Federal Reserve Board Oral History Project

Interview with

Andrew F. Brimmer

Former Member, Board of Governors of the Federal Reserve System

Date: July 13, 2007; July 27, 2007; and August 1, 2007

Location: Washington, D.C.

Interviewers: David H. Small, Adrienne Hurt, Ben Hardaway, John C. Driscoll, and David Skidmore

Federal Reserve Board Oral History Project

In connection with the centennial anniversary of the Federal Reserve in 2013, the Board undertook an oral history project to collect personal recollections of a range of former Governors and senior staff members, including their background and education before working at the Board; important economic, monetary policy, and regulatory developments during their careers; and impressions of the institution's culture.

Following the interview, each participant was given the opportunity to edit and revise the transcript. In some cases, the Board staff also removed confidential FOMC and Board material in accordance with records retention and disposition schedules covering FOMC and Board records that were approved by the National Archives and Records Administration.

Note that the views of the participants and interviewers are their own and are not in any way approved or endorsed by the Board of Governors of the Federal Reserve System. Because the conversations are based on personal recollections, they may include misstatements and errors.

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Dr. Brimmer worked with Federal Reserve Board staff to review, supplement, and edit the transcript before his death on October 7, 2012. His wife, Doris Brimmer, completed the interview transcript after his death.

July 13, 2007 (First Day of Interview)

MR. SMALL. Today is Friday, July 13, 2007. I am David H. Small, from the FOMC (Federal Open Market Committee) Secretariat in the Division of Monetary Affairs of the Board of Governors of the Federal Reserve System. I am joined by Adrienne Hurt from the Office of the Staff Director of Management and Ben Hardaway from the Public Affairs Office [as well as John C. Driscoll from the Division of Monetary Affairs]. David Skidmore, Assistant to the Board, also from Public Affairs, will join us later. We are interviewing Andrew F. Brimmer.

Dr. Brimmer served on the Board from March 9, 1966, to August 31, 1974. This interview is part of the Board's Oral History Project and is taking place at the Board of Governors in Washington, D.C.

Dr. Brimmer, thank you for coming in today and participating in the Oral History Project.

MR. BRIMMER. Thank you for inviting me.

Family History

MR. SMALL. I thought we might start with your family background.

MR. BRIMMER. I was born in Newellton, Louisiana, on September 13, 1926. Newellton, Louisiana, is in Tensas Parish. Louisiana has parishes rather than counties, but they're the same thing. Newellton is in the northeast corner of the state. It's about two miles from the Mississippi River. I was born in what was called one of the River Parishes.

My family had lived in Louisiana for almost 100 years by the time I was born. I've talked to my older ancestors and I've done some research in the county records. The first member of my family, as far as we can tell, arrived in Louisiana as a slave brought from Virginia. Another ancestor was brought to Louisiana about five or six years later, around the end of the 1840s–early 1850s.

They were located on a major plantation called Winter Quarters, which was about five miles south of Newellton. Winter Quarters was the headquarters for General Ulysses S. Grant when he moved down the Mississippi River on the west side of the river in his plan to liberate Vicksburg. General Grant never spent much time in Winter Quarters, but General William T. Sherman was there three or four days. The time period was late June to early July 1863.

One of my ancestors brought Union officers their horses. That ancestor's name was Frederick Waters. He had a good memory of this period. We called him Uncle Feddick. The other kids used to play during the summer, but I would always sit and talk and listen to Uncle Feddick. He lived across the street from us. One day in August 1935, he told me that it was his 100th birthday. I ran home and told my mother, "Uncle Feddick is 100 years old today." She said, "Oh, Feddick is just exaggerating. He's no more than 90."

That was the beginning of my knowledge of and inspiration for my family's background.

MR. SMALL. So he was a slave.

MR. BRIMMER. Yes, he was a slave on Winter Quarters.

MR. SMALL. Did you talk to him about that?

MR. BRIMMER. Yes, because Winter Quarters is close to Newellton, where I grew up. Not only did he talk about it, we walked around at Winter Quarters—the old mansion.

MR. SMALL. You saw his living quarters and the fields in which he worked?

MR. BRIMMER. Yes, but the slaves' living quarters were destroyed by Grant's troops.

Winter Quarters was owned by a physician, Dr. Haller Nutt, who was also a speculator in cotton. He lived mainly in Natchez, Mississippi, but Winter Quarters was his plantation. He had several other plantations, but this was the one where my relatives had their roots.

Haller Nutt was a Union sympathizer. His wife went to General Grant's headquarters at Milliken's Bend and negotiated a deal: She would supply food and some sustenance for his headquarters company if he would spare her house and other buildings, including the slave quarters. Grant agreed. Grant passed this information to General Sherman, so the plantation mansion was spared, but the other buildings on the plantation were destroyed. The pioneer troops, who followed after the spearhead troops had moved through, saved the plantation mansion, but they burned the slave quarters and the barns. This destruction was part of General Sherman's strategy to debilitate the South.

So when I was growing up, the slave quarters were no longer there, but the mansion was. The whole place has now been restored as a state historical site.

MR. SMALL. So you grew up within sight, literally, of the fields that your—

MR. BRIMMER. Oh, yes. Newellton was started in the 1840s, but it wasn't incorporated until later. Newellton was carved out of Verona Plantation, and so we lived on what was Verona Plantation.

My father worked for a company called Newellton Elevator Company that really was an agricultural enterprise. The company had cotton gins and grain elevators, but it also had corn fields. And a number of those fields had been worked by sharecroppers. My maternal grandfather was a sharecropper on Winter Quarters, and my paternal grandfather was a sharecropper on Longwood Plantation. All of these were within five or six miles of Newellton.

My father was born in 1898. My mother was born January 1, 1900. Both of them were born in Tensas Parish. There were six of us—three boys and three girls. Our extended family did not live next door to each other, but the family was in continuous contact. I knew most of my older relatives, talked to them, and learned from them.

Later, as I was doing research for my memoirs, someone who did a lot of research for me in county records discovered an 1899 property tax roll for Tensas Parish. There she found both of my grandfathers by name. In those days, at least in Louisiana, the county tax assessor wrote out a full report. It started with the location—towns and plantations. It showed the name of the taxpayer. If you didn't pay taxes, you were not on these rolls.

The rolls showed the name of the taxpayer, "male" or "female," [and] for color, it said "white," "colored," and "other." There were very few "other's." This was a property tax roll: equipment, wagons, and livestock like horses, mules, and cattle. It did not record other farm animals, such as hogs and chickens. It showed an estimated value of the property and the taxes paid. My mother's father was better off than my father's father, but both paid property taxes. My maternal grandfather, John Davis, owned a horse, two cows, and one calf. My paternal grandfather, Andrew Brimmer, had a mule and one cow.

When my parents were married in 1920, they received gifts called "starters." My mother's father gave her two cows, which had two calves, and a dozen chickens. My father, also named Andrew Brimmer, received from his father two hogs, one of which was a boar, and a half-dozen chickens. So somewhere along the line, between 1899 and 1920, the Brimmer and Davis families had made some economic progress.

My uncle on my father's side was named Charles Brimmer. He was born in 1880 after the Civil War and grew up in the post–Civil War period. And I understand that his father, my grandfather, who had been a sharecropper, helped Uncle Charlie buy a piece of the plantation. Some of the land had been divided up for sharecropping, but the sharecroppers were offered an opportunity to buy part of the farm where they worked. My uncle did that with the help of my grandfather. When Uncle Charlie died in 1936, at age 56, he owned his own farm. He had a mortgage on it, but he owned his own farm. So we were typically poor, but not dirt-poor.

MR. SMALL. You must have had the experience of working under the hot Louisiana summer sun on various jobs as a child.

MR. BRIMMER. I picked cotton. In those days, cotton farming involved a lot of hand labor. The early cotton matured at the end of September, but the major cotton-picking season was October into November. In the spring and early summer, but especially the late spring, cotton has to be weeded. My parents chopped cotton.

The children were involved in picking cotton. This had a number of implications, because the school system was segregated. The school for white kids started in September. The school for black kids started in October. So, basically, white kids had nine and a half months of schooling; black kids had seven or eight months of schooling. And in my town, school went from first grade through the seventh grade. There was a high school for whites in Newellton. For blacks, there was a parish high school in St. Joseph, 13 miles south of Newellton, on U.S. Highway 65. That school went from 8th grade through 11th grade. It was called Tensas Parish Training School. It was not a full-fledged, accredited academic high school. You received a certificate of graduation, but it was based on 11 years rather than 12, which meant if someone wanted to go on to college, there were deficiencies.

When I went to the University of Washington, I did not have a sufficient number of science courses. I had biology and first-year algebra. I had no foreign language, and I needed a foreign language.

MR. SMALL. Was attendance at high school voluntary for black children?

MR. BRIMMER. It was mandatory attendance through seventh grade—these were parish requirements within the state requirements. The state set the overall policy, but implementation was at the parish level.

MR. SMALL. What were your parents' requirements?

MR. BRIMMER. Get as much education as you can. My father had only a second-grade education, but by the time I was born, he had already "read" through the seventh grade. My mother had a fifth-grade education.

My father loved schoolbooks. You bought your schoolbooks, and, typically, as you moved from one grade to the next, you sold your books back to the school. The school would then sell them to the next class coming on. This was by age. If you moved up a grade, you bought a new set of books. My father kept our schoolbooks rather than selling them back to the school so he could read them. Then he had to buy us new school books for the following school year.

I visualize my father, after a hard day's work, sitting in the kitchen with his kerosene lamp reading—particularly geography, history, and English. He said, "You must be able to read, write, and figure." He worked his way through what was called "arithmetic." He never got to algebra.

I learned my multiplication tables and I learned to read from my father before I went to first grade. I reference that in my memoirs. For example, from 1930 to 1940, I describe the time of the Depression. I said, "There was always bread and occasionally meat on the table. Smart boy; I could read, write, and figure." I learned to do that before I went into the first grade.

You asked whether I worked in the fields. Yes. When you picked cotton, you would turn in the cotton you picked, usually several times during the day. The rule was, you worked sunup to sundown, especially during the cotton-picking season.

The cotton would be weighed and dumped into the wagon. The overseer, who would weigh the cotton, was invariably a white man. But the legacy of the straw boss (a worker who acted as a boss or assistant foreman, in addition to regular duties) from slavery days was still there. By the time I was coming along, the plantations had become farms. There were the Newellton Elevator Company's fields. The straw boss—who also picked some cotton—was the one to say, "You left some cotton there, go back and get it," and so on. He was the weigh man, and so he was very busy.

This must have been around 1940. I just turned 14, and I was going to go to high school in St. Joseph later that month. The straw boss asked me to help him, so I would weigh the cotton. This went on a long time, but then there was an older woman who said, "Boy, I'm going to wait for John." I said, "Oh? But John asked me to help him." She said, "I'm going to wait for John." She didn't think I could do it because I was black.

MR. SMALL. Now that you have been a Federal Reserve Board Governor, thinking back to those early days, what were your views then of money, of small businesses or farms trying to get credit, and of banks? Were there any formative experiences?

MR. BRIMMER. Yes. A formative experience came out of my interest in learning to figure. We lived in a four-room house—not the shotgun houses you read about, one room right after another, but a box with four rooms. I shared a room with my older brother. I had three sisters, two of whom were older than I was.[1] As the girls grew up, my mother decided they needed more privacy.

My father decided to build an extra room on the back of the house. He went to the lumberyard to buy lumber. I asked him how the lumber got here. How did the lumberyard owner know you wanted these 2x4s? My father said, "He didn't know that I would want them, but he knew that there would be customers." I asked, "But how did he know to have them right here when you came?" My father said, "Well, he planned ahead. He keeps these kinds of products in stock." That was my first introduction to the idea of inventory.

In 1938, the first minimum wage law was passed. It did not apply to agricultural workers. The Newellton Elevator Company was owned by a partnership, W.W. Burnside and Ed McDonald. My father worked specifically for Ed McDonald. Everyone referred to him as "Mr. Ed." He was the active managing partner.

Mr. Ed decided to pay all of the workers, including the farmhands, the minimum wage. I asked my father, "What is the minimum wage?" And my father said, "Workers are usually paid by the day, but the new bill says pay by the hour." Mr. Ed based day wages on the assumption that there were 10-hour days, sunup to sundown. But after 10 hours of work, the day wage would work out to be less than the minimum wage hourly rate. So he decided to raise everybody to the hourly rate. That was my first introduction to making money in hourly wages.

So I picked up something. It was not organized, it was not systematic, but it was something I picked up in my household.

[1] Andrew Brimmer had five siblings, all of whom predeceased him: George Hamilton (b. 1917), Antonette (Carrie) Brimmer (b. 1921), Josephine (Josie) Brimmer (b. 1924), O'Neal Brimmer (b. 1928), and James Brimmer (b. 1931).

MR. HARDAWAY. Do you have any childhood memories of how the Great Depression affected your parents or others?

MR. BRIMMER. Yes. In my memoirs, I talk about being "a child of the Depression." There was always bread on the table. My father was never unemployed, because there was always something to do. In those days, there were farmhands and handymen. My father was an all-around man. If he was not working on plowing, planting, harvesting, or ginning cotton, he was collecting grain storage and shipping out the grain. He always had a job.

We had an enormous vegetable garden that was my mother's responsibility. We had the equivalent of, I suppose, 15 or 20 rows. We grew corn for the chickens and hogs, but the vegetables were the big ones. And my mother canned. That's when I learned that you always had to buy Ball jars.

MR. SMALL. And paraffin wax?

MR. BRIMMER. Ball jars with the rubber gasket and paraffin wax. Then, there were canning sessions. My mother did canning for other families because she had learned and mastered the technique. We also used 15 to 20 rows behind our house to grow corn, sweet potatoes, and Irish potatoes.

My father worked on the roads at one time. This was especially during the winter. The parish road crews did the work as a part of the WPA (Works Progress Administration), one of the New Deal agencies. Local highway improvement was one of the projects. This was during the winter of 1934 or 1935.

My father would take his lunch to work. In addition to bread, he'd have chicken or something. He came home and told us about an incident that happened. In this case, white crews and black crews were working side by side. He said that lunch time came, and he opened his lunch pail. This white man, whom my father didn't know, said, "Brimmer, I notice you always eat good. How do you manage to do it?" My father said, "We grow our food." The man said, "I see. Well, I'll share some of my bread with you if you'll give me a piece of your meat." My father told us, "You see, this is why you children have to take care of the garden [laughter], so we can eat well."

During the Depression, we had a basic level of well-being, mainly home-grown goods and so on. But when the time came for my older brother to go to high school, he couldn't go. First, you had to pay for transportation. You had to ride the bus 13 miles. The bus was not free. There are other tidbits, but we did not suffer during the Depression. We didn't prosper during the Depression, but we didn't suffer.

Did I tell you the story about the registration for food stamps? During World War II, there was rationing. You had to have a ration card for certain foods. You had to register, and they used the white high school for registration. There was no high school for blacks in Newellton, where I grew up, only an elementary school. The principal of the white high school had been recruited to handle the registration, and he used mainly teachers and others to assist in that effort. There were two registration lines: one for whites and one for blacks.

The principal of the black elementary school was in charge of recruiting teachers to register the black families. There were only a handful of black teachers, and he had two or three of us brighter students help him. There were two lines for blacks. A black teacher was handling each line. One teacher left, but I was still there. I had been helping the teacher who left, just bringing the cards and such. At a certain point, there were no more blacks in line, but there were several people in the line for whites. A white woman was next in line, and I said, "I can help you, and you wouldn't have to wait." She looked at me and said, "Oh, no, I'll wait my turn in this line." [Laughter] The black teacher walked over and said to me, "You help out in this line. You don't need to help out in that line." The white woman did not want a black boy registering her. That was the tradition.

MR. SMALL. At that time, would you or other black kids work in stores where you served white customers?

MR. BRIMMER. I worked in the drugstore. A man named Magruder owned the drugstore. He lived in the town 13 miles away where the black high school was, but he owned the drugstore in St. Joseph and owned the drugstore in Newellton.

MR. SMALL. Did you serve white customers?

MR. BRIMMER. Yes, but there were white customers in the drugstore who on several occasions declined to accept my help, especially with the patent medicines.

MR. SMALL. At that time, was it unusual for a black child to be working in a white-owned drugstore?

MR. BRIMMER. Yes, that was unusual. Blacks did the menial work. Blacks were the janitors. I followed my older brother as a stock boy. I would take the incoming packages, goods, so on, and put them on the shelf.

MR. SMALL. And having black citizens doing that type of work was well established?

MR. BRIMMER. That was the tradition. My brother was considered trustworthy, so I was considered trustworthy, and I inherited the job from my brother. I would serve black customers. There was the equivalent of a soda fountain. There was a little space in the drugstore and a few tables. Whites would buy ice cream and sit down and eat it. Blacks could buy ice cream, then would have to go in the back room and eat it or go outside.

MR. SMALL. When you got to serve customers, was that considered a promotion?

MR. BRIMMER. My brother was allowed to serve. That was the breakthrough.

MR. SMALL. Was the breakthrough to serve in general or to serve white customers?

MR. BRIMMER. For me, serving white customers was the breakthrough, whereas with my brother, the breakthrough was handling money. So I handled money and served white customers. And that became a matter of some innovation.

MR. SMALL. How did the city as a whole respond?

MR. BRIMMER. My father was considered trustworthy. He was Ed McDonald's man. Newellton Elevator Company was a partnership owned by W.W. Burnside and Ed McDonald. They owned a cotton gin—not just to gin their own cotton, but gin for the surrounding area. They owned farmlands, plantations, and corn fields. They owned the lumber yard. My father was well established in the town. When my brother came along, who is several years older than me, my father got him jobs. He would speak to Mr. Ed and say, "My oldest boy needs some work."

MR. SMALL. You've mentioned that your father was demanding and he disciplined you to learn to read early on.

MR. BRIMMER. Yes.

MR. SMALL. Do you remember a lot of lectures about honesty, trustworthiness, and the Brimmer name?

MR. BRIMMER. No, because I came along late. I had a brother and two sisters older than me, and the teaching was with them, especially my older brother.

MR. SMALL. Going back to that time when you were making some of these breakthroughs—with your brother handling money and you serving white customers—were you of the state of mind that things were advancing?

MR. BRIMMER. It wasn't thought of as advancing, progress, and so on. In fact, there are several stories where there was evidence of whites' resistance to change. But, basically, whites' attitude toward the Brimmers were formed, especially Ed McDonald's attitude toward the Brimmers.

MR. SMALL. In the larger context, even during later periods, there were lynchings?

MR. BRIMMER. Yes.

MR. SMALL. So you were living in this larger world, which could get quite out of control.

MR. BRIMMER. Newellton was a small town. We lived in a house just inside the city limits. There was a sign based on the 1940 census that said, "Welcome to Newellton, Louisiana, population 812." There was a tradition where blacks and whites knew their place.

MR. SMALL. So you stayed in your place, you stayed out of trouble.

MR. BRIMMER. Exactly, precisely. The contacts between whites and blacks occurred mainly on Saturdays. You worked Monday through Friday, and on Saturday you went shopping.

There were townspeople and country folks—both white and black. Country folk—white and black—came into the town on Saturdays. The townspeople, both races, knew their place. The one thing we were taught: Stay home on Saturdays because the country folk come into town and get into fights, and so on. [Laughter]

MR. SMALL. The black people in town were taught to stay home on Saturdays because of the rabble-rousers.

MR. BRIMMER. The rabble-rousers were both whites and blacks. You learned not to go out on Saturday, especially Saturday night.

There was a movie theater that showed films on Saturdays and Sundays. We were taught to go to the matinee—it was called the early show—on Saturday afternoons. We would always go see the Westerns on Saturday afternoon. [Laughter] We never went to the movies on Saturday nights.

Black customers paid the same price as whites, but blacks sat in the balcony. Whites sat downstairs in what was called the orchestra. White customers could buy a ticket and walk right in; black customers would buy a ticket and walk outside and up the stairs into the balcony.

MR. SMALL. When I think of the civil rights movements, I think of the 1960s and of Martin Luther King. But back before the war, was there any sense of people struggling to change this system of segregation?

MR. BRIMMER. There was very little resistance, but there were some incidents. There was a prosperous black farmer who owned his own land. He sent his two children to Alcorn College, across the Mississippi River in Mississippi, almost exactly east of Newellton but on the Mississippi side of the river. At spring break or something like that, the farmer's son came home from college with his fiancée—an attractive young black woman. He brought her home to meet his family. A young white man, one of the country boys, approached her. She was astonished and walked away from him. He followed her, and eventually grabbed her, and her boyfriend beat the heck out of this kid.

MR. SMALL. I take it that was not staying in your place.

MR. BRIMMER. For sure! As I said, this was a country white boy, not a town boy. If he were a town boy, he would have known not to do that, but this kid did it. It was a Saturday. And the white country boys then were looking for this black kid to teach him a lesson. Ed

McDonald's son observed the situation and ran and got his father, who came down and broke it up.

Another incident occurred around 1940. My father's youngest brother, who was a few years younger than my father, was active in the NAACP. You asked about "progress" and so on. My father was not active, but his younger brother Joe Brimmer was. It was in the middle of the week. Ed McDonald, who drove a pickup truck, came to our house. My father went out to see what he wanted. My father came and told my mother, "I'm going to go with Mr. Ed. Joe is in some kind of trouble." The country boys and a couple of town boys, "rednecks" is what you would call them—

MR. SMALL. I'm sorry—these were country boys? Or country boys and town boys?

MR. BRIMMER. Country boys and town boys, but they were the rednecks in town [laughter]—not the good people in town, the rednecks. They were looking for Joe. They were going to teach him a lesson because he was going around and talking about the NAACP recruiting people and holding rallies. Voting was the issue. Ed McDonald told my father that maybe Joe ought to go away for a while. Ed and my father found Joe, who lived some distance from us, and Joe disappeared for several months.

Around 2007 or 2008, I got a telephone call from a man who said he was Joe Brimmer's son, Charles, from Detroit Michigan. He told me that he had read a newspaper story about me and thought I must be his cousin. [Laughter] We talked, and he was in fact Joe's son. So we connected. He was born in 1931. I was born in 1926. I left Newellton, Louisiana, in July 1944. He stayed there. Charles had gone to the same high school I'd gone to in St. Joseph. He went away to the Army and never went back to Newellton. He ended up in Detroit.

So there were stirrings about civil rights, but there wasn't a civil rights movement, and there were no organized protests.

By the way, I have no close relatives in Newellton anymore. But about eight years ago, I was invited to spend three days at Southern University in Baton Rouge. The dean invited me down as a visitor, and, among other things, I gave a series of lectures in the evening. At the end of the first lecture, a man came up to me with his wife and introduced himself. His name was James Kelly from Newellton, Louisiana. He went to Southern University and received a bachelor's degree and a master's degree. He became the first black principal of the integrated high school in Newellton. When schools were integrated, the white high school buildings and facilities were used. Most of the white parents took their kids out of the school. They put them into academies, Tensas Academy. So James Kelly ended up being principal of this school, which was 80 percent black.

James had never met me, I had never met him, but he had received a notice as an alumnus of Southern that I was coming. He got the Southern newspaper, and he noticed that I was coming to give this series of lectures. So he and his wife drove down from Newellton to Baton Rouge, listened to my lecture, stayed for part of the dinner that followed, and then turned around and drove back to Newellton because they had commitments the next day. We've been in touch at least three or four times a year. He calls me, I call him. He's been filling in history and helping me with my memoirs. We continue to talk on the telephone regularly. He still lives in Newellton.

Historically, there was more miscegenation than was acknowledged. John Quigless, who was born in 1899, was from Mississippi. He went to Alcorn College. He married Miss Ruby Quigless. Her father was John Kamack; his father was a white man. John Kamack owned a lot of land. He lived northeast of Newellton. The main highway was US 65, and Tallulah was 26 miles north of Newellton. US 20, east–west, crossed US 65 at Tallulah, and if you were to continue east, you would eventually get to Vicksburg. John Kamack owned land between US 65 and the Mississippi River.

John Quigless owned a store in the black community near the railroad track, the beginning of the black community. He also sold General Motors hearses. He didn't have a dealership, but he had contacts. I think the nearest General Motors dealership with whom he worked was west of Newellton—Winnsboro or something like that. My older brother, my younger brother, and I worked in his store. John Quigless died in 1980, and I went to his funeral.

In 1997, I learned the answer to a question which, given my interest in history—family history, particularly—I was curious about. My father came from a big family. There was Charlie Brimmer, Aunt Tudy, Andrew Brimmer (my father), and Joe Brimmer. Charlie was the oldest sibling. Charlie owned land between Newellton and St. Joseph, which was 13 miles away, south and west of Winter Quarters.

When Charlie died, he did not have any children. He had a mortgage on his farm, and the local Tensas Parish bank held the note. Tensas Parish Bank asked my father, Andrew Brimmer, whether he wanted to take over the farm and thus take the note—they would extend the note. But he was considered too young. The next child following Charlie Brimmer was Aunt Tudy. Her name was Amelia Ingham. She was born in 1882. She was much lighter in pigmentation. I was told that we had Indian blood, and that the Indian blood came out in Aunt Tudy more than anybody else. However, that picture changed.

In 1997, my brother George was in Las Vegas. For years, George would drive his pickup truck to Newellton, go fishing, and bring back his catch on ice. [Laughter] He did that virtually every other year. In the fall of 1997, I was visiting George in Las Vegas, and he told me a story about his last trip to Newellton. He said that, while staying with somebody else, he got a call from Miss Ruby Quigless. She asked him to come over to her house.

MR. SMALL. She was very old at this point.

MR. BRIMMER. Yes. She said to George, "Our families have been close for many years. I think some pieces of our family history have blanks, and I think you ought to fill them in. I will tell you now that we're both getting on in years. Your Aunt Tudy and I are sisters. [Laughter] John Kamack is my father, which you know, but he was also Aunt Tudy's father, which you don't know."

My aunt was the daughter of John Kamack. It turns out that John Kamack had several children out of wedlock. There was a lot of miscegenation in Newellton that was not formally acknowledged. Of course it was on the male side more than anything else. I knew some of this.

For example, my sister Josie was important in how I got from Newellton, Louisiana, to Bremerton, Washington. She moved to Bremerton before I did. That happened because Josie, who is two years older than I, married quite young. She married a young man named Louis R. Solomon. I mentioned that Louis Solomon was whiter than you. He had green eyes and brownish-blond hair. Louis Solomon was the son of Hyman Solomon, a Jewish merchant who owned the dry-goods store in Newellton. Louis Solomon's mother was Miss Zelia Solomon. Miss Zelia was Hyman Solomon's housekeeper.

MR. SMALL. She was black?

MR. BRIMMER. Technically, yes, but she looked more Italian than black. She was a mulatto—called "high yellow."

Hyman Solomon bought Miss Zelia a house in the colored section, near the colored school. She was a common-law wife. Hyman Solomon never married her, but they had children. The midwife wrote their father's name on their birth certificate. So it was known that this was Hyman Solomon's family. The oldest daughter was called Missy, then there was Louis. There was also Thelma, but Hyman was not her father. And there was another child that did not survive.

MR. SMALL. So Louis Solomon was very white in pigmentation and had what you'd call a "high yellow" mother and a white father.

MR. BRIMMER. That's right.

MR. SMALL. Who did Louis Solomon marry?

MR. BRIMMER. Josie, my sister, who is darker than I am.

MR. SMALL. But he grew up in the colored part of town.

MR. BRIMMER. That's right, where his mother's house was. Anyway, my point is, there was more miscegenation than was acknowledged. It was illegal for blacks and whites to marry in Louisiana in those days, but there were these relations—in some cases acknowledged.

Louis Solomon, my brother-in-law, was 4-F during World War II—that is, he had a medical disability. He was a student at Southern University. That was a tradition in our family: For those who could afford it, the children went to Southern University. They were mainly schoolteachers.

Moving to the State of Washington (1944)

MR. SMALL. After graduating from high school in 1944, at age 17, you moved to the State of Washington. What led you to leave Newellton and go to Washington?

MR. BRIMMER. It was always understood that there were no real opportunities in Tensas Parish if you wanted to get ahead. So there'd been a tradition in my family of moving to improve yourself. For example, I had a cousin who worked for a white contractor that specialized in roads or something. This was about 1936. The contractor got a contract to work on the Hoover Dam.

The Hoover Dam—in those days, called Boulder Dam—was started under the Republicans in the late 1920s. Construction was turned over to master contractors with no requirements that there be competitive bidding—that the contractors be recruited nationwide. When Franklin Delano Roosevelt took office in 1933, Harold L. Ickes became the Secretary of the Interior. Ickes went out and inspected a number of major Interior Department projects. One was Boulder Dam. When he was there, he asked and was told that all the contractors were from the western region. The region was headquartered in Boulder City, which was 20 miles south of Las Vegas, and there were no black people—absolutely none. So Ickes came back and gave a directive that the work be opened up for bidding. He said the list of contractors had to be broadened to nationwide recruitment, and the contractors had to employ blacks.

In response to that change in policy, this contractor, who was in Louisiana, got a contract, and he took his crew with him. One of his crew members was my cousin. He was a heavy-equipment operator, which was rare. He was the first one in my family to move west, around 1935 or 1936. When he got to Nevada, he discovered he couldn't live in Boulder City, because Boulder City was segregated. The Interior Department owned all of the housing in Boulder City because Interior built these special towns. The only housing he could find was in Las Vegas, so he drove 20 miles each way every day.

Then my oldest sister Carrie, after she left high school, went to New Orleans. A year or two later, she ended up in San Francisco.

Moving forward now, the attack on Pearl Harbor was on December 7, 1941.

My brother-in-law, Louis Solomon, started school at Southern University in Baton Rouge to study engineering. He was classified as 4-F, meaning he wasn't drafted for health reasons. A Navy recruiter from Bremerton, Washington, came looking for workers to go to the Puget Sound Naval Shipyard to repair ships. Some of the ships that had survived but were damaged at Pearl Harbor were brought to Bremerton. The Bremerton navy yard was a well-established yard. Louis Solomon was hired as a master electrician, and he showed up in Bremerton, Washington, in March 1942. In May 1942, my sister joined him with their two children. I mentioned that my brother-in-law, Louis Solomon, was as white as you are and had green eyes. He was recruited because the Navy recruiting officer thought he was white. So Louis Solomon was the first in the family exodus to the Seattle area.

I graduated from this 11-year high school in June 1944. My sister in San Francisco urged me to come and join her. My brother-in-law in Bremerton, Washington, urged me to come and join them because I was waiting to be drafted. I was going to turn 18 in September. To strengthen the invitation, he said, "I will send you a ticket. I've already spoken to the head of the electrical shop, and, if you arrive on Tuesday, you can go to work on the Thursday." Remember, I told you, Tensas Parish training school had a heavy vocational component—I took carpentry and electricity. My brother-in-law knew that, and he said, "I told the head of the shop about your training, and he said you can come and be an electrician's helper immediately." That's what I did. And that's how I got to the State of Washington as opposed to San Francisco.

Working in Bremerton Navy Yard and Attending Evening School

MR. HARDAWAY. What was it like working in the shipyards?

MR. BRIMMER. Exciting. First, there was no shipbuilding. These were ship repairs. I started as an electrician's helper. Helpers do what the masters want. In my case, I carried the electrician's toolkit, but I drew inventories as well. I could read and write. There was no automatic delivery system: Somebody had to go and draw the inventory, pass the order, and then come back later and pick it up. These were small parts. I was much smaller then than I am now, so I could get into the nooks and crannies.

MR. SMALL. The nooks and crannies of the ships?

MR. BRIMMER. Yes, especially the electrical systems and controls—I could squeeze behind them. Then, as now, the connections were typically behind the backside of the equipment, and so I could pull the cable and make the connections.

MR. HARDAWAY. It sounds dangerous.

MR. BRIMMER. Not really, because the power wasn't on. I spent more time around the guns on these ships than anything else. By the way, I didn't work for my brother-in-law. I was assigned to another team.

When September came and school started, I would arrive at the shipyard one half-hour early, cut my lunch in half, and leave at 4:30 to go to school. Working in the navy yard was interesting, and I got paid the minimum wage plus a skill differential. Young people who were working as laborers received the minimum wage. I was in a skilled trade, so I got extra. And I found it interesting.

MR. SMALL. So you used your spare time to go to school?

MR. BRIMMER. Yes. I enrolled in what was then called Bremerton Evening School. For four nights a week, evening courses were taught in the high school. It grew into Olympia Junior College, and I took two courses. I was there for a fall and a spring term. In the fall term, I took an English course and Introduction to Government. The latter was basically U.S. government. Nowadays, it would probably be political science or something like that. I wanted to write my required term paper on a New Deal program. However, all the topics were taken, so I wrote on war profiteering. The basis was a report by a congressional committee headed by Senator Harry Truman of Missouri.

In the spring, I took my second English course and a course called Foreign Relations. I still have the textbook, called *Leadership in a Changing World*. In that course, we had to write a paper. This was the spring of 1945. In this textbook, there was a chapter on Roosevelt and a chapter on Vladimir I. Lenin and the Soviet Union. Again, I wanted to write on Roosevelt, but somebody else beat me to it, so I ended up writing my paper on Mustafa Kemal Ataturk and the modernization of Turkey. That was my first introduction to foreign affairs.

Army Years (1945–46)

MR. SMALL. You enlisted in the U.S. Army in 1945, serving until 1946 in Hawaii.

MR. BRIMMER. In 1945, I was drafted. I was 18 years old. I was inducted into the Army at Fort Lewis, Washington, south of Seattle, on May 3, 1945. At that time, the war in Europe was winding down. The war in Europe ended on May 8, 1945. The Airborne—being a paratrooper—was the thing to do, so I volunteered. That required infantry training.

We were supposed to go to Camp Roberts, California, for infantry training. We were at Fort Lewis for close to 10 days or 2 weeks. We were told that we would go to Camp Roberts by train. We were all lined up with duffel bags at the train station. Just before departure time, this jeep came barreling up. In it were a white lieutenant and a black sergeant. The lieutenant jumped out and said, “Private Brimmer, get your duffel bag. You’re not going on this trip. You’ll ship out later.” We went back to company headquarters, and the lieutenant went inside. The sergeant said, “You may want to know what happened.” I said, “Yes, I do!” He said, “Well, Camp Roberts is a segregated camp. Recruiting clerks at Fort Lewis filled out many of the forms ahead of time, and they automatically filled out as much of the forms as they could. When they filled out your form, they wrote ‘white’ because most of the recruits at Fort Lewis were white.” So, for the time when I was at Fort Lewis, I was white! And so I was pulled off the train.

I stayed behind again, for four or five days, and then was given travel orders. I traveled alone from Fort Lewis, Washington, to Fort McClellan, Alabama, arriving in mid-June. I was put in an infantry training company. All of the noncoms (noncommissioned officers) were black; all the officers were white. Since I arrived early, I ate with the black noncoms because I was there a couple of weeks before the company was formed. By the time I finished basic infantry training, at the end of August, the war was coming to an end. Japan surrendered on September 2, 1945. So the Army decided that it didn’t need any more paratroopers. I was sent back to the West Coast—this time to Fort Ord, California—and was put in an infantry training company. We were trained as military police.

Then we were told that we would be posted to Japan. We set sail from San Pedro, the harbor in Los Angeles, and headed for Japan. But my troop ship was diverted to Hawaii. I disembarked in Honolulu on December 7, 1945—four years to the day since the attack on Pearl Harbor. We were posted at Barbers Point, near Pearl Harbor. After about a month, I was sent up-country to Schofield Barracks and put into an ordnance ammunition company. This was an all-black company. It was a combined company of 380 men, with white officers. In the Army, blacks were in the labor battalions, the service battalions, for the most part. Blacks were likely to be in the quartermaster handling supplies and so on. We were in the ordnance corps, but not a weapons company. We were an ammunitions company.

Hawaii was a huge bunker. Artillery shells and mortars—not bombs—were our principal ammunition for .50-caliber machine guns and so on. Our task was to sort the ammunition. This is where I had my first break, my first opportunity. The assignment involved taking the ammunition out of the bunkers and inspecting it. The corroded ammunition, which was unusable, was put in piles. Once a week, Army flatbed trucks would transport the useless ammunition to Barbers Point, just next door to Pearl Harbor, where the ammunition was taken out to sea and dumped. We put the usable ammunition back into the bunker.

By that time, the separation, or discharge, from the military was proceeding at a great pace. You were discharged based on points. You got one point for a month of service, but for overseas service you got two points a month. Hawaii was a territory and classified as overseas. I was in Hawaii for 10 months, so I accumulated 20 points. By the end of November 1946, I would have 30 points, enough to be discharged.

In the meantime, we were losing our senior noncoms and officers at a great rate. So I went from a private to a corporal in three or four weeks. A month or so after that, I was promoted to a sergeant, with three stripes. By the end of June, I was a staff sergeant and supply sergeant. By the middle of August, the first sergeant was gone, so I was acting first sergeant.

By that time, we had two lieutenants. We had a 22-year-old first lieutenant who was acting company commander, and we had a 23-year-old first lieutenant who was executive officer. Both were white. By the third week in August, the last of our officers left to go back to college. I was already acting first sergeant, but now I had no officers. So for three weeks I was solo.

I tried an experiment. I had already abolished reveille. I had 300 men. If I could get 80 percent of the men to work seven and a half hours a day for four and a half days a week, we still could get our targets accomplished. I could give every man a day off a week, and I could give every man of sergeant rank or above a jeep and a three-day pass. I put this proposition to the noncoms. I was 19 years old, and I had these tough kids from Chicago and other big cities. The response was, "Ah, I don't want to do that."

There was a man in the company. His name was Jake Jordan or something like that. I thought he was ancient—he was 40 years old. Jake had been in the Army for 13 years. I knew that he was highly respected. On weekends, the noncoms kept the lights on for the poker games. [Laughter] I was the staff sergeant, so I would invite the troops to play poker in my room. The tradition was that the host got a dime a pot. I cut it to a nickel a pot, so they would all flock to play. The game started immediately after payday, but Jake would not play until the third week or thereabouts. One day I asked him why he waited. He said, "Sarge, the neophytes play and lose their money in the first few days. Then the better players have the money by the middle of the month, so I wait a few days later to play with them." I kept the books for the company and the men's savings account, so I knew that. Jake was banking two and three hundred dollars a month.

MR. SMALL. So he knew what he was doing.

MR. BRIMMER. He was practically illiterate, but he had a photographic memory. I asked Jake what he thought about my work plans, and he said, "Let me think about it." He talked to the men and told them that what I had described made sense. Then he recommended that we do it. So what did that teach me? That taught me the wisdom of seeking guidance. It also taught me that I had the ability to conceive reorganizations that would produce increases in productivity. I didn't think of it as productivity in those days. I didn't even know about the term. But I learned that we could get more work done at less cost and provide more opportunity for time off for the men. After talking with Jake, I did implement the plan.

We worked very well. But then, about September 5 or 6—I remember the date because my birthday was September 13—I got a call from battalion. We had no officer commanding the company. I was told that a new company commander was coming over in the next few days. I believe his name was Captain Griswold. I looked forward to his coming. He was from a small city in Ohio. He had been in the Army a long time. He had been a master sergeant before the war in the ordnance corps. During the war, he had gotten a commission and worked his way up. He ended up at lieutenant colonel by the end of the war. He chose to remain in the regular Army and he was given a commission as a captain. This was one of his first postings as a captain. He came in and I greeted him. A few days later I showed up in the company office. Remember, I'm still acting first sergeant. I showed up in the company office early. He was already there. He said, "Sarge, I want to compliment you. You did a very good job here leading the company by yourself in the last few weeks. I think it's time for us to go back to the Army." So, I said, "Yes, Captain." He continued, "We will start with reveille."

It just so happened that I had some rest and recreation time coming due. So I took leave and went over to the Big Island of Hawaii. The Army had a rest camp over there—they'd taken over the resort on Kilauea volcano. You could go down to Wheeler Field. The 19th Troop Carrier Squadron of the Army Air Corps was based there. The practice was informal. You showed up early and they would give you a ride, if they had space. I did not get a seat on the first day, but I was able to fly out the second day to the island of Hawaii.

On the third day, I got a call from my buddy back in the company who told me that word had come down from battalion. All men with 30 points by the end of November 1946 were eligible for discharge. I met that to the tee. He said, "Do you want me to put your name on the discharge list, or do you want to wait?" I had been recommended for nomination to go to Officer Candidate School. However, there were no vacancies, so I was on the waiting list. He said, "Do you want to wait to see what happens, or do you want to go home?" It was about 2:00 p.m., and I said, "I've got to think about it. I'll call you tomorrow." By 5:00 I had decided I was going home. I tried to reach him, but the company switch board was already closed. So I called early the next day and said I would go home. I left the company and went to a relocation camp to wait for passage back to the mainland. I landed in Oakland Army Base, California, on October 6, 1946.

Attending the University of Washington

MR. SMALL. After your discharge from the Army, you attended the University of Washington in Seattle. You were planning to major in journalism but later switched to economics.

Pursuing Undergraduate Degree (1947–50)

MR. BRIMMER. From Oakland Army Base, I went to Fort Lewis, Washington. After less than a week there, I was processed out of the Army. My honorable discharge is dated November 20, 1946. I applied for admission to the University of Washington for the quarter-term beginning January 1947. I had graduated from an 11-year high school in Louisiana. I had deficiencies. I think the University of Washington admitted students who graduated from a

Washington State high school with a grade of C or better without requiring them to take a special exam.

I didn't meet those criteria, so I had to take that entrance exam. I was living in Bremerton, Washington, across Puget Sound, so I had to ride the ferry over. On the day of the exam, I took the first ferry over and got stuck in a fog bank. By the time I got to the University, the three-hour exam had been under way for one hour. The proctor said, "You're too late." I said, "Look, I've come all the way over, and I need to be admitted in January. Can you get the supervisor?" The supervisor came over and said, "I understand your story. Let's compromise. You take the exam. You have two hours left. If you pass it, you pass it. If you don't, you don't."

So I took the exam in two hours. I not only passed it, but I passed in the 80th percentile. I was admitted, but I had to make up deficiencies. I was a journalism major. I took a first course in English, which was required, and another course in social sciences. I had no foreign language, so I enrolled in Spanish class. My mathematics was deficient. I had just one course in algebra—Algebra I. I saw from my entrance exam that I did well enough. So I took Algebra II and geometry. I also enrolled in military science, ROTC (Reserve Officers' Training Corp). I still thought of a possible career in the military, because I had been on the waiting list for the Officer Candidate School. So that was how I spent my first year at the University of Washington. I still lived in Bremerton and commuted daily to the university.

That summer, I decided not to register for classes at the university. Instead, I tried to get a job for the summer working on a fishing boat in Alaskan waters. I discovered that the Teamsters Union controlled the jobs on fishing boats. The union did not allow blacks to work on fishing boats. So I registered for the fall quarter and returned to the university in September 1947.

On January 1, 1948, I moved to the university, where I got a room in the veterans' dormitory. In my second year, I took my first course in economics. It was an introductory course taught by a professor named Henry "Hank" Buechel. He was a long-term college professor, but he had started out teaching high school. He came from east of the mountains in Washington State. He taught in a state teachers college but then decided to go back to school, where he became interested in economics. At the University of Wisconsin, he did work for a Ph.D. in economics. He was an institutionalist rather than a mathematical theorist, and he was enjoying teaching. He was 50 years old when he finally got his Ph.D.

Hank Buechel is a legend in Washington State. He had been a communist during the New Deal years, but he changed his mind in 1939 or 1940. What drove Hank out of the Communist Party was the Hitler-Stalin pact. Hank became a rabid anticommunist. He was a great defender, an advocate, of the New Deal and Roosevelt. Hank didn't just teach economics, but passionately taught economics. I took a second course in economics from a more traditional professor, Benjamin "Ben" Gillingham.

In June 1948, I decided to switch from being a journalism major to being an economics major. Two things happened. First, since I was going to school on the G.I. bill, the university required that the director of Veterans Affairs of the university make certain that veterans were not being frivolous. You had to go to this testing and guidance center. So I did that. Later, I learned that the graduate school for psychology and sociology was using the center as a laboratory, and many of the examiners were writing their Ph.D. dissertations, so I was the subject of somebody's dissertation. [Laughter] But I switched to economics.

At that time, the economics department withdrew from the business school. It had been a part of the College of Economics and Business; it became part of the College of Arts and Sciences in July 1948. At that time, the newly established economics department had 17 faculty members, about 120 undergraduate students, and about 40 graduate students. So I went into a new department with excess capacity—professors who were not fully employed and were anxious to work with bright students. I was recommended for admission by Hank Buechel and, above all, Ben Gillingham. Ben is the professor from whom I took my second economics course. He was a labor economist. By this time I was effectively a junior, because I did my four years in three years. Ben appointed me his grader. I read the blue books—the students' answer books for exams—for the introductory course. That position gave me a cubicle in the basement of Savery Hall, which was a big room with offices and cubicles for junior faculty and graduate students. In the middle of the floor was a table and a coffee pot. That was the magnet. That became my campus office and home. That is when my grades shifted up to being A and A– with an occasional B.

I shared a cubicle with a graduate student, but I occupied the space. Between classes I would go there. I lived on the campus, but the cubicle became my activity center. That's where I really learned economics. I took advanced courses—as a junior I took senior-level courses. But it was around the coffee pot, which was near my cubicle, where I really learned the culture of economics by being in the milieu—listening to the conversations and arguments of assistant professors, instructors, and graduate students who hung around the coffee pot. That's how I was introduced to—and already I was interested in—labor economics as well as international trade and economic development.

From that—reflecting that interest—I took an advanced course in which the subject matter was imperfect competition. I used a textbook by a woman named Joan Robinson, who had been one of John Maynard Keynes's students at Cambridge in England. I also used a book by Edward H. Chamberlin, a professor at Harvard University. He wrote a book called *The Economics of Monopolistic Competition.* Joan Robinson wrote a book called *The Economics of Imperfect Competition.* Those were my texts for that advanced course. During that time I was introduced to the Keynesian system—mainly by Dudley Dillard who was visiting from the University of Maryland—and I took advanced economic theory from Kenneth Boulding. I believe he was still on the faculty at Iowa State University. I received my bachelor's degree in March 1950 and enrolled immediately in the graduate program.

Internship in Washington, D.C., in the Summer of 1950

MR. SMALL. After getting your B.A. in economics in 1950 and before completing your M.A., you were an intern in Washington, D.C.

MR. BRIMMER. In the summer of 1950, I had the opportunity to come to Washington, D.C. My friend Emil Nelson—who had been an undergraduate at the University of Washington—and I met up in Columbia Falls, Montana, with Emil's family, and we drove east in his new car. We arrived in Washington, D.C., on Sunday, June 25, 1950. That is the day before the Korean War started. Emil and I worked as summer employees in the old Economic Cooperation Administration (ECA), which was the successor to the Marshall Plan. I worked as a research assistant for Philip S. Brown, a consultant who worked part time in the ECA.

I came to Washington by a prior arrangement through the Washington summer program of the National Intercollegiate Council. That was the national coordinating committee of the national YWCA and the national YMCA. That program attracted about 120 or 130 students from all around the country.

MR. SMALL. Were they all minority students?

MR. BRIMMER. No, no. In fact, of the 120 students, there were probably 5 or 6 black students.

MR. SMALL. How many males versus females?

MR. BRIMMER. Overall, the group was about half and half, with predominance of students from the eastern part of the United States. There were heavy concentrations from New England through the Mid-Atlantic. There were two African American males. I was one of the two, and about three or four females.

MR. SMALL. Was the point of this program to provide experience in public service in Washington, D.C.?

MR. BRIMMER. Exactly—in Washington. We worked in a number of different agencies. Now, 1950 was a census year, so a number of the students worked in the Census Bureau. There were about six or seven of us in economic agencies.

I had expressed an interest in my application form that I would like to work in the area of foreign economic policy. Jo Abrams was the executive director of the program. Jo found a job for me at the ECA. Within the agency, I was in the Far East division's economic analysis branch. I believe Harlan Cleveland headed the Far East division at that time. He was a prominent person in the Truman years in foreign affairs. The economic analysis branch was headed by a man named John D. Sumner. He was on leave from the University of Buffalo.

Within the branch, as I mentioned, I worked for Philip Brown. Phil Brown had gone to Harvard as an undergraduate. He had also done his Ph.D. at Harvard and then came to

Washington. In those days, Harvard offered a joint degree with the business school, called the Ph.D. in applied economics. That's what Phil had. He worked in the New Deal. But World War II came, and Phil was recruited by OSS (Office of Strategic Services). I mentioned that because you will notice, as we continue, a number of the people with whom I worked over the years had spent the war years at OSS. After the war, Phil went back to running the statistical office for the Automobile Dealers Association. So Phil was working for ECA three days a week and spending two days a week on his private-sector activities.

I was appointed a research assistant to Phil. When I came into the office—now, this is late June—Phil said to me, "We're spending most of our time these days on French Indochina, so I'll give you some of the reports we have as background to start reading."

At the time, I lived at 1756 New Hampshire Avenue, NW, just north of Dupont Circle, so that I could walk to work. ECA was located in probably the 500 block of Connecticut Avenue, near the Chamber of Commerce building. I think this was around H or I Street and Connecticut Avenue, something like that. Across the street was the building that had been the headquarters for the Marshall Plan. There was a cafeteria on one of its upper levels, and that cafeteria was not segregated. Most times, that's where we had lunch.

MR. SMALL. With Phil Brown and—

MR. BRIMMER. That's right. One day at lunch, I said to Phil, "There are an awful lot of different groups in French Indochina." French Indochina consisted of Vietnam, Cambodia, and Laos. The real focus was on Vietnam. There had been an independence movement because the Japanese, who had occupied French Indochina, surrendered not to the French, who had been withdrawn, but to nationalists who they had been fighting, such as Ho Chi Minh. That was the lead guerilla group in Vietnam—they were called a resistance group in those days. In December

1945, the French decided to return. At some point along the way, the U.S. decided to aid the French in Vietnam. So U.S. aid really went through the French. There were other groups, such as the backers of Bao Dai [emperor of the last Vietnam dynasty]. There was another group, and so on.

I said to Phil, "Let me try out on you what I've done. I established a checker board. I identified the groups and, in the columns, I put in what they were after. I have gotten some 5x8 cards, so I have a checker board. I find this very helpful for us. I can begin to sort these groups out and what they're after, et cetera." Phil said, "Why don't you write that up and let me see it?" He said, "I'm learning something too." That was the first project I did.

The next project occurred a few days later. Phil Brown said, "Sumner is in the conference room. There is an adviser in agriculture coming in. He has organized a group to go to Vietnam, and they made a report." It was a survey group, mainly. They had about 10 or 12 members of the group drawn substantially from the agriculture schools in the South and Midwest.

We assembled in Sumner's conference room. Wolf Ladejinsky walked in.[2] He was clearly of European descent [born in the Ukraine] because he still had a European accent. He threw on the table copies of the report of this survey group. I learned quickly that Wolf Ladejinsky had a foul mouth. He said, "This is nonsense." The group knew the Midwest family farm. They recommended tractors, fertilizers, irrigation. Ladejinsky said, "I was hopeful that they would produce something more practical to help the Vietnamese improve their agriculture." He said to John D. Sumner, "I hope you and your colleagues can take a look at this and give me some advice."

[2] Wolf Ladejinsky (1899–1975) was an agricultural economist. He was a key adviser on land reform to the governments of several Asian countries.

Phil took a copy of both volumes. Phil said, “Take a look at it. You may learn something.” I did so. We each took one volume. I took the second volume. Then we switched.

That’s when I agreed with Wolf Ladejinsky’s characterization. I walked into Phil’s office and said, “I think Ladejinsky was right. This is so far afield from what I’ve learned about agriculture and the agriculture economy in Vietnam.” Vietnam was basically a rice culture, and I learned about rice. There’s a wetland rice called lowland rice, and upland rice, dryland rice. Basically, all the rice plants had to be transferred to get the highest productivity. Farmers had to transplant the rice plants from the wet to the dry land.

That’s when I said, “First, that’s back-breaking work.” When I was growing up in Louisiana, I learned about something called a post-hole digger. If you want to put up a fence post, you would dig the hole, then put up the fence pole, and then fill it in. A miniature version of the post-hole digger would enable the farmer to make a hole with one downward stroke in moist soil, not watery soil. The hole would be deep enough so that the roots could be covered. And then, with only a few gestures of the feet, you could fill in around the plant.

And I said I had another idea. The survey team had recommended tractors. First, somebody’s going to have to pay to import the tractors. The farmer is going to have to learn to drive the tractors. And then there is the fuel. You’re establishing a regime. I said, “What a typical farmer could use in Vietnam is a ‘putt-putt.’ ” That’s a cart with a kerosene engine on it. In many other places it was a gasoline engine, but in Vietnam they already imported kerosene for lights. Because I had seen it in Louisiana, I knew kerosene could be used in lamps in small towns, where they didn’t have electricity. But there were also small, kerosene-powered engines. I said, “You could mount one of these engines on a cart, and you’ve got immediate transportation. You have a truck.”

MR. SMALL. How big could these things be?

MR. BRIMMER. Think of them as small wagons. Phil thought these were good ideas. He wrote up our suggestions and gave them to John D. Sumner. Sumner called Phil and said, "These are excellent ideas. When Wolf Ladejinsky comes in a few days to get our report, I'm going to endorse these." So that's what happened. Wolf Ladejinsky came and looked at it. "This is practical. This is a good idea!" John D. Sumner told him that "Our intern did it." I got an accolade for that.

Years later, I learned that both ideas had been widely adopted. This was my first lesson in the adaptation of technology to developing countries—the adoption of the most advanced technology was not wise.

The final kudo occurred in the last week of August, just before Labor Day. President Truman invited to the Rose Garden all the interns in Washington for the summer. There were some three or four hundred of us. The President wanted to thank us for volunteering for the summer. The date was most likely the last Thursday in August.

We were told to show up around 4:00, 4:30, or thereabouts. We were greeted by one of the President's assistants, who told us that the President was running a little late, but he would come. We milled around. About close to 5:00, the aide to the President came out and said, "The President apologizes. He is still running late, but he asked us to start serving you refreshments." So we had punch and cookies. Around 5:25, 5:30—remember, we were due at 4:30, so he was running about an hour late—Truman came out and said, "I apologize. I'm devoting a lot of my time to this Korea—" He never used the word "war." He used the terms "aggression" and "conflict."

Although his army was mainly American, General MacArthur was flying the United Nations flag. By this time, he had been pushed into the Pusan redoubt at the bottom of Korea. He had been pushed there after the Chinese entered the war. He had been pushed all the way down to the southern end of the Korean Peninsula. Truman said, "I've just been on the telephone with General MacArthur. He has a plan, and he's going to kick their butts all the way back to North Korea."

Truman thanked us for coming. He said, "I understand you already had punch and cookies. I had something stronger myself." That was Truman. He said, "But I would like to come and walk among you and shake you by the hand."

I decided that, if Truman was standing at twelve o'clock, I would be standing at six o'clock, so that if he went to his right, he would pass. If he went to his left, he would pass. So I went and stood at six o'clock.

Truman made a joke. He was facing us, and he said, "I'd like to come down and walk among you and shake you by the hand, but I never go to my right, because that would be right wing, so I'm going to go to my left." So he went to his left and got to me.

I figured that there were probably 6 or 7 black students amongst the 350 to 400 students. I figured that Harry Truman is not going to walk past me, and that's what happened. He spotted me and came right over. I spent almost two minutes talking with the President of the United States at the end of that summer. He asked me where I was from. I said I was from the University of Washington in Seattle, but I had been born in Louisiana. I thanked him for making the report—*To Secure These Rights*—the civil rights plank of the Democratic platform in 1948.[3]

[3] In 1946, President Truman established the President's Committee on Civil Rights to evaluate the state of civil rights. In 1947, the committee released its report titled *To Secure These Rights* that, among other things, condemned discrimination in public accommodations.

The President said he would continue to introduce a civil rights bill in the Congress and it will eventually pass.

Pursuing Master's Degree at the University of Washington

MR. SMALL. After spending the summer of 1950 in Washington, D.C., you returned to the University of Washington to work on your master's degree in economics, which you obtained in 1951.

MR. BRIMMER. I was offered a job at the ECA, but at the end of August 1950, I went back to the University of Washington to finish my master's degree. I had already started on a thesis the previous spring. The plan was for me to finish my master's degree and then to go to the University of California at Berkeley for a Ph.D. In those days, the University of Washington had kind of a farm-team relationship with the University of California at Berkeley and Stanford. Both schools had set aside one or two fellowships each year for graduate students coming from the University of Washington to get a Ph.D. at their institution. I had already been earmarked to go to Berkeley. My professors at the University of Washington decided to channel me into Berkeley after I finished my master's degree.

At lunch, one day, when I was still in Washington, D.C., Phil Brown said, "Are you really going to Berkeley?" I said, "Oh, yes." He said, "Why don't you go to Harvard?" I said, "I haven't had any professors who taught at Harvard. I had one who'd gone to Princeton, some Stanford, but not Harvard." He said, "I think you would be a good candidate, so I'll write to Ed." Edward S. Mason was then chairman of the economics department at Harvard, but also dean of the Littauer School—that was the predecessor of the Kennedy School. He said, "I'll write to Ed, tell him about you." I said, "Fine!" In early October, I got a letter from Phil Brown saying that Ed Mason had responded to his letter and said I looked very promising and asked me to apply. I did, but I also applied to Berkeley. And I applied for a Fulbright scholarship to go to India to study international finance and economic development. I got all three.

The issue was, which should I choose? I decided to accept the Fulbright scholarship, but I wrote to Berkeley and Harvard—both to Robert Aaron Gordon at Berkeley and Ed Mason at Harvard—saying, basically, “I received this Fulbright fellowship, and I want to go to India. Can you save my fellowship?” They both wrote back, using almost identical language: “We don’t save fellowships, apply next year.” I went off to India. I applied the next year and ended up being accepted by both again. I chose Harvard.

But before heading off to India, I finished writing my master’s thesis, “Some Economic Aspects of Fair Employment.” This is my master’s thesis.

MR. SMALL. You received your Master of Arts from the University of Washington in 1951. It looks like quite the work. It’s several hundred pages long.

MR. BRIMMER. It is over 300 pages. That was done on a grant from Robert C. “Bob” Weaver. He was the first Secretary of Housing and Urban Development [1966–1968]. Kennedy appointed him head of the Federal Housing and Home Finance Agency, which later became the key unit in the Department of Housing and Urban Development. Here is a paper I did much later on Bob Weaver.

MR. SMALL. This is: *Campaign against Discrimination in Employment: Contribution of Robert C. Weaver,* by Andrew Brimmer, Brimmer and Company, before the Annual Meeting of the National Economic Association, North American Economics and Finance Association, and Society of Government Economists, Chicago, January 5, 1998.

MR. BRIMMER. Bob died in 1997, and there was a session at the Annual Economist Meeting. President Johnson created the cabinet-level office of Housing and Urban Development, but Bob Weaver really organized and launched it. I knew about Bob. He wrote a book in 1946 called *Negro Labor: A National Problem*. Bob was a part of Roosevelt's Kitchen Cabinet. Have you ever heard that term?

MR. SMALL. Yes.

MR. BRIMMER. These were advisers created in the Roosevelt Administration, at Mrs. Roosevelt's suggestion and the suggestion of Harold Ickes, who was Secretary of the Interior. The advisers on Negro Affairs were all white, so one day Bob and another man, who were both in the Interior Department, went down to eat in the segregated cafeteria, which barred Negroes. Subsequently, Ickes ordered the desegregation of that cafeteria, which he could do, because it was in his department.

MR. SMALL. Could you describe a little bit the content of your master's thesis?

MR. BRIMMER. Here's my master's thesis.

MR. SMALL. It is titled "Some Economic Aspects of Fair Employment," by Andrew Felton Brimmer, for a Master's of Arts at the University of Washington, 1951. It's 325 pages. How'd you get on to this subject of fair employment?

MR. BRIMMER. I got my bachelor's degree in March 1950, before going to Washington, D.C., for the summer. In late February, early March—most likely March 1950—I was already serving as a research assistant at the University of Washington for Benjamin Gillingham. Ben told me one day, "Andy, the sociology department is inviting Dr. Robert Weaver to come and talk about housing and urban issues. He's going to give a lecture. Would you like to go to it?" I said, "Yes."

At the time, Robert Weaver was director of the Opportunity Fellowships at the John Hay Whitney Foundation. I sat with Ben during the lecture. It was in a large classroom. I asked a couple of questions, and the professor of sociology, as we were breaking from lunch, said to Ben Gillingham, “Are you going to the dinner for Weaver?” He said, “Yes.” He said, “Would you want to bring your student with you?” So the sociology professor suggested to Ben that I be brought along.

At dinner, I felt very pleased, because I was sitting at this big, round table, and I was sitting across from Weaver. I had taken an advanced course in economic theory. One of the readings was Joan Robinson’s book, *The Economics of Imperfect Competition.* Weaver was the principal statistician for the President’s Committee on Fair Employment when Roosevelt finally set it up. Weaver had said that there was substance to the issue of skills versus discrimination. I said, “That sounds like a Joan Robinson–type problem. She has a chapter on discrimination, but it wasn’t racial discrimination. It was discrimination in the British context of wage earners versus others.”

I said, “It sounds like that’s a problem amenable to treatment as a problem in discrimination more generally.” He said, “How so? Tell me more.” It ended up, 15 or 20 minutes later, with us talking about the analysis. I agreed you can’t measure it, but maybe you could get some indication. He said, “That’s a problem. If you want to work on that, maybe I could arrange a fellowship.”

MR. SMALL. Because he had the data, right?

MR. BRIMMER. He had data from work he did during WWII to help enforce the antidiscrimination provision of one of Roosevelt’s executive orders. Weaver had written a book that had come out a few years before, *Negro Labor: A National Problem.* The reference may be in my thesis. Weaver told me he had not had time himself to go back to those issues and deal with them. So he said, “If you want to examine these further, I could arrange a fellowship.”

Being a country boy but not being stupid, I talked with Ben Gillingham and said, “It sounds like a good idea.” Ben said, “I think so.” I said, “Maybe I’ll think about that as a master’s thesis.” So I applied for this fellowship and got it.

When I came to Washington, D.C., I already had the John Hay Whitney Foundation fellowship, and I knew that after the summer in Washington, D.C., I was going to go back to the University of Washington and work on this topic for my master’s thesis.

MR. SMALL. Did you feel any particular intellectual pressure in that, as an African American, if you came out with fair employment being a real problem, that it might seem too easy of an answer for an African American?

MR. BRIMMER. No, no. It came out just as I described it to you. Until that dinner with Weaver, I hadn’t thought of this issue. I had planned to do some work. Theory was not my main goal. I thought I might be a college professor.

MR. SMALL. Is that what you were aiming for, to be a college professor?

MR. BRIMMER. Yes, by that time. When I went to the University of Washington, I wanted to major in journalism, but then I switched to economics in July 1948. By that time, I was already a budding Keynesian. In those days, it wasn’t called macroeconomics. It was money and banking or national income. That was my interest.

MR. SMALL. When you did your master’s thesis, what human capital skills did you acquire?

MR. BRIMMER. Statistics. I took an undergraduate course in statistics. There was no course at the University of Washington in mathematical economics. I had algebra and geometry. I was very good in economic theory—what is now called micro. Dean Worcester was the micro theorist at the University of Washington. I’d had Dean’s course, both of them, and I had been inspired by Kenneth E. Boulding, who came to visit the University of Washington. Kenneth Boulding wrote a textbook [in 1941] called *Economic Analysis.* Dudley Dillard also was a visitor. He wrote a book [in 1948] called *The Economics of John Maynard Keynes.*

I had a thorough grounding in economic analysis, along with economic theory and statistics, at the University of Washington. You see some of it in my master's thesis.

MR. SMALL. Yes, you do. I just paged through and saw your statistics. [Shifting topics,] was there social awkwardness in Seattle dealing with whites?

MR. BRIMMER. No, no. This is one of the points I make in my memoirs over and over—racial segregation was the official law of the land in Louisiana. Public institutions were segregated, but there was immense interaction between whites and blacks. The races were publicly segregated, and status was clear: Whites were on top, blacks were on bottom. But, in fact, there was a lot of what was called in my days growing up, "a lot of intermingling."

I grew up in a small town. I want to be clear. The status was clear. A black man would see a white person coming toward him. It was expected that the black man would step off the sidewalk and let that white person pass. And if he were wearing a hat, it was expected that he would take off his hat until that person passed. Those are the kinds of things. But a quarter of the children I grew up with, 20 to 25 percent, had white fathers and black mothers.

MR. SMALL. And this was acknowledged? This was known?

MR. BRIMMER. Yes. Some were more open than others. I mentioned the Solomons. The head of that family was Hyman Solomon, the white Jewish dry goods merchant who built a house for Miss Zelia. She was technically his housekeeper. It was built for her family.

But your basic question was, what kind of environment did I find in Washington State? The environment I entered—and this is especially after I came back from the Army and went to the University of Washington. Before then, when I arrived in Bremerton, Washington, in July 1944, I joined my sister and her husband, Louis Solomon. They lived in a housing development built by the Navy called Sinclair Heights. It was really on a hill south and west of the navy yard, southwest of the navy yard. At the foot of the hill was a housing development built by the Navy years before for workers. It was part of the New Deal housing. This was not public housing, but it was federally assisted housing, completely white.

When the Navy recruited blacks, my brother-in-law was one of the first blacks to come. Soon thereafter, others flooded in. The Navy built a separate segregated housing unit in Sinclair Heights. So the Navy was segregated. In the Bremerton navy yard, however, all the facilities were open. There was no segregation inside the navy yard.

Outside in Seattle, by the time I got to the university, the minorities at the university were not blacks—there were so few of those they didn't even count [them]—but Japanese and Chinese. And by the time I got there, the scars of the relocation were still evident. There was a great deal of bitterness prevailing at the time within the community of Japanese Americans born in the United States. But when I moved to the university in July 1948 and lived in that community, that was when I first lived where there was no segregation. I was 21 years old.

Studying in India on a Fulbright Fellowship (1951–52)

MR. SMALL. Your received your master's degree and then went to India on the Fulbright Fellowship. What did you do in India?

MR. BRIMMER. I went to India in July 1951 to study national income and its application—the measurement of national income in developing countries. I had taken a course in economic development at the University of Washington.

By the way, the Keynesian system was already penetrating the university. Right after World War II, there was a rash of emphasis on planning. The Marshall Plan for reconstruction and development in Europe had given emphasis to this. So I wanted to go to India to study international trade and development, with an emphasis on government and the measurement of national income.

I had applied for a Fulbright grant for two years. I wanted to spend one year in Cambridge, England, because Richard Stone, one of Keynes's students, had developed a framework for national income measurement. I wanted to study economic theory and analysis with Stone at Cambridge and then go to India for application. The Delhi School of Economics was headed by a man named V.K.R.V. Rao, who had also been Keynes's student and had written his dissertation at Cambridge on the national income of British India.

In late March–early April 1950, I was visiting with Professor Hughes at the University of Washington. He was in charge of foreign student studies. He was called the Foreign Student Adviser, and he looked for opportunities for students to study abroad. Professor Hughes said, "I'm glad you came by! I have a visitor from Washington, D.C. He should be here any minute. He is from the Division of Exchange of Persons in the State Department. He runs the Fulbright Program, the Foreign Student Exchange Program."

When the visitor from Washington, D.C., arrived, Professor Hughes introduced me to him, and this visitor said, "I'm delighted to meet you. A very interesting situation has developed in the area you want to study. There is a professor who did his Ph.D. at Cambridge, England, in 1938, and his dissertation came out as a book before the war. He now is revising the book, and he wants to update it. He wants to go to Cambridge, England, to do so."

The visitor from Washington, D.C., said, "There is a second person, a graduate student. He was at Princeton and has done all of his coursework. He's well into his dissertation, and he wants to go to Oxford. And there's you. You're just beginning. Coming out here, I was thinking that I was going to suggest to Professor Hughes that maybe you could modify your application and go directly to India for one year." He explained that to me—a country boy, but, hopefully, up to this point I hadn't been stupid. I said, "Delighted." I modified my application, and I got to India.

I arrived in India in early July 1951. The Delhi School of Economics was a unit of the University of Delhi. Professor Rao welcomed me. He said, "I've found you a room in the dormitory. I've found you a cubicle in the school. You have access to the library. I have found you a tutor, and his name is Professor K.N. Raj." K.N. Raj had done his Ph.D. at Oxford.

Rao had done his Ph.D. at Cambridge. Rao was serving as an economic adviser to Prime Minister Jawaharal Nehru. Professor Rao said to me, "I'm going to have to go. The Prime Minister has asked me to go to China and work on a project representing him and deal with some issues with China. I'll be gone for about a week. In the meantime, K.N. Raj will be your supervisor." Rao gave me some papers for reading and notes to write and said, "Raj will look after you till I get back." I said, "Fine."

Rao was gone for three weeks. When he returned, it took me a week to see him. He complimented me on the work I had done in his absence. In the meantime, Raj had done wonderfully. I learned a lot from him. Then Rao said, "I'm going to Paris."

I decided I wasn't going to get much from Rao. The U.S. Education Foundation in India was run by a woman named Olive Reddick. She had been a professor of economics at Hood

College in Maryland. She required every Fulbright student to have a supervisor, and Rao had been scheduled to be mine, but I decided I needed a different adviser.

I wrote to a person I met on the plane over to India, Emmett J. Rice, who eventually became a Federal Reserve Board Governor. That's how Emmett and I first met. He was doing his dissertation at the University of California at Berkeley on infrastructure development, working specifically on power plants. He had gone to Bombay as his home base and was doing his research with C.N. Vakil, an Indian economist. Remember, my other piece was finance—national income and finance with a special emphasis on industrial finance. I wrote Emmett and said, "Would you please ask C.N. Vakil if I can come and study with him?" He wrote me back, and within a week I got an answer saying "Yes, it's all right."

So I shifted to Bombay. And I shifted from a focus on national income to industrial organization and finance. I started devoting my time to the study of Indian business organization.

India had a system of joint stock companies, using the British term, the counterpart of our corporation. I was focusing on the emergence and modernization of industry and looking at the structure and the emergence of modern industry. I was looking at handbooks, newspapers, stories, et cetera. What I noticed was that the typical joint stock company in India had a board of directors, the chairman of which invariably was "Sir Somebody," "Maharajah Somebody"—Indians of great prestige.

But then I noticed that there was a board of managing agents. These were the people who ran the place. They were invariably British. And it struck me, who are these people? Typically, they were formerly in the Indian Civil Service or in the army. They were either engineers or financial managers in some way. I decided that these were the people who provided the funds.

These were the attractors of foreign direct investment in India. The British savers were not going to invest their funds directly with Indians, so the managing agents were the firm. Later, as a graduate student, I wrote this up in an article, my first published article, in the *Quarterly Journal of Economics* in November 1955.[4]

As a Fulbright student, I received $65 a month. The exchange rate was eight rupees to the dollar, so I was rich. I didn't need my entire stipend for living expenses, so I used my surplus. First, I hired undergraduate students to be my research assistants. They collected data on each company. I had a big sample, with 5x8 cards, and I had a questionnaire that they used. When I came back to the United States, I had data on 300 companies. I came back with two footlockers. That data were the basis of that paper in the *Quarterly Journal of Economics.*

MR. HARDAWAY. How did your background growing up and as a student, your experiences working in the shipyards, your experiences in Louisiana, as well as your time in India shape your future studies and your focus?

MR. BRIMMER. I left Louisiana when I was 17 years old. And I was in inadequate high schools and so on. So nothing there shaped me for later. I shouldn't say "nothing" there—I learned to read and write and figure. That's what I brought out of Louisiana.

I worked in the shipyards 9 or 10 months. I went to work in July and left at the end of April. The most memorable thing I recall about that experience was my night courses. Those

[4] According to Brimmer (1955), "If the firm is defined as the institutional setting in which entrepreneurial decisions are made, it is immediately clear why the managing agency firm should be so designated. Managing agents, the businessmen operating through the managing agency system, are the real entrepreneurs in India. . . . The managing agency firm has many instruments by which it maintains control over the operating company [such as a steel mill]" (pp. 554–55). He continues, "It is argued that the managing agency system of industrial organization is the result of efforts by British and Indian entrepreneurs to overcome the limitations imposed by a shortage in India of venture capital and business ability" (p. 575). Andrew F. Brimmer (1955), "The Setting of Entrepreneurship in India," *Quarterly Journal of Economics*, vol. 69 (November), pp. 553–76.

are the ones that contributed to my education and development. Pulling cable in and tightening screws in the shipyard didn't advance my intellectual development in any way.

MR. HARDAWAY. But India did?

MR. BRIMMER. Oh, yes, India did, immensely so. First, the experience with Rao taught me about the pioneering stuff in national income analysis that he had done and was doing. K.N. Raj was carrying on that tradition, so that was very helpful. Later, India became very famous in economics for mathematical economics and statistics. Prasanta Chandra Mahalonobis [Indian scientist and applied statistician] started the Institute of Statistics. And India became very important with the School of Management at Ahmedabad. Ahmedabad was business management. It was not where you studied finance.

MR. HARDAWAY. What did you take away? How did it shape your outlook, your focus?

MR. BRIMMER. Culturally, what I took away from India was not what I learned in economics in India, but from observation and participation in Indian society, and there I learned a lot.

One of the things I learned was the residual strength of their old ways—the caste system and so on. Let me give you some examples. One of the persons I met on the plane going to India, in addition to Emmett Rice, was Grace Langley. Grace was doing her Ph.D. in anthropology at the University of Minnesota. Grace was going to India to join an anthropologist named Gitel Steed from New York University. Gitel was studying the residuals of the caste system, and she was based in a village near Aligarh. Aligarh was 100 miles away from Agra. The Taj Mahal is located in Agra.

Aligarh was a Rajput village, one of the old warrior castes. The Rajputs were a blending of the Hindus and the Muslims. Gitel was based in this Rajput village. Think of the village as being laid out like a horseshoe. The headman lives at the top of the horseshoe, and Gitel's compound was just to his left, a couple houses down. Grace invited me to visit with her and Gitel, so I went.

Gitel assigned one of her research assistants to show me around. Looking out from the bottom of that horseshoe, you could see the residual of the old Rajput fort. I wanted to see it. The research assistant guided me. The local villagers, especially the children, had not seen anybody who looked like me before, so they clustered around. [Laughter] A couple of the men came and were curious. The research assistant told them who I was and what I was doing. So this man invited me for tea. We would stop for tea on the way back to the compound. And we did.

A little before sundown, there was a great noise outside Gitel's compound. She went out to see what's happened. It turned out that the guide had allowed me to stop at the home of a Dalit—an untouchable. We had gone from that house directly back to Gitel's compound without being cleansed. The guide had allowed me to violate an ironclad rule. He had allowed me, who had now become unclean, to go into the compound and carry my uncleanliness. That said to me that the old residuals of the caste system were deeply embedded.

A second example of the residual caste system involved the Parsis. As background, the Parsis have been in India for 800 years or more. They originally immigrated to India from Persia. They're Zoroastrians [once the dominant religion of Greater Iran]. When Islam was spreading—conversion by the sword—they were given an option to convert or migrate. They worked out a deal to migrate.

They came down the Persian Gulf and ended up in Western India, especially in Bombay. They were traders, because when they got there, all the farmland had been taken. The caste system was established, but they were not absorbed by the Indian caste system. They were an adjunct to it.

This second example involved a young Parsi woman in Bombay doing her Ph.D. in economics. She invited us, including Emmett Rice, to what she called a "tea" at her house. You would have called it a party, definitely. We had a good time. There were Indian students there as well as Parsi students.

A fellow graduate student, whose cubicle was next door to mine, had been at this party on Saturday. On Tuesday he said, "Did you hear what happened at the house where we had the tea?" The grandmother cleaned house because non-Parsi people had been there. I said, "What do you mean?" He said, "Her grandmother disposed of all of the dishes we had used." I said, "Oh?" He said that her grandmother decided that we had defiled the place. This reflected the continued Hindu-derived practice of the caste system. Even the grandmother could do this—not her mother, but the grandmother who lived in that household, too.

There are other kinds of experiences, but they were cultural more than anything else. For example, in Bombay, Emmitt got me a room in an apartment that was one of three apartments owned and operated by "Ma" Grey. Ma Grey was the abandoned wife of a British Army officer. Major Grey had been in the British Indian Army. With independence, when the British Army was withdrawn, Major Grey chose to be repatriated back to England with his Anglo-Indian mistress rather than his wife.

So Ma Grey was left behind in India. She made her living by renting out apartments to proper young Englishmen. With fewer and fewer proper young Englishmen around, she was renting to everybody. I lived in her main apartment. There must have been 8 to 10 rooms. One of my former professors from the University of Washington, Morris D., and his wife also lived there; a young English businessman lived there; and Ma Grey.[5] From one of the other apartments were a Swiss businessman and his wife, who was Chinese. He had been serving in Asia. We had separate bedrooms, and we shared one bathroom for two apartments.

This was called the "paying guest"system, because the practice in India was such that when visitors lived with you, they were guests. But during the late days of the British rule in India, people I've just been describing—they came and they paid. So that was the reason why it was called paying guest system.

As another example, there was a place called the Bombay Gymkhana. It was a cross between an English club and an American golf club, and it was in a compound. It was open to British residents only. But after independence they had to survive, so they invited Americans and other Europeans to become members. One day, an American who was with the U.S. Consulate in Bombay—not the Embassy, which was in Delhi—invited me to lunch with him on a Saturday. He was the economic consular in the consulate. We drove up to the gate, and a Sikh came out and greeted him. The Sikh knew who the consular was, and the consular said, "Mr. Brimmer is with me." The Sikh said, "Oh, I see. Just a minute." He got on the telephone, came back after a somewhat lengthy telephone conversation, and said, "Come in!" What had happened? This Sikh guard was following his instructions. This club was closed to me. I didn't fit the profile. I checked with the consular later, and he said, "You broke the barrier!" [Laughter] "In India, everybody will have a welcome now." Prior to that, the club had no Indian members.

[5] Editor's note: Governor Brimmer did not provide the full name of his former professor at the University of Washington.

MR. SMALL. Was the article you wrote on entrepreneurship in India your professional takeaway from being in India?

MR. BRIMMER. This was a breakthrough article for me. This was pioneering. If you read the article, you will see that I had introduced an approach that had not been conceived of in India. Typically in India, the best students, even then, were interested in mathematics, statistics, and the pure theory of the firm.

The economic development, as being implemented in India at that time, was a derivative of the London School of Economics. Many of them were basically crypto-Marxists, feeling that India had been and still was being exploited by these imperialists, by these British capitalists and so on. I found this was particularly true in Bombay as opposed to the university in Delhi. At Delhi, they were Keynesian. [Laughter] V.K.R.V. Rao had written his work with Keynes. Raj was at Oxford, but he too was a Keynesian. His hero was J.R. Hicks. At Bombay—and I don't know whether it was because economics and sociology were in the same school—they were really much more interested in empirical work.

MR. SMALL. When you got to Bombay and started talking and discussing the structure with these semi-Marxists, did they say, "Look how exploitive this is"? Did they help open up your eyes to it?

MR. BRIMMER. I began to realize that they were overlooking a rich body of experience here, that growth and development in India was different. The first five-year plan was about to come out, strictly a copy of the Soviet five-year plans with an emphasis on industrialization. There was a complete neglect of indigenous resources. I set out first to write a dissertation on the Indian cement industry.

MR. SMALL. Why was that interesting?

MR. BRIMMER. Emmett Rice was writing a dissertation on power. The Indian steel industry had been written about. In other words, these were inputs required for industrialization.

The big question was capital-intensive rather than labor-intensive development. C.N. Vakil arranged for me to go to PEPSU [the Patiala and East Punjab States Union], a small collection of states north of Delhi, to look at the Indian cement industry as a source of materials for industrialization. I was particularly interested in the interplay between technology and economic development. I met the managing director who was at this cement plant. The bauxite was being mined, transported to the plant, transformed into clinker, and then into cement. What I saw was this highly modern plant with the overhead transport to bring in the bauxite to the clinker mill, from the clinker mill on to the cement plant. The overhead line was idle. Yet I saw hundreds of Indian women with baskets on their heads, carrying these 150-pound baskets of bauxite. So I challenged this engineer. I said, "Why is the overhead carrier idle? Why do you have all these women? This is labor intensive." The engineer said, "Mister, go ask Prime Minister Nehru that." [Laughter] He said, "We have directions to maximize the employment, not to adopt the most efficient methods." I said, "Maybe I'm wrong. I notice that you're the managing director of this company, but you are not the managing agent. Who are these managing agents?" So that's what I got interested in.

MR. SMALL. I'm not familiar with those terms—"managing director" and "managing agent."

MR. BRIMMER. The modern industry in India is the result of the efforts of managing agents. Who are the managing agents? What I noticed in these handbooks that I mentioned here is that there was the Punjab steel company, Punjab cement, and I noticed that the chairman—I said to this managing director, who was the man in charge of that plant, "The chairman of this cement company is also the chairman of a Bombay textile company. Why so?" I noticed that there is another company, which is a jute company, and there is a cotton company—the same people. But then I noticed underneath these chairmen are a group of men called—always men—called managing agents. I said, "Who are they?"

I discovered that the chairman was invariably a person of high prestige, a maharajah, Sir John somebody. "Sir John" was typically a former British civil servant, a former officer in the British Indian Army. They are people with specialized knowledge of India and Great Britain.

The British thought there had to be capital inflows. The British savers were not going to invest their money with these Indians, but they would invest their money with Sir John, a maharajah, and especially Sir John. They were the technical people, but they were also the capital-raising people.

So, as you'll see in my article, I had hit upon the true firm in India. It wasn't the cement company that was the firm. That was an operating arm. Sir John's major function was to appeal to and satisfy the British investor, the true saver. These managing agents formed the firm and hired Sir John. The true firm consisted of the managing agents and the technical people who recruited the investments and ran the various operations in India.

There's another paper I did at MIT. This was done while I was at Harvard. It was a working paper and called "Some Aspects of the Rise and Behavior of the Business Communities in Bombay."

I spent 18 months at MIT while I was at Harvard. I was a research assistant at the Center for International Studies at MIT. My other big project there was on the rise and behavior of the business community in Bombay, which was mainly Parsis, whereas the British firms were mainly located in Calcutta and Madras. But when you think of the theory of the firm, if you were going to go shopping in India looking for the firm, the economists' firm, Stiglitz's firm and so on, you will encounter these managing agents. And that's why the title is "The Setting of Entrepreneurship in India." The agents were the entrepreneurs who brought technical knowledge and capital from Britain and who knew India very well.

Working on the Staff of the Wage Stabilization Board in Seattle

MR. SMALL. Upon returning from India, what did you do next?

MR. BRIMMER. I was in India an academic year, so I was back in Seattle by late May, early June 1952. I was set to go to Harvard in September 1952. I had the summer of 1952 free. This was during the Korean War period.

Ben Gillingham was the professor with whom I had written my master's thesis. He asked me to come in to work as a junior economist at the Wage Stabilization Board (WSB) in Seattle. He was the executive director.

There were two separate boards: One administered prices, and the other, the WSB, administered wage controls. Both were headed by professors at the University of Washington. Employers who wanted to raise wages would have to apply to the WSB. I worked in the division called the Wage Review Section. The head of that section was Kenji Okuda, of Japanese descent. Kenji had done his graduate work at Berkeley.

MR. SMALL. This was part of the national wage and price controls for the Korean war?

MR. BRIMMER. Exactly. I worked mainly on the teamster union contract. The WSB had to approve wage increases. The contracts were negotiated by the unions and their employers, but, before they could go into effect, the WSB had to rule on whether they were compatible with the program objective. That was the language.

Typically, we compared the proposed changes in the contract wages. These were hourly wages, excluding benefits—just plain wages. Of course, this gave impetus to the long-term expansion of medical and other benefits. We compared that. Typically, we looked at the changes over the last 12 months and how these workers compared with other workers in the same industry. That would have been the principal basis for the union negotiation—whether those particular workers had fallen behind. The question is, true or false, had they fallen behind? What is our judgment on where wages will move over the next 12 months, and would the changes in the contract, negotiations in the contract, violate those expectations or not? That was the work I did during that summer. I was there June, July, and August. I must have worked on 10 or 12 cases.

MR. SMALL. Did you come away with any perceptions that this wage control stuff is fairly straightforward, or it is impossible?

MR. BRIMMER. I found that this is not a problem in economic analysis. This is a problem in political economy. That's the conclusion I came away with. That's always been my view. When the Kennedy Administration came along with the wage–price guidelines—this is exactly what we were doing back in 1950.

MR. SMALL. It's just going to be based on political considerations?

MR. BRIMMER. Well, yes. I had learned years before, in my labor economics course, what Samuel Gompers said. He was the first head of organized labor at the American Federation of Labor. Some employer asked, "Gompers, what do you want?" He said, "More." The union always wanted more, and employers always wanted to give less. It's collective bargaining. The emphasis had to be on the bargaining.

Ph.D. in Economics from Harvard (1952–55)

MR. SMALL. You worked on your doctoral degree in economics at Harvard.

MR. BRIMMER. I was going to write my Ph.D. dissertation on industrial organization and finance in India, based on those data I had collected in India. But I ended up shifting gears. At Harvard, I started working at the Center for International Studies as a research assistant on the India project.[6] But along the way I had been captured by John H. Williams and Alvin H. Hansen, and I shifted to the theory of monetary policy.

MR. SMALL. That leaves you studying monetary economics with an interest in finance, which persisted throughout your career.

MR. BRIMMER. Yes.

MR. SMALL. Alvin Hansen is extremely well known. Was he a direct student of Keynes?

MR. BRIMMER. Oh, no, never. But he carried the message. Alvin Hansen taught at the University of Minnesota for many years. His specialty was business cycles. He wrote extensively on business cycles and was invited to Harvard in 1937.

By the way, a Graduate School of Public Administration was formed at Harvard outside of Arts and Sciences, though it wasn't called that. A man named Lucius N. Littauer offered to make a contribution to Harvard to fund a Graduate School of Public Administration (later named the Kennedy School of Government) within the College of Arts and Sciences. But the faculty of Arts and Sciences, "having a long nose and short vision," turned it down. James B. Conant, who was president of Harvard and a former chemist, had a short nose and great vision. So Conant, being a true academic innovator, and looking at that money—he wasn't going to let that money

[6] While still a graduate student at Harvard, Dr. Brimmer became a research assistant at the Center for International Studies at the Massachusetts Institute of Technology.

get away [laughter]—got the chairman of the economics department and the chairman of the government department together and said that this is the opportunity; you guys figure out how we can do this. They formed the Graduate School of Public Administration on the Littauer Foundation. John Henry Williams, who was my supervisor at Harvard, with whom I wrote my dissertation, told me this story.

John Williams was a professor of economics with an emphasis on international trade, and more international finance than pure trade. Conant, Harvard's president, asked him to be the first dean. The first thing John Williams did was to call up Alvin Hansen and invite him to come to Harvard. Hansen was at the University of Minnesota and had written a couple of books on the business cycles. Alvin Hansen was the first Lucius N. Littauer Professor of Political Economy. Notice the title, "Political Economy." Alvin Hansen had a joint appointment in the Littauer School and the Department of Economics.

I enrolled in the economics program for the Ph.D., but I was enrolled in Littauer, because that's where my funding came from. I had a fellowship.

Hansen taught what in those days was called "money and banking." Now it's called "monetary economics." But it was macroeconomics with an emphasis on the role of money. I took that course from him the first year.

At Harvard, the Ph.D. in economics required that the candidate qualify in five fields. The candidate had to qualify in theory, statistics, and economic history. The other two fields were, quote, "applied," and you could choose them. You had to take the money and banking course from either Hansen or John Williams. I ended up doing both.

MR. SMALL. What textbooks or source material were you using?

MR. BRIMMER. With Hansen, we used his book on business cycles and national income. But very little emphasis was put on textbooks at the graduate level. You used specialized books, texts, or journal articles.

MR. SMALL. Did you study Arthur F. Burns's writings? Business cycles?

MR. BRIMMER. No. Arthur Burns was the second director of the National Bureau of Economic Research. Wesley Claire Mitchell was the cofounder and first director of the National Bureau; he led the work on business cycle analysis. Arthur was his student. We're talking about the 1920s and 1930s. That's background, when these people were coming to the forefront.

A few things vital to my going to the Federal Reserve Bank of New York got under way at the very beginning of my stay at Harvard. On the train from Seattle to Boston was a friend of mine who had been an undergraduate with me at the University of Washington. He had gone to Stanford, and he was going to spend a year at Harvard. We took the train. This is in September 1952. He had a copy of the *Review of Economics and Statistics,* published at Harvard. That, along with the *Quarterly Journal of Economics,* was one of the major Harvard journals. We had read Leontief's article on the input–output model. Hansen and John Williams were famous, but even more famous was Wassily W. Leontief, who later got the Nobel Prize for his input–output analysis, which was sort of quantification and computation of Walras's general equilibrium system.

Harvard had a reception for incoming graduate students. It was a Sunday afternoon, early evening. All the professors were there. I spotted Leontief. Being a country boy, I walked up to him and said "Professor Leontief, I'm Andrew Brimmer, this is Paul Wells. Paul and I read your article on the first postwar input–output analysis table." He had written his article based on the Census of Manufacturing, 1947; this was now 1952. I said to him, "I didn't understand the last steps." If you remember the input–output table, you have the columns, rows, and then, finally, the bill of goods. I said, "I couldn't get from the last column to the bill of goods, the final demand and so on." He said, "That's because, for the article, I gave the abbreviated version of the matrix. Here, let me show you." He got a piece of paper, sat on the floor, did the mathematics, inverted the matrix, and showed me the solution. I said, "Oh! Thank you." He said, "You're interested in this stuff!" I said, "Yes." So he said, "You want to come and work for me?" I said, "Yes!" He called over James Duesenberry, who was on the project, and said, "Jim"—he knew I was Andy Brimmer—"Andy's going to come and work with us."

I showed up a few days later and said, "Jim, I'm at the project. I'm reporting for duty." He said, "Fine, that's your desk." I said, "What are those boxes?" He said, "That's your work." What was in those boxes? I was being assigned to the regional input–output model. My assignment was to work on the transportation sector of the model. You know what a bill of lading is? A bill of lading is a way to bill for freight shipments. I ended up compiling "to" and "from" statistics—commodity flows. I learned about wheat, cotton, and other grains. I learned to combine theory and practice.

Also at the reception I ended up talking with Ed Chamberlin. He was teaching a first-year theory course. He's the one who did the book on economics and monopolistic competition in 1933. John Kenneth Galbraith wandered over—we were in clusters—and said, "Ah! You don't want to take Ed Chamberlain's course, you want to take Leontief's course," which was the second theory course. He said, "Ed Chamberlain and Joan Robinson spent years wandering around in Alfred Marshall's footnotes." Marshall was the premier economist of his age. He said, "Marshall's chapter on imperfections in competition really gave rise to this kind of investigation—imperfect competition, monopolistic competition, intermediate solutions to price and output." And he said, "Joan Robinson became so discouraged with her findings over the years that she became a Marxist." He said, "Ed Chamberlain, not having fortitude, had been wandering around in confusion ever since. You don't want to take his course."

I ended up taking Leontief's course. I took macroeconomics from Alvin Hansen and international from John Williams and later was the teaching fellow for them in those classes. John Williams ended up supervising my thesis. Those were my Harvard experiences.

MR. SMALL. What was your thesis on?

MR. BRIMMER. Monetary policy, interest rates, and the investment behavior of life insurance companies.[7]

There was a tradition at Harvard laid down by Joseph Schumpeter that any economist who wanted to amount to anything had to make his mark before he was age 30. [Laughter] So I was determined to finish my dissertation before I turned 30. My birthday was September 13, and I was born 1926, so September 13, 1956, I was going to turn 30, and I insisted on finishing it.

That essay was attempting to test a theory of credit availability that Robert V. "Bob" Roosa put forward. The basic question was, can interest rates, short and long, be manipulated to discourage liquidation of government securities and the rechanneling of the proceeds into support for corporate loans? In my thesis, I said [the following].[8]

> Roosa argues that a fundamental tenant of the availability doctrine is that variation of a key interest rate *causes* changes in the volume of credit made available by lenders. The key interest rate is that on U.S. Government securities; the lenders who are at the center of the credit supply include nonbank financial institutions as well as commercial banks. This explanation of the impact of interest rate changes on the flow of investible funds is directly opposite to that given by economists who emphasize the demand for funds and the interest cost of obtaining them. The latter

[7] Andrew F. Brimmer (1958), "Some Studies in Monetary Policy, Interest Rates, and the Investment Behavior of Life Insurance Companies," Ph.D. dissertation, Harvard University. (Abstract only is also available at Andrew F. Brimmer (1958), "Some Studies in Monetary Policy, Interest Rates, and the Investment Behavior of Life Insurance Companies," *Journal of Finance,* vol 13 (December), pp. 549–50.)
[8] Brimmer, "Some Studies in Monetary Policy," Harvard, pp. 48–49.

> explanation holds that a change in rates charged by lenders serves to increase or decrease the demand for funds, depending upon the direction of the rate changes. When this explanation was found to be inconsistent with the facts of actual economic behavior, the tendency was to abandon the efficacy of central bank control over the money supply through control of the rate at which commercial banks could borrow.[a]
>
> The theory of credit available, Roosa argues, imparts new life to interest rates as instruments of monetary policy. The role has been enhanced by the enormous expansion of the Federal Debt during World War II and its widespread distribution among all types of business and financial institutions. Included in the latter are institutions that are highly conscious of even slight changes in yields on securities in their portfolios. Since both the central bank and leading financial institutions hold large stocks of Government securities of all maturities, there is a reasonably rapid transmission of impulses exerted in one section of the securities market to all others.[b]
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> [a] "Interest Rates and the Central Bank," in *Money, Trade, and Economic Growth* (New York: The Macmillan Co., 1951), pp. 271.
> [b] "Interest Rates and the Central Bank," p. 277.

That's an exposition of the theory, and that's what I set out to test. And I found that it was defensible. I later published that in a book, my first book: *Life Insurance Companies in the Capital Market.*

MR. SMALL. How did you become a teaching fellow at Harvard?

MR. BRIMMER. I entered Harvard in September 1952. I took the money and banking course from Hansen and Williams, macroeconomics from Hansen, and international finance from Williams.

In December 1953, I got a call from Charlie Coombs at the Federal Reserve Bank of New York. Charlie was a graduate of Harvard College. He had done his Ph.D. at Harvard in political economy and government with John Henry Williams. Williams had at one time been a vice president of the Federal Reserve Bank of New York and later an economic adviser. He channeled all of us to the New York Fed, including Paul Volcker. I went to see John Henry Williams and said, "I received this invitation from Charlie Coombs to join the Federal Reserve Bank of New York as an economist after I finish my course work. I was planning to take my exams in the spring of 1954. Charlie offered me a chance to join the Bank and write my dissertation while working at the Bank." John Henry Williams said, "You shouldn't do that. The New York job will be there all along. Alvin Hansen and I were talking just a couple days ago. We would like to invite you to be our teaching assistant"—in what was then called the money and banking course. I said, "Fine."

Then he told me a story. He said there was a rumor that Harold Hitchings Burbank, who was a long-term chairman of the economics department at Harvard, had turned down Paul Samuelson for promotion from a junior fellow to an assistant professor because Samuelson was Jewish. Samuelson was a graduate student at Harvard. That was scandalous. Any graduate student in the economics department who entered Harvard in the late 1940s or early 1950s learned that story quickly.

MR. SMALL. I have heard he was turned down and went to MIT, and that's the story of the rise of MIT.

MR. BRIMMER. Paul Samuelson was born in 1915. He graduated from the University of Chicago at age 19 or 20. At Chicago Paul was a physics major, but he became interested in economics along the way. He went to Harvard in the mid-1930s as an economics graduate, but his real background was mathematics and physics.

Paul concentrated on theory at Harvard. He learned theory from Leontief, macroeconomics (which was called money and banking) from Hansen, and international and finance from John Henry Williams.

Usually, after two years, you take your general exams. Depending on how well you do, then you start working on your dissertation. Paul, after taking his general exams, was made a junior fellow. The junior fellows are selected, three or four a year, as the most outstanding students in the whole university, regardless of field. Junior fellows, by tradition, do not work on their dissertations. They're free to read and acquire knowledge of their discipline, not writing a dissertation. Other junior fellows were Arthur Schlesinger, Jr., and Jim Tobin.

Paul turned away during the war and worked at the Radiation Laboratory, really as a physicist [laughter], doing work on mathematical foundations of the bomb—he didn't work on the bomb itself.

His wife at the time said to him, "Paul, you're a junior fellow. If you stay at Harvard, you don't need a Ph.D. But what if you don't stay at Harvard? Maybe you ought to get a Ph.D. Maybe you ought to write a dissertation." He mentioned this to his lead professor, Joseph Schumpeter, a refugee from Austria. Gottfried von Haberler was also a refugee from Austria.

By this time, Paul had written a number of analytical articles that appeared in the peer-reviewed journals. By then the war is well along—it must now be 1944, something like that. Schumpeter told him, "Just put together three or four of those articles you have written and submit them. We'll give you an examination and we'll give you your Ph.D." So that's what Paul did. And it got to the qualifying exam, the defense of the dissertation.

MR. SMALL. This is like an oral defense?

MR. BRIMMER. An oral defense. There were three or four people examining Paul. Burbank took great pride in deciding he would be chairman of these examinations. Schumpeter was there examining him in theory. Others were there, too. It was a stellar crowd. Burbank said, "Gentlemen, did he pass?" Schumpeter said, "My dear brothers, the question is, did *we* pass?" [Laughter] They gave him his Ph.D.

Either John Henry Williams or Leontief—I don't know who did it, but one of the senior professors—suggested that Samuelson be asked to stay on. One version says as an instructor, another version says as an assistant professor. At any case, Burbank, who made these decisions, turned him down. He said, "That wouldn't be the proper thing to do"—because he was Jewish.

MR. SMALL. Is it known that it was because he was Jewish?

MR. BRIMMER. John Henry Williams told me the story that I have just told you. He told me when Albert Hansen and John Henry asked me to be their teaching fellow. I was the first African American to be a teaching fellow in Arts and Science at Harvard. That was 1954.

MR. SMALL. Almost 10 years after the Samuelson rejection.

MR. BRIMMER. That's right. John Henry Williams also told me the story about Bob Weaver.

MR. SMALL. John Williams told you the story, saying, "Look, you're African American, this might not go well," because the precedent for it was that Samuelson was Jewish?

MR. BRIMMER. No, it was time, and it would go well. Burbank was long gone. I was not the first African American to come through the economics department, but I did have an outstanding record.

There had been a previous example of John Hope Franklin, but that was in history. John Henry Williams told me that when Bob Weaver—Bob must have graduated in 1929 or thereabouts from Harvard College with a major in economics, and he was asked to stay on and do his Ph.D. So Bob did stay on. He was enrolled in economics and did his dissertation in something like wage flexibility and employment, something—in any case, a highly theoretical piece. He was a very good student, and he was proposed for a teaching fellow, but Burbank turned him down. That was in 1933, at least 10 years before Paul Samuelson was turned down. Twenty years later, I came along.

MR. SMALL. John Williams's story suggested that he firmly believed that the reason Samuelson was turned down was because Samuelson was Jewish?

MR. BRIMMER. Yes, and I was told later by Leontief that Jim Tobin came along after World War II. Herman Wouk, the author of *The Caine Mutiny,* was at Harvard. In *The Caine Mutiny,* several of these guys are in it. Jim Tobin is the long-headed guy in *The Caine Mutiny.*

Leontief told me that when Jim Tobin came along, he finished his Ph.D. extremely well and Yale invited him to come as an assistant professor. One of the senior professors suggested that Harvard try to keep him at Harvard. John Henry Williams reviewed the Samuelson thing. And I don't know whether Hansen did it or Leontief did it, but someone said to Jim Tobin, "Go on to Yale. You don't want to fiddle around here at Harvard." [Laughter] That's why Jim went to Yale rather than being asked to stay at Harvard.

MR. SMALL. It cost Harvard dearly. It cost them Samuelson and Tobin.

MR. BRIMMER. Yes. I arrived at Harvard in September 1952 and left in June 1955. My classmates included John Meyer, Henry Rosovsky, and Dick Quandt. Paul Volcker, Pete Sternlight, and I went to the Federal Reserve Bank of New York. All of us had held a teaching fellowship at Harvard in money and banking, and it led to the Federal Reserve.

MR. SMALL. Dewey Daane came out of Harvard.

MR. BRIMMER. Dewey went to the Federal Reserve Bank of Richmond. Dewey did his Ph.D. in political economy and government. He first went to Duke. He was an undergraduate from Duke.

MR. SMALL. We left off our discussion of your time in India with you having this big box of cards and data. What happened with that data?

MR. BRIMMER. At Harvard, there were three required courses: economic history, statistics, and advanced theory. Every incoming student had to do that the first year. Economic development was an elective. I took Ken Galbraith's economic development course. He knew I had a Fulbright grant in India, and I mentioned to him that I ended up doing research on entrepreneurship. I said, "That is the equivalent of the firm in India." I described the structure and how it worked. Ken said, "That sounds fascinating. A term paper is required for this course. Why don't you write it up?" That's what I did.

MR. SMALL. Also, you mentioned to me that your work in India led to a connection over to MIT.

MR. BRIMMER. Yes. I wrote this paper.

MR. SMALL. This is your *Quarterly Journal of Economics* paper, right?[9]

MR. BRIMMER. That's right. That started out as a seminar paper for Ken Galbraith's class on economic development. That paper was done in the fall term of 1952. Ken Galbraith liked it very much. Henry Rosovsky was a graduate student, three years ahead of me at Harvard. Henry published a mimeograph journal called *Explorations in Entrepreneur History.* Henry wanted to publish my seminar paper, and I mentioned it to Ken. He said, "Andy, your paper is too good for Henry. Send it to Ed Chamberlain," who was then editor of the *Quarterly Journal of Economics.*

Then Ken said to me, "By the way, there's a group at MIT, the Center for International Studies, and they have a project on India. They would be extremely interested in your work on India." Not only this work, but the work I set out to do in India. I went to India to work on national income analysis. I've mentioned why I switched to this topic.

[9] Andrew F. Brimmer (1955), "The Setting of Entrepreneurship in India," *Quarterly Journal of Economics,* vol. 69 (November), pp. 553−76.

So Ken told me about the Center for International Studies at MIT. He said they have four main programs. The Center for International Studies was based at MIT, but it was a joint Harvard–MIT project. The center was sponsored by Max Millikan. Max was the son of Robert Millikan, the physicist. He got the money to start the center from the CIA, which we learned later. At the Center for International Studies, there was a project on the three I's: Italy, Indonesia, and India. The Indonesia project was headed by Ben Higgins. Ben was at the University of Toronto. The India project, at the time I joined, had an acting head, Helen Lamb. Later, Bill Mallenbaum came from the State Department. He became a professor of economics at MIT and director of the India project in the Center for International Studies. Walt W. Rostow, who had always been a professor at MIT, was also director of the project on Eastern Europe, named Communist Eastern Europe. There were five or six various projects. I came in as a research assistant.

MR. SMALL. Research assistant, but to do economic analysis.

MR. BRIMMER. That's right.

MR. SMALL. So it wasn't the political Cold War, or—

MR. BRIMMER. No, no, no. Walt Rostow's project on Eastern Europe was that. That was the general political side.

MR. SMALL. Did you continue your work on the theory of the firm in India, or did you move over to the national income questions regarding India?

MR. BRIMMER. I spent most of my time working on Indian enterprise and development. That's a draft of another MIT project I worked on.

MR. SMALL. It's titled "Some Aspects of the Rise and Behavior of the Business Communities in Bombay." Was this center trying to help stimulate and instigate development of capitalism, free enterprise, as opposed to central planning?

MR. BRIMMER. At the time, it was an academic center. I learned later that the motivations were political. There's a book by two reporters that came out in 1964 called *The Invisible Government,* by David Wise and Thomas B. Ross. It was an account of the CIA's efforts to basically tap into the university communities for help and guidance. They described how Max Millikan, who was director of economic analysis for the CIA, decided to provide funding for centers, projects, programs on campuses in which the academics could be persuaded to take part in this and to do research. When somebody called me and said, "Andy, go back and look. We're in this book. Not our names, but the projects on which we worked." Francis Bator was there.

To give you some feeling for the environment at MIT at the time—MIT as opposed to Harvard—there were several of us research assistants. We had junior faculty positions at MIT. At Harvard I was a peasant, just another graduate student. At MIT I had junior faculty privileges, and so we could eat in the faculty club. I was a research assistant on the India project. Subbiah Kannappan from India was doing his Ph.D. at Tufts. His theory was labor economics and productivity. Francis Bator was a research assistant on Walt's project on Eastern Europe. Francis was from Hungary. He did his Ph.D. at Harvard and then went back to Harvard and was a professor at Harvard for a number of years. Frequently, the conversation we would have at lunch we continued back at our respective divisions and such. This day, three or four of us were joined by Francis, who was in Walt Rostow's section. As we walked in, the administrative assistant said something to Francis, and Francis said, "Oh, thank you, thank you. Hey, fellows, you have to sign in." So we signed in. Then I asked, "Francis, why, when we come to your section, we sign in, and when you come to our section, you don't have to sign in?" Francis said, "Walter has some documents from the State Department, and they have to control those. That's why we sign in." I didn't know at the time, Walt had CIA documents and State Department classified documents. There were no classified documents in the India project, as far as I know. At least I never encountered that.

MR. SMALL. Earlier you mentioned Paul Samuelson coming up through Harvard but going to MIT.

MR. BRIMMER. I met Paul Samuelson at MIT. It happened this way: There was a round table in the faculty club. At MIT, if you were alone or you were late, traditionally you sat at the round table. This day, I ran late, and so I was eating alone at the round table. This man walked in, got his tray, sat down beside me, and put out his hand. I recognized him immediately. It was Paul Samuelson. He said, "Young man, my name is Paul Samuelson. What's your name?" I said, "My name is Andrew Brimmer." He said, "What are you working on?" I told him what I was doing on the India project. This was August 1953.

MR. SMALL. The Bombay?

MR. BRIMMER. The Bombay papers. So I told him. He said, "Fascinating!" I told him about this project. He said, "Oh, my God, you're absolutely right. That is the firm in India!" Because that's the theme of my paper I mentioned. That's how I met Paul Samuelson.

MR. SMALL. Were there differences in how women and black citizens were treated at MIT as opposed to Harvard? Was MIT generally more accepting, would it be fair to say, of minorities?

MR. BRIMMER. What was it like, MIT versus Harvard? I'm going to read you a passage here that explains it exactly. This rang true to me. It's from Ken Galbraith's memoirs, *A Life in Our Times* [pp. 46–47]:

> The chairman of the Harvard department of economics when I arrived, as he had been for some years before and would be for many years after, was Harold Hitchings Burbank. A native-born New Englander, a rarity in the department, Burbie was of medium height, chubby figure and bluish complexion. He was engaged in a failing struggle to protect Harvard from alien intellectual influences, although he didn't much care for the domestic sort either. Foreign scholars were frequently Jews, and that was another ground for rejection. In an exceptional exercise of determination, Burbank managed, after World War II, to prevent the promotion to a professorship of Paul A. Samuelson, an eventual Nobel Laureate and on the way to becoming the best-regarded of all American economists. In 1950, as his last act at the last meeting of the department at which he presided, he offered a motion to fund, meaning to add to capital, "some miscellaneous monies available to the department." Someone wearily said, "So moved." Someone else said, "Second the motion." There was no dissent.
>
> On the way out afterwards, I asked one of my colleagues what the motion meant. He didn't know. Nor did anyone else. When I investigated the next day, I discovered that over the years Burbie had been resisting, on a plea of poverty, the spending of endowment funds for bringing visiting lecturers to Harvard. Again the alien influence. Now, as his term came to a close, he was faced with something unprecedented in the annals of official malfeasance: exposure as a reverse spendthrift.

It goes on. It was awful. MIT is much more open. It always has been. Here is a book I'd had for some time, but I just found it.

MR. SMALL. *Glimpses of the Harvard Past.*

MR. BRIMMER. Harvard has always—the whole university was extremely backward, especially with women and minorities. I'm in that book. Notice those names.

MR. SMALL. Bernard Bailyn, Donald H. Fleming, Oscar Handlin, Stephan Thernstrom.

MR. BRIMMER. Do you recognize any of those names?

MR. SMALL. I do not.

MR. BRIMMER. These are all eminent Harvard professors and leaders, intellectual leaders, in a good part of the country for many years.

In the back are two appendices. The first lists some notable Harvard students, as chosen by Donald Fleming. These are students who became outstanding. Notice where it starts.

MR. SMALL. 1642.

MR. BRIMMER. Go on.

MR. SMALL. 1960. Andrew Brimmer. Ph.D., 1957.

MR. BRIMMER. Now, there's a second appendix listing people from the Harvard faculty and staff members. If you go through this: How many women are here? There are no women.

MR. SMALL. Listed in the famous students or faculty, in either of these lists.

MR. BRIMMER. Oh, here's another thing. You notice—these are former students. There are numerous Nobel winners. If you read through here, the thing that jumps out: Jews, including Paul Samuelson, who's here as a Nobelist. Jim Tobin is here.

MR. SMALL. Even though they sort of pushed Samuelson out?

MR. BRIMMER. Well, yes.

The Fed–Treasury Accord of 1951, Followed by Chairman Eccles Leaving the Board

MR. SMALL. You were at Harvard in the first several years after the Fed–Treasury Accord.

MR. BRIMMER. That's right. The Accord was in March 1951. I went to Harvard in September 1952. The course on money and banking that I took from Hansen in September 1952 was dominated by readings on Federal Reserve challenges.

I finished my dissertation in 1956 because I had spent January 1953 to the end of August 1954 at MIT working on my India stuff. My course books on money and banking, macroeconomics, international trade theory, and so on was the traditional stuff. The monetary stuff was Federal Reserve policy—monetary policy was Federal Reserve policy. For me, international finance theory was the IMF (International Monetary Fund). It was exchange rates and so on.

MR. SMALL. When you were studying the new challenges of the Federal Reserve, you were studying in the classroom after the Accord. I don't want to lead you, but one can think of inflation, full employment, but also what you're talking about, which is credit allocations, long rates, short rates.

MR. BRIMMER. This was 1950. Issues of exchange rates—long rates, short rates—were 1960s stuff.

If you look at my dissertation as well as my book, you're dealing with credit flows—flows of funds. And, in fact, one of my early models, in my dissertation and in my book, it shows up as sources and uses of funds. But the background for that was the flow of funds work done here at the Federal Reserve, which continues now in the flow of funds statistics. Those were my data sources.

My interest rates I compiled. I know my wife remembers this well, because she was a graduate student, and we spent days and days in the Baker Library at the Business School, with the *Journal of Commerce* and *Washington Journal*. There were no interest rate series available on a daily basis or on a monthly basis. The Federal Reserve rates were discount rates. Discount rates! The federal funds concept had not been born as yet. The other one was Treasury bills rates—rates on government securities.

After I left graduate school, one of my earliest papers was on price determination in the Treasury bill market. I first got interested in that because the first effort to unpeg the market was made by Marriner S. Eccles in the fall of 1947. They unpegged the bill market.

MR. SMALL. Maybe we can loop back a bit and review the major financial development in the era, which was the Fed–Treasury Accord. Could you bring us up to speed on what it was and who the major players were?

MR. BRIMMER. In January 1942, Marriner Eccles worked out with the Treasury a scheme to facilitate President Roosevelt's desire to finance the war with debt. They didn't want to raise taxes, so they had to have a lot of government bonds. The Treasury did not want to sell government bonds—these were marketable bonds—in a declining market, so it was agreed that the Federal Reserve would—it didn't say "peg," it said maintain the stability of prices. Not interest rates, but bond prices. Translated, that meant "peg interest rates." That agreement lasted until 1951, with an interruption in 1947 for the Treasury bills.

Eccles was concerned about inflation and the fact that the Federal Reserve was supporting the government debt market. That was the origin of his phrase that the Federal Reserve became an "engine of inflation." Because the Fed bought bonds, it created liquidity that then financed personal goods and services in excess of supply.

President Truman was unhappy with that effort to end support of the Treasury bill market in 1947, but he said nothing immediately. The net result was, Marriner Eccles was not redesignated as Chairman. Truman, in his memoirs, denies that, but, basically, that is what happened. Matt S. Szymczak told me this story. Matt was here for a long time.

MR. SKIDMORE. Matt Szymczak served as a Board member.

MR. BRIMMER. That's right. He came to the Board in 1933 and left in 1961. The real crunch came with the start of the Korean War in June 1950. Given the pressure for bank loans and liquidity to finance the war effort and expansion, financial institutions—especially life insurance companies—were liquidating their holdings of government securities, which they were still holding at very low interest rates. Interest rates had risen substantially. The banks, insurance companies, and others were liquidating government securities to provide funding for the private sector.

By 1950, Thomas B. McCabe had replaced Marriner Eccles as the Fed Chairman. Eccles had ceased to be Chairman in 1948 when President Truman did not renew his term, but he remained a member of the Board. McCabe had been CEO of Scott Paper. He had been appointed Fed Chairman on the recommendation of Secretary John W. Snyder.

McCabe was pushed by Allan Sproul to unpeg interest rates. Sproul was then president of the Federal Reserve Bank of New York and Vice Chairman of the FOMC. Eccles also supported the position to unpeg rates. Eccles and Sproul wanted to be relieved of the commitment to peg the market. McCabe resisted the notion. McCabe said later that his obligation was to President Truman; he had been appointed by President Truman, and President Truman had made it clear—through Snyder, the Secretary of the Treasury—that he wanted the Federal Reserve to continue to support the bond market. That's how President Truman saw it—as supporting prices. He said interest rates are costly to government. So you should continue to support them.

The debate raged. That started in the fall of 1950. It continued into the early months of 1951, and it became much more heated in the spring because, at some point, President Truman invited to the White House the entire FOMC, not just the Board, to discuss monetary policy. Eccles described the meeting in his book. I've talked to Eccles, William McChesney "Bill" Martin, and Matt Szymczak about this. President Truman lectured the Federal Reserve officials and told them what he thought needed to be done. Basically, he read them the riot act. By the way, the President thought he was inviting the Federal Reserve Board. But he, in fact, was inviting the Committee, because it was the Committee that determined, as you know, open market operations. And it was open market operations that supported the bond market.

When the meeting was over, the White House put out a statement that had President Truman saying that the Federal Reserve agreed to maintain orderly markets—translation, keeping the market pegged. Well, that was not true, but Tom McCabe declined to put out a statement to the contrary.

Eccles hit the ceiling. Both he and Sproul wanted to put out a statement correcting that. McCabe refused. Sproul, who was president of the Federal Reserve Bank of New York and Vice Chairman of the FOMC, took the lead, with Marriner's urgings. Speaking for the FOMC, he put out a statement. Marriner managed the process, but the statement was put out in Allen Sproul's name.

MR. SMALL. Over the objection of McCabe?

MR. BRIMMER. Oh, yes. And Tom McCabe resigned over this issue. He said he couldn't buck the President, he couldn't call the President a liar, his commitment was to the President, and, therefore, he couldn't continue to serve as Chairman. I don't know whether that was announced at the time or a bit later, but he resigned over this issue.

At that point, Secretary Snyder asked William McChesney "Bill" Martin to work with the Fed. Martin was assistant secretary of the Treasury for monetary affairs. That post, which later became undersecretary for monetary affairs, was held by Bob Roosa, Paul Volcker, and that bunch.

Bill Martin negotiated with Allan Sproul and Marriner Eccles to work out a plan, but the negotiations were really with Allan Sproul. One of the problems was the liquidation of government securities by banks and, particularly, insurance companies to get funds to make business loans in response to the increased demand for funds during the Korean War. Bill suggested that a new issue of nonmarketable long-term bonds be issued, I think, with an interest rate of 7¾ percent or something like that. Bill's proposal involved selling those bonds that the insurance companies particularly bought and thus locking up that liquidity. The FOMC would be relieved of the commitment to buy government securities, so the price would be allowed to find its own level in the marketplace. The FOMC would no longer peg the market for bonds.

At the end of the negotiations, Snyder recommended—and President Truman agreed—that Bill Martin ought to be appointed Chairman, replacing Tom McCabe. By the way, it didn't hurt that Truman, Snyder, and Bill Martin were from Missouri. Bill became Chairman in April 1951. So that was the substance. The Accord, the Treasury–Federal Reserve Accord, was the agreement in substance that I just summarized.

MR. SMALL. What was your understanding of why Eccles resigned?

MR. SKIDMORE. And why did he stay on originally after no longer being the Fed Chairman? One motive would be to get this Accord in place.

MR. BRIMMER. Let me tell you why he left the Board. Both Bill and Marriner separately told me this. One day Bill Martin said, "Marriner, I'd like to come and see you." Bill walked down to Eccles's office and said, "Marriner, you've had a long stay here and you've done great service, but I need to be able to lead this Board now."

Marriner said, "I agree." And he resigned.

I learned a lot from Merritt Sherman, who was a longtime Secretary of this place. Given my interest in the Accord, almost from day one that I came here I started reading the Board's records, looking at some of these old controversies.

This is what Merritt told me. When Tom McCabe came in as Chairman, he would make a proposition, raise a question, or say something. All the other Board members would turn around and look at Marriner, wait for Marriner to respond first. Tom never had a chance to lead this Board. He was not respected by the members. He was not respected by the staff, and he was looked upon as an imposition. He was a fish out of water here all along.

So Marriner Eccles left the Board because Bill Martin asked him to leave.

MR. SKIDMORE. I'm wondering why somebody who wasn't redesignated as Chair would want to stay on. Wouldn't they say, "If I can't be Chairman, then it's time to go"?

MR. BRIMMER. If I were a god, I would demand that everybody at the Federal Reserve in a professional capacity read Marriner Eccles's *Beckoning Frontiers* not only for the history, but for the insights you get on the requirements of leadership of this place.[10] And there is a book called *Leadership at the Fed* written by a young man—used to be a young man, anyway—at the Richmond Fed.[11] You really ought to look at that. But, above all, read Marriner's book. And read my book *Life Insurance Companies in the Capital Market.*

Marriner said he had made a commitment to stay on. He saw President Truman soon after President Roosevelt's death and soon after Truman became President and offered his resignation to Truman. Truman said to him, "No, no, you're doing a good job. I need you at the Fed, stay." He felt, and he told me, that he made a commitment—first to President Roosevelt, later to Truman—to be as helpful as he could. Marriner said, "When the President asked me to stay on, I agreed to do so."

[10] Marriner S. Eccles (1951), *Beckoning Frontiers: Public and Personal Recollections* (New York: Alfred A. Knopf).
[11] Donald F. Kettl (1986), *Leadership at the Fed* (New Haven, Conn.: Yale University Press).

On the other hand, the President did not treat Marriner very well. Matt Szymczak told me this. Matt went to see President Truman. Remember, the terms of Board members end January 31 of even-numbered years. Matt said he went to tell the President that his term was expiring—that, I think, in 1948 his term was going to expire. “I do not wish to be reappointed at the end of my term. I made a commitment to Roosevelt. I have been here a long time, and I want to go back to Chicago.” He said President Truman told him, “Matt, you can’t do that. I need you. I’ve already sent your name to the Senate for reconfirmation.” He said, “Mr. President, that’s fine, if you want me to stay, I’ll continue to do so, but, you know, Marriner has his term as Chair, and he hasn’t heard anything.” Truman said, “Oh, I’m not going to redesignate Marriner as Chair.”

A few days later, the assistant to the President—I think the name was John Steelman—called Marriner and said, “Marriner, the President would like to see you, so please come over.” Marriner said he went over. Truman thanked him and said, “I appreciate your service, but I think I want to make a change, and I hope you will stay on, and I hope you will be willing to serve as Vice Chair.” He said he agreed to do that, although Truman never appointed him Vice Chair. That’s why he stayed on, because Truman asked him to stay on.

July 27, 2007 (Second Day of Interview)

MR. SMALL. We ended the July 13 interview talking about the Treasury–Fed Accord of 1951. In that context, you mentioned the phrase "engine of inflation" and how it applied to the pre-Accord period. Can you explain what the phrase meant?

MR. BRIMMER. The phrase was used orally by the former Chairman Marriner Eccles, and he documented it in his memoirs. At the end of World War II, the expectation was that, with demobilization, there was a risk that the economy would lapse into a depression—that the war had been temporary, had given a temporary boost to the economy, and that the real problem was unused resources.

Eccles detected quite early that the real problem would be a shortage of production capacity and that inflation was likely to be the challenge. President Truman wanted to maintain wage and price controls as long as possible, but Eccles concluded that the Federal Reserve had to take steps to prevent money and credit from contributing to excess demand and inflation. So he led the Board to approve a scrapping of the commitment to support the Treasury bill market.

In late 1947, the Board freed up the bill rate. The bond rate was still pegged. Of course, we had a recession in 1949, so the threat of inflation eroded to some degree. With the onset of the Korean War, the Federal Reserve concluded that the real problem would be the pressure of defense spending on capacity, and that the country was likely to face inflation. So an effort was made to free up the Federal Reserve from the commitment to continue to peg the bond market. Remember, that had been in place since around January 1941—it had been in place for 10 years.

MR. SMALL. So coming out of the war, Eccles saw inflation as a major problem. Do you have any perspective on Eccles's standing, so to speak, to make that call and be heard? During the Great Depression, there was an increase in reserve requirements under his chairmanship that many thought contributed to the Great Depression, and he did that, in part, due to concerns about inflation. Was he seen in the 1950s as going back to his old anti-inflation hawk position? And since that had been disastrous before, why should people listen to him now?

MR. BRIMMER. No. Marriner wasn't looking in the rearview mirror. He was looking at the situation as it was unfolding at the time.

MR. SMALL. Did he convince many people that inflation was a problem?

MR. BRIMMER. Well, the Board roundly supported freeing the bill market. By the way, in those days, Marriner dominated the FOMC the same as he did the Board.

MR. SMALL. Earlier, when we were talking about leadership at the Fed, you said, above all, please read Marriner's book *Beckoning Frontiers.*

MR. BRIMMER. Yes.

Some Experiences with Discrimination

MR. SMALL. You were the first African American member of the Board of Governors. We've covered your childhood growing up in Louisiana, which would be one type of environment, then moving to the State of Washington, working in Washington, D.C., and then studying at Harvard. What were your experiences? In particular, can you talk about Washington, D.C., and about opportunities there and your treatment?

MR. BRIMMER. In Louisiana, of course, there were so many grades of segregation, you really didn't think about it—certainly not at 17 years old, anyway. Once I left Louisiana in 1944—and this is especially after I got out of the Army—I did not live and work in an environment where race was a conscious, everyday experience. When I got to Washington, D.C., in the summer of 1950, that was my first real experience with racism in a big city.

In Washington, D.C., the program in which I participated, the Students of Government Program, was sponsored by the National Intercollegiate Council. There were 120 of us—half men and half women—and in that group there were about 5 or 6 black students. We'd come from all over the country. We lived at—I believe the address was 1756 New Hampshire Avenue, NW—three or four of these old brick buildings. But we met across the street in the American Veterans Committee Club. That was the only place where an interracial group could dine together. We had our meals there, living across the street, but that was sort of headquarters for us.

We met four times a week, Monday through Thursday nights. We worked at various government agencies during the day. Segregation was present, because the government's eating facilities were segregated by President Woodrow Wilson in—I think it was 1917, or maybe somewhat earlier. We couldn't eat together in restaurants, except there were a few places where government dining halls were open: the Interior Department and the Veterans Administration.

While we were here that summer, there was a Washington seminar group sponsored by the Quakers. They brought a lawsuit to open up Thompson's Restaurant. That was a big chain here.[12] Eventually, the U.S. Supreme Court heard the case. That led to desegregation in restaurants in Washington, D.C. But theaters were segregated, and hotels were still segregated—hotels did not become integrated until several years later.

That was my first real experience with racism. Then I went back to Seattle and then went to Harvard. So I wasn't conscious of racism in my own career and my own environment. But, of course, it was there.

[12] District of Columbia v. John R. Thompson Co, Inc., 346 U.S. 100 (1953).

At Harvard there wasn't formal segregation, but there was discrimination. Virtually none of the landlords would rent to black students at Harvard. I noticed that several years in a row.

Doris and I got married in July 1953. She had come up from New York to go to graduate school. I'd come from Seattle. We both arrived in September 1952. During that first year, she lived in graduate students' housing at Radcliffe. I lived at one of Harvard's resident halls for graduate students. In those days, men's dorms and women's dorms were separate. After we got married in July 1953, we looked for an apartment close to Harvard Square. While those lodgings were posted in the *Crimson* and so on, they were not available. We ended up renting what was called a "ground floor apartment" from Mrs. Pratt on Story Street, just off of Harvard Square. Mrs. Pratt was from an old New England family; she had been a missionary in China, and she was back and retired.

Later, we ended up living near Ken Galbraith's house. Just off of Kirkland Street was an apartment house owned by the Moscow brothers. And the Moscow brothers told me explicitly, "We are not prejudiced, but the other tenants would object." So we did not get that apartment.

MR. SMALL. How were you treated within Harvard?

MR. BRIMMER. Although I don't have much hair left, I was the "fair-haired boy," because I was identified early. I was ahead of the typical graduate student coming in. I already had a master's degree. I had studied a year in India, and so—well, no problems.

I stayed on at Harvard for a year. I did part of my work at MIT where, on Ken Galbraith's recommendation, I joined the Center for International Studies. That's where I met Paul A. Samuelson, Charles P. Kindleberger, and so on.

Working as an Economist at the Federal Reserve Bank of New York (1955–58)

MR. SMALL. You started working at the Federal Reserve Bank in New York in June 1955.

MR. BRIMMER. Professor John Henry Williams recommended me to the Federal Reserve Bank in New York. Williams had at one time been a vice president of the Federal Reserve Bank of New York and, later, an economic adviser. He had recommended several of his students for employment at the New York Fed. Paul Volcker had gone down two or three years ahead. Peter Sternlight had gone down a year before I did. All of us had held a teaching fellowship at Harvard in money and banking, and it led to the Federal Reserve.

In 1953, while I was at Harvard, Charlie Coombs invited me to join the Federal Reserve, effective in June 1954. Charlie was a graduate of Harvard College. He had done his Ph.D. at Harvard in political economy and government, with John Henry Williams. I told Professor Williams about the job offer. He said that the job could wait. He and Alvin Hansen wanted me to stay at Harvard another year and be a teaching fellow, and I did that.

When I got to the Federal Reserve Bank of New York in June 1955, I went into a section where Peter Sternlight got up, and I got his job. [Laughter] And so, again, I was identified. The way was paved.

MR. SMALL. What was your specialty—your line of work—at the New York Fed?

MR. BRIMMER. I had written my dissertation on monetary policy, interest rates, and the investment behavior of life insurance companies, but I went into the Business Conditions section. I worked on what was their version of the Beige Book, meaning economic conditions in the District. I covered the Second District. I learned more about department store sales. My particular specialty was Northern New Jersey. [Laughter]

MR. SMALL. But when you say "worked on"—if we said currently that someone "worked on" a job like that, they would have a whole set of regression programs and data sets that were automatically updated. How did the work come to you? What physically hit your desk, and how did you work?

MR. BRIMMER. What hit my desk were press releases. The *Journal of Commerce* was my bible—not the *Wall Street Journal*. The *Journal of Commerce* was the other New York business paper. I examined statistics with a regional dimension, such as department store sales. These were monthly reports with an emphasis on New England and especially the Mid-Atlantic states. I used the Labor Department reports to see who was unemployed. I prepared the weekly report that went to the senior office. My report went to Charlie Coombs. He and Bob Roosa would use the report.

I started off as a class C economist. At the New York Fed, I was doing essentially what I was doing on the Leontief project—those boxes, whole bins of bills of lading, more data. There were no computers. We used calculators and slide rules. I learned to write clearly.

MR. SMALL. Who were your taskmasters in writing style?

MR. BRIMMER. I've forgotten his name, but there was a longtime Fed officer who technically had oversight for research. For years, he was the president's in-house economic adviser to the board of the New York Fed, and he hired a general commerce reporter, whose task was to teach the economists to write.

MR. SMALL. Was there no upward path at the Bank if you couldn't write?

MR. BRIMMER. It just never arose. I came in as a first-level, class C economist. If it had been a law firm, we were the associates. The associates do what they have to do. If you did well, in two or three years you were promoted to class B. I was in the equivalent of the domestic section. In my last year, I was in the balance of payments section. That was equivalent to the Division of International Finance here.

The New York Fed was a good starting place for economists. A number went out to Washington firms, New York banks, and so on. A number went to academia.

Mission to Sudan

MR. BRIMMER. In July 1956, I was asked to go on an AID-supported mission to the Sudan from the Federal Reserve. This came through the State Department. The State Department asked if we could help the Sudan set up its central bank. Oliver Wheeler, who was a vice president at the Federal Reserve Bank of San Francisco, headed the mission. Alan Holmes, a senior economist and economic adviser at the NY Fed, went. I was a class C economist. Oliver was 60, Alan was 37, and I was 29.

We filed a report. We were in the Sudan from December 1956 to March 1957. The Sudan eventually established a central bank in 1958. When the government was overthrown by a coup, the finance minister who had been responsible was out.

When I came back, I spent my last year in the balance of payments division. There I worked primarily on financial aspects of the balance of payments. My immediate supervisor was Fred Klopstock. Bob Roosa was manager of the Open Market Account.

That was my New York Fed experience.

Teaching at Michigan State University (1958–61) and the Wharton School of Business (1961–63)

MR. SMALL. What did you do after leaving the New York Fed?

MR. BRIMMER. In 1958, I went to teach money and banking at Michigan State University.[13]

I kept in contact with Ken Galbraith. In December 1960, the economists had their national meeting between Christmas and New Year's Day. That year the economists group met at St. Louis. About halfway through the meetings I ran into Ken Galbraith. He said, "Andy, I've been looking for you." He said that Senator Kennedy had asked Paul Samuelson—whom I'd known from my MIT days—and him to help Kennedy organize the government. He said, "In particular, he asked us to help in recruiting people in the economics and the financial areas." He said, "Walter W. Heller is going to come in as chairman of the Council of Economic Advisers." He told me that C. Douglas Dillon is going to be the Secretary of the Treasury, but Walter, in particular, wanted to broaden the functions of the Council of Economic Advisers. Walter wanted to have an economic adviser in all of the major departments. Galbraith said, "I put your name on the list. I'm certain you will be getting a call," and he mentioned several other names of people who would be coming down to Washington.

In March 1961, I got a call from John Williams Macy who chaired the Civil Service Commission under President Eisenhower. President Kennedy had co-opted him to be his director of White House personnel, to identify presidential appointees. John Macy said Ken Galbraith had put my name on the list, and he was trying to find people to fit in with financial expertise. He said that if I was interested, I would get a call from Robert C. Weaver, who was the administrator of the Housing and Home Finance Administration. I'd known Bob Weaver; he had given me a fellowship to do my master's thesis. He had been the director of the Student Fellowship for the John Hay Whitney Foundation, and he had been to the University of

[13] Dr. Brimmer taught at the Wharton School from 1961 to 1963. He was on leave from the Wharton School while serving at the Commerce Department from 1963 to 1966.

Washington—he was a visitor on the campus. I got a call from Bob within days. He invited me to come to Washington as deputy assistant administrator of economic affairs in the Housing and Home Finance Administration. I had to say, "Thank you very much, but I've already committed to shift from Michigan State to the Wharton School at the University of Pennsylvania. You know how academia is. I can't renege on that."

At Wharton, I was invited to participate in the special study of securities markets that President Kennedy had set up. This was to review the securities laws. Milton H. Cohen from Chicago, a lawyer, a strong Kennedy supporter, specialized in corporate law. [Laughter] He knew nothing about securities! So I worked with the SEC (Securities and Exchange Commission) as a consultant. I focused on the mutual fund part of that project. That was my first venture into the financial securities markets—to study with Macy in real time rather than from textbooks.

Working at the U.S. Department of Commerce (1963–65)

MR. BRIMMER. I was invited to come to Washington on three separate occasions to be interviewed. In May 1963, I finally accepted a position as deputy assistant secretary for Economic Policy Review at the Commerce Department. Remember, I told you Walter Heller wanted economic advisers in various departments. These offices were created in Treasury, Commerce, Labor, Agriculture, and so on. It took until 1962 before the Congress created these posts. So that's how I got into government.

MR. SMALL. Did you feel the excitement about the Kennedy Administration and the "new economics"?

MR. BRIMMER. Well, this was a Harvard mafia, and I was a part of it. I knew a number of these people. Walt Rostow was at MIT, part of the same Center for International

Studies where I had been. Of course, I was excited. After all, the slogan was "Let's get this country moving again." That was a reflection of the economics and political economy that Kennedy had heard from Ken Galbraith, Paul Samuelson, Arthur Schlesinger, and so on. This was Hansen coming alive! So it was exciting. Getting in on the ground floor was doubly exciting.

MR. SMALL. When you came to D.C., what were your job responsibilities?

MR. BRIMMER. I was deputy assistant secretary for economic policy at the Commerce Department. It was a monstrous department with many bureaus. It was headed by a man who had high personal standing, but the department had very low standing.

The Secretary of Commerce was Luther H. Hodges, former governor of North Carolina.[14] Luther Hodges had spearheaded the Kennedy drive in the Southeast and the South, so he was given the post. He had high standing with Kennedy and particularly high standing with Lyndon Johnson; Hodges was a southern governor. But the Department of Commerce had become what the old Post Office once was under Roosevelt. That was where you dumped your—you know.

MR. SMALL. What was your role, as seen by Walter Heller?

MR. BRIMMER. Heller's idea was to create a senior economic policy post in the major departments. There were no such people. Heller convinced Kennedy—in fact, Richard "Dick" Neustadt had already started teaching Kennedy this—that the real power is held by the assistant secretaries. The Brookings Institution put out a study that was completed after the Kennedy Administration called "The Assistant Secretaries."

The Secretary is a political person appointed for political reasons. And the senior political types are transients—they come and go. So, Neustadt argued, and Heller endorsed it,

[14] Luther H. Hodges was governor of North Carolina from 1954 to 1961 and U.S. Secretary of Commerce from 1961 to 1965.

that you had to have professional people in the Commerce Department and in the Census Bureau—the “best and brightest” professional technical people. The bureaus subject to the most political influence were the Bureau of Public Roads, Maritime Commission, the Bureau of International Commerce, and so on.

MR. SMALL. So your job was to bring professional, scientific, and economic analysis?

MR. BRIMMER. That’s right. Later I was the assistant secretary, but when I first went to the Commerce Department, Dick Holton was the assistant secretary. We were the liaisons with the Council of Economic Advisers and with Treasury. We didn’t have much to do with the Federal Reserve. That came later.

The Civil Rights Act of 1964

MR. SMALL. While at the Commerce Department, you did the research for congressional testimony that demonstrated the burden of racial segregation on interstate commerce. And that testimony was cited by the Supreme Court in upholding the public accommodation’s section of the Civil Rights Act of 1964.

MR. BRIMMER. I came to Commerce the third week of May 1963. During the first week in June, I started working on the problem of the public accommodations bill—the Civil Rights Act.

President Kennedy had been under a great deal of pressure to introduce a civil rights bill. Robert F. “Bobby” Kennedy, as Attorney General, was against it, because the President had such a thin margin of victory when he was elected. He knew that the civil rights bill was going to be bottled up by the southern Senators—that they just wouldn’t make progress on it. But, in Birmingham, Alabama, Bull Connor had dogs attacking and policemen using fire hoses on civil rights marchers in April 1963. So, politically, Kennedy had to do something.

The White House staff suggested that Kennedy basically update the Civil Rights Act of 1875, which prohibited discrimination in public accommodations based on the Fourteenth Amendment. But the Supreme Court had ruled the 1875 Act unconstitutional based on that amendment.[15] So Bobby Kennedy came up with the notion that the bill should also be based, as a second support, on the interstate commerce clause. The Circuit Court had ruled already that interstate commerce on Pullman trains couldn't be segregated. So Bobby said, "Let's just extend that." And President Kennedy agreed.

Bobby called up the Secretary of Commerce, Luther Hodges, and said, "The President would like for you—for the Commerce Department—to provide the case, to give the testimony." That's how he referred to it: prepare the testimony supporting the public accommodation section of the civil rights bill, based on the interstate commerce clause. Bobby asked, "Would you be willing to do that?" Hodges said, "Of course. The President wants me to do it, we'll do it!"

So Hodges called for a meeting with Frank Roosevelt, Jr., the undersecretary of Commerce, the number two person; Robert "Bob" Giles, the general counsel who had come to Washington from North Carolina with Secretary Hodges; Dick Holton—he was assistant secretary; and me, the deputy assistant secretary for economic policy. Hodges told the group about the request. He asked Bob Giles, the lawyer, "Can we do this? Can we support this on the basis of the interstate commerce clause?" Bob said, "Yes, Mr. Secretary, we can do that. But that's a job for an economist. I can do the law, but the economist has to do the economic analysis, because that's where the burden is—this economic burden." Hodges said, "Fine. Frank, can you get that done?" Frank Roosevelt says, "Of course we can get it done! Dick?" [Laughter] He turned to Dick Holton, my boss, the economist, and asked, "Can we get it done?"

[15] In 1883, the Supreme Court overturned the Civil Rights Act of 1875 and declared that the Fourteenth Amendment does not prohibit discrimination by private individuals or businesses.

Dick turned to me and said, "Andy, this is not just a matter of statistics, but of policy. What's your view?" I said, "Of course, we can get it done." He said, "You're doing it." [Laughter]

So I drew the assignment to prepare the testimony—the economic text about race segregation in interstate commerce. About a week or 10 days after I began to work on that project, I got a call from a man named Hobart Taylor. He was a lawyer from Michigan who had been brought to Washington by Lyndon Johnson. Lyndon Johnson, in addition to being Vice President, was also chairman of the President's Committee on Equal Employment Opportunity. That was a committee that Kennedy had created very early in his administration. Lyndon Johnson had brought Hobart in to be executive director of the committee.

Hobart, who I knew but not well, called me one day, and he said, "Andy, the Vice President would like to talk to you. We understand that you will be doing the testimony on the civil rights bill, and the Vice President wants to make these facilities, resources, opportunities available to you." I said, "Fine, but I'm working on the public accommodation section, not on Title VII," which was the employment section. I heard Johnson ask a question. I could hear his voice: "What do you mean he's not working on this?" Johnson said, "Let me talk to him." Vice President Johnson came on and said, "Oh, I thought you were working on employment as well." I said, "No, Mr. Vice President, I'm working on public accommodation." He said, "Well, look. The resources of my office are available. You can count on us." That's how I met the Vice President the first time.

I proceeded to do the analysis. I demonstrated that segregation and discrimination pose a burden on interstate commerce, and it cut two ways. First, because African Americans were restricted in their ability to travel and to enjoy the benefits of public transportation and access to public accommodation, that was a burden on them. And because businesses lost trade because blacks couldn't live in hotels, couldn't travel on public transportation, and so on, businesses also lost. They lost the opportunity to serve and make profit.

How did I demonstrate this? I planned three trips, using the interstate highways as much as possible. The interstate system was still being built out. One trip was from Washington to Chicago, by automobile, mainly using the Pennsylvania Turnpike. I planned a trip from Washington via Louisville, Kentucky, to New Orleans, traveling mainly along interstates, and a trip from Washington, D.C., via Atlanta to Miami, Florida. I asked the Bureau of Public Roads, which was in the Commerce Department at the time, to give me a map showing these various routes with their distances. I asked the National Safety Council to advise me on how long it would take a traveler traveling by automobile without stopping for rest, recreation, and overnight accommodations particularly. And I asked the American Automobile Association to give me a map showing the places of accommodation—hotels, motels, and so on—along those routes.

I analyzed these data, and what did they show? They showed that the typical African American traveler along those routes would have to travel—especially along the routes through the South, Washington to New Orleans and Washington to Miami—about two and a half or three times as long as a white traveler would have to travel. Driving times between accommodations for blacks was two and a half to three times as long as it was for whites. So that was a burden—a burden on black travelers and a burden on business. I also used data from the Consumer Price Index expenditure surveys to measure how much the burden would be on blacks to go to public accommodations: baseball games, theatres, and so on, eating at restaurants and so on. All that added up to burdens on businesses, commerce, as well as on black citizens.

The undersecretary of Commerce, Frank Roosevelt, Jr., presented testimony before the Senate Commerce Committee.[16] I went with him. Undersecretary Roosevelt introduced the subject and then turned the task over to me to present the evidence. We were doing that, and South Carolina Senator Strom Thurmond said to Roosevelt, “Mr. Secretary, that’s not correct. Along Highway 95, I-95, in South Carolina, there’s this intersection at which you show no place of accommodation for black travelers. But I know there is a fine hotel there, and I’ve seen colored people in there.” At that point I turned and asked my assistant to call the director of the Commerce Department’s field office in South Carolina and ask what the situation was. Is there a hotel there, and if so, does it accept black customers? Within 40 minutes, I was told that the director of the Field Office had interviewed the owner and operator of that hotel. The owner had said, “The Senator’s right. He has seen black people in here, but they work here. Under state law, I cannot serve them.” After that, Senator Thurmond was quiet.

The Civil Rights Act was passed in 1964, and the public accommodations section went into effect immediately. The owner of a motel in Atlanta, called the Heart of Atlanta, challenged the act. The case was heard immediately by the District Court, and the District Court held for the government. The Court of Appeals held for the government, and it went to the Supreme Court. The Supreme Court took it immediately in the same term and found unanimously for the government. The Court upheld the constitutionality of the public accommodations section of the Civil Rights Act of 1964, citing extensively the testimony that I had prepared and we had presented and complimented the Commerce Department on the excellence of the support.

[16] *Civil Rights: Public Accommodations, hearings before the Committee on Commerce,* U.S. Senate, July–August 1963, 88th Congress, First Session on S. 1732 (Washington: U.S. Government Printing Office).

MR. SMALL. So that analysis had a lot to do with the scope of the parties to be covered under the act. In other words, the act covered not just passengers, but you brought in the hotel operators, the restaurant operators.

MR. BRIMMER. Yes. Remember, it was based on the interstate commerce clause, and that applies to commerce across state lines and a variety of components of commerce. It was a comprehensive application and a comprehensive treatment.

Airline Deregulation

MR. SMALL. I believe you had assignments related to the deregulation of airlines.

MR. BRIMMER. When I joined the Commerce Department in May 1963, the fiscal year was July 1 to June 30. President Kennedy was looking at the proposed budget for the upcoming fiscal year. He noticed an item of $68 million. He asked Kermit Gordon, who was Budget Director at that time, "What is this $68 million to local service airlines?" The answer was, that item had been in the budget since 1938. At the time, the Congress wanted to promote civil aviation. In order to do so, it provided funding for air mail contracts. The local airlines were paid a subsidy to carry mail to smaller airports. This was a particular benefit to small airports. President Kennedy said, "This is ridiculous. There's no need to subsidize the airlines now. I need to be briefed further on this."

Charles "Charlie" Schultze was the senior economist in the Budget Bureau. Charlie was asked to review the matter. He formed an interagency committee. Commerce was well represented on that committee, because there was no Department of Transportation at that time. The Secretary of Commerce had transportation policy responsibility.

Charlie put together this interagency committee to review the local service airline subsidy. He came up with the idea of defining a regional airport. That was an airport that served at least two trunk lines.

There were two or three international carriers: Pan American, Trans World, and maybe some pieces of Continental. Pan American and TWA were the major ones. The trunk airlines, they were called, included American, United, Continental, and there were 15 local service airlines.

MR. SMALL. Those were ones smaller than trunk.

MR. BRIMMER. That's right, they were the next tier down. You have the internationals, the trunks, and the local service airlines like Allegheny, Empire, and Delta. In 1960, Delta was still classified as a regional carrier. There were 15 of them, and they divided the local service subsidies among them. The one that fascinated me was Bonanza. Bonanza was based in Los Angeles or Las Vegas. It made its money flying gamblers from Los Angeles and San Francisco to Reno and to Las Vegas, but Reno was the biggest one.

Charlie decided to identify the trunk airlines that had two or more trunk carriers, which started at the regional airport [an airport that was serviced by two trunk lines]: Draw a circle with a 50-mile radius around that airport and close down all of the local service carriers within that circle on the assumption that it was convenient for passengers living in that circle to use the regional airport, especially when they had the interstate highway system. At that time, to maintain its subsidy, that airline carrier had to have eight passengers O&D—origin and destination—only eight a day. So we would have saved two-thirds of that $68 million budget item, 70 percent.

Because the Commerce Department had a number of the operating agencies, one of my assignments was to get the others working on their statistics. I got the Bureau of Public Roads to draw me a map. That report was on President Kennedy's desk when he was killed in November. Years later, in the spring of 1965, I asked President Johnson why he never did anything with that report. Lyndon Johnson, being Lyndon Johnson, put his hands on my shoulder and said, "Andy, you fellows did a first-rate job, but one thing you forgot. Every one of those airports you wanted to close down was in some congressman's district. I needed their votes for the rest of my program." So they didn't do that. That was the "local airport service" experience.

Assessing the Economic Effect of the Alaska Earthquake of 1964

MR. SMALL. While you worked at the Department of Commerce, in 1964, there was an earthquake in Alaska.

MR. BRIMMER. In March 1964, the Friday before Easter, the Alaska earthquake struck. It devastated Anchorage. With the time differential, Anchorage is about four or five hours farther west than Washington. So the government in Washington, D.C., was closed down by the time the earthquake struck in Alaska [5:36 p.m. AST].

We read about it, but the action began on the Monday after Easter. Secretary Luther Hodges was away, so Frank Roosevelt, Jr., was Acting Secretary. My boss, Richard Holton, was away, so I was acting assistant secretary for economic affairs. It was about 2:00. Frank Roosevelt called me and said, "Andy, will you come down to my office? We've got a real job ahead of us." I went down. He said, "I've just come back from the White House. President Johnson has formed a taskforce to advise him on how to respond to the Alaska earthquake disaster." He said, "Our task is to make an assessment of the economic impact." He said the port was damaged. He said, "The Secretary has responsibility for several pieces of it, so there will be a meeting at the White House tomorrow at noon, Tuesday at noon, and I must report to the President on our initial assessment. I need help." I said, "Okay."

I went to my office. Initially, I stared at the wall, thinking. Then I called A. Ross Eckler. He was head of the Census Bureau.

The two bureaus reporting to the assistant secretary of economic affairs were the Census Bureau and what is now the Bureau of Economic Analysis. Then it was called the Office of Business Economics. The Census Bureau had about 3,000 employees, but, above all, they had information bodies.

So I called Ross Eckler and said, "Ross, I need some help." I told him what the assignment was. I said, "Who in the Census Bureau might know something about Alaska?" Just like that, he said Edwin D. "Ed" Goldfield; at that time, he was the editor of the *Statistical Abstract.* Ross said, "I'll send over Ed Goldfield." Just after 4:00, Ed walked into my office, puffing on his pipe, with a copy of the *Statistical Abstract* in his arm. I said, "Welcome."

By that time, I called Ed Smith. Ed Smith later was my deputy assistant secretary in the Commerce Department, but at that time, he was the chief economist in the Area Redevelopment Administration, ARA, which was also in the Commerce Department. Ed was lonely over there, so he spent much of his time in our shop. I'd asked Ed to come in. We talked. Ed Smith said that for an area to qualify for funding under the Area Redevelopment Act, that area, that state, had to prepare an overall economic development plan. He said ARA prepared such a plan for Alaska. He said that the plan had a lot about transportation facilities in Alaska. The Alaska Railroad was there. Maybe there's some useful information in the plan. At least it would give us some feeling for what Alaska used to look like.

The upshot is that we called around. The woman who had prepared the overall economic development plan for Alaska had retired. Ed Smith had called her, and Ed said he couldn't find the location of that plan. She said, "It's in storage. I'll come in and I'll find it." That woman came in.

I got a call from one of the assistants to Robert McNamara. He was on the committee Johnson had formed. He said, "Secretary McNamara had asked me to be helpful. How can I help?" I said, "I want to know what military installations are in Alaska and how dependent was the military on the port." Eventually, I put together a team of 22 people from inside the government.

By 8:00 in the evening, Ed Smith and Ed Goldfield came to my office and said they wanted to brief me on what they had done. They had blocked out seven or eight projects. It was really fine. That woman had come in. We met for maybe 45 minutes or so. It was almost 9:00 when we broke out. We agreed to come back together at midnight.

At midnight, the two Eds gave me a report. They said, "We have outlines for eight chapters." By the time we broke up, it was one o'clock in the morning. We said, "Let's meet at 6:00 in the morning, by which time we'll have a draft."

I went home. I couldn't sleep. I was back in my office at 5:30, and we reassembled at 6:00. That team had put together a 200-page report. Two-thirds of it had already been typed. We agreed, and they said, "It will take us three hours to finish typing, to tidy it up, but we'll have you something by 11:00."

They came in and made three copies. Remember, there were no computers then. The best they had were electric typewriters and mimeograph machines. They had two copies for Franklin Roosevelt and one copy for us to hold onto. It was about 11:15. I called Frank and said, “We have a finished report. We’re going to come down and brief you so you will know what’s in it.” So we went down with the two Eds. We briefed Frank Roosevelt, who was still Acting Secretary of Commerce because Hodges had not come back. It was about 11:40 when we finished briefing Frank. He said, “I’ll just walk it over.” I said, “Frank, you can’t do that. You have to get clearances. You can’t waste all that time. Take your car. Have your secretary alert the Southwest Gate.” We always used the Southwest Gate at the White House. “Alert them that you’re coming so they won’t be tied up with all that security.” Frank said, “Okay.” So he got in his car, where the Commerce Department building is. By 11:50, Frank was outside the Oval Office.

That was how that was done. The aftermath was, that document became the planning document. At the time, what was called the Office of Emergency Planning was headed by Ed McDougal, who I got to know at that time. That was the basis for the government’s testimony. The government’s document was our document, and Ed McDougal testified, drawing heavily on our document.

Ten days to two weeks later, Secretary Hodges came back from the White House. He called me to his office, and he said, “The President spoke to me about the excellent job you and your team did. He wants to send a letter of commendation to you.” I said, “Mr. Secretary, I’m flattered, but that just wasn’t me. That was a 22-member team. We did that together. If he sends me a letter, I want to make certain that a copy of that letter gets into the service record for everybody who worked on that team.” Hodges said, “That’s a splendid idea.” That’s what was done. That was that episode.

MR. SMALL. You had a successful tour at the Department of Commerce.

The Study of a Power Plant at Passamaquoddy Bay, Maine

MR. BRIMMER. Did I talk about Passamaquoddy?

MR. SMALL. I don't believe so.

MR. BRIMMER. That was another episode in the Commerce Department. In the spring, early summer of 1965, Margaret Chase Smith, a senator from Maine, called Frank Roosevelt and said, "Frank, your father was all in favor of building the tidewater electric power plant at Passamaquoddy Bay. The war came along, and it got lost. I think you ought to take another look at that." Frank said, "Fine."

He mentioned it to the Secretary of Commerce, John T. Connor, who knew where Passamaquoddy Bay was. I didn't. Frank knew where it was, because Campobello was close to Passamaquoddy Bay in Maine. The configuration of Passamaquoddy Bay is V-shaped, so the tide comes in and rises. This big plan was something from one of the environmentalist guys who had a lot to do with the development of the national parks. He's the one who thought of this idea and sold Franklin Roosevelt, Sr., on it. He would build locks. When the water came in, they would close the locks, and they'd have a pool of water. Then they would use the water to generate electricity.

Frank mentioned that idea, and the Secretary of Commerce said, "Invite Senator Smith to lunch." So she came to lunch. The Secretary of Commerce had me in the lunch. She was a fascinating woman, by the way. She was alert and bright. She had inherited her job from her husband. The Secretary said to her, "We'll take a look at it." He said to Frank, "Frank, can you take responsibility for that?" Frank said, "Yes, sir."

Of course, it fell to me to do that. We put together a simulation project. We wanted to build the locks at Passamaquoddy, but we also wanted to test the cost of power, because power would be generated in Passamaquoddy but serve Boston, New York, and all the way down to the Philadelphia metropolitan area. I came up with the idea of testing three other power sources. I built a tidewater plant on the Jersey Shore, east of Philadelphia, and powered it by residual oil out of Louisiana and Texas. I built a mine mouth coal fire plant in Morgantown, West Virginia. These were all simulation projects. By this time, we had computers. I built a mine mouth coal fire plant in Morgantown, West Virginia, and then wheeling the power to the metropolitan area I just described. I postulated a plant at Hamilton Falls, Ontario—I think it's in Ontario—and wheeled that power down to the metropolitan area, and then compared cost per kilowatt hour, or power generation and transportation.

Passamaquoddy lost on every test, as you know it would. First, you had to have an upland pool of water, because when the tide was out, you still need to generate power. Your upland pool would then be kept to send water down to the turbines when the tide was out. We built that on a dam on the Allagash River, which was a wild river in Maine. The only way we could justify the plant on the Allagash was to enhance the recreational benefits.

MR. SMALL. You had to value those awful high?

MR. BRIMMER. Yes, yes, yes. We had to tell the Secretary to inform Margaret Chase Smith that this was still not economical, but that was an interesting project.

Supersonic Transport

MR. BRIMMER. Another project I worked on concerned the SST (supersonic transport). That was as early as 1964. I was deputy assistant secretary in the Commerce Department. Dick Holton was the assistant secretary.

Either in 1964 or the year before, the French–British Concorde had been announced. The U.S. aviation industry panicked. They decided that there needed to be an American SST. They approached Bob McNamara, Secretary of Defense, to finance an R&D project to develop an American SST. Bob McNamara turned them down, saying, “The Defense Department doesn’t need an SST transport.” Its military planes were already supersonic.

Then the airframe manufacturers and the engine manufacturers went to President Johnson and said, “We’re going to get left behind the Europeans unless we have an SST.” Johnson was impressed by their claims, so he established an interagency committee on the SST, chaired by the Secretary of the Treasury. The Secretary of Defense, the Secretary of Commerce, the chairman of the CAB—Civil Aeronautics Board—and the head of the FAA were on the committee.

Joe Fowler then engaged Planning Research Corporation (PRC), an R&D firm here in Virginia, to undertake a feasibility study. I’ve forgotten the name of the person who ran it for PRC, but he was a very bright guy. He might have been an engineer, but he had a very good feeling for economics.

By the way, Dick Holton as assistant secretary was a member of this committee. The assistant secretary for economic affairs was a member. Dan Martin, the undersecretary of commerce for transportation, was a member. But Big Dan was a political appointee, let’s put it that way, so we did the work. And I was Dick’s alternate.

Three airframe manufacturers made proposals—Boeing, Lockheed, and Douglas. Douglas quickly dropped out. So the two airframe makers were Boeing and Lockheed. GE (General Electric) and another company that I can’t recall were the engine makers. In any case, there were two engine makers, two airframe makers.

MR. SMALL. Westinghouse?

MR. BRIMMER. No, it wasn’t Westinghouse, not for the SST. Westinghouse was big in atomic. In any case, Boeing submitted a swept wing version. You could push the wings forward and you had a subsonic plane, push the wings back into a delta and you had a supersonic plane. Lockheed proposed a double-delta: smaller delta up front, big delta in the wings, but fixed wings. They all had the swept neck.

MR. SMALL. Like the Concorde?

MR. BRIMMER. Like the Concorde. United Aircraft of Connecticut, which later became United Technologies, was the other engine maker.

We then had to evaluate these two designs—two designs for the airframe, two designs for the engines. The Concorde is a small plane, Mach 2. It was twice the speed of sound, which meant it was between 1,300 and 1,400 miles an hour. The engines had 30,000 pounds of thrust, a range of 4,000 miles plus. It could fly nonstop New York to Paris with some small margin. The specifications for the U.S. SST were that it had to have 50,000 pounds of thrust, 80,000 feet peak altitude, 5,000 miles of cruising.

The Concorde had a 60,000-foot ceiling for most efficient operation. Both Lockheed and Boeing met the specifications. But the real obstacle was the sonic boom. You can't operate an SST over settled areas. But with the wings pushed forward, Boeing could have a Mach 0.95—95 percent of speed of sound. And so you could fly it over the continental United States. By the time we got down to testing the various models, Dick Holton had gone back to Berkeley.

MR. SMALL. Testing the models—computer models?

MR. BRIMMER. That's right. We asked Defense. PRC asked Bob McNamara whether they could use the supercomputer at the Defense Department. Bob said, "No way." So the Secretary of Commerce made the Census Bureau's supercomputer available. I was the Commerce Department's representative on the interagency committee. And so I programmed various—historically new equipment had been introduced at the first-class fares, plus a premium. And that was the model for the SST. So the task was to keep the premium as low as possible.

PRC had recommended that the American SST be turned into a shuttle—keep it flying. That was its advantage, quick passage. So I programmed various trips.

MR. SMALL. You were doing the economic analysis of passengers and fares.

MR. BRIMMER. That was the main focus for Commerce. Remember, the Secretary of Commerce had transportation policy responsibilities in those days.

MR. SMALL. A marketing analysis.

MR. BRIMMER. We didn't get a Department of Transportation until 1967. So pricing was a key variable. We concluded, as a group, that the Boeing model was the superior model; Boeing airframe, GE engines. The President authorized it. Boeing proceeded to build a prototype, and GE proceeded to build engines. Then William "Bill" Proxmire, a Senator from Wisconsin, got in. By this time, Richard Nixon was President. The environmentalists had gotten to Bill Proxmire and convinced him that the SST would destroy the ozone. So he succeeded in getting the Congress to cut off funding. The net of it all was that I believe the Japanese bought the prototype—the models and so on. And they were supposed to continue experimenting with it. That was my experience with the SST.

The Kennedy and Johnson Administrations: Macroeconomic Policy

MR. SMALL. Did you notice a difference between the Kennedy and Johnson Administrations in their method of operating or in substantive analysis?

MR. BRIMMER. Oh, yes. We've already talked about Walter Heller and the Kennedy Administration.

When running for President, Kennedy made a speech on the campaign trail. I think it was somewhere in New Jersey. Kennedy criticized the Federal Reserve and Bill Martin for tight money, not recognizing the recession of 1960. A reporter asked Kennedy, “If you’re elected President, would you keep Bill Martin as Fed Chairman?” Kennedy said, “I’ll have to consider that.” That was interpreted in the Federal Reserve as hostility towards Bill Martin, and that Kennedy would look for a way to get rid of Bill.

Early in the Kennedy Administration—I think as early as February 1961—Walter Heller called Bill Martin and said he would like to come and see him. Heller went to see Martin and explained that the President didn’t want to interfere but was anxious to get long-term interest rates down because long-term interest rates were inhibiting investment, and Kennedy felt that investment was the key to growth. Heller said to Bill—and Heller told me this himself—that “Hopefully, you can see your way to get long rates down.”

Out of that came “Operation Twist,” in which short rates would be held where they were, but long rates would be reduced.[17] That was the compromise. Heller was after a relaxation of monetary restraint. That’s what he really wanted. That’s what Kennedy really wanted. Also out of that grew the Quadriad. The Chairman of the Federal Reserve was added to the Triad.

MR. SMALL. Did some people think that that was a mistake by Martin, to get drawn in like that?

MR. BRIMMER. No. Certainly, I didn’t think it was a mistake. I thought it was desirable that there should be at least a constructive exchange of views between the President’s aides and the Federal Reserve.

[17] Operation Twist was an effort in the early 1960s by the Federal Reserve (supported by the Kennedy Administration) to “twist” the Treasury yield curve by raising, or keeping unchanged, short rates while lowering longer rates. The intent was to defend the dollar through stable or higher short-term rates and encourage investment demand through lower long-term rates.

MR. SMALL. Is that because both fiscal and monetary policy were seen as tools for short-run macro management?

MR. BRIMMER. Yes.

MR. SMALL. So these two tools had to be coordinated.

MR. BRIMMER. That's right. Remember, the platform Kennedy ran on was to "get the country moving again."

To take a short digression: I noticed one of the Republican candidates used that language two nights ago. I said to my wife, "Doris, I wonder if he knows he's quoting John F. Kennedy." Both monetary and fiscal policy were considered instruments for growth.

MR. SMALL. The Kennedy Council—Tobin, Heller, input from Paul Samuelson—was considered to be extremely high powered and intellectual—full of advice from future winners of the Nobel Prize in economics.

MR. BRIMMER. Yes.

MR. SMALL. And it was also considered ultimately by some to have failed.

MR. BRIMMER. They had very good ideas. Remember, the investment tax credit was a Kennedy Administration view. The foreign trade adjustment was Kennedy. The interest equalization tax got started under Kennedy.[18]

MR. SMALL. What about pursuing an unemployment rate that was unreasonably low?

MR. BRIMMER. That's right. It was unreasonably low. But they thought it was achievable.

MR. SMALL. Were they too self-confident that the new science had figured everything out, or was it just [that] it was fine until LBJ wanted [both] guns and butter?

[18] The tax was implemented in July 1963. It was meant to make it less profitable for U.S. investors to invest abroad by taxing the purchase of foreign securities. The design of the tax was to reduce the balance of payments deficit.

MR. BRIMMER. Remember, I was a part of the crowd.

MR. SMALL. Yes.

MR. BRIMMER. So I was not critical at the time. I was supportive at the time. I thought we were on the right track. You see, not only did Kennedy pick the people—Heller and so on—but he followed their advice for the most part. He tried to do the right thing. The received wisdom at the time was that slow growth was due to a mishmash of policies, misguided policies. The Eisenhower Administration was committed mainly to tax reform, meaning lower taxes and fighting inflation. So Bill Martin was viewed as the inflation fighter, not the employment promoter, whereas the Kennedy Administration—and Doug Dillon came aboard wholeheartedly—was as an employment promoter.

MR. SMALL. That was the era where, presumably, people, including some of those policy advisers, thought of a long-term permanent tradeoff between inflation and unemployment.

MR. BRIMMER. Yes.

MR. SMALL. And we don't believe that anymore.

MR. BRIMMER. Some of us don't believe that anymore. But the upshot is that, generally, if you had sampled the economics profession, you would have found most economists were not Friedmanites. They thought the Keynesian system was the best model to follow. Kennedy was committed to it. The error he made was getting bogged down in Vietnam. I certainly believed that. And that's what Johnson inherited.

President Johnson was able to move the Kennedy agenda. Kennedy got some minor relief in 1962. But it was Johnson who really put Kennedy's policies into effect—the investment tax credit on a large scale, the civil rights bill.

In general, at the time, we felt that the expansion of military spending on top of the Great Society spending was a mistake. And so, as I said earlier, as late as the summer of 1965, some of us were recognizing that it was necessary to have monetary and fiscal restraint.

MR. SMALL. What led you to thinking that there would need to be restraint? One could have said that the unemployment rate wasn't down to 4 percent, and that the equilibrium unemployment rate was 4 percent, so policy could be more expansionary. On the other hand, if people were saying, "I really don't know what the equilibrium unemployment rate is. It might be 4 percent. I hope it's 4 percent." But if they were looking at union contracts, wage pressures, price indices, they might have been concerned that inflation could go up. What were you factoring into your thinking—current data, theory?

MR. BRIMMER. A mixture of theory and statistical evidence.

MR. SMALL. So if the NAIRU had turned out to be 5 percent, you thought you were watching data closely enough that you would have picked it up quickly? You weren't so wedded to the theory?

MR. BRIMMER. Yes, I think so. I never bought the 4 percent target.

MR. SMALL. It would be nice if it happened.

MR. BRIMMER. It would be nice if it happened, but the dynamics just wouldn't produce that.

MR. SMALL. It almost reminds me of a Reaganism: "Trust but verify." In other words, hope it's 4 percent but verify along the way through the reading of data.

MR. BRIMMER. We used to talk about frictional unemployment, just the changing of jobs and so on. You would never get down to an unemployment rate of zero. So it'd be somewhere—at best, as low as 4 percent, but most likely somewhere between 4 and 5 percent.

I was particularly concerned about the left-out groups, because at a 5 percent unemployment rate, the unemployment rate for blacks would be between 9 and 10 percent.

MR. SMALL. I'm trying to get you back to your thinking then. Suppose the unemployment rate had been at 5 percent and that inflation had been fine, it wasn't an issue, and the unemployment rate for blacks or young blacks or something was 9, 10, or 12 percent. You would have sat there and said, "This is a problem."

MR. BRIMMER. Yes.

MR. SMALL. And, at that time, if I said, "Dr. Brimmer, rank your tools for getting that unemployment rate for black citizens down in this situation. You can choose monetary. You can choose fiscal. You can choose education. You can choose job training. You can choose changing the minimum wage."

MR. BRIMMER. All of the above.

MR. SMALL. You wouldn't have just said, "Oh, monetary can get it down."

MR. BRIMMER. No, no.

MR. SMALL. You wouldn't have done just a pure fiscal—

MR. BRIMMER. No. Neither pure fiscal nor pure monetary.

MR. SMALL. You'd have done some of the micro.

MR. BRIMMER. Specialized programs. Remember, under Johnson we had the jobs programs. Lyndon Johnson sponsored such a program. Henry Ford II was made chairman of that jobs program.[19]

[19] In 1968, Henry Ford II was appointed by President Johnson as the first chairman of the National Alliance of Businessmen (NAB). NAB was founded to help government carry out the President's agenda to find jobs for poor adults and youth.

Johnson relied on business—namely, big business, corporations—to devise specialized programs to get unemployment down among minorities. After all, it was Johnson and the Job Corps that did it. That was a manifestation of Johnson's approach.

Lyndon Johnson told me how he got Henry Ford to accept the challenge of chairing that program. He said he had Ford and a couple of other prominent business types in for lunch. After lunch Ford said to him, "Mr. President, this is a very nice lunch. Thank you for inviting us. I personally will support your program." Johnson said he said, "Henry, I knew you were going to say that before I invited you to lunch. You broke my bread. So you're going to help me." That's typical Johnson. Johnson hugged people. He got close to you, looked you right in the eye and squeezed you until you said "Yes." Kennedy wouldn't have done that. Kennedy was far more intellectual.

MR. SMALL. Win them over by the argument and—

MR. BRIMMER. The argument, logic, and so on.

Johnson told me once why he became an advocate of open public accommodations. He said that, in Texas, he employed a black man and his wife. And he brought them to Washington. When the Congress would recess, Lady Bird, their two daughters, and the woman would go to Texas. They had a driver who would drive them back to Texas. I think the black woman's name was Annie something. Johnson said, "Andy, you know Annie had to go out in the bushes to pee." He said, "I said, 'This is wrong.' " You could feel the emotions in that. You wouldn't have seen that with Kennedy. First, Kennedy wouldn't have had that experience. If he had, he wouldn't have recognized the personal pain and difficulty. So while Bill Clinton could say, "I feel your pain," Johnson did feel the pain.

MR. SMALL. And you don't think Kennedy could have.

MR. BRIMMER. I don't think Kennedy—by the way, Mack H. Hannah, Jr., a Texan, praised Johnson. That's how blacks in Texas felt about Johnson.[20]

The December 1965 Increase in the Discount Rate

MR. SMALL. How did your transition from the Department of Commerce to the Federal Reserve Board come about?

MR. BRIMMER. In January 1965, I was promoted from deputy assistant secretary to assistant secretary of commerce for economic affairs. Commerce Secretary Luther Hodges recommended me for that position as he was leaving government, and President Johnson agreed. But Johnson told Secretary Hodges that he should wait until the new Secretary was named. The new Secretary was named in mid-December 1964 and assumed office in mid-January 1965. Soon thereafter, the new Secretary of Commerce concurred with the promotion, in a reiteration of Hodges's recommendation, President Johnson agreed, and I was promoted to assistant secretary of commerce for economic affairs.

In early 1965, President Johnson promulgated a program to improve the U.S. balance of payments. The United States was running a huge deficit in the balance of payments, both on goods and on financial flows. The program, put together by Treasury Secretary Fowler, involved appeals to corporations and to bankers. To corporations, the appeal was to expand their exports and to restrain their imports and, above all, to limit the financing of foreign direct investment done by moving dollar-denominated funds from the United States abroad. They were urged to finance their foreign investments by raising funds abroad rather than by shifting funds from the United States. To bankers, the appeal was to limit their foreign lending.

[20] Mack H. Hannah was a Texas businessman and a civic and political leader. He reportedly influenced black voters in local elections and helped win votes for Lyndon Johnson when Johnson was a state leader. During President Johnson's term in office, among other things, Hannah served as U.S. consul to Liberia.

The Secretary of Commerce was put in charge of the business balance of payments program, and I was made the alternate to the Secretary of Commerce. The President created the Cabinet Committee on the Balance of Payments, chaired by the Secretary of the Treasury. The Secretary of Commerce was the deputy chairman, and I was the alternate. The Federal Reserve was asked to manage the program vis-à-vis the banks, and Federal Reserve Chairman Martin was made a member of the Cabinet Committee. He appointed Governor J.L. Robertson to be his alternate on the committee.

I spent a good bit of my time promoting the balance of payments program. I made speeches and visited with regional groupings of business persons, urging them to promote the program and to help improve the balance of payments. The Cabinet Committee reported to the President periodically on the progress of that program, and I participated, along with the Secretary as his alternate, in those committee meetings. On several occasions, I substituted for him. I would represent him on the committee meetings.

It was through that program that I first spent more time with President Johnson and got to know him more extensively. He knew me already, because he had asked me to take on other assignments wearing my hat as assistant secretary of Commerce, so he was aware of the role that I was playing. But I really came to President Johnson's attention in 1965 after the question arose of the role of the Federal Reserve and monetary policy in fighting inflation.

In the spring of 1965, President Johnson accelerated the United States' commitment in fighting the Vietnam War, and that extended on into the summer. One of the issues that arose was the extent to which the buildup in military spending would put pressure on the economy and lead to inflation. President Johnson's overall posture was that we can have guns and butter at the same time. The Secretary of the Treasury and the chairman of the Council of Economic

Advisers all argued that there was enough excess capacity in the economy so that output sparked by military spending could rise without creating inflation. As the year wore on, Chairman Martin took a different view. He had numerous contacts with the military. He learned from his Defense Department people, especially the generals, that the backlog of orders arising from military equipment was rising, and very soon pressure would be put on prices.

If you look at the minutes of the October 1965 FOMC meeting, you will see that Chairman Martin reported his own assessment and indicated that he thought the time was near, if it had not already arisen, for the Federal Reserve to adopt a restrictive monetary policy. There was a discussion in the FOMC. Of the voting Reserve Bank presidents on the Committee, four of them were in favor of more restraint, and one was against. Among the Federal Reserve Board members, three of them were in favor of increasing restraint, three were against, and one member was uncertain. Chairman Martin then postponed the discussion and said, "Let's take this up in November."

At the November FOMC meeting, the division was the same. The Chairman clearly had a majority of the voting members of the Committee. It was about eight to four. The Vice Chair of the Board, C. Canby Balderston, and Governor Chas N. Shepardson voted with the Chairman. Governors J.L. Robertson, George W. Mitchell, and Sherman J. Maisel voted "no." Governor J. Dewey Daane was uncertain. So this meant it was seven "yes," one "uncertain"; three on the Committee still definitely said "no." The Chairman had a substantial majority of the Committee, but he didn't have a clear majority of the Board.[21]

[21] "In the course of the Committee's discussion some members expressed the opinion that an overt move to a firmer monetary policy, in the form of an increase in the Federal Reserve discount rate, would be in order in the very near future . . . Other members of the Committee, while sympathetic with the need for some firming of policy, expressed a preference for initially restraining growth in bank credit by a slight reduction in net reserve availability, and for considering an increase in the discount rate if and when market rates rose further. . . . Still other members thought

Martin then said that he was prepared to support any proposed increase in the discount rate that was brought to the Board of Governors as a way of bringing about greater restraint if any Reserve Bank wanted to send in a discount increase. Within days, proposals came in to increase the discount rate. This was in late November, and the Board acted on December 3, 1965. This time Governor Daane joined with the Chairman. So the vote of the Board was four to three in favor of an increase in the discount rate, with Martin, Balderston, Shepardson, and Daane voting "yes," and Robertson, Mitchell, and Maisel voting "no."

In those days, for a discount rate change, the procedure was that, after the Board voted and before the decision was announced, the Chairman would brief the Secretary of the Treasury on the action. That happened this time.

The vote took place maybe late Friday. I learned about the vote before it was announced. I was the Assistant Secretary of Commerce, and I had been working on the balance of payments question. I knew about the debate within the Federal Reserve. Alexander B. "Sandy" Trowbridge [assistant secretary of commerce for domestic and international business] gave a party on the following Saturday night. Hobart Rowen was at the party; he was the business and economics editor with the *Washington Post.* Hobart came up to me and said, "Andy, what would be your reaction, if I told you that the Federal Reserve just increased the discount rate?" I said, "Bart, first I'm going to say, you don't know that, because the Federal Reserve doesn't let leaks out of the Federal Reserve." And he said, "Well, what would you say if I demonstrated to you that that happened?" I said, "Do so!" He said, "All right, at 10:00, I will get an advance copy of the Sunday *Washington Post,* and I'll show you." Just before 10:00, a messenger brought the

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that neither a reduction in reserve availability nor a higher discount rate was warranted at this time." Board of Governors of the Federal Reserve System (1966), *52nd Annual Report, 1965* (Washington: Board of Governors), pp. 146–47.

newspaper to Bart, and on the front page was the banner headline: "Federal Reserve Increases the Discount Rate." He told the story that the Federal Reserve had met, either that day or the day before, and had increased the discount rate. The Administration had learned about it, and the President was angry. President Johnson reacted vigorously against the discount rate increase and announced on Monday that he was calling Chairman Martin down to the ranch to explain himself and to "find out why they defied my wishes."

The Secretary of Commerce had been involved in Administration discussions, including with Johnson. I prepared a report for the Secretary of Commerce based on the Planned Investments Spending Survey, which Commerce had done, stating that the buildup in defense orders was rising and that inflation was a real threat. My secretary, Carla, had shared that memo with the Secretary of the Treasury and the chairman of the Council of Economic Advisers as well as giving it to President Johnson.

MR. SMALL. So, at the time of the discount rate [increase], Secretary of the Treasury Fowler and Gardner Ackley had a pretty good idea of the future path of defense expenditures.

MR. BRIMMER. Yes. The Secretary of Commerce had a good idea, because I had provided the evidence for him on the defense expenditures. The Secretary of the Treasury, Joe Fowler, and the chairman of the Council of Economic Advisers, Gardner Ackley, agreed that military expenditures were likely to rise. But they argued that there was a great deal of excess capacity in the economy, and that increase in demand created by military spending was not more than the excess capacity could handle, so inflation was not likely to increase.

By the way, the Council's view was generally the view in the Executive Branch of the government as a whole: that inflation is not the result of too much money chasing too few goods, as in the old-fashioned quantity theory, but was the result of supply–push when the capacity to produce did not keep up with the growth of demand. So they argued that, while military spending, and therefore aggregate demand, was likely to rise, there was sufficient excess capacity to accommodate that without creating inflation. Chairman Martin believed the opposite, that the push in military spending was likely to be so great that aggregate demand would exceed capacity.

President Johnson wanted the Federal Reserve to stand still and wait. This was late in the year. He wanted the Federal Reserve to wait until he prepared his annual budget message—which he had planned to send to the Congress at the end of January—outlining the need for a tax increase. He said, "The Federal Reserve ought to wait and help me create a national economic policy, and then their monetary policy will fit into that role."

President Johnson called Chairman Martin down to the ranch. Joe Califano, Jr., who was special assistant to President Johnson, has written about that episode in great detail in his book *The Triumph and Tragedy of Lyndon Johnson.* I call that to your attention to recommend it. Chairman Martin later told me himself how the meeting went. Joe Califano says that, at the meeting at the ranch, Johnson greeted them. They had a couple of sessions. At the first session, Johnson explained to them what he was hopeful to do and expressed regret that they didn't wait. The discount rate had been increased. Then Martin explained that the Board wouldn't be rushing to raise the rate again soon, but they were going to wait and see what the effects were.

A Vacancy at the Board of Governors

MR. BRIMMER. Joe Califano says that before lunch, Johnson had decided to replace Canby Balderston. Canby's term as a Board member was scheduled to expire at the end of January 1966. He had been appointed by President Eisenhower. By the time Chairman Martin came back to Washington and by the time Secretary of the Treasury Fowler came back to

Washington, Joe Fowler had gone to Gardner Ackley, who was at the meeting as well, with instructions from Johnson to find a replacement for Canby Balderston. That was in early December and word leaked out in mid-December.

President Johnson's attitude toward the Federal Reserve was one he inherited from the Kennedy Administration. Following Walter Heller's guidance, President Kennedy initially wanted to encourage Chairman Martin to resign, so that he, Kennedy, could appoint a new Chairman. In 1960, during the campaign, Kennedy made a speech in New Jersey. A reporter asked him whether he planned to replace Chairman Martin as the head of the Federal Reserve. Kennedy said, "This is certainly a question we'll have to look into." That backfired. The press denounced the idea. Kennedy later said that it was a press misinterpretation.

So when Kennedy came into office, one of the first trips Walter Heller made, as chairman of the Council and advising and acting for Kennedy, was to see Chairman Martin. Within the first two or three weeks, Heller came to see Chairman Martin. He said that the President apologized, that it was a mistake, and he was looking forward to working with Chairman Martin.

But, fundamentally, the Kennedy Administration had decided that it would, at every opportunity given, appoint to the Federal Reserve Board someone who was more sympathetic to the Administration. George Mitchell was the first appointee, followed by Dewey Daane—those were Kennedy appointees. Sherman Maisel was Johnson's first appointee.

When Canby Balderston voted for the discount rate increase against the wishes of the Johnson Administration, Gardner Ackley, the chairman of the Council of Economic Advisers, advised Johnson to replace Canby. So when Ackley and Fowler came back from the meeting in Texas, their assignment was to find a replacement for Canby Balderston.

Nomination to the Board of Governors

MR. BRIMMER. My name figured into the mix very quickly. In July 1965, Gardner and I were coming back from a meeting in Europe. Harold Wilson had been elected Prime Minister of Britain; the Labor Party had returned to power in 1964. Harold Wilson decided that he wanted to create an advisory system similar to what the United States had vis-à-vis economic policy so he created the Department of Economic Affairs. He appointed Eric Roll, a prominent economist in Britain, as the permanent secretary of the new Department of Economic Affairs. First he had talked to Kermit Gordon. Kermit Gordon was at Oxford with Harold Wilson. Kermit Gordon also was in the Kennedy and Johnson Administrations. So Eric Roll, on Harold Wilson's instruction, called Kermit Gordon and suggested a conference on the management of national economies. Kermit turned the matter over to Walter Heller. Heller had gone back to the University of Minnesota, but he was still advising President Johnson.

With Eric Roll, Walter Heller organized a conference on management of the national economies. I was invited to join the U.S. team. I had been invited because I was running the balance of payments—the capital controls piece—and Alexander Cairncross, who had written extensively on capital flows, suggested that I be invited. The rest of the team consisted of Walter Heller, Gardner Ackley, and William "Bill" Capron. Bill represented Kermit, who was at the Bureau of the Budget but had gone to the Brookings Institution already. Bill Capron was Kermit's substitute, and I was the other member. Harold Wilson attended most of the sessions, but it was really run by Eric Roll.

During the discussion of the balance of payments, Harold Wilson talked about his visit with President Johnson late in 1964. At that meeting, he mentioned to Johnson that the weakness in the pound depended upon the deficit vis-à-vis the United States. Johnson called in Walter

Heller, and Gardner Ackley came with him. The question of military spending arose. Also, Chairman Martin was called in to talk about balance of payments, the exchange rates, and so on. During that discussion— the details of that conversation are in the memoirs I am writing— Chairman Martin said to Harold Wilson and to Johnson something like, "On the balance of payments question, you need to do more." This was in November or thereabouts. The next February, Johnson launched the balance of payments program, which we talked about earlier.

In late June or early July 1965, during that conference on what should be done about the balance of payments, there had been a discussion that led to the question of what to do next. Harold Wilson said that, since Dr. Brimmer is doing such a good job in the Commerce Department managing that capital flow program and the Federal Reserve was doing such a poor job, maybe Dr. Brimmer ought to be sent to the Federal Reserve.

Gardner and I flew to Paris for the meeting of the Economic Policy Committee at the OECD (Organisation for Economic Co-operation and Development). Then we flew back to Washington together. During that trip, Gardner asked, "Andy, are you really going back to the University of Pennsylvania, Wharton School?" I was scheduled to go back because I'd had an extension of my leave in January 1965. That leave had been one of the conditions Johnson specified before I could be promoted. I said, "That's my intent." Gardner said, "Well, what do you think about going to the Federal Reserve?" I said, "For an economist interested in monetary policy, that's like asking a constitutional lawyer whether you want to go to the Supreme Court!" [Laughter] I said, "Going to the Federal Reserve is just that same thing." He said, "That's interesting. I'll keep that in mind." Sometime during the late summer–early fall 1965, long before the December 3 increase in the discount rate, Gardner mentioned to Johnson that I would be the candidate to go to the Federal Reserve at the next vacancy.

In December 1965, an article that appeared in the *New York Times* commented on my work in the Commerce Department.[22] That was in Gardner's mind when Gardner and Johnson met in Texas in early December. Gardner talked to President Johnson about that *New York Times* story. Johnson finally decided he wanted to appoint me.

Discussion with the Staff in the Johnson Administration

MR. BRIMMER. In mid-January, Walter Heller called me. He said he was in Washington, and Johnson had asked him to have a conversation with me. He said that Gardner had given Johnson a list of possible candidates to fill Canby's seat. He said that my name was on it and Johnson had a favorable opinion of me, but he wanted Walter's judgment. It was around January 21, 1966. Walter told me that Vice President Hubert Humphrey had recommended a businessman from Minnesota, and Bill Martin had endorsed that. He didn't tell me the name of the businessman. He said, "But Johnson is skeptical."

Heller wanted to know what I thought of the Federal Reserve's increase in the discount rate. I told Walter that I thought the rate increase was not only desirable, but necessary, and that inflation was clearly a problem, so action needed to be taken. Remember, I had written that memo in which I said inflation was going to be a problem. We talked at some length, and he said he would report that conversation.

In those days, the economists' national meeting was between Christmas and New Year's Day. And that year it was held in New York. When I arrived at the meeting, I ran into Walter Hoadley. Walter was the chief economist at the Armstrong Cork Co. There had been a story in a Philadelphia newspaper that there would probably be a change in the membership of the Federal Reserve Board because Canby Balderston, who was from Philadelphia, would not be

[22] Gerd Wilcke (1965), "Barnstormer for U.S. Payments Program," *New York Times,* December 5.

reappointed. The story indicated that the President was looking for a replacement from the third Federal Reserve District and that Walter Hoadley was the candidate. As it happened, Walter and I were in the registration line together at the economists' meeting. He said, "There's also a rumor that you're a candidate. I hope you get it." I said, "Walter, let's keep our fingers crossed that one of us gets it." That was followed by the interview with Walter Heller.

MR. SMALL. Did Walter Heller react when you said that the December 1965 increase in the discount rate was necessary?

MR. BRIMMER. Oh, yes, Walter reacted immediately. He said, "I agree. But, damn it, Andy, why couldn't those fellows wait and coordinate with the President?" That was Walter's view. And that was the view Walter held throughout.

Things drifted along until February 22, 1966. That date stands out because my wife and our four-year-old daughter had gone down to Williamsburg, Virginia, and discovered that one should not go to Williamsburg on George Washington's birthday. [Laughter] It was impossibly crowded, so we decided to come home. Maybe it was the 23rd when we came home.

Before we left Williamsburg, we picked up the *Washington Post.* While I was driving, my wife read the newspaper. She saw a story by Evans and Novak indicating that Bill Martin wanted Johnson to appoint a businessman to the Federal Reserve Board, but Johnson was opposed; he wanted to appoint me. Chairman Martin thought that there were three economists already on the Board, and the statutes contemplated more diversity, so what the Federal Reserve Board needed was a businessman, not another economist.[23]

[23] "While accepting Martin's private recommendation that the new Board member not be an economist, the President also has ruled out a commercial banker. What he wants is a moderately liberal businessman (though Assistant Secretary of Commerce Andrew Brimmer, who would be the Board's first Negro member, is under consideration)." Rowland Evans and Robert Novak (1966), "More Fed Medicine," Inside Report, *Washington Post*, February 22.

We got home, it was late in the afternoon, and it was a holiday. I was not home more than 15 or 20 minutes when the telephone rang. It was Joe Fowler, the Secretary of the Treasury. He said, "Andy, I've been calling you practically all afternoon." He said, "Gardner Ackley's here with me, and we have an assignment. The President has asked us to interview you. Have you seen the Evans and Novak article?" I said, "Yes, we read it on the way coming up from Williamsburg." He said, "Well, that made the President mad as hell. You know how he is. H doesn't like to have his business talked about in the press before he makes a decision. It's clear that Bill Martin is the source of that story."

Discussion with President Johnson

MR. BRIMMER. Fowler said, "The President wants us to interview you. Can you come down? We'll just keep you about half an hour." So I went to the Treasury. I was there an hour and a half, and we talked.

Joe told me about Walter Heller's reports. Fowler said, "The President has a report, but he wants our views. He wants to know specifically what you think of that discount rate increase." I said, "As I told Walter, and I told Gardner, and I'll tell you: I think it was necessary, that inflation is the real problem." They said, "We've told the President that, but he wants to know, if you were there, how would you have voted?" I said, "Not knowing the total circumstances—I'm an outsider—but from what I've read in the press, I think I would have voted for it." Then Gardner intervened. He said, "I agree with you, but, boy, they should have waited to coordinate." That was their theme.

That was a Tuesday. On Wednesday, I worked. On Thursday, I got a call from Marvin Watson, the President's appointment secretary. This is late February. Marvin said, "Andy, the boss wants to see you. Drive yourself over. Don't ask one of the Commerce drivers to take you because the President wants to see you privately. I'll clear you to enter the Southwest Gate."

So I drove myself. I parked in the southwest parking lot between the White House and OMB (Office of Management and Budget), going into the West Wing door. Coming out were Joe Califano and Charlie Schultze. Charlie was in the Budget Bureau at the time. Joe said, "Andy, good luck!" I said, "Thanks!" Charlie said, "We're pulling for you!" [Laughter]

I got into the elevator. In those days, the elevator still had an operator. There was this very old black man operating the elevator. I'd seen him a number of times. I was going up to Marvin's office. The man closed the door, but before moving up, he turned to me, and said, "Dr. Brimmer, I understand you may be getting a very important appointment." I said, "You know how it is, all these rumors are going around." He said, "Good luck."

I went up to Marvin's office. Marvin said, "Andy, the boss wants to see us. He's over in the mansion." On the way over, Marvin said, "About 10 minutes." I said, "Fine." I expected to see Johnson in his study in the White House. Instead, the elevator stopped, and there was this Secret Service guy. Marvin said, "He's expecting us!" The guy whispered something to Marvin. Marvin said, "You'd better go see." The Secret Service guy came back, and he said, "Come on."

We walked straight into Johnson's bedroom. Johnson was in bed. He said, "Andy, come on in. I felt a little tired. I was taking a nap, but I want to talk to you. Sit down." I sat near the bed. Marvin sat by the door. President Johnson said, "You know I'm wrestling with this problem of the Federal Reserve. I know you've met with Joe Fowler and Gardner Ackley a few days ago. They gave me a full report, but I want to talk to you. I just think the Federal Reserve acted too rapidly. I wanted them to wait until they'd coordinated with me on the budget, but they acted anyway. But that's water under the dam, and so I'm going to have to do something."

Johnson said, "Martin wants a businessman. His name is Francis Atherton Bean III from Minnesota. He's a Republican, but the Vice President tells me he supports my program. Walter tells me he supports my program, but I just feel that I can't count on these Republicans." I said, "Well, I hear what you're saying." Then he talked at some length. I had never heard of Atherton Bean. Johnson said, "He is 55 years old. He is head of the International Milling Company [which later became International Multifoods Corporation]. He's been rich and prosperous all of his life, so he doesn't know about poor people and the needs of those who've been left out. I know you. I know what you've done, and I know you haven't forgotten where you came from and what it means to make your own way."

Johnson said, "I've worked hard for civil rights and voting rights. And if they put anything on my tombstone, it will be, 'He is the author of the Civil Rights Act of 1964.' " He said, "What I wish they would put on instead is, 'He is the author of the Voting Rights Act of 1965.' "

Johnson never learned to say "black." He always said "colored" or "Negro." That day he was using "colored." He said, "If the coloreds make use of that Voting Rights Act, they'll vote all of the Dixiecrats out." [Laughter] "That's when they'll really exercise their voting rights and become full citizens." He said, "I'm committed to creating opportunities so that they can do that." Then he said, "If I end up appointing you to the Federal Reserve, that's going to be a real breakthrough. That's what I want to achieve: breakthroughs in areas where the coloreds have not been represented. I appointed Bob Weaver to be the first colored man in the cabinet. I did it by taking advantage of opportunities." Then he told me a fascinating story that President

Kennedy wanted to appoint Bob Weaver to the Cabinet. A reference to that story appeared in November 1965 in the *New York Times.*[24]

Here is the story Gardner Ackley took with him to Texas. I mentioned that earlier in the interview.

MR. SMALL. It says, "Barnstormer for U.S. Payments Program Andrew F. Brimmer, U.S. Aide, Selling Plan to Business," by Gerd Wilcke.

MR. BRIMMER. Yes. This is the activity that Walter Heller was describing to Harold Wilson. It was on the basis of that story that Gardner sounded me out about coming to the Federal Reserve. When Heller was called down to the ranch, he had it with him.

I also have the original copy of an editorial cartoon from the *Pittsburgh Courier* that hangs on my office wall.

MR. SMALL. It is called "Another Masterpiece by the Great Sculptor" and shows caricatures of you, Weaver, and Thurgood Marshall, indicating that the advancement of the three of you was a great achievement by Johnson.

MR. BRIMMER. That's right. That's what Johnson told me when he was in his bedroom. He told me that if he appoints me to the Federal Reserve, that would represent a breakthrough, because, in his language, he wants to create opportunities for coloreds in areas where they had not had opportunities to serve before.

He told me that he decided to appoint Bob Weaver as the Secretary of Housing and Urban Development. He said Kennedy had wanted to create a Department of Housing and Urban Affairs. Kennedy announced it and sent the bill to the Congress. A reporter asked him,

[24] "When President Kennedy proposed the establishment of an urban affairs department in 1961, he made it clear that Mr. Weaver would be his nominee for Secretary. This apparently contributed to congressional resistance, particularly among Southerners, to approval of Mr. Kennedy's proposal." Ben A. Franklin (1965), "Weaver Would Like to Head New Cabinet Unit," *New York Times,* November 8.

"If the Congress creates that department, would you appoint Dr. Weaver the Secretary?" Kennedy said, "Yes." Johnson said that was the death knell.—the bill was dead on arrival. He said it was dead because of the Southern Senate Democrats. The senator from Georgia killed it. He chaired the Agriculture Committee at the time, and he was also on the Appropriations Committee. But he was Johnson's sponsor. He really promoted Johnson. Johnson said he decided to call him up. He said, "Senator, I would like to come up and see you."

MR. SMALL. This is when Johnson was President?

MR. BRIMMER. That's right.

MR. SMALL. He went to see this senator on the Hill?

MR. BRIMMER. That's right. The senator said, "Mr. President, I'll come up and see you." President Johnson said, "No, Senator, I want to come and see you." So Johnson visited him and told the Senator, "I think it's time for us to do for the cities what we did in agriculture." That is why he was seeing this senator, in addition to the fact that he really was Johnson's mentor and the most powerful Southern senator. He said, "President Kennedy wanted this social plan. I don't want any of that. What I want is a good solid department that's going to help us do for the cities what we did for agriculture: investment, technical assistance, and so on. So I want you to create a Department of Housing and Urban Development." The senator said, "That's an interesting idea, but are you going to appoint that colored man to be secretary?" Johnson said, "What colored man? You mean Dr. Weaver? I haven't given a moment's thought to who would head the department. I've been devoting all of my time to working out the concept and trying to figure out how we should do this." He said the senator leaned over to him and said, "Lyndon, are you lying to me?" Johnson stood up and said, "Senator, would I lie to you?" He said that, and the senator said, "I see." He passed the word: Let this one through. That's how the department was created and how Weaver was named.

This was February 24, 1966. Johnson said he had already decided that he was going to appoint Thurgood Marshall to the U.S. Supreme Court. By that time, Thurgood was on the U.S. Court of Appeals (2d Circuit) in New York. Johnson said he decided that if he sent Marshall's name to the Senate, it wouldn't see him as Judge Marshall, it would see him as the NAACP's lawyer, because for many years he had been head of the NAACP's Legal Education Fund. Johnson said he decided to make him "my lawyer," the Solicitor General. He said, "But I have a problem." He said the job was already held by Archibald Cox from Harvard Law School who had been appointed by Kennedy.

Johnson said he decided to call Cox. It was a Saturday in the spring. He said, "Just a few days ago, Lady Bird and I were talking, and we were saying that I bet you and your wife miss Cambridge this time of the year." [Laughter] The Solicitor General said, "Mr. President, a few days ago, my wife and I were just thinking how much we miss Cambridge this time of the year." [Laughter] Johnson sat up in bed, slapped his thigh, and said, "What do you think of that!" That's how he got him to resign so Thurgood could be made Solicitor General.

By this time, we had already been visiting 20 to 25 minutes. I ended up spending 35 minutes with Johnson, in his bed. Then he said to me, "Andy, I'm going to have to finish and make this decision within the next week or 10 days. So if you leave town, let Marvin know where I can reach you in case I need to have another conversation with you." Then he turned to Marvin, his appointment secretary, and said, "Marvin, I want you to call up Chairman Martin and tell him I'm sending Dr. Brimmer over to see him, and I hope he can see him and visit with him." Then he turned to me and said, "Andy, go on over and talk to Bill Martin. But let Marvin know where I can reach you if I need to see you again. Now I'm going to try to get a nap."

I walked out.

Within an hour I was over at the Federal Reserve building here talking to Bill Martin. That's when Bill read to me from the letter he had sent Johnson. The letter read as follows:

> As to Andrew Brimmer, my only objection would be to the appointment at this time of another economist, when already each of the last three new appointees in succession has been an economist, and appointment now of a fourth would mean constitution of a majority of the Board from the membership of a single profession. To the public criticism that could be anticipated on the ground of imbalance of that character—criticism almost sure to be compounded if the new appointee also is drawn from the ranks of the Administration—there would undoubtedly be added, as I am persuaded by complaints I have endured on earlier occasions, criticism that you had ignored the provision of the law, in Section 10 of the Federal Reserve Act, that "In selecting the members of the Board . . . the President shall have due regard to a fair representation of the financial, agricultural, industrial, and commercial interests . . . of the country." The consequence of this, I fear, would be the creation of widespread doubts within and without the System that would damage confidence and gravely impair the ability of the Federal Reserve to carry out functions of vital importance to the economy and the government alike.
>
> Let me add, emphatically, that the objection I have set out does not extend to Andy Brimmer personally: In his work as an economist on the research staff of the Federal Reserve Bank of New York in the 1955–58 period, before he went on to become an assistant professor of economics at Michigan State University and more recently the University of Pennsylvania, he performed with considerable credit to himself; indeed I should be most pleased to have his services as an economist again today, if that were possible, in a top position on our staff. Furthermore, I expect that, as he gains added stature from his work as Assistant Secretary of Commerce that could carry him to still greater responsibilities, he may at some later time—especially as he is only 39 years old now—become universally recognized as indisputably qualified for appointment to the Reserve Board or an even higher post.
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> In considering the appointment of a successor to Governor Balderston, however, the question that presents itself to you is an immediate one: Who, in the list of his present qualifications, is the best man that can possibly be obtained for service on the Board of Governors of the Federal Reserve System, in the light of its need for men of ability, integrity, and a diversity of experience?
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> To me, it seems highly unlikely that there can be found a better qualified man than Atherton Bean.[25]

[25] Chairman William McChesney Martin, Jr. (1966), letter to President Lyndon B. Johnson, February 2.

He didn't read the latter part of the letter to me. He read to me only those parts relating to me. Then he concludes with his thoughts about Atherton Bean, and he thanks the President for his time. After reading the parts of the letter pertaining to me, Martin said, "Now, this is not only the President's authority, but his obligation to appoint the members of the Federal Reserve Board. And if he chooses to appoint you, I will welcome you and look forward to serving with you."

Making the Rounds on The Hill

MR. BRIMMER. That was Thursday. Friday, I worked in Commerce. Saturday, I went shopping with my wife and daughter. We got home about 1:15. The telephone was ringing. It was Hobart Rowen of the *Washington Post.* Bart said, "Andy, Congratulations." I said, "On what, Bart?" He said, "You have been appointed to the Federal Reserve Board." I said, "Bart, as I told you, as far as I'm concerned, the Evans and Novak story is rumor." He said, "Andy, the President appointed you to the Federal Reserve Board an hour ago." [Laughter] I said, "What do you mean?" Then I remembered that Johnson had a press conference at noon. At the press conference, he announced my appointment. On my wall I have a copy of the front page of the Sunday *New York Times*. He announced my appointment during that press conference, which he held from 12:00 to 1:00, and it was embargoed until it was over. Frank Porter, the national economics correspondent for the *Washington Post,* rushed out, called Bart Rowen at the *Post,* and told him. Bart had my home telephone number, so Bart called me and kept the phone off the hook—so everybody else couldn't get through [laughter]—until I answered. That's how I learned that I had been appointed to the Federal Reserve Board. After I talked to Bart, the telephone continued to ring. The next call was from Ed Dale of the *New York Times*. I said to my wife, "Look, this is going to happen, so I'm going to my office."[26]

I went to my office. My secretary wasn't there, so I started to answer the telephone calls myself. After I'd been there 45 minutes to an hour, I heard a knock on my door. I went to open it, and there was a man who said, "Dr. Brimmer, I'm in the Bureau of International Commerce here at the Department of Commerce. I've been in town. I was going home over in Virginia. I was trying to cross the 14th Street Bridge, and I heard about your appointment. I said, 'I bet Dr. Brimmer is in his office, and he might need help.' " This man turned around, came through my office, and started answering my telephone until my secretary could come in. During the time he was answering the telephone for me, he came in and said, "Dr. Brimmer, Vice President Humphrey is on that line." [Laughter] I said, "Thank you," and picked up the telephone. Humphrey said, "My man, congratulations! The President has just told me that he has appointed you to the Federal Reserve! By God, this is the kind of progress we need!"

That was my appointment. Johnson sent my name to the Senate on Monday, February 28, 1966. I had my hearing on March 2, which was a Wednesday, and the committee reported my nomination to the Senate in the morning. On Thursday afternoon, the Senate approved me unanimously to my appointment.

I had an intervening experience. I had been committed to go to Toronto. Initially, the business balance of payments program did not extend to investments in Canada. We launched the program in January 1965, but, as the year wore on, we discovered that a number of U.S. businessmen were funding their Canadian subsidiaries that then in turn funded overseas. So we made Canada subject to the program. That was a bombshell, and I was the villain. The

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[26] Edwin L. Dale, Jr. (1966), "Johnson Appoints Negro Economist to Reserve Board," *New York Times,* February 26. Also see William Chapman (1966), "Brimmer Is Selected for Reserve Board," *Washington Post,* February 27.

American ambassador out of Canada insisted that I come up and explain things. So I was scheduled to address the Senate committee and go to the Toronto Bond Club to address investment bankers. It was a black tie dinner, and I was scheduled to appear for my hearing on Wednesday. I think that's the sequence. In any case, we chartered a military plane. There was something called MATS: Military Air Transport System. This was the Air Force's wing that flew government officials around. We chartered a plane. We flew up, and they stood by to bring me back. I walked into this dinner with a thousand faces, with black tie, without a smile in sight. I made my speech explaining what had happened and came back.

The congressional proceedings went forward. I went to see Absalom Willis Robertson, a Democratic Senator from Virginia. He was the chairman of the Senate Committee on Banking, Housing, and Urban Affairs (1959–1966). As a courtesy call, I went to see him first. He said, "Thanks for coming to see me. The President called and asked me to handle this, and I'm delighted to do so. I won't be able to be present, but Senator John Sparkman of Alabama is going to preside in my absence, so you should go around and introduce yourself to Senator Sparkman." [27] And I did.

I had met Senator Sparkman 16 years before, during my summer in Washington in that Student Government program. I had just gotten a B.A. from the University of Washington. One of our guests was John Sparkman of Alabama. In the summer of 1950, Truman's civil rights legislation was still being opposed in the Congress, primarily by Southern Democrats. So I asked Sparkman, "Explain yourself, why you are not supporting the Civil Rights Act." We went

[27] Absolom Willis Robertson was elected to the U.S. Senate in 1946 to complete the final two years of Senator Carter Glass's term and won three subsequent elections to the U.S. Senate. John Sparkman served in the U.S. House of Representatives (1937–46) and the U.S. Senate (1946–79). In 1956, Senators Robertson and Sparkman were 2 of 19 senators to sign the Southern Manifesto opposing the 1954 U.S. Supreme Court decision Brown v. Board of Education.

back and forth. I said, “You’re a New Deal, Fair Deal Democrat.” He said, “What would you have me do? Didn’t I get things you approved?” And he mentioned several other pieces of legislation that helped blacks and that he had supported. He said, “Now, you’ve got a choice. If I voted for the Civil Rights Act, I would be defeated, and I wouldn’t be here to do these other things that you support. So my solution was to be absent. If you go back and look, I didn’t vote against the Civil Rights Act because I wasn’t there. That was a type of a tactic. In this business you have to compromise. That was my compromise.” I said, “I see.”

So when I went to see John Sparkman 16 years later, he said, “I’m delighted to see you.” His staff had been briefed—my Commerce staff had briefed his staff. He said, “My staff tells me that you and I met in 1950.” I said, “Yes,” and I told him what we’d talked about. I said, “Senator, I’m glad you behaved the way you did.” He said, “No problem, we’re all for you. This is going very smoothly. Senator Douglas of Illinois has called me. He’s worked with you when you were in the Commerce Department and he said he had a few questions. He wanted me to know he had a few questions for you.” I said, “Fine.” He said, “So you’ll go see Senator Douglas.”[28]

I went to see Senator Douglas, and he said, “Andy, I did tell the Senator I had a few questions, but I want to make a speech.” [Laughter] “I wanted to tell him what a fine economist you are and how we’ve worked together on your balance of payments in the Commerce Department. I don’t have any real questions, but you need to go see Senator Proxmire.”[29] [Laughter]

I went to see Bill Proxmire, whom I’d met but didn’t know as well as I knew Douglas. He said, “Andy, I don’t have any questions, but I think the Federal Reserve is not only behaving

[28] Paul Howard Douglas served in the U.S. Senate from Illinois from 1949 to 1967.
[29] William Proxmire served in the U.S. Senate from Wisconsin from 1957 to 1989.

irresponsibly, they're a real danger to the economy. So I'm going to ask questions, but I really will be making statements that are messages intended for Bill Martin." And that's exactly what happened. I had a field day, and my hearing was only sunshine—except for Proxmire, who did exactly what he said. He ignored me and spoke to the Federal Reserve Board. [Laughter]

MR. SMALL. In your go-rounds with senators, was being an African American a factor?

MR. BRIMMER. Oh, no, no. The only question relating to African Americans involved Sparkman and going back to our discussion about the 1948 civil rights bill. By that time already, there was no need to prove oneself in this context.

By the way, I wrote of Bill Martin shortly after he died. It was published by the Federal Reserve Bank of Minneapolis.[30] Some people have asked me, "Why did you write such a favorable view of Bill, since he opposed your appointment to the Federal Reserve?" "Was Bill Martin a racist?" I said, "Of course not. Bill's view was, they already had three economists who were members of the Federal Reserve Board, and I would be the fourth member. He thought it was time for business to be represented. After Bill died, I called to the attention of several of my friends the article I wrote about Bill Martin. I said, that was my real view of Bill, and I think it's an accurate description of Bill.

Congressman Wright Patman was one of my strongest supporters.

MR. SMALL. One might think that a relationship between the two of you wouldn't go well, you being from the liberal side of the Democratic Party and Patman from the conservative side.

[30] Andrew F. Brimmer (1998), "Remembering William McChesney Martin, Jr.," Federal Reserve Bank of Minneapolis, *Banking and Policy Issues Magazine*, September.

Story of Brimmer Nomination from President Johnson's Triumph and Tragedy *Book*

MR. BRIMMER. It was quite the contrary. There are several stories about my appointment to the Federal Reserve Board. Here is Joe Califano's account from pages 108–11.

MR. SMALL. From his book *Triumph and Tragedy of Lyndon Johnson*.

MR. BRIMMER. (Reading from the book)

> On Friday, December 3 [1965], at Martin's urging, the Federal Reserve Board voted 4 to 3 to raise the discount rate. Acknowledging the legal independence of the Fed, Johnson "particularly regretted" that the board's action was taken before his budget and legislative program were known. He expressed concern that the cost of credit would rise for "homes, schools, hospitals, and factories," and promised to "do my best to give the American people the . . . well-integrated economic policy to which they are entitled."
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> While the President's view was moderately expressed, he was quite angry with Martin and incited key Democratic legislators to attack him. From his ranch, Johnson burned up the wires to Washington, asking one member of Congress after another, "How can I run the country and the government if I have to read on a news-service ticker that Bill Martin is going to run his own economy?" Senator William Proxmire (D-Wisc.) called for hearings "to determine what action must be taken to prevent this creature of Congress from endangering the nation's prosperity and from doing so in defiance of the President of the United States." Goaded by Johnson, fellow Texan Wright Patman, Chairman of the House Banking and Joint Economic committees, excoriated Martin for "thumb[ing] his nose at the President, the Congress, and the American people." He attacked the "folly of allowing a handful of banker-dominated members of the Federal Reserve to dictate the economic future of the country."
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> On Monday, December 6, I flew down to the ranch with Martin, Fowler, and Ackley. Sitting on the lawn in front of the ranch house, LBJ at first probed for any way of turning Martin around. He quickly saw that there was none. Nevertheless, the President was charming and in a teasing mood during the meeting, at lunch, and for much of the afternoon. As a result, the meeting and the later press conference were superficially amicable. [Footnote omitted]
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> But Johnson made sure hearings were held in Congress, and he urged Proxmire, Patman, and others to keep the heat on the Fed. Most important, he replaced C. Canby Balderston (whose term expired January 31, 1966), one of Martin's majority votes on the Fed Board.
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> The replacement of Balderson was delicate for LBJ. Martin was threatening to resign if Johnson put another liberal on the board. As *New York Times* economic reporter Eileen Shanahan wrote at the time, "Martin has long been telling all who talk with him that he would resign if he ever found himself consistently in the minority."

Johnson's two prior appointments, James Robertson in 1964 and Sherman Maisel in 1965, had voted against the rate hike.[31] Johnson now wanted to tilt the balance of power against Martin, but he didn't want Martin to quit. Having an establishment Republican banker as chairman would be an enormous asset in the days ahead, especially if Johnson could hold him in check with a "low-interest-rate man."

Martin suggested that Johnson appoint Atherton Bean, a Minneapolis businessman serving on the board of a District Federal Reserve Bank. Martin tried to sell Bean to the President in an evening meeting on February 1, 1966. He called him "too fine a man for anyone to think of him as my man, or yours." [Footnote omitted] But Johnson was taking no chances. The President had in mind a liberal, Andrew Brimmer, an Assistant Secretary of Commerce at the time. He knew Martin could not leave the Board over Brimmer's appointment—because he was black—even if the balance of power might shift against him. Moreover, with Brimmer, Johnson would become the first President to name a black to the Federal Reserve Board.

When Johnson suggested Brimmer to Martin, the Chairman complained that he was too young, and would be the fourth economist on the board and that was too many. [Footnote omitted] But LBJ knew he had Martin.

LBJ also wanted to be sure he had Brimmer. On the brink of announcing the nomination, Johnson became concerned about whether Brimmer shared his sense of the overriding importance of low interest rates. The President asked if I was "absolutely certain that Andrew Brimmer will vote to hold interest rates down," or whether someone as brilliant and persuasive as Martin would overwhelm the young economist.

"Has he gotten so involved with big business in the Commerce Department that he's forgotten what it's like to be a Negro?" Johnson asked.

"I think Brimmer favors low interest rates. That's what Gardner Ackley tells me," I replied.

The President shot back, "*Thinking so* is not good enough. I want you to *know so.* Brimmer doesn't go on the board until we *know*."

I called Ackley and others who knew Brimmer well professionally. Brimmer was reluctant to talk to them about what his policies would be once he became a member of the Fed. I made it clear to the economists that if Brimmer considered it inappropriate to discuss his views on these subjects the President might consider it inappropriate to put him on the board.

I reminded Ackley of LBJ's distinction between thinking and knowing. The first time I told the President I thought I had a congressman's vote on a bill, he snapped, "Don't ever *think* about those things. Know, know, *know*! You've got to *know*

[31] Editor's note: James L. Robertson was appointed to the Board of Governors of the Federal Reserve on February 18, 1952, and was reappointed in 1964.

> you've got him, and there's only one way you know." He raised his right hand and closed his fingers in the form of a fist. He looked at his right hand and said, "And that's when you've got his pecker right here." Johnson then opened his desk drawer, opened his fist as though he were dropping something, slammed the desk drawer closed, and smiled. [Footnote omitted]
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> The President had a private talk with Brimmer. He concluded, as he later told me, "Andy Brimmer hasn't forgotten what it's like to be a Negro, to be a small farmer, to be a candy-store owner, to be a corner druggist, who needs to borrow money to keep his business going without paying exorbitant interest to the New York bankers."
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> The President had one more call to make. Russell Long of Louisiana chaired the Senate Finance Committee, which would have a lot to say about how the Senate would handle the Brimmer nomination. Long had a favorite white candidate from his home state. When Johnson told Long he intended to nominate Brimmer, Long demanded, "What the hell am I going to tell the people in my state?" "Tell them he's from Louisiana," LBJ replied. [Footnote omitted]
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> Brimmer's swearing-in, after swift Senate confirmation, had a sweet touch from Johnson. At his suggestion, Brimmer asked Federal Reserve Chairman Bill Martin to administer the oath of office. [Footnote omitted][32]

That's a long, detailed story, but it is worth noting.

MR. SMALL. You talked about your nomination to the Board and about meeting with President Johnson in his bedroom at the White House.

MR. BRIMMER. Louis "Louie" Martin tells the best story, and Wright Patman told me a version. Louie Martin was a newspaper man. His parents were from the West Indies. His national identity started when he was editor of the *Atlanta Daily World*, the black newspaper in Atlanta. Later, he became editor of the *Michigan Chronicle*, the black newspaper in Detroit. The granddaddy of them all was the *Pittsburgh Courier*. Louie ended up being an adviser to Bobby Kennedy. Bobby introduced him to President Kennedy, and Louie Martin brought many of the black appointees into the Kennedy Administration.

[32] Joseph A. Califano (1991), *The Triumph and Tragedy of Lyndon Johnson: The White House Years* (New York: Simon and Schuster), pp. 108−11.

During the campaign, approaching the election in 1960, and as I understand it, Louie Martin suggested to Bobby Kennedy that Jack Kennedy call Martin Luther King, who was then in the Birmingham jail for his involvement in a sit-in to be served at a restaurant. Louie never held a government job. He was the "gray eminence." Johnson continued that relationship. In fact, he even made it stronger.

Louie Martin told me another version of a Russell Long story, and it went this way: Wright Patman was concerned about tight money. I testified on the balance of payments before the House banking committee. That's where Patman got to know me, so he told Johnson appointing me was a splendid idea. Then Johnson had Russell Long in and told him that he was thinking of appointing me. Jack Valenti was the press secretary in those days. Johnson called Jack Valenti to the Oval Office. Johnson said, "Give me the file that you have on Dr. Brimmer." Jack ran out and brought back the file. Johnson said, "Isn't there a picture of Dr. Brimmer someplace?" Then he said to Russell Long, "I appointed Dr. Brimmer assistant secretary, and you voted for him. This is Dr. Brimmer." Russell said, "Oh, my God, he is a Negro. What am I going to tell my people back home?" [Laughter] Johnson said, "Russell, you tell your white voters down there that you couldn't get a white man appointed, but you got a black one from Louisiana." [Laughter] I was born in Louisiana.

That's the story of which Joe Califano gave the short version. Both Patman and Louie Martin gave the long version. There are a number of vignettes like that.

August 1, 2007 (Third Day of Interview)

MR. SMALL. We are conducting our third interview with Andrew F. Brimmer, former Governor of the Board. Thank you for returning.

The Fed, the Administration, and the Congress

MR. BRIMMER. Glad to come back.

MR. SMALL. When we left off our earlier interview, we had covered your interactions with the Johnson Administration staff and with President Johnson himself and how you came to be selected as a nominee as a Federal Reserve Board Governor. So I thought we'd move ahead to your arrival at the Board. Coming over from the Administration, what did you think about the Fed, the Congress, and the Administration? How did they work together?

MR. BRIMMER. I arrived at the Board convinced that the action by the Board to raise the discount rate in early December 1965 was justified. When I was actually appointed to the Board, it was in turmoil. As an aftermath of the discount rate increase, the Board was split 4–3. But the tensions didn't stop there. As a result of the discount rate increase, the Congress had a series of hearings in which all Board members—not just the Chairman—were invited to testify. That included Sherman Maisel, one of the Board members who had voted against the discount rate increase. His explanation had been to wait to coordinate with the Administration's policy. Sherman was asked, "To what extent does the Board coordinate with the Administration?" Sherman said, "I've never had a meeting with anybody in the Administration as a Board member." He was asked, "Why is that?" He said, "No Board members meet with the Treasury or the CEA."

That was true. When he came from Treasury to the Federal Reserve, Bill Martin established a practice that he would meet once a week with the Secretary of the Treasury to review matters. That was an aftermath of the Treasury–Federal Reserve Accord to smooth relations with John Snyder. At those meetings, the Federal Reserve Board Chairman would review monetary policy. He met only with the Secretary. The Federal Reserve Board Chairman and the Secretary of the Treasury had lunch together. No notes were taken. They reviewed the recent developments, especially on the international scene. The Chairman of the Federal Reserve never reported back to Board members about what went on in those meetings.

As a result of that comment by Sherman Maisel, Bill Martin suggested that the whole Board would have lunch with the whole Council of Economic Advisers. This is what I found when I got here. The Council would come once a month. In those days, the Board dining room was the Williamsburg Room. The Blue Room was the Board guest dining room. Only the Board members had lunch in the Williamsburg Room, but when the Council would come, we would all meet in the Blue Room if we wanted to do so. There we would exchange views vis-à-vis the current state and prospects for the economy. We would talk about the present posture of monetary policy. But there was never any hint of where we were going, what we were planning to do.

There was one exception to that. Dewey Daane served as the Chairman's alternate during the meetings in Basel—the Bank for International Settlements. Dewey was more tied in with Treasury activities. He had come from Treasury and he worked on debt management issues. There was a meeting at the officer level in Treasury. Paul Volcker as undersecretary for monetary affairs would come. Dewey would join there, and they would talk about technical matters—debt management issues.

Following the episode that I described earlier, Board members were increasingly invited to testify before the Congress on particular matters, but never on monetary policy. Typically, they would comment on operational questions, usually before the banking committees. When I came, I got involved as much in operational questions as in monetary policy questions.

MR. SMALL. In those lunches with the Treasury, did you run across or meet with Paul Volcker?

MR. BRIMMER. There were never any Board member meetings with Treasury, even at the staff level, except for Dewey Daane. Dewey met with Volcker because Volcker headed the Treasury's staff. It was under the umbrella of debt management. We met with the Council of Economic Advisers.

Working on Federal Reserve Infrastructure

Nonpar Banking

MR. BRIMMER. In one of my first speeches, I talked about nonpar banking, not monetary policy. It was in June 1966. Now, what was nonpar banking? There was a practice before the Federal Reserve Act was passed whereby banks would discount a check. If a customer of a bank presented a check—and this was typically a business check rather than an individual personal check—and the writer of the check did not have an account with that bank, the bank would charge a small fee for cashing that check, and that was called nonpar banking. It was rampant, especially in the West. The Federal Reserve Act outlawed that for national banks. This was an attempt to have a common check-clearing system. Some state banks, however, continued that practice. Over time, state banks abandoned the practice, except in Minnesota.

Hugh Galusha, who was president of the Federal Reserve Bank of Minneapolis, had been trying to get the states to abolish the practice. They resisted, because for banks this was a source of revenue. Hugh asked me to speak to the Minnesota Bankers Association on this problem of nonpar banking. First, I had to learn something about nonpar banking. I made a speech at that year's annual meeting of the State Bankers Association in which I gave the history and denounced the practice. It was widely covered. The day after the speech, at the next legislative session, Minnesota abolished the practice.[33]

Check Clearing and American Express

MR. BRIMMER. Another incident happened because there was some review of check clearings in the New York Federal Reserve Bank. I noticed in a staff paper that American Express was clearing checks. I asked, "What is this?" American Express is not a bank. It's a New York State investment company. They had what was called credit balances, and they would write drafts. Those started off as batched off through traveler's checks. In any case, these drafts were being cleared as though they were member bank checks. So I said, "Maybe the New York Fed ought to charge them a fee. The staff said they are not a member bank." Bill Martin said, "That's a very interesting question. It hasn't been raised before." I said to the staff, "Ask the New York Fed to look into this."

Five days precisely after that meeting, I got a call from American Express. They wanted to send their vice president down to explain all of this to me. I declined and said, "No, this is being handled by the New York Fed." I would get its report, and I would consider the report along with the rest of the Board.

[The] staff ended up putting in a lot of time and effort. We discussed it at the Board, and it was agreed that this was an anomaly. Bill Martin had a compromise resolution, but the cost of disruption would be great and the benefits would be minor. So American Express continued to have its checks cleared.

[33] Andrew F. Brimmer (1966), "Reserve Requirements, Nonpar Banks, and Membership in the Federal Reserve System," speech delivered at the 76th Annual Convention of the Minnesota Bankers Association, June 8.

Those were some examples of my getting involved in operations in my early days.

Puerto Rico and Currency Circulation

MR. SMALL. Are there other areas of what we might call Fed or System "structure" that you got involved in early on?

MR. BRIMMER. Yes. Since Puerto Rico became a U.S. territory, the dollar replaced the peso. Citibank had a branch there. The Treasury stocked the currency depot, so the Federal Reserve Bank of New York didn't ship the notes. Citibank got the notes and handled the circulation. Joe Fowler, in one of those weekly lunches, said to Bill Martin, "That's a waste. There's no reason for Treasury to be doing that. The Federal Reserve ought to take it over."

Bill Martin came back and mentioned that, and I asked a few questions about it because this was intriguing. Treasury was now issuing currency in circulation on the part of the Fed. Bill asked me to look into that. This was in 1969. I took a staff person with me to Puerto Rico. I ended up watching Neil Armstrong land on the moon while I was in Puerto Rico; I listened to the account in Spanish. We ended up taking over that operation.

Establishing the Federal Reserve Branch in Miami—Coining Operations

MR. BRIMMER. Another operational matter in Florida involved check clearing. The Atlanta Fed had a branch in Jacksonville. The bulk of the banking business and clearing was in south Florida, some 300 miles away. A bank, originally Florida National Bank, ended up operating a check clearing system. Frank Smathers—the brother of the senator from Florida—had a bank in Miami Beach. The Miami bank officials complained that Florida National spied by handling the checks, and that there was a competitive disadvantage. By this time, Arthur Burns was the Fed Chairman. Partly because of my earlier Puerto Rican experience, Arthur asked me to look into the matter. I took a staff person with me, and we spent four days in

Florida looking into the matter. I ended up recommending that we establish an office in Miami. That became the Miami Branch of the Federal Reserve Bank of Atlanta.

I also ended up with some oversight over the Federal Reserve coining operations. The Federal Reserve Banks were the distribution system for coins as well as for notes. We had a problem because there was a shortage of copper. Pennies were disappearing because they were being melted down. I worked with Robert A. Wallace. He was the assistant secretary of the Treasury with oversight over the printing office as well as the mints and the coins. Then the copper shortage disappeared, and, thus, the demand for coins as copper disappeared.
Those were some of the operational questions I dealt with.

Minority Representative at the Board

MR. SMALL. When you arrived, being the first African American member of the Board, what were your views of minorities at the Board—how they were treated, advanced. How did that culture work?

MR. BRIMMER. First, it never crossed my mind. I had come from the Commerce Department, but also I'd come from Harvard. When I came in March 1966, four or five of the seven members of the Federal Reserve Board had Harvard degrees. Bill Martin had an honorary Harvard degree. Governor Robertson had a degree from the Harvard Law School. Dewey Daane had a degree from what is now the Kennedy School at Harvard, a joint degree in political economy and government. Sherman Maisel had undergraduate and graduate degrees from Harvard.

When I came, I made the fourth economist on the Board. Remember, in the letter that I shared with you, Bill Martin had argued that he needed a businessman. The staff was pleased that another economist was coming. I didn't come as a black economist. I came as an economist. The press made a lot of my being African American. That was not an issue at the Federal Reserve. It didn't arise.

I came working on monetary policy, especially the balance of payments, and that's how I was seen. I had gotten involved in questions of government policy and race, as I mentioned, through Commerce. I didn't acquire that interest here. I mentioned to you my appointment and Kennedy's role. Lyndon Johnson said he appointed me not because I was black but because he was convinced, based on my performance, my work on the balance of payments, and so on, that I was the right man.

President Johnson's remarks at my swearing-in on March 9, 1966, are published in a March *Federal Reserve Bulletin.* You ought to look at that because of the flavor of the speech—and the flavor of the exchange with Martin is reflected. Even when I was at the Department of Commerce, President Johnson asked me to take on a number of assignments that were reflective of his interest in economic advancement. I told you the story about my appointment compared with Thurgood Marshall and so on.

The Watts riots occurred in the summer of 1965. Johnson decided to send a team to go out. I was on vacation with my wife and daughter at Niagara Falls. Joe Califano called, saying, "Andy, we've been chasing you all over the Midwest, all over Michigan. We finally caught up with you. The boss wants you to come home." I said, "Joe, what's up?" He said, "He's appointing a task force chaired by William Ramsey Clark," who was deputy attorney general [from 1965 to 1967]. He said, "Jack Conway wants you to serve on it." Jack T. Conway was director of the Office of Economic Opportunity—the antipoverty program. I was assistant secretary of commerce. Califano said, "He wants you guys to go out and look into the matter.

There's going to be a meeting in the White House tomorrow afternoon." This is late in the afternoon. He said, "At 2:00, the President's going to speak to you guys."

So we drove back. There were no north–south interstates in those days, but I got there in time. The Vice President came on, greeted us, and said, "The President has asked me to take responsibility for coordinating federal efforts vis-à-vis the unrest. But the President himself wants to speak to you fellows." We were meeting in the Old Executive Office Building. The President was in the White House. He got on the phone and said, "Ramsey, Jack, Andy, I want you fellows to go out there and clean up that mess."

That was our assignment. Why did Johnson put me on that? Not because I was an expert, but because he needed to have a task force that he was convinced would—let's put it bluntly—look good. He was looking to Ramsey Clark for the substance. Jack Conway was there because he directed the poverty program. And I was there as an adviser to Lyndon Johnson.

Ramsey, who was deputy attorney general, flew to Sacramento. Edmund G. "Pat" Brown was governor. Jack and I flew directly to Los Angeles. Samuel "Sam" Yorty was mayor [from 1961 to 1973]. It was agreed that we would meet after Ramsey got into town. The FBI was our support. We arrived, and Ramsey had told us, "We will go in the mayor's private entrance." We took the elevator up to Sam Yorty's office. We were introduced. Ramsey presented Jack and me. Sam Yorty shook Jack's hand. He shook my hand and then looked at his hand and wiped it on his pants. That was Sam Yorty. So Sam Yorty introduced race into the matter. But my experience vis-à-vis race at the Federal Reserve never arose.

MR. SMALL. When you came and you saw the culture of the Board and women and African Americans, did you have a sense relative to the times that the Board was ahead of the curve, behind the curve?

MR. BRIMMER. It didn't arise. The Administration had put great emphasis on affirmative action—especially under Lyndon Johnson. When Kennedy was in the White House, every major agency, not just departments, reestablished what had happened initially under Roosevelt. Have you ever heard of the Black Kitchen Cabinet under Roosevelt? Eleanor Roosevelt, who was very close to the leaders of the NAACP even before the Marian Anderson incident, pressed her husband to bring Negroes—as they were called in those days—into the government.[34] She herself brought in Mary McLeod Bethune as her adviser.

Under Harold Ickes's leadership, who was Secretary of the Interior, advisers on Negro affairs were appointed. Most of them were white. William H. Hastie was one. Later he became a federal judge. Bob Weaver, an African American, was an adviser at a very young age. Those people continued to serve under Truman. Eisenhower, who succeeded Truman, dropped the practice, but he ended up with a person in the White House who was given a title of deputy special assistant or something like that.

When Kennedy became President, following Eisenhower, Kennedy made a special point of appointing African Americans. Louis Martin was a newspaperman from Detroit; he edited the *Chronicle*. Louis advised Bobby Kennedy, who advised his brother, to make a call during Martin Luther King's famous imprisonment in Alabama. That call secured the black vote for Kennedy in 1960. Following Louis Martin's guidance, Kennedy appointed blacks in some roles.

[34] In 1939, the Daughters of the American Revolution (DAR) refused permission for Anderson to sing at Constitution Hall. In reaction to that, with the aid of Eleanor and Franklin Roosevelt, Marian Anderson performed at a concert at the Lincoln Memorial before a crowd of over 75,000 people and a radio audience.

Lyndon Johnson continued that. Lyndon Johnson made Hobart Taylor his executive director for the Committee on Equal Employment Opportunity. That was the Administration. But that kind of energy, that perspective didn't spill over.

MR. SMALL. Did Bill Martin put that type of energy into minority hirings at the Fed?

MR. BRIMMER. No. The Federal Reserve Board did not have a labor relations apparatus until later. And neither did the Federal Reserve Banks. At George Mitchell's suggestion, the Board brought in Sam Pierce to design a labor relations system. He was a lawyer in a famous New York law firm. That was the first outing in "human relations." Later, the Board brought in Bill Layton, its first adviser on affirmative action. Bill Layton and Bob Holland handled that, because while he was still on the staff, I think, Bob was secretary to the Board.

In those days, under Bill Martin, we had what was called the personnel administrator or something like that. It's now the human relations function. The person in charge of that function was old-line traditional. I think Sherman Maisel suggested to him that we needed to have an adviser on affirmative action, but he resisted. Bob Holland then took over and worked it out and Bill Layton came in. That was the first conscious effort by the Board to emphasize diversifying the staff.

One project I undertook, late in my tenure here, dealt with diversity and the Reserve Bank boards, and I ended up writing an article in the *Federal Reserve Bulletin* on diversity. It was called "Characteristics of Federal Reserve Bank Directors." It's in the June 1972 issue. What I found, of course, was that the typical Reserve Bank director was a white male. Class A directors were bankers elected by bankers. Class B directors were nonbankers elected by bankers; the typical Class B director was a businessman. Class C directors were selected by the chairman of the local board. And those Class C directors were appointed by the Federal Reserve Board. Class C directors typically were academics and so on. No trade union people, no blacks, and no women were on any of the Reserve Bank boards. So my speech, and later my article, generated a lot of introspection inside, because the word got out to the Chairman. Bill Martin would meet with Reserve Bank presidents from time to time. He passed the word that this didn't reflect well on the System.

MR. SMALL. Part of Bill Martin's legacy is building the System. One aspect of that is whether or not he was active in the affirmative action part.

MR. BRIMMER. He was not in the lead on that, and neither were the Federal Reserve presidents. The Federal Reserve System was late. And if you look at the records, you will know that the Reserve Banks didn't do well on their staffs. The Federal Reserve Bank of New York probably appointed its first woman officer in the 1970s.

The Board and the Congress

MR. SMALL. I'd like to go back to December 1965 with the discount rate increase. I think you said that all the Board members were testifying before the Congress?

MR. BRIMMER. Yes.

MR. DRISCOLL. It's rather remarkable to have the whole Board testifying before the Congress. That was before you were on the Board, but did you have a sense then or afterward that the Congress was trying to influence the direction of monetary policy?

MR. BRIMMER. There were several members of the Congress who had a great and continuous interest in the Federal Reserve. The Congress has always been interested in the Federal Reserve; the Federal Reserve is a creature of the Congress. The Federal Reserve reports to the Congress, not to the President. Basically, the Congress passed the Banking Act of 1935, strengthening the Board and the FOMC. Then, after Roosevelt put Eccles in as Fed Chairman, Roosevelt forgot about the Fed.

The Employment Act of 1946 created a Council of Economic Advisers. The Joint Economic Committee was part of the same legislation. That gave the Congress a vehicle concerned with monetary policy and so on, not banking policy.[35] Wright Patman was concerned with the Federal Reserve Banks for banking supervision, interest rates. So when the Federal Reserve was called up before the Congress, I'm almost certain it appeared before the Joint Economic Committee as opposed to the Banking Committee. I'm almost certain about that.

Proxmire turned out to be the most active senator concerned with the Federal Reserve, and in the House, it was first Wright Patman, continuously. Henry Reuss of Wisconsin—I think he succeeded Patman as chair of the Banking Committee—was concerned with monetary policy more than Patman. But the discount rate episode in 1965 opened the door. From then on, the Congress—whoever was chair—began to ask the Board members to come.

I remember one humorous episode. It may have been in 1967 or 1968. Bill Martin was still the Fed Chairman. The American Bankers Association had its international monetary conference. This time it was in Madrid, Spain. Bill Martin went. Dewey went with him because Dewey was the Chairman's backstop for international issues for the most part. On the front page, lower right-hand corner, of the *New York Times*, there was a picture of Dewey Daane in the bull ring with a cape.

Governor Robertson as Vice Chairman was in charge. Wright Patman invited Governor Robertson to appear before his committee, and he said, "Bring the other Board members with

[35] The Joint Economic Committee is a bicameral committee composed of 10 members from both the Senate and the House of Representatives. Its main purpose is to make a continuing study of matters relating to the U.S. economy. The committee holds hearings, performs research, and advises members of the Congress.

you." So five of us went up. Patman started off by holding up a copy of the *New York Times.* He said, "Governor Robertson, is Governor Daane representing the whole Board?" That was when the public was really focused on the fact that Board members from time to time were called up to the Hill. It was rare for the Board as a whole to go up. Board members frequently went up to testify on special grace for the Board.

Federal Open Market Committee Meetings

MR. SMALL. When you came to the Board, what was your preparation for an FOMC meeting? Would you talk to other Governors about their inclinations? Would you talk to the Chairman?

MR. BRIMMER. The instrument of monetary policy—the discount rate—is a Board function. Reserve requirements are a Board function. Open market operations are an FOMC function. The FOMC consists of 12 members: seven Board members and five Reserve Bank presidents. The president of the Federal Reserve Bank of New York is always a member and is Vice Chairman of the Committee. The others rotate every three years. The Committee met every three or four weeks.

The Federal Reserve Bank of New York was the operator of the open market account. There was a call every day in those days. The manager of the open market account was Bob Roosa, then Charlie Coombs, then Alan Holmes, and so on. During my time, it was Charlie; Roosa had already left. A Board member—usually Dewey Daane—would sit in on the morning call. Later, George Mitchell would sit in. Sherman would sit in. I would sit in. We took turns. There was always one Board member.

The staff prepared what later became the Greenbook. It was a review and assessment of the economic outlook that was prepared in advance of the FOMC meeting. The Bluebook contained the recommendations of the policy alternatives. The alternatives were usually to stand still, increase restraint, or reduce restraint. I came as a student of the process. I studied and taught it and had written about it. The question of forecasting the economy in the Greenbook had been settled before I got here.

MR. SMALL. In the day or two before a meeting, would Chairman Martin come down and have a little talk about your thinking? Would Board members talk with each other?

MR. BRIMMER. Oh, no, no. There were no caucuses at the Board. At lunch Board members would talk, but there was no caucusing beforehand. That's why the Manuel H. Johnson episode with Volcker was so startling and so shocking. I told you the story about Bill Martin calling up Marriner Eccles and saying, "I'd like to come down and talk to you." That was unusual. Even the Chairman didn't meet with individual Board members. The Board's business was done in the Board Room.

Board members worked with the staff. Bill Martin always indicated that the staff was available. When I came, Board members did not have staff assistants. That happened later. I think George Mitchell got the first staff person in 1968. Board members read the material. Some of us would call staff people; they would come and talk about the issues. But we didn't do that as a subcommittee on the Board or anything.

Keynesian Economics at the Board and the Full Employment Target

MR. SMALL. This was a time when Keynesian economics and the Phillips curve were coming more into play in the implementation of policy.

MR. BRIMMER. By the time I got here, the Keynesian revolution had captured the Board.

MR. SMALL. And the staff.

MR. BRIMMER. That's right.

MR. SMALL. And the Greenbook.

MR. BRIMMER. Yes. Even in those days, the staff ran the process here. Well, let me backtrack. That's going too far afield. The Chairman is the leader. He not only has a vote, but he also has a voice, and the staff takes its guidance from the Chairman.

MR. SMALL. It's fairly well documented that, at the time, over at the Council of Economic Advisers, there was a pretty clear view that full employment was basically characterized by an unemployment rate of about 4 percent. Was that view taken on by the Board staff, by the Governors?

MR. BRIMMER. No, that was the Council's view. Walter Heller, followed by Gardner Ackley, embalmed the 4 percent.

MR. SMALL. Do you remember Board debates, or debates with the staff, about whether the Fed, in some sense, would take on that number or disagree with it? Was there an intellectual to and fro?

MR. BRIMMER. Not at the Board level. There were some Board members, the economists for the most part, and especially Sherman Maisel who came here in the spring of 1965.

MR. SMALL. What did you believe the full employment–unemployment rate was?

MR. BRIMMER. I thought it was a useful target.

MR. SMALL. But did you believe it was 4 percent?

MR. BRIMMER. I always looked upon that as a target, not as a measure of the equilibrium level of unemployment. Yes, I believed that, but as I told you earlier, there were differing views as to the role of monetary policy in that. The Kennedy Council was a fiscal policy council. The Johnson Council was a fiscal policy council. They did not assign a high priority to monetary policy as an instrument to fight inflation.

On the other hand, Bill Martin was a bond man—came out of the markets. He believed that interest rates were critical. If you go back and look at the minutes and the discussions, the tone was credit conditions, market conditions. The Board was never a quantity theory Board. There were people here who believed that the quantity theory of money was the proper way, but no one, not the staff and certainly not the Board members, subscribed to Milton Friedman's view of monetarism.

President Johnson's Expectations of Brimmer's Position on Monetary Policy

MR. SMALL. What do you think President Johnson's expectations were, having appointed you to the Board, on how you would help fashion monetary policy?

MR. BRIMMER. When I was sworn in at the White House, in his speech, President Johnson indicated that he did not expect me to be either a "tight money" man or an "easy money" man, but a "right money" man. So when I came to the Federal Reserve Board, the Board's posture vis-à-vis monetary policy and inflation had already been set. I was the most junior person on the Board, so I didn't expect—and President Johnson didn't expect me—to come in and compete for the leadership of the Board. That had been settled. Martin was Chairman of the Board. Governor Robertson was the new Vice Chairman of the Board.

In the informal conversations, when I was under consideration, President Johnson's original thought was that I would replace Canby Balderston as a Board member and also as Vice Chair. But, in the end, after President Johnson had announced my appointment, Chairman Martin contacted President Johnson and said that he would like to see Governor Robertson moved up to be Vice Chairman. He had been on the Board since 1952, almost 15 years. And, because of his experience, Martin thought it would be better for Robertson to be Vice Chairman rather than the newly appointed member being the Vice Chair. President Johnson agreed immediately so that the leadership was all in place. And you can see by looking at the record that monetary restraint was the order of the day. I don't recall any real controversy over the direction of policy or the degree of restraint.

Chairman Martin always led by consensus. From early 1966 through early 1970, almost four years, I don't think there were any issues with the discount rate. I think that the split in early December 1965 was the last split in the vote on the discount rate. That was the only 3–4 vote on the discount rate during Bill Martin's time. Governor Shepardson, who was serving on the Board when I came and had been appointed by President Eisenhower in 1955, told me that he never voted against Bill Martin during his entire tenure, except in one case where he thinks he made a mistake. There was a vote, and then there was a revision of the vote, and Shepardson thought he was voting for the Chairman; it turned out the minutes showed he was not. When that was pointed out to him, he said he let it go.

Monetary policies within the Board during my years were not a real subject of contention. There were differences of emphasis here and there but no major controversies. The only question that arose—vis-à-vis Chairman Martin, and [President] Johnson afterward—was in 1967, when Chairman Martin's term as Chair was coming to an end. There was interest in his being replaced. There was clearly a sense at the Council of Economic Advisers, reflecting the legacy of the Kennedy years, where the plan was at every opportunity to replace Martin. So Johnson was urged not to redesignate Chairman Martin.

I got a call from Frederick L. "Fred" Deming, who was the undersecretary of the Treasury. He was the number two person in Treasury. Fred had come from the Federal Reserve

Bank in Minneapolis. He had very strong support at the Council of Economic Advisers and from the Vice President. Fred wanted to be Chairman of the Federal Reserve Board. So I got a call. I was alerted that Fred might want to talk to me, and I said to have him call me. He wanted my opinion about posture—where we were. He told me that he wanted to be Chairman, but he asked what my view was and the rest of the Board's view, if they had a view about Martin continuing. I told Fred that my own view was that Chairman Martin was doing a good job. And I said the Chairman's term as a Governor is going to end in 1970, and if he were replaced now, the President would need to have a good reason for doing so. I said that if Johnson were not going to continue with Martin, the adverse impact on Wall Street would be tremendous. It caused the President not to undertake it. That was the end of that.

There was a view around that tight money was retarding the growth of the economy, and that easier money was called for. President Johnson had finally decided to press for a tax increase as a countercyclical measure. But, as far as I recall, there was no quid pro quo established. I know I didn't vote for it, but the rumor was that Chairman Martin had implied, or maybe even had said, that if a tax increase occurred then, we at the Fed would relax monetary restraint. I never agreed to that, and I may have made a speech saying there was a certain need for restraint, and the more support we got from fiscal policy, the less monetary policy would have to be. In my view, that was an implicit tradeoff. But that was an analytical statement, not a political statement.

The Board's Involvement in Consumer Financial Services Laws

MR. SMALL. One development in the late 1960s, when Martin was Chairman, was the passage of major consumer credit laws. Did you observe much about how those laws came into being, and what role, if any, the Fed had in the legislative process?

MR. BRIMMER. Yes, I did. Certainly, up to that time, the Federal Reserve Board had always taken a narrow view of the scope of its responsibilities. It always resisted being pulled off course—or, as Chairman Martin used to say, getting into political questions and preferences. There had been pressure from some key members of the Congress who wanted the Federal Reserve to take more of a hand, first, in controlling consumer interest rates—the Fed always resisted that—but also getting into what was called consumer protection, economic welfare propositions.

Around 1967 to 1968, somewhere in there, much of the pressure had come from Congressman Wright Patman and Senator Proxmire when he became chairman of the Senate Banking Committee or the housing subcommittee of the Banking Committee. Proxmire called Chairman Martin and said, "I'm now chair, and I believe that we need to do something about"—it was originally called "truth in lending." Proxmire was not interested in having the Fed fix interest rates, but to have the lenders explain interest rates more fully, what the implications were. Proxmire said, "I know I would have the votes to get this through the Committee and most likely through the Senate, so can you come and talk to me about it and help me decide how to do this, because the goal and objective are clear." Chairman Martin said that he wasn't an expert, but he would ask Governor Robertson, who was the Vice Chairman, to come and talk to him. Governor Robertson did that, and in roughly a 2½ hour meeting, he and Senator Proxmire agreed on the broad outlines. The Congress would pass the law, and it wanted the Federal Reserve's help in suggesting what should be the contents of the law, what it should provide for. One of the things was that the Federal Reserve would write the regulations. The emphasis would be on what was the rate of interest on consumer loans.[36] The Fed would write the regulations, including the degree of protection, and also the requirements for reporting and whatnot.

Governor Robertson worked with the staff at the Federal Reserve—economists as well as the lawyers—and brought a proposal to the Board on how we should do it and also the draft testimony that would go out. That was approved unanimously by the Board. Once that was done, then I believe—I don't remember the details—there was not much debate over the bill, and there was very little controversy. So with the Federal Reserve's backing, that was enough for the more conservative members of the Congress. That's what I remember about that process.

MR. SMALL. How important do you think that legislation was in affecting people and opening up a new area of regulation?

MR. BRIMMER. I think it was very important. That was the breaking of the ice for the Federal Reserve. In the same vein, the Community Reinvestment Act (CRA) was another law that got the banking rate regulated through getting the Federal Reserve involved—that was a further extension of that.[37] So that legislation, I should say, broke the ice. It made it easier for the Federal Reserve to take another step.

But, as I discovered later when I proposed marginal reserve requirements that would help expand the availability of credit for housing, the Federal Reserve had not been converted fully to

[36] Prior to enactment of the Truth in Lending Act of 1968 (TILA), lenders disclosed to consumers the cost of credit, particularly interest rates, in several different ways Among other things, TILA required lenders to uniformly disclose the cost and terms of credit, creating the concept of an annual percentage rate.

[37] The CRA passed in 1977. It encourages depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods, consistent with safe and sound banking operations. The law requires that the federal banking regulators regularly evaluate each insured depository institution's record of helping meet the credit needs of its entire community, and take these evaluations into account when considering an institution's applications for mergers and acquisitions as well as branching. Earlier consumer financial services laws include the Fair Housing Act of 1968 and the Fair Credit Reporting Act of 1970. At that time, the Board had rulewriting authority for only the 1968 Truth in Lending Act. But in 1974, the Congress gave the Board rulewriting responsibility for several other consumer laws, which include the 1974 Fair Credit Billing Act amendments to TILA and the Equal Credit Opportunity Act of 1974 (ECOA). ECOA prohibited credit discrimination.

the expansion of Federal Reserve remand authority. But, yes, it was very important at that time. Did it provide a benefit? Yes, of course. There were a number of people I encountered, observers I encountered, and these are the strong consumer advocate groups who thought the truth in lending legislation not only authorized but mandated the Federal Reserve to fix consumer interest rates, which the legislation did not. The Truth in Lending Act was an information statute and certainly did not enact at the federal level the old Arkansas anti-usury laws. Nevertheless, I think the public benefited in that they were being better informed. The public now had more information for comparison shopping—interest rates and so on. But before too long, bank lending to consumers was overtaken by the bank credit card. That replaced personal loans for all practical purposes.

CRA overtook the question of mortgage lending and so on. Again, the Federal Reserve didn't volunteer to do those.

I did the authorization of bank credit cards. That was my project. I had always had an interest in that. I worked with Federal Reserve Board staff, and the Federal Reserve Banks of New York and San Francisco. I had a number of hearings. I had hearings in New York, San Francisco, and Seattle, Washington. And out of my report, I proposed that the Board authorize it.

So those are examples of the Board's reluctant willingness to see its mandate expanded.

MR. SMALL. Did this throw members of the Board staff into a stressful period because they hadn't acquired the expertise?

MR. BRIMMER. No one else acquired the expertise. The Board staff worked in combination with the Reserve Bank staff. The Federal Reserve staffs had technical capacity, skills, and imagination. And I, as a Board member, was willing to work with them. This is under Chairman Martin. Chairman Martin was always willing to examine a question. And just as with the consumer protection, Chairman Martin's view always was that, look, the Federal Reserve is not independent of the government. It's independent of the Executive Branch. He always said that the Federal Reserve is a creature of the Congress. If the Congress wants us to do this, then let's do our best to respond to it.

And the Board staff had the same view. The staff members work for the Board, and the staff is not here to tell the Board what to do or what ought to be done, but to enable the Board to do what the Board wants to do. And the staff should always be prepared to advise what the consequences of alternative actions might be.

I always found that the staff was particularly responsive. In those days, the two big divisions were the Division of Research and Statistics and the Division of International Finance. I always worked through the directors of those divisions. I'd ask them for help, and they never had a shortage of staff members.

I wouldn't say "always," but certainly from Marriner Eccles's time, the Federal Reserve Board had an academic flavor. And among economists, the role played by Alvin Hansen was not appreciated. Alvin Hansen at Harvard was the principal advocate of fiscal policy, but Alvin's only extended federal government service was as an adviser for Marriner Eccles at the Federal Reserve Board. So there was that academic atmosphere of exploration.

When I joined the Board in March 1966, a substantial proportion of the key positions were held by Harvard graduates. I mentioned this before. Several of the Board members had worked at Reserve Banks. Governor Mitchell, the first one appointed by President Kennedy, had been director of research at the Federal Reserve Bank in Chicago. Governor Daane ended up being head of research at the Richmond Fed. Governor Maisel, who received his undergraduate degree and Ph.D. at Harvard—his first two years were at the Federal Reserve Board. My first three years were at the Federal Reserve Bank of New York.

Interest Rate Ceilings and Monetary Policy

MR. SMALL. We've talked about consumer credit. Concerning the interest rates that consumers received on their investments—in particular, bank deposits—there were Regulation Q interest rate ceilings throughout this time. How did they affect implementation of monetary policy?

MR. BRIMMER. They didn't. They posed a problem, but—

MR. SMALL. Because someone now could say, "Well, you don't like high inflation? Just raise interest rates." So how did Regulation Q ceilings and interest rates interact to cause problems or affect policy?

MR. BRIMMER. The Federal Reserve never responded to that. Regulation Q was the Federal Reserve's regulation. But the big regulation was for the Federal Home Loan Bank Board and the savings and loans. That was for the savings banks. It was the FDIC. So the Federal Reserve Board was following the leader.

The Federal Home Loan Bank Board was much more under the control of the Administration. John E. Horne was chairman of the Home Loan Bank Board when I got here.

A digression: When Sherman Maisel was appointed to the Federal Reserve Board, he had previously been recommended to be chairman of the Federal Home Loan Bank Board. On the basis of that recommendation, he had come to Washington to visit with the Council of Economic Advisers and the Treasury because the President recommended that he do so.

Gardner Ackley was chairman of the Council of Economic Advisers. Henry Fowler had just been named to replace Doug Dillon as Secretary of the Treasury. Sherman was visiting with

Gardner with the intent—and the President was going to announce—that Sherman was going to be appointed to be chair of the Federal Home Loan Bank Board. But while he was visiting with Gardner Ackley and before going over to see Secretary of the Treasury Henry Fowler, Gardner Ackley said to Sherman, “There’s a vacancy at the Federal Reserve Board. I think you would be ideal for that job. Would you be interested?” Sherman Maisel, who is a professor at the University of California, Berkeley, had written extensively on real estate and real estate mortgage housing. That’s why he was being considered to head the Home Loan Bank Board. Housing finance was his specialty. He said, “I’d be interested.” And Gardner said, “Let’s go over to see Secretary Fowler.” They got to Treasury, and Fowler said, “I’m on my way to the White House. The President’s going to swear me in as the new Secretary of the Treasury.” And Gardner said, “I think Dr. Maisel would be a good candidate for the Federal Reserve Board instead of going to Home Loan.” Joe Fowler said, “Splendid idea. By the way, come over and join me as I’m being sworn in.”

They went to the White House. Joe Fowler told President Johnson that he and Gardner had decided that Sherman Maisel would be a good member of the Federal Reserve Board. Johnson said, “Oh splendid, that’s fine. Tell me about yourself, Sherman.” Johnson got up and went out to swear in Joe Fowler. Johnson announced he was delighted to swear in Joe Fowler as the new Secretary of the Treasury, and he’s also going to announce that, on Fowler’s recommendation, Dr. Maisel would be appointed to the Federal Reserve Board. That’s how Sherman got that. But it was Sherman’s expertise vis-à-vis housing finance.

The ceilings on savings deposit rates had been in place for some time. Governor Mitchell created the term “disintermediation.” As market interest rates rose above the ceilings, consumers switched their deposits. They put their savings into market interest rate paper, and later they withdrew funds from the S&Ls and switched to other kinds of paper. This process was called "disintermediation."

But that was a structural question for the Federal Reserve. Bill Martin—and, later, Arthur Burns—took the view that monetary policy couldn't be held back because of that concern. So the suggestion was that they raise the ceilings to avoid disintermediation. And that was eventually done. The Home Loan Bank Board eventually agreed to an increase in the ceilings.

MR. SMALL. But before that time, I take what you're saying is, it did inhibit the Federal Reserve from going too much above those ceilings.

MR. BRIMMER. No, no. I didn't say that. The Board never held back because of concern over disintermediation. It never compromised on that. The S&Ls issued certificates of deposit (CDs). The CD market was split so that the ceiling on consumer-type CDs was held, but the rate on what was called capital market CDs was allowed to rise. I might be overstating it, but let's put it this way: There was never a vote at the Federal Reserve to say, "Oh, we wish we could tighten money some more, but we can't because of disintermediation." It never was put that way. Certainly, this is my view: It was up to the Home Loan Bank Board—and here it was really the Administration—to recognize the realities of the marketplace, and that you couldn't hold consumers' deposits prisoner, and so you had to meet the market. If you wanted to have S&Ls in a position to attract savings, they had to be prepared to pay the market rate.

Chairmanship of Arthur Burns

MR. SMALL. By the end of Chairman Martin's term—essentially, early 1970—the Fed Reserve had tightened interest rates quite a bit. The federal funds rate had been raised to 9 percent, but inflation had clearly moved above its trend of recent decades. Did you have any interaction with Martin or a sense of how he felt at the end of his term, whether he was disappointed in the outcome?

Nixon Offers Position of Secretary of the Treasury to Fed Chairman Martin

MR. BRIMMER. Well, let's go back. When you say "interaction," remember, Board members got together at formal Board meetings, and they ate lunch together. That's where much of the informal interaction came in.

In mid-December 1968, following his election, Richard Nixon invited Bill Martin to New York. This was during Richard Nixon's cabinet-making period. Bill Martin went to New York City, and Nixon offered him the position of Secretary of the Treasury in his new Administration. Bill Martin declined, saying, "Mr. President, while my term as Chairman runs into 1971, my term as a Board member ends January 31, 1970, and the latter takes precedence. I plan to serve out that term and then retire from government service." Nixon expressed disappointment and said to Bill Martin, "Well, I would like to appoint Arthur Burns to succeed you at the Federal Reserve." Then Nixon, on the spur of the moment, said, "I'll tell you what I will do. I will bring Arthur into the White House as my counselor, and then I will appoint him to the Federal Reserve Board to take effect when your term expires." That's what happened. So I give credit to Bill Martin for thwarting Nixon's attempt to get him off the Board so that Nixon could try to exert more influence on the Board. [38]

[38] For this and other issues related to the Federal Reserve and President Nixon, see Andrew F. Brimmer (1984), "Politics and Monetary Policy: The Federal Reserve and the Nixon White House," paper presented at the 10th Annual Meeting of the Eastern Economic Association, held at the Omni Park Central Hotel, New York, New York, March 16. Also see Andrew F. Brimmer (1989), "Politics and Monetary Policy: Presidential Efforts to Control the Federal Reserve," remarks delivered before a 75th Anniversary Luncheon, Board of Governors of the Federal Reserve System, Washington, November 21.

Nixon's Announcement of Burns as Chairman, and Burns's Meetings with Board Members at the White House

MR. BRIMMER. When Nixon's inauguration occurred in January 1969, Arthur went into the White House as counselor. He was not chairman of the Council of Economic Advisers as some people think. He joined the White House staff as the counselor to the President.

Then, in October 1969, Nixon announced that he was appointing Arthur to be Chairman of the Federal Reserve, effective February 1, 1970. Arthur would have a full term of 14 years as a Governor and would be designated as the Chairman. That announcement in October 1969 was the earliest on record up to that time. I haven't looked, but it probably still is.

In November 1969, Arthur began inviting Board members to have lunch with him in the White House. My turn came. I'm almost certain Arthur did it by seniority, but I know several members had gone before me, and I know I wasn't the last one.

MR. SMALL. Arthur Burns had a reputation as a strong advocate against inflation.

MR. BRIMMER. Remember the earlier story I told you about Arthur and Nixon and the recession of 1960? That made a huge impression not only on Richard Nixon, but on Arthur Burns. And Nixon hadn't forgotten it. Arthur had not forgotten it. Arthur's real fear was that the Federal Reserve was going to push the economy into recession.

Arthur also had very strong views about the management of the Federal Reserve as an institution. He was particularly interested in the role of Reserve Banks and the mechanics of the FOMC. He questioned me closely. I understand he put the same questions to my colleagues as he put to me about the processes at the Federal Reserve, about Board meetings, FOMC meetings, and so on.

When Martin was Chairman, he sat on the side of the Board table and faced the clock and the center door. The Vice Chairman of the Board sat to the left of the Chairman. The secretary of the Board—staff person—sat to Martin's right. The five Board members sat on that side of the table by seniority. The Reserve Bank presidents filled in around the room. The president of the Federal Reserve Bank of New York (who was Vice Chairman of the FOMC) always sat next to the Vice Chairman of the Board.

During the go-round—that's what it was called then when Governors and presidents expressed their views on the economic outlook and monetary policy—the president of the Federal Reserve Bank of New York, by tradition, spoke first. Remember, he was managing the open market account. That was his responsibility, under his jurisdiction. So he reported on developments in the money and capital markets and, by tradition, spoke on the international currency and foreign exchange situation—not the technical matters, because the manager and special manager of the System Open Market Account spoke on those issues. Bill Martin always spoke last. The Vice Chairman of the Board spoke after the last Bank president and before the Chairman spoke.

Arthur Burns said to me, "Chairman Martin always spoke last. I'm going to speak first, so there'll be no doubt what my views are." He said, "As far as the Reserve Bank presidents, I'm going to stop this"—because, as he expressed it—"they spend time talking about how it is up the river." Burns said, "I'm going to ask them to write their statements, to summarize them, and put them in the record." There was the origin of the Beige Book. In those days, the FOMC met 12 times a year.

Burns's First Federal Open Market Committee Meeting as Chairman: Brimmer Dissents

MR. BRIMMER. The first meeting under Arthur's chairmanship was February 10, 1970. At the outset, Arthur said this was his first meeting with the Committee. I learned later that he had talked to Al Hayes, Vice Chairman of the Committee, about how he was going to proceed, but he had not spoken to the other Bank presidents about it. He spoke to all of us—the Board members—so we knew what was going to happen.

Arthur said how he proposed to proceed and that he proposed to start that day. He said, "I think you're too tight, and I think we need to change, because if we go on the way we're going now, we're going to push this economy into a recession. Now, we'll go around and hear from the presidents. I've already talked with Al Hayes about this, and he has summarized his statement. I would hope the rest of you would summarize your statements so we can have lots of time to talk about monetary policy." From day one, that's what happened.

Burns proposed that we adopt an easier monetary policy. That was one of the alternatives in the Bluebook. I believe that was alternative B. He said, "I move alternative B." We had a discussion. He called for the vote after further discussion. It was 9–3.

I dissented. I voted "No." I thought we were on the right track already.

MR. SMALL. How did you feel about challenging a new Chairman?

MR. BRIMMER. The Chairman has a voice and a vote. Board members have a vote. And, increasingly, Board members had voices. They didn't have official voices, but Board members have official votes. So, from day one, I always voted my conscience not only on monetary policy, [but also] on bank mergers and so on.

MR. SMALL. Burns has a reputation of being very forceful. Were you on the receiving end?

MR. BRIMMER. No, not then. Later, but not in that meeting, because he knew where the Board members stood. By the way, some of the FOMC members who voted with him had reservations. There is a tendency among Reserve Bank presidents to defer to the Chairman. Before George Mitchell and Sherman Maisel came to the Board, Board members also tended to defer to the Chairman. I know Al Hayes from the New York Fed voted with me. I've forgotten who the other dissenters were but, somewhere in one of the papers, I've written who they were.

So Arthur had three votes against him in the very first FOMC meeting. Bill Martin wouldn't put the matter to a vote unless it came out the way he expected—he would defer and talk some more. Arthur was much less prepared to compromise. I and the other academics on the Board understood immediately what we were seeing in Arthur. Arthur brought to the Board the reputation he had in the profession—strong willed, confident.

By the way, I'm almost certain one of the first things I read by Arthur—I must have been in graduate school—was a famous paper of his called "Economic Research and the Keynesian Thinking of Our Times." As I said before, the Board was a Keynesian Board. Arthur, as he indicated in this paper, was not a Keynesian. Arthur had a leaning toward Milton Friedman and the monetarist school. Milton Friedman was Arthur's student.

On economics, Arthur was particularly influenced by Wesley Clair Mitchell. Mitchell created the National Bureau of Economic Research. Arthur's specialty was business cycles; much of his empirical work was on business cycles. Alvin Hansen and Bill Martin had this similar view, but Hansen came out to be a fiscal policies advocate and a Keynesian. Arthur continued to adhere to Irving Fisher's monetary theory and to Mitchell and to the business cycle. Arthur was an empiricist—almost anti-theory, but highly opinionated.

Bill Martin never engaged in debates with the other Board members or the staff. Arthur Burns did. Arthur was intellectually one of the most arrogant economists I ever met. In one sense, Arthur and Milton Friedman were ideal compatriots. Arthur knew more than most economists. Arthur was a very close student of economic history, institutions.

Burns's Interaction with the Staff and Board Members

MR. SMALL. In the FOMC setting, how did Arthur Burns deal with the staff members and their presentation? How did that differ from how Bill Martin used the staff?

MR. BRIMMER. Arthur would have met with the key staff members ahead of time. When the staff was putting together those policy alternatives, they'd have a session with Arthur. The staff never pulled its punches. The staff members were not "yes men."

I think it was under Arthur that we created what became the Office of Managing Director for Research and Economic Policy. We didn't have that office under Bill Martin. Arthur carved it out of the Division of Research and Statistics. It was a special unit.

MR. SMALL. The unit was Chuck Partee's and then Steve Axilrod's?

MR. BRIMMER. Yes. They had a lot of contacts with the Chairman. The Chairman would debate with them not only on statistics, but on analytics. Arthur was not a model-builder. He was not an econometrician, although he was one of the earliest members of the Econometric Society. He was more a statistician than a mathematical economist. But he didn't engage in roughhouse debates in the Committee meeting, because there wasn't enough time for that. But he wouldn't hesitate sometimes to say, "Next week, come and see me."

MR. SMALL. Was he open minded in these rough-and-tumble debates?

MR. BRIMMER. Arthur wasn't narrow minded, because he had a broad view. A guy like that obviously had broad experience, a lot of knowledge. But he was not intellectually flexible. He had strong opinions.

MR. SMALL. He had several audiences: Board members, the Congress, the staff. Do you think that lack of flexibility hindered him in group decisions, group dynamics? Or do you think he was a strong leader, and it worked for him?

MR. BRIMMER. Well, Board members had their own proclivities. I spent half my tenure at the Board with Bill Martin and half with Arthur Burns. There was very little turnover in the Board. Board members had their own views, their own moods and behavior. When I left at the end of August 1974, George Mitchell was still here, and he was Vice Chairman. Sherman left in May 1972. Dewey left in March 1974. Henry Wallich had just come. There may have been a couple of other members, but they were not very aggressive. Now that I think of it, all of the Board members who joined the Board after I did, except one, were also Harvard graduates. John E. "Jack" Sheehan (1972–75) had a degree from the Harvard Business School. William "Bill" Sherrill (1967–71) had a degree from the Harvard Business School. Henry Wallich (1974–86) had a Ph.D. in economics from Harvard. The academics were not shrinking violets. They were prepared to speak up and, as I said, from time to time, vote against Arthur.

But whether Arthur's behavior was a handicap for him, I don't see how. He was persuasive in some cases.

Burns and the Nixon Administration

MR. BRIMMER. Among a number of economists and even liberal economists, Arthur began to redeem himself late in the Nixon Administration. I was aware of this, to some extent, while I was serving. Arthur's tenure under Nixon was in two stages. When Burns became Fed Chairman, he was clearly a Nixon man.

Burns first began to have doubts about Nixon in 1971, with Nixon's wage and price controls. Nixon decided in the summer of 1971 that he would run for reelection in 1972, and he didn't want any economic problems. Remember that, in 1960, Nixon was really traumatized by his defeat for the presidency in the midst of a recession. At the time of wage and price controls, John B. Connally was Secretary of the Treasury—Big John from Texas. Nixon met with

Connally. Nixon said that he wanted to make certain that the economic issues didn't pose a problem for him. Inflation was a problem, the dollar was a problem. So he worked with Connally, and it was decided that wage and price controls was the solution.

MR. SMALL. One issue that often comes up in the discussion of Chairman Burns is political pressure under the Nixon Administration. But before we get your views on whether or not Burns responded to that pressure, do you have a perspective on just what pressures he was under? The Nixon White House with H.R. Haldeman, John Ehrlichman, and Charles Colson had some pretty forceful personalities. Do you have a sense of what it was like to be in Arthur Burns's shoes?

MR. BRIMMER. Yes, especially given that Burns had come to the Federal Reserve clearly committed to shifting monetary policy toward ease—not because that's what President Nixon wanted as such, but because Arthur was concerned that tight money would push the economy into a recession. Arthur Burns was more concerned about recession than about inflation.

But, by the summer of 1971, it was clear that inflation was a serious problem. The 1970 slowdown, which was classified as a recession, was over. But, more importantly, President Nixon wanted to make certain that, when he was running for reelection in 1972, economic problems would not be a burden for him. So Nixon worked on this issue with John Connally, the Secretary of the Treasury. There was a meeting at Camp David in mid-August 1971. At that meeting, Connally told President Nixon that wage and price controls should be instituted in order to forgo any chance of inflation breaking out.

At the same time, the U.S. dollar was under pressure. There was a big trade deficit, and the dollar was under downward pressure accordingly. Japan was identified as a principal holder and builder of the surpluses, and it was thought that Japan had unfair trade practices. Nixon wanted advice on what to do about that. Connally recommended that countermeasures be taken to force Japan to drop its trade practices that restricted imports and promoted aggressive exporting. Connally recommended an embargo of those U.S. exports that were of major importance to Japan. It was concluded that the export of soybean meal and soybeans to Japan be embargoed.

Arthur Burns argued against both wage and price controls and the embargo. I was not at Camp David. Bob Holland, who was later a Board member, was then executive director. I don't remember whether he was with Chairman Burns at Camp David or had access, but I think he was standing by, because Bob called us and said that the Chairman would like to have a meeting of the Board later that day—late in the afternoon or early evening. I believe this was a Sunday. And he asked that all of us come in.

This is around August 15, 1971. Chairman Burns and Dewey Daane briefed the Board. Chairman Burns explained that wage and price controls would be instituted. President Nixon would ask the Congress for legislation the next day to do that.

In the meantime, Nixon had taken actions that he could take himself. The President had decided to close the gold window. He said that would be effective the next day. The window would be closed even to foreign central banks, which up to now had been able to convert their dollar holdings into gold.

Also, certain exports—namely, soybeans—to Japan would be embargoed. On the Board, there was unanimous condemnation of the embargo. As it turned out, the Japanese importers of soy beans turned to Brazil, which at that time grew a very limited amount of soybeans. The increased demand for their soybeans proved to be a major stimulus to the long-term growth of soybean farming in Brazil—to the detriment of U.S. farmers.

For the Federal Reserve, a more direct and problematic aspect of Nixon's new program was that Secretary Connally wanted to extend price controls to interest rates. The idea was that all incomes and wages would be frozen, and interest was looked upon as income. In particular, dividends and all "administered" interest rates—such as credit card rates, CD rates at banks, and mortgage rates—were to be subject to some sort of control. One key issue was whether the Fed's discount rate was an administered interest rate, because if it was, that could have effectively given the Administration—and Connally, in particular—control over monetary policy.

Arthur said he had argued against that, saying that interest and dividends were not the same as personal incomes and so on. Arthur told us that Dewey Daane and he had opposed Connally on this issue, and that he had proposed a compromise and was still working it out, under which he (Arthur) would set up a Committee on Interest and Dividends. That committee would control interest and dividends. Some of us expressed reservations, and some of us complimented Arthur for standing up against the Administration proposal.

By the way, it was clear that the Administration's motivation was political. Arthur reported to us that the President had used very foul language. He said that he wanted this "blank, blank, blank" out of the way before the election. And he didn't want to have to "blank, blank" with it next summer and fall. I don't remember whether Nixon said that to the group, but he certainly said it to Connally and to Arthur Burns.

Arthur proceeded to establish the Committee on Interest and Dividends. He was the chair of it, and he based it at the Federal Reserve Board rather than in the Executive Office Building, where the wage and prices control machinery was set up. He appointed a director of the Committee on Interest and Dividends who was a senior Federal Reserve Bank official, David C. "Dave" Melincoff. I don't remember whether Dave was already here. He had been at the Federal Reserve Bank of Philadelphia, as I recall. Arthur put together a committee staff drawn primarily from Federal Reserve Board staff, and he proceeded to get voluntary restraints on interest and dividends from companies, banks, and such that was voluntarily—there was no statutory base for that.

Whether the discount rate should be considered an administered rate—and thus subject to control by the Committee on Interest and Dividends to the voluntary restraint or not—became a source of considerable controversy within the Federal Reserve. That was where I had a serious clash with the Chairman. From the fall of 1971 through November 1972, the Board received something like eight proposals to raise the discount rate. The Chairman proposed we turn them down. I took the lead in advocating that we raise the discount rate, because I looked upon it as an instrument to help fight inflation. The Chairman argued that the operative rate for fighting inflation was the federal funds rate, and that was not frozen. Although we were not making a vigorous effort to raise the federal funds rate a lot, it was not frozen.

I voted five times to raise the discount rate. Three times I voted not to do it. In one case, the Treasury had a debt issue in the market, and I didn't want to disrupt that. I was joined by Governor Robertson, I believe, in all five times, or four out of the five times, that I voted to raise the discount rate.

Arthur was not holding down the discount rate explicitly to help get Nixon reelected, although some people presumably thought so. Arthur made it clear that he accepted—although he did not support—the wage and price controls as a counterinflationary instrument, not because they were a way to get Nixon elected as such.

During 1972, there were additional pressures put on the Burns. Some of that was direct, and some of that spilled on over into 1973. One of those episodes resulted in a very interesting and almost vitriolic exchange with Sanford Rose of *Fortune* magazine. He wrote a story in July 1974. The essence of that story was that during an FOMC meeting in 1972, Arthur Burns interrupted the meeting to go answer a call from the White House. He returned to the meeting and—I am paraphrasing here—said, "I have spoken to the White House. The President does not want us to tighten money further and raise rates. Therefore, we shouldn't do it." It was reported in that *Fortune* story that I had opposed that, and that I had voted against it. And there was the further implication that the FOMC was swayed by this pressure from Burns.[39]

When the story was being written, Rose called me and told me what he had heard, and he said that I was against it: "Is this true or false?" I told Rose that I did not recall any such event, that it was true that I had wanted to raise interest rates, but that was the discount rate, and my disagreement with Burns was strictly on the grounds of Arthur's efforts vis-à-vis the Committee on Interest and Dividends.

The story appeared. Arthur sent a letter saying it was incorrect and never happened. I wrote a long letter disputing that article. *Fortune* published some of my letter, but not all of it.[40] Bob Holland—then secretary to the Board—wrote a letter disputing that story.[41]

[39] Sanford Rose (1974), "The Agony of the Federal Reserve," *Fortune,* vol. 90 (July), pp. 90–93.
[40] Arthur F. Burns and Andrew F. Brimmer (1974), "Letters to Fortune: Agony of the Fed," *Fortune,* August, p.113. Also see Paul Lewis (1974), "Challenging the Olympian Fed,*" New York Times*, August 18.
[41] Robert C. Holland (1974), "Controversy over Burns and Fed's Role," letter to the financial editor, *New York Times*, September 1.

Now, what did happen? What is the explanation? The article did not indicate the particular FOMC meeting at which this purported incident occurred. So I did some examination of FOMC records to determine as best I could at which meeting there may have been events that could have led to such a story. In those days, we met in the morning, we took a break, then continued in the afternoon. At one of the FOMC meetings, I believe we had a discussion, and debate focused on the federal funds rate. I believe that there was a discount rate proposal in front of the Board as well, and during a lunch break, Arthur asked the Federal Reserve staff to call the Treasury and see if the Treasury had any plans to go into the debt market over the period we were considering. When we reconvened, Arthur reported that the Treasury had no such plans.

I believe that was the event that Rose was misreading. I told that to Rose during my exchange. And later, after the article, I reiterated it to him. He told this story to someone who was writing about the period, saying that I plagued him several times, virtually trying to get him to change his story—that I pressured him to retract it. That's not true. I did try to provide him with the explanations of what happened. But there was no Nixon pressure in that event, in that episode.

I did not directly participate or listen to any phone call involving Burns at that time, so I cannot attest to that first hand. But, as I wrote, I do know that at no time was the FOMC swayed by any such "the White House called" threats from Burns as claimed by Sanford Rose.

Here is the conclusion I reached in a paper I wrote on the Federal Reserve and political pressure. I concluded that the purported episode may have mistakenly arisen from events at the FOMC meeting on August 15, 1972. In the paper, I went on to stress two points:

> In the first place, the evidence makes it quite clear that Chairman Burns *did not* petition the White House for support in order to persuade the FOMC to pursue an excessively easy

> On the other hand, at several points in the discussion, Chairman Burns did refer to the policy of interest rate limitations which the Committee on Interest and Dividends [CID] was pursuing at that time. Again, it will be recalled that Dr. Burns was simultaneously Chairman of the Federal Reserve and of the CID. The CID in turn sought to restrain increases in what it defined as "administered" interest rates. It is also very clear that the Federal Reserve discount rate was viewed by Chairman Burns as an administered rate. Consequently, he appears to have felt that increases in the discount rate ought to be restrained.[42]

My recollection is that a second round of explicit pressure occurred sometime in 1973, when the Nixon White House concluded that the Federal Reserve was too tight, was not responsive. At some point, the President sent an emissary to see Arthur Burns. While this emissary was in his office, Burns picked up the telephone, called the President, and said that he had in his office "your messenger." And Burns said, "Out of courtesy to you, I will not throw him out. But if you send another messenger to me, I will throw him out, and I will make a public statement saying I've done so." Arthur told me that happened. So I think it was strictly a political mission, not an economic policy mission. I have not seen any writing by anybody that Nixon denied that that happened. And since Arthur told me it happened, I'm prepared to live with it.

I think that sometime in 1973, the Nixon White House (and I do not know about Nixon himself) lost its confidence in Burns. Someplace I've said, it exerted considerable pressure on Arthur to change monetary policy to support the goals of the Nixon White House. I think that was in 1973 rather than before the election in 1972.

MR. SMALL. Did Chairman Burns ever express frustration or stress to you a general sense about the pressure he was under from the Administration, from the Congress?

[42] Andrew F. Brimmer (1984), "Politics and Monetary Policy: The Federal Reserve and the Nixon White House," paper presented at the 10th Annual Meeting of the Eastern Economic Association, held at the Omni Park Central Hotel, New York, New York, March 16, pp. 32–33.

MR. BRIMMER. Not just to me.

MR. SMALL. You could sense that he was stressed?

MR. BRIMMER. Oh, yes—yes, he was.

MR. SMALL. Did you have a sense that he was putting up the good fight for independence and proper monetary policy?

MR. BRIMMER. I'm not saying that Arthur "got religion" about the Federal Reserve, but he did put a lot of weight on—he may not have used the term "independence"—noninterference by the politicians. His opposition to wage and price controls and to the soybean embargo reflected his belief that these were political concerns. John Connally explicitly wanted to set interest rates, have the President set interest rates, which meant the Secretary of the Treasury would set the interest rate. So I believe that Arthur was motivated by protecting the integrity of the Federal Reserve.

Volcker as President of the Federal Reserve Bank of New York

MR. SMALL. Do you know anything about how Paul Volcker became president of the Federal Reserve Bank of New York?

MR. BRIMMER. In 1974, when I was still at the Federal Reserve, Al Hayes decided he wanted to retire as president of the Federal Reserve Bank of New York. He put forward Charlie Coombs's name. Arthur Burns didn't think that Charlie was ready. And I didn't feel he was ready. That's because I wanted Volcker. Volcker had been at the New York Fed twice, but he was then in the private sector, and I wanted him to be brought back to the Federal Reserve. Dewey Daane wanted him to be brought back. I recall Sherm Maisel thought that the Board of Directors of the New York Fed ought to be able to name the president, and that the Board in Washington should just ratify the decision.

MR. SMALL. Al Hayes wanted Coombs, but did the board of directors in New York also want Coombs?

MR. BRIMMER. They wanted Coombs because that's what Al Hayes wanted. So when Arthur communicated to Al Hayes the reluctance of the Board to endorse Charlie—several of us wanted Paul instead—Al Hayes decided not to resign. That's why Volcker went to Princeton.[43]

MR. SMALL. To wait him out.

MR. BRIMMER. To wait him out, because by this time it was understood that the Board in Washington was behind Paul.

MR. SMALL. Was Burns?

MR. BRIMMER. Burns was inclined to accept Hayes's recommendation of Coombs. But Burns accepted the other Board members' positions. He did not advocate it, but he accepted it. Arthur knew enough that if the Board really wanted Paul, then the Board was going to get Paul.

I left the Board at the end of August 1974. So, when I left, the matter was still pending. Al Hayes was still president of the Federal Reserve Bank of New York, and Paul went from the Treasury to Princeton.

MR. SMALL. Volcker was appointed president of the New York Fed on August 1, 1975. When Volcker finally showed up, that caused quite the disruption at the New York Fed, didn't it? Were there hard feelings about Volcker being imposed on them?

MR. BRIMMER. There may have been. I had left the Fed by then.

MR. SMALL. Why was Volcker such an obvious choice at that time? He had the credentials, but we didn't know he was this great slayer of inflation at that time.

[43] After leaving the Treasury, Paul Volcker became a senior fellow at the Woodrow Wilson School of Public and International Affairs at Princeton for the 1974–75 academic year.

MR. BRIMMER. He had been at the New York Fed and at the Treasury. He was the undersecretary of the Treasury for monetary affairs [1969–74].

MR. SMALL. What did you think made Volcker up to the task? One could say it was obvious that, with inflation out of control and the dollar falling, a Burns would have done it, a Martin would have done it, or a Volcker would have done it. It was what the situation required. Or you could say, no one had stood up to inflation until that point, and only Volcker did. Do you think it was the circumstance or the particular guy?

MR. BRIMMER. Again, how can you tell? Just as Bill Martin was Bill Martin, Paul was Paul Volcker. When he became president of the Federal Reserve Bank of New York, he automatically became Vice Chairman of the FOMC. More than any other Reserve Bank president, he saw what the issues were. My own view is that his service on the FOMC made him ideally suited.

MR. SMALL. Someone could have said, "Here's a guy who dismantled Bretton Woods, and Bretton Woods was a force for discipline on monetary and fiscal policy, at least in the long run."

MR. BRIMMER. Here's a guy who recognized that Bretton Woods's day was over. He recognized that the world had changed, and a new regime was now required.

MR. SMALL. Do you think the world changed, or just that there wasn't any fiscal or monetary discipline in the United States, and that blew it out of the water?

MR. BRIMMER. Oh, the world had changed. The big change, of course, was the decline of sterling and the rise of the dollar versus sterling. And next, Europe had revived. Henry Wallich wrote a book in 1955 called *The Mainsprings of the German Revival,* in which he flagged the coming role for Germany. Most Americans were slow to see that, but Henry saw it clearly.

MR. SMALL. Henry Wallich had a long tenure at the Board as a Governor from 1974 through 1986.

MR. BRIMMER. Henry replaced Dewey Daane.

Inflation and Recession in the 1970s

MR. SMALL. When Chairman Burns called the Board meeting after the Camp David economic summit, what did he say about the risks of monetary policy or the proper conduct going forward? Let me preface it this way. People say—and it's easy to think—that if you have wage and price controls in place and you are easy with monetary policy, the ease in policy doesn't show up in higher inflation because you have wage and price controls in place, and then you get real growth. When you take off wage and price controls, you pay the price by having higher inflation. Was there a discussion early on about the risks of how to conduct monetary policy under the new regime of wage and price controls?

MR. BRIMMER. No. There was little or no strategic planning. These were dealt with as tactical questions—practical implications. These were not theoretical discussions.

MR. SMALL. When wage and price controls were relaxed, inflation picked up quite noticeably and quickly. Was that a surprise to the FOMC?

MR. BRIMMER. The real boost in inflation came in 1973 after the oil embargo and the oil boost. Monetary policy didn't have anything to do with that. You might say that monetary policy facilitated it, but OPEC (Organization of the Petroleum Exporting Countries) produced that boost of inflation.

MR. SMALL. Would your sense be that, absent OPEC but with the relaxing of wage and price controls, the Fed had a good control on inflation, and things would have developed towards lower stable inflation?

MR. BRIMMER. I've forgotten what the length of time was, but the time lag between the end of wage and price controls and OPEC action that produced inflation wasn't a lot of time. No, the Federal Reserve discussions about inflation after that were dominated by concerns about the propagation spreading out of those OPEC effects.

I remember that Arthur Burns was in Europe, maybe at BIS (Bank for International Settlements) meetings, when the OPEC embargo came. Arthur came back early from his European trip. It wasn't quite as dramatic as Paul Volcker, years later, coming back from Europe and insisting on the strike against inflation in October 1979. This wasn't as dramatic as that.

Arthur came back from Europe an anti-inflation hawk. He was propelled to that position by the oil [shock]. Oil was trading at $2.00, $2.50 a barrel, and it jumped to $10.00. That was a huge shock. That was picked up immediately in the producer price index. The CPI (consumer price index) lagged, but the first real boost showed up in the futures market and then in the spot market. That spread through the economy very quickly as an increase in cost. Businesses had no trouble in passing the increased cost on in higher prices. That is what dominated our discussions about inflation in those days—following that period—rather than the contribution of monetary policy to inflation.

MR. SMALL. So inflation actually came back down. Depending on your measure, it was back around 5 percent by the time you left the Board. You had the rise up in inflation and OPEC. When you left in 1974, inflation was still pretty high.

MR. BRIMMER. It was still pretty high. I left the Board at the end of August 1974 and went back to Harvard to teach in the Harvard Business School.

President Ford called a White House conference on inflation in September 1974. I was invited to participate in the conference. I remember talking to President Ford at the time about inflation. One of my favorite pictures in my files is my picture with President Ford talking.

There was the famous WIN buttons—Whip Inflation Now. I told President Ford that I was delighted to wear my WIN button, but that wasn't the problem anymore looking ahead. I said that, when I looked at inflation in that context, I'm looking in the rearview mirror. If I look ahead, the real threat is recession. I said that all the indicators are suggesting that. Remember in those days how we discussed this problem: We talked not just of secular growth, as we do now, but of the business cycle—upper turning points, peaks, troughs.

I said that, while the inflation index showed that inflation was still rising, the underpinnings—that's another favorite phrase we used in those days—the underpinnings for the real economy are weakening. And that since aggregate demand would start falling soon, what we'd be faced with is a need to take countermeasures to forestall the recession from becoming too severe. President Ford said, "That's interesting. Nobody has said that to me before. Send me a memo." And that's what I did over the next several months—the rest of September and October. By late October, I sent the President a memo, a message. And, by that time, what I feared was already becoming evident.

I proposed a 10 percent rebate of income taxes for 1974. I didn't focus on future tax cuts—I wanted a rebate right now. I sent copies of that memo to Arthur Burns. Alan Greenspan was the chairman of the Council of Economic Advisers. I sent it to him. I didn't send Paul W. McCracken a copy, but I got a call from Paul about a week or 10 days after I sent the memo to

President Ford.[44] Paul told me he was in Washington. He was still doing some moonlighting for President Ford, and the President had asked him to take a look at my proposal. Paul thought it was an intriguing idea, and he called me to learn more about my thinking.

I'd done some calculations. At the time, I was at Harvard Business School, but I was also working with Otto Eckstein at Data Resources, so I had access to DRI models. We ran a number of regressions and ended up estimating what the yield might be from the rebate and what impact it might have on spending and investing.

I summarized the results in my letter to the President. Paul Volcker wanted to know about that as well. He particularly focused on the implications for consumer spending and employment. President Ford adopted the idea. Sometime in mid-December, Ed Dale of the *New York Times* had a story on the front page. He called me on a Friday and told me that his story was going to appear on Sunday—on the front page, not the business page—saying that President Ford had accepted my idea.[45] It was obvious to me that Ed had talked to Paul McCracken.

President Ford included that proposal in his economic message. It was introduced very early, maybe as early as late February or early March. In any case, by the end of April, the Congress had approved the proposal. The Congress had adopted a stimulus package, and I believe there was some $22 billion of stimulus, and $8 billion came from the rebate.

But to go back: I didn't have an inflexible view of inflation or even what the real problem was. As I said, for me, by September 1974, the emerging threat was from recession, not from continued inflation.

[44] Editor's note: Paul W. McCracken served as chairman of the Council of Economic Advisers under President Nixon from February 4, 1969, to December 31, 1971.
[45] Edwin L. Dale, Jr. (1974), "10% Tax Reduction to Spur Economy Is Urged on Ford," *New York Times*, December 22.

I continued to follow Federal Reserve issues, but not as closely as I had before. In October–November 1974, I wrote an article: "Monetary Policy and the Campaign against Inflation." On April 9, 1975, "U.S. Monetary Policy: A Critical View" was in *Financial World.* And so for rest of 1974 and at least into early 1975, I was writing and thinking about monetary policy.

Ranking Federal Reserve Chairmen

MR. SMALL. How would you evaluate the different Chairmen over the years? They had different challenges, different Boards, different working environments.

MR. BRIMMER. Oh, yes. I got to know all four of them. I put Marriner Eccles number one, Bill Martin number two, Paul Volcker number three, and Arthur Burns number four.

MR. SMALL. What would be a summary capsule of why you rate them in that order?

MR. BRIMMER. Marriner is number one because he restructured the Federal Reserve. The Banking Act of 1935 was a towering achievement.

Bill Martin is number two because of the Treasury–Federal Reserve Accord. And as I mentioned in that appreciation I wrote, he kept the politicians at bay, including President Johnson. But, above all, he kept Richard Nixon's hands off the Federal Reserve. He rejected Richard Nixon's overtures. I think I talked about this.

MR. SMALL. To become Secretary of the Treasury.

MR. BRIMMER. Yes. Those were two achievements of Bill Martin. And he was from Missouri, so he was bucking Harry Truman, too. But he did it in a diplomatic way. He achieved the results he felt were necessary. He knew how to deal with this abrasive politician to get the results he wanted.

I rank Paul Volcker number three, because he broke the back of inflation. And Arthur Burns is number four. I never knew Tom McCabe; I just read his bio. I knew G. William "Bill" Miller. I first met him when he was head of Textron, but I did not have much experience with him.

President Carter and the Federal Reserve—Credit Controls

MR. BRIMMER. After the 1976 election, Jimmy Carter had a meeting in Plains, Georgia. Carter invited a number of people down to Plains to talk about the challenges he faced. We met in his mother's house. Among the people there were Cyrus "Cy" Vance; Bert Lance; A.W. "Tom" Clausen, who was president of Bank of America; Irving S. "Irv" Shapiro, chairman of Du Pont; Alice Rivlin; Charlie Schultze; W. Michael Blumenthal; and me.

Jimmy Carter started off by saying that he was hopeful of benefiting from our views on what kind of challenges he would face, and he would hope that at the end of the day we would agree to come into the government to help him out. At one of the coffee breaks, I said, "No." This was in November or December 1976. I had left the government at the end of August 1974 after 11½ years. I told him, "I've been in government for 11 years, and I have just returned to the private sector. I'm not available." I was then serving as a director of Bank of America and of DuPont. At DuPont, I was a director and economic adviser. At Bank of America, I was a director and a member of the money and loan policy committee.

During one of the coffee breaks, Irv Shapiro and Tom Clausen and I got into a conversation. We were speculating about who was going to be asked to do what. We all agreed Bert Lance wanted to be the Secretary of the Treasury. One person said, "He's going to ask Tom Clausen to be Secretary of the Treasury. And he's going to ask Irv Shapiro to be Secretary of Defense." During the coffee break, both Tom Clausen and Irv Shapiro told me that Carter had personally asked each of them to consider being Secretary of the Treasury. We all agreed Cy Vance would be Secretary of State. I thought Alice Rivlin would be invited to be head of the Office of Management and Budget because she had started the Congressional Budget Office. We also thought that she would turn it down. I thought she would turn it down, and that Charlie Schultze would then be asked to head the budget. Juanita M. Kreps was there, and so was Ray Marshall from Texas. I thought Ray would be asked to be Secretary of Labor, and that Irv Shapiro would be asked to be Secretary of Commerce. That's before Irv told me that Carter wanted him to be Secretary of the Treasury. He headed DuPont. I thought that, with his business background, that position would be a natural for him.[46]

After the Plains meeting, all of us returned to our home bases. I got home, and there I saw Jimmy Carter, President-elect, with a reporter, who asked him, "Governor Carter, are you going to Washington, D.C.? The rumor is, you're going to go on a familiarization visit to Washington, D.C." He said, "That's true. I am going up in a few days." The reporter asked, "Will you keep Arthur Burns as Chairman of the Federal Reserve?" Carter said, "I don't know. I will meet with Dr. Burns, and I will make up my mind after I meet with him."

The next day I called Monroe Kimbrel, president of the Federal Reserve Bank of Atlanta (1968–80). I had met Bert Lance in the Plains meeting. I asked Monroe to talk with Bert Lance and ask him to brief President Carter that the Chairman of the Federal Reserve had a fixed term, and therefore he couldn't replace him unless he was willing to be replaced. In the meantime, it made the governor look bad, creating unnecessary difficulties. He didn't have to deal with that issue now.

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[46] The following people became part of President Carter's cabinet: Juanita M. Kreps became the first female Secretary of Commerce (1977–79), Ray Marshall became Secretary of Labor (1977–81), Cyrus Vance became Secretary of State (1977–80), and Michael Blumenthal became Secretary of Treasury (1977–79). Bert Lance became the director of OMB. Irving Shapiro was an adviser to President Carter.

Monroe thanked me for spotting that issue. He told me he would talk to Bert Lance that day or the next day. Within two hours, Monroe called me back. He said, "I've talked to Bert Lance. He's already talked to Carter. And Jimmy Carter wants me to thank you for pointing out that issue." He said that Carter visited with Arthur Burns in Washington and, as he was leaving the Federal Reserve, Carter said he had a very good meeting with Chairman Burns and looked forward to working with him. But Carter was always suspicious of Arthur.

Carter would invite several of us over from time to time. In one particular meeting, I was there with a couple of other informal advisers. Carter talked about the question of credit controls. Paul Volcker was the Fed Chairman.

MR. SMALL. This was right before the 1980 credit controls?

MR. BRIMMER. Yes, while they were still being discussed. Carter told us what his plans were. He wanted to introduce credit controls and have the Federal Reserve administer that. I told President Carter that I thought that was a bad idea. I shared with him my view that, during the Nixon Administration, Arthur Burns was conflicted. He had come down in the middle. I told him that Connally wanted fixed interest rates and, basically, to take over the Federal Reserve. I told him that Arthur had resisted, and he had come up with the Committee on Interest and Dividends. I thought the committee was a mistake.

MR. SMALL. If they didn't have the committee, then they would have put interest rates under price controls. You wouldn't want that.

MR. BRIMMER. No, of course not. That was the compromise that was possible; it was not because I thought it was desirable. By the way, there were four or five of us there, and I think we were all outside advisers—we were not in the government. We advised Carter not to impose credit controls. But he did impose them, and he gave the Federal Reserve the burden of administering them.

Well, I was saying that Jimmy Carter was always suspicious of Arthur Burns.

MR. SMALL. In what way? That he was a Republican? That he would be for tight money?

MR. BRIMMER. Tight money, tight money. Jimmy Carter wanted to replace Arthur Burns from the very beginning, but he couldn't do it. So he took the very first opportunity that he could do it. Carter let it be known quite early that he would not reappoint Arthur Burns.

Chairman G. William Miller

MR. BRIMMER. President Carter appointed Bill Miller to be the Fed Chairman. Bill was not confirmed quickly. There were a number of questions put to him. He had to appear before the banking committee a second time. Of course, he was eventually confirmed.

Miller was never comfortable at the Federal Reserve. Soon after he came in, he voted against the discount rate change and lost. That had never happened before. No Federal Reserve Chairman, certainly not in recent times, had lost a vote on the discount rate.

MR. SMALL. They hadn't lost a vote, in part—especially under Martin—because you wouldn't call for a vote unless you knew the outcome?

MR. BRIMMER. That's right. You knew the outcome. Up or down, you were ready for it. Bill Miller never grasped, never understood the process, or his role. He saw himself just as another member of the Board.

When I first started studying the Federal Reserve, even before I started working on my dissertation, I always said, "Every Board member has a vote, but the Chairman has a voice as well as a vote."

Bill was too beholden to Jimmy Carter. Bill had served as a Class C director of the Federal Reserve Bank of Boston. He came out for Jimmy Carter during the campaign—one of the few prominent businessmen to do so. So, from the very beginning, Carter wanted to include Bill Miller in his Cabinet. I've been trying to reconstruct whether or not Bill was in the Plains meeting after Jimmy Carter was elected.

Lessons Learned

MR. SMALL. If the Andrew Brimmer who left the Board of Governors in 1974 were to sit down and talk to the young Andrew Brimmer who came to Washington at the start of President Kennedy's "new economy" experiment and the Keynesian tradition, what would the wiser and older Andrew Brimmer tell the young one about (1) what he has yet to learn about economics and about policy and (2) what mistakes he might make or what is too simple or omitted from the younger Andrew Brimmer's understanding of policy and the economy?

MR. BRIMMER. A number of things. First, my craft improved immensely—the need to recognize the difference between theory and practice and to learn how to devise tools. I learned from the Swedish school of economists that, for any kind of strategic economic planning, you must have at least the same number of instruments as you have targets.

I learned that first thing the hard way. In 1965, when we instituted the balance of payments program in the Commerce Department, I asked my staff, "What measures can we take, in addition to persuading businessmen to reduce their expense for foreign direct investment? What about consumers?" Staff came to me and said, "Ah, duty-free allowance!" U.S. travelers going abroad can bring back, I think it was at least once a year, duty-free allowances. I think it was something like $2,000. That's a big drain. So they proposed that we reduce that. I believe we reduced it by something like half.

A few weeks later, I got a call from Joe Califano. He said, "Andy, the President has a visitor. He would like to send him over to the Commerce Department. I understand the Secretary of Commerce is away. So can I send him over to see you?" I said, "Who is this visitor?" He said, "It's Governor Ralph M. Paiewonsky of the U.S. Virgin Islands (from 1961 to 1969)." I said, "Send him over." So Governor Paiewonsky came over with his director of finance, a man named Leon Zuckerbraun. The governor walked into my office, and we settled down. He said, "Mr. Secretary, I understand you are responsible for this balance of payments program. Well, you've just about killed off my front street." I said, "What did I do?" He said, "When you reduced this duty-free allowance, my merchants lost virtually all of their substantial trade." I said, "Oh, my God." I called up my staff. It occurred to me that I had not asked my staff what the impact would be on A, B, and C. If we did this, we had looked at what benefits it would bring to the balance of payments program, reducing the deficit. I didn't ask what it would cost. I learned something.

I also learned—and this I learned here at the Fed as much as at the Commerce Department. As I said earlier, you should make a distinction between your hopes and your expectations. You must give thought and attention to what might turn out to be the unexpected consequences. It isn't obvious that I knew how to do that when I came to Washington in 1963. I certainly knew how to do that by the time I left the government in 1974. So the older Andrew Brimmer would try to explain that to the younger Andrew Brimmer.

MR. SMALL. Did your views on the cost of inflation change, or have they changed since? Alan Greenspan talked about stable prices to spur investment and give confidence to businessmen looking forward. Other people mentioned other costs.

MR. BRIMMER. It's only when I was in the Commerce Department that I actually started thinking about inflation, though I had given some thought to it before. In fact, one of the articles that I wrote was published in the 1971 *Review of Economics and Statistics* on that question. I wrote it when I was here. It was called "Inflation and Income Distribution in the United States." I worked with the Board staff. It was published. It's on page 3 of my bibliography, under Roman numeral two—selected journal articles and chapters in books. This appeared in the *Review of Economics and Statistics*, February 1971, pages 37 to 48. That shows the results of the analysis but also reflects some flavor of my thinking about inflation.

But as I indicated, when I came to the Federal Reserve, during the first year or so, I wasn't really thinking about inflation details. That didn't dominate my concerns because it didn't dominate the Board's concerns. At the Board, we were already on the path. I didn't try to push us off that path in any way, either to increase restraint or to reduce restraint. I spent much of my time learning those first years. But where I did have views, I didn't hesitate to express them.

More Reflections about the Federal Reserve

MR. SMALL. Have certain accomplishments of the Chairmen been underappreciated? Were certain members of the staff or the Board considered leaders who were not publicly acknowledged as such?

MR. BRIMMER. Before the Kennedy-Johnson years, few Board members gave speeches. They certainly didn't write journal articles, they didn't write books, and they didn't deal with these macroeconomic issues.

MR. SMALL. Didn't you run into some problems with Arthur Burns on public speeches?

MR. BRIMMER. Oh, yes. On several occasions, Arthur expressed to other Board members, "Damn it. I wish Andy had let me see that before he said it."

MR. SMALL. There's a story that Burns had you in mind for the ambassador to France or something. I forget where I've heard that story.

MR. BRIMMER. To get me out of the way?

MR. SMALL. Yes. You didn't have a sense of that tense of a relationship?

MR. BRIMMER. No. George Kaufman, who teaches at Loyola University, Chicago, and is at the Chicago Fed, sent me an email saying that he had read an article in which somebody had written, based on the Nixon tapes, that Arthur expressed a view or something, that maybe in some way I could be encouraged to leave the Board. That's the only time I've heard that.

Quite to the contrary, in 1967 I was sounded out about being appointed Ambassador to the Philippines by President Johnson. I said, "No." I mentioned it to Bill Martin, and Bill said he was pleased I didn't. I'd just recently come to the Federal Reserve. And being considered for ambassador to the Philippines wasn't something that had any comparative advantage—a strictly political appointment.

After Nixon was elected, his first Secretary of the Treasury was David M. Kennedy from Utah. He said he would like to talk to Dewey Daane and me about coming over to Treasury and take the post as undersecretary for monetary affairs. Bill talked to me about it separately and talked to Dewey about it separately. He said he told Secretary Kennedy that each of us was making a substantial contribution, and that he felt that we could contribute to the country much more where we were than we could by going to the Treasury. So Kennedy looked elsewhere. I think that may be when Paul Volcker came to the Treasury.[47] I might be wrong, but I don't remember who went to Treasury in that post.

Another time, when Ralph Bunche died—he was undersecretary of the UN (United Nations) for special political affairs—the Nixon White House wanted the United States to keep that post. This is on the UN itself—not on the U.S. mission to the UN, but the U.S. appointee on the UN Secretariat job. John M. Hennessy, who was assistant secretary of the Treasury for economic affairs (1972–74), talked to me about it and put my name forward. The politicians and the State Department wanted to send a former diplomat up there, and Treasury wanted me to go. Mills, or Miller—a congressman from upstate New York who, I think, was on the Ways and Means Committee—had an interest. He was a strong party member, so he got the post.

Bill Martin discouraged my participation in Administration activities. In the summer of 1969, I was visiting the Bank of Italy. I had been in Paris at the OECD, and then I was going on to Italy as the guest of the governor of the Bank of Italy. Then I visited the Bank of England. Gardner Ackley was then U.S. Ambassador to Italy. I'd been at the Bank of Italy, and I went to the hotel. We stayed at the Hassler—a famous old hotel at the top of the Spanish Steps. They knew who I was when I was staying there, because when I came in, the person on the desk said, "Dr. Brimmer, the manager has a message for you." I went to see the manager, and he gave me the note. Across the top it said, "Embassy of the United States." I opened it, and inside was a note from the military attaché—not from Gardner's office, but the military attaché—saying, "We are holding a message from the Secretary of Defense, and we would like to deliver it to you. Please give us a ring."

[47] Editor's note: Paul Volcker went to the Treasury in 1969 as the undersecretary for monetary affairs.

I called the Embassy. A short time later, this Navy ensign came over. It was a formal message from the Secretary of Defense, Melvin R. Laird (1969–73). He said he was communicating with me on behalf of President Nixon, who has a strong desire that I accept appointment to the President's Commission on Improvement of Defense Department Management.

I called Bill Martin the same day—because of the time differential, I could get through in the same day—and Bill said, "Yes, I knew that was coming to you. I told them you were abroad, but they said they were going to contact you as quickly as possible." Bill knew what the request was. He said, "My advice is not to do it, but we'll talk about it when you get back."

That was how Bill operated. Bill told me that he had always encouraged Board members not to get, as he said, "entangled" in Administration affairs. He told me how he'd advised other Board members. He said most Board members don't get invited to do things, and he reminded me of the view he had taken with Secretary Kennedy of the Treasury.

Later I had a couple of occasions, when I was here, to get entangled. I made a trip to West Africa visiting central banks in the summer of 1970. Reed Irvine—who has long retired from the Board but was in the Division of International Finance and was the specialist on developing areas—was staffing my trip, and he had assigned one of his junior economists to go with me. One day, Reed came in and said that he had a call from the State Department from the Bureau of Intelligence and Research—not the Economics Bureau, which was a bureau I had visited a number of years before when the Kennedy Administration was trying to find a place for me. Reed said, "They have learned about your planned trip to West Africa, and they called to offer their support to go along with you." I said, "Reed, is this the State Department or the CIA?" He said the CIA wanted to assign a staffer to me. They wanted to use me as a cover to provide someone on their staff to gather intelligence, research, and knowledge. I told Arthur about this inquiry. He said that rejecting that offer was wise, that I shouldn't get entangled in Administration affairs. He took the same view Bill Martin took.

My eight and a half years here took me into areas that were far broader than monetary and fiscal policy.

Financial Crises

MR. SMALL. We've talked about monetary policy and about consumer lending and financing. Let's discuss certain financial crises and the Board response to those during your time on the Board.

MR. BRIMMER. I would describe these as challenges rather than crises. Out of these challenges over the years grew what I've been describing as the Board's policy toward the abatement or containment of systemic risk in capital markets.[48]

The first episode occurred in early July 1970. This arose because of Penn Central. A provision had been on the books from World War II days—revived somewhat during the Korean War—which says that industries engaged in war production that cannot obtain accommodation from banks or otherwise from the private markets could borrow from the Reserve Banks. The requirement was, first, that they were clearly involved in defense production and, second, that they had bankable assets to place as collateral. That provision was used extensively during World War II. So, indirectly, the Reserve Banks financed a great bit of war production. The provision was still on the books but dated not from World War II, but from the Korean War days.

[48] Editor's note: Andrew F. Brimmer (1984), "The Federal Reserve as Lender of Last Resort: The Containment of Systemic Risk," a paper presented before a joint session of the American Economic Association and the Eastern Economic Association, Dallas, Tex., December 19, pp. 35–40.

The Penn Central Railroad was involved in transporting materiel for the Navy. Penn Central Corporation, in addition to being a transportation company, had a real estate development company in Florida. I think it was Arvida—whatever name it was. They had issued a fairly large amount of commercial paper, but the commercial paper matured in tranches of $50 million. Penn Central real estate, for a variety of reasons, was facing illiquidity, and it had been having losses in its other operations. Penn appealed to the U.S. Treasury for assistance. Penn told the U.S. Treasury that it had some commercial paper maturing, that it may not be able to roll it over, and it wanted to borrow from the Reserve Banks. Treasury asked the Federal Reserve to consider that request under that provision I described.

Chairman Burns put the issue before the Board. The lawyers explained what the procedures had to be. The Reserve Banks had to review the application, and they had to determine—given Treasury certification under the Defense Production Act of 1950 on the basis of Penn Central's hauling of war materiel—whether or not Penn Central had bankable assets.

It so happened that there wasn't anybody left in the Federal Reserve who knew how to do that. Penn Central was headquartered in Pennsylvania, but the commercial paper had been issued in New York. The Federal Reserve Banks of Philadelphia and New York had to provide the analysis and the assessment. There was no one in the Bank to do it, so either one or both of the Banks called back a person from retirement who had experience with that and used the rest of their staff. They looked at it and concluded that Penn Central did not meet the criteria. And besides that, the New York Fed staff determined that Penn Central didn't have any bankable assets in collateral that could be pledged. So the two Banks jointly gave their report, recommending that the application be denied. The Board accepted that.

We informed Treasury of the decision on a Friday. Penn Central's $50 million of commercial paper would come due on Monday. They would not be able to roll it over for whatever technical reasons there were. So Penn Central—at least that part of the Penn Central operation—was going to go into default.

That would be a blow to the commercial paper market. George Mitchell took the lead. Sherman Maisel and I worked out the following approach: We would tell the Reserve Banks—we're talking particularly about the Federal Reserve Bank of New York, because of its commercial paper matter—that they could lend to the banks who might lend to Penn Central. The commercial banks would have to take the risk, but the Reserve Banks would provide additional reserves so that the banks could make the loans.

Then the question arose—how do we get that word out to the banks? Al Hayes was away from the Federal Reserve Bank of New York, and so Bill Treiber—who was the first vice president, the number two person—was acting president. I drew the assignment for the Board. Sherman Maisel and Mitchell also had some assignment. I ended up working with Treiber and David Rockefeller to work out an explanation to the banks. I was speaking for the Board, Treiber was speaking for the New York Fed, and Rockefeller was the liaison for—he was at Chase Manhattan Bank. That was the first application of the Board's policy of stemming systemic risk: Don't underwrite the risk for the banks, but offset the risk for the market—stabilize the market.

Federal Reserve member banks couldn't invest in any paper below P2. So Penn Central's commercial paper was going to be unrated; those banks couldn't buy it. That was the first episode.

The second episode involved Franklin National Bank in Franklin Square, New York, on Long Island.[49] Franklin National had been a small regional bank that had come under the control of a man who was quite an entrepreneur. He built it into a major bank out of Long Island, which not only went "national" and sold a lot of commercial CDs, but it ballooned so that it—we're now into 1973 or 1974, midyear—had total assets of some $5 billion. It had issued bank CDs on the order of roughly $1 billion. And it had issued Eurodollars. It had Eurodollar deposits of roughly $1 billion in its London branch.

Franklin National wanted to buy Talcott Corporation, a finance company. Franklin National itself was under surveillance by the New York Fed, but the holding company was under overview by the Board. Franklin National filed an application to acquire Talcott. The Board turned them down and said the parent holding company could better use its time and effort to strengthen its bank. We knew—and the New York Fed so advised us—that if that application were turned down, Franklin National Bank—its CDs were rolling over—might not be able to hold on to its Eurodollars. Franklin National had also taken sizable positions in the foreign exchange market.

So we worked it out whereby the New York Fed would take over that foreign exchange position. This is described in the *Federal Reserve Bulletin* that we would allow Franklin National to borrow from the New York Fed to replace the bank CDs as they rolled over. And we would allow Franklin's London branch to replenish its reserves from Franklin National U.S. if it lost Eurodollars. But under no circumstance would we underwrite Franklin National's capital, though it was likely to have to declare bankruptcy. Our focus was on the stability of the CD market, of the Eurodollar market, and the foreign exchange market. That was explained in those

[49] Editor's note: Andrew F. Brimmer (1976), "The Federal Reserve and the Failure of Franklin National Bank: A Case Study of Regulation," in Jules Backman, ed., *Business and the American Economy, 1776–2001,* pp. 108–40.

terms. The objective was not to safeguard the institution—to prevent the institution from going bankrupt—but to stabilize and assure the viability of those elements of the money capital market. There were other examples.

MR. SMALL. With financial innovation and the development of these markets, it was having the Fed broaden out.

MR. BRIMMER. Exactly.

MR. SMALL. Now it was worried about commercial paper and foreign exchange. Some might call it "mission creep."

MR. BRIMMER. Exactly. I referred to it as broadening and deepening, increased appreciation of the mandates and obligations. Seafirst is an example. Continental in Chicago is an example. Seafirst was dealing with deposit runoff. Continental Illinois was really rescued by the FDIC, but under Fed guidance, because basically the FDIC bought stock and replaced the capital runoff. That's an example of the globalization of these markets as well, because you might recall what the issue was. The trouble started in Japan. But as the clock rolled west, there was increased difficulty of clearing deposits in time to prevent runoff.

All of this is described in that article in the *Journal of Economic Perspectives* called "Central Banking and Systemic Risk in Capital Markets."[50] For me, it's probably the most important article I ever wrote on monetary policy and central banking. Also, it had the most impact inside the economics profession. Chairman Bernanke and the newest Governor, Frederic Mishkin, mentioned that. Bernanke was the luncheon speaker at the joint luncheon of the American Finance Association and the American Economic Association a couple of years ago. I asked a question. In the economics profession, it's a question about "too big to fail." I asked

[50] Andrew F. Brimmer (1989), "Distinguished Lecture on Economics in Government: Central Banking and Systemic Risks in Capital Markets," *Journal of Economic Perspectives,* vol. 3 (Spring), pp. 3−16.

him about his attitude towards that. He said that this wasn't a concern, that the approach I described in my article was still the proper one.

So those are examples of the effort to combat systemic risk. I also described in that article the episode in 1987 with Alan Greenspan. Technically, that was a problem in the clearing mechanism. In a more general way, it's destabilizing markets.

Finally, after 9/11, then–Vice Chairman Roger Ferguson demonstrated the application of the principle when Alan was away. Roger told me he had told Alan what he was going to say. He put out a statement saying the Federal Reserve was open and would provide whatever reserves necessary. That's exactly what I said in the article needs to be done. And that goes all the way back to Walter Bagehot, who said that the Bank of England should be able to do whatever it needed, as much as it need. So that principle is pretty well embedded in the profession and in attitudes.

Some controversy arose over the application of the principle in 1998, when Long-Term Capital Management failed—over the role of the New York Fed. But I tell everybody, the New York Fed didn't put any money in that situation. It used its good offices in that it was guided by the principle of safeguarding the markets. It rears its head from time to time—now, about the subprime lending and hedge funds, whether they might expose the system to—and I hear echoes of that concern in Geithner's comments now at the New York Fed.

MR. SMALL. But it's not so easy to separate the two—the bank from the market—when you get into too-big-to-fail.

MR. BRIMMER. That's right. And that's the theme in whatever I was reading and seeing in that article—operationally, this has to be done through the Reserve Banks. They don't have to be more pure than Caesar's wife in this one. They can get their hands dirty a little bit but still not be completely contaminated. So those are the episodes there.

But, I said earlier, there's a limit to where the Board can be led against its will, and this reflects the most intense disagreement I had with Chairman Arthur Burns. That was over my recommendation that the Board adopt marginal reserve requirements on assets as opposed to on deposits, and it should do so in order to offer some protection. That's how it was read, but I said in my article and when I first put it forward—support for the housing market. That eventually was proposed as a bill in the Congress, and the Board split on that.

Congressman Reuss, who chaired the Banking Committee in the House, and above all, Senator Proxmire, introduced the bill empowering the Board to set reserve requirements on assets. The Board opposed it. In particular, Chairman Burns opposed it. In fact, the System split wide open on that. I made the speech proposing it at the Board.

When it was first proposed, Senator Proxmire asked the Chairman and me to appear together to testify on it. Chairman Burns objected. He said it would be inappropriate, because if he spoke, he'd be speaking for the Board as a whole. But the senator was free to ask me to come. Burns proposed that we testify on different days. It may have been worked out where he appeared in the morning and I appeared in the afternoon. In any case, we appeared separately. Our testimony was republished verbatim in the *Federal Reserve Bulletin.* I published it outside. One of the most comprehensive versions was published by the Federal Reserve Bank of Dallas.

MR. SMALL. So the idea was, you would have differential reserve requirements across—

MR. BRIMMER. On assets.

MR. SMALL. They differ across assets.

MR. BRIMMER. That's right. I had two versions. On the principle of Occam's razor, I said, have business versus mortgages. Those were the two big ones. Proxmire was anxious to see them different for consumer credit. But my focus was on business loans versus mortgages. The least disruption would have been to establish reserves on business loans only slightly above the reserves on liabilities. Now reserve requirements are just on demand deposits. At the time, there were differential reserves on demand deposits and time deposits. I wanted unified reserve requirements on deposits, but then separate reserves on assets. I would have had slightly higher reserves on business loans and much lower reserves on real estate assets—on mortgages. If you wanted to restrain business loans and encourage mortgage loans, you would raise reserves on business loans, lower reserves on mortgages.

The Board debated what its position should be. We split 4–3. Robby (J.L. Robertson) and Sherman Maisel voted with me. The rest of the Board voted with Arthur Burns. Arthur and I testified. Arthur recommended some minor change dealing with some of the minor questions. His testimony was 10 pages; 3 pages were devoted to my proposal. Whereas if I had testimony of 15 pages, all of it was devoted to my proposal.

The next year, I think, Reuss in the House introduced a bill. By that time, I think, Sherman Maisel had retired from the Board. And the vote was 5–2: Robby and me. The third year round, Robby had retired from the Board. So it was now 6–1. That was the last time that happened. That was 1973. I left in 1974, and the matter died.

MR. SMALL. What do you think of the risk-based capital requirements now? They go in the other direction, don't they? Mortgages are more risky, so they get a relatively higher penalty.

MR. BRIMMER. That's the Basel group.

MR. SMALL. Do you think that's a good development?

MR. BRIMMER. Oh, yes. Because, again, that is concerned with the stability of the system. That is not concerned with credit allocation. My proposal got to be known in the literature as the credit allocation proposal, which has quite some impact in the economics profession. And I'm told by one of my colleagues at the University of Massachusetts—I have an appointment at the University of Massachusetts as well—he's been doing some consulting with the United Nations Development Programme (UNDP). But on the UN committee, this lady who's working on trying to figure out ways to improve access to capital markets has come up with my scheme. So, well, that is the outcome of that.

Years later, when President Carter introduced credit controls, if you look at the legislation carefully, there's a provision that allows the Federal Reserve to set differential reserve requirements on assets. At some point during that regime, there was a use of differential reserve requirements. It didn't last very long, but Paul Volcker used it.

Bank Mergers and Acquisitions

MR. SMALL. Let's discuss your work in the theory of bank mergers and acquisitions. What motivated you? What were the principles there?

MR. BRIMMER. Long before the Glass-Steagall Act was repealed, banks were becoming more diversified. The holding company amendments in 1970 opened up the ability of banks, through their holding companies, to acquire nonbanking but financial-related assets. Sherman Maisel did the main work at the Board and took the lead in working out these categories.

It became clear that some banks would use that opportunity to get control of a bigger share of what, in fact, is the bank credit market. If you put your loans to real estate companies in a mortgage company—take it out of the bank and put it in a mortgage company—that wouldn't count as a part of the bank market share. But economically, it is. I ended up writing a long article on bank mergers. It's in my bibliography.

The Board had developed criteria for bank mergers: If the merger would lead to a diminution of competition, that was bad, but if it provided other benefits—if these offset—then you could approve. I did a fairly comprehensive study, and I looked at the record. Sometimes the Board had applied those standards rigorously and approved mergers on a narrow margin of benefits. Other times, it had turned down a merger.

But the real test came when Bank of America Corporation wanted to buy a nationwide finance company. I voted "no" on the argument that the finance company was, in fact, a bank. The Board had already denied the bank's application to hold on to Transamerica and also had required the bank to dispose of its out-of-state branches, which went all the way up to the northwest and as far east as the Rockies. I saw the bank's application to acquire this finance company as reestablishing its footprint, and so I argued that, as a minimum, the bank ought to be required to dispose of any assets west of the Rockies. With that change, the Board approved Bank of America's application for that finance company. And so I took the lead on that.

Later, a Japanese bank wanted to acquire a California bank that was a state-chartered bank but a member of the Federal Reserve. The Board approved that one, but I wrote a dissent that was published, along with the bank's approval order. That appeared one day. The next day I got a call from the Japanese Embassy. It was the economics minister in the Japanese Embassy—the number three guy in the embassy. He wanted to extend an invitation on behalf of the ambassador to dinner. I mentioned it to Arthur. He said, "Why don't you accept the invitation?" I did. They wanted to acquaint me with the reason they were thinking. So I, at least, got the Board to look at mergers and acquisitions in some different light than they had been in the past.

Long after I left the Board, Citigroup wanted to acquire Travelers—this is when Sandy Weill was taking advantage of the abolition of Glass-Steagall. He was building the empire. The acquisition required Board review. It looked at Citibank plus Travelers, and it looked at the market share issues and community reinvestment. That was the first most comprehensive application of the "consumer protection" issue. The Board had massive hearings, and it ended up writing conditions and specifications that Citigroup had to meet vis-à-vis community reinvestment.

A final one happened only a couple of years ago. Under the Community Reinvestment Act, the bank supervisory agencies monitor compliance with the act. The bank supervisory agencies established a size criterion for reporting, so "smaller" banks had to report as well, although the detail might vary. But the nonmember banks supervised by the FDIC brought pressure to ease these monitoring and reporting requirements. The FDIC introduced a proposal in the interagency committee—whatever that committee is called now—to raise the size limit. That would have cut the number of banks required to report by a substantial amount. I understand that, in a discussion at the Federal Reserve, the FDIC initiated that. The proposal was published in the *Federal Register*, and there was a great outcry and discussion. I was told that the Federal Reserve did not join the meeting, had not supported a cutoff as high as the FDIC. The Fed's proposal would have resulted in more banks continuing to report. I'm told that's what happened in the end. But, again, this suggests that the Federal Reserve has come to have a much broader view of its role beyond the narrow one.

MR. SMALL. So you left the Board, and you've been very active since.

MR. BRIMMER. Oh, yes—in the money and financial arena, especially the capital markets arena. And there are several episodes I'd like to mention where I have continued to participate in issues of interest and concern to the Federal Reserve. My company is an economic and financial consulting company.

The Hunt Brothers

MR. BRIMMER. I became a public governor of Commodity Exchange Inc. (COMEX). COMEX is the futures market, but with special emphasis on metals. The big instruments were copper, silver, and gold. I joined COMEX in June 1978.

In 1979, the Hunts of Texas decided that inflation was the greatest threat in the long run, so they proceeded to liquidate their financial assets and shift them to physical assets. They chose silver. The Hunts traded through the silver contract. These are three-month contracts. Traditionally, as contracts mature, the investor either rolls the contract over or takes cash. Typically, it's rolled over. And this is all handled through brokers. The Hunts decided, as their contracts matured, to take warehouse receipts. They would present the receipts to the warehouse, claim the silver, crate up the silver, put it on an airplane, and ship it off to Switzerland, where it was put in a bank vault.

MR. SMALL. Why Switzerland? There wasn't anything about secret banking.

MR. BRIMMER. Oh, no, this is safekeeping.

MR. SMALL. Why not a bank in the United States?

MR. BRIMMER. We eventually ended up having a lot of contact with the Hunts. Nelson Bunker Hunt was a principal. In one of our discussions, when I asked him why they were shipping off the silver to Switzerland, he said, "Because, who knows, the United States might confiscate, may freeze it." And he said to me, "Why do you think President Charles de Gaulle took the French gold out? He took it home."

When they started, silver was trading for $4.90 an ounce. As they put the squeeze on the market, the actual supply of silver shrank, whereas demand remained the same for industrial purposes or rose. The big demand was photographic—not jewelry—but, increasingly, electronics and so on. The price rose. The peak was something like $52 an ounce. As the pressure rose, we tried to persuade the Hunts to roll over their contracts. We began to negotiate with them, but they resisted.

Naji Nahas was a graduate of Columbia University and a businessman of Lebanese descent who lived in Brazil. He traded in commodities. He also began to trade in parallel with the Hunts. They had come together through their horses. They both owned horses and raced them. Nahas told me that he traded in seven currencies every day, and he cleared his books every day at the end of the day.

The Hunts were the ones who were in the scheme: the three brothers—the two known brothers and the third brother who came to the forefront when this was discovered. That was the brother from the Hunt family in Louisiana, whereas Nelson Bunker and Herbert Hunt were the Texans. Bache was the principal broker for the Hunts.

We finally intervened to the point where we issued an order limiting the trading of silver futures contracts for liquidation only. And so the price of silver began to drop like a lead balloon. That meant they could buy new contracts, but only to liquidate old contracts. The brokers at some banks had lent the Hunts money, and they'd used the contracts as collateral. But now the contracts could only be liquidated. So the collateral was shrinking. Margin calls went out to the Hunts. Bache, their principal broker, also lent them money. Citibank was particularly strong in this market and lent money to others borrowing on contracts. In order to meet the margin calls, Bache had to liquidate the contracts. So Bache came under pressure. The silver market hit a peak in late January. We issued our order in late January 1980. By mid- to late March, the market was under a great deal of stress.

Bache's chairman came to Washington. He visited with Treasury, with Paul Volcker at the Federal Reserve, and [with] the White House; trying to get the Carter Administration to close the markets.

Paul Volcker called me. I was in Chicago and didn't get his call until the next morning. I called him back, and he told me the situation and asked my advice. I said, "Do not close the market, because you can close the U.S. market, you can't close the London market. And the contracts are traded in London as well as New York." Paul agreed.

That meant that the Hunts and Bache were now on the verge of bankruptcy. The Hunts had liabilities over $1 billion. Much were to brokers and to the banks.

The question was, how would that be resolved? Paul Volcker resolved that. Remember, the Carter credit controls were in place. It was a version that said the banks should not lend money for speculative purposes. So, even if the banks had wanted to, they couldn't accommodate the Hunts unless Paul Volcker gave them permission, because the Chairman of the Federal Reserve had the authority to issue exemptions to the rules under regulation.

Paul Volcker negotiated with the bankers at a meeting of the American Bankers Association Monetary Conference in Boca Raton, Florida, whereby he would give the banks an exemption to make the loans. The question arose about the collateral.

The Hunts' silver was now impounded, for all practical purposes. It was tied up. They can't pledge that again. Besides, the value has shrunk substantially. So the Hunts had to find other assets. They had an oil company—I've forgotten the name of it—which was free and clear or had very little debt on it. They pledged that.[51] But now this is the family—this isn't just individual, because they were trading as a family. They pledged their art collection. And above all, they pledged their horses. Later on, I overheard Nelson Bunker Hunt say that losing $1 billion was one thing, but having to pledge his horses was the thing that really pained him most. So that's what happened in that episode.

My motivation was saving the viability of the futures market. Paul Volcker's objective was to do the same, to assure the viability of that part of the money and capital markets. The Hunts were not too big to fail. The objective wasn't to underwrite the Hunts, and it wasn't to underwrite the brokers. It was to assure the viability of function of that piece of the capital market. I've written about that extensively. And that's another application of the systemic risk problem.

MR. SMALL. What's the connection between their failure in 1980 and Paul Volcker in 1979 taking on inflation with high interest rates?

MR. BRIMMER. The inflation of 1979 reinforced the Hunts in their conviction. But they already had that conviction.

MR. SMALL. Did the high interest rates hurt them?

MR. BRIMMER. No. They were paying the interest rates when they borrowed the money. That wasn't a problem. Their objective was to acquire the silver. They paid the market price for the silver, and they paid whatever interest rates they had to pay on the loans to acquire. So it was the Hunts' view about secular inflation that motivated and drove them. And I was drawn into it, and COMEX was drawn into it. It was our institution. They misused it, so we had

[51] Placid Oil Company.

responsibility as COMEX, and I, as chair of the compliance committee, had particular responsibility as a public governor to assure the orderly functioning of that institution. And the Hunts were exploiting that system for what I considered improper purposes.

Paul Volcker's responsibility was to safeguard—firstly, to operate the credit control system (the President had vested that authority) and now the credit controls. President Carter posited credit controls as an instrument for fighting inflation—not to go all the way to wage and price controls, but to take the pressure off interest rates and so on. He had a view that really was reflective all the way back to President Herbert C. Hoover (1929–33), that the speculator was absorbing any growth in the credit that otherwise could be used for productive purposes.

MR. SMALL. Almost goes back to "real bills."

MR. BRIMMER. That's right. An unfortunate conjuncture of circumstances got the Federal Reserve involved.

Inflation Targeting

MR. SMALL. What are your thoughts about current monetary policy and the debate about inflation targeting and the role of that or the dual mandate?

MR. BRIMMER. There's a paper on inflation targeting. I came out with the first view expounded by Paul Volcker and initially by Alan Greenspan. What is the objective of inflation targeting? It is to increase the public's confidence in the commitment by the central bank to fighting inflation, the government's commitment to fight inflation. My article summarizes the results of five papers presented at the economists' meetings a few years ago on inflation targeting. The Israeli experience and the Brazil experience were outstanding, but you also had the Australian and the Canadian experiences.

Paul Volcker and Alan Greenspan took the view that the Federal Reserve was already independent of the Administration, and so the Federal Reserve didn't need to have inflation targeting to be protected from the aggressive behavior of the government. In those countries, especially in Australia and Israel, the central bank came up with a target, and the government made the commitment to support it and to run its own operations in such a way that it would not contravene.

These were relatively successful. But the institutional setting, the relation between the central bank and government—let's say, it's the treasury, minister of finance—was such that the central bank was less independent than the Federal Reserve. In some of the countries, it was basically a bureau of the treasury. So under those institutional settings, and in those countries, the approach was to set a formal target and to manage it in such a way to prevent inflation from going above the target. Essentially, what the central bank did was commit itself to take whatever actions necessary to bring it back down below the target. And the central bank did that. The results were substantial.

In my article and in all the other papers I've presented in the *North American Economics and Finance Association Journal*, and in the arguments in the underlying papers as well, one could argue that those successes were due as much to government restraint as central bank restraint on the money supply.

I didn't think it was necessary for the Federal Reserve to do that. And I didn't think that it was necessary for the Federal Reserve to have a formal ranking of targets. The Federal Reserve has enough flexibility and enough wisdom to operate the system in such a way that it comes out with the same or similar results.

Bretton Woods

MR. SMALL. What is your broad view of the Bretton Woods system?

MR. BRIMMER. The Bretton Woods framework was out in 1944 although not fully implemented until 1947. I got into economics in 1948, so I grew up with Bretton Woods.

MR. SMALL. You put a lot of work into it. And Paul Volcker put a lot of work into it.

MR. BRIMMER. Well, the systems were going already. And I learned about the system. By the time I came into government, really working on it with some official responsibility—started in 1963—the Bretton Woods system was already unraveling. And when you think of Bretton Woods, we have to differentiate between the IMF and the World Bank. The IMF is the one that is of most interest here, exchange rates and so on. Remember, Keynes's conception was a unitary system, both the bank and the fund. In the implementation, the burdens fell primarily on the IMF, because the World Bank's principal challenge was reconstruction in Europe. Economic development in the developing countries came much later.

The fixed exchange rate system was, I believe, a narrower implementation of Keynes's key currency idea. When they said fixed exchange rates, they fixed it in terms of the price of gold. And the United States set the price for gold. Also, the United States was the strongest trading and financing unit. It also had gold, and it also was the strongest operator of the system: exchange rate system, trading investment system. The United States set the dollar–gold exchange rate. Other countries then managed their own currencies and activities against the dollar. That meant that the United States de facto managed the system.

That worked as long as the United States was the dominant economy, dominant player in the market. But as recovery happened in other countries, other areas, and especially as Britain declined and as Germany rose, and, finally, as Japan rose, the key currencies were dollars, pounds, yen. The deutsche mark later became important. And so, as the trade imbalances emerged, the financial flows imbalances emerged and became the more intense. Then there was pressure on exchange rates to change.

Inflation was more a domestic phenomenon than an international phenomenon. The pressures on the exchange rates arose primarily from imbalances in trades and trading payments and not so much from imbalances in monetary policy.

MR. SMALL. Do you think there were times when monetary policy was altered because of the international implications, altered from what it would have been had it focused totally on domestic considerations? Such as higher interest rates to defend the dollar than—

MR. BRIMMER. No. That was the basis of the Kennedy Operation Twist.

MR. SMALL. But during your term on the Board?

MR. BRIMMER. No, no. In fact, during my term on the Board, some of my most interesting experiences came because the United States was committed to Britain on this. That's the basis of the swaps. In November 1967, the pound came under a great deal of pressure. The United States was committed to defending the pound with Britain, encouraging Britain not to devalue.

In November 1967, I was on my way to an OECD meeting—Economic Policy Committee. Dewey Daane and Fred Deming were already in Europe. The British had said they would defend the pound. I stopped to assure them that we would defend the pound. Then I went on to Paris. And a friend of mine told me, "I see the British let the pound go." I said, "No, we're defending it." He said, "I just left Frankfurt, and in Frankfurt the worry was that the British had devalued." It turned out that he was right. The pressure was just too great. But the Federal

Reserve did not modify monetary policy to do that. We were prepared to support them in any case.

Conclusion

MR. SMALL. Reflecting back on our three days of interviews, it's quite a span of accomplishments from a young boy in Louisiana picking cotton.

MR. BRIMMER. Yes. But it wasn't a surprise to me. In one sense, there's a feeling of conceit. I would say, I came to the job as a Federal Reserve Board Governor probably as well prepared, or probably better prepared, than anybody else in recent time. Paul Volcker's training and experience was as great as mine, if not greater.

MR. SMALL. I'd like to thank you very much.

MR. BRIMMER. I've enjoyed this.