Federal Reserve Board Oral History Project

Interview with

Kenneth A. Guenther

Former Assistant to the Board of Governors of the Federal Reserve System

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Location: Washington, D.C.

Interviewers: For April 14, 2008, Lynn Fox and David H. Small; for July 17, 2008, Lynn Fox, David H. Small, Cynthia Carter, and Robert Colby

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

April 14, 2008 (First Day of Interview)

MS. FOX. Today is Monday, April 14, 2008. This interview is part of the Oral History Project of the Board of Governors of the Federal Reserve System. I am Lynn Fox of the Board staff, and I am joined by David H. Small of the Board staff. Today we are conducting an interview with Kenneth A. Guenther, a former assistant to the Board of Governors from July 1975 to December 1979. This interview is taking place at the Board.

Ken, thank you for being with us. We'd like to hear about your life before coming to the Board and after leaving the Board.

Professional Background

MR. GUENTHER. I think it would be appropriate to start at a time in my career when the Federal Reserve became a significant and very prominent issue. In the summer of 1969, I joined the professional office staff of U.S. Senator Jacob K. Javits, a Republican senator from New York [from 1957 to 1981], as a special assistant. I met Senator Javits in 1967 when I was serving as a young Foreign Service officer in the U.S. Embassy in Santiago, Chile. I had returned to Washington in February 1968 and resigned from the Foreign Service to accept a position on his staff in the summer of 1969. My portfolio included his economic and banking work, and I supervised two staff members he had on the Joint Economic Committee.

When I joined his staff, the senator was 65 years old. He had considerable seniority. He was powerful, respected, and very hard working, and he understood the process and the players. President Richard M. Nixon was elected in November 1968 and was six months into his first year in office when I joined the senator's staff. Shortly before I joined his staff, Senator Javits had made the decision to break with President Nixon's conduct of the Vietnam War. He used his seat on the Senate Foreign Relations Committee, headed by Chairman J. William Fulbright, to aggressively pursue his antiwar policies. While he wasn't President Nixon's favorite senator, he forged close ties with National Security Advisor and later Secretary of State Henry A. Kissinger. Nelson A. Rockefeller was the governor of New York, and his brother, David Rockefeller, headed up the Chase Manhattan Bank. They were frequent visitors to the senator's office. The senator had close ties with, and often carried the legislative water of, major multinational corporations, including the largest banks. When critical issues arose, my job was to take banking's pulse. The senator would talk to David Rockefeller and other Wall Street leaders. I would talk to other prominent bankers throughout the country, including a young man at Lazard, Felix G. Rohaytan. My contacts on Kissinger's National Security Council staff involving international economic matters were C. Fred Bergsten and Robert "Bob" Hormats. The senator was very sensitive to and desirous of press coverage, especially in the *New York Times,* which was widely read by his constituents. I shared the office with his press secretary.

After I had settled in, one of the major projects the senator assigned to me was to write his upcoming testimony before the House banking committee chaired by Wright Patman of Texas. The senator indicated he was going to use the testimony to call for the resignation of William McChesney Martin as the long-standing Chairman of the Board of Governors. Thus began my crash course on the great institution: the Board of Governors of the Federal Reserve System. The testimony got considerable press, including a major story in the *New York Times,* and this helped cement my position on the senator's staff. I don't remember having much involvement with the Fed or in Fed issues until Dr. Arthur F. Burns became the Fed Chairman early in 1970. Senator Javits was a friend and a strong political ally of Chairman Burns. I then had frequent contact with the Fed's congressional relations office, headed up by Robert L. "Bob" Cardon. The senator could be counted on to carry Arthur Burns's and the Fed's political water.

I remember having conversations on issues, the specifics of which I don't remember, but the politics were that I would advise the senator that what Chairman Burns wanted had very few votes in the Senate. The senator almost always went ahead with what Chairman Burns wanted on an amendment on this or that bill, but I think there was more than one amendment where the Fed's position, as carried by Senator Javits, was soundly defeated in the Senate.

MS. FOX. Do you know the genesis of that close relationship?

MR. GUENTHER. I don't know. I think they came out of the same New York recent-immigrant environment. They were the exact same age. Both were born in 1904. They both were Republicans and shared the Jewish faith.

MS. FOX. What was Javits's view of the Fed as an institution? He was willing to intervene against William McChesney Martin and support Arthur Burns. Was it all personal, or did he have a theory of government that affected his views of the way the Fed should operate?

MR. GUENTHER. I think it was personal, to a degree. I think you'd like to have people in power that you know and are friends with and are comfortable with. This increases your own power. I never heard the senator say that, but after having worked for the senator and then, shortly thereafter, having worked for Chairman Burns, I have a feeling that the hand of Arthur Burns may have been behind the senator's testimony before Wright Patman, where the senator called for the resignation of William McChesney Martin. Senator Javits was a respected Republican economic voice and someone very senior on the Joint Economic Committee. History is my witness. Not long after Senator Javits called for Chairman Martin's retirement, Chairman Martin did retire, and Dr. Arthur Burns of Columbia University did become Chairman of the Federal Reserve System.

MS. FOX. Can you back up and discuss joining the Foreign Service and how you made your way there?

MR. GUENTHER. I was born in Rochester, New York. I'm the son of immigrant parents. My father and mother both came from Germany. I was born in this country, so I had this sort of mixed culture. My academic specialty in undergraduate school and graduate school was political science and international relations.

MS. FOX. And you were in school in New York?

MR. GUENTHER. I went to Durand Eastman Elementary School outside of Rochester, New York, very close to Lake Ontario. Then I went to the Irondequoit High School, a very good suburban high school. Then I went to the "Redbrick" University, which has served Rochester extraordinarily well for a long time and continues to serve Rochester extraordinarily well, the University of Rochester. I started out as a premed student. I was very strong in math and science, but things changed when I bumped into a charismatic professor at the University of Rochester. There was a young assistant professor of history whose name was Harry J. Benda. Dr. Benda had a most unusual life. He was Jewish, and when he was a young man in Czechoslovakia, he fled to Indonesia just before the Germans invaded. He fled to Indonesia just in time to be interred in a Japanese prison camp in Indonesia with the Dutch elite of Indonesia. He left the prison camp knowing Dutch, German, and Japanese. He took his MA in Australia, I believe. He got his Ph.D. at Cornell, and he came to the University of Rochester. I sort of became his disciple. His field of specialty was the Japanese occupation of Southeast Asia. He focused on Indonesia, where he was in the prison camp for some 40 months. I decided, in my wisdom, to concentrate on the Japanese occupation of Southeast Asia, focusing on Burma.

Between Dr. Benda, the University of Rochester's non-Western civilizations program, and another professor, Dr. Warren Hunsberger, who was an expert on Japan, I moved to the School of Advanced International Studies of the Johns Hopkins University in Washington. It was a new graduate school at that time. It since has become quite prominent. I was selected to staff out the Rangoon-Hopkins Center for Southeast Asian studies in Rangoon, Burma. I was in Rangoon, Burma, from 1958 to 1959. By that time, Dr. Harry Benda had his book published on the Japanese occupation of Southeast Asia, focusing on Indonesia. He won appointment to the history faculty of Yale University, and when I came back from Burma, he suggested that I come join him at Yale. So I joined Dr. Benda at Yale. I decided I was not suited to the academic life, so I came down to Washington and worked at the U.S. Department of Commerce. Then I passed my Foreign Service exam and went into the Foreign Service. The Foreign Service looked at me and said, "The guy knows too much about Asia, so we'll send him to South America."

In South America I met not only Senator Javits but also Richard Nixon, who was refurbishing his foreign policy credentials prior to his run for the presidency. I was also assigned as a staff aide to President Lyndon B. Johnson's Conference of American Presidents in Punto del Este in 1967. And that takes me to—

MS. FOX. —to resigning from the Foreign Service in 1969. When you were at Yale, did you intend originally to work on a Ph.D. or a master's degree?

MR. GUENTHER. I was a Ph.D. candidate at Yale.

MS. FOX. You are probably not the first Ph.D. candidate who joined the Foreign Service.

MR. GUENTHER. Probably not.

MS. FOX. Did you leave the Foreign Service because you wanted a career in Washington and a more political environment?

MR. GUENTHER. It was one personal thing and one professional thing. The professional thing is that I had an interesting assignment in the Foreign Service as a relatively junior Foreign Service officer. There were housing and other perks. Coming back to the Department of State, I rejoined this humongous bureaucracy, which was on the same block as the Board of Governors of the Federal Reserve System. I ended up having a position of limited responsibilities, where before I was worried about the Christian Democratic Party, the rise of Chilean Socialist/Senator Salvador Allende, who became President in 1970, the availability and price of copper, the raw material for the bullets used in the Vietnam War, and all those good things. I come back to the Department of State to fight with my supervisor over the word "would" and "could." The personal matter was that we had a devastating automobile accident in Chile in which both my wife and I were almost killed.

My wife suffered severe brain trauma and was left with some disability, so it was unlikely that we would have been assigned overseas again, particularly a hardship position. So there was that personal factor. And then, through serendipity, the senator called and said that there were two openings on his staff. We hit it off. Given that I had a boring position at the Department of State and this was an interesting position, it was not that hard a decision to make. So I left the Foreign Service. Eventually that decision brought me to the Federal Reserve System.

MS. FOX. So let us go back to Senator Javits. You were involved only peripherally in the specific issues of the Federal Reserve but quite involved in legislative initiatives that the banking industry of New York might have wanted. What do you recall about the challenges of economic policy in those years?

MR. GUENTHER. As I mentioned, the senator had this strong relationship with Chairman Arthur Burns, and the senator was probably Chairman Burns's strongest personal friend and ally in the U.S. Senate. My memory is that the senator had decent relations with the U.S. Treasury until John B. Connally became Secretary [1971–72], and then relations deteriorated. Senator Javits was on President Nixon's enemy list because of his stance on the Vietnam War. He worked closely with Henry Kissinger on Middle East issues and international economic issues and with Chairman Burns on banking and economic issues while being strongly at odds with Secretary Connally. The senator used his senior position on the Joint Economic Committee as his economic and public platform. Senator William "Bill" Proxmire was an active chairman of the Joint Economic Committee. Henry Reuss, who was a senior member of the House banking committee at that time, was also on the Joint Economic Committee.

In 1970 and 1971, our economy was in increasingly difficult straits, and the senator was playing a leadership role in attempting to influence President Nixon's response. My memory is that a group of bipartisan senators held a press conference shortly before August 15, 1971, putting forth a comprehensive economic plan. The senator felt this effort influenced the timing and substance of President Nixon's historic August 15, 1971, economic decisions, which instituted wage and price controls while breaking the link between the dollar and gold and devaluing the dollar in the context of major currency realignment. In this period from August 15, 1971, until the first Smithsonian Currency Accord of December 17, 1971, our relations with the U.S. Treasury became very intense.

A tall, badly dressed young man—often in need of a haircut—named Paul A. Volcker, who was undersecretary of the Treasury, became an important person in my life. During this period, I wasn't coordinating what the senator was doing with the Federal Reserve. I wasn't coordinating with my contact person at the Fed, Bob Cardon, but I was keeping him informed. But the role that the senator played, and which I staffed out, was designed to undermine the international policy initiatives of Treasury Secretary Connally. It remains my belief that the senator informed and coordinated what he was doing with Chairman Burns and Jean Monnet of the European common market [European Economic Community].

This is what the senator did, in very general terms. As indicated, there was a major announcement of August 15, 1971, and coming out of that, the linkage of the dollar and gold was broken, and there was the major issue of how to realign currencies. There were many meetings during that period on the question of the realignment of currencies, and central to that was whether the dollar should be devalued. Secretary Connally's position was "no." Before every major economic meeting—and there were at least two, maybe three—the senator would prepare a joint resolution of the Congress working with Henry Reuss and let it be known that he would introduce this joint resolution of the Congress before this major international meeting. The Treasury would send Paul Volcker to the Hill to try to talk the senator out of it. So there I was in the senator's hideaway office, S-123. Paul Volcker would come up. We would spend some time together, because the senator was always late. The senator would come in. He would hear Paul Volcker out. The senator would then pick up the phone and call Henry Reuss and say, "Henry, he's been here. I'm going to the Senate floor to introduce a joint resolution." He would go to the Senate floor, Reuss would go to the House floor, and the resolution would be introduced.

MR. SMALL. What was the content of the resolution?

MR. GUENTHER. It said that, in any overall currency realignment package, the devaluation of the dollar had to be an integral part. It was actively undermining the position of the U.S. Treasury Department, and this was a very rambunctious, powerful Treasury Department that was taking on everybody in Washington and beyond. I remember the famous John Connally statement that he was not going to play on the manicured fields of international finance. But I think, in a way, the senator was reflecting those who wanted to continue to play on the manicured fields of international finance to work together in a multilateral context toward a happy solution.

As indicated, Paul Volcker was on point for John Connally during this period. And when someone was on point and you knew they were on point, you watched them. Part of my job was to track Volcker rather carefully. For example, Paul Volcker went to Japan to negotiate with the Japanese. This was between the August 15 period and December 17, 1971, when the first Smithsonian Currency Accord was announced. This was a top-secret mission. The problem was that Paul Volcker is 6’7” and the guy he took with him, Bill Weber, is either 6’4” or 6’5”. So you had these two giant men in Japan who were also giants in terms of their position in the U.S. government at that time. Obviously, their cover was blown. But, as indicated, in the currency accord, the First Smithsonian Accord of December 17, the Javits position—which I think was the Burns position and the Jean Monnet position but not the Connally position—did prevail, and the devaluation of the dollar was part of the general currency realignment.

MS. FOX. Did you come to the Federal Reserve soon after that episode?

MR. GUENTHER. No. In the summer of 1973, I received a presidential appointment to the U.S. Treasury Department as the alternate U.S. executive director of the Inter-American Development Bank (IDB). It wasn’t the position I wanted at the Treasury Department, but, as indicated, we had problems with the Treasury Department. I do not think I was the first choice, and I think they couldn't say no, so I ended up with the alternate U.S. executive director position. In this capacity I worked with the NAC (National Advisory Council on International Monetary and Financial Policies), which met to discuss the United States positions on loans coming before the bank board and other policy matters.

The Federal Reserve was represented on the NAC, but on important issues, it was the Treasury that ruled. Most major internal policy differences were between the State Department and the Treasury Department. It was easier for the Treasury to get to Secretary George P. Shultz on NAC matters than it was for State to get to Kissinger, so the Treasury position usually prevailed. The Fed was playing a decidedly secondary role and almost always sided with the Treasury Department. After one year as the Treasury representative to the IDB, I left for the Ford White House to help the White House special trade representative (STR) get what became the Trade Act of 1974 through the Senate and then through conference.

MS. FOX. Who was the special trade representative then?

MR. GUENTHER. William D. "Bill" Eberle. And his deputy at that time—he had only one deputy—was Harold Malmgren. We were successful in late 1974 in getting the trade legislation passed. Bill Eberle resigned to return into the private sector, and his deputy, Harold Malmgren, was forced to resign after attempting a power play. The power play was as follows. Major international negotiations were kicking off. Malmgren saw his opportunity and felt he was needed like he will never be needed again in his life. He went to the assistant to the President, L. William "Bill" Seidman, and said, "Make me STR or I resign." Bill Seidman said, "Goodbye, and best of luck." Right there on the spot. Anyway, I became the acting deputy STR. I ran the office for some six months, reporting directly to the assistant to the President, Bill Seidman. When President Gerald R. "Jerry" Ford appointed Secretary of Commerce Frederick B. "Fred" Dent, to become the next STR, I sought to become one of the deputy STRs stationed in Geneva. The Trade Act of 1974 had created two deputy ambassadorial positions. Before 1974, the STR had one deputy. The job in Geneva seemed to be mine for the taking until the head of White House personnel put his hat in the ring. He won the coveted position. It was time to move on.

Joining the Staff of the Federal Reserve Board

I kept up with Bob Cardon, and just when I was looking for a new job, Cardon's successor in the Fed's Congressional Relations Office, John S. Rippey, called to tell me he was leaving and asked if I would be interested in his assistant to the Board position. My circumstances were right, and I said, "Yes." This led to various interviews, including two with Chairman Burns.

My interview with Joseph "Joe" Coyne, who was the press person, was especially important, since the Chairman had assigned Joe a monitoring role over me, which Joe performed enormously well. My strengths were more with trade, development assistance, and investment issues than with finance or monetary matters. Through this interview process I also met the counsel to the Chairman, Thomas J. "Tom" O'Connell. I don't remember being interviewed by the general counsel, John D. "Jerry" Hawke, Jr., but of course I met him when I moved into the position. I don't remember meeting any of the other Governors during this selection process. I don't believe I met George W. Mitchell, the Vice Chairman, until after I came on board. I knew Chairman Burns from my days with Javits, but I didn't know him well. During the first interview process, we hit it off rather well personally. We were able to talk to one another despite my lack of a deep economic or financial background. He could be an intimidating figure, but I found him easy to talk to, and he was ever fascinated by the ongoing political scene.

I called Senator Javits and asked his advice on whether I should leave the trade field for the Fed. I had been working in the trade field and Foreign Service for 15 years at that time, in addition to an academic background, which had nothing to do with the Federal Reserve, domestic finance, or monetary policy. Senator Javits indicated that if you had seen one textile agreement, you had seen them all, while matters of money were endlessly fascinating. He cautioned that I shouldn't expect more than two years out of the job—Burns's remaining tenure.

In my second brief interview with the Chairman, I accepted the position of assistant to the Board of Governors of the Federal Reserve System with responsibility for congressional and industry relations. I came to the Fed with some 15 years of previous government experience, including the Congress, the State Department, the U.S. Treasury, and the Ford White House. During this interview, Chairman Burns said something which has stuck with me and I think remains part of the culture of the Fed. The Chairman said, with a twinkle, "You understand that when you join the Fed, you take the veil." Of course, I nodded "yes" without fully understanding what he meant.

MS. FOX. What were the things that surprised you or perhaps opened your eyes to what Chairman Burns had intended when he said that?

MR. GUENTHER. When I shared the office of the Senator Javits's press secretary, the name of the game was to reach out and tell the world what was going on and get the senator's name in the press. The special trade representative was a very active public role. The public role at the Fed at that time was much more constrained. It was clear that I would have absolutely no part in talking to and meeting with the press, even though I knew the press rather well. Joe Coyne's favorite press statement was "No comment."

I'd drive my car into the Board garage. The guards all knew me. I'd go upstairs to my office on the second floor, just off of the "gold corridor" where the Chairman and Governors' offices were. It is quiet and still in that stately building, but that quiet was deceptive. There was a lot going on at that time. The Fed was under political attack. I didn't expect the degree and the nature and the vehemence of the attacks. You "took the veil" and, in a way, you became part of a threatened family, and you were on point for this threatened family. I was one of the persons who was on point publicly, and I would be sent to the Hill to be beaten up, and that happened. It was not always nice. You'd go to the Hill and you knew you'd be beaten up, but you would come back home to the succor of the Federal Reserve System, to the love and comfort and the rest. So I think that was also part of taking the veil.

MS. FOX. What were the tools you used to defend "the family"? How did the Fed protect itself in that political environment?

MR. GUENTHER. The Fed family starts with the Board, then the 12 Federal Reserve Banks, and then the boards of directors of the 12 Federal Reserve Banks. When there was a key issue, it was part of my job to be on the phone, and that was not a rare happening. It happened quite often that I talked to the Federal Reserve Bank presidents to tell them what the threat was that the Board of Governors was facing.

MS. FOX. Was everyone here on the same page about these things?

MR. GUENTHER. When things that are essential to the institution and to the Federal Reserve System and issues were things in play that had that essentiality, I think they were very much on the same page. It required a political mobilization. We couldn't do it alone here in Washington, but, politically, mobilization was done, and it became rather controversial.

MS. FOX. What were some of the big challenges of those years?

MR. GUENTHER. You had the GAO (General Accounting Office, now the Government Accountability Office) audit of the Fed, which included the GAO audit of the monetary policy.

MS. FOX. Did that threaten the independence of Fed decisionmaking?

MR. GUENTHER. Yes. And then-Chairman Reuss was interested in changing the whole structure of the Fed; it was the last time that we had a major bill called the Federal Reserve Reform Act.

Let me go back. The job was more demanding than I expected. The Fed and its Chairman were under constant political attack on more than one front. We had many legislative balls in the air. I believe it's fair to say that I worked not only for Chairman Burns, but became a friend. When we returned together from the Hill, which was often, the driver would let him off blocks from the Fed so he could get his exercise, and we would walk back together. He almost always talked and gossiped about politics and politicians.

The Chairman was unique in another way. When he went to a hearing, there was always someone at the hearing who was particularly vehement in their attack on Fed policies or the Chairman or both. When that happened and we were walking back, the Chairman would tell me to call him or her and ask them to breakfast as soon as possible. So there was this parade of Fed congressional critics who were going through, dining at the Chairman's private conference room, and it was always fascinating. I remember the breakfast with then-Senator Paul E. Tsongas, a Democratic from Massachusetts [from 1979–85]. I think the line was drawn at Rep. Bella S. Abzug, a Democratic from New York [from 1971–77].

There was the fascinating breakfast with Parren J. Mitchell, a prominent African American congressman representing Baltimore, Maryland [from 1971–87]. In a discussion with the Chairman at one of these breakfasts, Parren Mitchell outlined for the Chairman the difficulty young African American men, in particular, had getting jobs. The Chairman asked if it was any different from anyone else: "If you were an American woman or if you were a Jewish American immigrant's son, would you have any difference in job opportunities than a young African American man?" I remember Parren Mitchell saying, "Mr. Chairman, too bad you can't just go out on the street and put on the disguise of a young African American man." This was a discussion in the context of what became the dual missions of the Board of Governors of the Federal Reserve System—price stability and full employment. Parren Mitchell was there representing the employment side, while Chairman Burns was there emphasizing the price stability side. My personal view is that that was a healthy tension. It's useful for the Fed to have that tension, because that tension is part of the real world. It is an issue that some Congresses might come down differently than the Board. Going back to the veil, this was the time when William "Bill" Greider was writing *Secrets of the Temple.* The Burns Fed was viewed as the Temple. It was a much more secret and less open temple than it is now. It's still a temple.

MS. FOX. Tell us about Arthur Burns's demeanor in those informational exchanges. What was his style?

MR. GUENTHER. He was charming. He was open. He was willing to learn. And I think the members of Congress invited to break bread with the Chairman left feeling much better about the Federal Reserve and about the Chairman.

Let me tell you two things about the Chairman—his haircuts and his pipe. The pipe was a very effective instrument. When someone on the Hill asked a difficult question—at that time you could still smoke—he'd pull out his pipe and light it. This gave him time to gather his thoughts and maintain his composure if something had happened. The pipe was an essential element of Chairman Burns as the cigar was an essential element of Paul Volcker years later. Now, about the hair. Chairman Burns's haircut was immaculate. He had gray hair parted in the middle. Almost every Friday, Catherine Mallardi, the super efficient, able manager of the Chairman's office, would call and say, "Ken, it is time." I'd go to the Chairman's office, pick him up, and we'd take the elevator down to the barber shop in the basement of the Board building. The first time I did that, the Chairman got into the chair; we were talking, and five minutes into the haircut, he fell asleep. What do you do? Do you leave or stay? Being a man of great courage, I decided to leave him there in the chair. Apparently, I handled it okay. Every week, pretty much like clockwork, I would be called to take the Chairman down to get his weekly haircut. He almost always fell asleep. It's Friday. You have had a tough week. Someone is working on your head and you fall asleep. I would leave, and that's how my week at the Fed sometimes ended.

The Transition from Chairman Miller to Chairman Volcker

MR. SMALL. Let's jump ahead and talk about the transition from Chairman Miller to Chairman Volcker.

MR. GUENTHER. Paul Volcker came in August 1979. I left the Board and the U.S. government for good on December 11, 1979.

In late July 1979, I was driving somewhere with my family for a well-deserved vacation. I was planning to leave Bill Miller's Fed. I had made my announcement. I had growing problems with Chairman Miller, principally over the Monetary Control Act legislation that was bogged down. That act was my baby. I was listening to the news on the car radio. There was a news flash of a major cabinet reshuffle. Fed Chairman Miller was moving over to the position of Treasury Secretary, replacing W. Michael "Mike" Blumenthal. The announcement for Volcker to replace Miller was made on July 25. The confirmation hearing was held on July 30. Volcker took the oath of office on August 6 and presided over the August 14 FOMC meeting, in which the Committee raised the federal funds rate target from 10.5 percent to 11 percent. This was the prelude to the historic interest rate actions of October 6, 1979. I don't remember the Volcker confirmation hearings. I think I was still on vacation. My reading since indicates that it was an uneventful piece of cake. Remember that Senate Banking Committee Chairman Proxmire had no use for Bill Miller as Fed Chairman, so someone coming in to replace Bill Miller would be a plus for Chairman Proxmire. Paul Volcker was a well-known commodity.

I had met Paul Volcker for the first time in connection with the events of August 15, 1971, when he was the undersecretary of Treasury. When I returned from vacation and met with Chairman Volcker, he asked me to stay. I indicated that I had made a commitment to leave. He asked who he could call to postpone my departure. He called the then-banking chairman of the then-IBAA (the Independent Bankers Association of America) and got a month. A month later, he called again and got another month. After that month he called again, and it was agreed that I could stay on until the end of the congressional session. I joined the IBAA on December 11, 1979.

With Volcker as Fed Chairman and Bill Miller as Treasury Secretary, what became the historic Depository Institutions Deregulation and Monetary Control Act of 1980 became alive and well. Miller, working with House banking committee Chairman Henry Reuss, with the full support of the Carter Administration, and with a strong connection with Vice President Walter F. Mondale, had gotten the bill through the House. The Volcker appointment gave the bill a new dynamic in the Senate. Like Chairman Proxmire, the ranking Republican on the Senate Banking Committee, John G. Tower of Texas, had little use for Bill Miller. His relationship with Paul Volcker was very positive. Recall that Volcker had served as the undersecretary of monetary affairs of the U.S. Treasury Department when the Treasury was headed up by Texan John Connally. John Tower was also from Texas.

The transition changed the political dynamics across the board. Volcker had excellent ties with William "Bill" Stanton, a Republican of Ohio who became the ranking Republican on the House banking committee, and Miller didn't. Volcker's connections with the banking industry and the banking lobby were much stronger and more positive than Miller's banking connections. Miller had a very adversarial relation with the ABA (American Bankers Association), who he overrode to secure the passage of the historic 1978 international banking bill.[1] There was a famous meeting at the Fed where Miller had roughly dressed down the ABA leadership over their negative position on the Monetary Control Act. Volcker's relationships with influential bankers were much more positive, and the ABA knew it. Anyway, Miller moving to the Treasury and Volcker coming in as Fed Chairman gave an enormous shot in the arm to this major legislation, which had stalled. Not that there weren't significant details that had to be worked through, but a new political dynamic was in place that insured that there would be legislation.

As Fed Chairman, Bill Miller had agreed that the Blumenthal Treasury and, specifically, Deputy Secretary—it might even have been Undersecretary—Robert "Bob" Carswell was the designated lead dog on the overall legislative package. That upset me, because the Monetary Control Title was Title I: the principal title. I also felt that the Chairman was negotiating away

[1] Editor's note: The International Banking Act of 1978 established a framework for federal regulation of foreign banking activities in the United States.

the gains that I made for the Fed. I liaisoned closely with the Treasury, but more closely with White House staffer Orin Kramer. Orin runs a hedge fund in New Jersey now, and I think he's a power to be reckoned with in New Jersey politics. He handled this banking bill for Stuart "Stu" Eisenstadt's office in the White House.

Coming to the board, Volcker brought one very significant person with him from the New York Fed, E. Gerald "Jerry" Corrigan. Corrigan was a heavy in every sense of the word—smart, tough, and could play rough. He was very close to Volcker. He had a real instinct for power, and when he came to the Board in the fall of 1979, he quickly determined that two major issues were out there that he should involve himself with—monetary policy and the pending legislation. Stephen H. "Steve" Axilrod had enormous leeway and power in running the Fed's monetary policy [analysis] under Chairmen Miller and Volcker [and] had just asked me to stay to handle the legislation. When Corrigan tried to move into my area—he knew less than he thought about Washington politics and the legislative scene—we had a difficult meeting but worked things out. He left me pretty much alone, and I kept him informed.

I have a clear memory of Corrigan at a key ABA meeting. There were major problems with the ABA over many issues in what became the Monetary Control Act, which the Fed was running legislatively, though in the context of Treasury control of the entire bill. The second major title of the bill was the depository institutions deregulation title, which deregulated interest rates—rather big stuff. There were two issues in the monetary control title: the level and the scope of the coverage for reserve requirements, including whether they would be mandatory or voluntary, and the Fed's role in providing banking services. At a key ABA meeting in Washington, Volcker insisted that I be at the meeting and that Corrigan be allowed to address the meeting. Corrigan lumbered out on the stage with his best game face, which could be intimidating, and, with his rough and gravelly voice, indicated how it must be. I don't think that Corrigan, Volcker, and the Fed made the sale that day, but it was an impressive performance. I think, down the road, Volcker made the key sale and the key compromises with his friend, Representative Bill Stanton, a Republican from Ohio, as I indicated, a ranking minority member of House banking. Bill Stanton was the ABA's go-to guy on House banking, and he also was a strong supporter of the Fed. The Fed didn't get everything it wanted, but neither did the ABA.

I can't remember precisely whether the Corrigan séance with the ABA came before or after Senator John Tower, a Republican from Texas, with ABA support, ambushed us in the Senate. Tower successfully offered an amendment maintaining voluntary reserve requirements. The whole purpose of the bill was to get mandatory reserve requirements. The issue was that banks were fleeing membership from the Federal Reserve in droves because of reserve requirements. It was bad enough losing the amendment. From where I sat, it was worse that I didn't see it coming.

Chairman Volcker was at the Dallas Fed. I sent him a cable regarding what happened, offering my immediate resignation. On November 8, 1979, he cabled back and it read: "Cheer up. With my dumb luck and your consummate skill, we shall prevail." We did. The Depository Institutions Deregulation and Monetary Control Act of 1980 passed in March 1980. I received a presidential signing pen. Volcker [and] the Treasury Secretary and former Federal Reserve Chairman Miller got me the conference report personally signed by President Carter. The front page of the conference report was also signed by the chairman of the House banking committee, Henry Reuss, and the chairman of the Senate Banking Committee, Bill Proxmire. Bill Miller wrote prominently, right across the title, "Ken, without you, this historic legislation would not have been. A great job. Best, Bill Miller." And Paul Volcker wrote, "Ken, if there is a monument, you deserve it. Many, many thanks. Paul." The act was a significant piece of legislation for the Federal Reserve System. I think the whole issue of the pricing of Fed services remains hot and alive.

Given my previous agreement and with the legislative session over, with mixed feelings, on December 11, 1979, I left the Board for the Independent Bankers Association of America.

The Depository Institutions and Monetary Control Act of 1980

MR. SMALL. One piece of that legislation, as you mentioned, involved decontrol of deposit rates on banking deposits. And that was phased in over time. That was to allow more competition and to allow the banking sector to compete with money market mutual funds and other depository institutions.

MR. GUENTHER. Title I of the bill was—I'm reading from the Joint Explanatory Statement of the Committee of the Conference—the Monetary Control Act of 1980. Title II was the Depository Institutions Deregulation Act; Title II was the major Treasury piece. So it was the Treasury that was on point in essentially doing away with Regulation Q, which allowed banks to compete more effectively for funds, deposits, CDs (certificates of deposit), and the rest.

Title I, as indicated, was the Monetary Control Act. It specified reserve requirements and the mandatory reserve requirements and the range within which they were set. It made provision for the phasing-in of reserve requirements and gave the Fed explicit authority for supplemental reserves. In adopting the supplemental provisions, the conferees intended to give the Federal Reserve Board a type of "insurance policy" or "safety net" that Chairman Volcker requested in his appearance before the Senate Banking Committee in September 1979. The conferees specified that before this supplemental reserve authority is used, its need will be fully justified and be based on inadequacies of the reserve balances for monetary control and other purposes.

The Board could impose a supplemental reserve only for the purpose of effectuating monetary policy—supplementary reserve requirements shall not be imposed for the purpose of reducing cost burdens resulting from the imposition of other reserve requirements, et cetera.

And immediately following this, there is an interesting little segment that has nothing to do with 1979 or what was happening then, but it's called "Access to the Federal Reserve's Discount Window," and this reads: "Any depository institution holding transaction accounts would have access under the same terms and conditions as member banks to the Federal Reserve Discount Window upon enactment of the bill." This language would appear to limit access to the discount window.

MR. SMALL. But at the time, it was seen as expanding from banks to all depositories.

MR. GUENTHER. It was definitely expanding.

MR. SMALL. But in today's context of early 2008, it's seen as limiting, because it doesn't go to nondepositories.

MR. GUENTHER. That is the point that comes to mind, right. And was this the last piece of legislation that was passed addressing the Federal Reserve discount window? Had there been any wording in any way, shape, form, or manner that has, since March 1980, addressed the issue of the Fed discount window and whether it can be opened to nondepository institutions?

MR. SMALL. I think there have been changes to collateral obligations on certain discounts but not to who would have access to the window.[2] I believe that was the last.

MR. GUENTHER. Let's go back to Title II as it specifically relates to your question about the decontrol of rates on deposits. The Senate amendment to the House amendment provided for a two-year extension of current Regulation Q authority. Regulation Q was the

[2] Editor's note: [Footnote to explain 2003 changes.]

authority where thrifts were allowed to pay ¼ percent more than commercial banks, meaning there was a ceiling on what could be paid. The Senate amendment further provided that, beginning January 1, 1982, and ending January 1, 1989, the rate ceiling on all types of deposits would increase ½ percentage point every year.

The Federal Reserve was given authority—after consultation with the FDIC (Federal Deposit Insurance Corporation), the Federal Home Loan Bank Board, and the NCUA (National Credit Union Administration)—to postpone or reduce any scheduled increase in rates if it was found that economic conditions warrant. The Senate amendment also provided that the authority of the Federal Reserve Board, the FDIC, the Federal Home Loan Bank Board, and the NCUA to set interest rates on deposits would terminate on January 1, 1990. Subsequent legislation accelerated that timetable. So this was a definitive historic first step—massive first step deregulating interest rates that commercial banks, thrifts, and credit unions could pay to attract money.

MR. SMALL. Where did Volcker come out on all of this? Was this exactly the bill he wanted?

MR. GUENTHER. There were two massive fights. And, remember, the fights were going on against the backdrop of Chairman Volcker's historic decision to break the back of inflation by changing the monetary policy of the United States on October 6, 1979.

The thesis behind the bill was that the Federal Reserve needed mandatory reserve requirements on a wide series of accounts to be able to better control monetary policy, and that, as more and more banks voluntarily left the Fed, it was losing control of monetary policy. I realize that contention has grown controversial with the years, but it was the strong Federal Reserve position, and I can hear Axilrod and others reiterating it. So given where the bill came out on reserve requirements in terms of the levels, the ranges, I think Volcker wanted more. So they gave him that supplemental authority. And I also think that it's only reserve requirements on transaction accounts. I think the Federal Reserve wanted reserve requirements on savings accounts, too. I remember that Chairman Miller gave that away very early on after the Reserve City Bankers association came in and said, "If it's savings accounts, we won't support the bill," and there was a negotiation at J.P. Morgan at that time on that issue.

The second major issue where there were differences—and I don't think the Fed was at all happy with this provision—was the pricing of Federal Reserve services. The House bill included a provision for the Federal Reserve to price services provided by the Federal Reserve Banks on a competitive basis and open access to these services to all depository institutions on the same terms and conditions as member banks. This instituted the whole private-sector adjustment factor requirement, and the Fed didn't want that.

MR. SMALL. So the discussion in the public at large was that the Fed was providing services at a subsidized rate and, therefore, drawing business away from the private sector?

MR. GUENTHER. Well, that was the discussion, but it wasn't at large. That was the discussion among the major banks who were providing services, and they felt the Fed was an unfair competitor and the Fed should get out and leave that to them. Community bankers strongly opposed the major banks' position.

This provision was very hard fought, and again, I bet the final language was agreed to between Volcker and Stanton in some way or another. The name of the game for the big correspondent banks was to make it tougher for the Fed to provide services that the community banks, in particular, very much wanted the Fed to provide. The community bank always got a better deal from the Federal Reserve System than they ever got from the money center banks.

MR. SMALL. The services we're talking about are check clearing, cash transfers?

MR. GUENTHER. And the ACH (Automated Clearinghouse).

MR. SMALL. I remember in 1983 that a key concept which you've referred to was the coverage ratio, which was the percent of deposits at banks that were bound by reserve requirements, and that was the fulcrum for monetary policy. You needed high reserve requirements so that banks had to be holding reserves, and that that was the fulcrum for the federal funds rate and the discount window and open market operations.

MR. GUENTHER. Yes. There was a contention that the Fed's membership was voluntary, and banks were leaving the Fed in droves. And this was undermining the capability of the Fed to carry out and affect the monetary policy. You don't get major legislation through on mandatory reserve requirements over united banking opposition. You have to break the banking lobby. You have to get support from within the banking lobby. The genius of Bill Miller was that he did that, and history doesn't recognize this, and it's probably too late.

The Bill Miller chairmanship was remarkably productive and positive for legislation. Chairman Miller made the key decision to bring community banks on board. In his speech to the community banker's annual meeting in New Orleans in the spring of 1978, Miller, to gain community bank support, offered to exempt any bank under $100 million from mandatory reserve requirements. On that premise, the community banks and the then-IBAA supported the bill. Then as 1978 [and] 1979 went on, and as the big banks made their clout felt, and as the ABA made their clout felt, the $100 million exemption level was withered farther and farther back. It ended up being $10 million or $15 million. So to get the legislation, it was necessary to break the united façade of the banking lobby—promise the IBAA something, and then once the bill began moving and seriously moving, to jettison that commitment to make other compromises to get the bill through the House of Representatives. Many compromises were made; earlier friends and allies were thrown overboard. It wasn't pretty. Legislation seldom is.

Role of the Fed in Banking Supervision and Regulation

MR. SMALL. That shows a political adroitness by the Federal Reserve that people don't often see or attribute to the Board. How important is the congressional liaison function, and how actively involved are the Chairmen?

MR. GUENTHER. Let me speak to the past when I was here, and then let me move to the immediate present. I joined the Board when the Fed was facing a difficult period that grew worse when Jimmy Carter was elected in November 1976, taking office January 1977. The Fed was headed by Chairman Burns, a Republican and a Nixon appointee. Things got very rough. I mentioned the legislation that struck at the heart, the structure, and the independence of the Federal Reserve System, including a GAO bill that would allow GAO auditors to audit the conduct of monetary policy. House Democrats led by Majority Leader James C. "Jim" Wright and House banking committee Chair Henry Reuss were pushing proposals that were totally unacceptable. You had to fight to win those battles on the Hill. The whole nature of the power structure and the institutional structure of the Federal Reserve would have been changed.

There is always the tension in Washington between the Treasury and the Federal Reserve, particularly over the Fed's role in bank supervision and regulation. There are conflicts over its monetary policy role, but I'm not an expert on that. But there has been battle after battle over the Fed's supervision and regulatory role.

Having reviewed where we were in 1975 through 1979 and the period now, I think we have moved back to a period of considerable danger for the structure—the independence of the Board of Governors of the Federal Reserve System. I think there is a recent movement afoot, and I see this in the Treasury Secretary Henry M. Paulson's blueprint for regulatory reform. They want to move the Fed away from hands-on bank supervision and regulation. That battle has to be fought on the Hill. The Board has to be politically astute.

The Board of Governors of the Federal Reserve System is responsible to the Congress of the United States of America. It is not responsible to the Administration. The law is written. Chairman Ben S. Bernanke is going to be the Chairman of the Board of Governors of the Federal Reserve System by law until January 31, 2010. This Administration is going to be gone, but the Congress is not going to be gone.

The key players and the key actors are not going to be gone, and, in the final analysis, they will have to make decisions about whether they like the present structure of the Federal Reserve, with full bank supervision and regulatory responsibilities reporting primarily to the Congress of the United States, or to set up a new supervision and regulation structure controlled by the President of the United States through his Secretary of Treasury who reports in the first instance to the President. That brings in a different political element. I think this is a period when the Fed has to be unusually politically active, because people are looking at the Board of Governors of the Federal Reserve System and pondering how to change it. Difficult economic periods are always troublesome periods for the Federal Reserve, and the Fed has to be politically aggressive.

MR. SMALL. I think, in our follow-up interview, it would be interesting to get into some of these issues of the scope of the Fed policy powers.

MR. GUENTHER. I've enjoyed this very much. It's nice to look back at an earlier time and bring it forward. Thank you very much.

July 17, 2008 (Second Day of Interview)

MR. SMALL. Today is Thursday, July 17, 2008. This interview is part of the Oral History Project of the Board of Governors of the Federal Reserve System. I am David H. Small of the Board staff. I'm joined by Lynn Fox and Cynthia Carter, also of the Board staff, and by Robert Colby, a summer employee. We are conducting a second interview with Kenneth Guenther, a former assistant to the Board in charge of congressional and industry relations. Ken, can you tell us more about your selection to the assistant position and, in particular, about the job description as you understood it?

Role as Assistant to the Board for Congressional Relations

MR. GUENTHER. I came to the Board in July 1975. I knew Chairman Burns before coming to the Board. I met him when I was working for Senator Javits. My job title was assistant to the Board for Congressional Relations, but the person on the Board who really had oversight over congressional relations was the Chairman, so I reported directly to and worked closely with him. My strengths weren't particularly in theoretical economics or the conduct of monetary policy or bank supervision and regulation.

The Chairman assigned two mentors to me. The internal mentor was Joe Coyne, who was the senior assistant to the Board. It was not a formal structure; there was never a rule that I had to go to Joe Coyne for clearance to see the Chairman. Joe didn't operate that way. He had a loose and totally open door policy. I could go in and talk with him on anything I wanted, whenever I wanted it. A lot of times, before going to the Chairman, particularly when I was new at the Board, I would talk things through with Joe and discuss what I was going to bring up. The outside mentor that the Chairman arranged for me to have contact with was Jack Yingling. Jack Yingling was a lawyer and a lobbyist around town. His primary account then was Citibank. He was doing Citibank's lobbying on the Hill. I had a series of sessions with Jack. He would invite me up to the 116 Club on Capitol Hill. It was a marvelous place for crab cakes—best crab cakes I've ever had in my life. We'd sit there literally for hours, and he would talk through lobbying the Hill on banking issues: who the key players on the Hill were, who Chairman Burns's friends were and who his adversaries were. It was a time when there was enormous legislation; the federal legislative plate was very full. I needed to be oriented fast, and Jack Yingling essentially played that orientation role.

MR. SMALL. What about reaching out to mobilize the public, the Governors, or the Reserve Banks to get them in line? How many different audiences were you playing with or trying to coordinate?

MR. GUENTHER. Well, again, what Jack Yingling brought to the table was knowledge of what was happening on the Hill. He also had insights into the Chairman's relations with specific players: These are the members of Congress you can work with, these are the friends of the Fed, these are the people who really don't like the Fed, these are the people who are caring for this interest group. He provided a total insider perspective.

I didn't have much of an ongoing congressional relations role with the other Governors. That was in the Chairman's domain. When the Chairman decided, for example, that Philip E. "Phil" Coldwell would be the Governor testifying on this or that, then I'd work with that Governor and fill him in on the landscape of the committee he was going before. But, early on, Governors didn't come to me with their advice and counsel on what should be happening in the legislative arena. That occurred much later, when I got to know the Governors better. Governor Coldwell ended up being a very good friend. But, again, congressional relations were very much the domain of the Chairman. It was important to the Chairman, and he ran it well. He protected it well internally, and he did it well externally.

The beloved Federal Reserve System was in a state of war that commenced when Jim Wright became the majority leader and Henry Reuss took over the House banking committee from Wright Patman. The relationship between those two and Chairman Burns was difficult. An example symbolic of this was when the Federal Reserve Reform Act was introduced in the House in 1977. Who introduced the bill before the House Banking Committee? Majority leader Jim Wright. That was very unusual. You had a bill, and the kickoff witness was the feared and powerful majority leader of the House testifying before the Reuss committee on a bill to reform the governance of the Federal Reserve.

So that was the war; it's a correct word. That was the threat we were facing. That original reform legislation also contained an audit title to allow the General Accounting Office [GAO] to audit comprehensively the Fed. That began moving as a separate bill later, but, in July 1977, there was a Federal Reserve Reform Act of 1977 with Jim Wright saying, "This is what it's going to be," and it contained the GAO audit title.

When you have something like that, you can't fight it alone. The System had to mobilize itself and then mobilize its friends. We wouldn't have had a chance in hell of amending that bill if the System didn't mobilize. In my position—this goes back to your question—I was also in charge of industry relations for the Board, meaning I was the contact point with the American Bankers Association (ABA), the Reserve City Bankers, the Association of Bank Holding Companies, and the Independent Bankers Association of America. I was also the contact point for the Chairman with the Federal Reserve Bank presidents.

The Federal Reserve Bank presidents had their own boards of directors. So to push the "lobbying" button, I would go to the Chairman's office and send a fax, or I would have a conference call with the Federal Reserve Bank presidents. And the Fed army begins mobilizing against the enemy forces in the House of Representatives led by majority leader Jim Wright and House banking committee Chairman Henry Reuss.

MR. SMALL. What was it about an audit that the Fed felt threatened by?

MR. GUENTHER. The major part of the audit legislation that threatened the Fed was that the GAO would audit the conduct of monetary policy. The GAO reports to the Congress, so this opened a window where the Congress, working with the GAO, could audit Fed monetary policy, on a day-by-day, month-by-month, FOMC-meeting-by-FOMC-meeting basis. It was viewed by Chairman Burns as a bill that struck at the independence of the Federal Reserve System.

MR. SMALL. And today, we've ended up with the GAO.

MR. GUENTHER. But not auditing monetary policy. And this is a very important distinction. There was also a great concern at that time about the GAO getting into individual bank reports and then using or leaking them, and about the need to protect individual bank examination reports from this type of activity.

MS. FOX. You had enormous political skills, because you had worked in the White House and you had managed all kinds of legislation. You had worked in the Senate. You came as an outsider, where normally people start within the organization and move up. How were you perceived?

MR. GUENTHER. I had the full support of Chairman Burns in my role at the Board and my functions at the Board. I had an ongoing good relationship, confidante relationship—

including sometimes doing-the-dirty-work relationship—with Chairman Burns. The Fed was under an enormous attack, and the institution was organized and mobilized looking outward. I think that [the] Board Governors and staff probably looked at me and said, "Can he do the job?" Chairman Burns thought I could, and, over time, I think that was recognized rather widely. I was concerned early on. Would I be reporting to the Chairman, or would I be reporting to the Chairman through the general counsel? The Board had an enormously competent general counsel, Jerry Hawke. He was formidable, and he had a strong relationship with Chairman Burns. So, early on, there was the possibility that, if things didn't work out, I would be not reporting directly to the Chairman. I would be reporting to the general counsel, who would be reporting to the Chairman. That worried me, but that worry went away rather quickly.

The other major factor in facilitating my integration into this new culture and this new structure was Joe Coyne and the role that he played. It was a marvelous supportive relationship. He knew the Board, he knew the way the Board functioned, and he knew the Chairman much better than I knew him. I can remember him saying to me time and time again when I had doubts, which is my nature, he would say, "Ken, never underestimate the Chairman."

There was one other complicating factor. Chairman Burns had a special counsel, Tom O'Connell, who had been the general counsel. Tom was in the advanced stages of diabetes—blind in one eye, rather ill, but formidable and very bright. Tom's role as counsel to the Chairman was as a sounding board. And Tom now and then got into legislative matters, or wanted to get into legislative manners, so that was a hurdle to overcome. And that was overcome. The working relationship with Jerry Hawke ended up being a good one, and Jerry continues to be a friend through today. We recently discussed the Community Reinvestment Act (CRA) that was passed in 1977. So the integration was really not difficult. It worked well.

Chairmanship of Arthur Burns

MS. FOX. You said that you had a close relationship with Burns, including a do-the-dirty-work kind of relationship. Can you elaborate on what that meant?

MR. GUENTHER. On some issues, someone had to be the bad guy. Someone had to convey the bad news. On some issues, someone had to wield the knife for the Chairman. Now and then, particularly as I became closer to the Chairman, and, given the issues, that evolved into being my role, in part. I'm trying to think of specific examples.

MS. FOX. You probably spent a lot of time telling people in the House that, no, you're not going to follow that direction. Is that an example?

MR. GUENTHER. Yes, and to say, "If you pursue this course, we will mobilize against what you are planning to do or trying to do. We will fight this to the end. Be aware that we will fight it to the end. This is a make-or-break issue for the Chairman."

MS. FOX. How did Burns handle those kinds of conflicts? Was he a smooth, conciliatory politician externally? Or did you and he decide you're going to throttle people?

MR. GUENTHER. No. As I mentioned in my first interview, he had this unique style. He would testify before a banking committee or a government operations committee. People would take him on—some personally, and some on the policies of the Federal Reserve System. He was under a doctor's orders to walk, so coming back from the Hill, we'd stop about three blocks from the Board and walk slowly back. That is a story in its own right. The Chairman shuffled. He took his short, shuffling steps, and then he'd stop, then more shuffling steps. So going from four blocks to here took 10 or 15 minutes, and we used that time to discuss what happened in the hearing. He would say, "X raised this question. I want to see him over breakfast as soon as humanly possible." He brought the people in for breakfast. He wooed them, he charmed them. And, generally, they left more supportive of the Chairman and more supportive of the Board of Governors.

He tried to create a more personal bond to better sell his intellectual policy case. The only person he didn't do this with was Bella Abzug. He absolutely could not relate—and that's not strong enough a word—to Bella. The straw that broke the giant's back—Burns being the giant—was when Bella said to the Chairman, "Mr. Chairman, you bail out New York City, and I will go away on the GAO audit bill of the Fed." The Chairman was outraged by that. He considered that act to be very close to blackmail. So Bella never came to have breakfast with the Chairman. Bella was outrageous, and she wore these outrageous hats. She was a force. She was powerful, effective, articulate, and most of all, she was on the government operations committee, working with Benjamin S. Rosenthal of New York, who was the subcommittee chairman moving the GAO bill. She was someone we had to watch and pay attention to.

MR. SMALL. This view of Chairman Burns having this smoothness and gracious style is not how he related to Board staff in economic briefings or ran the Board internally. Some people like you say they had very close relationships. How did you see him operate internally in directing the staff?

MR. GUENTHER. I have a memory of two meetings a week in the Special Library with a small group of people. In those special meetings were the Chairman, the Vice Chairman—for most of the time, that was Stephen S. "Steve" Gardner—Joe Coyne, and me. And then, depending on what issues were up, other people were brought in. Those meetings in the Special Library involved the political pulse taking of what was happening within the System, what was happening outside the System, and what Governors needed special love and attention. If Henry C. Wallich was dissenting, in one form or another, the message would be passed to him, "Henry, I know that you want to go to Europe for this and this meeting at this and this time." The message was conveyed; the Chairman could have stopped him from going to a meeting. Once, after Paul Volcker, then president of the New York Fed, said something that wasn't in accord with where Chairman Burns was or was going, Chairman Burns turned to Joe Coyne and said, "Joe, he has tasted the lights of Broadway and he likes them. Watch him." With the Chairman and the Vice Chairman at these meetings, they focused on the internal control part of the running of the Board of Governors of the Federal Reserve System. That annoyed Governors. Obviously, Henry Wallich didn't want to be on a short leash when he wanted to travel to Europe.

This was one of the legacies that Bill Miller inherited—Chairman Burns could be very autocratic. He was a self-confident man. He knew what he wanted to do, he knew where he wanted to go. He would have deep discussions with the Governors. He would try to build a consensus. He did what he could to make sure the Governors were with him. He had less high regard for the Federal Reserve Bank presidents. They were there to receive and carry out orders. The Board, I think, was sick and tired of the autocratic style of Chairman Burns. When he left and Bill Miller came in, there was this mood of the Board of, "Never again. We're not going to allow ourselves to be puppets on a string for Bill Miller as we were, for the most part, with Chairman Burns."

MR. SMALL. Was part of that due to the fact that inflation rose over the Burns chairmanship so that one would say, "This autocratic management style didn't work so well"? Was there a sense of frustration on the policy side?

MR. GUENTHER. The problem grew after President Carter, a Democrat, became President. When I joined the Board, Chairman Burns was a very senior figure, world regarded and world respected. He had close relations with Republican leadership, with the President, and with the Secretary of the Treasury. He would always say, "When I go back to Ely, Vermont, and talk to my neighbors, they just don't understand how there can be differences of opinion between the Fed and the Treasury. My neighbors in Ely, Vermont, view the Fed and the Treasury as part of the same government, and they just don't want to see conflict." Burns supported Treasury Secretary William E. "Bill" Simon in his quest to become the Vice President of the United States. If he supported Simon in that, Simon could be more supportive of Chairman Burns and the Fed on other issues.

MS. FOX. How would he support Simon?

MR. GUENTHER. I wish I knew. It wasn't a formal campaign. I don't remember any press statements or anything like that. But it was known that Chairman Burns supported him, and Bill Simon welcomed that support. I'm sure there were many social contacts, that the Chairman would be consistent in terms of trying to move the Simon candidacy forward.

MS. FOX. Can you tell us about the relationship between the Chairman and the Vice Chairman, Steve Gardner?

MR. GUENTHER. It was excellent. Gardner was a diplomat in the best sense of the word. He was a facilitator. He tried to take the rough edges off of Chairman Burns's autocratic style. He tried to make things smoother with the Board. He also had strong ties with the banking industry, having previously been one of their own.

Early in Chairman Miller's term, Gardner collapsed near the Board Room or going to the Chairman's office. He had a brain tumor and died shortly thereafter. It was a tremendous loss for Chairman Miller and for the Fed. Steve Gardner's skills and connections would have made Bill Miller's chairmanship easier.

MS. FOX. Would you say that without Gardner, Chairman Burns would have had a far worse time with his Board relationships?

MR. GUENTHER. No. It wasn't necessary that way. My view is that Burns operated at a different level, in a way, and the Governors accepted it. They didn't like it, but they accepted it. They also said, "Never again." And then Bill Miller inherited that rebellious Governors' mood of "never again," and that caused some of the problems of Bill Miller's term.

Relationship with Division Directors and Other Board Staff

MS. FOX. Joe Coyne and you were assistants to the Board in the 1970s. And the organization was much as it is now. There were divisions handling monetary policy, bank supervision, consumer affairs, et cetera. Steve Axilrod headed monetary policy. What was your relationship with the division directors—people who had a lot of substantive information that you needed to pull together for a campaign on the Hill? And what was their relationship to each other and to the Board?

MR. GUENTHER. They knew I was speaking for the Chairman. They knew when I requested something that I was asking for the Chairman. They were cognizant that that was my role—that was my only authority. My relationships with all of them were good. The Fed is a class act. If the Chairman wants something, the staff does its best to provide the Chairman with what he wants. Since I'm acting for the Chairman, they bent over backwards to get me the information as quickly as humanly possible.

MS. FOX. What did you do to report to or collaborate with them? Were there meetings occasionally? Did you work with them one-on-one?

MR. GUENTHER. We ate together in the Fed dining room. There was a senior staff table.

After leaving the Fed, I thought of the thousands of people around this country who would kill to have had a lunch at that staff table. The only people who weren't there were bank supervisory people. They were viewed as the policemen of the Federal Reserve System, the Irish cops—those who couldn't become cops became regulators. So the regulators, for whatever reason, didn't eat at that staff table; they ate at their own staff table. Other than that, everybody was there, more or less. The economists and the consumer people were there. Coyne and I were there. Legal was there. That helped coordinate matters. You could come back from the Hill and be the star of the show. I'd come back to the staff table, have lunch, and tell them what happened at the hearing. That's the way information was disseminated.

Origin of the "Guenther-grams"

MS. FOX. How did you communicate with the Chairmen?

MR. GUENTHER. I initially worked with Senator Javits. He had a lot of staff people working for him. He was very busy, so he was a tough man to have an extended conversation with. You were constantly running behind him as he was walking down the hall, trying to get him to focus on this, that, or the other. How do you communicate with a very busy man? I communicated by typing up these quick and dirty little notes and sending them into the senator. And he always read them. If something was important or caught his interest, he'd scrawl "C me" on the note and send it back. I'd take the little note, run after him the next time he's running down the hall or at a hearing, and I'd say, "You asked to see me on this."

MS. FOX. You started sending notes when you were in Javits's office? So the origin of the "Guenther-grams"—

MR. GUENTHER. —was Javits. And they worked extraordinarily well with Chairman Burns. I did the exact same thing with Chairman Burns. Little notes were going to the

Chairman's office all the time. He loved being filled in on what was happening politically. He was a political mensch in the best sense of the word. He had acute political sensitivities, and he wanted information. My job was to feed him that information, and he welcomed that. With Paul Volcker, Paul once said, "You're always sending me this intelligence without a conclusion. Where's the conclusion?" I said, "Mr. Chairman, that ain't my role. That's your role." During his entire term, Chairman Greenspan also welcomed and read the Guenther-grams even though they were coming from a source outside of the Fed.

MS. FOX. I'll tell you what Chairman Greenspan did with them. He would write a note on the side to whoever needed to know the information—often Donald J. "Don" Winn, sometimes an economist, and sometimes me—and ship it off to them, saying "FYI" and often "See me," but he spelled it out: "S-E-E."

MR. GUENTHER. I thought those notes were totally confidential. On my side, they were. One of my great regrets in life is not having kept my Guenther-grams to any of the Chairmen. Burns kept the Guenther-grams, and they became part of the Burns papers at one of the universities. Then books were written, and my most precious secrets were being unveiled before the world.

You asked about the congressional liaison office. Don Winn was my principal assistant, and then there was another person named Jay Brenneman. There were two good and efficient administrative assistants—Virginia Dove and Pam Tonoli [now Pam Elliff]. Don was passed over for the assistant to the Board job. He may have resented that, but Don was not someone that resented anything; he was a saint of a man.

Chairman Burns had absolutely no interest in consumer affairs. Senator Proxmire was consumed by consumer legislation and giving the Board reg-writing authority, assigning everything to the Board that Burns did not want. Since Burns was not interested in consumer affairs legislation, I was not interested in consumer affairs legislation. It was delegated lock, stock, and barrel to Don Winn, the lawyer, and he did it superbly.

More on Chairman Burns

MS. FOX. That was a tradition that continued. There was always one person in the office who had the sheer joy of doing all of the consumer legislation.

You mentioned previously that Arthur Burns walked with a shuffle. Do you know why?

MR. GUENTHER. He was a Ph.D. student at Columbia. You had to give evidence of his ability to do something athletic to get a Ph.D. degree. That caused him great concern and worry, because he was not athletic. He discovered that he was fairly good at jumping over a bar that was two or three feet off the ground. Being a perfectionist and being fanatical, Burns practiced and practiced and practiced jumping over a bar. He practiced so much that he broke the arches of both feet, and that is why Arthur Burns walked with that little shuffle-stop-shuffle.

Transition from Chairman Burns to Chairman Miller

MS. FOX. Let’s move to the period when Chairman Burns departed and Chairman Miller arrived.

MR. GUENTHER. The Burns transition period began when Jimmy Carter was inaugurated as President on January 20, 1977. Since Burns’s term was coterminus with a one-year lag—like Chairman Bernanke’s term—and because Burns had no intention of resigning and strongly wanted to be reappointed by Carter, his transition from the Fed was an unusual and interesting chapter in the Fed’s history. The timeline of this difficult transition ended on December 28, 1977, when President Carter nominated G. William Miller.

I remember being alerted that a dying Senator Hubert H. Humphrey had given a speech about Chairman Burns on the Senate floor in late 1977. The speech was very critical of the Chairman. I viewed it as a political dagger that was plunged into the back of Chairman Burns's reappointment aspirations. I had this conversation with the Chairman when I briefed him on Humphrey's speech. The Chairman took it particularly hard, since he considered Humphrey to be a good friend. He privately blamed Vice President Mondale, also of Minnesota, for putting Senator Humphrey up to it.

Chairman Burns's campaign to be reappointed was sustained and serious. It wasn't a casual campaign. The Chairman put a lot of effort into it, but, obviously, it wasn't successful. The effort for the most part didn't involve Fed staff, but senior staff knew what was going on.

Chairman Burns did not have a relationship with President Carter, and Chairman Burns was held—using a Senate term—in "minimum high regard" by Vice President Mondale. So the Chairman reached out to people he knew who were close to President Carter. Thomas I. "Tom" Storrs of North Carolina National Bank (NCNB) comes to mind. Tom Storrs, one of the powers-that-be in banking in the Southeast, was on the Atlanta Fed Board and chairman of the Board's Federal Advisory Council. He was close to the Chairman and close to me. The Chairman also had an "in" with Bert Lance. Bert Lance, a former Georgia community banker, was close to the President. He was appointed Director of the Office of Management and Budget (OMB). The Chairman was working through Bert Lance in trying to orchestrate his reappointment, but Bert Lance got caught up in something—I don't remember what it was—and was forced out as the head of OMB. This was a major blow to the Chairman's reappointment campaign. After Bert Lance fell, my memory is that the Chairman reached out, or tried to reach out, to Rosalynn Carter, but I don't know how. The Chairman's campaign did involve the Fed when he reached out to Robert S. "Bob" Strauss, who was a power in the Democratic Party. We talked about who we could get involved in some of the Fed dinners, the nice Fed dinners, which would be useful. And it was decided that Bob Strauss would be useful. My memory is that Strauss was invited to address the Council of Chairmen of the Federal Reserve Banks. At council meetings, there was always an elegant, well laid-out dinner outside the Board in a very nice venue, with excellent food and excellent talk. The name of the game of getting Bob Strauss to dinner was to get him to begin supporting Chairman Burns's campaign. Bob Strauss was the speaker; he gave his talk. But Burns and Strauss ended up getting into an economic argument, and they didn't agree in any way, shape, form, or manner. Because of Chairman Burns's great moral strength, intellectual honesty, and inability to keep his mouth shut, Strauss left on worse terms with the Chairman than when he came in. So, in that sense, the dinner was a failure.

More on the Burns Chairmanship

MS. FOX. What do you recall about the policy content of that year? How was Burns juggling this appointment campaign with his day-to-day responsibilities, and what were the things that you recall, working closely with him?

MR. GUENTHER. In the final analysis, Burns's policies, positions, and beliefs did not match those of the President of the United States, the Vice President, and probably the Secretary of Treasury. That's why the Burns campaign to be reappointed was probably based on an illusionary hope rather than a solid reality.

The first month in office, President Carter proposed an economic stimulus package to jump-start his presidency. Chairman Burns was asked to testify. Joe Coyne and I rode up to the Hill with him. I always accompanied the Chairman to the Hill. In the car, my seat was in front with the driver. The Chairman had the seat of honor—the right-hand seat in the back. Joe took the left-hand seat. This was tough duty, particularly in the winter, because the Chairman was always happily puffing on his pipe, and we weren't allowed to open the window. Becoming carsick was a real problem. The Chairman's first testimony in 1977 was before the House banking committee. House banking committee Chairman Henry Reuss, Democrat of Wisconsin, had severe policy and political differences with the Chairman. It was a difficult relationship, at best. I don't remember precisely what the testimony was on, but they got into Carter's stimulus package during the question-and-answer period.

In the briefings before the hearing, I was very cognizant of the reappointment campaign. So my advice to the Chairman was to be diplomatic and to mute his positions, given that he had this other goal in mind. He didn't listen. During the question-and-answer period, he said without equivocation that Carter's stimulus plan was premature and unnecessary, and that a $50 tax rebate to every American—the centerpiece of the plan—was unwise. As I listened, I said to myself, "Mr. Chairman, you're not going to be reappointed by doing this." The Chairman's opposition made headlines; his plainly stated language was well covered. I reviewed some of the press clips recently. Some of the principal papers carried the banner headline, "Burns Nixes Tax Rebate." The Chairman's view was that people shouldn't receive gifts from the government. Carter wanted an economic stimulus program. It was winter, and Burns was testifying, smoking his pipe, and saying, "Believe me, believe me, spring will come." And the economy was turning around at that period. I think Chairman Burns's testimony doomed the $50 tax rebate, which was an essential key element of President Carter's economic stimulus package. Obviously, a President will remember someone who, in the President's first month in office, effectively and devastatingly criticized a key economic proposal.

MS. FOX. You knew that he was prepared to testify in opposition to the President's plan. Did you feel it was your responsibility, or did he feel it was his, to make that opposition known to the Treasury Department or to the White House?

MR. GUENTHER. I'm not sure of it, but, given his nature and style, I bet he did. And, remember, Lyle Gramley at that time was in the catbird seat at the Council of Economic Advisers. So I'm sure that Lyle, one way or another, knew where the Chairman was coming out.

MS. FOX. But it wasn't part of your portfolio to deal with Treasury or White House political operatives or anyone else.

MR. GUENTHER. No, and it wasn't in the testimony. He was asked a question, and he answered.

MS. FOX. Do you recall Burns's first meeting with President Carter?

MR. GUENTHER. I recall him trying to meet with Carter and not being successful, but that may be a false memory. He didn't have that Carter connection. That's why it was Bert Lance, that's why it was Rosalynn Carter, that's why it was Bob Strauss.

MS. FOX. That's clearly a very different time, if it wasn't on President Carter's mind that he ought to meet early and perhaps often with the Chairman of the Federal Reserve Board.

MR. GUENTHER. That was not on the President's mind and the team that had put together the economic stimulus package. They did not work things out with Chairman Burns before they put the economic stimulus package out there.

There were other key transitional events during that transitional year of 1977. The bill to allow a GAO audit of the Fed was a legislative hallmark of Chairman Burns's final two years in office. This battle had been going on for all of Burns's tenure as Chairman of the Federal Reserve System. And his fight against the GAO audit bill was uncompromising. He believed that there was something morally wrong in having GAO oversight over what the Federal Reserve should be doing. He just couldn't accept that.

MS. FOX. The policy context was that the Congress felt that someone should have more authority over the Federal Reserve. Any Chairman would likely have taken an aggressive position against legislation. But, as you said, for Chairman Burns, it was a crusade, and for the Congress, it seemed to be an ongoing crusade. Were there things going on that you recall between the Fed and Congress that particularly made these people go head-to-head over something like that?

MR. GUENTHER. Yes. When I came to the Board, Chairman Burns's relationship with Chairman Reuss was not good. I was constantly amazed at the petty harassment by Chairman Reuss of Chairman Burns. There was one petty little thing after another to which Chairman Burns and Board staff had to pay attention. Staff had to spend enormous hours coming up with harassing information requests. It was a bad relationship that, I think, started when Chairman Reuss became Chairman of the house banking Committee, and the legislative objectives that he was trying to move forward were frustrated by Chairman Burns. Chairman Burns sought to undermine and diminish the Reuss chairmanship, because he thought that Reuss was not friendly to the Board or the independence of the Fed. So Burns was there working effectively with Thomas W.L. "Lud" Ashley, the ranking Democrat after Reuss, and Bill Stanton, a ranking Republican.

Ashley had a strong relationship with Speaker of the House, Thomas P. "Tip" O'Neill. Reuss didn't have that relationship with Tip O'Neill. Reuss was an intellectual; he was stuffy and arrogant and everything that Tip O'Neill wasn't. Lud Ashley was laid back, old school, liked his Scotch—as Tip O'Neill did. That wasn't Reuss's world. So Burns had this relationship with Ashley, and Ashley had this relationship with Tip O'Neill. Burns had this great relationship with Stanton. I've documented the votes on issue after issue—including 19–18 votes—where Ashley [and] Stanton prevailed over Reuss and Jim Wright. This was something that drove Chairman Reuss nuts.

MS. FOX. Was it part of your portfolio to help those votes?

MR. GUENTHER. Of course.

MS. FOX. Obviously, on Federal Reserve legislation, you were seeking the Chairman's position. Was there some level of ongoing sniping between the Federal Reserve and the House banking committee and its staff?

MR. GUENTHER. Yes. It was constant harassment. There were letters after letters or requests after requests from Chairman Reuss to Chairman Burns wanting this or that. Chairman Burns was the last-standing major Republican figure in Washington after the election of Jimmy Carter. Chairman Reuss had his own agenda, his own feelings about the Federal Reserve System. He wanted the GAO to audit the Fed in a major way, and Burns was there as the veritable "no" man—it ain't gonna happen; we're gonna fight it with everything we have. The tools were the Burns relationship to the Republicans. The Republicans naturally went with Chairman Burns and the Fed. Chairman Burns was a Nixon appointee, but we also had Lud Ashley on the Democrat side. So we had the votes. Occasionally, it was a 19–18 vote.

There was constant tension about the independence of the Board of Governors of the Federal Reserve System. There were those who wanted greater congressional control. Those were the people who pushed the GAO audit bill. Then there was tension about the role of the Fed within the Administration. So you have the group that wanted the Congress to have more control over what the Fed was doing, and you had forces in the Administration supported by people on the Hill who want the Administration to have more control over the Board of Governors of the Federal Reserve System, particularly in the supervision and regulation area. That is an ongoing reality for the Board of Governors. The Fed fought to retain its independence with a vengeance. The Fed probably fights it every day now. The GAO audit bill was the key measure of the Congress trying to assert its control over the conduct of monetary policy. In turn, Chairman Proxmire's single regulatory agency proposal would have stripped the Federal Reserve of its supervision and regulation powers, to the benefit of the Executive branch.

Burns had fought the GAO audit before I came to the Fed. It consumed a good share of my time in the 94th Congress, which was 1975 [and] '76. The 95th Congress was 1977 [and] '78. During my tenure on the Hill, leading congressman and senators made concessions to overcome Chairman Burns's specific objections. In the first term of the 95th Congress—1977, the first year of the Carter presidency—the audit bill, as it evolved in the House, exempted monetary policy deliberations and open market transactions conducted to promote maximum employment, production, and purchasing power. Transactions conducted on behalf of foreign central banks were also exempted. Burns still opposed the bill. Some committee amendments in markup tightened the confidentiality and GAO disclosure provisions in the bill. Burns still opposed the bill. He was getting rather consistent internal counsel, including by me, that the time had come to cut a deal on the GAO audit bill. This was contrary to the Chairman's nature. Governor Philip E. Coldwell was always the Chairman's chosen instrument if testimony was needed to stonewall congressional proposals. Chairman Burns affectionately called Governor Coldwell "Governor No."

Near the end of the first session of [the] 95th Congress in late 1977, Chairman Burns, with his term coming to an end and with his reappointment hopes shattered, lost interest in the bill. My memory is that the Chairman was missing in action when, on October 14, 1977, the House finally passed a watered-down GAO audit bill by a lopsided 336–24 vote, with three abstentions.

The battle that had been fought successfully during his tenure as Chairman was coming to an end. It was passed after that great friend of the Fed, Thomas Ludlow Ashley, a Democrat from Ohio, the ranking Democrat on the House banking committee, successfully offered two Fed amendments. One broadened the monetary policy exclusion language to include discount window operations. The second limited GAO access to bank examination reports for a meaningful statistical sample, determined by the GAO. An amendment offered by Clarence J. "Bud" Brown, a Republican from Ohio like Stanton, was also accepted; the amendment imposed criminal sanctions on GAO personnel having access to confidential banking material. Protecting confidential bank examination reports was a major issue for the Fed.

On July 21, 1978, after Burns was no longer the Fed's Chairman, the Federal Banking Agency Audit Act was signed into law, capping a 10-year congressional effort that started with Wright Patman then Henry Reuss and ended with Ben Rosenthal of the House Government Operations Committee. The Senate always played second fiddle on this issue, and I don't have that much memory of what happened in the Senate. I think it just probably went through fairly smoothly.

MS. FOX. Burns aggressively fought for the independence of the Fed. Then, as it became obvious to him that his reappointment opportunity was sliding away, he removed himself a little bit.

MR. GUENTHER. I remember him being down. He wasn't the Chairman Burns we knew and loved for a couple of months after his reappointment hopes went down. When the

GAO audit bill was on the House floor, staff had to step into the breach almost without the Chairman. I worked with Lud Ashley on perfecting amendments, and Lud was very happy to do that. The Chairman just sort of let it go.

MS. FOX. So Burns was distracted or not as interested. But the legislation was going to pass, and you wanted it to be as useable as possible. So what does the Fed's congressional liaison, general counsel, and Vice Chairman do?

MR. GUENTHER. You get someone to carry the Fed amendments, and then you work Ashley and Stanton behind the Fed amendments, and generally that was enough.

MS. FOX. Did someone in the Legal Division write the amendment?

MR. GUENTHER. Yes.

MS. FOX. What was the process for deciding which amendments the Fed was going to support?

MR. GUENTHER. That required consultation primarily with Hill staff. The Burns relationship with Lud Ashley was special. Lud drove a Mercedes and would come sweeping into the Board garage. There was a refrigerator in the Chairman's office. In that refrigerator, there was one bottle of the best Scotch in the world. When we knew Lud was coming into the garage, my job was to pour a stiff drink of Scotch into a large glass with a couple of ice cubes. I would meet him at the elevator, and as he was coming off the elevator, I handed him his glass of Scotch, fell in behind him, and we walked together into the Chairman's office. When I was assistant to the Board, Lud Ashley was there for the Fed on every major banking and other issue that was of interest to the Fed. Jack Yingling had forged my relationship with Lud Ashley. Lud was also there for almost everything that wanted done. Yingling would be in the gallery when there was something happening on the House floor. Yingling would stand up in the House gallery. Lud would look up, see that Yingling had stood up, and leave the House cloakroom to talk to Yingling about what was happening on the House floor. It was a very different world.

I just learned from a PBS documentary on our President George Herbert Walker Bush that Lud Ashley was one of the President's oldest and best friends, going back to the days at Yale. And, again, Lud was one of the key leaders of the House working with Tip O'Neill. So Burns had that friendship, and that was the friendship that spoiled the relationship with Reuss.

The Chairmanship of G. William Miller

MR. GUENTHER. Then the Miller revolution came. After a traumatic happening with Reuss, Miller sat down with Reuss, and they smoked a peace pipe. Miller began working with Reuss and Jim Wright, and there went the smooth relationship with Ashley and Stanton. We were working with Reuss and Wright; we no longer were working with Ashley and Stanton.

MS. FOX. Do you recall the precipitating event?

MR. GUENTHER. Yes. We were working hard on the Monetary Control Act. Bill Miller decided that we needed a lever. He would pay interest on reserves to force congressional action. Neil Peterson prepared a legal memorandum indicating that the Chairman had the power to pay interest on reserves. This leaked out, and I got a call from Reuss's chief of staff, my dear friend Paul Nelson. Paul was effective, but rough; it was just his nature. And this was a time when your language could be more politically incorrect. Paul told me on the phone, "You tell that little son-of-a-bitch that if he pays interest on reserves without congressional authorization, Chairman Reuss will lead the charge on his impeachment." Trembling, I ran to the Chairman's office with that message. That was the point of time when Chairman Miller reversed the political relations of the Fed to the House of Representatives. Miller accepted the Reuss position, and that was why we got the Monetary Control Act through the House. It was a watered-down compromise, but we got it through the House.

MS. FOX. The politics were different then. It was more about relationships and less about content, in some ways.

MR. GUENTHER. Not quite. Congressional friends supported the political content that the Chairman was pushing. Relationships were based on supporting his policy positions.

MS. FOX. With Chairman Miller, the Democrats are in power, and a Republican Chairman is replaced. You are a lifelong Republican who has great relations with people of all stripes. But you came out of the Ford White House, and you may not be viewed as a trusted entity for a new Chairman.

MR. GUENTHER. I was not, but then Miller had this terrible confirmation fight, and I became the trusted entity. But definitely not at first. I was sure that my tenure at the Federal Reserve would soon be at an end. I was probably the only overtly political person at the Board of Governors, other than the Governors.

MS. FOX. Could you talk about changing the color of the coat?

MR. GUENTHER. [Laughter] Well, God was good to me. On December 27, 1977, the Burns transitional year came to an end in the White House ceremony when the President of the United States introduced to the world the new Chairman of the Federal Reserve System, G. William Miller. Dr. Arthur Burns was at that ceremony.

Bill Miller was not known in financial circles. He was very well known in business circles. He had built a major business conglomerate, Textron. No one had an idea, when President Carter announced him, that a massive confirmation fight was in the offing.

MS. FOX. Do you remember Burns going over to the ceremony?

MR. GUENTHER. No, I don't. I think it came as a surprise. It was a White House ceremony, it wasn't a Fed ceremony.

I thought that was the end for me—Ken Guenther, assistant to the Board of Governors of the Federal Reserve System, effective hatchet man of Arthur Burns, effective congressional relations person, coming out of the Republican White House. I thought that there was the possibility that Miller would come in shortly and look around the Board and say, "We need someone else in the Congressional Relations Office." Through that all—thank you, Senator Javits—I had maintained the good relationships I had forged with Reuss and Proxmire when I was on Senator Javits's staff. So there were no knives on the Hill that were out for me. I didn't have a Proxmire calling saying, "Get rid of this son-of-a-bitch." I didn't have a Reuss calling. I had excellent relationships with Ken McLean; I had excellent relationships with Paul Nelson. Reuss and Proxmire knew me and liked me. That was a plus, but I didn't think it would be enough of a plus to survive that period. But lo and behold, the gods intervened. Miller went through this massive confirmation fight, and I played the useful role of a loyal staffer to incoming Chairman Miller. At the end of the successful confirmation fight, my job at the Board of Governors was secure.

MS. FOX. Can we talk about the period after the announcement that Bill Miller was going to be the new Chairman and before he was officially confirmed? You mentioned a December press announcement. The Congress was out of session, so Miller couldn't have his confirmation hearing for a little while. What happened in the interim?

MR. GUENTHER. I don't remember when or why Chairman Proxmire made the decision that Bill Miller should not be the Chairman. I can't remember a date or an event where we knew we had a war on our hands.

Chairman Proxmire operated in an interesting way on nominations. I found that out after I left the Board when, in 1985, Proxmire went after Bill Seidman when Bill was nominated to become the chairman of the FDIC. That got very nasty. Bill Seidman reciprocated by naming his dog “Proxmire,” so he had control over it. He could always say, “Proxmire, come here!”

Proxmire made the decision to go after Bill Miller with a vengeance. Then, subsequently, he made the decision to go after Frederick H. “Fred” Schultz. That also was a tremendous, nasty confirmation fight. Why Chairman Proxmire decided this, I don’t know. He’d go to Ken McLean, and Ken would assign a staffer to do the background research on a nominee that he was determined to bring down. The staffer that Ken, as chief of staff, designated to bring down Chairman Miller was Charles “Lindy” Maranacio, who went to Proxmire’s staff from the Board. Lindy was a Vice Chairman Robertson man. Lindy, with Robertson, carried the single-regulatory-agency concept to Proxmire, and Proxmire continued to push that forward.

Lindy was a very able lawyer. He was on point to bring Chairman Miller’s nomination down. They investigated Miller’s past. Miller had been the head of Textron, and part of Textron was the Bell Helicopter division. The Bell Helicopter division had an extensive helicopter business, arms business throughout the world, including in Iran. The Senate got information somewhere, somehow, that there were payoffs by Bell Helicopter people to Iranian generals to have the Iranian generals buy Bell helicopters. Chairman Proxmire tried to use that to bring Chairman-designate Miller down. I remember a long hearing where this was gone into at great lengths. What Bill Miller’s defense was, I didn’t know. There was extensive material provided to the committee. Proxmire came back and said, “You should have known,” and so the whole argument was joined.

I have this memory of Bill Miller sitting on the first floor of the Board building in a little office, often alone. I supplied him with information. That was my only role. I don't remember accompanying him to the Hill on any visits to senators. I understood that the Carter–Mondale game plan was to break Democratic senators away from Chairman Proxmire and his position.

My memory is that Senator Paul S. Sarbanes was someone who broke with Chairman Proxmire. Chairman Proxmire was a maverick. It was a very unpleasant process. The press followed it closely; Proxmire was very skillful in using the press against the Miller nomination. I remember a dramatic moment in the Senate Banking Committee. Chairman Proxmire had called Bill Miller back before the committee. Bill Miller was there with his wife, and the room was packed. I was there. Chairman Proxmire looked at Bill Miller. I don't remember Bill Miller being at the witness table. Rather, I remember Bill Miller sitting in the front row or something like that. Chairman Proxmire said, "Look, I don't have the ability to block your nomination, and I feel very strongly it should be blocked. But I'm asking you, for the good of the nation and for the good of the Federal Reserve System, for you to withdraw your nomination." There was absolute dead silence in the room. It was a shocking statement—shocking to me. Then I remember Bill Miller saying, "No," and that was it. I don't remember a long Miller speech. There had been a lot of water under and over the dam. Bill Miller said, "No." Then, shortly thereafter, Bill Miller was confirmed as a Fed Governor and became the Fed Chairman succeeding Arthur Burns.

I thought we were dealing with the confirmation of Bill Miller as Chairman of the Board of Governors of the Federal Reserve System, but I've been reminded subsequently that it wasn't quite the case, because at that time, the Federal Reserve Reform Act of 1977 had not been passed. That act provided for Senate confirmation of both the Chairman and the Vice Chairman.

Before that time, the President could designate the Chairman from any sitting Governor. Apparently, the President designated the Chairman on December 27, 1977, but Miller was not confirmed until March 8, 1978. That probably had to do with Proxmire releasing his hold on the nomination of Bill Miller to be a Governor of the Board of Governors of the Federal Reserve System, which then would allow President Carter to designate him as Chairman. It was a long, ugly process, and I think it diminished Bill Miller. I think that was part of Proxmire's intent, and he was successful. Bill Miller came to the Board under a cloud. The damage had been done. I think this contributed to the weakened Bill Miller chairmanship. But being the Chairman meant you were the Chairman. Shortly after he became Chairman, Bill Miller made the cover of *Time* magazine. So just becoming Chairman brought with it the prestige of the office.

MS. FOX. During this nomination battle, you developed a relationship with Miller. Would you talk about that?

MR. GUENTHER. During this period, the White House was running the confirmation process. I was keeping Miller informed of what I had been picking up, what I heard, but I wasn't directly involved in lobbying the Senate or the rest. I knew the Senate well. I provided advice and counsel, and I think I provided advice and counsel to people in the White House. I can't remember if Orin Kramer was there—probably it was Orin Kramer. The Vice President's office was very much involved. I can't remember who I was dealing with in the Vice President's Office. Vice President Mondale was running this confirmation conflict. I knew that I was secure in my position as assistant to the Board, because I was invited to Bill Miller's victory party. It was a small party with his wife and other family members. I got along with his wife rather well. She was a white Russian who Bill Miller met and married when he was a coast guard officer. They met, I believe, in Shanghai. I was at that jubilant family gathering. I'm not sure if the Vice

President was there. Just the fact that I was invited indicated to me that I had crossed the bridge into Bill Miller's chairmanship inner circle.

Bill Miller had aspirations to go on President Mondale's ticket as the vice presidential candidate, but the Proxmire confirmation hearings made sure that that would never happen. So it was [a] broader political game. Miller had strong business and political connections with Democrats. He had strong ties with labor. He didn't have terribly strong financial ties or banking ties.

MS. FOX. How did the staff work with him?

MR. GUENTHER. I probably had a better relationship with Chairman Miller than anybody else on the staff when this was over. I didn't realize at the time that Senator Proxmire apparently may have been looking at Fed Governor Phil Coldwell as a future Board Chairman; that was not on my radar screen. Miller developed a strong relationship with Steve Axilrod. It was my feeling throughout the Miller period that Steve Axilrod had an enormous influential role in the conduct of monetary policy and played a key role in decisions.

I mentioned earlier that the Board was chafing under the autocratic style of Chairman Burns, a Board whose mood was that "this will not happen again" under a new Chairman. Bill Miller's confirmation fight weakened him and emboldened the Board. Miller had been a successful CEO; he was used to running a big corporation. He didn't enjoy long discussions, and he didn't enjoy deliberations. He was a decisive business executive. He didn't like to work building a consensus; that just wasn't his style. In interpersonal relationship, he was cool. He was not a hardy, hale fellow, well-met type of person. He probably had a chip on his shoulder.

Miller talked to me about his life. He was born in Sapulpa, Oklahoma, and grew up poor in Borger, Texas. Borger was the seat of a carbon black plant. And, as a little boy, there were four or five inches of carbon black soot in the streets that he walked through. I remember him telling me that he made the decision that he had to get out of "that goddamn place," and he did.

Miller was a little man, and he had a broken nose. I never had the conversation with him about the broken nose. He was immaculately groomed. This probably goes back to having grown up walking around in God-awful carbon black. He was sensitive to the charge—and this became a public matter when he was the Chairman—that he was of Cherokee descent. He was vigorous and adamant in knocking that down. I thought of that while I was at the Board, because when the Board inaugurated this magnificent fountain—I think that was before Miller came, maybe not—there was a Cherokee inscription on that fountain.

MS. FOX. It was Senator Robert Latham Owen, who was part Cherokee. He was the Senate sponsor of the Federal Reserve Act of 1913.

MR. GUENTHER. He was also from Oklahoma. And there was a Cherokee inscription on the base of the fountain.

MS. FOX. Do you recall how the discussion of Miller's roots came about?

MR. GUENTHER. I don't. But anyway, he came to this very restive Board. He brought an efficient, brisk CEO style. He didn't like long discussions and deliberations, and he worked to build consensus. There were major differences about monetary policy between Miller and other members of the Board, particularly Coldwell.

How did this all come to a head? Things can happen in strange ways. It came to a head over smoking. Bill Miller was allergic to smoke, and he wanted to outlaw smoking at the Board. Phil Coldwell was a chain smoker, and Henry Wallich loved his pipe. So you had the automatic combination of Coldwell and Wallich, as well as others—this restive Board, this Board that had chafed under the autocratic rule of Arthur Burns—rising up in indignation and saying "Hell, no, Bill Miller. We are going to continue smoking at the Board." That was probably Bill Miller's first major defeat before he suffered defeats on monetary policy issues.

Then there was another smoke incident that had people saying that maybe the gods aren't with Bill Miller. Bill came into his new office, the Chairman's office at the Board. It had a magnificent fireplace. Chairmen's offices and Governors' offices had magnificent fireplaces. Right after he came on board, the first or second day in the office, Miller wanted to have a fire in the fireplace. His loyal staff brought the wood, the paper, and the rest, and lit a fire. But the chimney was blocked, so the smoke poured out of the fireplace into his office. It wasn't an auspicious beginning.

The person that could have smoothed Miller's entrance into the Fed was Steve Gardner, but he died early on during the Miller chairmanship. Fred Schultz came too late—Schultz came in when Miller was leaving. So you had the tragic loss of the Vice Chairman, Steve Gardner, at the absolute worst time for internal Fed relations and politics, which was an enormous loss to Chairman Miller. Miller's relations with the Board were never strong, and, outwardly, he could care less that the Board outvoted him on key discount rate questions. He didn't have much use for them. But monetary policy wasn't my thing; it was Axilrod's thing. In the legislative area, Miller was gifted.

MS. FOX. He did have political acumen. He had been a very active politician, although unelected. He did well on the Hill, partly because of the reversal that you spoke of earlier, where you had the Democrats together. But within the institution, he seemed not to be deft. He seemed to create conflict instead of working within the institution. Is that an accurate assessment?

MR. GUENTHER. On his political strengths, he had good relations with Treasury Secretary Blumenthal. He eventually took Secretary Blumenthal's job. He had the support of the Vice President. I don't know what his relationship was with Carter. He was strong with the unions. He reversed totally the Burns relationship with Henry Reuss and with majority leader Wright, but he never had Proxmire. We always had to work around Proxmire with other Democrats because Proxmire felt that Chairman Miller should not have been Chairman. On building ties and relationships inside the Board, he had me on legislative matters and he had Axilrod on monetary policy. But, by his nature, he was not warm, outgoing, embracing of the Board culture and I think he was happy to leave the Board.

MR. SMALL. Paul Volcker was on the FOMC at the time. Do you have any memories of their interaction or relationship?

MR. GUENTHER. No. I don't. I think Volcker was close to Coldwell who died in May [2008]; in the memorial service booklet, Paul Volcker was prominently mentioned. Phil Caldwell supported Volcker's monetary policy when Volcker became Chairman. Coldwell did not play a similar role for Chairman Miller.

MS. FOX. Burns told everyone else what to do, when it came to legislative issues. Did your role change with Miller?

MR. GUENTHER. It did even over my tenure with Burns. I also built a strong relationship with Governor Coldwell, and I used him often as a sounding board in various matters, including legislative matters. I remember conversations with Governor Coldwell about what was happening with Miller and relations with Miller, and how it wasn't the most advantageous thing to have this sort of a relationship. But I wasn't aware that Coldwell may have been Proxmire's choice as the future Fed Chairman. In my area, Miller was very gifted working with the Treasury, working with the White House, and working with Reuss.

The ABA didn't want the International Banking Act of 1978 to become law. I remember going to a major ABA meeting outside of Washington, probably at the Greenbrier or some place like that. Miller confronted the ABA and essentially said, "I'm sorry you oppose the bill. We need the bill and we're going to run over you to get the bill." And that happened. Then there was another meeting at the Board with the ABA on a Monetary Control Act issue. I wasn't at that meeting. It was a small meeting at the Board between Miller and the leadership of the ABA. Reportedly, Miller blew his top in front of those bankers and read them the riot act about what they were doing in opposition to the Monetary Control Act. So his relations with the ABA and Reserve City Bankers and the rest were not the best, starting with the International Banking Act and carrying through to the Monetary Control Act.

MS. FOX. But were the politics okay because he had the Democrats?

MR. GUENTHER. He had the Democrats. He had the White House. He had Blumenthal. And he had the Treasury. He didn't need the Republicans then.

MR. SMALL. Did you talk with Miller about how he felt things went on the economic front? Did he leave with regrets on the economic front, or feeling less than fully capable?

MR. GUENTHER. No, we didn't talk about that. Again, I come back to this memory of smoking. On something that was very important to him—a relatively trivial matter—the Board went against him. Or he chose the wrong issue to take to the Board and, for whatever reason, the Board stymied him on not having smoking in the Board Room. I think that forever changed relations with the Board. I think Bill Miller, in a way, dismissed—probably too strong of a word—the Board at that time. He was going to do his own thing with his own contacts in the Administration. The Board was not guiltless in this. The Board was aching for a fight to show him, "We are the Board. We're not going to go through another Arthur Burns era. You've been roughed up by Proxmire—well, now you're going to have to deal with us." I think early on, Chairman Miller decided that, "Maybe you guys aren't worth it. I have my own allies, and I'll play my own game." It was unfortunate. Again, Steve Gardner could have bridged this, but he died at just the wrong time. And Fred Schultz, who came too late, had the personality and could have bridged this. But, to the best of my knowledge, Miller didn't have anybody from the Board reaching out to him, maybe even on the key economic issues. At least he didn't appear to have anyone. The votes were against him on the key economic issues. They didn't like his conduct of monetary policy.

I think Chairman Miller wanted out. His opportunity opened up at the U.S. Treasury, and he became the only person in our history to serve as both the Chairman of the Board of Governors of the Federal Reserve System and as the Secretary of the Treasury. During his brief tenure at the Federal Reserve, what did he leave behind? He left behind the International Banking Act of 1978, which was a major achievement providing national treatment for foreign banks. He left behind an acceptable GAO audit of the Fed—a bill that defused 10 years of Federal Reserve−congressional conflict. He also secured the House passage of the Monetary Control Act. Yes, it was left to Miller and Volcker, working together, to secure final passage of this historic legislation, which they did shortly after Volcker become the Fed Chairman. His legislative legacy was significant. Additionally, as Paul Volcker pointed out upon Chairman Miller's death in March 2006: "Significantly, he supported my own nomination as Fed Chairman knowing that I had favored and would likely implement a stronger policy of monetary restraint. As Treasury Secretary, whatever his personal preference, he (or President Carter) never objected publicly to the aggressive monetary tightening in difficult economic circumstances as the 1980 election approached. Not so incidentally, drawing on his business experience, he shepherded the Chrysler rescue program to a highly successful conclusion despite personal reservations about a government 'bailout.' "

MS. FOX. This concludes the second interview with former assistant to the Board, Kenneth A. Guenther. Ken, we appreciate your recollections and insights on aspects of the chairmanships of Arthur F. Burns, G. William Miller, and Paul A. Volcker during a challenging time in the history of the Federal Reserve. The legislation that was considered and passed on your watch served the Board and our financial system well. Thank you.