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St. Louis, MO 63166
www.stlouisfed.org

Interview of Robert Stone

Conducted by Robert L. Hetzel

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ROBERT STONE: Virginia, as a matter of fact.

ROBERT L. HETZEL: And from '53?

ROBERT STONE: Yeah.

ROBERT L. HETZEL: And so.

ROBERT STONE: Well, I came to—I finished my course work for a Doctorate at the University of Virginia in '53.

ROBERT L. HETZEL: Did you know Bob Black?

ROBERT STONE: Oh, sure, I knew Bob. I knew Tom Sanders. Is Tom still around? Tom Sanders I think went to work for the Richmond Fed. And maybe he retired very early, I don't know. You know that name?

ROBERT L. HETZEL: No.

ROBERT STONE: Tom Sanders? Oh, okay.

ROBERT L. HETZEL: No.

ROBERT STONE: But I knew Bob Black and Bob and I chatted from time to time over the years and I guess he's retired now, isn't he?

ROBERT L. HETZEL: Yes, he is.

ROBERT STONE: And so I finished my coursework at the university in '53 and under the tutelage of Ray Mikesell. Do you know Ray Miskell at 11?

ROBERT L. HETZEL: No, I did not. I know the name, but I did not know him.

ROBERT STONE: And he was-he was an old World War II, OSS colleague of a fellow named Charlie Coombs.

ROBERT L. HETZEL: That's interesting.

ROBERT STONE: Who was-who was the chief of the foreign research division of the New York Fed. And Ray called Charlie and recommended me to him. And I went up and Charlie interviewed me and hired me.

ROBERT L. HETZEL: Coombs had been a classmate of Kennedy's at Harvard.

ROBERT STONE: Who?

ROBERT L. HETZEL: Coombs had been a classmate of Kennedy's.

ROBERT STONE: Oh, yeah. And so I-I had some of my dissertation finished and I went to work for the New York Fed in May of-of '53. And worked on the dissertation nights and weekends and-and it was accepted and I took my final orals and so on and was awarded the Ph.D. in Charlottesville in 1955.

ROBERT L. HETZEL: So you went into-you went into the research department.

ROBERT STONE: That's right.

ROBERT L. HETZEL: And what—what kind of work were you involved in before you went to the open market desk?

ROBERT STONE: My first job was in the-in the—this was the foreign research division and it was-it was broken down geographically. And I was assigned to the western European unit, as they called it. And then went from there to the Latin American unit. And-and then in 1955, a rather peculiar thing happened. The New York Fed, looking around, decided that it had a lot of economists and some of whom might have some ability beyond economic research. And somehow or other—and they wanted to select some of these people to move into other areas of the bank.

ROBERT L. HETZEL: So that happened with Bob Roosa and Peter Sternlight, too, I guess.

ROBERT STONE: Yeah, well, that's right. And Bob Roosa had already been the head of—well, he was number two in research at that time. Fellow named Hal Rolsey [phonetic 00:03:13] was the head of research. Anyway, they somehow fixed upon me and asked me, you know, if I wanted to transfer to the personnel department of all places. And I said, well, yeah, provided that-provided that a bridge back to research remains open. I didn't want to burn that bridge. Of course they agreed to that. And I spent a couple years in the personnel department, really turned out to be a very interesting thing. It was a new dimension for me and also-also it was-it was very useful, because I got to know the rest of the bank very

well. And-and of course, with my getting to know other people in the bank, they came-they came to know me. And in 1958, they needed a very junior officer in the open market function and they made me an officer and gave me that job. So four years later. To my astonishment, I was running the open market account. So that's-that's the background.

ROBERT L. HETZEL: And kind of tie down on the other end, when did you leave The Fed?

ROBERT STONE: In '65.

ROBERT L. HETZEL: And where did you go then?

ROBERT STONE: I went to the National Bank of Detroit. And –and stayed there for three years and then left there. I got homesick for New York and I got a very nice job offer from the Irving Trust in New York and went back and spent the next 20 years at until my retirement with them. There at the Irving.

[00:04:46]

ROBERT L. HETZEL: Did you continue to follow monetary policy or did you…

ROBERT STONE: Very much so. My-my responsibility at-my responsibility at Irving was managing all their-all their capital market activities which, of course included-included the management of the Irving's investment activity. All this funding activity globally. Money market activity. I got into—later, I was given the responsibility for global foreign exchange trade. And much later, as derivatives developed, I was given the responsibility for developing interest rate swap capability, currency swaps, and so on. So I was in the thick of that all the time and dealt with—my immediate success or at The Fed was Alan Holmes and Alan died and Peter Sternlight took that job. And I was in touch with Alan and Peter frequently all that-all that time. So I stayed close to them, yeah.

ROBERT L. HETZEL: When did you first attend an open market meeting?

ROBERT STONE: February of 1958. February or March of 1958. And my job—let me say the manager of the open market account in those days was Robert Rouse. And of course he sat at the table and gave his report as manager of the account. And my job was to sit in a circle or around the edge of the room with all the other staff members and I took notes. And when I got back to New York, I would write up those notes and give them to Mr. Rouse a day or two later. And those notes helped him recollect some of the things that were said at the meeting that he might otherwise forgotten or had missed while they were being said.

ROBERT L. HETZEL: None of those notes, as far as you know, ever made their way into the New York Fed archives, did they? They would be destroyed after?

ROBERT STONE: Oh, yes, I think, those were just for Mr. Rouse's use. And I don't-I don't think they ever found their way into any archive. No.

ROBERT L. HETZEL: Well, early ’58, in fact, the recovery from recession was in the works but no one realized at the time. Do you have any recollections or debates from your initial meetings or what-what the Fed should be doing given the recession? And at that time, had The Fed become concerned about balance of payment problems, do you remember?

ROBERT STONE: No, not at that point. I think they were—my recollection is that that concern, which became a very major concern three or four years later, concern began to develop probably around late ’58-’59, but I could be off on that. But you know the dollar shortage of the early ‘50’s, a decade later turned into a dollar glut. And I don’t think it was recognized yet that a real glut was developing. Because I-I can offer maybe a little bit of evidence on that. Recession of which you spoke began in the Fall of 1957.

ROBERT L. HETZEL: Right.

ROBERT STONE: And when I joined the trading desk in February of ’58, monetary policy was aggressively easy at—my recollection is the federal funds rate got down to maybe one-quarter of one percent or three-eighths of one percept. You know that’s-that’s pretty easy money.

ROBERT L. HETZEL: Yeah.

ROBERT STONE: Bill Martin used to call them sloppy reserves.

ROBERT L. HETZEL: But I—in congressional testimony, Martin has said that he thought that The Fed made a mistake coming out of the ’53-’54 recession and admitted to later inflation. And he didn’t want to make that mistake again. So I have the feeling that even though monetary policy was easy at that time, that it was on Martin’s mind that they were not going to come out of the recession with, as you said, sloppy reserves for very long. Does that sound right?

ROBERT STONE: Yeah, I think that’s right. I just—his-his bias, if he had one, was not-not to ease excessively. Not to so flood the banking system with reserves that they became in his term sloppy. And I guess a measure of that would be the federal funds rate. But I-I do recall that it got down to one-quarter of one percent. And treasury—three month Treasury bills got down to under one percent. Now whether it was just then or-or a little bit later after the 1959 recession, I’m not quite sure, but, you know, you can find that. You can look back.

[00:09:56]

ROBERT L. HETZEL: Sure, sure.

ROBERT STONE: Reserve [inaudible] [00:09:57] now. But the-the easing was so aggressive, the celebrated two and five-eighths. I remember the episode of two and five-eighths and I think that was in—I think the treasury sold five year—the treasury sold some

bonds with a coupon of two and five-eighths. And they were taken up by heavy speculation and I think that was around May or June-May or June of 1958.

ROBERT L. HETZEL: That sounds right.

ROBERT STONE: May or June of 1958. And then a financial columnist named Joe Slevin who used to write for the *New York Herald Tribune* and who ruled a market letter as well, wrote a-a particular market letter on a particular day and-and expressed the view and gave support for the view that the economy was tutoring around and turning around rapidly. Whereupon, everybody tried to dump their two and five-eighths and it was discovered that the speculation in that bond had gone far beyond the bounds of usual speculation in the sense that a lot of amateurs including, it was said, shoeshine people and everything else had-had invested with little or no margin. And the two and five-eighths goes back to the very low Fed funds rate.

ROBERT L. HETZEL: Yeah. I just pulled up some interest rate figures. Through July of 1958, five year issues were somewhat below two and a half percent.

ROBERT STONE: Oh, right.

ROBERT L. HETZEL: And the-the rate on new issues was less than one percent on three month bills.

ROBERT STONE: Right. Under one percent. And with Fed funds down at a quarter of one percent or whatever they were, it meant that the dealer-the dealer loan rate was very low. And a dealer could-could buy a million dollars' worth of bonds in the name of his—the guy who shined his shoes in the morning and finance them at practically nothing with-with Fed fund rates that low. And there was a big spread between the dealer's financing cost and the two and a half or two and five-eighths and so on and so forth. So it was very profitable until the market turned around. And then it went south in a great hurry.

ROBERT L. HETZEL: Then I'm just looking at the figures here, market rates picked up—reach almost—on short term rates, reach almost the percent by fall. Then they fall back somewhat. When Martin wanted to change short term rates, how did he did it? I read the fair amount of the minutes from this period. The discussion in the meetings is very general and the directive often goes for long periods without any sort of change. I mean I get the strong feeling from reading these periods, from reading these minutes, that Martin himself exercised considerable discretion over what sort term rates, what the funds rate was going to do, given the kind of broad parameters the FOMC set.

ROBERT STONE: Well, my recollection is that interest rates were really—interest rates were never targeted. It was-it was anathema to Martin and to others to-to target interest rates. And that-that grew out of the history of-of the days in World War II and thereafter when The Fed at the behest of the treasury, pegged bond rates.

ROBERT L. HETZEL: Yeah, but surely Martin.

ROBERT STONE: And well, let me go on. So.

ROBERT L. HETZEL: I'm sorry.

ROBERT STONE: And then you had the whole Bills Only controversy. And that was—the bills only-bills only policy was a reaction to the long and unhappy history of The Fed in pegging bond rates.

ROBERT L. HETZEL: Right.

ROBERT STONE: As well. And The Fed didn't want to peg any interest rate. They didn't even want to mention short rates in its directive and did not in those days to my recollection and the directions were very general. And nobody I think dared, you know, in Open Market Committee meetings, say, well, I think the treasury bill rate should be thus and so and we should add some more reserves in order to keep the Treasury bill rate level. And so that was never said. Free reserves was the target. And free reserves I think in everybody's mind was sort of a proxy for short rates, not an exact proxy, but sort of a proxy for short rates. If you move free reserves, you know, then everyone knew interest rates and short rates would go up a bit. And if you moved them up, interest rates would come down a bit. So we talked in terms of free reserves. And.

[00:15:21]

ROBERT L. HETZEL: But surely, I mean, Martin thought and looked through free reserves to interest rates and the fact that the committee itself did not specify a specific target for interest rates, gave Martin a degree of freedom to allow movements on interest rates that he considered desirable. For example, 1959, when interest rates moved up strongly. And in the first part of the year there was a change in the directive and clearly the committee wanted interest rates to move up. But then in August and December of that year, interest rates moved jump again and there's no indication from the directive or Martin's consensus statement or from the general discussion of FOMC minutes that the committee itself had made a decision to move rates up. But Martin, I mean it looks like from going back and reading this period, that Martin was concerned about gold outflows. And he thought rates should move up and he took advantage of the ambiguity in the procedures to kind of get the level of interest rates he thought was desirable.

ROBERT STONE: Well, that's probably right, but he would do that-he would do that through the medium of the-of the FOMC. Martin never got on the telephone from New York and talked to the manager about what the manager should be doing with interest rates or reserves or anything else. I never had a single telephone call of that kind from martin or I'm sure did my predecessor Bob Rouse ever have such a call.

ROBERT L. HETZEL: That's interesting though I mean given what I know about The Fed. It seems to me astounding that-that Steve Axilrod or whoever is not on the phone with the system open market account manager on a regular basis.

ROBERT STONE: Well, we had the 11:00 call, okay. Maybe they still do that, I don't know.

ROBERT L. HETZEL: Oh, sure.

ROBERT STONE: Are you familiar with the 11:00 call?

ROBERT L. HETZEL: Yeah, actually I'm missing it today because I'm talking to you but I'd really much rather talk to you than sit in on it. Yes, we still do it.

ROBERT STONE: But the 11:00 call was usually taken by the board staff in Washington. And one president of a regional bank, I presume today it's the Richmond Fed president.

ROBERT L. HETZEL: Yes.

ROBERT STONE: And we would-we would indicate in the—close to the 11:00 call, we'd describe what was going on in the market, and indicate what if any action the desk was going to take. And that was not in any sense asking anybody's permission to do that. We'd say this is the action we're going to take. And if anybody at the other end of the call, you know the reserve bank president or any member of the board staff felt that that was the wrong action and felt sufficiently strongly that that was the wrong action, then I suppose that person could have gone to Bill Martin and please call this guy at the desk and tell him that he's off the track. But that-that never happened, certainly not in my experience and not on Bob Rouse's experience while I was working with him.

ROBERT L. HETZEL: Okay. But I mean I want to.

ROBERT STONE: Well, let me-let me go back a minute.

ROBERT L. HETZEL: Yeah.

ROBERT STONE: What I'm doing, I'm addressing your idea that-that Bill Martin somehow exercised his influence independently of the committee. I got that little feeling.

[00:19:24]

ROBERT L. HETZEL: Oh, yeah.

ROBERT STONE: But I don't think he did at all. I don't think he did at all. I think he-he was a very persuasive, strong leader. And what he might have said to other members of the Board of Governors when—in their informal sessions, I don't know. But when you got the Open Market Committee meetings which then were held every three weeks, not every six as they are now. Every three weeks. There would be a go-around beginning with the New York Fed as I recall it. The president of the New York Fed I think would go first. And they go around and the presidents of the regional banks, all of them, whether they were on the

committee or not, would give a report on conditions in their district and then make their own recommendations as to whether our policy should-should firm up a bit, ease off a bit or remain the same. And it was expressed pretty much in those terms. And then it would come to Bill Martin. And he would have had the benefit of that discussion and he would have made his judgement as to-as to whether he would have support for any particular move he wanted to make. And then he would start to speak. And at the end, he would-he would express his view. And his view usually carried the day. And he was as I say a strong leader, a highly respected leader. But I can't recall-I can't recall any occasion on which there was a significant body of opinion within the committee against what Bill Martin wanted to do. Bill Martin usually carried the committee with him but frequently with the sense, one or two or three people. And that's-that's the way-that's the way policy got changed. It wasn't Bill martin acting independently of the committee. He acted through the committee. And the committee usually went along with him. You know they were all looking at the same data, although Bill Martin had-Bill Martin had-Bill Martin had additional sources of information. He-he had a high regard for the statistical output of The Fed and for the interpretations those professional staff placed upon those statistics. But for Bill martin that wasn't enough. He would get on the phone and he would talk with business leaders, with labor leaders, with people in agriculture. He had a whole network of contacts, of people. And he would-he would get a lot of anecdotal information, which he would range alongside all the—of the economic data and analysis that had been placed before him and come to a conclusion. Like, hey, one other little thing about it, you know, he used to have an apartment in New York City. And he would come up to the city from time to time. And on a Saturday afternoon, he would go over to the Theater District and Broadway. And there'd be people lined up to go to the theater. And he said that Saturday matinees in the theater attracted not just New Yorkers but people from all over the country. And he would-he would wander up and down the lines chatting with people. People from Iowa. People from Michigan. People from here and there and he got a pretty good idea of what was going on. So he was a remarkable fellow. Is what I'm saying. And he exercised his leadership not independently of the committee but through the committee. That's my conclusion I guess.

ROBERT L. HETZEL: Yeah. Well, I would-I would agree with that. I'm—but I'm—let me come back to free reserves for-for a minute. Who actually specified the free reserves targets? Who actually came up with the numbers? Was that done in consultation with the…

ROBERT STONE: The answer is nobody. And I'll explain that.

ROBERT L. HETZEL: Okay.

ROBERT STONE: We'd go into a committee meeting and over the preceding few weeks, the free reserves would have fallen out within a certain range. And sometimes they'd get out of that range usually because of the misbehaviour of float. You know, if—I would sit there in New York and if I look at the weather map sometimes and if I'd see the whole central part of the country fogged in, I'd know very well that float was going to explode in the next day or two.

ROBERT L. HETZEL: Right.

ROBERT STONE: And so that—setting that kind of thing aside, free reserves, the preceding few weeks had been within a certain range. And we'd go to a committee meeting and if the committee wanted to ease up, they wouldn't give me any new—or my predecessor, a new free reserve target. They would just say, you know, policy should be easier. Be a bit easier. I mean just as general as that. But—and I would get a sense from the discussion, I would get a sense of how much easier. I would just make a judgement about how much easier. And I translated that into free reserves in my own mind and acted accordingly at the desk.

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ROBERT L. HETZEL: But when the committee says easier, they-they really mean short term rates lower.

ROBERT STONE: Well, yeah, but they didn't say that. It's as I mentioned earlier, you weren't supposed to talk about…

ROBERT L. HETZEL: Sure.

ROBERT STONE: … how everything reads.

ROBERT L. HETZEL: Sure. Then you came up with the consistent free reserves target.

ROBERT STONE: Yeah, I'd know they-they want to ease a little bit. And if free reserves had been say between two and 400 million, I'd say—or whatever a number was, I'd say, well, they don't want to ease so aggressively that I should push free reserves up to six or 800 million. I'd make them say at three to five or four to six. And we'll try that and we'll see what happens. You know short rates will go down. And I'd say we'll see what happens. And we'll meet again in three weeks and see if people are satisfied with that.

ROBERT L. HETZEL: And.

ROBERT STONE: And that's-that's the way it worked. But I'd never—Bill Martin never permitted quantitative instructions to go into the directive. And he was-he was firm on that. At least while I was there. Maybe later, but not while I was there. And he was firm on that. And his reason, which he repeated frequently was you can't always hit your quantitative targets. And if you can't hit them, don't specify them in your formal instructions.

ROBERT L. HETZEL: So I mean the feeling is that if you-if you have an explicit target and you miss it that that makes you look bad.

ROBERT STONE: Oh, sure, it makes you look bad. And if it's needless, to-to accept that risk. You know, you have to bear in mind that The Fed always has a chief

congressional critic. You know, there's a lot of critics, but one is always a chief congressional critic. Right now it's Henry Gonzalez.

ROBERT L. HETZEL: Yeah, it was Wright Patman.

ROBERT STONE: In those days it was Wright Patman. And there were others, Pat Meyer in the Senate. So why give these people-why give these people ammunition when you really don't have to? I think that was his reasoning. So you could get-you could get the result you wanted without giving them ammunition. Well, they would say, part of the direction of policy should be to ease up. And I would make a judgement from the-from the discussion, whether that was a moderate easing or an aggrieve easing or just what. And I would translate that in my own mind into free reserves and short rates and conduct open market operations accordingly. And go back three weeks later and the committee would have a look at what the results have been and they could express their satisfaction or dissatisfaction. And if the latter, what to do next.

ROBERT L. HETZEL: Well, more specifically, how constraining were the free reserves targets? You could specify a free reserves target that you thought was consistent with the intentions of committee. But what happens, economic statistics tend to come in strong. People think interest rates are going to be moving up. Bank-banks decide that they want to get into the window later rather than earlier. And that given the free reserves target, say, interest rates begin-begin to move up. So that there's potentially a conflict between the free reserves target and the behavior of interest rates. What-what do you do then?

ROBERT STONE: Well, let me think about that one a minute. Trying to think of occasions in which that might have occurred. I---offhand, I can't think of any.

ROBERT L. HETZEL: Well.

ROBERT STONE: Guess I would respond this way: There was always-there was always in the background the understanding that if-if things were to develop in unexpected ways that I or Al Hayes would just call Bill Martin and have a telephone meeting. Of the committee. I guess—then I guess there were a few telephone meetings. I don't recall-I don't recall very many. But when-when the committee—at the end of an open market committee meeting and a judgement was made that policy should ease a bit or tighten a bit, a certain set of expectations flowed from that decision in the minds of-of the participants in that meeting. And usually what-what's happened in the market and in interest rates was pretty much within-within the range of those expectations.

[00:30:33]

ROBERT L. HETZEL: Yes, there was not a lot of variability…

ROBERT STONE: No.

ROBERT L. HETZEL: …in short term rates when-when you were open account manager. So I think the real conflict.

ROBERT STONE: If events were to-if events were to unfold outside the range of those expectations that would be pretty well understood by me, by Al Hayes, by the Board staff, by the president who was on call. And if we felt sufficiently disquieted, we'd recommend a telephone meeting.

ROBERT L. HETZEL: Sure. Would Al Hayes come down to the.

ROBERT STONE: He always came at the 11:00 call, yes.

ROBERT L. HETZEL: Did he occasionally you know just come down to the trading—to the desk itself and talk to you or did he stay away from the-from the desk?

ROBERT STONE: Well, he would-he would always come down for the 11:00 call and sometimes he'd go in the trading room and watch, we're going to conduct—go around for a minute and watch it, but he really didn't spend much time there. He—you know he knew and I had to make it clear a couple of times, but-but—and from my perspective, he was not my boss, but he was one-twelfth of the committee, and there were times when I said that we were going to—I can remember one time in particular. We were going in and we're going to supply a substantial amount of reserves because I saw the market tightening up in the absence of-of that new supply of reserves, and that tightening would have been contrary to my judgement as to the committee's wishes. He objected to my doing that and my supplying those reserves. And I had to tell him I'm-I'm sorry but you're one –twelfth of the committee and—what I think is the wishes of the committee and so I'm going to supply the reserves. And, you know, you're always free to call Bill Martin and ask him to convene a telephone meeting of the committee if you want to do that. And they can instruct me otherwise if that's they're-they're so-minded. But I'm going to supply the reserves. That's the only—really the only one occasion in which I recall that he attempted to directly influence my decision. Only that, only one occasion.

ROBERT L. HETZEL: And you don't remember what date that was, what?

ROBERT STONE: It must have been in-it must have been during the time when—during the time when we were trying to keep short rates up a bit for balanced payments purposes. Didn't want to discourage the flow of funds abroad, really in those days, just to Britain. And that was the only well-developed market at that time.

ROBERT L. HETZEL: So in probably Fall of '60 or early '61 I suppose.

ROBERT STONE: '60—well, it would have been '62-'63, somewhere in there. Probably '62.

ROBERT L. HETZEL: What-what was-what was the relationship between Martin and-and Hayes? They-they basically worked-worked together? It was basically.

ROBERT STONE: I think so. I think it was a cordial relationship. And a mutually respectful relationship. They disagreed from time to time. I-I don't—I think I recall only one fairly overt disagreement in the open—in the Open Market Committee meeting when the two of them sort of faced each other and had a disagreement. I don't-I don't really recall what it was all about, but apart from that, I think it was a cordial-a cordial relationship.

ROBERT L. HETZEL: Well, I get the feeling that Hayes was more willing to raise interest rates for balance of payments for international reasons than was Martin, and especially in '61, New York was pushing for an increase in rates that Martin didn't think was desirable. So the minutes are always pretty bland but I detect some-some underlying tension in that period.

[00:35:06]

ROBERT STONE: That's an-that's an accurate observation. Now Al Hayes came to the New York Fed from the New York Trust Company where he had been the senior international officer, international division officer. And his-his abiding interest was on the international side of the-of The Fed's activities. And he was-he was consistently pushing for higher interest rates as a means of limiting dollar outflows.

ROBERT L. HETZEL: But.

ROBERT STONE: And of course Bill Martin had—Bill Martin saw the reasons for that but he had-he had a broader perspective I think and resisted that as did a lot of other members of the committee.

ROBERT L. HETZEL: In-in general on matters of kind of in the FOMC across a spectrum. People like Hayes and Balderston were the most conservative and then gradually over the '60's with Kennedy and Johnston appointees, there became a significant kind of liberal group on the left. And then Martin would have been in the middle, I suppose. Does that sound reasonable?

ROBERT STONE: I'm trying-I'm trying to think of those who-who might have been on the left. I think it was-it was always a fairly conservative group. Was during my day.

ROBERT L. HETZEL: Mitchell would have been on the…

ROBERT STONE: Well, oh, yeah, Mitchell. Yeah, and Dewey, that's right, Dewey Daane was a little bit on the left. George Mitchell more than-more than the others.

ROBERT L. HETZEL: All right, tell me about Dewey Daane. I find it—his name is everywhere but it's very hard to place a consistent viewed or perspective for him. Did you have a sense that he had a consistent philosophy about the way he voted? It's just hard to pin-pin him down from-from things I've read.

ROBERT STONE: I don't—I guess I would, if I had to put a label on him, I'd-I'd—I would; label him an intelligent pragmatist.

ROBERT L. HETZEL: He seemed to work closely with the chairman.

ROBERT STONE: Yes. Yeah. I think he was an intelligent pragmatist. He had been, you know, with the Minneapolis Fed and the Richmond Fed then the Minneapolis Fed then went to the Treasury. You know from Treasury to…

ROBERT L. HETZEL: Right.

ROBERT STONE: ... the Board as a member. I think he may still be alive. I don't know.

ROBERT L. HETZEL: Oh, oh, yes.

ROBERT STONE: He's over in Vanderbilt. Was teaching in Vanderbilt.

ROBERT L. HETZEL: Yes, I've called him and I've talked to him a number of times. But he's just incredibly busy. And he keeps saying, "Well, yes, you know, next month will have some time, let's talk then."

ROBERT STONE: Yeah.

ROBERT L. HETZEL: So next month, I called back and he says, "Oh, the Dean was just in here and I've got this new project and I do want to talk to you. Let's talk next month." So I'm going to keep at him.

ROBERT STONE: Yeah, see if you can pin him down. If you pin him down I think you'll get a lot, a lot out of it.

ROBERT L. HETZEL: Yeah. Yeah, I'm-I'm sure I will. But Hayes didn't—because this was really before you came, but Hayes had a different personality than-than Sproul. I mean Sproul had a dominating sort of personality where he would be willing to confront others. But.

ROBERT STONE: Oh, yeah.

ROBERT L. HETZEL: But Hayes more was kind of someone who would—he would talk-talk things over, but when a decision was made then he would…

ROBERT STONE: That's right.

ROBERT L. HETZEL: Cooperative.

ROBERT STONE: His was-he was quieter and more conciliatory. Sproul was more-more combative. And.

ROBERT L. HETZEL: Did you ever meet Sproul, by the way?

ROBERT STONE: Yes, but as a very junior—I was a very junior person. I had a couple of—two or three exchanges of letters with him later when I became manager of the account. But if you-if you—do you have his book, *The Selected Papers of Alan Sproul*, it was edited by Larry Ritter?

ROBERT L. HETZEL: Yes. And I-I intend—Larry Ritter is still around I'm sure.

ROBERT STONE: Yeah.

ROBERT L. HETZEL: I intend to call him and talk to him so he would be a source of information. Because I think he—Ritter was at-was at the New York Fed in the '50's as an account.

ROBERT STONE: Yeah, he was---that's right. He was there when I was there. And he left to go to NYU.

ROBERT L. HETZEL: There was really an incredible collection of people who came into the New York fed in the '50's and then went to the Treasury. And we haven't mentioned Paul Volker yet. Did-did you know Volker while you were at.

ROBERT STONE: Oh, yeah. Paul was-Paul was in the-the domestic research and I was in the foreign research.

ROBERT L. HETZEL: Did you have any contact with him or just?

ROBERT STONE: Not-not particularly. We didn't-we didn't work together because we were in different areas. But you know the research department, none of us were officers at the time. We were laboring economists. And we'd go up to the cafeteria and we sort of gathered together at-at one table. And Paul was frequently an active and vocal participant. Lots of-lots of good, lively discussions at that-at that table in the cafeteria.

[00:40:33]

ROBERT L. HETZEL: Do you remember.

ROBERT STONE: Paul and-and Henry Kaufman was there and Al Wojnilower and Frank Schott and it was-it was a good collection of people.

ROBERT L. HETZEL: Those are-those are good names. I should-I should talk to Wojnilower and Schott. They're still-they're still around and I just need to get their –get their phone numbers and addresses and I should talk to them.

ROBERT STONE: Well, I can give you Schott's phone number because he lives in the next town, yeah.

ROBERT L. HETZEL: Oh, okay.

ROBERT STONE: Before we're through I can give that to you. I have the phone book right here.

ROBERT L. HETZEL: Oh, okay, that's great. Let's see so what about your general impressions in the early '60's about opinions within the administration? The Treasury and The Fed worked pretty closely together. The Treasury people were pretty conservative under-under Dylan's and of course a lot of the treasury people were Fed people at that time.

ROBERT STONE: Oh, Bob Roosa was Undersecretary for monetary affairs.

ROBERT L. HETZEL: Sure. And then Dewey Daane and Paul Volker and then later on.

ROBERT STONE: I think Dewey was there and—and Paul.

ROBERT L. HETZEL: Peter-Peter Sternlight.

ROBERT STONE: And Dana Hearn [phonetic 00:41:53] was there.

ROBERT L. HETZEL: No, I don't know him.

ROBERT STONE: Was a very good group. It was they—that-that Treasury group, Dylan, Roosa, Daane, Volker, had a thorn in their side. And the thorn was the Council of Economic Advisers. And Jim Tobin in particular was a member of the council and Walter Heller.

ROBERT L. HETZEL: Yes.

ROBERT STONE: And they were constantly pressing The Treasury and The Fed to hold interest rates down. And that of course gave rise to this idea-this idea of Operation Twist. You remember that?

ROBERT L. HETZEL: That was basically a way of putting Tobin off that?

ROBERT STONE: Yeah, we were—yeah, the whole idea was to-was to—because The Fed had always argued that it didn't want to support any particular bond rate in bonds or any interest rate, because we just sat there shovelling reserves out in response to any demand that would have-that would; have affected the interest rate. You lose control over reserves. You can control a price or a quantity.

ROBERT L. HETZEL: Right. Well, that was pre-Accord experience.

ROBERT STONE: Oh, yeah.

ROBERT L. HETZEL: That thing that made such an impression on The Fed.

ROBERT STONE: The Fed was arguing well, we will lose control of reserves if we try to pick a bond rate. And the council came back and says, well, why don't you—you don't have to affect the total quantity of reserves, just sell bills and buy bonds. And total reserves are unchanged but you've twisted the curve. Short rates would be up a little bit and that'll help on the balance of payments and then it flows abroad, and while at the same time, you'll be pushing bond rates down. And with no change in total reserves. Well, it made sense on the-on the face of it but the Treasury people, who would have market experience, felt that it was really not a workable proposition for very long. And I certainly felt that way. Anyway it—The Fed-The Fed under pressure from the Treasury adopted Operation Twist, all of which was a nod in the direction of the Council of Economic Advisors. And then it fell to me to execute it and I was accused of executing it in a half-hearted way. That was wrong, it was more like a clutter-hearted way. And.

ROBERT L. HETZEL: Yes. Apparently Tobin would-would persuade President Kennedy to call quadriad meetings when he felt like you weren't buying enough long term…

ROBERT STONE: Tobin, he wanted, he what?

ROBERT L. HETZEL: Seemed-seemed to be kind of enormously like that-that was monetary policy is-is the composition of The Fed's portfolio.

ROBERT STONE: Yeah, well.

[00:45:11]

ROBERT L. HETZEL: Tell me.

ROBERT STONE: If you—see. Let me just give you my-my reason for not-for not really wanting to—not really executing that with aggressively. I executed that operation twist in such a way as to keep –as to keep the Council of Economic Advisors quiet or at least keep them from speaking too loudly, while-while minimizing-minimizing the disruption to the market. And I say disruption to the market, what do I mean buy that? Knowing the market as I do, as I did then and I think still do, if the market gets the idea that The Fed doesn't want a particular segment of the U-curve to move up and yield, the market comes to look upon The Fed as the residual buyer. And anytime that—anytime any market participant wants to sell, I'm not talking just about the dealers now, I'm talking about all the big holders of bonds. The banks, the insurance companies, mutual funds, although they were smaller then, they-they were around. I feel there's a residual buyer out there, they can sell without the risk of any capital loss. The market is a different place than when they-when they face a free market knowing that—this is that portfolio adjustment that they want to make might entail the risk of a capital loss. I just didn't want—nobody in The Fed wanted The Fed to come to be viewed as an immutable residual.

[END OF TAPE 67, SIDE B]

[START TAPE 80, SIDE A]

Robert Hetzel: ...if the market didn't know what to expect on the other...

Robert Stone: Oh, absolutely.

Robert Hetzel: ...side. And that was very important in terms of your ability to offset changes in reserves and...

Robert Stone: I used to call it the certainty of uncertainty.

Robert Hetzel: And I've not heard that. But that's a good expression.

You mentioned the relationship with the Council. Let me ask you some more about that. And particularly getting into 1965 when Ackley replaced Heller. I get the feeling from looking at documents through that period that the Council thought that it was the guardian of aggregate demand and it was the government agency in charge of controlling expenditure. It was going to do so through the multiplier and the Council really resented the Feds' independence. They really felt like the Fed was making decisions that were their province. And there was a lot of, well, resentment on the part of Heller and especially Ackley toward the Fed doing anything independent. Did you get that feeling?

Robert Stone: You know, I really can't respond to that. No, I did not get that feeling because maybe I was gone at that point.

Robert Hetzel: Hm-hmm.

Robert Stone: I left in May of '65.

Robert Hetzel: Oh, I see. Hm-hmm.

Robert Stone: But in any case, I never dealt directly with the Council.

Robert Hetzel: Hm-hmm.

Robert Stone: I had a couple of conversations with Tobin.

Robert Hetzel: Hm-hmm.

Robert Stone: And with Heller, a Washington reception.

Robert Hetzel: Hm-hmm.

Robert Stone: But my sense of what the Council was doing in these regards came to me through the Treasury people, is that the Council has exerted their pressure I think directly on the Treasury. And whether they also had lunch with Bill Martin and exerted pressure on him, I don't know. But...

Robert Hetzel: Sure.

Robert Stone: ...I know they exerted pressure directly on the Treasury.

Robert Hetzel: Hm-hmm. What about—

Robert Stone: Never directly on me.

Robert Hetzel: What about pressure arising from the 1964 tax cut? Arthur Okun has written a book on this period. And he makes the statement in it that the Council convinced Martin not to raise interest rates in 1964 to offset the tax cut. Does that ring any bells?

Robert Stone: 1964?

Robert Hetzel: Yes. And in fact, short term rates did not change in '64 until the end, until November. That's a statement that Okun makes. I wondered what you think of that?

Robert Stone: ..Now, that strikes me as credible.

Robert Hetzel: Hm-hmm.

Robert Stone: Martin, as any chairman, has to be aware, you know, of the Washington environment. And he has to be the guardian of the Feds' independence.

Robert Hetzel: Hm-hmm.

Robert Stone: And sometimes, in order to guard the independence, you have to bend a little bit. And it's perfectly conceivable to me that Martin may have bent...

Robert Hetzel: Hm-hmm.

Robert Stone: ...under that influence.

Robert Hetzel: I do remember—

Robert Stone: But if he felt, knowing Martin's side as I do, if he felt that that really—if events develop so he felt that that was the wrong thing to do, he would back away from that. This indeed happened at the end of '64.

Robert Hetzel: Hm-hmm.

Robert Stone: In the latter part of '64. I think it was—

Robert Hetzel: Well, he moved—

Robert Stone: It was September, something like that. I took a vacation and we were supposed to firm up monetary policy.

Robert Hetzel: Hm-hmm.

Robert Stone: And—

Robert Hetzel: Well, presumably it happened after the election. And it does look like from the series I have here that rates started to move up in, let's see, in November and then December. I mean, the Fed would not have moved rates up right before the '64 election, would it? Doesn't that seem unlikely?

Robert Stone: Yeah. Certainly not decisively. I have a recollection of, let me see—

Robert Hetzel: I don't—

Robert Stone: I have a recollection of it may have been August or September. It might have been just a little snugging as to use the term that was then used. You don't really—we don't want a change in policy but it would be nice to snug up reserves a little bit.

Robert Hetzel: Hm-hmm.

Robert Stone: That term was used. I have a feeling we probably did a little snugging in around July or August. But not enough to—in those days, the market now, of course, watches the Fed very closely as indeed they did in those days. But the Fed now targets the federal funds rate. And the return on the federal funds rate moved and ate the market.

Robert Hetzel: Hm-hmm.

[0:52:48]

Robert Stone: Attaches great significance to it and the whole market moves.

Robert Hetzel: Hm-hmm.

Robert Stone: A lot of great advantages of using free reserves. Which you should understand, nobody regarded as an end in themselves but really as a proxy for short rates. One of the advantages of using that proxy was free reserves, the market understood we're not under the absolute control of the Fed. Flows and other factors would cause free reserve to move up and down and within a fairly broad range. And you could have an aberration in free reserves. You could have a free reserve, a number for a particular week above or below the recent range and the market could just shrug and say, well, that doesn't necessarily indicate a change in policy. That was probably just an aberration. And this made it possible. This kind of thing made it possible for the Fed to undertake a small change in policy without the market knowing it was going on until it was all over. And I remember doing that, doing that at the end of '62 for example.

All I'm doing here is saying that about the only argument in favor of free reserves is that the Fed can effect a small or moderate change in policy without inducing a large unwanted market reaction to it.

Robert Hetzel: Well, it could also let the term structure change. You can let longer term rates move up and then, you know, the Fed can say, well, we're following rates. Because the market can guess where rates are going if the economy strengthens.

Robert Stone: Yeah.

Robert Hetzel: And everybody in the market knows where rates are going to have to go. It's just Congress that doesn't.

Robert Stone: Yeah.

Robert Hetzel: And then as, you know, other market, some of the longer term rates begin to move up, then the Fed can follow rates up and it looks like, you know, a natural thing to do.

Robert Stone: Yeah.

Robert Hetzel: But it makes a lot of sense, so...

Robert Stone: Yeah.

Robert Hetzel: I never understood why Burns moved away from those procedures. I've never been able to, you know, never had anybody kind of give me any convincing—he kept things to himself so he probably never told anybody.

Robert Stone: Yeah.

Robert Hetzel: But—

Robert Stone: Yeah. I think it was a great mistake.

Robert Hetzel: Why he moved to, you know, an explicit rate peg, I don’t understand, except that, you know, he seemed to feel like he could control everything and maybe overestimated what he could control.

You made a comment about congressional critiques. You know, the person who made the most noise at that time was Patman.

Robert Stone: Wright-Patman, yes.

Robert Hetzel: What about the Senate side? You mentioned Proxmire. Especially in '65, well, especially '66, the Fed was under pressure from Congress. Do you remember anything on the Senate side, critiques, Sparkman, for example? Was he supportive of the Fed? Do you know anything about that?

Robert Stone: Who?

Robert Hetzel: Sparkman from Alabama. He as on the...

Robert Stone: I don't—

Robert Hetzel: ...Senate Banking Committee.

Robert Stone: No, I don't really remember. I don't remember. I remember earlier. Earlier, Paul Douglas, that goes back in the early '50s. I think he was not so much a critique as he was sort of a gadfly.

Robert Hetzel: Yeah.

Robert Stone: I think the Senate—

Robert Hetzel: Douglas was critical over the discount rate increase in December '65. So he was not helpful to the Fed at that time.

Robert Stone: Who was that?

Robert Hetzel: Paul Douglas.

Robert Stone: Oh, yeah.

Robert Hetzel: He was not helpful...

Robert Stone: Yeah.

Robert Hetzel: ...later on at that point.

Robert Stone: I don't remember anybody in the Senate being as prominent a critique as Patman was in the House.

[0:56:59]

Robert Hetzel: Hm-hmm. Do you remember even after you left the Fed, the pressure after you left the Fed, the political pressures really converged on the Federal Reserve system. Congress became concerned when the housing industry became concerned over high interest rates. And, of course, Ackley wanted to run policy through—fiscal policy with low interest rates. Did you follow that period after you left the Fed?

Robert Stone: Well, not nearly as closely of course.

Robert Hetzel: Hm-hmm.

Robert Stone: I really don't have—

Robert Hetzel: Do you have any sense of how much committed Martin was to the Johnson surcharge and how willing he was to keep rates down in early '66, when the surcharge was being debated in Congress?

Robert Stone: Now, this was the income tax surcharge?

Robert Hetzel: Yeah. And the role of the New York Fed. I mean, that must be an interesting period for the New York Fed. Because the dollar was under attack and the Fed was very slow to move rates up. My understanding is that Martin was concerned that if he moved rates up sharply, Congress would say, well, we don't need the income tax surcharge. The Feds done the dirty work [audio skips 0:58:38]. Did you have any incidents—

Robert Stone: I really don't. You know, you might talk to Peter Sternlight about that. Have you talked to Peter?

Robert Hetzel: Yeah. I've talked to Peter Sternlight and Paul Meek. Actually, Peter seemed kind of just more into the kind of technical aspects of it. Paul Meek had some more general sorts of observations...

Robert Stone: Yeah.

Robert Hetzel: ...about it. Anyway they were both useful to talk to. Do you have any general feelings about Martin as an economist? What did he think caused inflation?

Robert Stone: I mean, Martin as an economist—

Robert Hetzel: Yeah. And kind of—

Robert Stone: I don't think Martin had any—I don't think he had any formal economic training.

Robert Hetzel: Hm-hmm.

Robert Stone: He came from a banking family. There's going to be a lot of dinner table discussion about economic and financial matters.

Robert Hetzel: Yeah. His father was governor of the St. Louis Federal Reserve Banks.

Robert Stone: And then of course at a very early age, he was the president of the New York Stock Exchange.

Robert Hetzel: Right.

Robert Stone: So he had a blonde background in economics and finance. That's as broad of the sum depth to it as well.

Robert Hetzel: Hm-hmm.

Robert Stone: I used earlier the term "anecdotal information"...

Robert Hetzel: Yeah.

Robert Stone: ...in describing a kind of data that Martin liked to acquire and take into account. And I think that really describes it. I don't think he—you couldn't say that he was in any particular power of any particular school of economics. Monetarism wasn't much heard of in those days. But...

Robert Hetzel: Right. Yeah. He had no use for the money—

Robert Stone: I don't think he would be a monetarist.

Robert Hetzel: No.

Robert Stone: I think he would be—he would take a very eclectic approach to policy making.

Robert Hetzel: Hm-hmm.

Robert Stone: Gathering information from all kinds of sources. Some of it highly sophisticated economic data, others, other information a result of all those conversations with a wide range of people throughout the country. And come to his conclusions.

He was a complex man. I often thought as I listened to him and the statements he made in open market committee meetings, I thought this man is an impressionist, a painter. He's not a realist. If he had a canvas in front of him, he would have—you wouldn't have the stark outlines of a tree and a mountain and so on, you would have dabs here and dabs there and dabs, but when you step back and look at it, everything would come together with great clarity. I don't know whether I'm making myself clear here.

[01:02:08]

Robert Hetzel: Yeah. I think—

Robert Stone: His was a—he had a strong analytical intelligence and a very, very strong intuitive intelligence. And the two blended very well in him.

Robert Hetzel: Yeah. I think maybe I would put it a little differently. He didn't think of himself as an economist but...

Robert Stone: No, not at all.

Robert Hetzel: ...in terms of—not in terms of the Keynesian economists at the time but I think he must have had a very strong sense that there's no such thing as a free lunch.

Robert Stone: Yes.

Robert Hetzel: And given the Keynesian tenor of the times, that stood in contrast...

Robert Stone: Yes.

Robert Hetzel: ...to the political environment in which he was working.

Robert Stone: Right. He was eclectic.

Robert Hetzel: He must have been extraordinarily ambitious. You look at his career. I mean, youngest head of the New York Stock Exchange. You know, moved up rapidly in everything he did, yet he must have had an ability to not intimidate people, to make people feel comfortable with him. So somehow or other, he must have combined this ability to be on top, to run a large organization without coming across as intimidating or aggressive to other people.

Robert Stone: That's right. He was a kind and gentle and generous man. At the same time, he could be tough as nails. And I've seen both sides of him.

Robert Hetzel: Hm-hmm. When did he have to be tough? I understand he had some arguments with Sproul early on-over Bills Only.

Robert Stone: Right. Yes. And I've seen him, I think he probably from time to time had fairly serious disagreements with one or two members of his own Board and was pretty tough on those occasions.

Robert Hetzel: Later on—

Robert Stone: And—

Robert Hetzel: I'm sorry. I didn't mean to interrupt.

Robert Stone: He was pretty tough in just insisting that what somebody wanted to do or what somebody get in the record would, in his—it would be injurious to the Fed and said in no uncertain terms that that was not to be done. But he could be tough in that sense.

Robert Hetzel: Hm-hmm.

Robert Stone: He could get into a disagreement with his very best friend and be very strong and tough with his very best friend and then go out and play tennis before lunch with that same person.

Robert Hetzel: Yeah. Well, apparently, he was willing to take on President Johnson and argue with him.

Robert Stone: Oh, yeah.

Robert Hetzel: In the strong [audio skips 0:18:07]. Some of the Board later on, kind of reading back through the documents, was really just unabashedly pro-administration. Maisel, for example, when...

Robert Stone: Yeah.

Robert Hetzel: ...when he came on, really seemed more a member of Council than a member of the FOMC.

Robert Stone: Yeah.

Robert Hetzel: He must have had some occasions to take those individuals on. [Audio skips 0:18:37] do you remember—

Robert Stone: I mean, Maisel came on after I was gone in my recollection.

Robert Hetzel: Yeah. What do you know about Robertson?

Robert Stone: Well, he was vice-chairman.

Robert Hetzel: Yeah. What do you remember about him? He must have been fairly tough, too.

Robert Stone: He was.

Robert Hetzel: During kind of the period when the Fed was under enormous attack in the late summer of 1966, Martin was in the hospital and he was running the show.

Robert Stone: Right.

Robert Hetzel: And that was a time of real stress for the Fed. He seemed to have done very well.

Robert Stone: That's right. Robertson was very vocal.

Robert Hetzel: Hm-hmm.

[0:19:24]

Robert Stone: Very opinionated. Never in doubt what ought to be done.

Robert Hetzel: You mean in expressing himself on the economy and Federal—

Robert Stone: Well, yes. And on policy.

Robert Hetzel: Hm-hmm.

Robert Stone: Policy. Never in doubt. He was perhaps my toughest questioner, my toughest interrogator.

Robert Hetzel: Hmm.

Robert Stone: But we, you know, we had a very good relationship. But if I had done something that he thought was outside the bounds of the directive, he wouldn't hesitate to point that out.

Robert Hetzel: Hm-hmm. So the bill rate went up a tenth of a percentage point and he thought that was inappropriate given the...

Robert Stone: That's right.

Robert Hetzel: ...general statements.

Robert Stone: Yeah.

Robert Hetzel: There was a literature at the time associated with the name Guttentag that argued that the Desk had too much discretion, that monetary policy to an extent was influenced by the decisions of the Desk as opposed to the FOMC. Do you remember any of that discussion?

Robert Stone: No, but I knew Jack Guttentag. When I was running the open market account, Jack was an economist in the research department of the New York Fed.

Robert Hetzel: Yeah. This is a paper he wrote after he went to—

Robert Stone: Right. And we used to invite an economist from the research department to spend three or four weeks at a time at the Trading Desk to broaden their experience and give them a little bit of a look into the market and the way it operated. And the *quid pro quo* for that was that the economist would prepare the first draft of a weekly report that the manager of the account sent to the Fed.

Robert Hetzel: Right.

Robert Stone: And I remember Jack always, right from the very first week he was there, wrote an excellent report.

Robert Hetzel: Hm-hmm.

Robert Stone: And most of them were really not very good. You can't expect to take a guy from...

Robert Hetzel: Sure.

Robert Stone: ...the research department and put him at the Desk and expect him the first week or second week to write a regular report. But Jack's were exceptional...

Robert Hetzel: Hm-hmm.

Robert Stone: ...is what I'm saying. Now, I go back to what I said earlier at the end of the open market committee meeting, I would get a—the committee would conclude that policy ought to be firmed up a little or eased off a little or remain about the same. The word "about" was frequently in there. And I would translate that into free reserve targets because the committee never put free reserve targets in the directive. I would translate that into free reserve targets.

And Jack, being a very acute observer, probably saw—he and my predecessor, Bob Rouse, and later probably Alan Holmes, making these judgments. As to what the committee really wanted.

Robert Hetzel: Hm-hmm.

Robert Stone: And so what I'm saying here is I can understand how an acute observer like Jack Guttentag could have drawn the conclusion that the Desk really has too much discretion.

Robert Hetzel: Hm-hmm.

Robert Stone: I think that conclusion is inaccurate.

Robert Hetzel: Hm-hmm.

Robert Stone: Because, again, the committee met every three weeks. And if I strayed outside the boundaries of what the committee wanted, I would have heard about it certainly within three weeks, no later than three weeks and probably within three weeks by a telephone meeting. I don't think the—no committee would let the manager go off and conduct his own policy, not at all.

Robert Hetzel: Sure. I think probably the real point of contention is that Guttentag became an academic. And academics want policy procedures where everything is explicit. Everything has a number.

Robert Stone: That's right.

Robert Hetzel: And we already talked about that, why Martin didn't go that route. And I think that's probably what—

Robert Stone: I think you have it exactly right. A lot of the academics just couldn't understand why the whole policy, making and executing process was so fuzzy. It looked very

fuzzy to them. But to those of us involved, it was really not very fuzzy at all. I knew without being given numbers, I knew what they wanted.

Robert Hetzel: Sure.

Robert Stone: And—

Robert Hetzel: Well, in general, the academics have no idea, you know, the various sorts of pressures that—well, the Feds is always under attack. I mean, you know, you're—Gonzalez, you already mentioned the name. Patman, Gonzalez, what's the difference?

Robert Stone: Yeah. But Patman has been pretty—

Robert Hetzel: Not much.

Robert Stone: If somebody is going to have a congressional critique and then the Fed has been blessed with inept ones.

Robert Hetzel: During the FOMC meetings, there would be a break, a coffee break in the middle. Would you get together with—

Robert Stone: Well, not in my day. We started at 9:00 and ended up around 11:30 or 12:00. No breaks.

Robert Hetzel: Okay. So there would be no period where you would get together with—

Robert Stone: No.

Robert Hetzel: Robertson and Martin.

Robert Stone: No.

Robert Hetzel: And talk things over to come up with a consensus.

Robert Stone: No, sir.

Robert Hetzel: A statement. That must have developed later on. Because I think Sternlight mentioned that as a practice. So that must have been something that happened—

Robert Stone: Yeah. Something that happened later on.

[01:12:35]

Robert Hetzel: Yeah. I've basically, you know, run through particular questions. Do you have any sense of, any kind of feelings about why monetary policy was basically pretty good in terms of preventing inflation through the middle to late '60s and why we had so many

problems later on other than the obvious political pressures? Could the Fed have done things differently to have kept the lid on in the '70s the way it did in the '50s and '60s?

Robert Stone: Let me rephrase the question.

Robert Hetzel: Yeah.

Robert Stone: See if I have it accurately. I look back upon the early 1960s as a time in which the performance of the economy was very good. There were good annual increments to real income, increasingly better distributed, with little or no inflation. Probably inflation wouldn't account for changes in quality and changes in composition of the market baskets and goods. Inflation was pretty close to zero in those days. So I think it was a pretty good economic performance. The Fed contributed importantly to that performance and now the question is how come, why?

Robert Hetzel: Yeah.

Robert Stone: My sense of it is that in earlier periods of recession, the Fed eased monetary policy very aggressively down to the point of I'll use the expression I used earlier, down to the point of sloppy reserves.

Robert Hetzel: Hm-hmm.

Robert Stone: We spoke earlier of in '58, in the spring of '58—

Robert Hetzel: Right.

Robert Stone: And early summer of '58. Treasury bills under one percent, fed funds probably starting around one quarter or three-eighths of one percent. In the early '60s, we had the balance of payments problem.

Robert Hetzel: Hm-hmm.

Robert Stone: Monetary policy had to be conducted in such a way as to make a contribution toward the maintenance of a satisfactory rate of domestic economic active, subject to the constraint that interest rates could not be allowed to get so low as to aggravate the balance of payments problem.

Robert Hetzel: Hm-hmm.

Robert Stone: So the balance of payments constituted a constraint on the aggressive exercise of monetary policy, constituted a constraint on the Council of Economic Advisors in their pressure, in the pressure that they would have exerted toward easier money. Things were done in moderation. Monetary policy was conducted in moderation. Fiscal policy conducted more in moderation.

Robert Hetzel: Hm-hmm.

Robert Stone: All in the light of this constraint, the balance of payments.

Robert Hetzel: Hm-hmm.

Robert Stone: And I think one of the good things that happened early in the Kennedy Administration was that whether it was Bob Roosa or Dillon or whoever, educated JFK on the balance of payments. And he supported this constrained behavior.

Robert Hetzel: Well, some people say it was Kennedy's father who was...

Robert Stone: Well, maybe so.

Robert Hetzel: ...so insistent on that.

[01:16:37]

Robert Stone: But the balance of payments constituted a policy constraint that was not there earlier. And probably in later years should have been but was not.

Robert Hetzel: Okay.

Robert Stone: I think that accounts for a government behaved with moderation.

Robert Hetzel: Yeah.

Robert Stone: Government can often be a disequilibrating force. And it was subject to such constraints that it did not behave in a...

Robert Hetzel: Yeah.

Robert Stone: ...disequilibrating way.

Robert Hetzel: Okay. Anything else you want to—do you feel like there are things that you would like to tell me about later policy? I feel like we've kind of covered, you know, a lot of the things...

Robert Stone: No.

Robert Hetzel: I was interested in. I've learned an awful lot and I appreciate it. Did we miss things?

Robert Stone: No. No. I'll just tell you about one little anecdote.

Robert Hetzel: Sure. Anything you can tell me in terms of—

Robert Stone: About Bill Martin and Wright Patman.

Robert Hetzel: Yeah. Anything—that's the kind of thing that's not in the records.

Robert Stone: And—

Robert Hetzel: So anything you can tell me about individuals or, you know, Al Hayes or Holmes or Rouse or people like that that, you know, makes them a little bit human. Those are the kinds of things that get lost and I'd appreciate, you know, hearing them.

Robert Stone: There was an open market committee meeting on a particular day in '62 or '3 or '4, somewhere around there. And right—no, wait a minute, I can tell you when it was. It was after—it must have been around January or February of 1963. It was after the midterm elections of 1962. I think Patman was Chairman of the House Banking and Currency Committee. And some new faces came into Congress in that 1962 election.

Robert Hetzel: Hm-hmm.

Robert Stone: Some of those new faces came on to his committee. And Mr. Patman called Bill Martin and said he would like to have Martin and the entire Open Market Committee appear in January or February, whenever it was, appear at an informal meeting of the House Banking and Currency Committee.

Robert Hetzel: Yeah. They were trying to get the committee minutes at that time. They were secret. Yeah. I remember that.

Robert Stone: And, well, Martin summoned the entire Open Market Committee and staff, which included me and Charlie Coombs, as manager for foreign activity, to Capitol Hill. And he had—Patman sat up on the dias and had arrayed around him all of the members of his committee, many of them new faces, and my thought was this old guy is just trying to impress all these new people with his authority over the Fed. And I guess we got there around 10:30 or something like that in the morning, quarter to 11:00, and Patman made the mistake of asking Bill Martin to introduce his associates. And Martin started off, he had first introduced Canby Balderston, who was the vice-chairman, and introduced every member of the Board. Then he went through the presidents of the banks and Al Hayes. And he just gave the biographies of all these people. And he was still going strong an hour and a half later. And Patman's committee members started looking at their watches and drifting off to go to lunch. And in the end, Patman only got to ask one or two questions and almost time for him to go to lunch.

Bill Martin conducted the most brilliant filibuster I've ever heard and Patman never really got an opportunity to ask the questions. He tried to interrupt Martin several times but Martin would have none of it. He had to introduce his colleagues. And—

Robert Hetzel: Patman actually came up to the New York Fed a couple of times, didn't he...

Robert Stone: Oh, yeah.

Robert Hetzel: ...in the early '60s?

Robert Stone: He came up to the New York Fed. That was after the debacle in '58 with two and five-eighths. The government—that speculative bubble burst and a lot of people got hurt, a lot of little people got hurt.

Robert Hetzel: Yeah.

Robert Stone: And Congress heard about this and Patman came up to conduct an investigation. And he held that—he had this committee installed at the courthouse in Foley Square in New York. And there were various dealers appeared at witnesses, Jerry Spencer, the Solomon brothers and a few others whose names I now forget. And I think my predecessor, Bob Rouse, appeared as a witness in that.

And after those hearings, Mr. Patman brought his committee down to the New York Fed. And I'll never forget that a group of us were in Al Hayes' office with Mr. Patman. Not his entire committee at that point, the rest of his committee was elsewhere in the Fed, but Patman and two or three others, Patman said to Hayes, now, Mr. Hayes, I want to take a look at the member bank reserves. And Hayes raised his eyebrows and then proceeded to try to explain to Patman that the member bank reserves were not to be found in a vault downstairs in a big war chest of some sort but they were deposits on the books of the Fed. Be glad to show them—have the accounting department show him the books but that's what the reserves were. But Patman really found that very difficult to accept that the Federal Reserve really didn't have any reserves after all. They were only bookkeeping entries. So that's the kind of thing we were dealing with.

[01:22:52]

Robert Hetzel: He was famous—he would make surprise trips to Richmond and come into our accounting department and ask—randomly pull out invoices and then require us to justify them.

Robert Stone: Oh.

Robert Hetzel: Richmond had to justify why it did not buy the cheapest ballpoint pen available. And, also, we had to write a memo justifying why we got the Washington Post in the library. Anyways.

Robert Stone: Well...

Robert Hetzel: Well. Yeah. You mentioned the names of a couple other people. You mentioned John Larkin and then—

Robert Stone: Yeah. I will—I haven't been in touch with John for a year or two. I'll give him a call.

Robert Hetzel: Okay.

Robert Stone: And see, I don't know, whether he's even well or not. You know, if he is, I think he'd probably be glad to talk with you. So I will call him.

Robert Hetzel: I've seen his name on the list of system personnel, but what was his position?

Robert Stone: Well, he was the number two man at the Trading Desk. Bob Rouse, all during the early '50s, during the heat of the bills only controversy.

Robert Hetzel: Hmm.

Robert Stone: See, I really was not there at that time. I got there in early '58. But John Larkin can cover a period—

Robert Hetzel: Sure. I'd love to talk to him.

Robert Stone: For the decade before I arrived at the Desk.

Robert Hetzel: Sure. Sure. I'd love to talk to him. I've talked to Spencer Marsh.

Robert Stone: Oh, yeah. Well—

Robert Hetzel: But he's very interesting. His perspective is a little more as a trader...

Robert Stone: Yeah.

Robert Hetzel: ...as opposed to an economist. You know, I could write Mr. Larkin a letter if you had his address and then see whether he responded.

Robert Stone: Well, let me call him.

Robert Hetzel: Okay.

Robert Stone: I think it might be better that way.

Robert Hetzel: Okay. Then—

Robert Stone: If he is willing to do that...

Robert Hetzel: Hm-hmm.

Robert Stone: ...I will call you back...

Robert Hetzel: Okay.

Robert Stone: ...and give you his number.

Robert Hetzel: Okay. And you said you had a phone number for Al Wojnilower.

Robert Stone: Frank—no. Frank Schott.

Robert Hetzel: Frank Schott, okay.

Robert Stone: Yeah. Hold on a minute.

Robert Hetzel: Okay.

Robert Stone: Let me get my phone book out. Frank was really never close to the Open Market Desk, you know.

Robert Hetzel: Hm-hmm.

Robert Stone: Frank was...

Robert Hetzel: I don't know—

Robert Stone: ...an economist in the foreign research area. And he and I worked together in the Latin American unit. We wrote joint papers on Brazilian coffee and Chilean copper and so on.

Robert Hetzel: When did he leave the Fed? Do you know?

Robert Stone: To my recollection, I guess mid '60s, something like that.

Robert Hetzel: Hm-hmm.

Robert Stone: But he's a very bright fellow and an acute observer. He then spent the rest of his career with equitable insurance. He just retired a couple of years ago. Let's see.

[01:25:52]

[END OF RECORDING]