



FEDERAL RESERVE BANK *of* ST. LOUIS
CENTRAL to AMERICA'S ECONOMY™

P.O. Box 442
St. Louis, MO 63166
www.stlouisfed.org

Interview of Albert M. Wojnilower

Conducted by Robert L. Hetzel

August 29, 2002

Robert L. Hetzel: Yeah, we're used to dealing with the press and being misquoted, and so we're sort of paranoid about that, more than just sensitive.

Okay. After I sent you that e-mail with what was really not a paper, it was just a letter to Friedman...

Albert Wojnilower: It was interesting.

Robert L. Hetzel: ...I began to feel a little bit badly, like maybe I shouldn't have done it. The 1970s is a long way away now, but I had sort of forgotten just how much emotion the name Milton Friedman aroused in places like the Federal Reserve Bank. And I may have sounded unduly harsh on Columbia in the letter. I was more trying to get reactions from Friedman. So anyway, I had a little bit sort of misgivings...

Albert Wojnilower: Don't worry about it. Do you happen to know—I guess he retired—Professor David Fand, who used to be at the—he's now, I guess, at the Mason—

Robert L. Hetzel: Right.

Albert Wojnilower: Well, so I'm in touch with people who used to know Friedman. It's not a problem. As far as Columbia is concerned, anything bad you can say about their economics, even though I got two degrees from them, is fine with me because it's right on the mark, as of that time. Although I'm afraid in later years, in different ways, they've really fallen behind.

Robert L. Hetzel: Well, they're coming back. But I know Fand. I'm sure Fand was not the source of your comments about Friedman being something of a domineering person himself?

Albert Wojnilower: Partly, but not to Fand. It was a question of which side of Friedman you were on. But anyhow, I know that's not the intent of your call.

Robert L. Hetzel: Yeah. Well, let me just say while I think of it before I forget it—I have a way of kind of losing my train of thought—your article in *Challenge* magazine maybe December of 1999, something in that date—

Albert Wojnilower: I'm trying to remember because it wasn't written for them, it was some other paper that I wrote. And so I have to confess that offhand, I am not sure. Do you have a title for the article?

Robert L. Hetzel: No, I just recall it.

Albert Wojnilower: Was that about the disappearance of the government debt positively or...?

Robert L. Hetzel: No, it was a remarkably accurate forecast of everything that's happened.

Albert Wojnilower: Oh, I remember that article now. That was written actually—well, Jeff Madrick would have been the interlocutor of that article.

Robert L. Hetzel: You said that equity prices were unsustainable.

Albert Wojnilower: Right, right. Now I remember, thank you. I'm sorry. It's not that I've written so much, but it happened I knew this was an interview I did with Jeff Madrick, who sent it around—I guess he still writes for the *Times* some these days—and he wound up publishing it in *Challenge* magazine.

Robert L. Hetzel: You were also critical of a lot of the new paradigm rhetoric. And this came right at the peak of speculation and the bubble. There must be some kind of law that the more accurate one's predictions turn out to be ex post, the less is one is believed at the time.

Albert Wojnilower: That's certainly true. And I have to tell you that I'm not in the habit of publishing a lot or writing things that—I've never, fortunately, been in the business of having to write something every day or every week or every month so that I have to think of something to say. So I recall this, now that you bring this back to mind, but the dates I wouldn't swear about. It seems to me that this is what I would have been saying then for some time and found, pardon the expression, pretty obvious.

At the same time, from the standpoint of many people, maybe even ex post, it was probably premature by a few months. And a few months in Wall Street is like forever.

Robert L. Hetzel: Well, it holds. It's really quite extraordinary as a prognosis.

Albert Wojnilower: Thank you, sir.

Robert L. Hetzel: It may seem obvious now, but it was certainly not obvious at the time. And that's one reason for doing history because—

Albert Wojnilower: Anyway, I would not have been the only one. But a lot of what you—it has to do with what is chosen to be published. And an important element of all of this is that the press publishes what they think people will want to read.

00:05:12

Robert L. Hetzel: Yeah, absolutely. We could talk about that for a long time.

Albert Wojnilower: Yeah. Even the Federal Reserve Bank Monthly Reviews, I might add.

Robert L. Hetzel: Sure. Let me ask you—this is personally of interest to me—my son's godfather was Paul Felber [phonetic 00:05:36]. His wife, Elsie Felber. They were Jewish and from Vienna, and they left in 1939. In fact, they were on the last boat that was able to leave. I think it left from Cherbourg.

Albert Wojnilower: Oh my.

Robert L. Hetzel: Paul Felber, his cousin is Thomas Mayer, who's an economist...

Albert Wojnilower: Yeah, that's a name I recognize.

Robert L. Hetzel: ...at U of C Davis. So that was just a little interesting to me that you and the Felbers left the same year, 1939.

Albert Wojnilower: Well, it is interesting and I'm sorry to say that I never knew, our paths never crossed. Although professionally, you would have had to take 15, 20 years for that sort of thing to happen, because I assume they were also quite young, some of them, at the age anyhow, at this time.

Robert L. Hetzel: Well, they were quite a bit older than you. Actually, Paul Felber had studied economics. When I looked through his papers after he died, I found that his orals were signed by Eugen Von Bohm-Bawerk.

Albert Wojnilower: Oh my!

Robert L. Hetzel: Although he became a lawyer. So what date did your family leave in 1939?

Albert Wojnilower: It would have been, I don't remember exactly, but it would have been the first week in September—the week that war broke out between Germany and Poland, which would have been right around Labor Day that year, as memory serves.

Robert L. Hetzel: So you couldn't have left any later.

Albert Wojnilower: Well, there was no war between Germany and the United States at that time. But there was a war—I mean, we could see—our ship, which was a Dutch ship, which was neutral until, I guess, until eight months or so later when the Germans took it over. We picked up survivors of U-boat torpedoings already on the way. So, that was an interesting experience. But we went to the United States, which was, until December 7, 1941, out of the war.

Robert L. Hetzel: Yeah. So your family moved to New York City?

Albert Wojnilower: My parents and I moved to actually Brooklyn at the time, and then later moved to New York City. But I don't have any siblings, so there wasn't that complication.

Robert L. Hetzel: What was your father's profession?

Albert Wojnilower: My father was a lawyer in Vienna, which was a relatively ranking profession there because they had a guild. There were only, I think, two thousand lawyers in a city of two million people. I don't know what the U.S. ratio is, but certainly you have to add at least one zero.

But in the United States, he couldn't practice law, so he became an insurance salesman; and wound up, partly with the help of the war, doing quite well at that. The main legacy of that is, although it wouldn't have been important in the event, when my parents became affluent enough so that financing my studies was not a worry, my father said I could study anything except law. They wanted medicine, but I wasn't interested in medicine, which you can well understand of European parents' desires.

Robert L. Hetzel: Your father would have known Paul Felber. He became an accountant when he came to the U.S.

Albert Wojnilower: He might have known him.

Robert L. Hetzel: They moved to Chicago. So Columbia was an obvious place for you to start your studies?

Albert Wojnilower: Yeah, I graduated from Stuyvesant New York, and Columbia was the obvious place because in those days, going away to school didn't seem like an obvious thing to do at all. So that was the best place to go in New York, and that's where I wound up.

Robert L. Hetzel: So you were an undergraduate and graduate student there?

Albert Wojnilower: Yeah, I have three degrees from Columbia.

Robert L. Hetzel: When did you start studying economics?

Albert Wojnilower: Well, I think at Columbia as a sophomore, economics was an elective, and it seemed kind of an obvious subject for me to take, and I liked it. So, that's how it all went on. I think if I had been very good at physics, maybe I would have chosen physics, but economics was much easier.

00:10:03

Robert L. Hetzel: Do you remember the names of any of your teachers?

Albert Wojnilower: Yes, as a matter of fact. But don't ask me more recent things. I forget those. But the first teacher was Professor Carey, C-A-R-E-Y. He was not—I don't know if there is anything in economics that would have been known about him, but he was a big man at Columbia about football, and also just campus organizations and so on and so forth. At that level, I should say, he was a very good teacher. I shouldn't...I only remember that at the first midterm, the only person to get as high as a B+ was one of the athletes, who later barely passed. But that's another matter.

And after that, there would have been Professor—if you have heard of him, I'm surprised. His name was Hoeffting. He came from Scandinavia somewhere. H-O-E-double F-T-I- N-G.

Robert L. Hetzel: I hired a research assistant who subsequently went back to school and is now back here as an economist, Alex Wolman. And his great-uncle, Leo Wolman, taught Labor Economics.

Albert Wojnilower: Yeah, those were the graduates. At that time—and still even more so subsequently—it was segregated. If you were an undergraduate, you didn't get to see those people.

Robert L. Hetzel: Okay.

Albert Wojnilower: And then actually, because of the peculiar system that Columbia had, basically I got my bachelor's in three years in the summer, so I didn't have many electives, you might say. And you were not required to have a major or minor at that time. Maybe still not. You had to have what was called "maturity credits"—in other words, advanced courses—meant you could graduate even if they were all over the lot.

Robert L. Hetzel: I'm asking these questions for a reason that will become clear.

Albert Wojnilower: If I'm telling you too much, let me know.

Robert L. Hetzel: No, no, no. I'll sort of tell you where I'm going. Most of the people, or at least a lot of the people, who went to the Fed, and to the New York Fed, came through Harvard and John Williams. So you came from a different course and I'm interested in that.

Albert Wojnilower: Well, I came from a very curious kind of connection, let's put it that way. When I graduated, I had the bachelor's and Master's. But my Ph.D. was some years away, and I couldn't find a job in economics at first at all because the Columbia placement office was—how shall I put it?—not cooperative. Which was, although I couldn't prove it in court, because I was Jewish, because I graduated first in the class with two degrees and they didn't give me one job referral of any kind.

So I went eventually to a Jewish organization, and they said that although they couldn't find me a job that they would make sure that I got some referrals from Columbia. And they were right about that. And among those referrals from Columbia, which came within days after I talked to that Jewish organization, was one to the Federal Reserve Bank of New York.

Robert L. Hetzel: Well, I mentioned in my e-mail that what prompted this letter to Friedman was reading Moses Abramovitz's autobiography. Very interesting. You can download it from the Stanford Economics Department Web site. One of the reasons he left for Stanford was that he was teaching at Harvard, and Harvard was unwilling to promote Jacob Viner because the president of Harvard wouldn't promote Jews.

Albert Wojnilower: Very interesting. That's also why Samuelson went to MIT maybe a year before that.

Robert L. Hetzel: I think that was a little later.

Albert Wojnilower: It was later, I'm sorry.

Robert L. Hetzel: In any event, so I think that at the New York Fed, was it Rosa who was—

Albert Wojnilower: That's right. He was in charge at that time.

Robert L. Hetzel: And from what I've heard, that Rosa would not discriminate on the basis of religion or gender; that he was willing—

Albert Wojnilower: That's right.

Robert L. Hetzel: Somebody told me the story that at that time, when you went down to the cafeteria at the New York Fed—this was 1940—that the women sat on one side and the men sat on the other, and kind of Rosa had female economists come sit on their side. Little things like that.

00:15:11

Albert Wojnilower: Good for him. I know, though I wasn't there that early, I was told that until after the war that blacks were not hired for anything except menial positions at the Fed. And some of the hangovers of that were still in evidence when I was there. And

most of the Jewish economists, like me, left before they became promoted to higher positions, which became later on—not very much later, all the discrimination was scoured—but in the years that I was there, that was still a factor.

As long as you're mentioning names, I should mention Rosa's right-hand person, who I thought was also exceptional. His name is Charles Coombs, C-O-O-M-B-S...

Robert L. Hetzel: Sure.

Albert Wojnilower: ,,who was really the operating manager of all the Research people, and who, while in many ways a controversial figure, this is one score all across the board deserves on which he deserves an A+.

Robert L. Hetzel: Somebody told me once Coombs was a roommate of Kennedy's at Harvard. Had you heard that?

Albert Wojnilower: I hadn't heard that but I wouldn't be surprised.

Robert L. Hetzel: Yeah, Coombs was a forceful personality.

Albert Wojnilower: He's really was the person who hired me if you want to, you know...I mean, maybe under Rosa's authority, but in terms of the person that I had to impress in order to be hired, he was the person.

Robert L. Hetzel: I'm going to ask you to what extent Volcker was a protégé of Rosa. But I'm also going to ask you about Arthur Burns and Alan Greenspan, too, because they have a lot in common. Well, we'll get to that. So when did you start graduate study?

Albert Wojnilower: Formal graduate study would have been in 1951. See, I was class of 1951 of the college, but in the school year 1951, I was really taking only graduate courses.

Robert L. Hetzel: So you also started at the New York Fed in 1951, right?

Albert Wojnilower: No, no—yeah, that's right. I beg your pardon. That would have been, I think, 1953. My memory may be off a bit but let's see...it would be 1951, yes. Basically, from my point of view, I got my bachelor's in 1950, my Master's in the summer of 1951, and then I went to work at the Fed. That's right. Your record is more accurate than my memory.

Robert L. Hetzel: So tell me about the courses you took from Arthur Burns.

Albert Wojnilower: By the way, I went to work in what was called, I think, the Central European Unit. The fact that I knew German was key to my credentials. And that the person who was then in charge was, at least at that time, quite a famous econometrician by the name of Horst Mendershausen, who had already given up on econometrics. He was doing

political economy by the time he came to the Fed. But he had been at Rand and other such places.

Robert L. Hetzel: Yeah, I definitely know the name and I've read some things by him.

Albert Wojnilower: Okay.

Robert L. Hetzel: Did John Williams work with your section?

Albert Wojnilower: No. John was, by that time, at Harvard, was it?

Robert L. Hetzel: Yes.

Albert Wojnilower: And sort of an outside advisor.

Robert L. Hetzel: So he would talk to Sproul but he would not come down to your—

Albert Wojnilower: Whether he talked to Rosa, I have no idea, but certainly not to any ordinary mortals.

Robert L. Hetzel: So did you see Rosa and Coombs in your section?

Albert Wojnilower: Coombs mainly. No, the way the Federal Reserve was then, more so than now—but I suspect the Federal Reserve to have lessened their attitude—a very hierarchical place. And these people were on a different floor.

Robert L. Hetzel: Yes.

Albert Wojnilower: And for me to communicate with Rosa would have been sort of through memos, none of which could pass back and forth from me to him without being edited at two levels in between.

00:20:01

Robert L. Hetzel: Yeah. I don't think that's changed over the years.

Albert Wojnilower: Which meant often they didn't come out the same way that they were intended to, but that's another matter.

Robert L. Hetzel: So you began work at the Fed at an extraordinarily interesting time. In terms of the international situation, the beginning of the Korean War in June 1950, and then when it heated up in November 1950 when the Chinese crossed the Yalu River. The rise in commodity prices. Germany had just started with the European Payments Union and there was a balance of payments-prices within the EPU. This was probably the last time that Germany, that the mark was under attack for being a weak currency. Was your unit involved in those kinds of—

Albert Wojnilower: Our unit was primarily involved with Germany—and some with commodity prices, and I'll get back to that in a moment—the things that you mentioned, I know by hindsight, but as a 21-year-old kid out of school, all this EPU stuff seemed, you know, in another world so far as I was concerned at that juncture in time.

The other member of our unit, in addition to Mendershausen, was Alan Holmes, who later became manager of the Open Market Account, and who knew Russian. And so he was concerned with that end of it, and he was also the expert on commodity prices, would you believe.

Robert L. Hetzel: Unfortunately he died before I started.

Albert Wojnilower: He died prematurely, yes. So I was, with very good reason, very junior, but you're quite right about the events at that time. But I would say that my analytical understanding or contribution would have been minimal at that point.

Robert L. Hetzel: How was it that Holmes knew Russian?

Albert Wojnilower: Good question. I don't know. But he had access to the State Department. You know, he got some kind of consular reports, and he had access to the one from Russia at a higher level of confidentiality than the rest of us did.

Robert L. Hetzel: Do you remember it being an intellectually exciting place to work?

Albert Wojnilower: Yeah, absolutely, because it was very hard for young economists to get a job. And I don't want to be self-congratulatory, but you had only pretty good people around that place. And Bob Rosa himself was, at that time, also a leader in a branch of the profession, so all that stuff about availability and so forth. So it was an exciting place.

But I was transferred to the Domestic side after a couple of years, which was sort of a promotion. And that's basically where, you might say, my intellectual process began.

Robert L. Hetzel: Let me go back to the courses. You got your Ph.D. somewhat later. So were you taking courses at Columbia throughout the 1950s?

Albert Wojnilower: No. When I left, when I came to the Fed, I only needed three more courses, which I took at NYU. And the rest of the time was involved in the thesis, which for a long time, I really didn't start; which really I owe to the Federal Reserve if you want to have that on your record, in that when I'd been there whatever it was, nine or 10 years, and started looking for other jobs, as was the custom, one of the incentives really that Rosa developed was that if you'd been there a certain while and were chosen that the Fed would give you six or nine months off to do your Ph.D. dissertation. And they would give it—at the office, you had all of the facilities of that to work through. And that explains my staying at the Fed several years beyond that.

Not only that but they gave me my thesis subject, because at that time, the National Bureau of Economic Research was engaged in what was called the Quality of Credit Project. James Earley was in charge of it. And various papers on the quality of credit were to be written, and bank credit was allocated to me because there was an agreement between the National Bureau and the New York Fed that they could use data from the examination records if somebody from the Fed handled those records rather than an outsider. And that's how my dissertation came to be written, and later published by the Bureau.

00:25:07

Robert L. Hetzel: Was that before the Bureau and the Fed, with Dan Brill, began work on the Flow of Funds Accounts?

Albert Wojnilower: It would have been, I think, the terminus. It was that Arthur Burns was in charge of the Bureau by name and Geoff Moore was really running it. So Arthur Burns was my thesis chairman. That was part of his involvement, you might say. But Geoff Moore was also on my committee, and he really is the one who passed my thesis. And after he had passed it, Arthur Burns made me write—for very good reasons, I must say—a draft of it. And that's how the whole thing came to be done. But all of that didn't start until I had been without doing anything on the thesis for several years.

Robert L. Hetzel: What courses did you take from Arthur Burns?

Albert Wojnilower: None. Yeah, I met him when it was explained to me that he could be my thesis chairman since I was working for the National Bureau.

Robert L. Hetzel: So you didn't take courses from him?

Albert Wojnilower: No, no.

Robert L. Hetzel: Did you have any sense of him as an economist at that time?

Albert Wojnilower: Very little other than he was feared by everyone. And that he had this remarkable gift of speaking, even an ordinary speech, with punctuation marks included. I mean, not that he said period or semicolon, but you could have taken anything he said in dictation and it would have been in perfect English.

When he became chairman of the Board, which was already at the time when from First Boston, I was visiting the Board, naturally I went to see him. I learned more about his economics then, and some of his lacks, than subsequently. He knew nothing about finance so far as I could tell. And it was my intention not to go to see him very much, because every time I or anyone else came to see him, he would leave me with some sort of thing that he would say, "Write me a memo about that." So you couldn't go to see him without knowing that it was going to take a lot of time after that.

So I went to see, as I do nowadays, other members of the Board. And, as you know, there's a list of the visitors there. And I got a call from his secretary—I guess that was already Miss Nardi [phonetic 00:27:36]—saying, “He wants to know why you didn't come see him.” So that's the kind of person he was.

Robert L. Hetzel: So this is in 1970 that you visited the Board?

Albert Wojnilower: Right. So my acquaintance with Arthur Burns really, other than the fact that my thesis, and on the orals, I was under some attack, if that's the right word, or criticism, from the other members, that when the chips were down, he defended me. So I should admit that.

Robert L. Hetzel: Did you see a relationship between Arthur Burns and Alan Greenspan? They both came—Greenspan studied under Burns, and they had a National Bureau sort of disposition of looking at the data and always trying to understand empirical relationships and how they revolved in response to changes. Both Burns and Greenspan were consummate business forecasters, making use of the leading indicators approach. Did that ever occur to you that?

Albert Wojnilower: It should have, but I confess that it didn't. But you're quite right about it, everything except the use of “consummate.” I think they both were terrible forecasters, because they were competition of mine so I have a judgment of who was good and who wasn't. And both of them—because until Greenspan came to the Fed, or at least came to the government, he had no understanding of how monetary policy was involved in anything. He was always a fiscal policy person. Still is, to some extent. But unlike Burns, Greenspan has really become an expert on monetary policy on the job, which to my judgment Burns never managed, or cared about at all.

Robert L. Hetzel: Yeah. Everyone I've talked to has said the same thing. For example, Board staff. They were surprised when Burns came to the Fed how little he knew about the Federal Reserve System and monetary policy.

Albert Wojnilower: Yeah. And personality-wise, as you know, of course, they're different. And, of course, Greenspan was born in the U.S., if I'm right.

Robert L. Hetzel: Yes.

Albert Wojnilower: And as a young person, I mean, to some extent, he was always a bon vivant and he had fast cars and so on and so forth. Burns couldn't have been more dissimilar in that Greenspan was trying not to be bourgeois—he was a musician also—whereas Burns, at least in public, always gave a very buttoned-down impression. But you're quite right about the intellectual antecedents. You're absolutely right about them.

Robert L. Hetzel: But there's one enormous difference, which is that Burns was willing to use incomes policies to control inflation, and they were anathema to Greenspan ideologically. And so both of them despised inflation, but if you despise inflation and you're

unwilling to use government coercion, all you've got left is monetary policy. If you are willing to use government, then you feel like you can trade off. And so there's one—

Albert Wojnilower: You know, I have great respect for Greenspan, and you can't speculate on what would have been done had he been there instead of Burns. But when you have responsibilities and when you're dealing with the President and so forth, there are times when you make compromises. So I wouldn't think less of Greenspan if he had been there when Burns was there and he'd had incomes policy at that time.

I think that was—you may have some indication of where the ideas for the incomes policy came from. And I personally, I wouldn't be surprised if it came more from Volcker than from Burns.

Robert L. Hetzel: Well, at that time, it was—well, for example, in 1970, Robert Rosa gave a speech at the whatever the finance association is, and he argued for a six-month wage freeze to change psychology. And that's what people like Volcker and Weidenbaum, who is a very conservative person, that was the common view; that there was an inflation mentality that had to be stopped, and the way to stop the psychology was for freeze for six months. Burns, my own feeling is—

Albert Wojnilower: And actually, I mean, I didn't anticipate it and I was against it from the very beginning. But it might have worked if monetary policy hadn't, in effect, undercut it.

Robert L. Hetzel: Well, that's an interesting point.

Albert Wojnilower: I'm not trying to justify it by hindsight, but it was really used—and this you can blame Burns for, at least in part—to take the heat off money, or off the Federal Reserve from a monetary point of view.

Robert L. Hetzel: Yeah. Yeah, I'm asking these questions for a reason, because I'm eventually going to ask you about Paul Volcker and whether you think his views changed over time, or whether—

Albert Wojnilower: Again, with some experience. Also, if I may say, this was when Connally was secretary of the Treasury?

Robert L. Hetzel: Yes.

Albert Wojnilower: And Connally was a man who gave orders. And my hunch is, not from knowledge, is that Volcker planted that idea in his mind; but that when Connally heard of it, he would have grasped it to his bosom right away. After that, you couldn't change anything. There would have been no way to undo it. That's my hunch, not based on anything that Paul told me.

Robert L. Hetzel: Yeah. Well, my hunch is that Burns, ever since he was head of the NBER, sat on a lot of corporate boards. Like Greenspan, he would sort of be a business forecaster. I think it was a lucrative thing for him. And he always thought he had an insight into the psychology of the businessman, and a lot of his ideas really reflect to the conventional views of the business community at the time. And I think that's where they came from, because the business community was very much in favor of controls. When they said "controls," they mean wage controls and price controls

Albert Wojnilower: Absolutely. You've got that totally right. And it was a great irony at that time that the business community were the ones who pushed this idea, which I suspect a lot of researchers or people who talk about this history, would like to overlook when they talk about it.

00:35:14

Robert L. Hetzel: At the time, you said you were opposed to controls. What was the basis for your opposition?

Albert Wojnilower: Basically because I didn't think that they would work. And I thought that you'd have to have much tighter money, period. And that controls would create an illusion that money didn't have to be tighter, and that's how it worked out. And that things would get worse in the monetary sense rather than better.

Robert L. Hetzel: Okay. Another good forecast.

Albert Wojnilower: Yeah. No, I should tell you also, in terms of bad forecast, that on one of the very rare occasions, I had a tipoff from a reporter. The weekend that the controls were introduced, he told me it was going to happen. And I told him that he was crazy.

Robert L. Hetzel: I wonder who that reporter was because it was buried.

Albert Wojnilower: I can tell you who it was because he's dead. It was Sandy Parker from *Fortune*. But this is probably not relevant. There's no harm in your knowing, but it's kind of put to the side of the whole business.

Robert L. Hetzel: Yeah, it was very closely held. People like Herb Stein at the Council didn't know about it.

Albert Wojnilower: Well, actually, Sandy didn't tell me that this was going to happen, but everybody knew that it was going to be discussed. And he said, "I want to tell you that there's been an emergency meeting called over the weekend at Camp David and this is probably what will come out of it."

Robert L. Hetzel: Okay, so that's what he got onto. Well, somebody could have made a lot of money at that point if they had...

Albert Wojnilower: That's right. So you can say that I missed doing that because it didn't seem logical.

Robert L. Hetzel: I was interested in your comment about Burns and Greenspan as forecasters. I also have my own prejudices, which is that forecasting real economic activity, the fluctuations around trend is an almost impossible job, in that what quote "forecasters" at the Fed do is very efficiently combine all available information to get the best possible estimate of what the economy is going contemporaneously. But nobody is forecasting in a meaningful sense, not Burns or not Greenspan. Now, you may disagree with that. And you made some comments about Burns and Greenspan—

Albert Wojnilower: I think that in the board sense what you say about the Fed—which I respect very highly, and I was on very good terms with Mike Prell and I hope to be with...Thornton? Have I got the name right? Who took Mike Prell's place at the Board?

Robert L. Hetzel: Stockton.

Albert Wojnilower: Stockton. I'm sorry. I told you recalling names is difficult at my age. But I do think that, and having worked at the Fed myself, any [trace? 00:38:13] would have to put together a forecast by committee, even though some people in the committee have very little voice, is doomed from the start. But I do still—and not just because I was young at the time—I still do believe in business cycles.

Robert L. Hetzel: Sure.

Albert Wojnilower: And I think that one reason that econometrics has its problems is simply that I'm not sure that I would divide them up into nine phases the way Mitchell did, but that there simply aren't enough cases of what you might call business cycle observations for econometrics to work with them.

Robert L. Hetzel: That sounds so much like Greenspan.

Albert Wojnilower: Does it? Oh my.

Robert L. Hetzel: Greenspan took a lot of courses over the years at Columbia, and he took all the econometrics courses. And Greenspan's view of economics is his view of econometrics. And his argument is always that the models are fitted to particular historical episodes, but they don't forecast because the world changes and it's never quite the same as what it was when the model was fit. And I was interested in your comments.

Albert Wojnilower: Well, for better or worse, you can lump me with that view.

Robert L. Hetzel: Yeah. You say, "If the choice were starkly between Mitchell on the one hand and econometrics based on economic theory on the other, with no middle ground, I would stand with Mitchell."

Albert Wojnilower: Right. Because as a forecaster, the intrinsic thing is not what's the same but what's different. And usually, I- uh, I don't quote whoever's right or who would like to think that but—and usually, when things are different, it's natural for the majority to say that somehow they don't count and they're out of line and should be ignored. Whereas, more often than not, into the very short run sense, they create different observations would be my judgment, and not in any sense scientifically proven or verified on my part.

00:40:28

Robert L. Hetzel: Well, in that sense, Burns and Greenspan are similar in it takes a long period to pass judgment. But for Burns, the salient fact was that in 1970, you had six percent unemployment, which was two percentage points above what everybody thought was full employment, and you still had six percent inflation. And so he had not seen that in his business cycle data, so he assumed it was cost-push pressure; and Burns was very, like the businessmen at the time, he was very hostile to the labor unions.

Albert Wojnilower: Yes.

Robert L. Hetzel: Now, Greenspan, I think, did a similar thing when he saw productivity growth pick up after 1996 and trumpeted the new economy. And he may be right ultimately, but he may also be wrong. But I think it's a similar intellectual exercise that the two went through; this business of seeing what's different and then trying to give content to it at the time rather than wait for 20 years and enjoy the historical perspective. And then you can go back and say, "Oh, yeah."

But in that sense, I think they're similar intellectually, that they have this Columbia/Mitchell/Bureau empirical kind of bent—identifying empirical irregularities, flag differences and try to understand those differences in terms of changing institutional arrangements.

Albert Wojnilower: I think that's a very astute observation on your part. I'm sure you're right about that.

Robert L. Hetzel: Before we leave Burns, you made one other little comment that was interesting to me. You said that—not your words—basically if Greenspan had been Board chairman in 1972 and had considered himself counselor to the President, he, too, might have made a different set of compromises than he made later on. So you view Burns as close to the Nixon administration, at least after the wage and price controls, and that was a problem for monetary policy?

Albert Wojnilower: Yeah, I can't get—I can't comment, would not have been in the position to comment specifically, but that Burns was a stalwart in the Republican Party and his credentials were beyond question and so on and so forth, I'll suggest that he and Nixon really communicated very well on a subject like this.

Robert L. Hetzel: Yeah. Burns did want to be an advisor to Nixon. Burns also wanted to be an insider so that he could influence the wage guidelines.

Albert Wojnilower: Yeah. You mentioned Herb Stein because although I'm not sure that in fundamental view that between him and Burns there would have been a great difference, but Herb Stein would not have been that kind of personality. He was not trying to be president by proxy as in some sense Burns was.

Robert L. Hetzel: Or Paul Volcker. Now, Paul Volcker is an interesting example. This was an expression somebody else, Chuck Lucas, used for me when I was in the job market in 1975. He said, "Volcker is the Potomac River type," that is, he can't stay away from government. He really wants to be in government.

But I know this sounds sort of corny, and you can tell me, but he's an odd, unusual example of somebody who's really a public servant; that he wanted to be in government but he was never political, he was never—I mean, sure, he worked for Connally. You've got to be political, you've got to be politically astute. But he wasn't in there because of the politics of it.

Albert Wojnilower: You're absolutely right in that Paul was the epitome of what I think of as a British civil servant. Not that I know any such person, but someone who is dedicated to the job. And that was his father had been city manager or whatever it's called of Teaneck, a small town here in New Jersey near New York. And that's the environment in which he grew up. And I've never known a more selfless person than he, including in terms of this search for power sort of business. Because if he hadn't been selfless, he could have been reappointed to the Federal Reserve Board by Reagan also. That was quite literally a case of not willing to toe the party line, as I understand.

00:45:18

So you can tell that I consider Volcker the most [selfless? 00:45:24] person that I've ever met, and also the most dedicated to the public good. And I'm perfectly willing to be quoted on that score. But we're still in touch so this is not unbiased necessarily.

He and I worked—for a while we shared an office at the New York Fed, and because Rosa spotted him early on as a genius—and I became quite demoralized, because Volcker would come in with his work perfectly done, and I'd ask him when he did it and he would say 2:00 in the morning or something like that. I'm not capable of working after 10:00 at night.

So eventually, quite literally, what happened, just as the person wrote, was that Volcker was working with Open Market Operations, which were, of course, specifically tasked with moving ahead, and I was shifted to Business Conditions because, to quote my boss—my boss was Til Gaines, who's passed away, but you've got him in your records there, I'm sure—saying that I had become demoralized. And being switched to Business Conditions is really what, so to speak, made my career, such as it is. So in that sense, I can honestly say that I owe Volcker for that.

But I think that your interpretation is much better. And it shows that even though most of the time, someone like Chuck Lucas, as an outsider, is right in imputing that people, due to their desires for personal advancement or power—and I think indirectly, it's always involved—like other econometrics, that's certainly true on the average, but not on this occasion.

Robert L. Hetzel: Volcker admired William McChesney Martin, and I think it must have been for

[END OF TAPE 10, SIDE A]

[BEGINNING OF TAPE 10, SIDE B]

Robert L. Hetzel: ...Volcker and his resignation. Volcker could have had the job again if he had asked for it, but he wanted the administration to call him and to assure him that the job would be his, that people would not be sniping at him, that they would just let him do it. And the administration wasn't willing to make that phone call. They were happy for him to leave, and so they just parted company.

Albert M. Wojnilower: Yeah, again, I would rather level to the middling side of this other than by inference from Paul—pardon the first name. But whether they would have wanted some more affirmative announcements from him, then that's the question of the phone call. I would say I'm not sure. I would leave that as a question.

Robert L. Hetzel: Hm-hmm [affirmative].

Albert Wojnilower: Although Paul was good at those things. If it was necessary to say to [unintelligible 00:48:23] so it sounded like he was on the team, I'm sure he could have done it without any conflict, you know, any substantive conflict.

But as you've read it, it's not something that Volcker has ever allowed me to talk to about him directly. So either by not so much any direct information, but I believe that it's correct. But even though we were good friends and we talked a lot about things that, in principle, maybe Volcker shouldn't have talked about with a non-Fed person, but when it came to these kinds of, what shall we call it...?

Robert L. Hetzel: Personal?

Albert Wojnilower: ...personal matters, he was very reticent. We had a group of couples that met at that time from time to time. Volcker and his wife, my wife and I, Henry Kaufman and his wife Elaine. And sometimes Jack Hennessy, who was at the Treasury. Sometimes Charlie Sanford, who resigned from Bankers Trust—you know that name, I guess, thereby introducing the name?

Robert L. Hetzel: No, so that's interesting, so—

Albert Wojnilower: Charlie Sanford was chairman of the Bankers Trust eventually. And we never talked about business at those social meetings, gatherings, you know, in somebody's home. And then once in a long while, Paul would bring up something having to do with business. And then all the rest of us looked at each other because we said, "Now we're going to hear something that he wants to have circulated in the community." In other words, would be used. Otherwise the subject would never come up in social matters.

Robert L. Hetzel: Well, that's what people say about Volcker who had dealings with him, that he was the consummate bureaucrat, that he never tipped his own hand. If you want to say, "Well, what did he think about in 1970 about a crawling peg?" You know, the kinds of reforms that were discussed. And people would say, "Well, you don't know; because he came and he ran the meetings, but he always represented his boss and the Treasury and his position, and you never knew what his individual position was. He was just a very competent bureaucrat."

Albert Wojnilower: I think when he became chairman, that may have eased a little, but not totally by any means.

Robert L. Hetzel: Was there anybody he confided in, as far as you know?

Albert Wojnilower: In the sense that you're describing?

Robert L. Hetzel: Yeah.

Albert Wojnilower: Well, a person who has been mentioned, although I'd hate to believe it, is Jack Hennessy—I forget what his true first name is—who was the assistant to Paul when he was in the Treasury. He was assistant secretary to the Treasury for International, whatever the rank was then; and later, became chairman of First Boston, and is now retired but still active there. A bright but duplicitous sort of person, if I may say. And he and Paul really did, they seemed to operate a lot together, even after Hennessy left the Treasury, and after they both left the Treasury. So you might get a slightly different impression there.

00:52:16

Robert L. Hetzel: Okay. Do you think he would talk to me?

Albert Wojnilower: I wouldn't be surprised.

Robert L. Hetzel: Okay. Yeah, I definitely know the name but—

Albert Wojnilower: And he's partly retired and so forth. I don't see why he wouldn't. And for many years he harbored ambitions of running for president, both the times that the Bushes won. And a lot of other people thought it was quite a bizarre idea, but he didn't think so.

Robert L. Hetzel: Okay, let's go back to the early Fed days. When did you transfer to the Domestic section?

Albert Wojnilower: It would have been 1953.

Robert L. Hetzel: Did you have any contact with Board people at that time—Riefler, Young, Thomas and then—

Albert Wojnilower: They're all very important names.

Robert L. Hetzel: Yeah. And then Leach and Youngdahl, they were younger economists, but then they left and went to [unintelligible 00:53:21].

Albert Wojnilower: Yeah. And when they left, I got to know them quite well, including when Youngdahl's son was at Goldman Sachs, but that was long after. I mean that they left, but I left also I guess I should add.

Robert L. Hetzel: Did you retain an interest in the International when you—later on in the 1950s? I'm interested especially in the period of 1958, 1959, when the Fed became concerned about foreign confidence in the dollar. There was an episode very much like Volcker's flight to Belgrade in August 1979, and the discussion of foreign central bankers and their concern about the dollar. The story is Volcker flies back—

Albert Wojnilower: Hm-hmm [affirmative].

Robert L. Hetzel: It was in, it would have been October 1958, Secretary Anderson flies to New Delhi—there's an IMF conference—and there's similar concerns about the dollar. And he flies back and the Eisenhower administration and decides that it's going to make price stability its priority. And they try to balance the budget and the Fed raises—

Albert Wojnilower: You have really, I can see that you've done enormous research in this area. No, but the fact was that I really didn't become, you see, re-involved on the International side until in the latter 1960s in that series of episodes.

By then I was at First Boston, and basically, I was nearly an economist in Britain, in effect, for a very long time. So I was in charge of everything in that [unintelligible 00:07:53]. And if something was very much in the news, which turned out to be the case, and then I could claim that I had some experience on the International side, although it wasn't very germane. So I can't address, so the answer to the late-1950s question is simply no. I can say that on the Domestic side, it made no impression at all.

Robert L. Hetzel: Yeah. Did you have contact with Volcker during the 1950s when he was at the Treasury?

Albert Wojnilower: Let's see...when did he go to the Treasury? Sometime, was it...?

Robert L. Hetzel: Well, it would have been with the Kennedy administration.

Albert Wojnilower: Yeah, right.

Robert L. Hetzel: Rosa would have brought him in, so that would have been 1961.

Albert Wojnilower: Yeah, that would have been, yeah, late 1950s and 1960s. But in any case, the fact of the matter is, to a greater or lesser extent, I had contacts with Volcker all the time, either socially or professionally, but that it became much more meaningful when I left the Federal Reserve. Which would have been in the 1963?

[00:56:21].

Robert L. Hetzel: Do you have any sense of why he left the Treasury in fall 1965 to go back to Chase Manhattan?

Albert Wojnilower: I think it's a combination that he didn't have financial resources of his own, and that, in effect—I think it was David Rockefeller at the time, if I've got this straight—but basically, he was offered a free hand in a very large and powerful institution. Whereas in the Treasury, I think he would have become more aware of what the political limits, in terms of accomplishing a program, that were in that environment. But, again, this is not the sort of thing that we would have talked about.

Robert L. Hetzel: Sure.

Albert Wojnilower: But that he was, in some sense—the title of his job at Chase, it didn't explain anything. He was David Rockefeller's right-hand man on anything that was interesting or complicated.

Robert L. Hetzel: Yeah, like Schultz in the Nixon administration.

Albert Wojnilower: Right.

Robert L. Hetzel: Someone who was just very competent. And even in a political organization, you need somebody who understands the issues.

Albert Wojnilower: Right. He had a marvelous grasp of what you might call the non-economic sides of these arguments.

Robert L. Hetzel: He had a son and a daughter, and the son had multiple sclerosis or there was some—

Albert Wojnilower: Yeah. And the son was married. I don't know if they had a baby or not. And he had various jobs, and so far as I know, may still be working in a bank. I confess I never met him, but it was always a sore subject. And in a certain sense, the son did better than might have been expected. He became self-supporting, I think, without any kind of—what would you call it?—terrible use of influence on the part of his father.

The daughter was a nurse, and she's got two or three children. And Paul loved to wheel those babies. I mean, they're not babies anymore, obviously, but in that sense.

And his wife, as you know, was a very tragic case physically.

Robert L. Hetzel: Well, I just—she had arthritis, but that's...

Albert Wojnilower: Rheumatoid arthritis, yeah, and from a very young age, and became increasingly crippled.

Robert L. Hetzel: Okay, I didn't know that it was—

Albert Wojnilower: No, no. She died, I would guess it was two years ago, and the last 10 or more years of her life—she was a very, very bright and vivacious woman when she was young, but she was basically wheelchair-ridden and could do less and less.

Robert L. Hetzel: Did you have contact with Volcker during the Nixon administration at the Treasury? And particularly what I'm thinking, in Changing Fortunes, in his book, he expresses frustration at the unwillingness of the Nixon administration, or the Fed, to defend the Bretton Woods system.

Albert Wojnilower: Yeah.

Robert L. Hetzel: Its exclusive focus on domestic policy, when focusing on the dollar would have been useful, too. It would have forced them to confront inflation more directly. Do you feel like the frustration he felt in the Treasury at that time, as someone who was responsible for maintenance of the Bretton Wood system, and seeing it break up before his eyes, that that must have been something he carried with him when he became chairman of the FOMC? That's speculation, of course.

Albert Wojnilower: Yeah. I don't know that this is at variance with your question or with what you're seeing, but I'd like to say that from—Paul always had—he's someone who wanted the United States to be the leader in everything.

And I would say to him, "How can a company have both a huge export surplus and a very strong currency and have no inflation?" And so on and so forth. All these good things that are very hard to join together. And a balanced budget and who knows what other things might have been involved?

He believed that the United States should always be associated with the best of everything. In that sense, he was a super-patriot. And to me, as a lesser person and also as a forecaster, at times these goals obviously came into conflict. And he never responded, you might say, to that sort of issue. He always was trying to figure out a way for the U.S. to be in the lead. And so I don't know that it's not the Bretton Wood institutions per se, but the role of the United States in being the leader and setting the benchmarks for other countries to follow if they want to be doing the best.

Robert L. Hetzel: That's a very interesting insight. So Volcker has always expressed concern for the behavior of the dollar, and always expressed the idea that monetary policy should concern itself with the dollar. He'd like to see a movement back toward...

Albert Wojnilower: ...fixed rate, yeah.

01:02:27

Robert L. Hetzel: Yeah. So that's not just because in the 1950s and 1960s coming through the New York Fed and the Treasury, he was part of the establishment that was in charge of maintaining the Bretton Wood system, and that was his formative years. It's what you say about the role of the United States in the world. A strong dollar, for him, is part of the United States—

Albert Wojnilower: Yeah. If you were to tell me, if someone were to say, that he had a strong belief, for example, in fixed exchange rates for their own sake, I would be hard pressed. He had a strong belief in those things that put the United States in a positive, an affirmative fashion at the center of the world.

Robert L. Hetzel: Yeah, that's a very interesting comment, because I've often wondered about that. Because Volcker was very intellectual. He was like John Williams or Rosa in that sense in that he was very intellectual. But he never signed on to a particular intellectual movement, whether it was Keynesianism or monetarism.

Albert Wojnilower: Yeah. He was a policy person.

Robert L. Hetzel: He was a policy person, you know, let's make the world run. But he was intellectual, he understood how the world works, so he obviously knew all the arguments for what it took to make the [system? 01:03:52] work.

Albert Wojnilower: That's right. Better. I can say from personal experience, as well as others, better than people who themselves propose these arguments. He could make anybody's case better than the individual that [unintelligible 01:04:03]. That doesn't mean that they persuaded him, of course.

Robert L. Hetzel: Yeah. So in that sense—well, that explains then his attachment to an international system which keeps the dollar strong.

Albert Wojnilower: Yeah.

Robert L. Hetzel: But in that sense, he was different from Charlie Coombs.

Albert Wojnilower: Yeah, right.

Robert L. Hetzel: You've read Coombs's book and things that he's said. Coombs was also the consummate manager, the person who made things run. He came out of the Cold War, a generation earlier than Volcker, and his generation, like Kennedy, believed in the strength of the dollar as a patriotic thing.

Albert Wojnilower: Yeah.

Robert L. Hetzel: The dollar had to be strong because the free world had to be strong, and you had a Communist menace. And Coombs, somebody told me he was in the CIA in Greece in the civil war there.

Albert Wojnilower: [Unintelligible 01:05:07]. I don't know from whom, but...

Robert L. Hetzel: Yeah. But Coombs was not intellectual. At least when you read his book, there's never any sense that he understood the intellectual arguments. His view was always an operational market view, and what do we need to do to get cooperation? Who do I need to call on the phone to get this done? And surely, he understood the issues and need for monetary policy that was consistent with maintaining the value of the dollar. But his emphasis was always on the operations, you know, how do we get cooperation to make this work?

So in that sense, Volcker was really unusual. Volcker and Rosa, they were different from Coombs.

Albert Wojnilower: Yes, that's right. I mean, I didn't know Rosa well. I should say I saw him a lot but I didn't know him well, so, yeah, I accept your judgment on that. Coombs and Volcker, you know, I would personally knew.

Robert L. Hetzel: It's of interest to me because it seems like if you want to understand Volcker, you need to understand Rosa. But they overlapped. They were in different situations, but I think a lot of Volcker's attitudes and views came through Rosa in the New York Fed.

Albert Wojnilower: Hm-hmm [affirmative]. It must be, yes.

Robert L. Hetzel: And Rosa was an intellectual. He also had a sense of kind of integrity in what he believed. And people have said that by challenging Martin on the "bills only" policy and by aligning himself with Sproul that he foreclosed his future within the Federal Reserve System. There were limits to how far he could rise.

Albert Wojnilower: That's interesting.

Robert L. Hetzel: He must have known.

Albert Wojnilower: Hm-hmm [affirmative].

01:07:17

Robert L. Hetzel: Now, it's debatable whether when Sproul left, he could have been promoted president of the bank. Because he was young at that time, so he had that going against him. But it was clear that Washington was going to veto. Washington did veto Sproul's candidate and then they accepted a compromise.

Albert Wojnilower: I wasn't aware of that. I find that very interesting and not surprising.

Robert L. Hetzel: Well, I talked to Bill Treiber and that's what he told me. Okay. So Volcker is president of the New York Fed. This is about where I came in because I joined the Fed in the fall of 1975. Volcker was a very articulate member of the FOMC. Unfortunately, the transcripts from that period are still not available.

But from my briefings, from what I heard of the debates, you don't get the feeling that this is somebody who would lead a cavalry charge or was tremendously unhappy with how things are going. Now, this is speculation, but I get the feeling more that he's either holding his cards close to his vest, or when he's put in the position of being chairman of the Board of Governors in the FOMC, then he's a natural crisis manager.

Albert Wojnilower: Right.

Robert L. Hetzel: He rises to the occasion. He's somebody who can lead in difficult times. He's put in a difficult position and he comes through. Which is a little different than saying, "Oh, yeah, he was like Milton Friedman and he just believed you ought to control money, and money was growing too fast, and therefore..." You know, he didn't come at his—the Paul Volcker that we know as head of the Fed from August 1979 on was partly created by the situation in which he was placed, and partly by this longer tradition of, as you say, the New York Fed, and particularly the New York Fed's concern for the international situation—the value of the dollar, the role of the United States in the world economy. Do those things sound...?

Albert Wojnilower: Yeah, I think that's all that [unintelligible 01:10:00]. That made it [unintelligible 01:10:03], but I think that you're absolutely right in that his crisis management really fits him totally.

Robert L. Hetzel: So this is something he wouldn't have talked about at the time, but he pushes the funds rate up to 21 percent. It goes up in early 1981, and then again in spring of 1982. I mean, it seems like a couple things are going on.

He's looking back to William McChesney Martin and the kind of earlier views of the importance of inflationary psychology. And what he's looking at, it seems to me, is not so much money growth—money growth is important, because at this time, the financial markets are concerned about it and they associate high money growth with inflation. So he's got a derived concern for money growth, but he's looking through to the psychology of the markets, which is something Martin would have done, and did do in 1959 and 1969. So in that sense, there's a continuity here. But he's also in a situation where Reagan just sits on his hands. He doesn't say anything. Reagan is not Lyndon Johnson in 1965. So Volcker pushes and finds he can get away with it.

Albert Wojnilower: Yeah, well, it could have. I don't specifically remember. But I think your description of it is absolutely accurate. At that time, I saw Volcker relatively often. He might disagree but I don't think he ever gave a damn, pardon the expression, about the money supply other than as a political instrument for justifying what he and the Federal Reserve were doing at the time.

So it wasn't really because of Volcker's personality or psychology that I forecast those 20 percent funds rates a couple times. I advanced them because I could tell that the economic situation was one that once he was committed to going that way, it was going to take him further than he expected at the beginning, but that he would stick to it.

01:12:28

Robert L. Hetzel: Yeah, nobody at the time expected just how difficult it would be.

Albert Wojnilower: That's right. It was hard for anybody outside the financial markets or outside sort of who was part of the official sector who always attempts to think incrementally, it's very hard for them to have understood what the climate was in the country then.

And then, when I didn't—well, actually, Henry Kaufman and I, in some sense, predicted when the raising of interest rates or the Fed's funds rates would stop. But when Volcker did it, there was no justification in money supply developments for doing so. If anybody had been on money supply, they would have said the rate would have had to go further.

Robert L. Hetzel: So this is summer 1982 you're talking about?

Albert Wojnilower: Yeah, right. Basically, I think it was in November that he made a speech, the bulk of which was to say, "Who cares? Twenty percent is enough."

Robert L. Hetzel: Well, we knew later, at least at my level we didn't know so much at the time, but what was changing was the LDC debt crisis, the invasion of the Maldivian Islands by Argentina in that spring, and the precipitation of the debt problems with Argentina and then Mexico, and the international banking system is under stress.

And so Volcker begins to back off. And he finds that when he backs off, when he begins to lower the interest rate, felicitously or not felicitously as a consequence of earlier policy, inflation's falling. And he finds that the Fed's got credibility; that he can lower interest rates and inflationary expectations remain under control.

Albert Wojnilower: Yeah.

Robert L. Hetzel: So he's got these things he's balancing off. And suddenly, the calculus is different. He's got more flexibility than he had in the earlier period, and he's got this horrendous mess that's developing with the large banks. They're basically insolvent. But none of that becomes—were you aware of that dimension of it at that point?

Albert Wojnilower: Yes, yes. But, again, it fits into your sense that it was crisis which attracted his attention and best qualities.

Robert L. Hetzel: Yeah, and I think that that's—

Albert Wojnilower: And, you know, that was a crisis situation which involved essentially individual negotiation or, in using trade in a benign sense manipulating the reactions of individual leaders, that was what he was strongest at.

Robert L. Hetzel: Maybe that explains his affinity with Jack Hennessy, from what you told me about him.

Albert Wojnilower: Maybe.

Robert L. Hetzel: But it seems to me it certainly explains why he would choose somebody like Corrigan then as an assistant, because Corrigan was a crisis fighter, too. He was somebody that Volcker could rely on in a Hunt brothers silver situation and so on...

Albert Wojnilower: That's right.

Robert L. Hetzel: ...to get in, sort things out, knock heads, do whatever it took to clean up a mess. And not, again, Corrigan is very bright. He would have understood all the intellectual issues, but he's basically sort of a street fighter person.

Albert Wojnilower: That's right. I assume that you have have talked to him over there.

Robert L. Hetzel: No, I have not talked to him.

Albert Wojnilower: I mean, you know, if there's an opportunity.

Robert L. Hetzel: Yeah, I should do that.

Albert Wojnilower: Although he's a very hard person from whom to draw a full sentence of answer to anything. But it may be worth trying anyhow. As you get older, you get maybe more garrulous.

Robert L. Hetzel: Well, that's an interesting comment. He came up through the Economics Department, so he should be easy for an economist to talk to. But his natural proclivities seem to be operational. When he retired, he made the comment that he never read any of the text in the Blue Book.

And Coyne or Prell commented, "Well, that's why we put lots of graphs in it, for people like you." So I think that's indicative of what he liked to do, you know, what are the issues and how do we confront them?

01:17:22

Albert Wojnilower: Yeah.

Robert L. Hetzel: I'm especially interested in how Volcker went out, and the Louvre Accord. In 1984, there's another inflation scare. The economy recovers very strongly in 1983, even though the Fed begins raising the funds rate when, I think, the unemployment rate is still almost 11 percent, or at least it's very high. The bond rates kind of rise to almost the heights they were. In 1981 and spring of 1982, Volcker again responds very dramatically. Raises the funds rates, puts the fires out. You go into 1985-86, inflation comes down. Trend inflation comes down to four percent. But you get the oil price shock, and for a while, CPI inflation—gas, food and energy—looks like you've almost got price stability. Worldwide it looks like maybe you're getting deflation, worldwide recession. You get a huge protectionist movement in the United States. Looks like the Coalition for Free Trade is going to fall apart.

And then in all this, you get a change in secretaries of the Treasury. Baker replaces Regan. So at first you get Plaza, which is sort of cosmetic. It takes advantage of the fact that the dollar is already falling. But then, Louvre becomes much more serious. It's what economists of the Yale School and the Fred Bergstens of the world have talked a lot about for a long time—international coordination, where countries would get together and jointly decide fiscal policies and monetary policies.

And so monetary policy becomes expansionary in early 1987. Bond rates rise and Volcker this time kind of doesn't respond quickly to it. Do you have any insights into what's going on in this period?

Albert Wojnilower: Well, the only insights I would have would be derivative from, you mentioned a book [that Volcker wrote? 01:19:58], which I think describes Plaza pretty well in that Baker really maneuvered Volcker into a different position in the eyes of the public than Volcker wanted to be in. And that I have heard it was made clear to Volcker that inflation and not tightening was simply not on the international agenda. It took a little while

longer for the Japanese to understand it, but they were made to understand it within a couple months also.

Robert L. Hetzel: The Germans were the ones who were raising interest rates.

Albert Wojnilower: Yeah, yeah.

Robert L. Hetzel: The Japanese didn't appear to be the problem at the time.

Albert Wojnilower: Was it the Japan- Well, yeah. But I don't know that the Germans—the Germans were raising also—yes, I'm sorry. I wasn't even thinking. You're right to call me to task on that.

But in any case, my only sense of that period that I can recall is that basically, for whatever the reasons, right or wrong, Volcker felt that he was not free to—basically, that Baker had chained his hands about any kind of serious tightening; that it was, in some sense, too late.

Robert L. Hetzel: Yeah, you know, it's very hard even—

Albert Wojnilower: And that had something to do with the Reagan people being glad to get rid of him.

Robert L. Hetzel: So anyway, your impression is that there was tension at this time between the Treasury people and Volcker.

Albert Wojnilower: Right.

Robert L. Hetzel: I mean, there certainly was a lot of tension between the Governors, the new Reagan appointees, Manny Johnson and Wayne Angell.

Albert Wojnilower: That's right.

Robert L. Hetzel: Those people who later became inflation hawks but [intelligible 01:22:09].

A: Yeah, I know. Those people who [never? 01:22:10] learned from their job and who were put in to [unintelligible 01:22:14] Volcker; and then, from the standpoint of the Reagan administration, failed to do it after they got coopted into the environment, so to speak.

01:22:28

My sense would be that the tension—I don't know if it was really, so to speak, on the staff level, but it would had to be—but I think it was Baker and Volcker, almost on a personal issues. I mean, Baker had a—which is what made Volcker the civil servant—Baker had a foreign policy, to put it in that framework, and Volcker had the choice of undercutting it or not.

Robert L. Hetzel: Yeah. And I think that if Volcker had been reappointed, it wouldn't have made any difference, because he had enough credibility at that point that he could have—if Volcker had raised rates in the fall, people would have said, well, yeah, they're going to go up and then they'll come back down.

And Greenspan at the time—it's hard to go back and think of people who you know now so well—at that time, he was viewed the way Burns was when he came in.

Albert Wojnilower: Yeah.

Robert L. Hetzel: He was a Republican. He was close to the Republican Party. He didn't have any particular credibility in terms of inflation fighting. It was more difficult in the fall of this year, of 1987, for Greenspan to get on top of inflationary expectations.

So I think Volcker could have ridden it out. But he wasn't reappointed, and I think that that was short sighted of the Reagan people. Ultimately, Greenspan became a giant in his own right, but at this point in 1987, he didn't have that sort of reputation.

Albert Wojnilower: Yeah. Well, everybody in the Reagan administration, below Reagan and maybe Baker, were just happy to get Volcker. They had been hunting for his scalp for a long time. He was a Democrat, after all. And in many ways, a liberal Democrat.

Robert L. Hetzel: Yeah. This is reminiscent of something, kind of a snippet of a conversation that I had with Frank Schott. He said that when Martin agreed to foreign exchange intervention in 1961, which really began in 1962, that Rosa and Coombs just thought his word was like—they fought like brothers over who was going to control the intervention.

Albert Wojnilower: Interesting.

Robert L. Hetzel: The reason he used the word brothers was that to the public, they presented a common façade. Because as far as the public was concerned—you used the word Milton Friedman—they really saw the world very much the same way. But in terms of who was going to have the control—whether it was going to be a joint decision they both had to sign off on or whether it was going to be a Treasury decision—was very contentious.

And surely, Coombs won that battle. As far as I know, the Fed has never agreed to foreign exchange intervention, except as an instance where it has said, “Yes, this is something we agree is appropriate and we're willing to sign on, too.”

Albert Wojnilower: Yeah, well, frankly it's because I wasn't aware... Because Frank was in the middle of those things and I wasn't aware of that.

Then Paul was reappointed as chairman by Reagan. The first time, which would have been whenever that was, 1963, I think that's the right time, I wrote him a brief note of congratulations and said, “You're the only Federal Reserve chairman that has been appointed

to your job by presidents of different parties, in both cases against the advice of their closest confidants.” And I think that was accurate.

Robert L. Hetzel: Yeah. We went through a lot of personalities. Do you have a broad sense of why the Fed went from doing a pretty good job in the 1950s and early 1960s to allowing high and rising inflation, ultimately double-digit inflation, by the end of the 1970s, and why it came back on track with Volcker? Do you have some sense of why it went off so badly under Burns; and actually even, toward the end, for a while, under Martin in 1968?

Albert Wojnilower: Well, it’s not something to which I’ve given consistent thought. An obvious answer is, like so many other things that happened at that time, the forces of the Vietnam War had a lot to do with all of these things.

01:27:28

And that element is what—the tact that we—even though I was, and then by hindsight, a dove in the Vietnam War, the fact that in some sense the U.S. lost the war was responsible for the international weakening of the dollar, just as it would be if we invaded Iraq and failed, for example. I mean, to take a kind of forward forecast. So anyway, a lot of that was underneath it all.

Now, the inflationist predilections of the Democratic administration, and it seems like Arthur Okun initially related a change, who was then running the Council and so forth, and Walter Heller before him, had a lot to do with all of this. But the idea of applying a serious contractionary policy before it was necessary beyond a shadow of a doubt, when people were getting killed in Vietnam and so forth and the government was against it, it would have required a confrontation with the government. And that was really asking too much for public servants like the Fed taking.

Robert L. Hetzel: Yeah, I think that’s a good comment.

Albert Wojnilower: It’s not that they didn’t want to. I mean, I still see occasionally Dewey Daane, who I’m sure is on your list somewhere.

Robert L. Hetzel: Sure. Oh, yeah.

Albert Wojnilower: The fact that basically that Fowler told him that “If you vote against us, you will never hold another job in the Federal Reserve System.”

Robert L. Hetzel: Yeah. Well, the pressures were direct—

Albert Wojnilower: But I think that not for Vietnam, that whole attitude might have been different, too. They were fighting a war, and that was the number one priority.

Robert L. Hetzel: Well, the pressures were direct and indirect. There were also riots in the city and there was a general consensus that if you had a high unemployment rate, that

would be very divisive socially. And the country was divided along these fault lines of for and against the war or the racial fault line.

And Volcker's contribution was that he showed that not only—he brought down inflation, yes, with a recession, and the Fed survived the recession. But he showed that you could maintain a low inflation rate with a politically acceptable unemployment rate. And we now take that for granted, but that was not something that people understood.

Albert Wojnilower: Yeah. On that, this is not the time to get into an argument about that. But I personally think that using inflation targets guarantees there will never be an important expansion anywhere in the world. But that's a separate issue. Because from my business cycle point of view, a time when prices are rising faster than costs is an important ingredient in getting business moving. And if the only way it seems to be cutting costs is by cutting labor costs, then you have, well, what we have now. There might be other ways to do it which didn't require inflation. But I'm sorry, I should not get off on this tack.

Robert L. Hetzel: No, no, that's fascinating. That's the Burns-Mitchell viewpoint.

Albert Wojnilower: That's right. And it has not been much help. But as of the moment, who knows what tomorrow brings? But as of the moment, it's got a lot going in its favor.

But going back to the earlier situation, also to bring up, it has always been my argument that the system of financial and interest rate controls—or regulations, whatever you want to call it—I mean, personally I think we have much more severe regulation now than we did then, whereas now it's not effective but then it was—but in any case, while this system lasted—and it was doomed to fail—I think that people didn't appreciate sufficiently how these regulations maintained a lower-than-should-have-been level of interest in the United States. And that how if you removed these regulations in what was anyhow an inflationary environment that interest rates were going to go up literally dozens of basis points more than you expected.

01:32:20

And that any monetary policy which in its, so to speak, equations didn't have changes of levels, just changes, short period-to-period changes, would always be surprised by how little on the economy was accomplished by the latest rise of the Federal funds rate. Because they didn't appreciate, in my judgment then and now, how far below—for want of a better word I called it the free market level—the whole level of interest rates in the United States had been kept under the old system. And the gap that needed to be made up was enormous.

So, again, in these wartime conditions, for a central bank to be raising rates in the way that everybody said was substantial, and to find it ineffective time after time in stopping inflation, was almost, you might say with hindsight, a predictable kind of sequence.

So if I had suggested, and I'm sure I did at one point, to Volcker that instead of going for, in the Federal funds rate, from nine percent to 20-odd percent, which was my forecast at the time, that if you would raise it to 15 percent once, you might save the other five percent. Even if he had agreed with that, which I doubt very much, it would not have been a practical policy. Although this is the way that the British, in some sense, might have done it, but only because of the international aspects that gave them the backbone to do that kind of monetary policy.

Robert L. Hetzel: Yeah.

Albert Wojnilower: Anyhow, I'm sorry to bring you this into my own doctrinal history, such as it is, but I do think it has a bearing on these elements.

Robert L. Hetzel: Well, yeah, surely it does. Because the ability of the Fed to raise interest rates had a lot to do with Reg Q and disintermediation.

Albert Wojnilower: Right.

Robert L. Hetzel: And if you're not careful about your history, those are the things that get forgotten. And people do these—well, that gets back to our point about fitting an econometric model and using

(END OF RECORDING)