisis, you know, when Germany floats and the pound's under attack. And it appears as though both Burns and Connally are competing to design how the crisis is going to occur; that they realize that devaluation will occur. And Burns wants to make it appear as though it's the fault of the French so that he wants the Treasury to pay out gold in unlimited fashion and to make it look like France forced us off the gold standard. And then when we're forced off, we can say, “Look, you know, we were forced into this. We didn't create this problem; it's France's fault.” And then that will give us more leverage in getting a different burden sharing in Defense arrangements and also in trade matters. Which struck me this seemed to be part of the problem; that Burns wanted to do all kinds of things that really weren't his province, that really weren't monetary policy.

Ezra Solomon: This was one area where Arthur was out of his own depth. He didn't seem to understand international finance. He's a great business cycle scholar. But he would pontificate a great deal about this. He'd say things like, “We will be judged by what we leave the next generation. After all, the last generation had set up a wonderful system. We've enjoyed this wonderful system. What are we going to do about the next system?”

Robert L. Hetzel: Yeah, we'll talk more about Burns. I'm going to talk to Friedman about Burns tomorrow, so we'll really, really get into this.

Ezra Solomon: Well, George Stigler's crack about this is the most wonderful thing that I ever heard of. I didn't know Burns would go over or go to Europe. And George said, “Milton fiddles while Burns roams.” [Laughter] And I thought that was beautiful.

Robert L. Hetzel: Okay. I have heard that, but I didn't know the source is Stiglitz [sounds like 00:11:52]. Safire reports that, but I didn't know that Stiglitz was the source. That's something that could be [unintelligible 00:12:02].

Ezra Solomon: Bill was a speechwriter there at the White House at that time.

Robert L. Hetzel: Yeah, his little book is wonderful. Before the Fall, I think it's called. Burns really wasn't a neoclassical economist in that he didn't see the economic activity as coordinated by the price system. When he thought about markets, he thought about psychology and the psychology of the businessman and confidence. And so when it came to foreign exchange issues, he didn't think in terms of how price levels would change the real

terms of trade in terms of a Biner-Friedman framework. He thought in terms of the psychology of the market and how the government could influence that. So he put forth proposals and ideas that to us seem almost naïve. And I think I have things where Nixon seemed to be viewing as naïve, too. Nixon seemed to be much more hard-headed, like people follow their own self-interest. It's not psychology.

Ezra Solomon: Nixon really very badly wanted to avoid the onus of it all; that a Republican devalued the dollar. It's like the Republicans teased FDR for having devalued the dollar, you know. There is some study about it. They somewhat blame FDR for that devaluation. And he wanted to avoid having that stigma. He actually even tried to find every possible way to do it. I had given a speech in my last [unintelligible 00:13:57] at economics faculty at Stanford just before I left for Washington. It was on the subject of the devalue of the dollar; that we had misbehaved as a country, we were the worst of all the G7 [unintelligible 00:14:11] Even worse than Italy, I think, having been the best [unintelligible 00:14:17] 65.

Robert L. Hetzel: Yes.

Ezra Solomon: Brazil does that. Everybody was forecasting Brazil has to devalue. But when the US does it, no people would even think about it. And indeed, old Dupre, Emile Dupre [phonetic 00:14:34] was the international man in the economics department, he got furious at me, almost choked. And he was getting very ill by that time, as you know. "How dare you say we should devalue the dollar. The dollar's better than gold." Not only is it good as gold, but it's better than gold.

00:14:52

Robert L. Hetzel: For 10 years, people had viewed the problem as a structural one that would go away. It was due because we had our troops abroad and because there was too much foreign investment and because their capital markets weren't as developed as ours and because we were at a different phase of the business cycle. And for a long time, we forced other countries to inflate to maintain.

Ezra Solomon: Yeah, yeah.

Robert L. Hetzel: And finally, they no longer were willing to do that. Of course, that's all in your book. And there's a great discussion of that in the book we talked about. But what you say about Nixon's attitude toward devaluation makes sense. And the conservative businessmen kind of look back to the Roosevelt era and the Depression. And they thought of the monetary manipulations of Roosevelt as causing problems in confidence. And Burns apparently gave an impassioned plea not to close the gold windows, the gold window of the Camp David meeting, August 15. And presumably, that reflected a similar sort of set of ideas.

Ezra Solomon: It was like losing a war. Devalue. It's just something terrible. And in fact, the President got hold of the attorney general, the assistant attorney general

whose name I've forgotten now—he became a judge in the Chicago area—to write a memorandum saying that the President did not have the power to change the price of gold. Although every President had assumed that the President had the power to change the price of gold.

Robert L. Hetzel: So who inspired that memo?

Ezra Solomon: Nixon inspired the memo of what the assistant attorney general to write such a memo. And it was a long memo which said that when we sign the IMF accords, which is a kind of a tribute, the Senate had included the clause saying that you have to consult Congress.

Robert L. Hetzel: Of course, the real problem was, I think, the State Department because for years, we had promised our Allies like Japan that “It’s okay. Hold dollars. Don’t ask for gold. We’re never going to devalue.” And then we didn’t want to do that to our own allies.

Ezra Solomon: Which is true.

Robert L. Hetzel: So the State Department was just out of the question.

Ezra Solomon: [Unintelligible 00:17:27] No question about that. But the fact of the matter is that the Gold Standard Act of 1900 gave the President the power. And the big issue was whether an act of Congress overrides a treaty or vice-versa.

Robert L. Hetzel: So this must have been where Connally came in because Connally realized that you could take the international issue and use it for political purposes. That is, labor had become increasingly protectionist, particularly with the penetration by the Japanese of the US automobile market. So Connally realized that you could take that protectionist animosity and package the devaluation as standing up to the foreigner, as doing something about the unfair [unintelligible 00:18:18] system.

Ezra Solomon: [Unintelligible 00:18:19]

Robert L. Hetzel: Right, the investment tax credit. And that probably was illegal because Congress is supposed to be the one to impose taxes and change tariffs. And yet the President did it under, what, the Trading With the Enemies Act.

Ezra Solomon: Something like that.

Robert L. Hetzel: Something from World War II that [unintelligible 00:18:41] do anything. But that’s a little bit reminiscent of the wage-price controls, isn’t it? Nixon had this conservative businessman’s attitude that wage-price controls were bad because they would involve a lot of meddling regulatory oversight, bureaucrats intruding into the affairs of the businessmen. So he had this conservative Republican antipathy toward controls. But Connally was the one that told him, “Look, the businessmen, they want protection from labor.

They're willing to put up with intrusive government control if you can promise them that you'll offer them the certainty of not having to deal with militant labor." So, I mean, is it right that in both of these ways, Connally changed Nixon's attitude and showed him how he could package these as a politically potent...

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Ezra Solomon: I think Connally was the dominant figure then. George Shultz, of course, had informed me at the time. Shultz began to play a big role after the August situation had happened. The question was now by how much we devalue. It comes right back to the question of devaluing the dollar, one way or the other. And I think that damn 10 percent surcharge gave the wrong impression that a 10-percent devaluation is all you needed. And Joseph's main argument was, "Let's float. Let's find out through the market system, not through negotiation. All of you lay hands off and let's see where the dollar settles and then we're going to repay." Which was, I think, a good argument in terms of finding out because the Japanese at that time for sure—I was dealing with them pretty much because I happen to know them. And they were shocked. They'd say, "Yes, America needs a 360 [unintelligible 00:21:09], but maybe 345?"

Robert L. Hetzel: But this is a very good part of your book. I think that what you show is that, yes, in principle, Shultz was right. But in fact, these other countries were not ready to float. So they went to capital controls, they went to a dirty float. And so they ended up pumping up their money supplies, creating domestic inflation. And that created a world boom in 1973 that laid the groundwork for the OPEC oil price increase. So that when OPEC raised the price of oil in a world boom, they found the demand for oil very inelastic. And so in a way, I mean, I agree with Shultz and I agree with Friedman, but it was naïve in the sense that other governments weren't willing to let their currencies float freely. And reading the memos, maybe you can correct me on this, but I have a feeling that other governments perhaps were not quite as benighted as Shultz may have thought about this. They were very concerned about the pressures for protectionism in their own countries. And these leaders felt that if you went to a floating exchange rate that caused a sharp re-valuation of their currencies, that would trigger protectionist pressures that they would have difficulty dealing with.

Ezra Solomon: The Germans were willing to float, I think. In fact, they did.

Robert L. Hetzel: Well, they were willing to float against the dollar, but they weren't willing to float in a way that re-valued their currency dramatically against France.

Ezra Solomon: Exactly. Exactly. That was the big hang-up there. France knew [unintelligible 00:23:23] you know, "All you guys move. We're going to stay where we are." Now, that was a threat. That's where Paul Volcker came to his conclusion that it has to be settled by negotiations. By negotiations.

Robert L. Hetzel: So you get the feeling in this period that the two key individuals that are doing the bargaining is Connally on the one hand who's saying, "We can live with

this surcharge forever. No hurry. You know, this is just fine.” And the French saying, “We’re not going to move because we can impose capital controls.” And then Japan and Germany getting caught and, you know, feeling like the whole thing is going to fall apart if they don’t do something. So finally, Japan and Germany decide that, yeah, they’ve got to do something. And then, I guess, Nixon and Pompidou get together in the Azores Island.

Ezra Solomon: That famous 7.89 percent.

Robert L. Hetzel: Yeah, which I suppose the State Department had something to do with that.

Ezra Solomon: I didn’t think so.

Robert L. Hetzel: No, “Let’s get on with this.”

Ezra Solomon: Why 7.89 precisely? God alone knows. And Nixon came back pleased as punch over this.

Robert L. Hetzel: Well, but I think Nixon probably didn’t have his economic advisers there with him, Paul Volcker and the others, telling him that wasn’t enough. And because of international considerations, he was willing to compromise. He was willing to go along with it because, you know, he still was having problems with the Vietnam War.

00:25:06

Ezra Solomon: That’s true, that’s true.

Robert L. Hetzel: He was still [unintelligible 00:25:14] withdrawal as negotiations weren’t going well.

Ezra Solomon: I guess this is where all the [unintelligible 00:25:24] problems come in. They were very powerful people, believe me. They stalled the whole thing politically. There was Volcker who really wanted to play a central role by negotiating. And there was Connally, a very powerful man, by the way. And a personality part.

Robert L. Hetzel: Well, when people talk about Connally, they say he had a sense of charisma.

Ezra Solomon: Oh, yeah, definitely.

Robert L. Hetzel: That he didn’t have any principles of his own. Somebody told me that one of his favorite expressions was, “I’ll slice it and dice it any way you want me to.” So “I’ll do whatever you want.” But then when he would go out in front of the cameras, he had this sense of self-possession.

Ezra Solomon: Tremendous sense of self.

Robert L. Hetzel: Sense of leadership. And I guess the story must be right that Nixon admired that.

Ezra Solomon: Definitely. No question about that. In the saddle when he was present in a room.

Robert L. Hetzel: And so Connally became Treasury Secretary in early '71? February '71?

Ezra Solomon: Yes, it was. That's when Kennedy left and Connally took over.

Robert L. Hetzel: And then through the Camp David period. Then, I mean, ultimately, given Connally's dominance, wage and price controls were just a matter of time, it seems like.

Ezra Solomon: I was adamant. If you devalue you're going to need a freeze in prices before everybody wants [unintelligible 00:27:01]. Like the Mexicans have the same problem every time they have to devalue.

Robert L. Hetzel: Because...

Ezra Solomon: They go on to an equivalent increase in wages and we just create more inflation. In order to freeze things, you give people three months out of a six-month freeze, people will think about it carefully before they do something stupid. You know, labor was quite militant in those days if you'll remember. Just one less strike against General Motors, a long, long labor strike. But the idea of wage and price controls following the freeze I thought was dumb as hell and, uh, said so. And I got dressed down for that, too, saying, "How blind can you be? If you have a freeze, you've got to follow it with a long period of wage and price controls." I said, "Why?"

Robert L. Hetzel: Well, the argument was that then prices jump up and then that kicks off the inflationary psychology of [unintelligible 27:59].

Ezra Solomon: Prices wouldn't drop out.

Robert L. Hetzel: Well, also, the problem was that the freeze was such a political success. You got such a positive response from it, how could you give it up?

Ezra Solomon: I was arguing for a six-month freeze followed by no wage and price increase. Other people were saying three-month freeze, all the country can take. I said, "No. This will take six months." And it doesn't have to. The old wage and price control guys were dragged out from World War II. And they all seemed to believe strongly that administered prices and wages for a long period was necessary. This is where Herb Stein got caught in the middle as his son teased him [sounds like 00:29:00] would say. Intellectually, it's a vile thing to do. But you emotionally loved it, you know. [Unintelligible 00:29:10].

Robert L. Hetzel: We'll talk more about him later. But let's go back and let me ask you about some of these individuals. Some of them, of course, were important before you came. The Treasury never had the influence before Connally that it had traditionally. Kennedy didn't have a persuasive, strong personality? Was that the problem?

Ezra Solomon: Very nice, meek man.

Robert L. Hetzel: Very religious, I understand.

00:29:54

Ezra Solomon: Very religious. And indeed, the troika meeting—this is the Hawaiian Karaibow scene [sounds like 00:29:59]—the troika meetings used to be held in a hotel room because in Washington, as you know, the unwritten rule is that “you come to my office when we meet.” That shows the pecking order, very simple. It was just true.

Robert L. Hetzel: Sure.

Ezra Solomon: And therefore, if the meetings were held at the Treasury, it would mean the Treasury is the top dog. If the meetings were held at the Council, it means that the Council is top dog. Whatever. So they would meet in this goddam hotel [laughter]. And Kennedy went along with that. After Connally arrived on the scene, it was perfectly clear who was top dog. All the meetings were held in the Treasury. You know, what they called T-1 in those days. The three top people in troika.

Robert L. Hetzel: So Kennedy, how had he been chosen? Had he been active in Democratic politics?

Ezra Solomon: In Republican politics.

Robert L. Hetzel: I'm sorry [laughs], Republican politics.

Ezra Solomon: You know, I don't know. I just don't know. I was away from the scene after the 68th election. My only contact with it was Shultz. Shultz had been asked to go as Secretary of Labor. And we discussed it at length. And he was here at the diamond standard and the think tank. And so my only contact with Washington was via Shultz. So I don't know just how Kennedy got selected. He was a banker.

Robert L. Hetzel: The initial major decision in the Nixon administration was whether to support an extension of the tax surcharge, the 10 percent surcharge. So at that point, Nixon's main advisors would have been McCracken?

Ezra Solomon: McCracken.

Robert L. Hetzel: How much access did McCracken have to the President?

Ezra Solomon: Quite a bit. Quite a bit. The President liked McCracken and he liked Stein. He liked the Council, let me put it that way. And I felt anytime that one wanted to see him, one could. And he'd spend time talking seriously.

Robert L. Hetzel: Did he have regularly scheduled meetings or was it just when something came up?

Ezra Solomon: It was ad hoc. But given the conditions of the times, of course, the meetings were much more frequent than normally would be the case. And the exchange of memoranda would take place.

Robert L. Hetzel: And McCracken just didn't want to leave academia for an extended period of time, so he came for two years and left?

Ezra Solomon: Paul was there through '69?

Robert L. Hetzel: I guess through '71. So yeah, three years.

Ezra Solomon: He left in December '71.

Robert L. Hetzel: Yeah.

Ezra Solomon: He left in December '71. He was there three years. But I guess he was getting tired and wanted to get back to academia. And indeed, he had nothing to do with writing the '72 report. He said, "Look, I'm leaving. I shouldn't be sitting here in December dictating to you guys. I'll go quietly."

Robert L. Hetzel: Is Kennedy still alive, do you know?

Ezra Solomon: I don't think so, no. I don't think so. He was a very, very nice man. I can say that.

Robert L. Hetzel: Yeah. What about other players at the Treasury? Charles Walker; did you know him?

Ezra Solomon: Yeah, I knew Charles. Charles was very political, obviously.

Robert L. Hetzel: And that group was in favor of wage price controls from the very beginning, it appears. They seem to have the conservative businessman idea that labor was out of control and they needed some way of restraining labor. So Romney, Kennedy, Walker, even Volcker, I think, were initially, from very early on, sympathetic toward controls.

Ezra Solomon: You know, I wouldn't say that. I think the idea of control began to emerge after the idea of a freeze had emerged.

Robert L. Hetzel: Okay. In comes policy. Aggressive jawboning in dealing with particular sectors like the construction industry.

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Ezra Solomon: The construction industry was being very opportunist. No question about that. The demands were getting ridiculous. But State and local employees, as well. They were scared that inflation was going to break out.

Robert L. Hetzel: The GM strike, you mentioned that that must have had some effect in changing attitudes.

Ezra Solomon: I'm sure. I was not there at the time, you know.

Robert L. Hetzel: Because by early 1971, Paul McCracken is working with the Justice Department with Mitchell on law for a special tribunal to try economic crimes, to try abuses of power, which seems, in the context of an American government, a very sort of surprising idea. How do you define an economic crime? Well, it was going to be concentration of power. But it seems rather an extreme idea for a conservative Republican. So if he was at that point, there must have been a change in attitudes early on. Stein seems much more pragmatic or maybe opportunistic, I think, is rather the right word. In the memos, at least the ones dealing with monetary and Fed policy, which is the one I'm interested in, McCracken comes across as the good cop; the one who's the confidante of Arthur Burns and the close friend. And Stein comes across as the bad cop; the one who's aggressively pushing the Administration and Nixon to crack down on the Fed and pursue higher money growth. And Stein seems to dislike controls and incomes policy intellectually, but he, from very early on, talks about using it as a way of trading with the Fed about, you know, "We want higher money growth. If that's the price, if that's Burns' price, then, you know, let's talk about it." Does that sound right at all? That's the impression I get from the [unintelligible 00:37:11].

Ezra Solomon: Can we switch off now [sounds like 00:37:21]? [Tape turned off and back on]

Robert L. Hetzel: Yeah.

Ezra Solomon: Anyway, Nixon comes along and says—this is when I was alone with him—"God knows why or what I'm doing." "Well, just talk about China." He knew I was from Burma and he would come to the script of Burma [sounds like 00:37:40]. And what a memory that man had, I swear. Burmese names, individuals he'd met.

Robert L. Hetzel: He was a very able guy.

Ezra Solomon: Very able. And this was an unrehearsed meeting, so he couldn't look [unintelligible 00:37:57]. And why would he do that, anyway? And that was the end of that. He said, "What do you think about the economy?" I said, "Well, it's still very slow." And he said, "Why don't you goose off to Burns?" And I said, "Sir, why don't you goose off the Burns?" And he said he speaks only to [laughs] and he raised his hand up. Which I thought was very funny. And then after the description of Arthur. You know, Arthur was a

very pompous man. We met fairly regularly. We had monthly luncheons with the Fed, McCracken and Stein, myself.

Robert L. Hetzel: But Nixon didn't trust Burns, really, but Burns thought of himself as the Counselor to the President.

Ezra Solomon: Yes.

Robert L. Hetzel: That he had been Eisenhower's aide-de-camp and that he had earned Nixon's loyalty in the sixties. And he always saw himself as kind of a fatherly councillor to the President. Like he had earned that position.

Ezra Solomon: Definitely, that was his view.

Robert L. Hetzel: But Nixon was suspicious of Burns. He didn't really trust him. I mean, Burns just misjudged his relationship with Nixon.

Ezra Solomon: You know, Burns would do things that Chesney Martin hadn't done, which was come over to the White House and spend time with the President, in some sense sacrificing the poor Independents in the Fed. But he would do that. And they would have meetings, one-on-one meetings, without anybody knowing.

00:39:42

Robert L. Hetzel: This gets into Burns' personality. I think there are two things, the second one probably being much more controversial. Burns had the old Mitchell MBER [phonetic 00:39:57] view of the business cycle. And he attached a lot of importance to the psychology of the businessman. And Burns thought that he had prevented the '53, '54 recession from turning into a depression. And that what remained for him now, since he had shown how you could eliminate the depression part of the business cycle, was to show how you could combine prosperity with low inflation. But to do that, given his view of how the world worked, government needed to be very proactive and it needed to intervene in a wide variety of ways in the economy. So Burns not only wanted to be Fed chairman, he wanted to be Secretary of the Treasury, he wanted to be head of the Council of Economic Advisors. He wanted to manage and run and initiate a whole variety of government programs and activities. Fiscal policy. Not only fiscal policy with respect to taxes and the deficit, but investment tax credit, specific kinds of intervention. And to do that, he had to be part of the Nixon Administration. And so he was willing to come to the table. He wanted to come to the table as a player, and the only way you do that is to bring something to play with. And he had his monetary policy. That's one thing. Does that sound right to you at all?

Ezra Solomon: About correct, yeah, I would say. He did feel he was Counselor to the President, more than Chairman of the Fed.

Robert L. Hetzel: And the other thing which is much more speculated except that I came to feeling this because there's so many letters from Burns to Nixon exhorting Nixon to

show leadership and telling Nixon in this almost Biblical terminology that he has to be the one to lead the country out of its difficulties. And in the environment at the time, people felt threatened. There was the civil rights movement. The middle class felt its values were threatened by hippies with the long hair and the demonstrations in the streets. People who had lived through World War II thought that their patriotic feelings toward their country were being threatened by students in the street. There was a sense of impotence, of how can a world power lose to a third world country in Southeast Asia? So in this kind of political environment, it was natural for someone to put together a coalition of people who were aggrieved. And Wallace was the first one to do that.

And then with the inflation, there is this feeling that powerful forces were threatening your well-being. And the consumer thought it was greedy corporations. And businessmen thought it was labor out of control. So you had an environment where people like Connally could put together political coalitions telling people that yes, they were threatened, but, you know, strong leadership is going to protect you. It's going to save you. We're going to deal with the people who are threatening you, whether it's the foreigners who are trading unfairly or the labor unions or greedy corporations. I think Burns was caught up in that. And he thought Nixon could save the country through leadership. And this worked right together with Nixon's views of the importance of confidence and how strong government leadership would give the country a sense of self-confidence that would cause investment to continue to expand. And so Burns wanted to be in a close personal relationship with the President as a way of being the one who would inspire him to that leadership that would carry the country through. And it sounds crazy, but there are so many letters like that.

00:44:52

Ezra Solomon: He didn't impress Nixon in part because he was so pompous, you know, whereas Connally was a very different kind of guy and charmed Nixon. And Nixon wasn't [unintelligible 00:45:03] to charm. Connally clearly had, call it *liebeschaum* qualities. People would follow him. Even Charles Walker, for example. The Secretary of the real boss [sounds like 00:45:22].

Robert L. Hetzel: But Nixon was very politically astute, and so was Connally. We talked about the wage-price controls and the devaluation; how to package government actions to show that you're in control, that you're doing something, that you're responding to this need to show leadership. But in Burns, there was a naiveté about it. Burns is exhorting Nixon to establish a wage-price review board, engage in jawboning. And Nixon is saying, "Well, they won't tell you this in Sunday school, but nobody's going to pay any attention to that. We can exhort people all we want, but people are going to do what's in their own self-interest." That wasn't his words. So Connally must have seemed much more politically realistic, had his feet in the ground, to Nixon.

Ezra Solomon: And I guess Connally had many of the qualities that Nixon wished he had as a human being. The man was a charmer, no question. In fact, I made a

comment to my wife that he reminded me, in terms of charm, very much of Dickie Mountbatten. If Mountbatten had only been gone...

[END TAPE 1, SIDE A]

[START TAPE 1, SIDE B]

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Ezra Solomon: But it was a very touchy subject. Throughout this whole international problem it was quite touchy. I'll not forget just writing that report. We were down to just Herb Stein and myself on the Council for a long time. And normally, you know, the Council would write its report and send it around for comment to various departments involved. But this time, Paul, Bob Solomon of the Fed, actually came across and said, "Let's get this chapter right, just right. It's a very important chapter this year." When I said, "Yeah, I welcome your help." So everybody was very conscious at the end of '71 that the international had emerged as a problem. And that's when, I don't know, Shultz' arrival as Secretary of the Treasury changed everything. Quite. The whole attitude became very different. It became much more professional.

Robert L. Hetzel: Well, Shultz was a marvellous economist to begin with. And he had a sense of integrity.

Ezra Solomon: Yes, tremendous sense of integrity.

Robert L. Hetzel: And he could define issues and build a consensus. So he ultimately helped. Like, I guess, the way Nixon got us out of the war, Shultz got us out of the wage and price controls.

Ezra Solomon: Yes.

Robert L. Hetzel: And it looked, in the spring of '73, reading the memos and the letters coming from Congress, it looks as though we might have a wage-price bureaucracy that stays with us forever. Inflation was high. Food prices were rising dramatically. It seemed like an environment that how could even think about getting the wage and price controls? It looked like a defeatist attitude. This jumps ahead, but that's something that my memos that I've been able to see, they're very—they're very weak on is how we really got out from the wage and price controls when it looked like they might become a permanent part of the political landscape.

Ezra Solomon: Yeah, my last conversation with the President was the day I was going to leave Washington. He threw a little breakfast in my honor, I guess. Just three members of the Council. Marina was now on the Council.

Robert L. Hetzel: So this was '74.

Ezra Solomon: No, this was '73. I left in March '73, making it exactly two years that I had taken leave from Stanford. And the president wanted to talk about beef prices.

Robert L. Hetzel: Yes. Yes, I have that.

Ezra Solomon: That was the thing most on his mind was beef prices. Anyway, he was very talkative that morning. And Pat had to go off and open a rose garden or something. It was her birthday. 17th of March or something like that. And she went off. And Stein had to give a speech and he excused himself. And the President was still in a very exuberant, talkative mood.

Robert L. Hetzel: He was already under pressure from Watergate at this time.

Ezra Solomon: Yes. And he said to me, "Okay, now. Dr. Solomon, I'm sorry to see you go back to Stanford, but I admire the fact that you're keeping your word to the University. It's a great University," and all the sort of stuff. "Tell me, tell me, what is our biggest problem now?" "You poo-pooed the beef business," and I said, "Watergate." He said, "What?" I said, "Watergate." Well, obviously, we'd been told by Haldeman if anybody mentions Watergate in front the President, he'd have his testicles the next day. That was the very command that came down from on high. So we spent another half hour with him telling me that Watergate wasn't a problem. And Haldeman came in. And he said, "Got to get you out of here, Mr. President." Then John Dean came in. And the [unintelligible 00:04:42] President had an appointment to see John Dean that day. He was going to learn it straight from the horse's mouth that Watergate [laughs] had become a very big problem. But I'm convinced that he didn't think it was a problem. Or why would he spend that much precious time with me? I mean, I was leaving that day. And who the hell was I, anyway?

00:05:04

Robert L. Hetzel: Nixon was such a capable person. Politically, he was—I guess this is Safire's word—surefooted. And certainly, in the international scene he could act in a bold and decisive way. So what was the fatal flaw, sense of paranoia?

Ezra Solomon: Hm-hmm [affirmative]. I would think so. And being misled by what I call slipper carriers. In the old Burmese days, there used to be a custom where the monarch would go to the pagoda. And of course, he had to take his slippers off. But being the monarch, he'd hand them to slipper carriers. But the slipper carriers [unintelligible 00:05:53] be seen like that. So he had his own slipper carrier. So when he talked about the royal entourage, you had to realize how many steps down you were getting orders from. I

mean, whose slipper carrier was Chuck Colson? Obviously, Haldeman was Nixon's slipper carrier. And it went all the way down to the Deans, all speaking in the name of the President. Combine that kind of extra dedication, I'd walk over my mother's grave if the President asked me to do that. I guess they got the idea that we can please Mr. Nixon. That was my interpretation; that he got suckered into it.

Robert L. Hetzel: The person at the top can become very isolated. It's very easy to become surrounded by people who...

Ezra Solomon: Sycophants.

Robert L. Hetzel: ...tell you what you want to hear.

Ezra Solomon: Absolutely.

Robert L. Hetzel: Because your status is defined by your access to the President. And the people who compete for access to the President are the ones who want that sort of status. I mean, they tend to be people who say whatever they need to say to get into that kind of...

Ezra Solomon: What's surprising is that...

Robert L. Hetzel: ...position.

Ezra Solomon: ...he went along with this. I mean, either chutzpah or—because every time I gave him proof, what one of us called advice. He would always say, "Let me think. What do we gain? What do we lose?" Most of the contacts with him had very little to do with macroeconomics. It had to do with, for example, crop shortages. Why don't we free this acreage, you know.

Robert L. Hetzel: Right.

Ezra Solomon: And I happened to be chairman of that committee. So I suggested that my view was free all acreage. No more acreage restrictions whatsoever. And the President said, "I think it's a good idea. What are we going to lose? What are we going to gain," you know. "How many votes are you losing and gaining?" All the time. Then he said to me, "You tell Earl Butz." I said, "No, sir, you tell Earl Butz [laughter]. I'm not going to tell Earl Butz." But I was surprised that he didn't do the same thing when he was confronted with the idea of breaking into Watergate. He didn't say, "What have we got to gain compared to what we might have to lose?" The gain was, obviously, [unintelligible 00:08:38].

Robert L. Hetzel: But that's where the sense of isolation must come in. And a person at the top doesn't say, he doesn't say, "You break into Watergate." He says, you know, "We have problems here. There are people who wish us ill. You deal with that problem." And then later on, you get problems that, "Well, we'll take care of them." And you get in deeper and deeper. And the people at the top don't want to go to Nixon and say,

“Gee, you know, I misled you, you know. You could have my head [laughter].” So pretty soon you’re in too far. You’re in too far to get back. And like with the crop acreage is to lay out, like an economist does, is lay out hard options and let you think about what the trade-offs are, what the choices are. You’re only having people there telling you, “Well, you know, this is what we can do to get through.” But I think it’s too bad. I think Nixon is caricatured now because people have trouble thinking about a complex individual. So you’re either successful or you’re not. And if you’re not successful, you need to know your view of somebody is colored by that. So you know, you have to be clumsy and incompetent. But you know, he wasn’t that way at all.

00:10:12

Ezra Solomon: No, he was a remarkable person in the sense that his apparent holiness and dishonesty increased as the square of the audience. One on one, there was never any reason to think of him as dishonest in the sense that he appeared when the whole country was watching him on TV. “Do you actually believe me? Would I lie to you,” sort of thing. Very unsure. Here again, his sycophants would not let anybody comment on the fact that maybe the President didn’t come through so well. You know, you used to watch his speeches. And one way you do is comment on it and can’t say anything about delivery, only about [unintelligible 00:11:05].

Robert L. Hetzel: That’s funny because I remember watching the Nixon/Kennedy debate in 1960.

Ezra Solomon: Exactly.

Robert L. Hetzel: And he lost the election because he came in looking so haggard. You know, he needed somebody to...

Ezra Solomon: To tell him that.

Robert L. Hetzel: ...tell him that.

Ezra Solomon: And certainly by 1970...

Robert L. Hetzel: [Laughs] He should have known, huh. Maybe Pat should have been the one who was more forceful with him. In terms of the President weighing off costs and benefits of economic programs, when he was thinking about wage and price controls, I know from the memos, this came up very clearly in November and December of 1970 because when the decision was made that GNP was going to grow too slowly to move the unemployment rate down significantly by summer 1972 and the decision was made to go for higher GNP growth, you know, the issue came up with how to deal with the Fed. And when Burns felt that he had more leverage, then he restarted his campaign for an incomes policy. He must have had the sense that, you know, “I have something that they want.” Okay. And then so Burns gives his speech at Pepperdine College and goes public numerous times before Congressional committees, in a way that must have been considered very provocative by the

Nixon people. So early on, there were discussions of incomes policies. And as I mentioned, Nixon comes across as very sceptical of anything short of wage-price controls. And his people would just ignore him. So that must have been one factor. But how important was the concern of the Nixon Administration for labor and their negative reaction? Was that a factor in putting off the decision?

Ezra Solomon: You know, I had little to do with it. I used to hear Billings [phonetic 00:13:24] mentioning the phrase, “incomes policy.” And a good source of that might be—Have you seen George Hilson’s [phonetic 00:13:31] book on the subject?

Robert L. Hetzel: The book he wrote with Dan? Kenneth Dan.

Ezra Solomon: Not that. He wrote another one with someone else on incomes policies.

Robert L. Hetzel: But wasn’t that something in the 1960s?

Ezra Solomon: It was after...

Robert L. Hetzel: Guidelines?

Ezra Solomon: Yeah. Guidelines or Guideposts or something like that.

Robert L. Hetzel: That was in ’66.

Ezra Solomon: Yeah. But this reflects his deal. And he never changed his views about that. He was very close to labor. I think he’s the only Secretary of Labor that George even would trust.

Robert L. Hetzel: Yeah, well, I need to talk to him. Some of the unions supported Nixon, didn’t they?

Ezra Solomon: Yes. Teamsters particularly.

Robert L. Hetzel: What about the construction unions?

Ezra Solomon: No, not the construction unions.

Robert L. Hetzel: No. It was mainly the Teamsters.

Ezra Solomon: Mainly the Teamsters. He was very welcome in the White House. I forgot what his name is.

Robert L. Hetzel: Hoffa.

Ezra Solomon: No, not Hoffa. The successor. Hoffa’s successor. Irish name.

Robert L. Hetzel: Yeah, I'll think of it. Okay. Let me go through some of my notes, if I can. So these start before you, but the Nixon Administration, economic policies, they went through a cycle. There was gradualism and then 1065, which is, we need to grow faster. And then there was kind of go for growth with the controls. And then in '73 it was more, steady as she goes, let's try to maintain some real growth and hope inflation comes down on its own. And then you go back to gradualism and you go back to the original policy. Maybe we could work through each of those a little bit. The Council told Nixon basically that they could bring the inflation rate down and they thought full employment was four percent unemployment and that you'd have some rise in unemployment above that, maybe to four-and-a-half percent, but it really wouldn't go much above that?

00:15:51

Ezra Solomon: No. No. I don't know what happened early on, but I do know I've gotten in big trouble with Bill Proxmire when I suggested in December 1972 that the equilibrium rate in unemployment was now 4.9.

Robert L. Hetzel: So this was in December of '72.

Ezra Solomon: December of '72. I had hearings before the Joint Economic Committee. He was chairman at that time. All my calculations had shown that if Paul had been correct in 1965, it was promulgated from on high. Then due to structural changes, it was 4.9. He gave me hell.

Robert L. Hetzel: Proxmire did.

Ezra Solomon: Hm-hmm [affirmative].

Robert L. Hetzel: Yeah. Yeah. Yeah, he was very political. Later on, in '74, especially, when inflation was so obviously out of control, then he attacked the Fed for high money growth. At this time he was pushing Burns as being the catalyst.

Ezra Solomon: Yes, he was pushing for 3 percent unemployment [unintelligible 00:17:10]. But I said to him, "Why not zero, for God's sakes? You're going to be pious, let's go the whole way [laughter]." And he said, "Don't be foolish."

Robert L. Hetzel: There's a memo, very early on, from Herb Stein to the President where he talks about the unemployment rate. And he says, "Look, the demographics are changing. You're getting—First of all, you're getting very high rates of growth of labor as women enter the labor force. And you're also getting a changing demographic composition. You're getting younger workers and you're getting more female workers. The unemployment rate may be higher." And then there's a very sharp political reaction that all the Republicans are insensitive to the unemployment of women. They are insensitive to the unemployment of minorities. And so on and so on. So I had the feeling that the word must have come down that you can't talk this way because it suggests an insensitivity to, as I say, women and minorities and so on. So that it was really off limits to talk about a changing natural rate of

interest. And for political reasons, you couldn't go around and say, "Well, it's five percent now."

Ezra Solomon: Yeah, there was some feeling on the part that it is not a nice thing to say. But dammit, a bunch of economists [sounds like 00:18:50] on the Council is to call it as he sees it.

Robert L. Hetzel: But the Council never challenged Nixon on his assumption that we needed four percent unemployment. Now they're realistic. They're talking about getting unemployment down to, you know, five percent by the summer of 1972. But there's never any memo saying, you know, "This is the wrong target," because when Nixon comes into office, unemployment is three-and-a-half percent.

Ezra Solomon: Yeah, that was wartime.

Robert L. Hetzel: Right. But it does seem as though the Council, throughout this period, accepts Nixon's target for one plan it should be by '72. I mean, Nixon's the boss.

Ezra Solomon: I don't think the Council accepted that. I certainly didn't.

Robert L. Hetzel: Okay.

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Ezra Solomon: And I testify in public in front of the only Congressional committee. I was the only person on the Council for a while, as you know. Herbert lost an eye or something like that.

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

Ezra Solomon: The '72 occasion that I was talking about 4.9 being full employment, you know, Herb was there, but he didn't say anything against my agreeing that. By then, inflation had begun to really start. I mean, the big inflation of '73, '74 had begun by December '72.

Robert L. Hetzel: I gather wholesale price index and food prices and those sort of things had started to move up.

Ezra Solomon: Began to move, yeah. But long before the oil crisis.

Robert L. Hetzel: Oh, yeah.

Ezra Solomon: Long before.

Robert L. Hetzel: Sure. And that's in your book, of course. But even at this point, Burns is very much wedded to controls. Safire talks about a meeting—and this is in memos, too—about setting the target for inflation for 1973. And Burns says, you know, "We

should set the target from one to two percent.” And everybody else is saying that’s completely unrealistic. And then in early ’73, you get an enormous amount of intervention by the Federal Reserve System and financial markets because as inflation goes up, interest rates start to go up. And Burns wants an extension of the Economic Stabilization Act. He doesn’t want interest rates to go up. He feels like what’s going to keep inflation down is the controls on wages. And if interest rates go up, the feeling that there’s a shared sacrifice; that everybody is sacrificing to make the program work; that that’ll be gone and labor won’t support it. So monetary policy continues to be very expansionary. Early ’73 you get all this business about the two-tiered prime and keeping the interest rates for small businessmen low. And those rates fall well below the prime rate. So Burns seems still very much wedded to the idea of controls well into ’73.

Ezra Solomon: He was passionate, I guess, until after Vietnam to think in terms of “we” and it’s a different kind of inflation. It’s modern inflation. It cannot be controlled entirely by monetary policy. You do need some help. Guidelines, guideposts.

Robert L. Hetzel: But McCracken certainly came to that view.

Ezra Solomon: As I say, it was fashionable.

Robert L. Hetzel: Yes. Stein seems to be more agnostic about it. He doesn’t ever express that view that inflation’s caused by monopoly power or labor unions.

Ezra Solomon: The huge push.

Robert L. Hetzel: Yeah. But he’s in charge of the controls program, at least initially. So he’s kind of very pragmatical. “Here we are,” you know. “We’re going to use these things.” I guess it’s in the summer of ’73 that he and Shultz become concerned that the controls might go on forever. And the idea is always that they’re going to be temporary, that they’ll be removed. But I get the feeling by the summer of ’73 that there’s a concern that the parts of the controls will become permanent. Of course, then the energy and cost of controls, they did stay around for a long time. Like rent controls, especially, seem to be an area where it looks like you’re going to get a permanent national program to control rents. And it seems like at that point that they begin to push very hard to get some commitment to phase the controls out permanently.

Ezra Solomon: More Shultz than Stein, in my thought, just judging the two men before.

Robert L. Hetzel: Yeah. Well, that’s my impression, too. And that’s where my memos are weak. And unfortunately, George Shultz is not yet ready to open his memoranda to the public yet. They’re at the Hoover Institute, his papers.

00:25:01

Ezra Solomon: Yes.

Robert L. Hetzel: And I had talked to him. And he said he was willing for me to look at them. And then I called the Hoover Institute and they said, "No, we can't show those to just one person."

Ezra Solomon: I see.

Robert L. Hetzel: They have to be open to everybody. It's unfortunate he's not ready to do that; although there are so many things coming out now that Nixon has died from Burns' paper and Ann Arbor and the National Archives that I would hope he would be willing to get his...

Ezra Solomon: When did he become Secretary? Time gets confused. When exactly did he become Secretary of the Treasury?

Robert L. Hetzel: Well, when Connally left to take charge of the re-election committee for Nixon. So that would have been early '72.

Ezra Solomon: Early '72.

Robert L. Hetzel: Well, the election was in November of '72, but Connally leaves to take charge of the re-election campaign. And so he did that early on in '72. And so that's when Shultz comes from OMB to Treasury.

Ezra Solomon: I see. Certainly, in early '73 he was really talking seriously about he was going to [unintelligible 00:26:24] the dollar, stop hands-on policy. I mean, just mumbling to himself and his close friends. And so I was getting concerned. It was very funny. We moved from fixed exchange rates to [unintelligible 00:26:42] it happened on a [unintelligible]. Nobody sort of did anything. One minute it's perfectly legal to prop the other guy's currency up. And the next one it's totally illegal. It happened fast. And it was dawning on the whole world it was an absurd situation.

Robert L. Hetzel: Hm-hmm [affirmative]. But it wasn't part of an entire strategy. It didn't go along with the strategy for determining the US price level in a monetary way. So without the Federal Reserve System, it was a partial strategy. So I think as Friedman would have said, it was a necessary condition for a sensible domestic monetary policy. But it was not a sufficient condition.

Ezra Solomon: Now, Milton was very close to the scene via Shultz.

Robert L. Hetzel: Yes. And at certain times, especially in fall of 1971 when M1 stopped growing. See, with the announcement of the wage and price controls, there was a fall in inflationary expectations. And the Fed was pegging the funds rate. I think it was five-and-a-half percent. So with that fall in inflationary expectations, the real rate of interest rose, which required a monetary deceleration so that for quite a period of time, you got no money growth. And there are some very strong letters from Friedman to Shultz complaining about the lack of money growth and Shultz complaining to the White House, to Nixon. And then

Nixon writing really amazing letters to Burns. And this is the period where there's so much internal dissention within the Federal Open Market Committee because the Federal Open Market Committee still basically was looking at interest rates. And they were willing to move interest rates down. But they were not willing to move them down very sharply. Their projections were that money growth would begin to rise. M2 growth had already risen. And there was also a feeling that, well, if you move interest rates down very, very sharply, it becomes hard to bring them back up again for political reasons.

And it was at this period where Burns basically just highjacked monetary policy in a very high-handed way; just pushed through his policies on the committee. And one example, the meeting in January 1972. It was scheduled for the end of January. And this was the period where M1 growth was still very low, although the staff was forecasting that it would rise. And it was moving up. It moved up to about two percent. But Burns scheduled a special FOMC meeting for earlier in January to get money growth up to push interest rates down even more sharply. And the meeting came right after the Smithsonian Accord. And of course, with the Smithsonian Accord, the idea was that we would get a capital influx back in the United States to offset the capital outflow. But Burns wanted to push US interest rates down below foreign levels. And so Hayes at New York and staff people like Bob Solomon were against a dramatic reduction in interest rates. FOMC meetings always started off with an international discussion. Forever they had done that. And Burns wouldn't even let the committee discuss the Smithsonian Accord or any of the international ramifications. He said, "We're here to discuss domestic monetary policy."

00:31:03

And there were two directives, an A and a B directive. And B is what Burns wanted and A is what the committee wanted. So Burns said, "Okay. You want A, fine. I'll give you A. But we're going to change the language to make it read like B [laughter]." Anyways, so this was a difficult time for the Fed. Burns ran things very kind of abusive to people. Unless you were a natural follower. And certainly, the Fed had a lot of those people, like Richmond's president at the time. You know, he was not in great favor. He did not lead, like Greenspan, through a sense of collegiality [laughter]. So did you know Art Laffer?

Ezra Solomon: Yes.

Robert L. Hetzel: You know, the 1065 business? So in late 1970, the projections for GNP made it pretty clear you weren't going to get a reduction in unemployment. And Laffer was working for Shultz at OMB at the time. So they figured out, "Well, what GNP target do we need to get a reduction in unemployment?" And then Laffer was the one who told him, "Oh, this is the amount of money growth you need." Remember that?

Ezra Solomon: Yeah. I can't understand how he got away with that, you know. An OMB economist is really this Virginia guy. This is troika two level at which these things are done. And troika one accepts them. But the chairman of troika two is the guy from the Council [laughter]. That was Herb Stein, I think. This was before I went there, you know. And Chuck Partee was the man from the Fed.

Robert L. Hetzel: Yes, he was Burns' confidante. Slipper carrier [laughs].

Ezra Solomon: And how in hell they let OMB get away with its private forecast I'll never know. It was ridiculous.

Robert L. Hetzel: I was a student at Chicago at the time. And the paper floated around Chicago. And everybody was looking at it amazedly because it was simply a regression of nominal GNP on money, except neither series was seasonally adjusted [laughter]. And there is an incredible amount of seasonality in money and GNP. So all the kick was from the seasonal. And the students were scratching their heads. "And this is how policy is done?"

00:34:51

Ezra Solomon: I can understand Art Laffer doing that. I mean, Art was a student of mine. Chuck Partee had been a student of mine. So I know them both well. But he's a serious sort of guy would never let some clown get away with something ridiculous. Yet they did. He may let Burns tell him what to do, but at the troika level, this was [unintelligible 00:34:47] Two or some such name to it. Ed Fiedler, I think, was the guy from Treasury? I'm not certain. But anyway, that 1066 thing was really [unintelligible 00:35:03]. George sort of believed Laffer. You know, he's not a quantitative economist. And someone showed him an equation and a regression. And so this is the case and he'd go for it.

Robert L. Hetzel: Well, the Council seemed to be looking at the St. Louis equations a lot, the regressions of Andersen and Jordan. And so I suppose they thought they were in that line of regression. But you had Chuck Partee as a student?

Ezra Solomon: Yeah, back in Chicago.

Robert L. Hetzel: I didn't know that. I have talked to him. He was the consummate insider. Very, very close to Burns.

Ezra Solomon: Yes.

Robert L. Hetzel: And he's the only person I've talked to that I really had to cajole. He's very suspicious. And I know that he would not have talked to me if I had not been from the Fed. But I've not talked to him about the Burns period. I talked to him about the Martin period.

Ezra Solomon: I see.

Robert L. Hetzel: And so I'm going to call him back. He was a very effective governor because he really knew how to use the F form C agenda [phonetic 00:36:17] and format. And he could talk about the economy and present both views, sound very reasonable, and then say, "Well, this is where I come out," and be very convincing. But it was always for a more expansionary policy. He was very concerned about housing, very concerned about

[unintelligible 00:36:41]. I'm going to hold you responsible for that [laughs]. That must have come from you.

Ezra Solomon: He was the only guy in Chicago who would spend a good part of the money and banking force on [unintelligible 00:36:54]. I thought it was a very, very important chapter in economic history. I mean, it's his [unintelligible 00:37:01].

Robert L. Hetzel: Yeah, but this was his priorities. He thought that government ought to do something for housing. Keep interest rates down and stimulate economic activity. So when was Partee at Chicago?

Ezra Solomon: I taught there between '48 and '60. And sometime in that timeframe.

Robert L. Hetzel: Oh, so you must have had Axelrod, too.

Ezra Solomon: I don't remember him.

Robert L. Hetzel: He was at Chicago and he was at the business school, too. But he wanted to be a high staff of Steve Axelrod.

Ezra Solomon: I know him.

Robert L. Hetzel: Yeah. I've not talked to him yet. I have his phone number. And I will talk. Okay. Did you have contact with Arthur Burns in meetings, personal contact with him at all?

Ezra Solomon: No. No, we met and that's it, though. Luncheon once a month when I was going over to the Fed. Very little shop talk, actually.

Robert L. Hetzel: Yes.

Ezra Solomon: Just keeping in touch.

Robert L. Hetzel: In the Martin era, it was very easy for board members, especially, to talk with members of the Council. The relations were close at all levels. But Burns always wanted everything to go through him. And he was very cagey about monetary policy. I mean, I have the feeling that his leverage came from his control over money. So if he ever committed himself, he would lose that leverage. So I have a feeling he never said, "Okay, you know, you want six percent money growth, I'll give you six percent money growth." And I don't think it was because he, you know, wanted, you know, believed somehow abstractly in Fed independence. I think it was more that that was his source of leverage. And although once he got what he wanted, which is the controls, you know, Camp David, he really was committed because he had gotten everything he wanted. And then there was no way he could then not follow an expansionary monetary policy.

00:39:53

But despite all his sense of sophistication and his experience in Washington, he seems to have been manipulated. I mean, on the one hand, he was very tough in fighting for what he wanted. In '71, he wanted tax reductions and the Administration wanted to get Social Security increases. He wanted investment tax credit. Of course, he wanted elimination, Davis-Bacon Act, crack down on the construction industries. So looking at this period, when he felt like he was being excluded, when his views weren't being listened to, he had no compunction about going public; giving speeches, talking before congressional committees and saying things that Democrats, you know, wanted to hear that they could use as ammunition against the Republicans. So he could be very effective in public in needling the Administration. And then the Administration would need him, but they could, despite all Burns' sophistication, they could manipulate him. They could say, "Okay. You know, you will represent us at this international conference and we'll take your advice on these international issues." And then he would come back and want to be part of the Administration again. So that whenever the Administration really needed him, it's like he was there.

And ultimately, Burns thought leadership and confidence and fiscal policy interventions were the most important. Stein and the Council thought monetary policy was the most important. So they needed each other. And they would kind of warily circle around each other. And ultimately, each got what they wanted. Stein and Nixon got an expansionary monetary policy and Burns got all kinds of fiscal measures and, ultimately, wage-price controls. And the country got [laughs] inflation.

Ezra Solomon: Lots of inflation [laughter].

Robert L. Hetzel: Oh, gee. It's ironic how many good people the Nixon Administration had as economists and how badly things turned out. But I think when you write the history of this period, it's like the Civil War when everything goes back to slavery. In this period, everything goes back to the war. The war had created such...

Ezra Solomon: Vietnam, you mean.

Robert L. Hetzel: Yeah. Such a poisonous political environment and such divisions and such an environment where people felt, as we talked about the politics of scapegoating. We think the political environment today is difficult and the problems are difficult. But they were really much more then. And the country was in real danger.

Ezra Solomon: I remember the convention of '72 we had somewhere in Florida, I think.

Robert L. Hetzel: Yeah. I think nobody wanted to repeat Chicago '68. So I think Miami was probably the city. It was a safe city. They wouldn't have it there today.

Ezra Solomon: Although, even then there were threats and students or someone marching on the convention. There was a lot of security surrounding the place.

Robert L. Hetzel: I'm sorry, did I interrupt you?

Ezra Solomon: No.

Robert L. Hetzel: In terms of individuals, as I say, there seems to be advice coming from so many different sources. Peter Flanigan writes memos that are really kind of quite intelligent and quite well-reasoned.

Ezra Solomon: He was sort of the economics man. There were a few of them. Haldeman, Ehrlichman and Peter were a notch below the other two. In a sense, Peter sort of reported to the two of them. But he was the brightest in terms of economics.

Robert L. Hetzel: And he seems pretty in the Shultz-Friedman free market view. And he seemed to have kept his free market views much longer than others, even after the feeling that labor unions were sabotaging the recovery. You wouldn't have his address, would you? Or do you have contact with him?

00:45:11

Ezra Solomon: No, I've lost contact completely.

Robert L. Hetzel: I have some idea. Somebody said he was on a board of a bank.

Ezra Solomon: Oh, I'm sure he's on a board of a bank [laughs].

Robert L. Hetzel: Well, yeah, but they had the name of the bank. So I have some clues.

Ezra Solomon: His dad was chairman of Manufacturer's for a long time.

Robert L. Hetzel: Oh.

Ezra Solomon: The old man's dead now.

Robert L. Hetzel: Yeah, but maybe the son is on the board there because he would be an interesting person to talk to.

Ezra Solomon: Yes. He'd sit in on many, many meetings and sort of keep notes for the President, essentially.

Robert L. Hetzel: Marina Whitman is retired now, I assume?

Ezra Solomon: Marina is retired. She went to General Motors for many, many years. Well, I think she's still at Ann Arbor. She's teaching at Ann Arbor.

Robert L. Hetzel: Oh. Oh, okay. So then Paul McCracken would know how to get a hold of Marina.

Ezra Solomon: Yes.

Robert L. Hetzel: What about some of the more junior people? Cole, C-O-L-E. What was his first name?

Ezra Solomon: Ray? No. Colson I remember well.

Robert L. Hetzel: Colson. You do remember Colson. Then in July...

[END TAPE 1, SIDE B]

[START TAPE 2, SIDE A]

Ezra Solomon: Then [unintelligible 0:00:03].

Robert L. Hetzel: I have not yet read through his diary, but I have it on CD-rom. It's indexed.

Ezra Solomon: He was sure a compulsive guy. And it has nothing to do with monetary policy, but it shows the kind of guy he is, as I say, Stein had one eye went to hell.

Robert L. Hetzel: Yes, but you got to get...

Ezra Solomon: On a rope or something. It was a strange thing. Pressure and blinded in one eye. And the doctor called me and said, "This guy has to stay in bed. He's dying to come to work."

Robert L. Hetzel: So when was this?

Ezra Solomon: This was just about the time we were writing in the fourth floor [sounds like 00:00:52]. The year '72. It was therefore January '72. McCracken had left in December '71, I think. And then this happened to Herb. And the rules were that the chairman of the Council had the right to be picked up by a White House car. The two members could use a White House car, but not to their homes. You could order it to come next door, but not to the house. So when Herb was getting very agitated and demanding to come in, I called up Haldeman's office and said, "Try to make an exception," you know. And "He's the de facto chairman. You're going to make him chairman within a few weeks. So for God's sakes, stop being petty. Send him a car to his house or he'll go blind otherwise. He shouldn't drive his own car." And he said no.

Robert L. Hetzel: Because he thought that would just upset the status...

Ezra Solomon: Yes.

Robert L. Hetzel: ...of things and make Stein more important than he really was?

Ezra Solomon: “Well, within a week, he’s going to become chairman, and then he can have the car.” It was that kind of pettiness that struck me as being stupid. But Ehrlichman I saw a lot of. I thought he was an intelligent fellow, although occasionally he would try to dissuade me from things that I would want to suggest. And I refused to be dissuaded.

Robert L. Hetzel: And these had to do, for example, as you mentioned, there was the perception that if the controls were going to work, labor had to go along with it. You had to keep wage rates down. But if food prices kept going up, you couldn’t get that support. So the Council was suggesting things like getting rid of the acreage limit. So that would have been the kind of thing that...

Ezra Solomon: Exactly.

Robert L. Hetzel: ...he would have said, “Well, you know, that’s too critical.”

Ezra Solomon: Yep. And he would say, “My stomach tells me,” he said, “that that’s wrong.” He was a conciliatory fellow. He’d say, “I can see why you’re saying that. I can see why it’s probably correct. But my stomach doesn’t,” you know, meaning politically, it’s not good. But Haldeman was the economics guy. Other than have the title of domestic policy, but in through economics. And Ehrlichman had his Haldeman and Haldeman had his Ehrlichman. And if you [unintelligible 00:03:43] [laughter] a lot of second level people.

Robert L. Hetzel: Well, you see that within the Federal Reserve System, too. Some people are leaders and some people are followers. And there aren’t very many leaders. There are only a few. And it’s well-established who the leader is. And if you challenge, to challenge the leader is a very lonely thing because nobody’s going to support you. That’s the kind of environment. And people aren’t secure enough with themselves to do so, partly because to get to the kind of position of importance, you have to spend most of your time doing administrative things; making things run, making things work, seeing that things get done. So when it comes to challenging the leader talking about issues, it takes a lot of self-confidence and a lot of ability to talk and articulate ideas that you don’t naturally have. So it’s very hard. It’s just there’s this logic to follow the leader. It’s very hard to do something about. And if you do, you make other people feel uncomfortable. They don’t know quite how to deal with you. So it’s not an easy thing.

The logic in this situation was even though there was a lot of unhappiness with Burns, so hard to deal with him. In an FOMC meeting, I mean, you might disagree with him, but this guy, he could start talking about the behavior of inventories in the business cycle in 1870 and, you know, come through to the beginning. And you know, how could you challenge a guy

like that without feeling stupid? And he would make you feel stupid. I mean, he had no compunction about being abusive or condescending to people. So you didn't challenge him lightly. And then, of course, you had a whole set of staff people, some of whom were very good, but some of whom were there because they were, you know, serving the chairman.

Ezra Solomon: And he was a pompous man. Probably the most pompous man ever [laughter]. Squeaky voice. He always had that pipe in his mouth. And as I say, he'd pontificate endlessly [laughter]. "What makes you think we can control interest rates? We can't control interest rates [laughs]." You know, that's that bang on something [sounds like 00:06:54] [laughs].

[TAPE TURNS OFF THEN ON]

Ezra Solomon: I hope this has been helpful, Robert.

[END RECORDING]