# Federal Reserve Board Oral History Project

Interview with

## Alice M. Rivlin

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

Date: June 22, 2010

Location: Washington, D.C.

Interviewers: David H. Small, Jaime Marquez, Lynn Fox, and Winthrop P. Hambley

## Federal Reserve Board Oral History Project

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

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

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

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MR. SMALL. Today is June 22, 2010. I am David Small from the FOMC (Federal Open Market Committee) Secretariat in the Federal Reserve Board's Division of Monetary Affairs. I am joined by Jaime Marquez, a senior economist in the Division of International Finance; Lynn Fox, a senior adviser in the Office of Staff Director for Management; and Win Hambley, a senior adviser in the Office of Board Members. This interview is being conducted as part of the Board's Oral History Project. We are interviewing Alice M. Rivlin, former Vice Chair of the Board from June 25, 1996, to July 26, 1999. This interview is taking place at the Board. Dr. Rivlin, thank you for joining us.

MS. RIVLIN. Happy to be here.

**Educational and Professional Background**

MR. SMALL. I thought we might start with your early education and talk about the MacArthur Foundation Award that you received.

MS. RIVLIN. My early education is a matter of record. I grew up in Indiana. I went to school there through eighth grade and part of high school. I had a checkered career in high school. I actually graduated from the Madeira School in northern Virginia. And I went to Bryn Mawr College. I got a Ph.D. in economics at Radcliffe, which is part of Harvard. Then I came to Washington.

The MacArthur Award was much later. It was in the 1980s, after I had finished my term at the Congressional Budget Office.

After college, I spent a year in Europe. I worked in what was the tail end of the Marshall Plan. That became very interesting after I got to the Board. In college, I wrote a thesis on the economic integration of Europe. This was my college honors thesis. It dealt with the then very early efforts—we're talking about 1952—to integrate the economies of Europe. I had a section on the possibility of a common currency, and by the time I got to the Board and was going to meetings in Basel in the late 1990s, the common currency was becoming a reality. I really enjoyed that. I had a copy of the undergraduate thesis, and it read pretty well, considering that it was more than 40 years old. I went from the job in Paris to graduate school. I got a Ph.D. in economics at Radcliffe.

I came to the Brookings Institution in Washington in 1957 and spent many years there. Brookings has been my main professional home over this very long period. I'm back there now as a senior fellow. I started my career there. I used to tell my children it was my "homeroom." I left quite a number of times to go into the government.

I've basically had two employers: the Brookings Institution and the United States government, at very different agencies within the U.S. government. I worked at the Advisory Commission on Intergovernmental Relations, an interesting agency that no longer exists. That prompted my interest in federalism, which has been a continuing theme of my career. That was a temporary stint, on leave from Brookings. At about the same time, I did a temporary stint on Capitol Hill. I worked for the House Education and Labor Committee on a special project, which prompted my interest in the Hill. Although the Hill is very interesting, what I realized at that time was that it was not a good place for a mother of small children. And I thought, "Maybe I'll come back here when the kids are bigger," and, actually, I did.

In 1966, I went into the Department of Health, Education, and Welfare (HEW) as a deputy assistant secretary of that department, at a time when we were setting up an evaluation component. I was deputy to the assistant secretary for planning and evaluation. Then I took over that job. That was my first presidential appointment, at the end of the Johnson

Administration. I stayed through the transition and into the beginning of the Nixon Administration, which was an interesting period in my life.

Then I went back to Brookings. With Charles Schultze and some other people, I worked on a series of books on the budget called *Setting National Priorities.* That drew on my HEW experience but got me much more into other parts of the budget.

**The Congressional Budget Office**

MS. RIVLIN. In 1974, when the Congress was reforming the budget process and was looking for someone to set up and run the newly created Congressional Budget Office (CBO), I became the founding director of that office. I was there eight and a half years. It was a four-year term. I had two of them and then had a little trouble extricating myself, so I was there actually more than eight years. I consider that my most important job, by far. It has become a very central agency. It's the go-to agency now. Everybody who has something to say about a piece of legislation, especially a big one like health reform, is always referencing the CBO. The CBO is the keeper of the numbers for the Congress. I'm very proud of the CBO.

MR. SMALL. On the radio, when there is an announcement, you always hear a reference to the "nonpartisan" Congressional Budget Office. Were you instrumental in setting it up that way, ensuring that it was nonpartisan?

MS. RIVLIN. Absolutely, yes. I could go on about the CBO for a very long time, because I'm very proud of it. [Laughter] There's a new book about the CBO that I was just reading in draft. The CBO was an entrepreneurial activity. There were almost no guidelines from the Congress about what to do. The Congress had created a new structure for dealing with the budget: the two budget committees, one each in the House and Senate, which were new, and a Congressional Budget Office that was to give the Congress the kind of information that the President was getting from the Office of Management and Budget (OMB).

The law specified nonpartisanship, and we took that very seriously. I thought the success of the agency depended on it being seen as fair and nonpartisan. And, remarkably, the budget committees backed me up. They protected me from the partisanship of their colleagues and allowed me to set it up that way. And it has endured as a strongly credible but nonpartisan agency.

MR. HAMBLEY. Was that during Richard Nixon's presidency?

MS. RIVLIN. Well, Nixon precipitated the move. It was Nixon's confrontation with the Congress that precipitated the passage of the Budget Reform Act of 1974, which created these new agencies and the new process. But by the time the process was up and running, Nixon was out, and Gerald Ford was President.

By the time I took over the CBO—which was not until February 1975, about six months after the Budget Reform Act was passed—Ford was President. I served through the Ford Administration, all of Jimmy Carter's presidency, and two years of Ronald Reagan's presidency. So the White House was shifting back and forth, as was the Congress to some extent. At the time I left, we had a majority Democratic House and a majority Republican Senate. But we kept trying very hard to be the nonpartisan Congressional Budget Office, and I am very proud of the fact that we succeeded.

MS. FOX. I've heard you say that you've seen yourself in various roles as an institution builder. That certainly must have been a major part of your experience at the CBO and informed your experience as Administrative Governor of the Federal Reserve Board.

MS. RIVLIN. It may have. But it is a very different experience to start a new organization from scratch, without many guidelines, and figure out what is it supposed to do and how we hire the people to do it. We were dealing with pretty nitty-gritty stuff. I had brought Bob Reischauer with me from the Brookings Institution, along with his research assistant and my research assistant. The four of us were sitting there being the Congressional Budget Office.

We were inundated with resumes. One young woman came in, shyly offered her resume, and said, "I'm a secretary at the Department of Commerce." Bob said, "You're a secretary? Sit down." Her first question was, "What is your leave policy?" [Laughter] And we said, "Oh, we've got to have a leave policy. [Laughter] So we made up a leave policy. It was stuff like that.

MR. SMALL. Do you remember much about when Fannie Mae was taken off-budget and why?

MS. RIVLIN. That was before the Congressional Budget Office experience. That was 1968 as I remember it. It wasn't just that Fannie Mae was taken off-budget, it was privatized. And instead of being part of the government, it became a government-sponsored agency, I think because it was felt that what Fannie Mae was doing could be done better in this quasi-public way. Perhaps because you could, like the Fed, hire people at higher salaries. I don't know the entire motivation, but there was some budgetary motivation as well.

MR. SMALL. During those years in the Congressional Budget Office, what was your view of the Fed?

MS. RIVLIN. We viewed the Fed as extremely competent and therefore a place where we could find people for our new agency. We hired Frank DeLeeuw as our first forecaster, basically. He was a macroeconomist who had worked on the Fed model. A couple of other early hires came from the Fed. I don't remember exactly who, but that gave us some credibility and a lot of expertise. On Frank's advice, as I remember it, we decided not to build our own model; we used commercially available models. Having lived through building the Fed model, Frank thought that it took too long, was too hard, and wasn't going to add anything. So we didn't do that.

MS. FOX. There's an interesting story about how the approval of your nomination to head the CBO came about.

MS. RIVLIN. Yes, that's sort of a fun story. The process of appointment was by the budget committees. The first time they did it—and they never did this again, fortunately—they had two separate processes. The Senate Budget Committee acted as a search committee, and so did the House Budget Committee. I was on the short list on both sides because of the budget work that I'd done at Brookings. I was interviewed by both sides, and I ended up being the candidate of the Senate committee. Sam Hughes, a very able man who was the Deputy Comptroller General at the time, was chosen by the House. They didn't know what to do, because they had two plausible candidates, and rather different ones. I was more of a policy analyst, and Sam Hughes was more of a numbers cruncher. That was certainly the perception. So the process dragged on for quite a long time. They didn't know how to get past the dilemma.

The chairman of the House Budget Committee was Al Ullman, a Democratic [congressman] from Oregon. He was quite sexist. He was reported to have said that over his dead body was any woman going to be appointed to this job. Members of Congress said things like that in those days. So he wasn't going to give up.

Then the chairman of the Ways and Means Committee, Wilbur Mills, had his episode with Fanny Fox, the exotic dancer. Unbeknownst to most people, he was an alcoholic. One night he was riding in his car with Fanny. Something happened, she jumped out of the car into the tidal basin, and he followed her. Well, that was the end of Wilbur Mills's very distinguished career.

Al Ullman moved into the chairmanship of Ways and Means. And Brock Adams (D-WA) took over Budget. Brock had not been part of the original selection of Sam Hughes, and he just wanted to get the thing settled. I think he told Senator Edmund "Ed" Muskie (D-ME) that "If you want Rivlin, it's all right with me." So they went with me. That was how I owed my job to Fanny Fox. [Laughter]

**Nomination to the Federal Reserve Board**

MS. FOX. It's a little easier to become a Federal Reserve Board Vice Chair, I guess, but not particularly easy. When do you first recall being talked to about your nomination as Vice Chair of the Board?

MS. RIVLIN. I had a conversation in my office at the CBO with then Secretary of the Treasury G. William Miller.

MR. SMALL. He was the Fed Chairman until 1979, and then he became the Secretary of the Treasury.

MS. RIVLIN. He came to see me in my office. I was rather impressed with that. He asked me if I'd be willing to serve on the Fed Board. I said, "No." We had a good conversation, but I said that I was enjoying what I was doing there. I was committed to the agency. It seems to be very important. I said that I didn't know much about monetary policy. So, thanks but no thanks.

I don't think it came up again until I was in the Clinton Administration. I guess it was when Alan Blinder was chosen. Around that time I was asked whether I wanted to serve on the

Board, and I said, “No.” Then Alan didn’t stay very long. About a year and a half later, or maybe even less, Alan was leaving the Board in January 1996 to go back to Princeton. I think Laura Tyson [then director of the National Economic Council] asked if I would be interested in going to the Fed. I said, “No. I want to stick with the budget.” I think that was a fairly casual conversation. They were putting together a list, and I was asked whether I wanted to be on the list. And I didn’t.

Then Felix Rohatyn [an investment banker] threw his hat in the ring. He wanted to be the Fed Vice Chair. He was on a growth kick. He thought that we needed more investment in infrastructure and higher growth rates. The Fed was too conservative, too anti-inflation, and didn’t understand the importance of growth. And Felix was the salvation. So that was talked about in the White House and taken fairly seriously. I remember that there were conversations about which Fed seat was open. New York was not. Did he have another plausible venue for a seat? He had a ranch in Wyoming, I think. [Laughter] Eventually, it was decided—I don’t know exactly by whom—to discourage the Felix Rohatyn candidacy.

Then they came back to me. The President’s story—and I don’t know whether this was the right story or not—was, “I’ve decided to reappoint Alan Greenspan. That’s going to be controversial in the Congress. You have a good reputation with the Congress. You would be easily confirmable”—which turned out not to be right—“so I’d like to make it a package deal with Greenspan and Larry Meyer.” I first said, “No, I’m not interested in going to the Fed.” We were in the middle of this big budget thing, and I wanted to stick with it. And I knew much more about the budget than I knew about monetary policy. Then Laura was detailed to twist my arm, I think. And she did. At the very last minute I said, “Okay, if that’s what the President really wants." I called Alan Greenspan. He said, "We'd really love to have you." I'd known him before. And somehow I let it happen.

Later, I came to wonder whether the President was giving me the full story. Ron Brown, the Secretary of Commerce, had recently died. The Administration was facing another election. I think an African American cabinet member was desired to replace Ron. Frank Raines was available. He had been at OMB earlier, and I think somebody came up with the bright idea that, if we move Rivlin to the Fed, we can put Raines at OMB, and politically that would be a good thing before the election. Raines was competent; he was terrific in that OMB role. Maybe he was not so good at Fannie Mae. Anyway, that was what happened.

MR. SMALL. The story is that the Clinton Administration and Felix Rohatyn were on to the new economy and the surge in productivity and the Fed was not quite there yet. What were your views?

MS. RIVLIN. I thought the economy was going very well, and inflation wasn't a big danger. But Alan Greenspan had reached that conclusion already. The Clinton Administration was behind the curve on this.

They thought of Alan Greenspan as the quintessential deficit hawk, and that he was just sitting there waiting to raise interest rates in 1996. Joseph "Joe" Stiglitz, then chairman of the Council of Economic Advisers (CEA), after I had accepted the Fed position, said, "I need to talk to you." He came over on a Saturday afternoon. We sat on the porch of the OMB office that overlooks Pennsylvania Avenue and had a long talk about Fed policy. Joe also was worried about the hawkishness of Greenspan and was trying to make the case for keeping interest rates low.

By the time I got to the Fed and talked to Greenspan, I realized he was not in a hawkish mode. In fact, the first conversation I had with him about substance was before I was on board. I think it was during the period when the nomination was before the Congress. I was invited to a Fed event, which I think was on federalism for some reason. Greenspan took me aside and said, "I hope they get this over fast. I need your help with the hawks." [Laughter] I thought, "So much for hawkishness and Alan Greenspan."

MS. FOX. What were your perceptions from the first days that you came in to be briefed for your nomination hearing? What were your impressions of the Fed and the staff at that point—the way that business was conducted and the way your nomination process was managed?

MS. RIVLIN. My impression was that it was very professionally handled. I'd been through two recent confirmation processes—one for OMB deputy director and one for the director. They were pretty well handled, too, but the Fed was especially good.

My dominant impression was that the briefing materials were very good. A lot of time was spent on monetary policy. And I had to get up to speed on monetary policy. It's not that I was totally out of it—I was dealing with macropolicy at OMB and had been dealing with macropolicy at CBO—but I wasn't involved in how monetary policy actually got made.

There was a good deal about the FOMC procedure, how the Fed thought about the fed funds rate, and how the open market operations actually worked. I was in learning mode about those matters. The last time I took money and banking was as an undergraduate. For some reason, I hadn't taken an explicit course in money and banking in graduate school. I remember that I was struggling with my memories of the money and banking course that I took at Bryn Mawr in the 1950s. It was very well taught, but it was the 1950s. I remember saying—we were talking about interest rates and so forth—whatever happened to the M1, M2, M3? [Laughter] That was the whole emphasis in my memory. So I had to relearn that.

MS. FOX. Were topics broached in the briefings that surprised you? Were you familiar with all the subject areas?

MS. RIVLIN. I knew that the Fed did regulation, but I didn't know a lot about it. I must say, in the recent discussions about financial regulatory reform, I still always have to remind myself that the Fed supervises bank holding companies, and it is state banks that are members, and blah blah. Up until now, it has been a cats-and-dogs of peculiarly defined institutions that were under the purview of the Fed. I didn't know an awful lot about that. And I knew nothing about the payment system.

MR. SMALL. Was it a shock coming from the CBO that you headed and where there was a well defined structure to the board, with seven equal partners, at least statutorily—and then the FOMC with the Reserve Bank presidents, where it was a much more diffuse kind of structure?

MS. RIVLIN. The CBO is a poor example, because it didn't have a structure when I got there. We made a structure. But, no, my impression of coming to the Fed from OMB was that it was so much more orderly. The OMB is an organization with a structure. But the OMB director interacts with the White House every day, 24/7. At the beginning, and I was there from the very beginning, the Clinton White House was particularly fluid and disorganized. I was somewhat relieved to be back in an organization with a serious structure, where you knew who was in charge and what they did. I didn't find that at all difficult. I was familiar with boards. I'd served on corporate boards when I was between CBO and OMB.

MS. FOX. You mentioned that you had known Alan Greenspan over time. During the nomination process, you were tied also with Laurence H. “Larry” Meyer. Had you known him previously?

MS. RIVLIN. I knew Larry slightly. I knew he was a very good macroeconomist. We had bumped into each other at meetings. But I certainly didn’t know him well. I knew Janet Yellen a little better.

MR. HAMBLEY. How did you meet Alan Greenspan?

MS. RIVLIN. I knew Greenspan probably before he served in the Ford Administration. I don’t remember exactly, but we were at meetings together. I was part of the group of economists in Washington that talked about budget policy and other kinds of macropolicy—Social Security or whatever. And Greenspan was one of the people who was often involved back before he was in government, when he was at Townsend–Greenspan. Then I knew him in the Ford Administration. I was at CBO, and he was at the CEA.

MS. FOX. As I recall, your nomination hearing was not much of an ordeal.

MS. RIVLIN. I don’t remember it as an ordeal at all. The hearing was quite conventional. I think the questioning was mostly to Greenspan. Larry and I didn’t get very many questions. It seemed to go well. I did the obligatory visits of all the Banking Committee members, and those seemed to go fine.

There were a few people who were quite antagonistic to Greenspan. One of them was Senator Tom Harkin (D-IA). I had a long conversation with him on the phone. I remember him berating me about Greenspan being a stick-in-the-mud conservative. There were references to Ayn Rand [famed novelist and philosopher], and there was this long, typical Midwestern populist diatribe against the Fed. It wasn't about me, so I just listened, and I don't remember what I said.

The stuff that surfaced at the very end had basically nothing to do with me. Some members who were upset at President Clinton on budget policy used the nomination process to make their points. Kit Bond—I don't remember whether he was on the Banking Committee—put a hold on the nomination, because he thought the Administration wasn't being forthcoming enough about the specifics of the budget reductions. I don't remember that as being any big deal. I thought they were doing their thing, and it would pass. And it did.

MR. HAMBLEY. Chairman Greenspan's nomination was held up for months by Tom Harkin. Ultimately, there was a Senate debate, and he was confirmed. At the time, did you think that the Republicans who wanted Greenspan were holding you as leverage to get him confirmed?

MS. RIVLIN. Yes. This was the President's argument: We need you to help balance this. So I don't remember being worried about it at all.

MR. HAMBLEY. But the hold on the confirmations did go on for months.

MS. RIVLIN. It did. I think I went on vacation. I wasn't particularly involved with this.

MR. HAMBLEY. At the end, did you or the White House do anything to break this hold and get the nominations confirmed?

MS. RIVLIN. I don't remember.

MR. HAMBLEY. Did the President become clearer about the budget details?

MS. RIVLIN. I don't remember. It just washed over me. I don't remember worrying about it. I was very busy at OMB and then took a vacation.

MS. FOX. You've been in Washington for a long time, and perhaps you know that those things tend to go on, and then they tend to get fixed.

MS. RIVLIN. Yes. I don't think I personally thought there was any danger that the Senate wouldn't confirm me. They'd just done it twice within the last several years. And I didn't think anybody had anything personal against me, nor did they ever say they did—except for Kit Bond, I guess.

MR. HAMBLEY. When the time came for the vote, it was a closer vote than one might have thought: It was 57–41. The hold against you was by Republicans. At the time of the vote, there were a number of Republicans who supported your nomination, whereas most didn't.

MS. RIVLIN. Yes.

MR. HAMBLEY. Was Senator Pete Domenici (R-NM) among them?

MS. RIVLIN. Pete had been a friend and ally of mine for many years. I first knew Pete when he was a newly elected Senator from New Mexico. He was a junior member of the Senate Budget Committee when he first came on. I thought he was very smart and asked good questions. Later he became the ranking member and then the chairman, and we had a cordial, but not intimate, relationship. I had a good deal of respect for him, and I think it was mutual.

In 1981, when the Republicans recaptured the Senate, Pete became chairman. The Reagan White House misunderstood the role of the CBO. They thought they could put one of their own supply-side people there. They began making noises about getting rid of me and putting one of their people at the CBO. Pete and Robert "Bob" Dole, I think, said, "Wait a minute. This is a congressional institution. Rivlin is going to stay until the end of her term." I was grateful for the help on that one, because I thought it was important to the CBO to establish that Presidents didn't play in this game. And to my knowledge, no President ever tried that again.

**Board Assignments and Early Impressions of the Federal Reserve Board**

MS. FOX. So you were confirmed, you return from your vacation, and you came to the Federal Reserve. What were your first impressions, and how did you get your assignments? Was there any advice that you received internally that you remember?

MS. RIVLIN. One story relates to the Clinton Administration. Particularly at the very beginning, meetings with President Clinton never ran on time. The President was always late. In the first year or so, Robert "Bob" Rubin and I and others spent a lot of time waiting in the outer office of the Oval Office. Then we learned our lesson fairly quickly. If you had a meeting with the President at 4:00, you would have your assistant call at five minutes to 4:00 and say, "How late is he? Call me when he's ready." You'd continue with whatever you were doing until the President was ready to see you, and you didn't waste as much time. It got better, somewhat, after Leon Panetta took over as Chief of Staff.

My first Board meeting, I knew, was at 10:00. That was probably a Monday. About five minutes to 10:00, my phone rang. It was somebody to whom I needed to talk, so I did. I was maybe two minutes late walking into the Board Room. Everybody was sitting there waiting. [Laughter] I was very surprised. And I never did that again. Fed meetings started on time, especially Fed meetings that involved the Chairman. Greenspan would wait until everybody was assembled, and then he'd come through the door. So being late was not a good thing.

I remember the first conversation with Chairman Greenspan about duties. I was interested in consumer affairs, the Community Reinvestment Act, and that range of things. So I said I'd like to be on the Board's Consumer and Community Affairs Committee. Ultimately, I was added to that committee, but he said "no" in the beginning. He said that Larry Lindsey had that well in hand and was dedicated to that area. Greenspan said that he needed me to be

Administrative Governor. Mike Kelley had been doing that and apparently had had enough. Greenspan wanted me to take that over. I liked administration. I liked the administrative part of the OMB job quite a lot, because I thought it was an organization that needed some administrative attention, and we gave it some. So I agreed to be the Administrative Governor. My other important assignment involved international affairs, which included going to the BIS (Bank for International Settlements).

MR. SMALL. When you began your assignment as Administrative Governor, what were some of the top items on your to-do list?

MS. RIVLIN. First, I had to figure out what was going on. As I had done at OMB, I organized a series of meetings. I had somebody arrange meetings for me with collections of older and younger Fed staff from different divisions. We usually had breakfast in one of the conference rooms, I think. I did maybe five or six of those. I would talk to staff about what it was like to work at the Board, how long they had been here, and what were some of the problems.

[The s]taff was less forthcoming than the OMB staff had been, but it was a useful activity, and I learned some things about the staff. I was amazed at how long most people had been at the Fed. It was a staff that had a lot of longevity. There were some new people, but there wasn't a lot of turnover. And the different divisions seemed to be fairly siloed, as they say. When we had these meetings, I was conscious that people who'd been in the same building for a long time often didn't know each other, because they were in different divisions.

There were a couple of things that were ongoing when I got here. One was a shift over in the computer system. In particular, the staff was in the middle of moving the personnel computer system to PeopleSoft, I think. Every once in a while, I'd have a meeting with the people who were working on this, and they would say, “We’re almost there. We expect to go live in two months.” Then two months later I’d have another meeting, and they’d say, “Yes, we’re almost there. We expect to go live in two months.” After a couple of these, I said, “What’s going on here?” [Laughter] Nobody was forthcoming about the problem.

Finally, I got staff to talk to me about what the problems were. I found a situation that I was familiar with from other experiences—namely, that they were trying to customize using an off-the-shelf system. The Fed’s personnel system was complex. Staff told me that there were perhaps 47 leave categories, and they were trying to adapt PeopleSoft so that it could cope with 47 leave categories. I asked, “Why do we have 47 leave categories? Maybe that’s the problem.” [Laughter] Eventually, the changes were made.

The situation was typical. I’d seen the same thing in other places, including companies. But what was amazing is that this was happening at the Fed, which I thought of as quite a competent place.

MS. FOX. So initially people weren’t necessarily forthcoming. Did that change? Was that a general impression, or was it the culture of that part of the Fed that handled administrative matters?

MS. RIVLIN. With some exceptions, Fed employees were very conscious of their role as staff and wary of their interaction with Governors. Alan Blinder had warned me about that. He was quite upset by it. I wasn’t upset. I’d worked in bureaucracies before. OMB was also a place where the professional staff had a sense of itself and its mission. Political appointees like the director and the deputy directors came and went. So I thought the Fed was like that, only more so.

I had succeeded in gaining the confidence of the OMB staff, so I thought, "This isn't going to be so hard." But it was harder. The Board staff was often very self-protective. And Alan had warned me that they thought they reported to the Chairman and were afraid to talk to another Governor, even the Vice Chair. Now, some weren't. I found that less of a difficulty than he found it. Don Kohn was just terrific. He was terrific at everything. And after I got to know him, Mike Prell was pretty good, too, but initially he had an "I work for the Chairman" attitude.

MR. MARQUEZ. Did you view the situation as a failing of the Board that ought to be remedied?

MS. RIVLIN. Yes. I was here to do a job, and I needed some staff help, and it wasn't clear to me that I could get it. But, in the end, I did.

Larry Meyer was terrific in gaining the confidence of the technical forecasters, because they thought of him as one of them. They didn't think of me as one of them. I was from this other world of politics, budgets, and fiscal policy, and they didn't know about that. I think Larry established a good relationship very quickly. I gained the confidence of some of the staff as we went along, but it was harder.

MR. SMALL. Larry Meyer came in not only as a forecaster, but he ran a model that had many features in common with the big staff model, so they talked the same equations. You came in from a political organization. Early on, during your time here, I remember sitting in on a Monday morning briefing and hearing you say that the deficit was going to come down. There was this hypothesis that you could raise taxes and so lower future deficits, that you could gain so much credibility from that that long-term interest rates would come down.

MS. RIVLIN. And they did. [Laughter]

MR. SMALL. And it was very easy to see this as pure politics. So you came in differently than Larry Meyer. Did you feel skepticism from or a tension with the staff?

MS. RIVLIN. Yes, I did. I'd just come from this budget world, where we were breaking our backs to balance the budget. We had put forward this package in 1993, which had tax increases in it. But the most important part was the spending restraint. We were enforcing the budget caps. If you look back at the statistics, you can see that federal spending went up much slower than the GDP (gross domestic product) in the 1990s until the very end. We were proud of that.

By the time I got to the Fed, the budget deficit was coming down. Revenues were going up, spending was not going up very fast—not as fast as revenues—and so we were on track to balance the budget. Actually, we did better than balance the budget. I think by 1996 I would not have predicted the surplus. But I certainly thought we were on track to a balanced budget.

The Fed staff was totally skeptical of that. They thought it was unlikely. I remember they thought they knew more than I did about the budget, and that these spendthrift congressmen were going to break their own rules. They were going to spend it, and we'd never get to balance. But, gradually, as the balance occurred, the surplus materialized early in my tenure here. I think fiscal 1998 was the first surplus year, but by 1997 the deficit was quite trivial, and the skeptics came around.

MR. SMALL. Was it hard to make the argument that long rates would go down?

MS. RIVLIN. I think by the time I got here, long rates were already going down. That was an argument that Treasury Secretary Lloyd Benson and others had made for the 1993 package—that it will bring long rates down. Long rates began coming down before we passed the budget package. No Republicans voted for the budget package in 1993. They said that long rates were coming down anyway; it wasn't because of the budget package. Benson's argument was that this was the "announcement effect," meaning that announcing the intention to get to balance was enough to bring rates down. We were already seeing some results.

MR. MARQUEZ. The question arose: To what extent was the expansion in U.S. economic activity an indicator of inflation coming or a reflection of something else? This was the episode having to do with productivity. I think Chairman Greenspan had it in his mind already, but my sense was that not everybody was on board.

My recollection is that you were pragmatic. You were not seeing evidence of an increase in inflation, but there might be a structural change going on that hadn't materialized in the statistics just yet. How did your thinking evolve?

MS. RIVLIN. Yes. I think it was. Because Larry Meyer was a modeler, and because models are a systemization of the past, he was much more hawkish on inflation—as was the Fed staff, because they were modeling past experience. And Larry was a believer in the NAIRU (non-accelerating inflation rate of unemployment). I was a skeptic of the NAIRU. I thought it was unlikely that there was some rate written in stone where inflation would suddenly take off.

So, yes, I emphasized the benefits of growth and tight labor markets. The argument was that tight labor markets gave employers incentives to use labor more productively, because it was scarce. Also, tight labor markets gave employers incentives to train workers more. Workers also had greater incentives to get education and training and move to a better job. It was the reverse of what was called hysteresis at the time. The hysteresis theory about Europe was that high unemployment rates were, in the long run, going to be detrimental to growth, because so many people were not working and not obtaining work skills. I thought we could see the benefits of the opposite. We were running very tight labor markets. People who were marginal workers were getting into the workforce, getting training. There was enormous incentive for companies to hold on to their workers by giving them training and advancing them to better jobs. Individuals had an incentive to invest in their own training and human capital, and we were seeing an explosion of that in community colleges and so forth. And all of these organizations, like the University of Phoenix, were catering to people who already had jobs but wanted better jobs. I thought there was a lot to be said for running tight labor markets. And we were not seeing inflation.

Now, why were we not seeing inflation? Greenspan had a theory—which I was dubious about, but I quoted it several times—about workers not making demands for wages, as they were more worried about losing their jobs because of the perceived acceleration of technological change. Another possibility was that technological change itself was producing more productivity increase and more flexibility in the economy. I was inclined to that, and, ultimately, so was Greenspan. He was delving into the productivity statistics.

I remember one anecdote fairly early in my tenure here. I overheard a conversation about a productivity meeting, and I asked if I could attend. There was a little embarrassment. I didn't understand why they didn't want me to go to the productivity meeting. I wanted to go, and so they said, "Okay." They gave me the room number and the time.

I appeared at this meeting a minute or two late, because I got lost. It was in a small conference room somewhere in the bowels of the Fed that I wasn't familiar with at that time. There were a bunch of working-level people from the Bureau of Labor Statistics and the Department of Commerce. And there was Alan Greenspan, with his coat off and his tie loosened. I don't think he had his sleeves rolled up, but there was a sense that this was a working meeting. I joined the group. They were talking in some detail about the productivity statistics, and they were calling the Chairman by his first name. Nobody at the Fed, except Governors offline, ever called him Alan. And here were these people talking to the Chairman as though they actually knew him. [Laughter] That proved they weren't Fed staff. They were people from these other agencies who were working-level people on productivity. There may have been a few Fed staff there. But that was vintage Greenspan: He wanted to get into the numbers and work it through with the working-level people. And I had wandered in. Nobody was inhospitable, but this was a side of the Chairman that wasn't very visible at the Fed.

**FOMC Communications**

MR. MARQUEZ. You were instrumental in settling the ambiguity about what the FOMC was saying.

MS. RIVLIN. Yes. At the time I came to the Fed, Alan Blinder had already been a leader on this and had tried to make the Fed more transparent. In fact, I think the announcement of what the FOMC had done dated from that period. There was a long time when the FOMC didn't say at the end of the meeting what measures it had taken. The market analysts were left to guess what the Fed had done.

That already had changed by the time I got here. A statement was put out about the action on the fed funds rate, if there was any. But it was a pretty incomprehensible statement; it made very little sense. The wording was stilted, and there was no explanation. There wasn't this paragraph that the FOMC puts out now, or maybe even two paragraphs, of how the Committee saw the economy and what reasons it had for doing what it did. We weren't nearly there. I don't remember all the steps, but it moved glacially from where it was when I came on through to where it is now, which seems to me quite a comprehensible statement.

MR. HAMBLEY. As I recall, the statements began in February 1994, which was when the Fed began raising rates. That was before Alan Blinder joined the Board. When he came, the practice was to announce only changes in policies, changes in the discount rate, or changes that would have affected short-term money market rates, sometimes not even talking about the funds rate. When you were at the Board, did the Committee move to having an announcement after every FOMC meeting?

MS. RIVLIN. Yes. I think that was one of the things we did even if we had not changed the rate, which we often didn't, especially in that period. There was a long period when we didn't change the rate at all, but, again, at least saying that.

MR. HAMBLEY. There was no indication of who had voted for an action. Did that change while you were here?

MS. RIVLIN. Yes, that did take place, and dissents were noted with a statement, I believe. I'm not sure when that came in. I remember Robert D. "Bob" McTeer, the Dallas Reserve Bank president, dissenting at one point, and I think initially the dissent was simply noted—"President McTeer dissented" or just "did not vote." Then a sentence was added of what the dissenter's reasons were. But I can't remember when that came in.

MR. HAMBLEY. Were there specific things when you got here that you thought could be clearer, and that you ultimately saw reflected in the statements before you left the Board?

MS. RIVLIN. Yes. It was on a track to getting better, and it got a lot better later. It was a continuous movement. I think Greenspan was conservative about it. He didn't want to make big changes, but he came along with each step. There did seem to be a quantum change when Ben Bernanke became the Fed Chairman.

MR. MARQUEZ. While the FOMC talked of interest rates, statements [in the *Monetary Policy Report*] were couched in money growth—M1 and M2—and they were giving ranges. You questioned why we report on monetary growth when the discussion was about interest rates?

MS. RIVLIN. Yes, that's right. The discussion in the FOMC was entirely about interest rates. Then, after the fact, somebody on the staff would figure out the implications of that for M1 and M2 and say something about it. Eventually, we dropped that. It was still necessary to do it in Humphrey-Hawkins, because the Humphrey-Hawkins law specified it, but eventually that got dropped, too, I think.

MR. MARQUEZ. Humphrey-Hawkins requires the Chairman to testify. Did it require the publication of the money growth?

MR. HAMBLEY. Yes, it did, and it still does.[1] So, given what you just described, you made decisions about one thing, but you were required by law to report on another. I think, at that point, people just didn't think the money aggregates mattered very much. They weren't very revealing.

MS. RIVLIN. Well, it was worse than that. In an earlier period, there had been a fairly consistent relationship between the money aggregates and GDP, and it disappeared. That was presumably because of new forms of money and near-money and various things. The regular relationship simply wasn't reliable anymore.

MR. HAMBLEY. Once you observed that, did the Board—or did you think that the Fed ought to talk to members of [the] Congress about this so that the Fed could feel comfortable communicating what it's really doing? Or was that not a discussion while you were here?

[1] Editor's note: The amendment to the Federal Reserve Act in December 2000 eliminated the requirement to publish ranges for the growth of the money and credit aggregates over the subsequent calendar year.

MS. RIVLIN. It was a discussion, but I don't remember how it came out. And, yes, I think that was generally acknowledged.

When I looked at the transcripts, I was reminded of being quite facetious about the modelers and inventing these little elves that were running the economy. I had fun with that. But it did remind me that I had the perception that the modelers were behind the curve. They kept predicting less growth and more inflation than actually happened. And every time the FOMC met, this was more and more evident through the period [of] 1996 [and] 1997. Eventually, the notion of the productivity increase caught hold, and everybody was more on board with it.

MR. MARQUEZ. At one point, you say that the elves also were writing the Greenbook.

MS. RIVLIN. Yes.

MR. MARQUEZ. I think this is an instance in which we have contrary pieces of evidence. We have a memory of what we have done wrong, mainly trying to expand output, thinking there are no limits. From my standpoint, it's a moment in which Chairman Greenspan, the other Governors, and you acted cautiously, waiting for more evidence before raising the interest rate.

MS. RIVLIN. Right. But there was another thing going on, and that was the dot-com boom and the stock market. After the fact, the Chairman, in particular, took some criticism for not stopping the stock market boom by raising interest rates. Some of the critics were acting as though the Fed didn't even know there was a stock market bubble. Of course we knew there was a stock market bubble. We talked about it all the time. We had seminars about it. We even talked about the housing boom in that period, though we were less worried about that than we were about the stock market.

We didn't think we had the right instrument. I think this has come back into the conversation now. We didn't have a specific credit control instrument that would have been appropriate to control the dot-com bubble without sinking the rest of the economy. That was very explicit, and I thought the ex post criticism of Greenspan in that period was just wrong.

We did have the margin rate. During that period we could have raised the margin rate. I remember raising that in some meeting. It probably wasn't an FOMC meeting; it may have been a Monday briefing. I remember asking, why did we have this margin rate tool, and why didn't we use it? I think the answer given—I don't remember who gave it; it might have been the Chairman—was right. This bubble, if it's a bubble, is not being financed on margin. There are so many other ways to finance your stock purchases that raising the margin rate wouldn't help.

In retrospect, we probably should have done it anyway, as a signal that we were worried about the stock market bubble. But we didn't, and now a good many other people and I have come around to the view that the Fed needs another tool. It needs some way of controlling financial institution leverage in addition to the short-term funds rate.

**Interaction with Board Staff**

MR. SMALL. When you're thinking, for example, about the productivity boom and the staff model, did you feel constrained because you didn't have your own staff to call upon? The Reserve Bank presidents had their own staffs. Do you think there would have been some benefit to you if you—or, earlier, Alan Blinder—could have called on the staff in different ways?

MS. RIVLIN. I think Alan Blinder felt that. I don't recall that I did. I thought the briefings were helpful, that I was learning enough to play in the game. I wasn't a modeler or a professional forecaster, so I didn't feel the need to have a personal staff. By that time I think I had established a pretty good relationship with the staff, and they were willing to talk about pros and cons and whatever. It didn't seem to me to be a problem.

One place where I had tension with the staff was in the international area. The Basel meetings were the main center of international activity. There were six or seven meetings a year. Chairman Greenspan didn't want to go to all of them. So, several times a year, I went to Basel, which was enormous fun. Everybody hung on your every word because you were representing the United States. For that purpose, I was Greenspan, and it was kind of fun. I wasn't making policy, but anything I said about the U.S. economy was taken seriously.

At the time, the Basel meetings started with a governors-only dinner on Sunday night. The meal, including the wine, was very good. The rules were that you were not allowed to take notes. But there was a menu with foie gras and whatever else was being served, so you had this little piece of paper, and you might surreptitiously write a note on it.

The anomaly of these meetings was already evident. This was the G-10, and that meant that Belgium and the Netherlands and some other small countries were represented, and the giants of the world economy—Russia, China, Brazil—weren't there at all. [Laughter] Some of us had begun to think this was sort of weird.

And then the meetings would progress. The next day was a somewhat larger meeting in the morning. Then in the afternoon was some bigger thing, at which Andrew Crockett and others began inviting, oh my God, the Chinese. I was one of those who thought, "This is moving glacially, and this organization is going to be totally bypassed if it doesn't get with it and decide that a larger group is appropriate at this table." Once a year there was the annual meeting in which all central banks came, but that was not a very substantive meeting.

Greenspan really loved those Sunday night dinners. And he was reluctant to rock the boat and get the big economies in there. Gradually, we pushed on this. When I left the Fed, the Sunday night dinners were still taking place. I don't know whether that is the case now, but if so, it's a wider group. But it took a while before that was accomplished.

But I started to say something about the staff. Ted Truman was running the international operation at the time. He had been at the Fed for a long time. He was very smart and got to know all of the other central bankers. He'd been Greenspan's alter ego on the international side, and he did not relish having me horning in on this. We had a good deal of tension over my role. He wanted to be the go-to person for the Chairman. And it came to a head—not about the Basel meeting, but about Working Party Three of the OECD (Organisation for Economic Co-operation and Development), which met in Paris normally right after the Basel meeting. So you could go from Basel to Paris and then home. Working Party Three was a pretty good seminar on economic policy. Mervin King participated—he was then the deputy governor—and some of the deputy-level governors of the German, French, and other central banks participated. It was a really good interchange.

Ted had been the Fed's representative on the Working Party Three, and he viewed that as his right. [Laughter] I said I wanted to go to Working Party Three, and he was very upset by that. He went to the Chairman and said I was horning in on his thing; he wrote a very emotional letter to the Chairman about it. Alan came into my office holding this letter. He gave it to me and said, "What do you think I ought to do?" I said, "It's your call, but I would like to do Working Party Three. I am the Fed Vice Chair, and the other people on the group are vice chair–level people, like Mervin King, and I think I ought to be there." He said, "Well, we don't want to lose Ted." I said, "I don't think you're going to lose Ted over this." [Laughter] But he was very worried that Ted might be offended and might leave. Well, Ted was offended, but he didn't leave, and I continued to go to Working Party Three.

**Changes in the Board's Senior Level Staff**

MS. FOX. Let's go back to when you were Administrative Governor. You shook the place up a little bit. The long-term tenure of the staff has many experiential advantages, but they build silos and become very interested in their role as the staff. One of the major changes under your tenure as Administrative Governor was in the composition of the staff and also in the way this organization conducted its planning and budgeting process. Did you have a systematic framework, or did you just address problems as they arose? And how did you address some of them?

MS. RIVLIN. I don't think I was the first to notice this, but it's certainly something that fit with the ethos of the times. Remember, there was a lot of effort to streamline government, and Vice President Al Gore was running this Reinventing Government effort, which did some really good things. He got laughed at for it, but it actually worked in many ways. The feeling that government could work more efficiently was part of what people were talking about, especially at OMB.

I carried that with me to the Fed and thought, we should look at the staff at the Board and whether we could do the Board's business with fewer staff. Also, there were some things like spans of control and so forth. It was evident that many of the people in the top Fed positions had been there for a very long time, and there was a jam-up at the top. We thought that one way of shaking things up was voluntary early retirement. The federal government was doing this. I don't remember if voluntary early retirement came out of conversations with Greenspan, Mike Kelley, or others.

People with certain longevity could retire early, and there would be an inducement to do so. It was a buyout, essentially. That worked to loosen up the logjam at the top. Quite a number of the senior people who'd been there a very long time opted to take the "early out" option, and people moved up. Several of the people who moved up, who'd also been there for quite a long time, turned out to be women, and a couple of them were persons of color. That changed the complexion of the top staff quite quickly—I think more quickly than we had anticipated, but it was quite noticeable.

MS. FOX. I think at the time there was data that the logjam at the top caused the Board to lose people in the ranks who were quite experienced but knew that they would never advance.

MS. RIVLIN. They never had a chance to move up. So I think that was generally regarded as a success. Nobody was forced out. It was a voluntary effort that worked. Dave Frost, the top administrative guy, who'd been in the military, was very cooperative on all of these things, and I thought we worked together very well.

**The Board's Planning and Budgeting Process**

MS. FOX. You also addressed the Board's planning and budgeting process. Part of the concern was that the time given to the budget process was relatively excessive, and the Board didn't have time for strategic thinking.

MS. RIVLIN. Right. This had been a hobbyhorse of mine for quite some time. And I still think it's right, although it's very hard to accomplish. An organization whose mission doesn't change a lot from one year to the next ought to do multiyear planning; it doesn't have to make a budget every year. I think we did a four-year strategic plan with a two-year budget. That, in principle, anyway, frees up quite a lot of time, because you don't have to do the budget every year. It allows you to make changes, including staffing changes, which are easier to make if you have some planning time. So we started doing that. I haven't followed up on how long it lasted and whether it's been successful.

MS. FOX. It was successful, and this is the first year that it did not last. We have just now gone to a one-year budget.

MS. RIVLIN. Well, the enormous changes at the Fed, including the changes in responsibility—

MS. FOX. That's the reason, and not knowing the future.

MS. RIVLIN. At that time, the Fed was a good example of an organization that had a pretty well-defined mission and could do some forward planning without thinking that the whole world was going to change next week, because it wasn't.

MS. FOX. The group that you created, the staff planning group, still continues as it was organized.

MS. RIVLIN. Good.

MR. HAMBLEY. Did you find that there was any internal resistance to making this change?

MS. RIVLIN. Oh, probably, but it did happen. There was much more internal resistance when I was trying to do it on the Hill. The budget process moved to a 5-year process for budget projections, and eventually to a 10-year process, but the appropriations process never moved off 1 year. Only the Pentagon did. The Pentagon got it, and they moved to a 2-year budget, and I think still do a 2-year budget. But the Congress wouldn't go along with it.

MR. SMALL. Senior members of the Board staff are economists, by and large. They're not professional managers or personnel types. That puts some rigidity in the system, because you have economists taking part in some of these large management issues, which is outside of their area of expertise. Did you find that to be the case?

MS. RIVLIN. Yes, that's a common thing. That was also true at OMB, and probably at CBO, that you hired people for their substantive expertise, and then if they were good you put them in a managerial position, and they'd never managed before. I think we instituted some management training, giving people a better idea of what they were up against if they did move into a managerial position.

**Federal Reserve Bank Structure**

MS. FOX. The regional structure of the Federal Reserve System, with 12 independent entities, is unique. What memories do you have about your relationships with the Reserve Bank presidents and how those relationships worked?

MS. RIVLIN. In the beginning, when I first looked at the structure and I was getting used to this thing, it struck me that the number of regional Banks was probably excessive, and that they weren't in the right places. My metaphor for this was the big map of the economy in 1913 in the Board Room. If I was talking to a student group in there, for example, I would say, "Look at that map. What do you notice about it?" [Laughter] You have all of these Reserve Banks along the Eastern seaboard and in the upper Midwest, which reflects what the economy was like in 1913, and that map of Reserve Bank Districts has never been changed.

And the staffing of the Federal Reserve Banks was very heavy. As I remember, we had 22,000 people in the System at that time. I'm sure it's less now. Most of those people cleared checks or supervised small banks. Even then, check-clearing was becoming a less important activity, and small banks were being gobbled up by big banks, so the whole structure looked anachronistic to me. I remember talking to Alan about that, and he said, "Of course, you're right, but we can’t rock the boat.” It wouldn’t be worth it to restructure where the Reserve Banks are, or to go from 12 to 8.

MS. FOX. Why not?

MS. RIVLIN. It was political. Even closing a Branch was like closing a military base. It was just too hard a lift, and Alan was not about to take that on. I understood that. But I did think it was, and certainly still is, an anachronism. But I enjoyed the relationship with the Reserve Banks.

MR. MARQUEZ. When you say “an anachronism,” do you mean the original intent of separating the Board from the private sector or the partition of the United States into those particular regions?

MS. RIVLIN. They’re both issues, I think. One is the location of the Reserve Banks. Clearly, now, as the population—and the economy—has moved west, even if you had 12, you would have them further south and west.

The other related issue was the way the leadership of the Reserve Banks was chosen. What seemed to be an anachronism was the ownership by the member banks. But I came to realize, it doesn’t make a bit of difference. It’s not significant. The only people who think it is significant are the anti-Fed people, the Bill Greiders of this world, and maybe Senator Harkin, who think that the Fed is some nefarious plot by the banks, and here is their evidence. In this recent go-round, one of the proposals—and I’ve lost track of what’s happened—was the presidential appointment of the chairman of the regional Bank boards. I thought, “What? That was somebody’s proposal?” Then it came down to a more sensible thing, which would be presidential appointment of the New York Fed president. This idea, from the original law that the banks control the regional Feds, lives on in the anti-Fed literature and with Ron Paul and so forth. But it has no operational significance whatever.

While I was here, the presidency of several Banks changed. And it was a perfectly good process in which the Board played a role and chose very good people, in general. So that was not an issue. I made an effort to get to all of the regional Banks at least once, and sometimes more than once. I enjoyed the interaction with the people who actually knew something about what was going on in the economy of their region. That was fun.

**Fed Independence**

MR. SMALL. What do you think saves the independence of the Fed time and again? Within the Fed, do the Reserve Banks with their board of directors and their local ties play an important role, or are there other factors?

MS. RIVLIN. My view of what saves the independence of the Fed is that, when you come down to it, the Congress does not want to make monetary policy. The Congress wants to fuss about monetary policy but doesn't want to do it. It's too hard. Delegating monetary policy to an independent agency like the Fed is mutually agreeable to all parties, except once in a while.

For a long time we haven't had a situation like in the Volcker period, when the Federal Reserve feels it's necessary to raise interest rates drastically to counteract virulent inflation. We haven't done that in 25 years. Then everybody said, "Oh my God, they're going to kill the economy," and, in fact, Volcker did. But I think that, on a day-to-day basis, no congressperson wants to run monetary policy, and therefore the independence is preserved.

The regional Banks probably play a role in familiarizing important citizens [with the Federal Reserve—familiarizing] not just bankers, but [also] labor leaders and CEOs who serve on boards and advisory committees of the regional Bank, advisory committees of various sorts.

There are tons of these—or there were when I was here. One might think that is inefficient, and it probably is, but it's one way of gathering information, and it's another way of introducing the Fed to the world.

MR. SMALL. Is this tie with the Reserve Banks, their boards, and bankers on the boards more problematic in the supervision and regulation area of the Fed's responsibilities than on the monetary policy side—either from a political perception or whether a Reserve Bank would be aggressive as a regulator if the banker's on the board of directors?

MS. RIVLIN. I don't think so. I haven't picked up that argument, particularly. It was not an issue when I was here. In the period I was here, there were very few bank failures. We closed a few small banks in cooperation with the state regulators. I don't recall that it was a big deal.

But in this go-round, I was a skeptic of increasing the Fed's role in regulation. Well, I was more than that. In both the House and Senate, I testified that there should be a consolidated regulator, and that it should not be the Fed. I had several reasons for thinking this. One was that the regulatory arbitrage had been a problem. We needed to centralize control or regulation of all financial institutions—like the FSA (Financial Services Authority). Now, the FSA wasn't a great success, but I still think it was the right thing to do.

The other reason was that I was worried—and I'm still worried—if a much heavier supervisory responsibility moves to the Fed. The Fed would have to staff up to do that, which it didn't before the crisis. This is going to make a much bigger staff at the Fed, a different responsibility, and may threaten the independence of the Fed. I still think that's a danger. I also think that the Fed has mostly done a good job with monetary policy partly because it had Chairmen over the years who were monetary policy experts—people in the mold of Greenspan, Volcker, and back before, and Bernanke. They weren't the same people you would have chosen to run a regulatory agency. I am still uncertain about how this is all going to work out.

**Role of the Fed Vice Chair**

MS. FOX. What makes a good Vice Chair? Were there things you learned about being the Vice Chair that could be beneficial to someone who takes on that responsibility in the future?

MS. RIVLIN. First, I think the Vice Chair has to get along with the Chairman. And I did. I liked the Chairman, and he liked me. In retrospect, maybe I didn't push back on the Chairman quite as much as I should have sometimes. But I think it is a prerequisite for the job that you have a good relationship with the Chairman.

Also, you need to be willing to take on the things that the Chairman doesn't want to do, and do them well. The things that I did included being the Administrative Governor and heading the Payments Committee. I didn't know anything about payments or even understand why this was important at the beginning. But I like learning about new things, and that was very interesting. And Greenspan was glad to get it off his plate. And we did a good job.

Different Vice Chairs will have different interests. We were not in a full-blown crisis. In this past crisis, I think the Fed was lucky to have Don Kohn as Vice Chair, because he's knowledgeable, he'd been here a long time, and he had the confidence of everybody. Somebody like Alan Blinder or me would not have done as well. Roger Ferguson did well in his vice chairmanship. He did the right things during 9/11 and probably didn't get nearly as much credit as he should have. [Laughter] Being the Fed Vice Chair is a very ill-defined role. The Vice Chair has to just figure it out: What can I do that's useful here?

**Role of the Fed in the Payment System**

MR. HAMBLEY. You led a study of the Fed's role in the payment system. What did you conclude, and what lessons did you learn from that exercise?

MS. RIVLIN. At the time, the Federal Reserve had been playing a major role in the payment system for a long time. The payment system itself was in transition. The dependence on checks and check-clearing and actual physical transportation of the piece of paper from one place to another was a major piece of what the Fed did. It was beginning to be questioned by quite a number of people. Wouldn't it be more efficient to have an electronic payment system? The answer was "yes," but we weren't there yet.

The Europeans were quite far ahead on this. Then there was a source of tension. The private sector was beginning to challenge the Fed and say, "We can do it more efficiently. The Fed shouldn't be in this business. The private sector should take over." So its role in the payment system was a source of criticism of the Fed at that moment. Greenspan was getting some flak about it, so he decided that it was time to have a study group on it.

Mike Kelley, two Reserve Bank presidents—Thomas C. Melzer from St. Louis and William J. McDonough from New York—and I formed a committee to look at the whole payment system and see what ought to be done. We held hearings around the country and talked to the local banks—or whoever wanted to show up—about how it was going and what they thought we ought to do.

The thing that came through loud and clear was that the big banks were happy to do the payments themselves, and the little banks were scared to death that, if the Fed disappeared, they would be at the mercy of the big banks, and their charges would go up. And nobody would want to clear checks in distant parts of North Dakota except at an exorbitant fee. And there were other issues about how fast should the Fed take the leadership in moving toward a more electronic system. So, basically, we said there should be more leadership and more effort to move toward electronic payments, but the Fed should stay in the business to ensure service for the smaller banks.[2] That seemed to solve the problem. It seems that it was more complicated than that, but that's the way I remember it.

MS. FOX. Having gone through that process, did you have much of a feeling about the potential of electronic banking and electronic uses of payment cards, credit cards, debit cards, and so on at the time?

MS. RIVLIN. Well, credit cards and debit cards were already part of the furniture. Debit cards were newer and weren't as heavily used, but that certainly seemed to be the way things were moving. It was a mystery why they weren't moving faster and why you had to move these little pieces of paper around by airplane, because you could move the images much faster and more efficiently. It was kind of a mystery why that wasn't happening faster. But it eventually did happen.

MS. FOX. That study was probably the beginning of what ultimately set the groundwork for the Check Clearing for the 21st Century Act, which became law in 2003. You ended up having to defend our airplane contracts on Capitol Hill in the course of all that. [Laughter]

MS. RIVLIN. Yes. That was complicated, because there was a specific challenger who wanted the business and was alleging that the Fed was underselling them, because we weren't charging full cost. So there was lots of accounting about what was full cost and what wasn't and

[2] For more on the committee's recommendations, including a link to the report, see Board of Governors of the Federal Reserve System (1998), "Final Report of a Federal Reserve Committee Study of Payments Services Provided to Depository Institutions," press release, January 5.

whether we were undercharging. We didn't think we were. It was a contentious hearing, but the issue went away.

MR. HAMBLEY. Didn't they also have the idea that the Fed owned lots of airplanes and was doing nefarious things, such as paying contractors for services that weren't performed and paying for fuel that wasn't used?

MS. RIVLIN. Yes, it was very complicated. In the first place, the Fed didn't own any airplanes. We were contracting with various services to fly these unnecessary flights that were thought to be necessary at the time. [Laughter] One of the contractors had gotten into trouble. There'd been some problem, but I don't remember the details of it. It wasn't a general problem, and that contractor didn't have his contract renewed, I think. There were perfectly good explanations of what was going on.

MR. HAMBLEY. At the time, Henry Gonzalez was chairman of the House banking committee.

MS. RIVLIN. Oh, yes, I remember. I testified before Mr. Gonzalez. He was in the Wright Patman tradition, or perhaps the Bill Greider tradition, that the Fed was a nefarious institution that is up to no good. He had found several things, but I guess, at the moment at which I was testifying, it was the question of the private air force.

MR. HAMBLEY. Were you also involved in the Los Angeles Branch controversy, in the counting of the currency?

MS. RIVLIN. Oh, yes.

MR. HAMBLEY. Did you testify on that?

MS. RIVLIN. I don't remember whether I testified. I remember the incident. That was a serious Fed mistake, though. Somebody had miscounted the currency. [Laughter]

MS. FOX. It was a software error that had never been captured, I believe. They should have found it. But it was alleged to be much worse than that.

MS. RIVLIN. Yes, yes. I remember that.[3]

### The Board's Responsibility for Regulating Consumer Financial Services Laws

MS. FOX. When you were at the Board, what was your opinion on whether the Board's responsibility for consumer affairs was a good part of the central bank's mission? You mentioned that you told Chairman Greenspan that you'd liked to be involved in the consumer issues. And over time you did take on consumer issues from various perspectives.

MS. RIVLIN. Eventually, I did become a member of the Board's Consumer and Community Affairs Committee. We were very short-handed for a while. That's happened again. [Laughter] There was a time when there were only five Governors. That meant that everybody doubled up on committees. That got me onto the Consumer [and Community] Affairs Committee. I spent quite a good deal of time on consumer affairs in a specialized sense. It was the outreach that the various Reserve Banks were making in community development activities.

### District of Columbia Financial Control Board

MS. RIVLIN. In 1998, I took on the chairmanship of the D.C. [Financial] Control Board. I had been instrumental in setting that up when I was at the White House, and I'd had a long-standing interest in the city of Washington and its finances.

In 1995 when I was at OMB, the city of Washington was virtually bankrupt. It never actually missed a payroll, but it came very close. In a previous life, I had chaired a commission

[3] Editor's note: For more on the issue regarding the counting of the currency, see Board of Governors of the Federal Reserve System (1997), *Federal Reserve Bulletin,* vol. 83 (November), pp. 888–89; and U.S. General Accounting Office (1996), *Federal Reserve Banks: Inaccurate Reporting of Currency at the Los Angeles Branch,* GAO/AIMD-96-146 (Washington: GAO, September).

on the finances of the District of Columbia. We reported in 1990. It was a very good commission. Bob McNamara was on it and some other heavies as well as local people. We wrote a good report. We were very worried about the fiscal future of this city.

The worst happened. A combination of the recession, bad management, and various other things happened. By 1995, the city was facing bankruptcy. When a city goes over the edge, there's normally a state, and the state creates a board with extraordinary powers. New York State did that for New York City. Pennsylvania created a control board when Philadelphia was in trouble. Ohio had done this. There are numerous examples.

But the District of Columbia is not a state. Under the law, the District would have a credit line at the Treasury. Bob Rubin was Treasury Secretary, and he was very worried about this. Well, I was very worried. We were all worried about it. The President knew that I had been involved with the city of Washington, so he basically said, "Do something." I became the point person on the District of Columbia for the President. I'd self-appointed myself to that before the actual bankruptcy, because I'd pulled together at OMB an interagency council on the District to see what we could do to help.

We decided that we had to create a board as though we were a state. We had to create a federally appointed board. This was an interesting political experience, because the Republicans had won big in the election of 1994, and this was early 1995. This was the Newt Gingrich revolution, and there was not much love between the White House and the leadership of the Congress, especially in the House. Surprisingly, we worked this out. Gingrich was terrific. The Republican leadership in both the House and Senate, but especially Gingrich, helped Eleanor Holmes Norton and I get this done. Also, I had on my staff a terrific guy who had helped Edward G. Rendell, the mayor of Philadelphia, when Philadelphia was in trouble. Edward "Ed"

DeSeve knew how to do this stuff. We drafted a law, got it passed, and set up this control board. I was central to this. We appointed five people to run the city, basically, and hired Anthony "Tony" Williams (who later became the District's mayor). He was the chief financial officer of the Department of Agriculture and was willing to do this. He came in as CFO. The chairman of the control board was Andrew F. "Andy" Brimmer, who had been a Fed Governor; he did all the heavy lifting. There were four other members. It was a very good board. Anyway, the situation got turned around. In part, the good economy helped.

In 1998 I was at the Fed. The Control Board had been in place since 1995. There were three-year terms, and Andy Brimmer didn't want another one. So the White House called me and said, "Could you take over the chairmanship of the Control Board?" I basically said, "Are you crazy? I'm Vice Chair of the Fed. How could I do that?" They said, "There's been a lot of progress, the city is back in the black, and it's just going to be much less difficult. And it's a nonpaid job." This was the White House counsel I was talking to, and he said, "It's our opinion that you could do this while you're at the Fed." I called Virgil Mattingly, the Board's general counsel. Virgil harrumphed a bit, looked at the law, and said, "I guess he's right. There's nothing in the law that says you can't take on a volunteer public service job." Indeed, some Governors have served on university boards, and this was a comparable thing.

I really cared about the city, and I wanted this to get finished up right. I went to see Greenspan and said, "I'd really like to do this. What do you think?" He said, "I think it's an absolutely terrible idea. It's very political. You'll get into all kinds of hot water. You'll be criticized. But I guess if you want to, you can do it." [Laughter] So I did.

I came on in the summer of 1998. It turned out to be a much more difficult job than I thought. It wasn't just continuing the good work and finishing it up, because there were lots of other issues. We had to close the public hospital. That's like closing a Reserve Bank. It's an extremely difficult thing to do. I was spending a lot of time on the management of this enterprise and the day-to-day issues and trying to be a good Fed Governor, Fed Vice Chair, at the same time. We were having the Asian financial crisis, and there was just a lot going on. I was overloaded. [Laughter] I probably wasn't as good a Vice Chair as I would have been if I'd not had this other D.C. responsibility. And I was going back and forth to Basel. It was wild.

**Leaving the Fed**

MS. RIVLIN. Why did I leave the Fed? In the spring [of] 1999, my husband was diagnosed with prostate cancer. He was very upset by this. And generally he was upset that I was trying to do two jobs, and I was never home. And he was right.

So I decided that I had to get out of one of these jobs. What do I do? I can't leave the District of Columbia in the lurch right now. We were in the middle of a whole bunch of crucial things, and there was nobody to take over. I could leave the Fed, so I did. I was reluctant to do that. I was enjoying the Fed. I hated to leave. I probably would have stayed another several years if I hadn't had those issues. Then Sid's health improved, and everything was okay. In retrospect, I had many moments when I thought, what did I do that for? I could have stuck it out. But, actually, I couldn't have.

MS. FOX. What would you say you miss about the Fed, or what did you take with you from here?

MS. RIVLIN. I took with me a lot of knowledge of the economy. I had some knowledge before I came, but I had a lot more by the time I left. And I had some knowledge of bank regulation, which I didn't know anything about before. And maybe I had more confidence, in the sense that once you've been Vice Chair of the Fed, people think you know a lot more than you actually do and ask you to opine on this and that. [Laughter] I really enjoyed the Fed and thought it was a good role for me at that particular moment in my career. I'm not sure how long I would have stayed, but I certainly could have stayed longer. It's not clear that I would have been reappointed Vice Chair. They might have taken the option of doing something different. So it might only have been another year as Vice Chair. But, in any case, I left with regret.

MS. FOX. Thank you for being with us.