Federal Reserve Board Oral History Project

Interview with

Alan S. Blinder

Former Vice Chairman, Board of Governors of the Federal Reserve System

Date: July 15, 2010

Location: Princeton, New Jersey

Interviewers: Winthrop P. Hambley and David Lebow

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.

Contents

MR. HAMBLEY. Today is Thursday, July 15, 2010. We're at the Princeton University offices of Professor Alan Blinder, who served on the Board of Governors of the Federal Reserve System as Vice Chairman from June 27, 1994, until January 31, 1996. We're interviewing Dr. Blinder for the Board's Oral History Project. I'm Winthrop Hambley, a senior adviser in the Office of Board Members. I'm accompanied by David Lebow, deputy assistant director of the Board's Division of Research and Statistics. David served as Dr. Blinder's special assistant during his tenure as Board Vice Chairman.

Thank you for agreeing to talk with us, Dr. Blinder.

MR. BLINDER. You're welcome.

Background

MR. HAMBLEY. Let's start with background on your pre-Fed days. Why don't you start by telling us about your early days.

MR. BLINDER. Like a lot of economists, I drifted into economics because I wasn't good enough to do mathematics. I learned this when I was a Princeton undergraduate, so I majored in economics as a college student. Sometime after that, probably when I was in England, I decided that the career for me was [that of an] academic economist. The first year after college graduation I went to England on a Fulbright scholarship to LSE (the London School of Economics), where I did a master's degree. At that point I still wasn't committed to go on to a Ph.D. and become a professor, but I think that must be about when it happened.

MR. HAMBLEY. Did you overcome your math difficulty later in life?

MR. BLINDER. Never! It's gotten worse.

MR. HAMBLEY. In your economics training, were there people that were important influences on your development, people who encouraged your development and saw that you had potential?

MR. BLINDER. Yes, definitely. I think I would single out Burt Malkiel, and the graduate student that was working for Burt at the time, Nevins Baxter. He became a consultant rather than an academic. In a course in corporate finance that I took as a sophomore, they took a keen interest in me as an exceptional student. It helps a young tyke—I was 18 or 19 then—to have somebody tell you that, I don't know how to put this, you're better than the rest, and it would be nice if you entered this discipline. [Laughter] Bill Bowen was also one of my top early teachers.

MR. HAMBLEY. The labor economist?

MR. BLINDER. Yes, but he was teaching macro—Economics 101, we called it at Princeton. I had macro with him. But I think it was more Burt Malkiel, who's still my colleague here at Princeton.

MR. HAMBLEY. Yes. He just published another version of his book *A Random Walk.*

MR. BLINDER. *A Random Walk down Wall Street.* Yes, a new edition comes out every few years.[1]

MR. HAMBLEY. Were you always interested in macroeconomics and monetary policy?

MR. BLINDER. No. In graduate school I did macro. If you were at MIT with Paul Samuelson, Bob Solow, and Franco Modigliani and you didn't do macro, you should've had your head examined. I guess I didn't need my head examined. I did that, but I wrote my dissertation on income distribution, which is micro, and my main field—I laugh at this now—

[1] Burton Malkiel (1973), *A Random Walk down Wall Street* (New York: W.W. Norton).

was what MIT called at the time Advanced Economic Theory. The notion that I was a theorist seems silly, but back then there wasn't even a field called mathematical economics. This was as high tech as it went. Bob Solow was my main thesis adviser. But I had always a secondary interest in macroeconomics, and when a job came open at Princeton, Dick Quandt, who was department chairman at the time, called me up at MIT. He said they had a late vacancy because somebody who wasn't getting tenure got a new job and quit. He asked, "Could you teach graduate macro?" I gave the only answer a 25-year-old can give when you ask a question like that: "Sure." So that's really what converted me into a macroeconomist.

MR. HAMBLEY. Did you find you had to scramble at that point before you were ready? [Laughter]

MR. BLINDER. I did. I started going over the notes of what had been taught to me and putting together a curriculum and so on, yes.

MR. HAMBLEY. And you probably discovered that when you have to teach something, you have to learn it a lot better.

MR. BLINDER. Every teacher discovers that. That's when you really learn the subject, absolutely.

MR. HAMBLEY. Later in your career you were at CBO (the Congressional Budget Office) for a while.

MR. BLINDER. In my first government job I was also very young. I was one of the founding fathers of the CBO. The founding mother was Alice Rivlin, and I was three rungs below her. I was perhaps the 22nd employee of the CBO—it was just getting started—but that was only for a lengthy summer in 1975. An academic, if he stretches both ends, can have a very long summer. Then I came back to Princeton to teach. One of the things I learned, by the way, which may be apropos to what comes later in your interview, is that Alan Greenspan, who was then the chair of the CEA (Council of Economic Advisers), was right—stunningly to me at the time—that if you dug into the data deeply, what was then the biggest recession since the Depression, 1973 to 1975, was fundamentally an inventory cycle. When Greenspan first said this, I said to myself, "Is he crazy?" Then I looked at the numbers. He wasn't crazy at all. You learn that about Alan Greenspan quickly when it comes to him and numbers. I remember that incident because Nancy Barrett, Frank DeLeeuw, and I wrote the first report of the CBO in the summer of 1975 on the economy, the big recession, what were then the policies to get out of it, and so on.

Until I joined President Bill Clinton's Administration at the beginning of the Administration, that was the only time I worked in government, and it was only about three and a half months. Then I was a consultant to the CBO for a while, but that's it.

MR. HAMBLEY. When we interviewed Alice Rivlin, she talked about the challenges of putting together an organization like that, which ultimately emerged with a tremendous reputation for professionalism.

MR. BLINDER. Absolutely.

MR. HAMBLEY. Were you involved also in recruiting other people?

MR. BLINDER. No, I was not at that level. Alice and others were doing that. Alice did a great job in getting the CBO off on such a good first foot.

MR. HAMBLEY. Did you have somewhat the same vision of that organization as a nonpartisan adviser to the Congress?

MR. BLINDER. Yes. Absolutely, yes. But what I thought brashly as a young man was that the CBO should, so to speak, be more brash—that is, not kowtow to the Congress and just tell it as it is. Alice had a more mature view—and much more correct. I now realize that, and I realized that a long time ago. But I didn't realize then—I was only 30—that getting along with the Congress and not continually telling members that they're a bunch of dopes is the smart thing to do. Of course, she was right about that. [Laughter]

MR. HAMBLEY. You had also worked at the CEA under Laura Tyson, and she had been your classmate, is that right?

MR. BLINDER. Yes. It's hard to label my class, because I was on the speed plan at MIT. We entered at the same time, but I exited two or three years before she did. I was moving fast.

MR. HAMBLEY. At the CEA, did you do forecasting?

MR. BLINDER. Yes. There was the Troika process (CEA, OMB [the Office of Management and Budget], and the Treasury). I think they still do it, right? The CEA macro person was the head of the Troika, and so that was my job. I was the head of the Troika. We prepared what we called—this wasn't in the CEA report—"the pizza forecast" in my office in the opening days of the Clinton Administration. The budget can't go forward until they have a macro forecast, as you know, so we had to do this quickly.

I think that Inauguration Day was on Tuesday. So I think we produced this forecast on Wednesday night—we had been working on it in the transition—over pizza in my office at the CEA. I often tell people this: For accuracy, it was a lousy forecast. It was a five-year forecast made in 1993, so we've known for a long time that it was a poor forecast. But there's no hell to pay if you do much better than the forecast. The economy well outperformed our forecast, and nobody ever complained to me about how bad that original forecast was. [Laughter] We didn't nearly foresee how good things would become.

MR. HAMBLEY. Such a forecast would have implications for any budget policy that the Administration might propose.

MR. BLINDER. I was completely cognizant of that. If we had accurately forecasted what was going to happen in the next five years, it would've been viewed as pie in the sky. We would've been laughed out of office, and the markets would have gone kaplooey on the grounds that a bunch of crazy people had just taken over.

MR. HAMBLEY. Right. But you presumably made your boss's budgetary task a little bit harder by not using what used to be called a "rosy scenario."

MR. BLINDER. We were absolutely not going to produce a rosy scenario. We were very cognizant of the problems in doing that, and, in fact, it went right to President Clinton to decide between using the CEA's macro forecast, the one we produced, and the CBO's, which was more pessimistic. He chose the CBO's, thereby making it harder for us to show good budget numbers but enhancing our credibility with the financial markets. So, in that first report, we published the forecast as we thought it would be, but then we said [that] we're actually running the budget off a weaker forecast.

MR. HAMBLEY. It's encouraging to have people start with a premise in budgeting that they would rather be too pessimistic than otherwise.

MR. BLINDER. Well, that's what we did, and as I said, that one came right from the President. There were two sides that argued the case in front of the President, and he said, "Use the CBO."

MR. HAMBLEY. In that endeavor, or in related endeavors, when you were at the CEA, did you come into contact a lot with the Fed and its forecasters?

MR. BLINDER. Yes, yes. Not so much with its forecasters. The CEA went over to the Fed, as it still does, for what I remember as monthly lunches with the Board. Top Fed staff members were generally there, too. Ted Truman, Don Kohn—people like that—and others would normally be at these lunches, which I attended regularly. In addition, as the CEA macro person, I was the one that called Alan Greenspan every night—sometimes, instead of Greenspan, I would get Mike Prell—to tell him about the next morning's data releases. So I was having some kind of a chat with Greenspan almost every day of the week—not quite every day, because on some days he wasn't there, and I would get Mike Prell.

MR. HAMBLEY. You had come in contact with Chairman Greenspan earlier, at the CBO.

MR. BLINDER. I knew him for a long time in a variety of ways, but not that well. I wouldn't say that we were close, but I knew him probably for 10 or 15 years before—maybe even 20 years before I went to the Fed. Not really well, but I knew him.

Nomination to the Board

MR. HAMBLEY. How were you recruited to serve on the Board?

MR. BLINDER. The first vacancy that came up on the Board, when I was in the Clinton Administration, was for Governor Wayne Angell's position. Robert "Bob" Rubin, who was then the head of the NEC (National Economic Council), asked me if I'd like it. I said, "No" [laughter], but I also said that, should the vice chairmanship come open, I would probably be interested.

Sure enough, it didn't take very long after that for David Mullins to announce his resignation, and the vice chairmanship was open. I should say, parenthetically—and germane to some of your questions later—that, at the time, as an outsider, I thought there was a much greater difference between being Vice Chairman of the Board and being a Governor than turned out to be the case. But in my mind then, there was a huge difference. So when Rubin came back to me, he remembered what I had said. He said, "Now we have another vacancy. Would you take that one?" I said, "Yes." I thought about it a little, but I said "yes."

MR. HAMBLEY. Originally, you were appointed to fill an unexpired term. It wasn't very long.

MR. BLINDER. Exactly.

MR. HAMBLEY. With the Angell vacancy, was there a full term available for the successor?

MR. BLINDER. Yes, I think it was a full term.

MR. HAMBLEY. Did people in the Administration ever ask you whether you would like to have a full term?

MR. BLINDER. I don't think that was part of the discussion. By the time it came to the vice chairmanship opening up, we had a live candidate on the line for the Angell vacancy, who I won't name, who did not become Governor. That spot wound up being taken by Janet Yellen. But we were negotiating with and for—I was in the Administration then and involved in it—someone else to take the Wayne Angell seat. Then the David Mullins seat came up, and that only had a short tab, so there was never any issue of me getting the 14 years instead of the 2 years. Then I lost about—I don't remember exactly—three to six months due to congressional confirmation delay.

MR. HAMBLEY. What was the delay about?

MR. BLINDER. A hold.

MR. HAMBLEY. Whose hold was it?

MR. BLINDER. It was Senator Al D'Amato (R-NY, then chairman of the Senate Banking Committee). He explained to me, in his inimitable way, "Don't take offense. It has nothing to do with you." [Laughter]

MR. HAMBLEY. Was it just because you were being nominated by a Democratic President?

MR. BLINDER. I was coming out of the Clinton Administration, and they were holding everything for a while, yes, just like they do now. I think there were two years left in the term, but by the time I got on the Board, there were only 19 months or something left.

MR. LEBOW. Was that not a concern because you thought that, if you wanted to stay and they were happy, you could then be reappointed?

MR. BLINDER. I absolutely did. Yes, I absolutely did.

MR. HAMBLEY. The vice chairmanship was much more appealing to you, partly because, as you said, you thought it was a more prestigious and different job than being a Board member. Was it represented to you that Alan Greenspan's term was going to be up shortly after your term was going to be up, and then maybe you'd seriously be under consideration to be Chairman?

MR. BLINDER. No, never. I was asked that many times by the press and others. Never once.

MR. HAMBLEY. Had the Administration already decided that they were going to renominate him?

MR. BLINDER. No. I know that they hadn't at that time, but the clear decision was going to be lexicographic—that is, the first decision was Greenspan or not. Never mind anybody else. Is it going to be Greenspan? And only in the case that it went to "not" was anybody going to think about who was going to be the new Chairman. The Administration never got to that point, so there was not a single discussion ever, not a hint, and certainly not a promise, nothing, that I would be the next Chairman. And, furthermore, I knew from the history of the Fed that no Vice Chairman had ever become Chairman. The route to the chairmanship is not through the vice chairmanship.

MR. HAMBLEY. There were a number of stories when your nomination was announced that, in effect, said you were the "heir apparent."

MR. BLINDER. Yes, I know.

MR. HAMBLEY. Do you think that made it more difficult for you to do your job as Vice Chairman, even though becoming Chairman wasn't necessarily what you had in mind?

MR. BLINDER. Yes, and I think mainly because it—through no fault of mine, I might add—soured the relationship with Greenspan. He was very cold and standoffish. I thought we were sort of friendly and would work elbow-to-elbow. We had, after all, been talking to each other daily for a year and a half and seeing each other monthly. But he was very standoffish once I came on, and I'm convinced—as convinced as I can be without getting into someone else's head, which is never possible—that a major reason was all this press nonsense that I was going to be the next Chairman of the Fed.

MR. HAMBLEY. Did you think of taking some action to dispel that idea?

MR. BLINDER. I talked to all the press that asked me about it and pointed out that the Vice Chairman had never been promoted to Chairman in the history of the Fed. And I did not expect to be promoted! [Laughter] There was no reason to think that was going to happen. I never thought it would.

MR. LEBOW. Did the press believe you? You protest too much.

MR. BLINDER. Yes!

MR. HAMBLEY. Did you learn something about the press and its desire to foment disagreement?

MR. BLINDER. No, no, I don't think the press was trying to foment disagreement. That was later. [Laughter] I think the press was just showing a lack of understanding of the institution and how that job gets filled. There are many other places where number two gets promoted to number one. Vice Presidents of the United States often become Presidents of the United States. Vice presidents of corporations become presidents of corporations. But there are others where that doesn't happen, and I just don't think they understood that. In addition, at the time of my nomination, I think there was a greater belief in the press that Clinton would not keep Greenspan. The thought was that Greenspan was a right-wing Republican, Clinton was a liberal Democrat, personality-wise they were very different, and that Clinton wouldn't keep him.

MR. HAMBLEY. You've said that Chairman Greenspan was cold and standoffish. But, at the time of your nomination, there are statements from him saying that you were eminently qualified, and that he was singularly impressed by your abilities. So did the souring take a little longer than you suggested?

MR. BLINDER. Yes. I think it took place basically between the nomination and my arrival at the Board, which turned out to be a long time because of the hold.

The first reason for the delay was administration PR. My nomination, which was cleared, was delayed until they found someone else to take the Wayne Angell position, which turned out to be Janet Yellen. So while I knew inside the Clinton Administration for several months that I was getting the job, and so did the press because everything leaks, there was no official nomination until one day, whenever it was. I think I have a photo of it someplace in the office here. Anyway, Janet and I were marched together into the Oval Office for a photo op and then faced the press together.

There was a multiple-month delay there, and then I got the hold. So there was quite a bit of time between the first leakage of the idea that I'd be Vice Chairman and my arrival at the Board. And during that time there was a lot of press about "Blinder will replace Greenspan," based on nothing.

MR. HAMBLEY. Did you ever have a heart-to-heart talk with Chairman Greenspan about it?

MR. BLINDER. No.

MR. HAMBLEY. Let's talk about your Senate confirmation hearing. You had been through a confirmation before, so you were a veteran of confirmation hearings.

MR. BLINDER. Yes, I had the fun before.

MR. HAMBLEY. Before you went up to have your hearing, did you get any helpful hints from other members of the Board about what you should say or not say?

MR. BLINDER. Certainly not from Greenspan, and I don't recall from any of the other Board members. It's possible that there was some casual conversation with David Mullins that I've just forgotten, but I don't think so, and certainly not with any of the others.

What I did have was the "full monty" from the Board staff. They take you in there and brainwash you, and I still have—I should throw them out now, but they were useful, so I saved them for many years—the briefing books staff gave me. It was about this much stuff [indicates by gesture a tall stack], so I was really prepped. While I was not allowed to walk into my office, I was allowed to have a place at the Board and get tons and tons of paper and hours and hours of briefings.

MR. HAMBLEY. Did the delay in your confirmation help in mastering all that material? [Laughter]

MR. BLINDER. It helped a bit, yes, because while I didn't need the school in monetary policy, I came into that job as a total neophyte in bank sup[ervision] and reg[ulation], and that's the part that I studied. I didn't really need Mike Prell to tell me about how the macroeconomy works and when you should raise interest rates or lower them, but I needed a lot of the other stuff.

MR. HAMBLEY. You ended up on the Board's Supervision Committee afterwards?

MR. BLINDER. I did.

MR. HAMBLEY. So that turned out to be useful.

MR. BLINDER. It did.

MR. HAMBLEY. You used the word "brainwashed." All Board nominees get a strong dose of the current Fed thinking when they prepare for their confirmation hearings.

MR. BLINDER. Absolutely. I don't think they ever thought they succeeded in brainwashing me, but it was not for lack of trying. [Laughter]

MR. HAMBLEY. The briefing process makes most nominees come across at their confirmation hearings as if they've already been at the Fed for a while. I wonder why senators on the committee wouldn't be shocked by that knowledge: "This guy knows all this inside stuff about the Fed, and he sounds like somebody who's been there!" You learned from the briefing process, but you didn't succumb.

MR. BLINDER. I don't think I succumbed, and I think if you asked Ted Truman, Mike Prell, and Don Kohn, they would say I didn't succumb. [Laughter]

MR. HAMBLEY. What do you remember about your confirmation hearing? Were there any issues?

MR. BLINDER. Turned out to be none. I have one vivid, humorous memory. Al D'Amato was chairman of the Banking Committee. By courtesy, he was the first questioner. And he started with something that no nominee ever wants to hear at his confirmation, reminiscing about the difficulties of Robert Bork getting confirmed. He said something like, "Justice Bork made the mistake of actually answering questions and had a written track record." He hoped that I would not decline to answer questions, and I also had a very long written track record. So I'm sitting there thinking, "Oh, boy, where is this leading?" Then he picked up a copy he had with him of *Hard Heads and Soft Hearts,* a book of mine, and he read one paragraph condemning wage–price controls.[2] There was an issue about wage–price controls and health care at the time, which we at the CEA were trying to bat down, and some of the Bolsheviks in the health-care reform were trying to push in. Of course, everything leaked, so that "debate" was out. D'Amato read this paragraph, and then he said, "Dr. Blinder, that's the most eloquent, short statement explaining why wage–price controls are a bad thing that I've ever read, and I commend you for writing it." Then he walked out. Didn't ask a single question! [Laughter]

MR. HAMBLEY. But he used you.

MR. BLINDER. He used me as a prop, which is what happens in these hearings. But he gave me no difficulty, and so I had no difficulty in my hearing.

MR. HAMBLEY. You were the first appointee of a Democratic President in a long time.

MR. BLINDER. It had been 14 years. I was keenly aware of that.

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[2] Alan Blinder (1988), *Hard Heads and Soft Hearts: Tough-Minded Economics for a Just Society* (New York: Basic Books).

MR. HAMBLEY. And then you'd had this hold on your nomination, which had held you up, but you'd been told that it wasn't personal. Did you ever worry that you might have trouble getting confirmed?

MR. BLINDER. I never thought I wouldn't get confirmed, but I thought there was a definite chance that some people would come to the hearing and give me trouble—like D'Amato, like Senator Phil Graham, who I don't think actually showed up. Well, it was a long time ago; I don't think he showed up. But I boned up for the hearing on the basis that I could be subject to hostile questioning.

MR. HAMBLEY. The Committee approved your nomination by 17–0.

MR. BLINDER. Yes, there was no opposition. I don't even remember any hostile questioning. D'Amato was gearing up, making me sweat, but then he never asked any hostile question!

MR. HAMBLEY. What did you learn about confirmation hearings from this experience?

MR. BLINDER. [Laughter] I learned that the nominee is in a vulnerable position, and while mine was easy, it didn't take much to imagine how it could have been extremely difficult.

MR. HAMBLEY. Senators can make life difficult for nominees if they have some reason why they want to sharpen their knives, and oftentimes it's not related to you.

MR. BLINDER. It doesn't have to do with you, exactly right. It doesn't necessarily have to do with you.

MR. HAMBLEY. At your confirmation hearing, and in the reporting at the time, people called you a "dove," and they said that you had described yourself as a dove on inflation.

MR. BLINDER. That was one of the things I boned up on, so I was ready for that question.

MR. HAMBLEY. Do you think it was a fair characterization of your work to that point? Was that a fair conclusion to reach based on what you had said and then publicly published, or was it something else?

MR. BLINDER. Depending on what you mean by the term "dove," I think it was a fair characterization. That is, once I got on the FOMC, there were 19 of us, and one could array them from hawkish to dovish, albeit with some error, and I was on the dovish end.[3]

MR. HAMBLEY. When you say "dovish" in this context, what do you understand that to mean?

MR. BLINDER. What a lot of people misunderstood it to mean at the time is that "dovish" meant you wanted a higher inflation rate, and "hawkish" meant you wanted a lower inflation rate. That's not what it meant to me. What being a hawk meant is a willingness or even eagerness to accept high unemployment in order to bring the inflation rate down. Because all of us—well, all of us who were economists on the Fed then—and certainly me as a nominee believed in the "no tradeoff in the long run" view. So if by magic we could just say, "All right, today we have 4 percent inflation, tomorrow we'll have 2 percent," then 2 percent is better. That was never an issue. It's not as if the doves wanted 4 percent inflation. Rather, the question then was, how big of a price would you pay to bring 4 percent down to 2 percent? And my view—expressed somewhat too vividly in the book *Hard Heads [and] Soft Hearts*—was that probably society didn't want to and shouldn't want to pay a very heavy price for that.

MR. HAMBLEY. Would an aspect of "dovishness" be a willingness to be more gradual in reducing inflation at lower human cost?

[3] The Federal Open Market Committee consists of the 7 Governors of the Federal Reserve Board as well 5 of the 12 presidents of the Reserve Banks—the president of the Federal Reserve Bank of New York and, on an annual rotating basis, 4 of the other presidents of Reserve Banks.

MR. BLINDER. Yes, absolutely. You just said the same thing I said, probably in better words. Yes. The other important aspect of it—which you think of less when you're on the outside and more when you're on the inside—is, where do you take your risks? That is to say, everybody wants to get it exactly right, but there's a distribution of errors. And the question becomes, are you more concerned about tightening too much and causing too much unemployment or tightening too little and allowing inflation to be higher? Operationally, that's what really divides the hawks and the doves. You see it right now on the FOMC. It was true then, it's true now.

MR. HAMBLEY. Would another difference be, how much price are you willing to pay for an incremental reduction in inflation? Some of your writings talk about inflation in a cost–benefit framework.

MR. BLINDER. Yes, that's the nature of the tradeoff. It's an investment activity. You have to pay a price in terms of slack to bring the inflation down forever—"forever" in the sense that it basically behaves like a random walk. So it'll fluctuate, but the gains are permanent.

MR. HAMBLEY. In that kind of a framework, is it possible that you might have a fundamentally different view from someone else about the value of going to whatever zero true inflation is? If you were at some low but some positive level of inflation, would you have been more likely to say, "We're not at zero true inflation, but my judgment is that the cost of getting there isn't worth it," and, in that sense, you would have been willing to accept as a slightly higher long-run rate of inflation?

MR. BLINDER. Let me put it this way: The answer to the first part of your question is certainly "yes." If the costs are convex, then if 2 percent is your target inflation rate, you don't lose much by having 2.2. But as you go to 2.4, you lose more, and at 2.6, you lose more and more and more. It's increasing as you deviate from target. So, to your question, if you're pretty close to your target inflation rate, the residual gains from going even lower—closer, say, to 2 percent—are quite small, and the costs are approximately linear. Every two-tenths of the inflation of reduction costs you about the same amount of unemployment. A consequence is that you could be around 3 percent—which is about where we were then—and, if you're quite dovish, you could say, "I'd rather be at 2, but it's really not worth it, so let's hang around 3." This is what led me to enunciate what came to be called the "opportunistic approach to disinflation." We got some staff work done by some very good Fed staffers at the time who took the attitude that there are going to be random fluctuations up and down all the time. And if inflation was too high—say you were at 3 and you wanted to be at 2—you should fight upward movements from 3 when you got bad shocks and welcome the good shocks until you got down to 2.

MR. HAMBLEY. I'd heard a version that said, "We're one business cycle away from price stability."

MR. BLINDER. I probably said that more than once. I probably said that 50 times.

MR. HAMBLEY. Right. So you said that being termed a dove was probably a fair characterization. If you are careful about what you mean by dove, on the spectrum you were a dove. Yet, in your confirmation hearing, you went out of your way to dispel that description of yourself. Why did you feel you had to do that?

MR. BLINDER. I thought that was my biggest vulnerability. There had been press accounts of the following incident, which I didn't witness but I think was true. Allegedly, when I was nominated and welcomed by Greenspan, Edward "Mike" Kelly—he's now a good friend of mine, but I didn't know him from a hole in the wall at the time—came to Alan with these quotations from *Hard Head[s and] Soft Heart[s]* and said something like, "He's soft on inflation, but he's not a Communist," and Greenspan said, "I would've rather he [had] been a Communist." That story had gotten some attention, so I knew that I had to address it. I also knew there was a rampant misunderstanding of what it meant to be hawk [or a] dove, as we were just saying. So, in particular—as I remember, it was a long time ago—I was trying to dispel the notion that I thought the optimal rate of inflation was 5 percent or something like that, which I didn't.

MR. HAMBLEY. You also said in your confirmation statement that you had a responsibility, once you became a member of the Board of Governors, that the Fed was the bulwark against inflation. And that was a responsibility you hadn't had before.

MR. BLINDER. Absolutely, and I felt that. That was not just blather. I felt that very strongly. If you're the guy who's put in charge of the floodgate, that's your job. You care a lot more about flooding than you did the day before.

MR. HAMBLEY. You did then have a bit of tension with your prior views.

MR. BLINDER. You have to modify your prior views. It's not your personal economy. The economy belongs to—whatever it was then—290 million people, and they, so to speak, through the democratic process, have put you in charge. They actually put Alan Greenspan in charge, but you on the Board are putatively in charge of the inflation rate. That's your job. It wasn't environmental protection or highways or something else. Inflation was your responsibility.

MR. LEBOW. In charge of the inflation rate, but also—

MR. BLINDER. Also the unemployment rate, the tradeoff between inflation and unemployment, absolutely.

Being a Board Member

First Impressions

MR. HAMBLEY. When you first got to the Board, you had been familiar with some of the people at the Fed, but can you remember—what was it like being in your office the first day or the first week? How did it feel?

MR. BLINDER. Yes. Lonely. David probably wasn't working for me yet.

MR. LEBOW. Not yet.

MR. BLINDER. The Governor's floor at the Board is a lot like a mausoleum. First of all, it's quiet, and there's hardly anybody up there, which I wasn't used to, coming out of that tumult of the Clinton Administration. Secondly, the staff all called you Vice Chairman.

MR. LEBOW. *Mr.* Vice Chairman.

MR. BLINDER. Yes, thank you, Mr. Vice Chairman. [Laughter] Third, the staff below the level of Barons was taught that they're never supposed to talk to you, period.[4] This is really why I got David as my assistant. You were completely isolated, except for the Barons, and so it was very quiet, and it was very formalistic. This was all exacerbated by the Government in the Sunshine Act, which made it unlawful, literally, for more than three Board members to be talking to one another; there were seven of us on the Board.

At the same time, to someone like me coming out of academia and then out of the Clinton Administration, both of these things felt weird. I'd been in meetings in the Clinton Administration where the Secretary of the State was "Chris" and the Secretary of the Treasury was "Lloyd" and so on. Now I'm supposed to call everybody "Governor This" or "Chairman

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[4] The division directors were informally referred to as "the Barons" for the power and independence they held. [Editor's note: The term was noted by John M. Berry in his July 8, 1996, article "At the Fed, a Power Struggle over Information" in the *Washington Post.*]

Greenspan." I knew Greenspan for 30 years! The first day, I called him Alan. The second day, I'm already calling him Mr. Chairman, and he's calling me Mr. Vice Chairman. He should call me Alan! So that was all striking to me: the quiet, the isolation, and the strong sense of formality and hierarchy. I was high on the hierarchy, so I only spoke to people that were very high on the hierarchy.

MR. HAMBLEY. Who did you believe "the Barons" to be at that time?

MR. BLINDER. The Barons were the heads of the divisions. This was not my coinage. It was a preexisting coinage that I picked up. The Barons at the time were Don Kohn with the Division of Monetary Affairs, Mike Prell of the Division of Research and Statistics, where they do the forecasting, and Ted Truman of the International Finance Division. Rich Spillenkothen in Supervision and Regulation and Virgil Mattingly in Legal were also Barons, but they were not involved in monetary policy.

MR. HAMBLEY. You said that staff people below the level of Barons had been instructed not to talk to you—or was that was just the culture?

MR. BLINDER. I think it was a combination of the two. I think it was in the culture, and then they were instructed. David, were you working with me when I sent that memo around to staff, or does that come after you?

MR. LEBOW. That might have been just before.

MR. BLINDER. After being at the Board for some weeks and never having anybody knock on my door, I sent a memo around to the staff saying something like this: "The Vice Chairman's office is not a castle. We have all these staff resources here. If you have something that you think I should know that's relevant to monetary policy"—I sent it to the economists, not to legal and the supervision and regulation people—"please contact Ann, my secretary, to make an appointment to come see me." First of all, exactly one person responded to this.

MR. HAMBLEY. You remember vividly! [Laughter]

MR. BLINDER. Yes, it's easy when there's one! If there would've been seven, I don't know, five—but it was one. Nobody else did, and I later found out that Ted Truman sent a note to everybody in International, saying, "If any of you have an inkling to go to the Vice Chairman, you come to me first." Mike Prell didn't even circulate it to his staff, which I guess would've included you.

MR. LEBOW. He did. I got it.

MR. BLINDER. So what happened there? Nobody from Research and Statistics ever came.

MR. LEBOW. I would say, it wasn't part of the culture.

MR. BLINDER. Yes, it was definitely not part of the culture.

MR. LEBOW. And people feel funny being the first one to step ahead of the line.

MR. BLINDER. Don Kohn did circulate it, and the one person was someone who worked for Don.

MR. HAMBLEY. Was this because, even then, the staff basically viewed their job as supporting the Chairman?

MR. BLINDER. I think they viewed their job as supporting the Chairman and supporting the division head. The staff view was that—say they were in David's division—they worked for Mike Prell, not for me. That's the way the place was run.

MR. HAMBLEY. So once you saw that your foray into memo writing hadn't produced any results, did you give up, or did you try something else?

MR. BLINDER. No, I certainly didn't give up. I did several things. First, I got David to come work for me to be a go-between between the Fed staff—that's the whole staff, including the Legal and the Sup and Reg staffs—and me without necessarily going through the Barons. Second, Janet Yellen and I together started calling in staff for regular discussions, usually tied to data releases. So, for example, when housing starts came out, or CPI came out, we would get the one or two or three staff experts to come talk to us around a table. Just the two of us, so it wasn't a meeting. It was Blinder and Yellen and some staff.

MR. HAMBLEY. So it wasn't a meeting subject to [the] Government in the Sunshine Act.

MR. BLINDER. We didn't have to have a lawyer present to keep minutes or anything. We did these regularly, almost daily.

MR. HAMBLEY. At the time, the Board had weekly economic briefings. Was this in addition to those?

MR. BLINDER. This was in addition. That briefing was very formal, and I found low value added.

MR. HAMBLEY. The idea would be that a press release on some particular subject would come out, you'd have some questions about it, and you'd have back-and-forth with the staff?

MR. BLINDER. Exactly.

MR. HAMBLEY. How did that work out?

MR. BLINDER. Terrifically, I thought. I thought it was great, and I think the staff liked it a lot. David's in a better position to know. I think they liked it a lot.

MR. HAMBLEY. How did that work, given the attitude that you described about their superiors? Why did they let that happen?

MR. BLINDER. It's a good question. I think Prell and Truman definitely didn't like it, and I'm not quite sure why they didn't exert more pressure on their staffs not to do it. Maybe they just felt they couldn't just deny it if I would call down and ask for David and John Roberts, the guy who used to do the CPI. You were working for me anyway. John Roberts, a few others, and you would come up and we would have some questions about the CPI release. It's pretty hard to say no. [Laughter]

MR. HAMBLEY. I suppose it would be harder if it was understood that the request was from two Governors.

MR. BLINDER. Yes, it was for two Governors. It was definitely for two Governors.

MR. HAMBLEY. Had you known Janet Yellen before you came to the Board?

MR. BLINDER. Yes. Not so well, but I knew her.

MR. HAMBLEY. You probably knew that you could communicate well with her from the start.

MR. BLINDER. Absolutely.

Role of the Vice Chairman

MR. HAMBLEY. When you came to the Board—you touched on this already—you had a conception of the Vice Chairman's office as opposed to another Governor's or the Chairman's. How did you conceive the role of the Vice Chairman, and what vision did that give you?

MR. BLINDER. My vision—but obviously not Alan Greenspan's vision—was that I'd be his second, his right-hand man, and we would talk about a lot of things, as I think Don Kohn and Ben Bernanke do today. Something like that was my vision going in. [Laughter]

MR. HAMBLEY. Did that not work out because he had another right-hand man already, or he didn't believe in right-hand men?

MR. BLINDER. I think he didn't believe in right-hand men. The closest thing he had to a right-hand man was Don Kohn as the head of Monetary Affairs, but that's only a piece of the Fed. There were other things going on at the Fed, and on the other things, I don't think he had any right-hand men. I don't think, for example, that the other Governors, the incumbents—or call them the Republicans—had close relations with Greenspan either. So it wasn't like it was only me.

Transparency

MR. HAMBLEY. Upon arriving at the Board, were there reforms that you wanted to put in place—in the area of transparency, for example?

MR. BLINDER. Probably. It's hard for me to remember. I did not come into the Fed with the notion [that] "This place needs to be shaken up, and I'm going to be the shaker." That was not my going-in view. I did come in with the view that the Fed was altogether too secretive, and that view was greatly enhanced by my early experience there—with silly things, like we used to get a memo three times a day with market prices that you could read on a Bloomberg screen, but it came covered with a classification, FOMC Class I—a cover sheet! You had to pull off the cover sheet to see what the stock market quotation was, and they had to go in a burn bag when you were finished, like secret documents!

After getting this for some number of days or weeks, I finally called Truman, and I said, "Why in the world are you covering these with a secret-document cover?" He said, "On the days when there is a foreign currency intervention, we put that at the bottom." Well, there's a foreign currency intervention about once every five years. I mean, that was ridiculous! That just dug me in more and more about how ludicrously secretive the standard operations of the Fed were.

MR. HAMBLEY. You already had that view, in some sense, before you came to the Board.

Forecasts

MR. BLINDER. I had it a little bit, but it was greatly exacerbated once I got on the inside. As another example, among other things I learned, which I had never imagined, was that the Governors were not allowed to learn how the forecast was generated. That was the source of a big argument I had with Prell—and lost. I never imagined that from the outside, never.

MR. HAMBLEY. Staff viewed their role as giving their best independent crack at the forecast, uninfluenced by Board members.

MR. BLINDER. Absolutely.

MR. HAMBLEY. Did you come to have any sympathy for that view over time?

MR. BLINDER. No. I thought that view was correct, but I never had sympathy with the idea that I was going to be a hazard to doing that. I had just come out of the CEA, running the forecasting operation. I didn't tell the people that worked for me there what to do. I even told Mike at one point, "I'll just go to the meeting, and I won't say a word." I just wanted to watch and see what happens.

MR. LEBOW. What about the perception—as opposed to the reality—that if the staff is perceived as doing the bidding of Governor X or Governor Y in the forecast, it will be less valuable to the community as a whole?

MR. BLINDER. Yes, but I just didn't see that as a danger—unless Governor X or Y is the Chairman, then maybe that's a hazard. But I wasn't the Chairman.

MR. HAMBLEY. Greenspan himself didn't have the kind of role on the staff forecast that you imagined for yourself, did he?

MR. BLINDER. Correct—or that I imagined he had. When I was on the outside, I imagined Greenspan was controlling what the forecast said. [Laughter] That was an interesting discovery. But I didn't want to control it. I just wanted to understand it. I finally said to Mike, "I'm just not going to pay any attention to your forecast. It's a total black box. I don't know what it's based on."

MR. HAMBLEY. Do you think things have gotten any better since then?

MR. BLINDER. Yes. I know they've gotten better.

Committee Assignments

MR. HAMBLEY. How did you get your first assignments on the Board, and what were they?

MR. BLINDER. From Greenspan. I think he asked me, in a sense, but I wasn't going to say "no."

MR. HAMBLEY. Were the positions open because people had left or were leaving, and they needed to be filled?

MR. BLINDER. Yes, at first. Most of the time I was on the Fed—and this is true of most people—we were short staffed. We didn't have seven Governors most of the time. At the beginning, we did have seven. Well, we had six, and then Janet Yellen came in about seven weeks after I did or something like that. Two Governors had left—Angell and Mullins. The committees needed to have three Governors, and there were a bunch of committees, so there were vacancies in that sense.

MR. HAMBLEY. Do you remember what those assignments were?

MR. BLINDER. Sure. They were Sup[ervision] and Reg[ulation], Consumer and Community Affairs—I never remember the order of those adjectives—and we then had an ad hoc committee on derivative instruments that probably doesn't exist anymore, which Susan Phillips was running. I think I asked to be on that one—I'm not positive—because I wanted to learn about derivatives. That was the time that derivatives accidents were happening at Bankers Trust, in Orange County, and things weren't looking so good, and I didn't know much about derivatives.

MR. HAMBLEY. It was also a time when Representatives Henry Gonzalez and Jim Leach had proposed legislation, and you were quoted at some point, saying, "We don't know whether there's a need for legislation yet."

MR. BLINDER. On derivatives?

MR. HAMBLEY. On derivatives in particular, and you wanted to learn more.

MR. BLINDER. I might have asked to be on the derivatives committee, I just don't remember. But Greenspan definitely asked me to go on the other two.

MR. HAMBLEY. Were those assignments okay with you, considering your own background?

MR. BLINDER. Yes, it was okay. I was mostly interested in monetary policy, but I was on the Federal Open Market Committee.

Monetary Policy

MR. LEBOW. Let's go back in time and talk about some of the monetary policy issues. Here's a chart that might be useful to you. In case you didn't memorize [laughter] everything. When you arrived at the Board in June 1994—

MR. BLINDER. Yes, the fed funds rate is probably around here [looking at chart].

MR. LEBOW. Right. Just a few months before that, the Fed had begun raising the fed funds rate after a long period. How would you characterize the monetary policy situation that the Fed faced at that time?

MR. BLINDER. It was very clear. As we in the White House had been explaining to Bill Clinton since February [laughter], the Fed needed to—not very rapidly, but gradually—normalize interest rates. We had had a 3 percent funds rate and a 3 percent inflation rate in early 1994, so we had a 0 percent real funds rate in order to give the economy more juice.

By the middle of 1994, the economy was definitely picking up, and, indeed, there were people saying that we were already at the natural rate of unemployment. I didn't quite believe that, but we'll come to that later. [Laughter] I didn't believe that the natural rate was 6.5 percent, or whatever was being claimed. In any case, it was clear that the Fed should, at a minimum, be easing off the accelerator. That's not slamming on the brake, so I was completely copacetic with moving interest rates up. I was in the White House when the Fed started raising rates, and we had to calm President Clinton down. He was getting really mad about it [laughter], but to his credit, he never went public with that anger.

MR. HAMBLEY. Essentially, the Fed had had a zero real funds rate for quite a while.

MR. BLINDER. Yes, for quite a while, like a year or a year and a half.

MR. LEBOW. So you realized that that just couldn't be left like that.

MR. BLINDER. Yes, a zero real rate is something that you do when you're really trying to press the pedal to the metal, and when you don't need to do that anymore, you need to ease off. The objective, which I think we met, was to achieve the perfect soft landing at full employment. And I think we did it. But part of doing that was easing up preemptively before you saw inflation accelerate. Inflation's flat as a board here. Core inflation is actually [looking at chart]—yes, that's pretty flat. Looks like it may be drifting down ever so slightly, but it's very, very flat.

MR. LEBOW. Shortly before you joined the Board, you publicly expressed a view, which led some to believe you would think that it was not necessary to start tightening at that time—mainly, that there was still slack, as you say, we were still above the natural rate of unemployment, and that [it] would take a fair bit of time before inflation would be a concern. Nevertheless, you were on board with the policy of tightening—

MR. BLINDER. Absolutely.

MR. LEBOW. —taking in—

MR. BLINDER. I don't know where that came from. I don't know that I ever said anything to give that impression. It may have just been the association with the dove label, the idea that doves never want to raise interest rates.

MR. HAMBLEY. It's from a news story in April 1994. You had given a speech. Before you were on the Board, you gave a speech to the Money Marketeers. You were represented by the reporter Steven Davis as saying, "Blinder told the group that there is plenty of slack remaining in the economy—"

MR. BLINDER. Which there was.

MR. HAMBLEY. "—and in the labor market, at least enough for another two years before creating any price pressures."[5]

MR. BLINDER. Two years. That's not very long.

MR. HAMBLEY. But is the answer that brings these together, that makes them consistent, that this change in policy is going to take a while to work?

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[5] Steven Davis (1994), "Blinder, Unruffled by Market Critics, Sees Slower Pace for Economic Growth," *Bond Buyer,* vol. 308 (August).

MR. BLINDER. Yes, exactly. There are long lags, and there was slack, but you don't wait, you don't hold a zero real interest until all the slack is gone, because if you do that, you overshoot.

MR. HAMBLEY. So, in your experience, was that another thing that people had difficulty grasping? Because there had been several occasions when policy actions were taken that didn't seem to quite be consistent with the then-current conditions.

MR. BLINDER. If you remember, at the time, Greenspan got an enormous amount of credit for innovating the preemptive strike idea. That wasn't really very innovative. It was smart, but it wasn't innovative, and that's what we're talking about here. That notion was not in the minds of—never mind the broad public—the part of the public that pays attention to monetary policy. In that crowd, it was considered innovative. That's what he was doing, and that's what he should've been doing.

MR. HAMBLEY. Maybe it was innovative because the timing was quite good.

MR. BLINDER. Well, the timing was excellent.

MR. LEBOW. So you were on board with the tightening that was occurring?

MR. BLINDER. Absolutely.

MR. LEBOW. You never dissented from any of the tightenings, but there were occasions, at least one occasion, when you argued at the meeting for smaller rate increases than occurred.

MR. BLINDER. I think it was two—the last two big hikes.

MR. HAMBLEY. In one case, you wanted 25 basis points less of an increase in the fed funds rate than the FOMC did. In the second, you preferred no increase, but the FOMC increased the funds rate by 50 basis points. Nonetheless, you voted for both actions.

MR. BLINDER. I did.

MR. LEBOW. If you had some disagreement, why didn't you dissent?

MR. BLINDER. There are a couple of aspects to that. The biggest is that dissent in general at the Fed, and even more so if you're Vice Chairman, means that you've jumped a pretty high bar in terms of how much you disagree. That was point one. Point two was that being on the FOMC is a repeated game, and, in the atmosphere at the time, taking on Alan Greenspan would have, I believe, diminished my ability to persuade anyone else on the FOMC for a long time. Rightly or wrongly, I believe that. So when I tried to persuade, I mainly tried to persuade Alan Greenspan rather than oppose Alan Greenspan overtly. Third, in the first instance, the one where the Committee did 75 basis points and I was arguing for 50, it was only a disagreement over tactics, not strategy. That is to say, I fully believed that we would have to go higher. I think we were at 4.25 and we went to 5.[6]

MR. HAMBLEY. It was 75 basis points.

MR. BLINDER. It was 75 basis points. But the sentence I was trying to construct was that I fully believed we'd eventually have to get to 5 percent. I didn't think we were stopping, say, at 4.75. So it was pure tactics. I was worried—wrongly, as it turned out—that doing 75 basis points for the first time in the history of the Greenspan Fed would shake the markets badly. I was wrong about that. It was a tactical judgment, and I wouldn't dissent against Alan Greenspan on a tactical judgment, even though I thought he was wrong. After the fact, I thought he was right, which is why you don't dissent on tactics. That case was November 1994.

When it came to the other case, the last 50 basis points in February 1995, I didn't think we needed any increase in the funds rate at all. I thought it was a mistake to raise rates then. I

[6] Editor's note: The target for the federal funds rate was 4.75, and the FOMC increased it to 5.5 percent.

thought the existing 5.5 percent rate was enough. So now it was strategy, not tactics, and I came much closer to dissenting on that. I didn't because of the other reasons, but I was really close to dissenting.

MR. HAMBLEY. Is part of the calculus of a Vice Chairman in a situation like this that unless you really have an incredibly strong disagreement, you don't want the public to see the Vice Chairman and the Chairman disagree?

MR. BLINDER. Absolutely. It's a higher bar than for a Governor. I thought it was. That was my view. And so, in the end, I decided that the disagreement didn't quite cross that bar.

MR. HAMBLEY. Did you not want to be responsible for possible consequences if you did?

MR. BLINDER. Yes, yes. I think seeing an overt fight between the Chairman and the Vice Chairman of the Fed would not be good for the institution and would not be good for the markets. So I swallowed it, and then I tried to take the rate hike out verbally. So did Greenspan later. I gave a talk not very long after that FOMC meeting, emphasizing the need to be preemptive against unemployment just as you're preemptive against inflation. I don't think Greenspan was very happy about me saying that, but it wasn't long after that that he started saying similar things. And once he started saying them, the market really took it out. So the Fed was at 6 instead of 5.5, but the long rate started coming down anyway. So I don't think that last 50 basis point increase did any harm. I don't think we needed it, but I couldn't take it out verbally. Greenspan took it out verbally.

MR. HAMBLEY. We talked to former Chairman Greenspan about the first meeting, before you came to the Board, when the FOMC initially raised the funds rate. He had tried to persuade the FOMC members that there needed to be a rate increase for the first time in quite a long time. That was the February 1994 meeting. When he got into the meeting, he was appalled to discover that people wanted to raise the funds rate more than he did.

MR. BLINDER. They wanted to do 50. I recommend to people that if you're only going to read one transcript of an FOMC meeting in your life—and maybe that's all you should [laughter]—read that one, because it's clear that not only did they feel that way, they actually had a rump vote, and Greenspan lost the rump vote. Then he appealed to the Committee. He said, "You can't do this. You're going to really crack the markets. You've got to trust me and be with me on this." And when they came to the formal vote, he got a unanimous vote. But he lost the rump vote in favor of 50 basis points.

MR. HAMBLEY. Right. So the latter episode where he was increasing 75 basis points is surprising, given the earlier episode where he was so worried about possibly shaking the markets.

MR. BLINDER. Yes, and I was worried about shaking them then. But he was right. It was a tactical judgment. He had a pretty good feel for tactics. He had a very good feel for market reactions like that, which is one of the reasons I wouldn't dissent on tactics.

MR. LEBOW. So there's a very high bar for dissent, especially if you're Vice Chairman. In that regard, how does a Board member or a Vice Chairman with strong policy views go about persuading the FOMC?

MR. BLINDER. What I did on both of those cases, the 75 and the 50, is try to persuade Greenspan the Friday before. I failed in both cases, but we had long talks in both of those cases—with me making the argument for, in the one case, doing 50 instead of 75, and then, in the other case, doing 0 instead of 50. But I didn't persuade him. Then, in the two meetings, I made my views pretty clear in the transcripts.

MR. HAMBLEY. Are you saying he was the linchpin? If you could convince him, you could convince everybody?

MR. BLINDER. If you could convince him, you didn't have to convince anybody else. Everyone would follow.

MR. LEBOW. Then coming into the next period, and I guess this chart is showing the actual as opposed to the intended for the funds rate, but—

MR. BLINDER. It was about July 1995.

MR. LEBOW. —the FOMC cut the federal funds rate 25 basis points, and then again, in December, another 25 basis points. Why was that done, and were you one of the advocates for it?

MR. BLINDER. Absolutely. I had thought that last 50 should never have gone in, and I was happy to take it out. Yes. But it was Greenspan. It wasn't like I finally persuaded Greenspan to take this out. He was reading the tea leaves, as he does, and decided it was time to take it out.

MR. LEBOW. Do you think your arguments might have played some role in persuading him?

MR. BLINDER. Maybe, but I think he was much more data driven. He chewed up all this data and turned it over in his head, as only he understood, and came to decisions. So I don't give myself a lot of credit for changing his mind there.

MR. LEBOW. So, as you said, you think this policy was rather successful, you achieved the soft landing?

MR. BLINDER. I think we really nailed the soft landing, yes. Let me just add one more thing that is not literally your question, but your questions are all around it. I do give myself a little bit of credit, shared with Janet Yellen—we were the two big doves on the Committee—for stopping the FOMC from going beyond 6. Maybe I shouldn't; maybe that's just what Greenspan was going to do anyway. But the Committee was getting pretty hyped up about raising rates at the time, and both in November 1994 and February 1995, Janet Yellen and I were the main voices saying, "We ought to simmer down here and not overdo it." And we didn't overdo it. Now, Greenspan gets most of the credit, and myself maybe a small bit of credit, but mostly it was Greenspan who achieved, as close to humanly possible, a perfect soft landing at that time.

MR. HAMBLEY. In early 1996, Steven Scheer wrote an article, "Economists Say Blinder's Absence Will Be Noticeable." In the course of this story, a person from J.P. Morgan asserted that your threats to dissent on several occasions "caused Greenspan to prod other FOMC members to meet you halfway."[7] This sounds like you tactically went in and said, "If you don't do what I want, I'll dissent publicly."

MR. BLINDER. Threatened to dissent? No, I never did that.

MR. HAMBLEY. You never did that. So where did this idea come from?

MR. BLINDER. Market people just make these things up. They think it's true, and they don't really understand how the organization works.

MR. HAMBLEY. Given that there would be generally a desire, if possible, for the FOMC to come up with a unified front, would it be possible for a Vice Chairman to say, "Look, you have to meet me halfway, or we're going to have a big open public spat" and lever other people in the room?

[7] Steven Scheer (1996), "Economists Say Blinder's Absence Will Be Noticeable," *Dow Jones News Service,* January 19.

MR. BLINDER. Yes, I think it's possible. And what's even easier—and I think it did happen any number of times—was if Greenspan would see the Committee consensus, so to speak, drifting either more hawkish than he wanted or more dovish than he wanted, he would tack in that direction a little, mainly by the bias (in the FOMC's directive to the Federal Reserve Bank of New York), which was completely nonoperational. He was smart. You throw the dog a little tiny bone, and then the dog is happy.

MR. HAMBLEY. There are several aspects of the FOMC decision, and the desire to keep everybody on board leads the Chairman to accommodate to some degree to keep everybody together.

MR. BLINDER. Exactly, and I think he did that. I think he did that a little.

MR. HAMBLEY. What ever happened to the bias?

MR. BLINDER. It's not bias anymore. It went through many transmogrifications, but the important thing was that, at the time, what was really silly about the bias was that it was a secret. We didn't announce it. So you were giving the dog a bone, but the bone was never going to be public.[8] But I think Greenspan used that skillfully on a number of occasions.

Dual Mandate

MR. LEBOW. Let's talk about the dual mandate. You're obviously a vocal supporter of the idea of the dual mandate.

MR. BLINDER. Absolutely.

MR. LEBOW. Can you tell us what it meant to you in practice to be told by law to pursue maximum employment, stable prices, and moderate long-term interest rates?

[8] Editor's note: The bias refers to specific language that used to be part of the domestic policy directive that the FOMC issues to Federal Reserve Bank of New York authorizing and directing transactions in the System Account. The domestic policy directive is contained in the minutes of each FOMC meeting. Until 2005, the minutes of an FOMC meeting were not released until after the subsequent meeting.

MR. BLINDER. The legal mandate is extremely vague on this, and, in those days, the Fed was even more vague than the legal mandate. But if inflation is close to where you want it to be, it says you should strive to keep the unemployment rate close to the natural rate, which would be the rate at which the inflation rate is neither going up or down. When you're above your long-run inflation target, which we probably were when I was on the Board—nobody was saying what the inflation target was at the time. There was this famous meeting just after I left that finished with Greenspan saying, "No one should ever hear that we just decided that it's 2." [Laughter] I was gone. I wasn't at that meeting. It was just after I left. But I think we all knew in my time that inflation was 3, and we thought 3 was above where it should be. In those cases, you had to make value and quantitative judgments about the speed at which you would try to get to 2, and that's where the dual mandate was relevant. So if you have a monogoal, literally, you don't care, you go fast. "I'm above 2. I've got to get to 2, and don't worry about the rest."

MR. LEBOW. Can you describe how you viewed the tradeoffs—the short-run [and] long-run tradeoffs—between these goals?

MR. BLINDER. Yes. So as I was just saying, in the long run, there was no tradeoff, but in the short run there was a tradeoff. And it was a pretty flat Phillips curve, meaning that it took a nontrivial amount of unemployment to bring the inflation rate down. In those days, what I used to call the "Brookings rule of thumb" worked very well. In fact, one of the things I used to tell the press is, "The clean little secret of macroeconometrics is that the Phillips curve fits the data." That Phillips curve doesn't fit the data well lately, but it fit in those days, and it said that one "point year" of unemployment would knock half a point off the inflation rate. So if you wanted to knock a whole point off inflation—suppose you wanted to get from 3 percent inflation to 2 percent—it was going to take two point years of unemployment, which was about 5 percent of GDP (gross domestic product).

MR. HAMBLEY. Point years?

MR. BLINDER. A point of unemployment for a year. So it could be two points in a single year or a point a year for two consecutive years.

MR. HAMBLEY. Okay, I see—but about 5 percent of GDP.

MR. BLINDER. Which is roughly 5 percent of GDP. That was the price, so we had a price there. David Lebow would bring me estimates of the Phillips curve, and they said about 5 percent of GDP was the cost of knocking 1 percentage point off the unemployment rate. To me, that estimate said, "You know, you have shocks all the time, and we could do the disinflation opportunistically." There will be another recession, inflation will go down—and, by the way, if we're at 2 when this other recession starts, we're going to be at zero when we come out of it, which will be too low.

MR. LEBOW. Why do you think that's less costly?

MR. BLINDER. It's not less costly. It's less costly politically, in all senses of the word: the literal "politically," the internal politics of the Fed, [and] the Fed's relationship with the political world and with the public at large. It's less costly in that sense, not less costly economically.

MR. HAMBLEY. In the sense that the FOMC would not be responsible for doing it.

MR. BLINDER. Right. It wouldn't be active. The Fed wouldn't have to get everybody mad by saying, "Okay, guys, you think things are good, but we're going to make things bad in order to bring the inflation rate from 3 to 2."

MR. LEBOW. But still, if you're not fighting the bad shock as hard as you otherwise would because you—

MR. BLINDER. Well, that's the objection people made to the opportunistic approach, and that's why I insisted you've got to fight the bad shock hard. Otherwise, you're going to get a ratchet and go in the wrong direction—up. My view was that, since we were starting with inflation too high, the ratchet had to go down, not up. It'd be quite different now, by the way. Now you can tell your friends at the Fed [that] the ratchet has to go up, because we're too low, so your opportunism has to go the other way.

But you're right, David, that in terms of the pure economics, there was not a lower cost if you lowered inflation opportunistically. Orphanides and Wilcox concocted a quite clever paper seeing what you would have to assume about the loss function to rationalize opportunism on a pure economic basis.[9]

MR. LEBOW. Yes, or what the policymaker's objective function would have to look like.

MR. BLINDER. Yes, that's exactly what they did. But my thinking was not so much that. I welcomed that research. It was interesting, but my thinking was more about the political support for the Fed: To what extent would people get mad at the Fed, which could threaten the independence of the Fed, and so on. When we were only 100 basis points away from target, getting inflation down is not that urgent. If you're Paul Volcker, and you come into office, and you're 800 basis points away from target, then you don't just want to wait for the next good opportunity because of the convexity. The costs of the inflation were high when Volcker took over. But at 3 percent instead of 2 percent, they're not that high.

[9] Athanasios Orphanides and David Wilcox (2002), "The Opportunistic Approach to Disinflation," *International Finance,* vol. 5 (Spring), pp. 47–71.

MR. HAMBLEY. People simplistically think the Fed is nonpartisan, and, of course, it has its own concerns. It has to survive as an entity.

MR. BLINDER. Yes, it's nonpartisan. This is not about partisan politics. The President of the United States, whether he's a Republican or a Democrat, always wants monetary policy easier than it is. It's not partisan.

MR. LEBOW. While you were Vice Chairman, there was a move in the Congress by Representative Steve Neal (D-NC) and Senator Connie Mack (R-FL) to replace the Fed's dual mandate with a single mandate of promoting price stability. Chairman Greenspan testified in favor of having a single goal for monetary policy. The apparent disagreement between Chairman Greenspan and you on this matter was noted in public. At the time, how did you perceive the difference of opinion between Chairman Greenspan and you[rself] on that subject?

MR. BLINDER. First of all, I thought that the monogoal, taken literally, implied no tradeoff in the short run, or it implied that you don't care about the fact that it's going to be costly to bring the inflation rate down. You don't care about it. I didn't believe either of those, so it was not my personal belief. My personal belief was that (a) the monogoal would be bad policy and (b) the law of the land was in accord with my personal belief. So the issue there was, are we going to change the law of the land?

Now, I'm a citizen and I'm an economist, expressing my view on whether we should change the law of the land. If they changed it and I'm on the Fed, well, then, I have to change. But I was against changing the law. In Greenspan's case, I thought his support for Neal–Mack was not at all consistent with his behavior. The things he did while running monetary policy were not consistent with the view [that] "I don't care about unemployment in the short run, I only care about inflation." That's not the way he acted.

MR. HAMBLEY. The same subject came up again later, and Greenspan then favored retaining the existing dual mandate. I think he ultimately realized that it gave him a great deal of operational flexibility, and maybe he also realized that it was more consistent with what he was actually doing. Anyway, he changed his mind.

MR. BLINDER. Yes. Look at what he did after I left. We went into the boom period, and the Fed let the unemployment rate drift down to 4 percent. Wow, 4 percent!

MR. HAMBLEY. Also, there was the vigorous response to the collapse of the stock market and the 9/11 attacks.

MR. BLINDER. Yes. None of that is consistent with a man who thinks unemployment doesn't matter, and the only thing you should do is go for zero inflation. So that's what I meant by "inconsistent." That's what he was saying at the time, but that's not the way he was acting at the time.

MR. HAMBLEY. Of course, that wasn't the law of the land yet.

MR. BLINDER. Yes, but he was expressing—as David just said—at that time to Neal and Mack that he was supporting them changing the law of the land.

Jackson Hole

MR. LEBOW. Let's move on to the Jackson Hole events in 1994.

MR. BLINDER. That was fun. You were working for me then, I remember that!

MR. HAMBLEY. What you were doing at Jackson Hole? You gave a paper. What was the reaction to it, and were you surprised?

MR. BLINDER. I was surprised by the reactions, so let me tell you about the lead-up. First of all, the subject of the symposium was *reducing* unemployment, not raising unemployment, so when I was asked to speak, I thought I should speak about reducing unemployment, which I did. I thought unemployment was then above the natural rate. And I strongly hinted as such.

Second, I was cognizant—I'll admit this now— of the fact that this was essentially my first public speech since going over to the Fed as the putative dove and then doing nothing but voting to raise rates—happily going along with a Committee that was raising interest rates. Since unemployment was the subject, it gave me the opportunity to make the point that I wasn't just going to favor raising rates forever without worrying about unemployment. I reminded people in that speech that the Fed had a dual mandate, and that I took the dual mandate seriously. I thought I made it very clear in the speech that this is what the Federal Reserve Act called for, and that the Vice Chairman of the Federal Reserve swearing obeisance to the Federal Reserve Act should not be considered a newsworthy event. [Laughter] I made that last point after Jackson Hole, but it was on my mind then. I was cloaking myself in the Federal Reserve Act. I was on very strong legal grounds. That's what the law says the Fed is supposed to do.

MR. HAMBLEY. Nowadays, people who are coming to the Fed say in advance, "We know what the legal mandate is, and it has the two parts, and they have to be balanced," but I don't think that was the case in those days.

MR. BLINDER. No, it wasn't.

MR. HAMBLEY. People didn't talk about the dual mandate all the time.

MR. BLINDER. You were always supposed to say how much you hated inflation.

MR. HAMBLEY. So maybe that was why what you said was controversial. Even though you were legally impeccable, that was what the law said, maybe some people didn't want others to be reminded?

MR. BLINDER. Bob Samuelson subsequently wrote a horrible piece.[10] There was a view in the minds of a lot of people, contrary to what the Federal Reserve Act says, that if you're serving on the Fed, what you're supposed to do all [of] your time is just show your teeth against inflation, period. I think that's wrong. It's both economically wrong and legally wrong. But that was a view that a lot of people held. By doing what I did, I opened myself up to criticism from the folks that wanted to pretend that the Fed had a monogoal, not a dual mandate. And part of the background was, I had a reputation as an inflation dove when I joined the Board. So I realized I was sticking my chin out, in a sense. But I thought I was covered, so to speak, by the Federal Reserve Act.

MR. HAMBLEY. So you learned a hard lesson: that being legal doesn't always shield you from criticism.

MR. BLINDER. Yes. By the way, being legal and being correct.

MR. HAMBLEY. Right [laughter], that's not good enough, either!

MR. BLINDER. You were doing congressional relations then?

MR. HAMBLEY. I was, but I was low on the totem pole.

Why do you think the Jackson Hole controversy happened?

MR. BLINDER. I think the answer was two things. First, it was August and a slow news day. So if you want to ask what lessons I learned, one is, watch out what you say on slow news days in August. If I said the same thing in September when everyone was busy, I don't think many people would have taken note. That's point one.

Point two, which I didn't appreciate at the time, is that in the audience there were maybe 10 to 15 members of the press, one of whom was an extremely aggressive reporter from the *New*

[10] Robert J. Samuelson (1994), "Economic Amnesia," *Newsweek,* September 12.

York Times named Keith Bradsher. He was a young man at the time, trying to make a mark, and he saw that he could play this story up to get on page one—page one!—which he did.[11] Now, that comes back to my remark about August. On September 15, there's no way he gets this on page one. Impossible! Ridiculous! But on August 25, or whatever day it was, he got it on page one.

Bradsher was the only reporter who saw a "story" in what I said. I talked to many other reporters after that; the only one who wrote an initial story based on my speech was Keith Bradsher. Everyone else listened to this: "Oh, wow, the Federal Reserve Vice Chairman believes in the Federal Reserve Act. Now, that's news." Nothing. I talked to several of the press people who were there while we were still at Jackson Hole, and they were scratching their heads about Bradsher, like, "What is this guy writing about?" It was only after Bradsher's page-one story that everyone else got forced to write about it.

MR. HAMBLEY. So you would basically ascribe this to the ambition of a young reporter to advance his own career by creating a controversy—

MR. BLINDER. On a slow news day by creating a story when there wasn't a story.

MR. HAMBLEY. Did you also think that somebody who really didn't want you to be in line to be Fed Chairman might have also been involved?

MR. BLINDER. Oh, I did. There were some people—I'm not going to say who, but I have strong hunches who they were. In fact, I was told by one person who was at Jackson Hole who one of them was—but I'm not repeating names; this is hearsay. There were apparently at least two people inside the Fed System that fed Bradsher this. One of them called me "an

[11] Keith Bradsher (1994), "A Split over Fed's Role: Clashes Seen after Vice Chairman Says Job Creation Should Also Be a Policy Goal," *New York Times,* August 29.

outlier." I'm pretty sure I know who it was. So, yes, a couple [of] people inside the Fed System were trying to damage me.

MR. HAMBLEY. So monetary policy isn't always just experts consulting the data and doing the right thing. [Laughter]

MR. BLINDER. Not always! Did I answer the question you asked?

MR. HAMBLEY. I think you did. But you also don't think there was really any substance to this at all?

MR. BLINDER. Definitely not! Alan Greenspan presided over a Fed that—and, by the way, it was mostly the same people who were in Jackson Hole—let the unemployment rate drift all the way down to 4 percent. I certainly was not suggesting 4!

MR. HAMBLEY. Well, he hadn't done that yet.

MR. BLINDER. He hadn't done it yet. But Bob Samuelson said I didn't have the moral or intellectual fiber to lead the Fed, because I suggested unemployment could go below 6.

MR. HAMBLEY. What do you think Samuelson was doing? Was it really what he thought, morally?

MR. BLINDER. I just could presume that's what he thought. What I know is that prior to that piece, there was no grudge between him and me! [Laughter] It wasn't like he was getting even with me for something. That I know. After that, I wouldn't talk to him. I thought he was insulting in the extreme.

Alan Greenspan

MR. HAMBLEY. Did Chairman Greenspan and you have differences?

MR. BLINDER. Yes, there were some differences. Not that much, though. I think the big differences had to do with transparency and things like that, much more than about monetary policy.

There were some differences on monetary policy, however. We talked about the two instances where I disagreed with him very much, one tactical and one strategic. On strategy, it was only one. Then, later, after I had left the Fed, he "outdoved" me by a lot! [Laughter] So the monetary policy differences were not great. By the way, from what I've written, I'm a fantastic admirer of his ability to steer monetary policy. I thought he was fabulous.

The disagreements were over transparency and also over a lot of the microeconomic regulatory issues. For example, Greenspan never saw a merger he didn't like. He had the view that derivatives were wonderful and the more the merrier. And he didn't care that the APYs (annual percentage yields on savings accounts) that the Fed was forcing banks to publish were numerically wrong. There were a bunch of things like that.

MR. HAMBLEY. Those were regulatory and consumer protection issues.

MR. BLINDER. Regulatory things that I disagreed with him on. But on monetary policy, our disagreements were minor. It was one big deal, really.

Monetary Aggregates

MR. LEBOW. Let's come to a somewhat drier topic, the monetary aggregates.

MR. BLINDER. Definitely drier!

MR. LEBOW. [Laughter] At the time you were on the Board, the law still required the Fed to report its ranges for monetary aggregates, yet you were quite clear in saying you thought the monetary aggregates were of little use at that time.

MR. BLINDER. Right.

MR. LEBOW. Given that, did you ever suggest that the Congress should amend the law for that reason?

MR. BLINDER. I didn't. I think I shared the fear that everybody shared at the Board of opening up the Federal Reserve Act for markup. Who knows what might have gone in! [Laughter] So while I thought it was silly, it required relatively little staff work. There were some guys who worked on that. They were wasting their time, but it was relatively little staff time and negligible FOMC time. So it was pretty low cost.

MR. LEBOW. Did it make you feel uncomfortable to be following a law that might be viewed as obsolete?

MR. BLINDER. It made me feel a little uncomfortable, but, in government, you do some silly things. So that was one of those silly things that you do in government. What struck me as kind of humorous is—and you can see this in the transcripts—there was more than one case where we actually had a debate over where we should set these targets, as if it mattered.

MR. LEBOW. They were very wide, for one thing.

MR. BLINDER. They were wide, and we were going to pay no attention whatsoever if we breached them. But yet, somehow, we argued whether this bound should go up, whether that bound should go down!

MR. HAMBLEY. You were committed to transparency, and here was something that was obscuring what the Fed was doing. It was not helping the public in any way to understand the Fed's policy. It was wasteful. There may be cases where it was actually misleading. But your point was that you don't know exactly what you would get if you tried to amend the Federal Reserve Act to change it. This came up for review in 2000, and [some of] this language is still there! Section 2A of the Federal Reserve Act, as amended in 2000, currently states that "the

Federal Open Market Committee shall maintain long-run growth of the monetary and credit aggregates commensurate with the economy's long-run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates."

MR. BLINDER. It was certainly in the law then, not that I could've done anything about it. If I took the position that we should get the law changed, Greenspan would've said to me, "Are you crazy? We're not doing that." And he'd have been right.

MR. HAMBLEY. You would have seen the wisdom of that? [Laughter]

MR. BLINDER. Yes, I didn't need any persuading of that.

Monetary Policy Transparency

MR. LEBOW. Let's talk about monetary policy transparency. In February 1994, the Fed began announcing policy changes shortly before you came to the Board. That was a change that you favored.

MR. BLINDER. Absolutely.

MR. LEBOW. Why was that?

MR. BLINDER. There are many reasons. First, I thought the Fed had an imperious attitude towards the public—that we're supposed to know, and you're not supposed to know—and I thought that was something between foolish and unconscionable as a matter of good government. Secondly, the money market specialists always knew what the Fed had done because, after all, the Desk has to deal with dealers. And I thought that was giving an informational advantage to certain people, which was also unconscionable. Thirdly, and most important to me, I thought it was impeding the effectiveness of monetary policy—or, put the other way around, I thought a more transparent monetary policy is a more effective monetary policy—whereas the conventional wisdom for years at the Fed was just the reverse.

I don't really understand how people made these arguments, but the putative belief was that "announcement effects" would impede policy or cause spurious volatility. If you ask me to give you a valid argument for opacity, I find it really hard, because to me, the arguments are all in the exact opposite direction. You get rid of some spurious volatility. The announcement effects help your policy, which the Fed now realizes, and that's the way it does monetary policy. So both because of good government and because of effectiveness of monetary policy, I was a big hawk on transparency. I was the biggest hawk by far. If you want to know where I was an outlier on the FOMC, that's where I was an outlier. Way out. On a number of things, I couldn't even carry Janet Yellen with me! [Laughter]

MR. LEBOW. Can you cite some specific things that you recommended?

MR. BLINDER. Yes. My memory of the specifics may be a little weak, but you should be able to find this in the record. Every Vice Chairman since I'm not sure how long—before David Mullins, but at least starting with David Mullins—has headed the X committee: the Mullins committee, the Blinder committee, the Ferguson committee, the Kohn committee to consider the Fed's disclosure policies. Should there be greater disclosure or not? So the Blinder committee was duly formed. I think this was Alan's way of making sure this issue was always tabled. [Laughter] The Blinder committee was formed with a couple of other members of the FOMC to recommend what, if anything, we should do to increase disclosure. What I remember is, I lost these things on votes that looked like 17–2 and 18–1. 18–1! I couldn't even get Janet Yellen to go with me! [Laughter] So what did I want to do? One of the things I wanted was to have a statement after every meeting whether or not we changed rates.

MR. HAMBLEY. That didn't occur while you were at the Fed?

MR. BLINDER. No. That's current practice, but in those days it was anathema. Secondly, I wanted something about consenting and dissenting opinions like they do on the Supreme Court, which I favored. I didn't think that was as important, but I favored it.

MR. HAMBLEY. You could have opinions concurring with the FOMC's decisions but attributed to the particular person?

MR. BLINDER. Yes, because maybe you agreed with the decision but you disagreed with something else. Sort of like, "I went along with this, but I don't think that." Something like that. That, to me, was a less big deal. That may have been the issue on which I couldn't even get Janet Yellen; I don't remember anymore. And I think there was a third. I think we had three FOMC votes on the day of the Blinder committee—is that right? Do you have a record of it?[12]

MR. HAMBLEY. You did say on a number of occasions [that] it would be good if the Fed explained more to the public about why it did what it did in monetary policy.

MR. BLINDER. Absolutely. But that probably wasn't a vote. I wanted fuller statements.

MR. HAMBLEY. The third one was whether the tape should continue to run during the entire FOMC meeting. Your idea was to keep the tape running except when the FOMC's discussion concerned an organizational or nonmonetary policy matter.

MR. LEBOW. Because the tape had been running for part of the meeting, but then it would stop?

[12] Editor's note: Board of Governors of the Federal Reserve System (1995), "Meeting of the Federal Open Market Committee, January 31–February 1, 1995," transcript.

MR. HAMBLEY. Wasn't this the time that House Banking Committee Chairman Henry Gonzalez was on the Fed's case about nondisclosure of the existence of transcripts of FOMC meetings?

MR. BLINDER. Yes.

MR. HAMBLEY. If you didn't have a tape, there'd be no record. But now it seems so obvious, of course—you'd keep a tape, and you'd keep the transcript.

MR. BLINDER. I don't remember what the tape issue was. What I know is that I was annihilated when it came to a vote. [Laughter]

MR. LEBOW. Do you feel vindicated on the issue of greater transparency?

MR. BLINDER. I certainly do! I absolutely feel vindicated.

MR. HAMBLEY. Chairman Bernanke is very much in favor of increased Fed transparency as well. Did you ever talk to him about these matters before he got to the Board, either as a Board member or as the Chairman, or does this commitment to increased transparency just grow in Princeton?

MR. BLINDER. No, no, no. I think it grows in academia. There was a long time that elapsed between when I came back to Princeton and when Bernanke went to Washington. The two of us would talk. I won't say every day, but we probably talked three times a week. I'd be surprised if we didn't discuss that any number of times and with the same basic attitude. He toned down his views a bit when he became Chairman, but he was a big believer in transparency, as was I. We must have discussed it any number of times.

MR. LEBOW. How about the view that economic performance will be enhanced by greater transparency?

MR. BLINDER. The argument I made—I think I was the first to make this argument, but there may be someone who might have before me—was that part of the difficulty of doing monetary policy was anticipating the private sector's reaction to what you did. To make the argument spuriously concrete, the question was, what would long bond rates do after you moved the funds rate? But there were other things as well. And I found that guessing that was one of the most difficult parts of the job on the FOMC.

Occasionally, Greenspan and I would have a figurative, not literal, betting pool on, say, where the long bond rate would close on an FOMC day. And I thought we could get rid of a lot of that uncertainty by being much more transparent. To me, a lot of the job was getting the markets to think the way we were thinking, because they would have these crazy notions sometimes. And if we could do that, then we would be better at predicting how many basis points of [the] long rate you got by changing the short rate and, therefore, [be] better able to calibrate monetary policy. I think I was the first one to make that argument, but maybe I wasn't, as I said. Anyway, it was an argument I thought was very important and correct, and I still do.

MR. LEBOW. And you read the evidence as supporting that?

MR. BLINDER. I read it as supporting that, yes. The part of it that's easy to document—and has been documented by many scholars—is that the markets got much better at predicting the Fed. That's a well-established econometric fact. The other is a little harder—like, how much better has the Fed got at predicting what long rates will do?

The Federal Open Market Committee

MR. HAMBLEY. How significant is the fact that monetary policy decisions are made by a committee?

MR. BLINDER. It's a hard question to answer, because—I've written a lot about this—it depends on the sort of committee. I characterize the Greenspan FOMC as an autocratically collegial committee. That means, we all go along with the autocrat. In that kind of a committee, the fact that it's a committee is less important. I wouldn't call it of zero importance. We talked before about how Greenspan would sometimes tack in one direction or another to hold the Committee together and to stave off dissent, which he didn't like. So it was a little bit different than a total autocracy, but very different from—this phrase is my coinage, which has become common—an "individualistic committee" like the Bank of England's, where everybody just votes for the policy they think is right.

So if you're going to be an autocratically collegial committee, it's not all that different from being an autocrat. But if you're going to be an individualistic committee, it can be very different from being an autocrat. In fact, Mervyn King has lost two votes on the MPC (Monetary Policy Committee [of the Bank of England]). That doesn't count the number of times that he might've changed his vote so as not to be outvoted. I don't know how many times that might've been. But he's actually made it clear that he was outvoted twice. So that's what I mean—it depends on what kind of a committee.

MR. HAMBLEY. Is there something about the Fed that, regardless of who is the Chairman, you would get the same kind of autocratically collegial process?

MR. BLINDER. No. First of all, from what I know—and I'm not an insider, but I know a lot of people on the Fed—the Bernanke Fed is more genuinely collegial than the Greenspan Fed. It's still collegial, in the sense that it wants consensus. I don't want to say "get their way," but other people have influence on the Bernanke Fed more than they had on the Greenspan Fed.

That's just a change in personality. Nothing changed in the law or anything like that. So the leader himself can change it if he wants to.

Ben Bernanke came in saying quite vocally that he didn't believe in the one-man-show model, and he wanted the Committee to be more like a committee. He said that. He probably changed his mind a few times during the crisis [laughter], but that's a different issue. It's clear that he made some changes, though not all the way to the Bank of England or the Riksbank system. So there's a range, and as you get to the range of—if I may coin a bad word—"high committeeness," it is different from one person.

MR. LEBOW. Are there logistical issues? Do you think having 19 people in the room makes it unwieldy?

MR. BLINDER. A little bit. It would be more unwieldy if everybody in the room was doing concurring and dissenting opinions like the Supreme Court. Then it would be unwieldy. It's also difficult. And, from talking to any number of members, I know that it's a difficulty now to draft the FOMC release. They go through iterations before the meeting with 19 voices changing the words and things like that. There is something to that idea. But I always thought it was mostly an excuse, in the sense that if Greenspan would've come in with a prepared statement—which he did anyway, this was not adding to his work burden—and 15 to 30 minutes of the meeting were allocated to tweaking the statement after we had made the decision, that's all it would have taken. That's different from getting 19 people around the table to say, "Okay, now we're going to draft this together." That's unwieldy. So there is something to that, but I think not that much.

MR. HAMBLEY. Related to the matter of transparency, there were a number of stories that you would speak in some venue, and then there'd be some market reaction. Often the implication was that you were talking for the whole Federal Reserve, or it's not your views, it's the Fed's views. People could ascribe personal views to the whole organization. Is it possible to have too much transparency, too many people talking?

MR. BLINDER. No, no. My visceral reaction is "no," but there is the cacophony problem that I've spoken about and written about, and it's related to what we were saying before. If you run what seems to be a closed or rigged committee, people will go outside the room and spout off more than if they feel they had a fair hearing in the committee, had their views respected, maybe even listened to a bit—that's the tacking thing—so that a genuine consensus document arises, and everybody sings from the same hymn book. But if you make the process closed and really autocratic, you create a greater incentive for people to freelance.

Also, if you make the meetings very formal and stultifying rather than freewheeling, people may not feel that their views were considered. This has changed a bit under Bernanke. The standard model of a Greenspan FOMC meeting was everybody making a little speech in his or her turn, with no interaction from one member to another. I thought it was a lousy way to conduct a meeting. If you had a disagreement with somebody, you never had a chance to air it out. So doing things like that contributed to the cacophony problem.

The key thing—and this is why I viscerally answered "no"—is for people to understand whether and when an FOMC member is speaking for the Committee versus speaking for himself. That's where the market gets it so wrong all the time in every which way. I don't know how many times reporters or market people have said that when president so-and-so of the Reserve Bank of such-and-such makes a statement, and [then] someone else makes a statement, "Greenspan sent them out there to say that, right?" Wrong. He didn't do that, it didn't happen, but it was believed more than it should have been. I think the way you solve that problem is through greater transparency, making very clear that that is not what happens. But all that said, there is always the cacophony danger.

MR. LEBOW. And is there sometimes a fear that the financial market participants or others will misunderstand if you say too much, so it's better to say less?

MR. BLINDER. Yes, that's a view you hear. I always thought that view got it absolutely backwards—and this was one of my pet peeves with Greenspan on communication, by the way. He would sometimes say something, and the markets would get it wrong, and then he would never correct them. He let them stew in their error. I always said, "Make another statement. Make it clear what you meant." That's why I think the answer to misunderstanding is more communication, to clarify: "This is what we meant." Use more words. I've been saying this forever! I've even counted words in FOMC releases. I once published a table of how many words in this period, how many words in that period. Use more words. The Fed should still use more words.

Mexican Financial Crisis

MR. HAMBLEY. While you were at the Board, the Mexican financial crisis hit. The peso was devalued, and there was political instability in the country in late 1994. There was a financial crisis that occurred in early 1995, and there were contagion effects. Ultimately, the United States and the IMF (International Monetary Fund) both provided assistance to try and stanch that. How did that seem to the Board at the time, and what kinds of things did you learn about the way the world works and the Fed's role in the world by that?

MR. BLINDER. Well, some of that I can't answer, because I happened to be at the Board when Guillermo Ortiz and Jaime Serra came over, basically hat in hand, to beg for help from Greenspan. But I don't feel I should talk about that. I saw that little piece of it by accident; the Vice Chairman was not supposed to be included. I just happened to be there.

On the FOMC—and this, of course, will all be in the transcripts—there was an extreme ignoring of the travails of Mexico, like this was completely irrelevant to us. Now, was that the right thing or the wrong thing? Coming back to the Fed's legal mandate, it has no congressional authority to help Mexico. It's not what the Fed is there to do. So I think you can make a defensible case that if the Mexicans have problems, that's their problem, and it's not the business of the FOMC. That was the prevailing view on the Committee. I latched onto it slightly. But I was probably being—it's a long enough time I don't quite remember—slightly opportunistic, in the sense that I thought, for domestic reasons, that we were pushing too hard on interest rates. Remember, this was the end of 1994 and the beginning of 1995. And, probably, in one or more of those transcripts, I might have mentioned the problems it caused for Mexico on a list of reasons not to raise rates further. But I thought we were going too far without Mexico [laughter], so I think I was just looking to proliferate reasons, frankly.

MR. HAMBLEY. Yes. The Fed did enlarge a swap line with Mexico and did a warehousing agreement, but I'm not sure to what that referred.

MR. BLINDER. Yes. I can't remember myself. There was some kind of warehousing agreement. That's just about storing assets: "We'll hold them for you."

MR. HAMBLEY. The swap was a decision of the FOMC?

MR. BLINDER. Yes, and I think there were some objections to it, if I'm not mistaken.

MR. HAMBLEY. But, ultimately, was the judgment that we really are not completely separable from the problems of Mexico?

MR. BLINDER. Yes, the swap was as far as we went to doing something to help Mexico.

MR. HAMBLEY. What was it we did with the Exchange Stabilization Fund? Wasn't that part of the assistance to Mexico?

MR. BLINDER. That was the Treasury. Bob Rubin was Secretary of the Treasury then. The Treasury grabbed the Exchange Stabilization Fund to finance some of the loans to Mexico.

MR. HAMBLEY. Right, and the loans to Mexico were ultimately repaid.

MR. BLINDER. Oh, yes—with interest, with a profit. But there was a lot of question at the time about, first, the legality of doing that. Here's where lawyers argue. The Exchange Stabilization Fund is there to stabilize the dollar exchange rate. Well, a dollar against the peso, that's an exchange rate, so—I think that's how you get through the legal aspect of it. And then there was a question about whether this was flaunting the desire of the Congress, because Rubin only tapped the Exchange Stabilization Fund after the Republicans turned assistance to Mexico down. But that was the Treasury, not the Fed.

I think the Fed's main involvement on that was Greenspan talking to Republicans in support of Rubin. The Fed wasn't doing anything, but Greenspan was trying to help out because the Republicans didn't trust the Democratic Secretary of the Treasury, but they trusted the Republican Chairman of the Fed.

The Board's Responsibility for Regulation under Consumer Financial Services Laws

MR. HAMBLEY. Since the enactment of the Truth in Lending Act, the Board has had the responsibility to write rules related to certain major consumer financial services and fair lending laws like the Truth in Lending Act of 1968 and the Equal Credit Opportunity Act of 1974. You were on the Board's Committee on Consumer and Community Affairs, and you developed quite a reputation and were quite involved in a number of consumer issues while you worked on the Board. Do you remember some of those issues?

MR. BLINDER. The APY (annual percentage yield) was the main one.[13] Then there was leasing, which is a harder thing.[14] I thought it was important to tell consumers the embedded interest rate in a lease. It's not as easy as it sounds, because there's optionality in a lease, so getting the yield exactly right is next to impossible. I nonetheless thought we could have done better than we did, and I think that if I would've stayed on the Board longer, I would've pushed that. But the leasing issue ran into bureaucratic delays from the staff: "Oh, this is so hard, we have to study this for a millennium." And Governor Larry Lindsey was against a rate disclosure for leasing. So there was a lot of opposition to doing anything about leasing, and nothing got done as a result of that. Those are the two that I remember.

MR. HAMBLEY. There were also some new regulations that President Clinton had asked for on CRA (the Community Reinvestment Act).

MR. BLINDER. We were going through a whole big change in the CRA, and I was more sympathetic than most of the Board. Larry Lindsey was the head of the relevant committee, and we had some differences—political views. I was rather more sympathetic to the aims of the Clinton Administration than Larry was.

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[13] The Truth in Savings Act of 1991, among other things, set out to standardize rules on disclosure of interest rates, fees, annual percentage yield, and other terms for deposit accounts to assist consumers in comparing accounts offered by depository institutions.

[14] The Consumer Leasing Act of 1976 ensures meaningful and accurate disclosure of the terms of personal property leases for personal, family, or household use to enable the lessee to compare more readily the various lease terms available, limit balloon payments in consumer leasing, enable comparison of lease terms with credit terms where appropriate, and to assure meaningful and accurate disclosures of lease terms in advertisements. In 1996, the regulation implementing that law, the Board's Regulation M, was substantially revised. Unlike the Truth in Lending Act, which requires an interest rate and finance charge disclosure as part of an annual percentage rate for consumer credit transactions, the Consumer Leasing Act does not require an interest rate disclosure on consumer leases. [In July 2011, the rulemaking authority for the regulation implementing that law was transferred to the Bureau of Consumer Financial Protection, per the Dodd-Frank Act.]

MR. HAMBLEY. Why were you so engaged in these issues?

MR. BLINDER. I thought it was my responsibility. Greenspan put me on that committee, and when you're not doing monetary policy, what else do you do?

MR. LEBOW. You weren't just doing your job. You seemed to take a particular interest.

MR. BLINDER. Well, I thought—and still think—that part of the Fed always got the short end of the stick. In the hierarchy of importance of things at the Fed, Community Affairs was, like, at fifth or sixth place. While the worker bees that were doing that job cared about it, as you rose through the Fed hierarchy, the care about it fell and fell and fell and fell. So it needed a champion, so to speak. Later, Ned Gramlich became a really good champion, but when I arrived there, it certainly had no champion. You mentioned before that I was the first Democrat to land on the Board of Governors in 14 years. That's long enough to change the whole place, even though I know some members of the Fed staff vote Democratic—or at least I presume so. They're not all Republicans, but everyone acted like a Republican after 14 years!

MR. HAMBLEY. Of course, the Fed's consumer protection role is about to change, or it has changed now, with the passage of this new law.[15]

MR. BLINDER. It's about to, yes.

MR. HAMBLEY. What do you think about the central bank's involvement in consumer affairs?

MR. BLINDER. I thought it should be taken out and put into a separate agency. I've said this publicly.

MR. HAMBLEY. Did you think that at the time?

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[15] The Dodd-Frank Wall Street Reform and Consumer Protection Act transferred the Board's rulewriting authority for certain consumer laws to a newly created Consumer Financial Protection Bureau.

MR. BLINDER. I wasn't thinking about that then. No, I certainly didn't say it at the time. I don't think I even thought it at the time.

MR. HAMBLEY. In retrospect, do you think that the central bank's regulation of consumer financial services laws was not a good fit?

MR. BLINDER. Yes, it's not a natural function. If you think about what a central bank does, this set of issues is not a natural thing for a central bank to do. And I think, frankly, that the reason that the Congress kept pushing all of this into the Fed over the years is that they thought the Fed would tamp it down. If you put the responsibility someplace where dangerous people were, they might actually do it seriously, so give it all to the Fed. It's really odd that all these responsibilities were given to the Fed. But my feeling at the time was that, for whatever reason, the Congress had given all these responsibilities to the Fed, so we should do it. That was the law.

MR. HAMBLEY. And do it in an intellectually defensible way.

MR. BLINDER. Yes, do it in a serious and an intellectually defensible way, as if we cared about consumers.

MR. HAMBLEY. The Congress enacted HOEPA, the Home Ownership and Equity Protection Act amendments to the Truth in Lending Act, for which regulations had to be written.

MR. BLINDER. I don't remember that.

MR. HAMBLEY. The Fed wrote the initial regulations, which required additional disclosures and substantive consumer protections for high-priced mortgage loans.

MR. BLINDER. When did HOEPA pass?

MR. HAMBLEY. It became law in 1994, and the Board's regulations were issued in 1995.

MR. BLINDER. So I was there when we adopted the reg[ulation]s. I just have no recollection of it! [Laughter]

Leaving the Fed

MR. LEBOW. Let's talk about when you left the Fed.

MR. BLINDER. "Fleeing the Fed," as John Cassidy put it. [Laughter]

MR. LEBOW. Why did you decide to leave at the end of your term?

MR. BLINDER. It was a constellation of reasons, but I think the main thing I should say is that it was your last three words: The term ended. That created a decision point. If my term had another year or two to go, I never would've left the Fed then. It wasn't like I was dying to get out. But the end of the term created, first of all, a natural decision point.

Secondly, it created, in my mind, a responsibility. If I was going to ask the President to reappoint me—and, by the way, I always presumed he would and presumed I would get confirmed, because I didn't think I was a controversial figure in that respect—I ought not to do that to stay just another year and then vacate the job and make everyone go through that process again. So my view was that if I was going to ask for a reappointment, I was going to stay several more years. So, start with that.

At the same time, I was getting poorer by the year. I was maintaining a house in Washington and a house in Princeton, and I was earning—you can look this up—$118,000 a year or something like that, whatever was the Vice Chairman's salary. I had textbook royalties, thank God. That's what kept us solvent. But the Blinder net worth line was going down, down, down. It hadn't hit zero yet, so I could've hung on longer, but it was going down. So that was a consideration.

Another major consideration was that I grew skeptical of my ability to persuade Alan Greenspan of anything and, therefore, of my ability to have an effect on anything. I was trying to figure Greenspan out, but I don't think I ever did. He's a very complicated man. And I had the view, as I said before, that the only way you could move the FOMC was to move Greenspan. I started thinking that I wasn't doing that very well.

MR. HAMBLEY. There were reports at the time that your leave from Princeton was also about to be up.

MR. BLINDER. Yes, that was minor. I think that I probably could've got it extended. But our university president, who was Harold Shapiro at the time, was a smart guy, and he was smart about that. I went to have a talk with him, because you want to know what your options are, and he gave me a whole runaround about how there were so many levels of the university bureaucracy, and this would take forever. Baloney! I mean, he could've decided right on the spot. I knew that, and he knew that. But he was trying to force me to come back. I had the hunch that if I asked for another year I would've gotten it, though it never came to that.

MR. LEBOW. Another year, but you had said another several years.

MR. BLINDER. No, if I was going to do that, I was going to resign from Princeton. They were not going to give me another three years or something like that—the three-year leave is now called the Blinder precedent. There was a previous rule, two years maximum, and if you stay away longer, you resign. I got it stretched to three.

Bernanke used the Blinder precedent at first. I remember I had a call with Ben, and I said, "If you want to stay a fourth year"—this was before he was Chairman—"I'll go into the university president's office and tell her why she should give you a fourth year, and to hell with the Blinder precedent." He said, "No, don't worry, forget it. I'm just going to resign." So the

Blinder precedent still stands [laughter] at three years. I thought I could break it in 1996, but I wasn't sure. That was why Harold Shapiro was so clever. He just left this residual uncertainty in my mind.

Finally, both my wife and I were kind of longing for our Princeton house. We have a very nice house in the woods instead of the dumpy house where I was living in Washington! [Laughter]

MR. HAMBLEY. Were you commuting, or was she living with you there?

MR. BLINDER. She was living with me. We were all living there. In fact, when we first went there to the Clinton government, my youngest son William was then in the middle of his junior year in high school, and we gave him the option. He came with us. So I wasn't breaking up the family. The family was intact. And then, of course, by the time I was on the Fed, he was in college.

MR. HAMBLEY. Many people who serve on the Board are strongly motivated by public service and by wanting to make a difference, and yet the choices can be very expensive and make it difficult for them, for practical reasons, to continue.

MR. BLINDER. Well, it helps if you're independently wealthy, which I wasn't. Without the royalties, I wouldn't have lasted as long as I did, but with the royalties I could've stayed a bit longer. I didn't do the fine-honed calculation, but I certainly could've made it another year or two before bankruptcy court. [Laughter]

MR. HAMBLEY. Well, you've been very generous with your time, and I thank you so much for doing this.