

# Federal Reserve Board Oral History Project

Interview with

Nancy H. Teeters

Former Member, Board of Governors of the Federal Reserve System

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Interviewers: Lynn S. Fox and Winthrop P. Hambley

## Federal Reserve Board Oral History Project

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

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

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

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MS. FOX. This is Lynn Fox. I am in Stamford, Connecticut, with Nancy H. Teeters, the first female to become a Governor of the Federal Reserve System Board of Governors. Today is Saturday, October 25, 2008. I am joined by my Federal Reserve Board colleague Win Hambley and [by] members of Governor Teeters's family. I'd like for them to introduce themselves.

MS. LILA TEETERS. My name is Lila Teeters, and I'm the granddaughter of Nancy Teeters.

MS. CROWLEY. I'm Sandy Crowley, and I'm Nancy's daughter-in-law.

MR. JOHN TEETERS. John Teeters, and I am the son.

MR. HAMBLEY. We're delighted to have Governor Teeters. I apologize if I call you "Governor Teeters." I've been at the Fed so long, that's going to happen.

MS. TEETERS. And I even answer to it.

### **Personal and Professional Background**

MR. HAMBLEY. By way of background, Governor Teeters worked at the Board as a staff economist for nine years, from 1957 to 1966. A very distinguished career took her, among other places, to the Council of Economic Advisers, the Bureau of the Budget [which today is the Office of Management and Budget (OMB)], the Brookings Institution, the Congressional Research Service, and the House Budget Committee where she served from 1974 until 1978. She ultimately became a member of the Board of Governors and served on the Board for almost six years, from 1978 to 1984.

Tell us first about where you were born, when you were born, and what your family was like.

MS. TEETERS. I was born in 1930 in Marion, Indiana, which is not a very big town in northern Indiana. I went to public schools there, and then I went to Oberlin College, which is

near Cleveland. My husband went to Oberlin, too. And then my in-laws got my transcript and said, “You ought to go to graduate school.” My husband had already gotten his master’s at Yale. The two of us went to the University of Michigan for graduate school.

MR. HAMBLEY. When you grew up in Marion, what kind of a place was your hometown?

MS. TEETERS. I never went back.

MR. HAMBLEY. You never went back. But do you have fond memories of it?

MS. TEETERS. No.

MR. HAMBLEY. Glad to get out. So you were in Marion through high school, and then you went to Oberlin. At Oberlin, did you study economics?

MS. TEETERS. Yes.

MR. HAMBLEY. What led you in that direction?

MS. TEETERS. In my sophomore year in college, I took all of the social sciences—all of them. At the end of the year, I had an A in economics. [Laughter]

MR. HAMBLEY. Was there something about the time in which you grew up that particularly made you want to do that? You had grown up in the later part of the Depression, up until the beginning of the war.

MS. TEETERS. I have no memory of the Depression at all. It started in 1931, and I was one year old. I didn’t know anything about it until I got to college. My father had never lost his job, so we came through the Depression very well.

At Oberlin, I just liked economics. It was one of those things I could do. I had never taken a course in economics until I got to Oberlin, where I found I could do anything with it.

MR. HAMBLEY. Would you say people that you knew encouraged you to go into this field?

MS. TEETERS. Yes. Most of the people who majored in economics at Oberlin went to law school, but it had a very good department. I liked it, and I did well.

Bob, my husband, majored in biology and then went on to Yale. He majored in the conservation of natural resources there.

MS. FOX. Where did he grow up?

MS. TEETERS. In Philadelphia. His father was a professor at Temple and was a criminologist.

MR. HAMBLEY. So you became interested in economics at college, and then you decided to go on and get an M.A. at Michigan?

MS. TEETERS. I didn't decide. Bob and I decided to get married. He was two years ahead of me, so he had finished his master's at Yale. When I graduated from Oberlin, his parents for some reason got hold of my transcript, and that Christmas they said they wanted me to go to graduate school, and they would pay for it. So we both applied to Michigan. Michigan gave me a scholarship, so his family never had to pay for it.

MR. HAMBLEY. If his family hadn't taken such an interest, you wouldn't have pursued this?

MS. TEETERS. Probably not. In that period of time, women didn't go to graduate school. They supported their husbands while their husbands went through graduate school.

MS. FOX. Were there other women in your master's class?

MS. TEETERS. Three. Two of them were foreign. One was from Turkey; her husband eventually came also. I knew her very well. We all ended up working in Washington in one way or another.

MR. HAMBLEY. When we talked before, you said that some of the women you encountered had been working in the war effort.

MS. TEETERS. Yes. Some of the people on the staff at the Federal Reserve had come in during World War II. There were more than one—let's say, three. Some had children; two of them didn't. When the men came back from the war, it appeared to me that the women never got promoted again.

MR. HAMBLEY. Going back to Michigan, we understand that you did some teaching while you were there, and you went abroad to do that as well. What did you teach?

MS. TEETERS. Economics.

MR. HAMBLEY. Was it one particular subject?

MS. TEETERS. It was beginning economics. It's the hardest one to teach.

MR. HAMBLEY. Did you notice that it's much harder to teach than it is to be taught?

MS. TEETERS. Oh, yes. I learned more teaching than I did as a student.

MR. HAMBLEY. Right. I always thought, when you got scared enough, you would really learn.

MS. TEETERS. It was interesting. By this time, the war was over—so I had [some] of the veterans. To get into business school at Michigan as an undergraduate, they had to pass Econ 101 with at least a B minus. There was one kid from somewhere in South America that I had five times.

MS. FOX. In your studies of economics in that era, do you recall which theories and which economists influenced your thinking the most?

MS. TEETERS. We had everybody. Of course, the Paul A. Samuelson book came out. And we had a person on the Michigan staff—an older man—who had also written a book that we had to use. But we taught out of Samuelson's.

### **Working on the Board Staff**

MR. HAMBLEY. You ultimately came to the Federal Reserve Board in the Government Finance Section?

MS. TEETERS. Yes.

MR. HAMBLEY. How did you decide that you would want to go and work there?

MS. TEETERS. We had tired of being in graduate school.

MS. FOX. And being poor students.

MS. TEETERS. And being poor—exactly. Recruiters came out from Washington, from what was then the Budget Bureau, and recruited my husband. My professors at Michigan said that the thing to do was go to the Federal Reserve. Almost all of them were from the Federal Reserve.

MR. HAMBLEY. Did you know anything about the Board before you went to work there?

MS. TEETERS. Not much.

MR. HAMBLEY. Was going to Washington, D.C., a big shock?

MS. TEETERS. No, my husband and I really liked D.C. During our undergraduate years, we went for one semester in D.C. We really liked it, and we liked the government. So when an opportunity came to go and work there, we took it.

MR. HAMBLEY. When you were a staff economist at the Board, in the fiscal division, what kind of work did you do?

MS. TEETERS. The government division was a very interesting place, because it was not really part of the group that had only research. We actually did things. When it came time to go in every day to the market, we were part of the group that was part of the operation that decided to increase or decrease reserves.

MR. HAMBLEY. So you were involved in monetary policy.

MS. TEETERS. Yes. I don't think that monetary policy had been invented at that point. Basically, the Board would decide with the Treasury and the New York Fed what interest rate they wanted. Then we would go do it, with the help of the New York Federal Reserve Bank.

MS. FOX. So you were forecasting the government inflows and outflows to help with interest rate management?

MS. TEETERS. Yes. It was a fascinating operation, because we didn't know what we were doing. I mean, we didn't really know what we wanted to do. During World War II—I wasn't there—the Board did what the Treasury told it to do.

MR. HAMBLEY. You had been freed by the Treasury Accord, and you were trying to figure out what to do? The Board was not under as much public scrutiny then as it has come to have.

MS. TEETERS. Nobody even knew who we were. You could say you worked for the Federal Reserve, and they'd say, "What?"

MR. HAMBLEY. So you enjoyed working at the Fed. Was that because of the people you worked with?

MS. TEETERS. The Federal Reserve had in Washington the best staff there was. Many people who worked at the Fed came from the universities. They would send their people down to work at the Fed and then take them back to teach money and banking. If you worked at the Fed and you got your Ph.D., the universities made sure that you got to where you wanted to go.

MS. FOX. Who was your boss?

MS. TEETERS. Stephen H. "Steve" Axilrod.

MR. HAMBLEY. Did you have any contact with the Fed Chairman William McChesney Martin?

MS. TEETERS. I was very junior when William McChesney Martin was Chairman. I didn't know Chairman Burns. He had left before I came back to the Board.

MR. HAMBLEY. You were junior, so maybe you didn't have so much connection with him?

MS. TEETERS. No. He was very good. What remains in my mind is that the staff was unbelievably good. My husband was at the Budget Bureau. If somebody over there needed something, we would go back and forth. If the Fed needed something from the Budget Bureau, my husband could find the answer.

MR. HAMBLEY. And he would do it in the other direction, too?

MS. TEETERS. Yes. The Budget Bureau and the Federal Reserve got closer together because we knew each other. It worked.

### **Council of Economic Advisers**

MR. HAMBLEY. Part of the time you were on the staff at the Board, you were loaned to the Council of Economic Advisers?

MS. TEETERS. Yes.

MR. HAMBLEY. That was in 1962 and 1963. Tell us about some of the things you worked on.

MS. TEETERS. John F. Kennedy became President. The first thing that he did was to propose a tax cut. The idea of a tax cut to stimulate the economy was very new. I came back to the Board and I had to explain it to every member of the Board, the whole staff, and all of our people who worked there. One time I was going someplace and the driver, our chauffeur, said, "You have to tell me all about that." So I did.

MR. HAMBLEY. That tax cut passed after President Kennedy was assassinated. It was an important event because people look back on it, even now, as having been a big change in thinking about the government's role in the economy.

MS. FOX. Did the Board members feel it was a risky strategy to stimulate the economy with a tax cut?

MS. TEETERS. Yes. From the time I was on the Council staff, at the time that Kennedy proposed it, it took almost two and a half years to get it passed.

MS. FOX. Because people didn't understand that it could work?

MS. TEETERS. Absolutely.

MR. HAMBLEY. President Kennedy had come into office saying he wanted to get the country moving again.

MS. TEETERS. Yes, but nobody had ever thought to do anything with taxes. The people who were on the Council of Economic Advisers were a very interesting group. [Gardner] Ackley was there.

MR. HAMBLEY. Yes. Gardner Ackley was there in 1962 and chaired the CEA under President Johnson from 1964 to 1968. Walter W. Heller was chairman from 1961 to 1964.

MS. TEETERS. Yes, Walter was there. [Laughter] Who was the fourth one?

MS. FOX. What makes you laugh about Walter?

MS. TEETERS. Walter was always talking. There was always something he wanted you to do. Working with him was fun, because he had all sorts of ideas.

### **Being a Working Mother in the 1950s and 1960s**

MS. FOX. For the benefit of your granddaughter and those of us who have struggled with having families and working full time, we would like to hear about your experience being a young mother and a practicing economist in the 1950s and 1960s.

MS. TEETERS. After my husband and I went to graduate school at the University of Michigan, we went to Washington, and Bob went to work for what was then the Budget Bureau. I went to work for the Federal Reserve. I went down to resign after my daughter was born and said to Steve Axilrod that I was thinking of trying to get a job over at one of the universities.

He said, "Do you want to come back?" I said, "Yes, but I don't think I should work full time." He said, "All right, then we'll do it that way." There were three of us who needed part-time jobs. It took almost four months to get the three of us approved. One man had a mother that he needed to take care of. Another guy wanted to do only one thing, and he had a farm someplace. So the three of us were given part-time jobs.

MS. FOX. But it took four months for the Federal Reserve bureaucracy to decide that that was okay?

MS. TEETERS. The Board is not part of Civil Service, as you know.

MS. FOX. Right, so the Board had more flexibility.

MS. TEETERS. Right, much more flexibility. We didn't have a number, but there were people who only wanted to do a certain thing, and they were given permission to do that.

MS. FOX. It's a good people management strategy.

MS. TEETERS. Yes, it was—and unheard of.

MS. FOX. And the later children? Were you still at the Board with them?

MS. TEETERS. Yes.

MR. JOHN TEETERS. I'm 44. When my mom was pregnant with my brother, the housekeeper that was with my older sister quit. Mom interviewed and found a nanny who helped raise us. She was there during the days while mom and dad worked. Clara Robey worked for us for over 30 years.

MS. TEETERS. Her youngest child and John—

MR. JOHN TEETERS. We were the same age.

MS. TEETERS. Yes.

MR. JOHN TEETERS. We were born within a month of each other.

MS. TEETERS. When Bonnie got to school age, she came to our house and went to school with our children.

MS. FOX. Was there tension culturally because most women were at home and you were not?

MS. TEETERS. Not particularly, because our next-door neighbor was my boss at OMB. Our neighbor, my husband, and I went to work together every morning. It was a good time to exchange information.

MR. HAMBLEY. Well, that's good. They were more understanding.

MS. TEETERS. Yes.

MR. JOHN TEETERS. Pete Modlin.

MS. TEETERS. We lived next door to each other, and he was also the one, I think, who set up the part-time job at OMB. It took the staff forever to figure out we were next-door neighbors. We would pass news over the back fence.

MS. FOX. You knew what was going on before work started?

MS. TEETERS. Yes.

### **Bureau of the Budget**

MR. HAMBLEY. Well, around 1966, you went to the Bureau of the Budget.

MS. TEETERS. My husband left.

MR. HAMBLEY. He left, and you went there.

MS. TEETERS. Yes, I went.

MR. HAMBLEY. They needed to keep up the contact. [Laughter] So who was the contact at the Fed, then?

MS. TEETERS. I could call anybody up, and so could my husband. When I was at the Fed and he was at the Bureau, if I couldn't find somebody I needed, I would call and find out who it was. And going the other direction, if people at the Budget Bureau needed something from the Fed, they'd call me up and ask who. Everybody cooperated.

MR. HAMBLEY. Yes. It's not always true nowadays. [Laughter]

MS. TEETERS. Yes, I know. It wasn't true until the two of us got in that position. Every once in a while we'd get the wrong person, but then they'd find out where else to go. But it made Treasury and the Federal Reserve act much better, I think, when we knew what the other one was doing.

MR. HAMBLEY. At the Bureau of the Budget, you worked on the unified budget for the federal government, correct?

MS. TEETERS. Yes.

MR. HAMBLEY. That must have been a gigantic undertaking.

MS. TEETERS. Yes, it was. One of the interesting things about it—and also an interesting comment on Washington—I was one of the few who knew what the cash balance was. The Fed holds the Treasury cash balance.

MR. HAMBLEY. And you weren't telling. [Laughter]

MS. TEETERS. I never used the administrative budget. I knew how much it was, but, you see, all Social Security was in the cash budget. It was growing. And when they came to the idea of emphasizing the cash budget, we did it at OMB. We ran around until we found people that would know what we were talking about. The year they put out the first unified budget, most people didn't know what we were doing.

MR. HAMBLEY. Yes, but they became familiar with it. So who were some of the people you worked with at the Bureau of the Budget that were important to you?

MS. TEETERS. Well, my next-door neighbor was my boss at OMB. Because of my husband's contact, I could call up anybody in the Budget Bureau and ask them a question. It was wonderful, and vice versa.

MS. FOX. How much do you recall discussions on the budget and its influence on monetary policy?

MS. TEETERS. We didn't know monetary policy existed. Much of that was being done in universities at that point. At the Fed, we were primarily interested in interest rates. We went away from that for a while, and it was a terrible mistake. We could control interest rates. We tried to control the money supply. We failed.

At the Fed there wasn't a lot of talk about monetary policy; it was within the university walls. We knew we could control the interest rate, and the academics said, "Why don't you control the money supply?" So we tried. It didn't work at all.

### **House Budget Committee**

MR. HAMBLEY. I want to focus on your work as the staff director and chief economist at the House Budget Committee from 1974 to 1978.

MS. TEETERS. The House Budget Committee and the budget process were brand new.

MR. HAMBLEY. Yes. They were related to the creation of the unified budget. Is that correct?

MS. TEETERS. They were one of the results of it, yes.

MR. HAMBLEY. Do you remember who the chairman of the House Budget Committee was at that time?

MS. TEETERS. [Representative] Giaimo.

MR. HAMBLEY. Representative Robert "Bob" Giaimo was a Democrat from Connecticut. What did you do as the chief economist there?

MS. TEETERS. Remember that 99.9 percent of all legislators are lawyers. They don't necessarily have anything to do with economics. Basically, one of the problems we had at the House Budget Committee was teaching economics.

MR. HAMBLEY. Were members of the Congress receptive to that?

MS. TEETERS. Yes. I had a very deep admiration for people who are legislators. You have to want to do it. You have to get votes. The legislators were bright. They were well oriented, and they knew what they wanted to do. They were among the brightest people I ever worked for.

MR. HAMBLEY. That's my impression, too. I've always thought they ought to get a little more credit for their service. Governing the country is very complicated.

MS. TEETERS. The Budget Act put things into a framework for them. They were so glad for it. Some of them said, "Why do you want to do that?" Some members of the Congress put things in—and they still do. There's a name for it now.

MS. FOX. "Earmarks." It was called "pork."

MS. TEETERS. Yes. But most of them wanted to do a good job. You put something into a framework for them, and they liked it.

MS. FOX. Who else served on the Budget Committee?

MS. TEETERS. It was a big committee. I think we had 25 members.

MS. FOX. Did they tend to come and stay?

MS. TEETERS. No, on the House side you couldn't spend more than four years on the Budget Committee, and that's still true. That was a result of their experience with other committees, where people came, and came out of the South, and stayed for many terms. Many were there for years. But you spent four years on the Budget Committee and you were off.

MS. FOX. Sounds like a good rule.

MS. TEETERS. It was.

MR. HAMBLEY. But just as you had taught them something, they left.

MS. TEETERS. I have heard Budget Committee members giving speeches on economics. I wrote them.

### **Nomination as Federal Reserve Board Governor**

MR. HAMBLEY. That's good. You were with the House Budget Committee until 1978, and then President Carter nominated you to be a member of the Board. How did that happen?

MR. JOHN TEETERS. Walter Mondale was a friend of ours, and so were the Shrivvers. We lived in Cleveland Park, and most of the Democratic majority at that time lived there. Cleveland Park is still a Democratic majority. The Shrivvers and the Mondales lived there. Most of the congressmen lived there, and we knew each other. The children all went to school together; the parents would see each other.

MS. FOX. President Carter very much wanted women and minorities in service. It wouldn't be surprising that Mr. Mondale or others would have said, "Here are women to consider for various positions."

MS. TEETERS. I think it was. Yes.

MR. HAMBLEY. I would bet it was also because of the positions that you had held. You had contacts with a lot of the political people.

MS. TEETERS. I knew almost everybody in government. I knew everybody in the House.

MS. FOX. So who called you about the possibility of your appointment?

MR. JOHN TEETERS. Thomas P. "Tip" O'Neill.

MS. TEETERS. He was the Speaker of the House. He was on the Budget Committee, the original one; he only stayed for four years. He had a very good young staffer who eventually moved to Israel. I didn't know what happened to him. For some reason, O'Neill decided he wanted to learn about what we were doing on the Budget Committee. By the time I left the Congress, at least half my time was working for him.

MS. FOX. Tell us about Tip O'Neill.

MS. TEETERS. He was really wonderful. The things that he asked me to do were always interesting. I didn't really realize I was working for him until Bob Giaimo said, "You

know, you're working for the Speaker." I said, "Oh." Things that he asked me to do then went through the legislative process. I learned a lot.

MS. FOX. Do you remember some of the biggest legislative battles that you might have helped him with?

MS. TEETERS. You name it, we did it. Social Security was always a problem. The original Social Security budget was in 1936, and additional people were covered every year. So every year it got bigger and bigger. During that time, O'Neill was one of the people who started bringing in the farmers and talking about coverage. He was very interested in that.

MS. FOX. In adding to the Social Security?

MS. TEETERS. Now it's covering about 96 percent of the population.

MS. FOX. So Tip O'Neill would call and say, "Nancy, have I got a job for you!"?

MS. TEETERS. No. He would call me up and say, "I want you to do it."

MR. JOHN TEETERS. It was also a time—under Tip O'Neill—where we were coming out of Vietnam, and we were running into deficits, and we had the Great Society. Economically, we were trying to restructure our country into paying for both of these at the same time.

MS. FOX. That was a challenging time, economically. Did you already know the Federal Reserve Board members at that point?

MS. TEETERS. One time somebody asked Paul Volcker and me when we met each other, individually. We didn't know. We know we didn't go to graduate school together.

MS. FOX. He was at Treasury in the 1950s.

MS. TEETERS. And one time he went to England, too.

MS. FOX. He went to England for graduate school for one year. Certain people were in and out of Washington together for many years.

MS. TEETERS. For many years. And sometimes we ended up in the Federal Reserve.

MS. FOX. Paul Volcker had a similar experience in that he had been close to and worked with Arthur Burns for many years, and Arthur Burns called him up and said, “Paul Volcker, I want you to be the president of the New York Fed.”

MS. TEETERS. I can believe that, yes.

MR. HAMBLEY. Well, you were nominated to the Board, and, on September 11, 1978, you appeared before the Senate Banking Committee. Why was that confirmation hearing so easy for you?

MS. TEETERS. Well, for one thing, [William] Proxmire, a Democrat, was a neighbor. And [Senator Richard] Dick Lugar, a Republican, is my cousin.

MR. HAMBLEY. So Proxmire, the chairman of the Senate Banking Committee, knew you, and Lugar wasn't going to let them say anything bad about you. And you had worked with Paul Sarbanes at the CEA, is that right? And I'm thinking the person that you couldn't remember at the CEA might have been James Tobin?

MS. TEETERS. Yes.

MR. HAMBLEY. Tobin was a great mentor of Sarbanes.

MS. TEETERS. I worked for the council when Paul Sarbanes was there. At that point, Paul was the chairman's assistant.

MS. FOX. Did you have an interview at the White House with President Carter or the Vice President?

MS. TEETERS. Yes. President Carter.

MS. FOX. What do you recall?

MS. TEETERS. Basically, it was already decided what I was going to do. So the thing with the President was almost routine.

MS. FOX. Had you ever met Jimmy Carter before that?

MS. TEETERS. Yes, I guess. Every once in a while the White House needed a group of people to be there when somebody was coming for a meeting, so we ended up on the White House lawn. I don't think he remembered me at all; I was always part of a group.

MR. JOHN TEETERS. My dad was on Carter's transition group.

MS. FOX. And, by this point, he was with the Corps of Engineers?

MR. JOHN TEETERS. He was with the corps. They had done a lot of water policy. Carter was very interested in having the corps and reclamation joining forces at that time, so my father was appointed to the transition group. They would see Carter at the transition meetings.

MS. TEETERS. There is a picture of me sitting on a couch and with Carter in a chair. I think that is probably the only time I ever had a conversation directly with him.

MS. FOX. Do you recall what he asked you?

MS. TEETERS. Yes, he wanted to know what was going on in the economy.

MR. HAMBLEY. You came to him very highly recommended by Tip O'Neill, so that probably carried a lot of weight with him.

MS. TEETERS. Tip had a young man that—I think I told you—went then to Israel. I don't know what happened to him. The young man was very bright. He was right out of college—Harvard—and was sort of a go-between. It was a wonderful situation, because Tip didn't know anything about the economy. None of them did; they were all lawyers. Most of them didn't know what they were talking about when it came to economics.

MS. FOX. Did they offer you other jobs?

MS. TEETERS. No.

MR. HAMBLEY. You had mostly been what you later described as a “fiscal economist,” but, of course, it wasn’t so clear how that was different.

MS. TEETERS. My undergraduate was at Oberlin, which had very good people in the economics department, many of whom worked for the government as part of their careers. At Michigan it was the same thing. Everybody went back and forth. During World War II, the Treasury Department more or less told the Fed what to do.

The Treasury Accord was in 1951. By the middle of that decade, the Fed was saying to the Treasury, “We don’t need you.”

MS. FOX. What do you recall about going to the Federal Reserve Board as a new member of the Board?

MS. TEETERS. I’m home.

MS. FOX. You were on the second floor. You’re not down in a junior little cubby.

MS. TEETERS. I had a beautiful office.

MS. FOX. Which end of the hall were you on? When you walked through the oval, was your office to the right or to the left?

MR. JOHN TEETERS. Left corner.

MS. TEETERS. Yes.

MR. HAMBLEY. But you felt like it was coming home.

MS. TEETERS. Yes. I had been there for nine years on the staff. They were very good about giving me a part-time job when the children were born, but they weren’t promoting. I asked my boss why, and he said, “You have no place to go.” This was in the morning, and by three o’clock that afternoon, I had a new job.

MS. FOX. “You had no place to go”? Did that mean in the group that they had?

MS. TEETERS. Anyplace. Steve was absolutely convinced that I couldn’t get a job anyplace.

MS. FOX. Because women couldn’t, or because you were working part time?

MS. TEETERS. I have no idea. I was so mad I didn’t care. And I didn’t tell him that I had a new job.

MS. FOX. To follow that line a little bit, you came back to the Federal Reserve as his boss?

MS. TEETERS. Yes.

MS. FOX. What was that like?

MR. HAMBLEY. Did you remind him?

MS. TEETERS. Sometimes. We were about the same age. We worked together a long time, and our families knew each other fairly well.

MR. JOHN TEETERS. Steve Axilrod. Yes.

MS. FOX. A sense that I have from my years in Washington, just a little behind you, is that women had a better shot at senior jobs if they used the political process than if they went through the bureaucracy.

MS. TEETERS. There weren’t many women professionals. One of the people at the Federal Reserve who was very good had come into the Federal Reserve during World War II when there were no men. She was promoted, but not after the boys came back from the war. And she was really bitter. I knew some women at other places, and the same thing happened. Most of them were about 10 years older than I was.

MS. FOX. It was harsh and unfair, but if there was a choice about who to give a raise or to give a promotion, there was a bias towards giving it to men because of wives and children at home.

MS. TEETERS. It was there. I actually left the Fed because they wouldn't promote me.

MR. HAMBLEY. Did you feel pressure being the first woman to serve on that hidebound institution?

MS. TEETERS. I don't know. As I say, it was like coming home. I knew everybody, literally, and I knew what I was doing. So it was coming back. And people who were at my level as a Governor—I knew all them, too.

MS. FOX. William Miller was the Chairman in 1978.

MS. TEETERS. Chairman, yes. Bill is the one who brought me back.

MS. FOX. And Fred Schultz had probably been nominated but not confirmed.

MS. TEETERS. Yes.

MS. FOX. Bill Miller was actually on the way out. He left in 1979.

MS. TEETERS. But we didn't know it. And he didn't, either.

MS. FOX. What were your perceptions of the kind of job Chairman Miller was doing at that point? What did Tip O'Neill think about Miller?

MS. TEETERS. I have no idea what Tip thought. Bill didn't really want to do a lot with the Congress. He came out of—

MR. HAMBLEY. Textron.

MS. TEETERS. Then when the President called him and asked him to go to the Treasury, he was out of there by nightfall. He'd been on the board of directors of the Federal

Reserve Bank of Boston, and he really didn't like monetary policy. As a matter of fact, most people don't understand monetary policy.

I had no problems with him whatsoever. But I wasn't at all surprised he went so fast—that phone call from the President, and that's the last we saw him.

MS. FOX. Did he tell you that he was leaving or did someone else?

MS. TEETERS. I can't remember. I do remember that the only thing that was on his desk when Paul Volcker took over was a resume saying I was going to China. That's the only thing that was there. There was nothing else. So we got Paul sworn in, and we had lunch. About half an hour later, he comes down to my office and said, "I'm going, too."

MS. FOX. One of the reasons Paul Volcker was chosen as Chairman was that he was viewed in the Congress and even in the White House as someone who would be fierce about inflation.

MS. TEETERS. Henry Wallich was our real problem. He was German, and he must have been in his teens or younger in Germany when there was hyperinflation. He was our biggest problem about inflation, even when we finally calmed down the inflation.

MR. HAMBLEY. He wanted to go further, faster.

MS. TEETERS. He never ever wanted to bring interest rates down.

MR. HAMBLEY. Having seen what he saw would give him a very distinct perspective.

MS. TEETERS. I had been in Germany after World War II. The period in the 1930s was worse than the war almost, because things lost value.<sup>1</sup> I mean, they lost value overnight.

MS. FOX. So when you first got to the Board and you were working with the Miller regime, there were some initial steps taken to raise rates and reduce inflation?

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<sup>1</sup> Editor's note: The hyperinflation in Germany occurred during the Weimar Republic, between 1918 and 1924.

MS. TEETERS. Probably, yes.

MS. FOX. Because when Volcker arrived in 1979, there had been one or two discount rate increases just prior to his arrival.

MS. TEETERS. Yes, but they weren't very big. Remember, we had just come out from underneath the Treasury Department. The Treasury Department really ran the place during World War II.

MR. HAMBLEY. When you returned to the Fed as a Board Governor, what were the most pressing issues? Was inflation the most pressing thing, and were there other things?

MS. TEETERS. It depends on who you talk to. For some people, like Henry, who lived through the hyperinflation in Germany, fighting inflation was the only thing. In this country, we really didn't have anything like it. During the 1930s, prices went down.

MR. HAMBLEY. So that would make you a little more sensitive to employment and bankruptcies and things like that.

MS. TEETERS. Right.

MR. HAMBLEY. As a graduate student at this time, I have a distinct memory that there was a school of thought that we were literally powerless to do anything about inflation. There was a lot of pessimism about it. Am I wrong about that?

MS. TEETERS. Not on the Board, but we didn't know what to do. We did know to push the interest rate and to try to control reserves. The interest rate went to 20 percent.

### **President Carter's Credit Controls and Consumer Affairs**

MS. FOX. There was also a great deal of concern about consumers and consumer protection.

MS. TEETERS. The Federal Reserve Board was given the consumer credit regulations to do. We didn't want it. There was within the Board—on the staff—people for which consumer credit was their thing in life.

MR. HAMBLEY. In 1978, on behalf of the Board, you testified before the Congress that you didn't think it was a good idea to have credit controls.

MS. TEETERS. Yes. It was a mess.

MR. HAMBLEY. President Carter, who appointed you, and his Administration ended up saying, "Well, I don't care what she said in her testimony, I'm going to do it, and, by the way, the Fed is going to administer them."

MS. TEETERS. We didn't want it.

MR. HAMBLEY. How did you approach that task of administering credit controls?

MS. TEETERS. We had a division of people who kept track of credit because it comes into monetary policy, so we told them to do something about it.

MS. FOX. The President wanted to do something that was clear and understandable to the American people: We're going to put on credit controls.

MS. TEETERS. He didn't know what he was doing. Neither did we.

MS. FOX. The Board uniformly opposed it, but, in the end, Chairman Volcker and the Board decided that they couldn't say "no" to the President.

MS. TEETERS. You can't say "no" to the law.

MR. HAMBLEY. That's right. The President had the authority, and if he made that call, the Federal Reserve had to carry it out.

MS. TEETERS. That's right.

MR. HAMBLEY. I want to ask you about disclosure laws, like the Truth in Lending Act. You became the chair of the Consumer Affairs Committee that handled that. How did you get that job?

MS. TEETERS. It was empty. When a new member comes on the Board, somebody has left. Whoever comes in gets what assignment they had. I didn't want to do consumer credit, but I had to. I didn't like it.

MS. FOX. Too much law, not enough economics?

MS. TEETERS. No, I just wasn't interested. Nobody else was, either.

MR. HAMBLEY. But you were stuck with it.

MS. TEETERS. Exactly.

MR. HAMBLEY. How did you make the best of it?

MS. TEETERS. I had an excellent staff. That's always true at the Federal Reserve. They're probably the best staff in town.

MR. HAMBLEY. Was Janet Hart one of them?

MS. TEETERS. Yes, Janet had spent her life on that. We had a group of less than 10 people. Then, all of a sudden, they were given a huge law to administer. They worked very hard.

MR. HAMBLEY. Did the consumer staff administer the credit controls?

MS. TEETERS. Yes, they did. The Board told them what to do, but they actually administered it. And there weren't very many of them. People worked on weekends.

MR. HAMBLEY. People like Neil Butler—would he have been one, or Ralph Rohner, who was a consultant in the consumer division?

MS. TEETERS. Ralph Rohner was. And when Janet retired, there was Griff Garwood.

MS. FOX. You said the Fed didn't want the responsibility for credit disclosure and other consumer protection laws. What's your view of why the responsibility was given to the Fed?

MS. TEETERS. There was nobody in town who had anybody that knew anything about it.

MR. HAMBLEY. You didn't ask for the assignment you were given, but if you had to say, is it a good idea for a central bank and bank supervisor like the Fed to be involved in writing rules to protect consumers?

MS. TEETERS. We were the only ones who even came close to knowing about consumer credit.

MR. HAMBLEY. Do you think there's something that the Federal Reserve and its mix of economists and lawyers can bring that adds value and helps to make laws like the Equal Credit Opportunity Act work, something that couldn't be done anywhere else?

MS. TEETERS. We kept getting things because we have the economists and the lawyers. This was not part of monetary policy, and we didn't want it.

MS. FOX. Do you recall the battles between the bankers and the consumer advocates that you had to negotiate?

MS. TEETERS. Oh, yes. We had a group of academics and then we had a group of bankers who came in and told us what to do. They were awful. They were so self-interested, both the academics and the bankers. And they were boring, too. So, finally, I just stopped going.

MR. HAMBLEY. The CAC, the Consumer Advisory Council.

MS. TEETERS. Yes. There's also a council for the bankers.

MS. FOX. The Federal Advisory Council.

MS. TEETERS. Yes. They all wanted to tell us what they wanted us to do for them—not for their competitors, just them.

MS. FOX. Do you remember particularly any of the personalities?

MS. TEETERS. I probably could if you set a list in front of me. They were dull, they were so self-interested. One time, after the coffee break, I didn't go back. We didn't need them.

MS. FOX. Were the consumer advocates the same way?

MS. TEETERS. They were just as bad.

MS. FOX. It has been argued that one good thing about the Fed being in the middle of these two self-interested groups of people is that the Fed is able to broker the differences.

MS. TEETERS. No, I just ignored them. They were doing nothing that added to what we knew. It was self-interest. It was very boring.

### **The Board and the Public**

MS. FOX. What did you feel your role was with the general public?

MS. TEETERS. It depends on what I was doing. If it was testimony, the Congress needed to know what we were doing. We spent a lot of time putting together the speeches. On the outside, it was the same way. Mostly, they didn't know what the Fed really was until we got the interest rate up—what, we got it above 20 [percent]?

MR. HAMBLEY. Twenty.

MS. TEETERS. Yes. Then everybody knew who we were. But before then, nobody had ever heard of us.

MS. LILA TEETERS. My name is Lila Teeters, and I'm Nancy Teeters's granddaughter. As someone who's growing up in America and facing some questionable economic times, why is the Federal Reserve Board important to Americans today?

MS. TEETERS. Sometime after the American Revolution, we had the First and Second Banks of the United States. But President Andrew Jackson opposed an extension, and the federal charter of the Second Bank of the United States expired [in 1836]. And there was no common currency. I mean, there literally was not a currency everybody had. And at that point, the bank accounts were not part of the money supply. A central banking system was reestablished in 1913 with the creation of the Federal Reserve System. It didn't do very much. They did transfer currency, but it wasn't until after World War II that they began to think that there ought to be some monetary policy. Then we had all sorts of things (and still do) that we were supposed to do. The only thing that ever gets in the paper is monetary policy, right? In the earlier years, there wasn't any monetary policy.

MS. FOX. Did you feel as though you were doing an important job for Americans when you were on the Federal Reserve Board?

MS. TEETERS. Oh, yes.

### **Legacy**

MS. LILA TEETERS. What do you view as your own legacy? As you look back on the years that you served in government—both in your role as the first woman Governor on the Board and then just in general—what do you feel you have left behind?

MS. TEETERS. I always had good jobs. Almost always. They were doing something that was for people. And they were fun. Things got changed, made better, because you were doing something.

MR. HAMBLEY. You did an incredible service for the country, breaking the back of inflation and creating conditions for a very long period of sustained prosperity, which matters to everybody.

MS. TEETERS. Yes, the Federal Reserve is willing. Remember, the inflation came from oil. There were two times when the price of oil became sky high. The inflation was started by oil prices both times.

MS. FOX. If I may add a word about your grandmother's legacy—and she can agree or disagree—your grandmother had a reputation as someone who always made up her own mind and was never afraid of anybody. And you went up against the guys.

MS. TEETERS. Yes, I was the only woman. But I never felt that being a woman was a problem.<sup>2</sup>

### **Inflation Fighting**

MR. HAMBLEY. You said in one of your interviews that you were a central banker, and you were trying to do what central bankers did; you had a task to do. I think when people think of the Volcker Fed, on which you served, they tend to look at it backwards, in the sense that they know what the outcome was. It was a good outcome. But it must have been a lot less clear at the time what exactly the right path was.

MS. TEETERS. That's right.

MR. HAMBLEY. You did dissent a number of times. You felt there was a different approach that would be appropriate.

MS. TEETERS. Actually, this is very interesting. Interest rates were high in December 1979, and I dissented all by myself. By June there were three of us, and by the Fourth of July the

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<sup>2</sup> Nancy Teeters's daughter, Ann, shared a story about an incident when Ann was an undergraduate at the University of Wisconsin. The university hosted a "banking school" for two weeks each summer. Some of the bankers were notorious for inappropriate comments toward female co-eds. Ms. Teeters's daughter was harassed one afternoon at the lakeside student union terrace, and she told her mother. Nancy Teeters immediately contacted the titular head of the school, and within days each banker had a nametag emblazoned on their chest—a practice which is in effect to this day.

Chairman joined us. I'll never forget Henry Wallich's face when the Chairman voted against him. He never expected the Chairman to go against him. But he knew that the economy was going downhill.<sup>3</sup>

MR. HAMBLEY. You became a Board Governor in September 1978, and Paul Volcker became Chairman in October 1979. He changed the operating procedures.<sup>4</sup>

MS. TEETERS. We changed them.

MR. HAMBLEY. Why did you feel that these changes in procedure were necessary, if you did?

MS. TEETERS. Inflation wasn't coming down. Obviously, what we were doing wasn't doing anything. Oh, the amount of time we spent talking about it was unbelievable. I mean that. It wasn't just Board meetings. It was all over the place. And everybody was involved in it—not just the Board, but all the Reserve Banks. We decided to try a couple of things.

MR. HAMBLEY. The perception was that the inflation problem was so bad that you had to do something. Even though you weren't sure that this was going to do it, you felt you had to try.

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<sup>3</sup> Editor's note: Before Paul Volcker became Chairman, Governor Teeters dissented, along with Vice Chairman Gardner, on the Board's decision to raise the discount rate on October 16, 1978. She was the sole dissenter in the votes on the policy directives at the October 17, 1978, and December 19, 1978, FOMC meetings, arguing that open market operations should be directed at maintaining money market conditions currently prevailing. At the April 17, 1979, FOMC meeting she argued for leaving policy unchanged and, after Committee debate, agreed to approve a directive that left the target range for the federal funds rate unchanged. The July 19, 1979, FOMC conference call concluded without a vote, but the transcript indicates that she, Governor Rice, and President Eastburn would have dissented on tighter policy. However, she and Governor Rice voted with the majority to raise the discount rate to align it with short-term interest rates; the decision weighed the possibility that such an increase might have to be reversed if the economy weakened and the possibility that the size of the increases was inadequate to provide support for the foreign exchange value of the dollar. After Paul Volcker became Chairman, Governor Teeters, along with Governors Partee and Rice, dissented on a vote to again raise the discount rate on September 19, 1979.

<sup>4</sup> Editor's note: At the FOMC meeting on October 6, 1979, at which the new operating procedures were adopted, the Committee accepted Governor Teeters's proposal to widen the permissible range for the federal funds rate to allow for the possibility that interest rates could decline.

MS. TEETERS. We had to try. The other thing that became very obvious to me at that point was that we didn't get information in a usable way. Things were coming in, and sometimes we saw it and didn't know what it was. And with the type of inflation we had, things were happening that had never happened before. So we had a problem, and we didn't know if what we were doing would work.

MS. FOX. What kind of information did you watch in those days?

MS. TEETERS. Everything. Anything. Anything that would give us some idea of what was going on. And some of the things that traditionally we worked with, we were not doing anything.

MS. FOX. Did the Reserve Banks provide a lot of information about what was happening in their Districts?

MS. TEETERS. I forget when we started this. The Federal Reserve Banks provided information at least 10 times a year. They would go through their economy and tell you what's going on.

MR. HAMBLEY. The Beige Book.

MS. TEETERS. The Beige Book. We started that. We got to name it. [Laughter] But it went back to the Banks, and we said, "That doesn't tell us anything," particularly Texas. I think what we did was get somebody on our staff on that staff and let him be in charge. We had to change what was coming from Texas.

MS. FOX. When you started the Beige Book, what was the theory? Did the Reserve Banks want to give information and you needed a format, or were you trying to get more information out of them?

MS. TEETERS. Both. One of the problems was that some of the Banks had older men who thought the Banks were their own little—

MR. JOHN TEETERS. Fiefdoms.

MS. TEETERS. So, generally, what we did then was take somebody from the Board staff and put them in that staff.

MS. FOX. Traditionally, in the Federal Reserve System, the St. Louis Federal Reserve Bank has been a proponent for monetarism.

MS. TEETERS. Always. It wasn't just St. Louis. The monetarists who were in the academic world were coming in and telling us we were doing the wrong thing. They were terrible. These guys would come in and they'd give a little speech. It was their point of view of what our role was. We didn't pay any attention to them.

MS. FOX. Until you got desperate and wanted to try a different theory.

MS. TEETERS. Inflation was not coming down. Things we normally did were not working. And these people, the monetarists, were very vocal and very nasty. So we said, why not? What we were doing wasn't doing off the inflation. And within six months, it was obvious that they weren't right, either.

MS. FOX. Because it was too hard to follow the money supply?

MS. TEETERS. It turned out that the money supply had nothing to do with inflation. If the money supply is constant, the velocity can still increase. That never got into monetarist thinking.

Anyway, they were telling us what money to supply, but money supply had nothing to do with inflation at that time. We did what they suggested, and nothing happened. The inflation

was continuing, so we stopped doing what they suggested. And we didn't tell them. Probably by July we went back to doing the interest rates, and we did it all for at least a year.

MR. HAMBLEY. So the October procedures were only in place for a little more than half a year, is that correct?<sup>5</sup>

MS. TEETERS. Yes.

MR. HAMBLEY. And then you said, "We're going to go for the interest rates," and you did go for higher interest rates, and that was what solved the problem?

MS. TEETERS. Interest rates got to 20 percent.<sup>6</sup>

MR. HAMBLEY. The interest rate was at 20 percent, and other rates were similarly high.

MS. FOX. There was a period of intellectual ferment while everyone tried to identify what aspects of the money supply would be the most telling in terms of information—

MS. TEETERS. No, they had told us—M2.

MS. FOX. M1, M2, and then a whole creation of extra M's.

MS. TEETERS. They were already there, except nobody paid any attention to them. At least I got to the point that I didn't think monetarists knew how to control the money supply either. The interest rates were the things that we could control. And we went to the money supply, and we couldn't control it.

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<sup>5</sup> Editor's note: The new operating procedures were in place from October 1979 until October 1982. Between May 28, 1980, and July 28, 1980, the Board voted to reduce the discount rate three times in light of the decline in market interest rates. In addition, between the April 22 FOMC meeting and the September 16 meeting, the Committee lowered the target range for the federal funds rate in its policy directive. In the fall of 1980, when the Committee began to raise the target range for the federal funds rate in its policy directive and the Board began again to raise the discount rate, Governor Teeters dissented from the FOMC decisions at six consecutive FOMC meetings and conference calls from November 18, 1980, to February 3, 1981, and voted against increases in the discount rate on November 14 and December 5, 1981.

<sup>6</sup> Editor's note: During the period of Governor Teeters's dissents in late 1980 and early 1981, the federal funds rate climbed to nearly 20 percent.

MR. HAMBLEY. So when the interest rates got to 20 percent, it was because the FOMC explicitly voted for that?

MS. TEETERS. No. No, we were still trying to control the money supply, and the interest rate got to 20 percent. Someone, it may have been me, said, "This isn't working." I think we went to try and control the money supply, say, in December. And, by the following July, there were three of us who were already voting against it. And in July, the Chairman joined us.<sup>7</sup>

MR. HAMBLEY. If you thought that hadn't worked, what do you think caused the decline of inflation? Was it just that you kept rates high at that point for a long time?

MS. TEETERS. Yes, I think it was the interest rates.

MR. HAMBLEY. In those days, it wasn't as common to think of real interest rates. There was more of a tendency to look at nominal rates.

MS. TEETERS. I don't think that ever came up. The ideas on "real" interest rates appear later, I think.

MR. HAMBLEY. You don't? So you just thought that what conquered inflation was having interest rates high and keeping them there for a while?

MS. TEETERS. Yes. Real GNP declined.

MR. HAMBLEY. While some of these decisions were made, there were a number of occasions where you dissented from the group.

MS. TEETERS. I started dissenting in December.<sup>8</sup>

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<sup>7</sup> Editor's note: During the first year after the adoption of the new operating procedures, the only dissents registered at FOMC meetings were in favor of tighter policy. As noted in footnote 4, in November 1980, Governor Teeters began to dissent in favor of less restrictive monetary policy. After a period of votes in favor of the domestic policy directive issued by the FOMC starting in March 1981, she dissented again at FOMC meetings in May 1982 and July 1982, favoring easier monetary policy, before the new operating procedures were changed. Chairman Volcker did not dissent during this tenure as Chairman.

<sup>8</sup> Editor's note: See notes 3 and 6.

MR. HAMBLEY. How did you reach that conclusion?

MS. TEETERS. We had high interest rates from probably the summer until December. They were high, and the economy was going to hell. So I started dissenting. Emmett Rice joined me, then Chuck Partee, and then, finally, the Chairman. It took six months to do that.

MS. FOX. I am looking at a biography of you that someone dug up for us. It says [that] there was a consensus formed by policymakers on the Fed after 1980[, and] whenever interest rates headed up, the Fed's policy was not to ease, no matter what the aggregates signaled. [It goes on to say that] in this consensus, there was one persistent dissenter, Nancy Teeters; Teeters argued time and again that the higher rates were risking a major contraction in the economic activity[, and] she dissented five times in all as the Fed pushed the funds rate to 19.8 percent. So, five times you dissented.

MS. TEETERS. As I did that, over time other members joined me.<sup>9</sup>

MS. FOX. Did you feel that not moving rates higher was important to avoid a collapse or a recession?

MS. TEETERS. The economy was collapsing. Go back and get the things that went on in that period. Things were literally going down the hole. Practically everything went into a negative position.

MR. HAMBLEY. I remember getting a 13.9 percent fixed-rate mortgage.

MS. TEETERS. The other thing you need to understand is that Henry Wallich grew up in Germany, and he went through the hyperinflation. Nothing could get Henry to admit anything wrong in tight monetary policy.

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<sup>9</sup> Editor's note: At times, during the period from 1978 to mid-1983, Governors Partee and Rice and President Roos dissented on votes on the FOMC policy directive, favoring less restrictive monetary policy.

MS. FOX. The Federal Reserve Act says that you must consider two things in making policy—one is inflation, and one is employment. If unemployment is rising, and rising, and rising, it could be argued that the Fed has some level of responsibility for that.

MS. TEETERS. There was an increasing amount of criticism outside.

MS. FOX. On the other hand, there are probably a lot of pressures on the other side that said once inflation begins multiplying as rapidly as it did, that you could get into a spiral that could not be—

MS. TEETERS. Don't forget, it was oil. In both of those inflation increases when we raised the rate, we had an oil problem. Look at the price of oil, and I think you'll see that we were following it up and down rapidly.

MS. FOX. Did you talk much then about inflation expectations and how to get consumers to begin to believe that inflation would ever stop?

MS. TEETERS. No. It was obvious what the inflation was and where it was coming from—oil.

MR. HAMBLEY. Did the Chairman or other members of the Board ever try to keep you from voting the way you wanted?

MS. TEETERS. They never put any pressure on anybody to vote a certain way.

MR. HAMBLEY. That's kind of remarkable. So I think it probably reflected the uncertainty, no?

MS. TEETERS. I think that was part of it. I think also the members, including the Chairman, didn't feel they had any right to interfere with somebody's vote.

MR. HAMBLEY. You must have been an unpopular person because you were associated with this restrictive monetary policy, or was that not true? For example, did your neighbors complain to you?

MS. TEETERS. One of our neighbors was a reporter for the *New York Times*. Fortunately, he knew nothing about economics. Ned never said—

MR. HAMBLEY. Never said a word.

MS. TEETERS. He didn't know what we were talking about. For most of the people in the United States—and, to a lesser extent, now—nobody ever knew what the Federal Reserve was. New York knew about us, and they were screaming.

MR. HAMBLEY. At the time, were you ever inclined to say, as an economist and a teacher, “We have to do this, but it's not going to last forever, and we'll be in a better situation”?

MS. TEETERS. I think I did. And in public, I think I went to various places and said, “This is the wrong thing to do.” I don't remember exactly when. Paul and the Board members didn't say I couldn't do it.

MR. HAMBLEY. Even though you were uncomfortable at various times, weren't you invested in a general way in trying to fight inflation?

MS. TEETERS. Oh, sure. But we got it.

MR. HAMBLEY. That's right. So I guess what I'm saying is, in that sense, you were jointly responsible for some of the things that were happening.

MS. TEETERS. Up until December 1979, I voted for the increases.<sup>10</sup> After December 1979, I took a look at the rates and at the economy. It was obvious that we couldn't do what we said we were going to do—and that there was some other combination with lower interest rates

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<sup>10</sup> Editor's note: See note 3 for information on Governor Teeters's dissents.

that was going to work. One of the problems in that job, and at other places also, [is that] your information is eight weeks out of date. I must have come to the conclusion that the economy was going down. These figures weren't telling you yet. The rates were much too high.

### **Financial Crises**

MS. FOX. I wanted to talk about the aftermath of the high-rate environment and what happened in the early 1980s. In the early 1980s—before you left the Board in 1984—there was one financial crisis after another, beginning with the savings and loans going out of business, and then there were troubles in the oil patch and South America. You might remember Penn Square Bank in Oklahoma.

MR. JOHN TEETERS. And there were the Hunt Brothers.

MS. FOX. Tell us your recollections of those interesting cases.

MS. TEETERS. At the time, it seemed like everything was going wrong, one way or another. I think, basically, that whole thing came from the high interest rates. We weren't willing—particularly Henry Wallich—to lower the interest rate. And then afterwards, all these things were still getting the effects of high interest rates, even though rates had come down. I got to the point that I didn't quite know what to do next. We had never had an interest rate at that rate in my lifetime. We had no idea what they did to people.

MS. FOX. So tell us a little bit about the days of the Hunt brothers.

MS. TEETERS. First of all, we didn't know who they were.

MS. FOX. Their problem was in the banks; you didn't deal with them directly.

MR. JOHN TEETERS. Correct. They were trying to corner the silver market. If I remember, they had set up different buy rates across the country so that no one knew it was them.

MS. TEETERS. That's right.

MR. HAMBLEY. Wasn't it also true they were taking out bank loans?

MS. TEETERS. Yes.

MR. HAMBLEY. That's the reason the Fed got involved, because somebody thought the Fed ought to do something for all these banks.

MS. FOX. Penn Square, this little bank in Oklahoma, was kind of a cowboy that was making oil and gas loans.

MS. TEETERS. Well, I can tell you what I was fearing. It was a problem to decide between trying to keep a bank and letting the thing go to bankruptcy, right? What we generally did was sell the banks.

MS. FOX. So the discussion each time was about, as you just said, the effect on the rest of the banks and on the economy?

MS. TEETERS. Yes, and as I remember, it was assumed that Penn Square wasn't going to do a lot of harm to anybody else, whereas some of the bigger ones were.

MS. FOX. Like Continental Illinois. I think Jack Ryan was the head of the supervision area then.

MS. TEETERS. Yes.

MS. FOX. Were you ever on the supervision committee? Were you working on these bank failures much?

MS. TEETERS. We all were.

MS. FOX. Well, the Board would have to decide in many cases.

MS. TEETERS. Originally, most of them were just brought to the Board; they didn't go through a committee or anything. I remember having more detail about anything than I wanted.

Most of these things either passed through or they came directly to the Board. Later, after it was a historic case load, we had the bank supervision committee handle them.

MS. FOX. How many hours a day did you work?

MR. JOHN TEETERS. Twelve to 14 hours, and that's not including homework.

MS. TEETERS. I came home practically every day with a bunch of things to do. I would get onto airplanes with whole lots of things to do. And usually a man next to me started reading it.

MS. FOX. Well, you won't be surprised to hear that the reading workload at the Board of Governors is still very high.

### **Political Pressures**

MR. HAMBLEY. You were engaged in this new episode of monetary policy and trying to fight inflation. You also had President Jimmy Carter running for reelection in 1980. In 1982, there was a midterm election. Ronald Reagan was elected in between. And toward the end of your term, there was gearing up for the 1984 presidential election. What you were going to do presumably would affect the fortunes of those who were running. Do you remember, as a Board member, being subject to pressure, direct or indirect, from political people who were trying to get you to do one thing rather than another or to keep you from doing one thing rather than another?

MS. TEETERS. Both.

MR. HAMBLEY. Both. And from both parties?

MS. TEETERS. Yes. There were a lot of people who wanted to come in and tell us what to do. The most obnoxious were the academics. They came in with impossible schemes. I ended up telling my secretary that I wasn't taking calls.

MR. HAMBLEY. What about political people asserting pressure? President Carter had nominated you. You were engaged in the beginning of a very painful policy that was certain to have adverse effects on his ability to get reelected—and, in fact, probably did. So it seems like this is a generic problem, probably even more intense when your party—to the degree it's an issue—when your President is in that situation.

MS. TEETERS. Yes.

MR. HAMBLEY. How would you respond to that kind of thing?

MS. TEETERS. You know, one of the things that I found out about the Federal Reserve is that people don't try that. At least they don't try it below the level of the Chairman. For some reason, people are so respectful of the Federal Reserve that they leave you alone.

MR. HAMBLEY. So Paul Volcker would be getting suggestions on monetary policy.

MS. TEETERS. Paul got more suggestions than I did. And he didn't answer his phone, either.

MR. HAMBLEY. When the operating procedures were changed, there were some people who were uncomfortable about those.

MS. TEETERS. They didn't know what we were doing. Neither did we.

MS. FOX. What about your former colleagues on Capitol Hill? Members of the Congress have never been quiet about anything. They don't generally do it behind the scenes. They bring you up in a hearing and holler at you, right?

MS. TEETERS. But you have to remember that 80 percent of the people didn't know what we were doing, and that includes the people on the Hill.

MS. FOX. Was Proxmire still chairman of the Senate Banking Committee?

MS. TEETERS. Yes.

MS. FOX. Proxmire was very fierce against inflation, so he was happy that the Fed was tackling it.

MS. TEETERS. Yes.

MS. FOX. Do you remember much about Henry Reuss? He was on the House side. He didn't like what the Fed was doing.

MS. TEETERS. Yes, but he never called up and said so. We even got on the same plane one time. I got an earful. We were going to Wisconsin. We sat next to each other and talked all the way out there.

MR. JOHN TEETERS. There were a couple of times that Proxmire was at the house during this period, and there was no hostility about it.

MS. TEETERS. No.

MR. HAMBLEY. You said that political people who wanted to influence you nonetheless wouldn't do it below the level of the Chairman. So even then, there was this tradition that, in some sense, you've got to let the Fed do its job.

MS. TEETERS. Yes.

MR. HAMBLEY. I wouldn't have thought that would have been so strongly ingrained until after you left and the Fed had been successful in fighting inflation and everybody had seen that it was successful. I've always had the impression that the Fed's independence was greatly enhanced by being successful. Is that not your perception?

MS. TEETERS. Most [of] the time, people didn't know what we were doing.

MR. HAMBLEY. But some of them did.

MR. JOHN TEETERS. Some of them did. I remember a couple times [when] some member of the Congress would try to impeach the Chairman.

MR. HAMBLEY. Henry Gonzalez, for example. There was also a lot of legislation in that period introduced about “reforming” the Federal Reserve.

MS. TEETERS. But they couldn’t get anybody to vote for it.

Mr. JOHN TEETERS. Because they didn’t want to take the responsibility.

MS. TEETERS. That’s exactly right.

MR. JOHN TEETERS. That’s why they left them alone. They could always blame the Fed and go back to their constituents and say, “It’s not my fault.”

MS. TEETERS. Yes.

MR. HAMBLEY. I’ve often thought that the Fed was useful to political people unreformed. Senators or congressmen can always complain about the way it is, but it’s always good to have them unreformed, so that they can take the blame.

MS. TEETERS. That’s absolutely true.

MS. FOX. A constituency that did know what the Fed was doing was the bond market. There was a theory in those days—interestingly expressed by William Greider in the book *Secrets of the Temple*—that the government was too worried about the rich bondholders and not worried enough about the regular people. Tell us a little bit about that.

MS. TEETERS. [Laughter] Well, it was a fun book. We didn’t take the market into account. If we wanted to do something, we did it; it didn’t matter to me. Some of the other members of the Board would say, “We’re going to do this and that to the market.” They were telling people we had, for some reason, been in the market. But we really didn’t pay any attention to them. Now remember, we didn’t ourselves know what we were doing, particularly when we stopped doing the interest rate targeting and we took to the M’s. We didn’t even know what the M’s were.

MS. FOX. There were people in the Federal Reserve who felt an obligation to explain to people that, over time, inflation was as pernicious and dangerous and terrible as an economic recession.

MS. TEETERS. We tried. When we went out and made speeches—everybody on the Board did that, including the Chairman—people didn't understand what we were talking about. The use of reserves as a target for policy wasn't working. And we *did* know how to set the interest rate.

### **Trip to China at Beginning of Volcker Chairmanship**

MS. FOX. Before we forget, we still need to hear the story about China, which kicked off Paul Volcker's term.

MS. TEETERS. Volcker had just become the Chairman, and Bill Miller had moved over to the Treasury. That morning, we'd sworn in Volcker. We had lunch. About two o'clock in the afternoon, Paul came down to my office with a piece of paper in his hand. He said that it was the only thing on his desk. Miller had literally taken everything off the desk, and the only thing that was on his desk was a piece of paper about my trip to China. Paul said to me, "I'm going along." There were six of us: Paul; Charlie Siegman of [the] Board staff; Tom (Thomas M.) Timlen, the vice president of the New York Reserve Bank; John Balles, the president of the San Francisco Fed; John's economist, who was Chinese and could speak it; and me.

We were all over the country at the time. We met in Tokyo. Then we went from Tokyo into China and went to see the People's Bank of China. They had come over and had gone all through our system about six weeks before. We had an incredible time, because we were guests of the People's Bank of China. Local bankers took us to places and showed problems to us.

Paul came back, I think, after 10 days. We had a wonderful time, and we really did see a lot of China.

MS. FOX. At that time, there would not have been many able to take a trip like that.

MS. TEETERS. That's right. They hadn't seen Americans. They were so good to us—not only the bankers. We would go into a town, and the bankers would have a banquet for us. All the people of influence in that town would join in it. I remember telling the People's Bank of China not to develop the paper check. We were trying to get rid of it! They went to every major country in Europe, each central bank, and asked them the question. And the central banks all said, "Yes, she's right." And I don't think even to this day they have it. They had a bank, and it had a wire transfer system. It goes back a long time. And if you have a wire, you don't need paper checks.

MS. FOX. What do you recall about the United States in that era? You were in the middle of the great debate about paper [checks], and there was a forecast that it was going to go away more quickly than it did. Did you work much on those payment system issues with the Reserve Banks?

MS. TEETERS. No. We told the Chinese that there's no reason for you to go through this. We're trying to get rid of paper [checks]. That really threw them. The idea that we were trying to get rid of our paper was surprising to them.

MR. JOHN TEETERS. China was—in the late 1970s, early 1980s—looking for growth, which we were giving to them so that the Russians would let up in other areas. It was important for the federal government to get the Chinese over here and for the federal government to get our people over there.

MS. FOX. Presumably, the State Department was involved in setting up your trip.

MS. TEETERS. Yes, it did. We were one of the first official delegations to go to China.

MS. FOX. Did you write reports back to the State Department or send cables to the staff? I bet Charles Siegman did.

MS. TEETERS. Probably.

### **Impressions of the Federal Reserve Structure**

MR. HAMBLEY. You began as a staff economist at the Board, and you were there for a number of years. You had the unusual position of then coming back and being a Governor. Were there things that you thought, over time, should have been done differently in the Federal Reserve System?

MS. TEETERS. You can always find something. One of the things about the System that most people don't realize is that there are 12 [Reserve] Banks and 36 branches—they all have boards. We have the biggest job of anybody in the government, talking to people in our own agency. Everybody is very happy to serve on our boards. That means we have, I think, 96 people who are involved in this System who are not employees. We get an enormous amount of extra work from these people, and we also get an enormous amount of information from them. No other government operation does that.

MR. HAMBLEY. So this is something about the Fed that people don't understand that's actually a strength of the System.

MS. TEETERS. It's a big strength of the System. In the law it says how many directors are to come from banks, how many come from the public, and there are three—

MS. FOX. Three classes of directors.

MS. TEETERS. Yes. It's one of the strengths of the way the System works, because so many people are getting information back and forth.

MR. HAMBLEY. Do you think the System gains by having locally prominent people having something to do with the Fed?

MS. TEETERS. Right. They were propagandists. They go back, and they said, "While I was at the Federal Reserve today, I did such and such." It works.

MR. HAMBLEY. But what about things that you saw that you thought should be changed?

MS. TEETERS. I don't think the consumer credit stuff belonged there. But then, I think, where should it go? There's no place to put it.

MR. HAMBLEY. The Federal Trade Commission has been viewed as an alternative. But I think there was a reason why it couldn't go there.

MS. TEETERS. Yes. I always felt sorry for the people who worked in that division, because many of the Governors didn't like them. They didn't want to take time to get involved in consumer issues.

MR. HAMBLEY. That's changed with our current Chairman, because he is interested in consumer issues.

MS. TEETERS. Good.

MR. HAMBLEY. And I think the prestige of the Consumer [Affairs] Division has increased within the organization. What I'm probing for is the idea of some people that the central bank should not be involved in bank supervision.

MS. TEETERS. Why not?

MR. HAMBLEY. Well, that's what Proxmire said, for example. But you never thought that?

MS. TEETERS. Except for the consumer credit, everything that was at the Board was really a part of monetary policy. Even that isn't so far off.

MS. FOX. What about the notion that there are too many banking regulators?

MS. TEETERS. We tell everybody what everybody else is doing.

MS. FOX. So you felt that information was being shared?

MS. TEETERS. Yes. We had a lot of small banks, and, really, they all went to a larger bank to deal with some of their stuff.

MS. FOX. Their correspondent banks.

MS. TEETERS. Yes. You could probably put all three of those agencies together and it would be all right, because there's so much exchanging of information back and forth.

MS. FOX. Do you recall the great debates that occurred after some of the large bank failures—that it was a bad policy to have banks that were “too big to fail”?

MS. TEETERS. It still is. I can't remember any bank that failed. They got sold, but I don't remember any failure. I don't remember any time that depositors lost anything.

MS. FOX. No, depositors didn't. Shareholders and uninsured folks have lost money.

MS. TEETERS. In my time, we sold them.

MS. FOX. In 1981, there were negotiations to allow the Fed to be a lender to thrift institutions if needed.<sup>11</sup>

MS. TEETERS. And we didn't want it.

MS. FOX. The Fed was quite involved, but more in the bank supervision area, and Paul Volcker himself.

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<sup>11</sup> Editor's note: Under the Depository Institutions Deregulation and Monetary Control Act of 1980, savings and loan institutions that held transaction accounts or nonpersonal time deposits became entitled to the same discount and borrowing privileges as member banks.

MS. TEETERS. Yes. We divided up our responsibilities, and that was not one of mine.

MS. FOX. You chaired the Consumer Affairs Committee. On what other committees did you serve?

MS. TEETERS. Research, I remember.

MR. HAMBLEY. What about the Fed becoming a more open institution? During your confirmation hearing, it was suggested that the minutes from the FOMC meetings should be released more rapidly, and, of course, now we do that between FOMC meetings. Do you think that it's a good thing?

MS. TEETERS. Yes.

MR. HAMBLEY. At the time, I think people had a general feeling the Fed was too secretive.

MS. TEETERS. It was.

MR. HAMBLEY. Were there things that you had hoped to accomplish while you were there that you didn't?

MS. TEETERS. No. I did everything I wanted to do.

MR. HAMBLEY. Do you think that the Fed was better understood or more appreciated after you left?

MS. TEETERS. I think that we had more people who got involved, including Greenspan, who thought we should be more open and should try to get people to understand what we were doing. So I think that has improved enormously. I think, when I was there, that maybe 5 percent of the population had any idea who we were. Even our names didn't mean anything. I would guess now people who go through college have a pretty good idea what the Federal Reserve does.

MS. FOX. Would you characterize Paul Volcker's leadership style, since you worked with him so closely all those years? How would you describe him as a leader?

MS. TEETERS. I never thought of him as a leader.

MS. FOX. Because you were colleagues?

MS. TEETERS. No. The Board literally worked as a Board. I think the Board that I was on was remarkably good in figuring out what they didn't know and asking for it or suggesting something that the staff hadn't thought of. It worked very well.

MS. FOX. That reinforces what you said earlier, about the job being intellectual and free. You could have your own opinion.

MS. TEETERS. Yes, I could.

MR. HAMBLEY. When people think about the past of the Federal Reserve, they tend to categorize it as the "Volcker Fed" or the "Greenspan Fed," whereas, really, it's much more collegial.

MS. TEETERS. Much more. Bill Miller had a terrible time—particularly, his first four or five months—because it didn't occur to him that he had to get a majority.

MR. HAMBLEY. So he tried to just do it himself.

MS. TEETERS. Yes.

MS. FOX. He was willing to be outvoted, which is not the way a Fed—

MS. TEETERS. No, he didn't know he was going to be outvoted. He thought he could tell us what to do, and we'd do it. And we said, "Huh?"

MR. HAMBLEY. Maybe that was part of the reason why—

MS. TEETERS. He left. It never dawned on him that we were there for a reason.

MS. FOX. You giggled when I mentioned Greider and the *Secrets of the Temple* book. Did you know him?

MS. TEETERS. No. The book is pretty good. He did his homework. What he didn't know was how strong the Board was relative to the whole System. That's not a bad book at all.

MS. FOX. Did he call around and talk to people?

MS. TEETERS. No, but he did a very good job. I think I met him afterwards. He used things that are in the public domain from the Federal Reserve and from the System and put it all together, and that's hard to do. I don't think that he has anything in the book that was classified. He did a good job of figuring out how we did things.

MR. HAMBLEY. Well, you have been very patient with us. Thank you so much for taking the time.

MS. TEETERS. Oh, I enjoyed it.