

Federal Reserve Board Oral History Project

Interview with

Philip C. Jackson, Jr.

Former Member, Board of Governors of the Federal Reserve System

Date: March 11, 2010

Location: Washington, D.C.

Interviewers: Adrienne Hurt and David H. Small

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. HURT. Today is Thursday, March 11, 2010. This interview is part of the Oral History Project of the Board of Governors of the Federal Reserve System. I am Adrienne Hurt from the Board's Office of the Staff Director of Management. Formerly, I worked for many years in the Division of Consumer and Community Affairs. I'm joined by David H. Small from the FOMC (Federal Open Market Committee) Secretariat in the Division of Monetary Affairs. Dave and I are conducting an interview with former Federal Reserve Board Governor Philip C. Jackson, Jr. Mr. Jackson served on the Board from July 14, 1975, to November 17, 1978. This interview is taking place at the Federal Reserve Board.

Mr. Jackson, we're delighted that you've agreed to add your voice to this project with this interview. We'd like to start with your family background, your education, or any other influences that led you to your ultimate career path and your 1975 nomination to the Board by President Ford.

Background

MR. JACKSON. My family had been in the mortgage banking business, savings and loan business, and real estate-type business. I was the third generation involved in those businesses. When I graduated from the University of Alabama in the fall of 1949, I started in the mortgage banking side of the family business, which was known as the Jackson Company.

I started off in the mortgage banking business and was very fortunate in being able to build a privately owned mortgage banking company on my own. I was the first employee in that part of the family operation. I built it up and became very active in the Mortgage Bankers Association. At that time, the business was dramatically different than it exists today. Personal relationships between the institutional investors were very important. Outside of the savings and loan industry, which was dominant, institutional investors were the principal source of mortgage

money at that time. Therefore, it was truly in your business interest to be active in trade association affairs, and I was increasingly active in that. I served in a number of different national relationships, like chairman of the education committee. I was chairman of its so-called legislative—which means lobbying—committee for two years. Finally, in 1971, I served as the national president.

MR. SMALL. Today we hear a lot about the difference in the mortgage industry between originating, processing, and generating fee income versus actually holding the mortgage and having some of your money in the mortgage.

MR. JACKSON. Right. That's a major issue with the mortgage-backed security aspect of funding.

MR. SMALL. When you were starting out back then, were you holding mortgage loans?

MR. JACKSON. No. We would originate the mortgages on the homes or the building and then sell them by assignment without recourse to institutional long-term holders—life insurance companies, mutual savings banks, and so forth. The life insurance companies, mutual savings banks, and, to a smaller degree, the savings and loan associations were the principal long-term holders of the paper. In turn, our industry would be the servicer. Our principal business was the servicing; it produced the most profit. You created these loans in order to have the privilege of servicing them. With long-term slightly rising interest rates over years and relatively low inflation, you can imagine that the mortgage servicing business, with a low default rate, was a relatively profitable business.

MR. SMALL. And by “selling without recourse,” that meant the insurance company knew that the money was theirs and everyone knew whose money was at stake.

MR. JACKSON. Everybody understood that. In those days, it was quite common for large institutional investors—the largest ones being the life insurance companies—to have, in a particular territory, exclusive correspondents through whom they made all of their mortgage investments. In my case, for example, I was the exclusive mortgage correspondent for the Aetna Life Insurance Company in the state of Alabama. As the exclusive correspondent for various institutional investors, you were interested in having relationships that provided you the funds with which to originate and ultimately sell those loans.

MR. SMALL. But the transparency of who owned what and who was liable—

MR. JACKSON. There was never any question that—

MR. SMALL. Unlike today.

MR. JACKSON. Yes. In the absence of fraud, the mortgage banker was completely absolved from any legal financial responsibility other than the commitment to continue to service that mortgage for its life at a fixed percentage of the principal balance. That meant that you, de facto, had a declining income to provide the same service throughout the life of the mortgage. But you hoped that the loans would turn over in due course through sales and other things so that you didn't end up having to service low-balance mortgage loans and get little pay for it, although that did happen. With a more dynamic economy, you were adding new loans all the time at higher and higher inflationary house prices. So your average income was up, and the servicing of low-balance loans with little pay was not an issue. For the entire country, that was the basic business that existed.

During my tenure as president of the Mortgage Bankers Association, the first Ginnie Mae (Government National Mortgage Association) mortgage-backed security act was passed. We also had a unique situation. Fannie Mae (Federal National Mortgage Association) had been

created during the 1930s to provide some liquidity for the mortgage market for all of the investors, including the mortgage bankers. And it was very active. The savings and loan associations had not been active in doing business with Fannie Mae. Furthermore, their pride forced them to say, “We want our exclusive secondary mortgage market.” They went to the Congress. They were effective lobbyists and a strong political force. They caused the Congress to create Fannie Mae’s younger brother, Freddie Mac (the Federal Home Loan Mortgage Corporation). Freddie Mac fit right into the savings and loan system, primarily. But the Congress saw fit to allow others to do business with it, not exclusive of the savings and loan industry. Therefore, it became Fannie Mae’s new competitor—younger brother, so to speak. Fannie Mae was an active buyer of loans. And to the extent mortgage bankers would take positions in FHA-insured and VA-guaranteed home mortgages, they would then occasionally sell them to Fannie Mae. At that time, Fannie Mae was not empowered to make so-called conventional, uninsured, or guaranteed home loans.¹ It was empowered only to buy FHA and VA mortgages on homes. It was much later that Fannie Mae expanded its charter to buy uninsured or guaranteed home mortgages.

MR. SMALL. So Fannie Mae was buying high-quality loans.

MR. JACKSON. It was buying, effectively, government-guaranteed loans to begin with.

MR. SMALL. And holding them?

MR. JACKSON. Yes. Fannie held them and financed them through broad security issues, not specifically mortgage-backed securities. Fannie was not in the business of guaranteeing mortgage-backed securities in those days.

MR. SMALL. So the problems we ran into later were not present at that time.

¹ FHA stands for Federal Housing Administration, and VA stands for U.S. Department of Veterans Affairs.

MR. JACKSON. They were not present at that time. Being involved in the trade association and doing business with them, I was active with Fannie Mae. Before I came to the Board, I was the chairman of Fannie Mae's advisory committee. Fannie Mae's chairman, Allan Oakley Hunter, and I were good personal friends. Fannie Mae was a very different animal in those days than what it later became, which led to its recent demise.

MR. SMALL. I'm pulling you away from the Federal Reserve, but this is an important part of history. Do you think Fannie Mae got off track when it went private?

MR. JACKSON. Fannie Mae got off track when it started falling for its own stuff, if I could use a colloquialism, and decided it could do anything. It got off track when it had some leadership that was not familiar with the investment process, particularly the mortgage investment process. And it exercised its political arms to defend itself against Chairman Alan Greenspan's public comments that we've got a systemic risk because too much of the mortgage market is going into Fannie Mae and Freddie Mac.

MR. SMALL. In the early days, when Fannie Mae was buying these essentially government-guaranteed mortgages, say, by the VA, was the idea that Fannie Mae was looking at individual mortgage loans and saying, "We'll buy this, this, and this?"

MR. JACKSON. Fannie Mae had certain underwriting criteria, but it was very limited, because the federal agencies—the VA, or FHA as part of HUD (the Department of Housing and Urban Development)—had already underwritten before Fannie Mae purchased the mortgages. So Fannie Mae's degree of underwriting was very limited.

MR. SMALL. When Fannie got into guaranteeing loans, did it become much more at arm's distance, delegating much more?

MR. JACKSON. Yes, right.

MR. SMALL. And that led to problems?

MR. JACKSON. All of this mortgage market, once it got securitized, started with the Ginnie Mae mortgage-backed security days. Once that unfolded, you had a disconnect between the qualities of the individual loan versus the people who ultimately invested their funds in these mortgages—whether the funds were pooled, or individual, or whatever.

MR. SMALL. And that was a problem?

MR. JACKSON. That was among the problems that led to this.

William E. Simon, who at that time was the chief government trader at Salomon Brothers, was also on the Fannie Mae advisory committee. Simon and I became good personal friends. For a while, when the Ginnie Mae mortgage-backed security act was passed, Bill Simon and I trod the boards, going around the country. He would tell everybody how good it was for Wall Street types, and I would tell everybody how good it was for mortgage banker types. He and I were like Mutt and Jeff running around the country, making speeches, and running seminars. And our friendship grew and grew.

At that time—I don't think it ever was publicly discussed—Simon had gotten involved in the Nixon campaign of 1972. As a result of that, Nixon had quietly agreed that Simon was going to come to Washington as Secretary of HUD. He was also on the Treasury's advisory committee for issuing government bonds, which still exists. George Shultz was Treasury Secretary. And before the Treasury issued a new group of bonds, it would ask the Wall Street types that were on the dealer list to come in and counsel with Treasury.

One day, Shultz stopped Simon—I am told, I think, reliably—and said, “What is this I hear about you [being] interested in coming to Washington?” Bill Simon said, “Well, yes, I am.” And Shultz said, “Well, I'm looking for a Deputy Secretary of the Treasury. Would you rather

be the Secretary of HUD or come to the Treasury?” Simon, as you might understand, having grown up in that world, said, “Well, I’d much rather be at Treasury.” And so the gossip I heard was that Shultz called the White House and said, “Please be prepared to send Mr. Simon’s name up as your nominee for the Deputy Secretary of the Treasury,” whereupon the White House said, “But Secretary, we’ve already got him scheduled to go over to HUD.” And George Shultz being George Shultz, a wonderful, magnificent person, said, “Well, which would you rather do, find a new Secretary of HUD or find a new Secretary of the Treasury?” [Laughter] So Simon went to Treasury.

Events Leading to Nomination to the Board of Governors

MR. JACKSON. A lot of people thought my personal friendship with Bill Simon led me to be nominated for the Fed’s Board of Governors, but that was not the case. On the usual trips to Washington during my presidency of the Mortgage Bankers Association, we would come to the Federal Reserve and visit with the Governors. I’m sure you probably still do that. I was the leader of the group and met Dr. Arthur Burns, who was the Chairman at that time. I remember vividly, Dr. Burns said, “Mr. Jackson, tell me: The homebuilders and the real estate brokers are always plugging for cheaper mortgage money, but you mortgage bankers don’t do that. You’re interested in fiscal responsibility and control of inflation. Why is that?” I explained to him, “We’re signing on to perform some servicing functions for up to 30 years, and inflation would be devastating to us.” And he said, “Oh! I understand now.” Well, after my term was up and I returned full time to running my business, I got an inquiry from Dr. Burns.

MR. SMALL. Your term as president of the Mortgage Bankers Association?

MR. JACKSON. Yes. I had retired as president of the trade association and was back home in my mortgage banking career full time, my family company. Dr. Burns enquired

whether I would ever consider being a member of the Board of Governors. I probably brushed him off, mostly because I had been diverted off to the usual national travel-around-and-make-speeches job of the trade association, and it was time for me to go back home, run a company, and, hopefully, make some money. So I wasn't too enthusiastic about changing and coming up here. Burns later called me and said, "Well, thank you. I appreciate your interest in talking to me. We found somebody." That was when Philip E. Coldwell from Dallas was appointed to the Board to fill the vacancy in October 1974.

About a year later, I had a fairy tale that no one should believe. My father, uncle, and the second generation of our family still owned the stock in our company. And, over my protests, one day they decided to sell the company to the local bank, which was quite common in those days. Banks were buying mortgage companies and paying good prices for them. Because of their age and the uncertainties—the problems of 1975 in the real estate market were roaring up with dramatic speed and traumatic circumstances—they decided to sell the company over my objections. At 10:00 that morning, my father advised me that our company had been sold. At 11:00, I went down to see the chairman of the bank who'd agreed to buy it. He and I were good personal friends. I said, "What does this mean for me?" And he said, "You don't really want to work for me. I know you too well. You need to get out and get a job." After 25 years!

This is something that was not credible. I say that before I tell the story. I was sitting at my desk, and about 2:00 that afternoon, the phone rang. The person said, "Would you hold the phone, please, for Chairman Arthur Burns at the Federal Reserve?" I said, "Well, of course I will." Burns got on the phone and said, "I just wondered when you could come up to see me." I said, "Mr. Chairman, what about?" He said, "About being a possible member of the Board of Governors." I remember vividly what I said. I said, "Dr. Burns, I think you called me on a good

day. When would you like for me to come?" That was on Wednesday. He said, "When could you come?" I said, "How about Friday afternoon?" He said, "That would be perfect." And I said, "All right. We've got a date at 4:00 Friday afternoon."

I sat at my desk thinking, "What in the world is going on? This morning I thought I had a job. Before lunch I found out I don't have a job. And now, this afternoon, Dr. Burns wants to talk to me. Hmm!" I was sitting there in a semi-daze when, at 4:00, the phone rang again. The voice said, "Would you please hold the phone for Secretary Carla Anderson Hills from HUD?" "Well, of course." She got on the phone. I said, "Do I call you Ms. Secretary? Madam Secretary? What do I call you?" [Laughter] She said, "I don't care what you call me. I just need to see you. When can you come to see me?" I said, "What about?" She said, "I need you to be the Assistant Secretary of HUD and FHA Commissioner in charge of our mortgage credit programs." I just blurted out, "Ms. Hills, do you know something I don't know?" She said, "I don't know what you're talking about." I said, "This morning my family sold my business out from under me. About two hours ago, Arthur Burns called me and wants to talk to me about being a Governor of the Fed. Now you're calling me and want me to talk about being Assistant Secretary of HUD. Do you know something I don't know?" She said, "All I know is you've got some interesting choices. Now when can you see me?" [Laughter] I said, "Do you work on Saturday?" She said, "Of course I do." I said, "Could I see you Saturday morning? Because I've agreed to see Dr. Burns on Friday afternoon." She said, "That'd be perfect."

I went to Washington and had an interview with Dr. Burns. It was an interesting interview, to say the least.

MR. SMALL. You came to his office here at the Board.

MR. JACKSON. Right. Ms. Mallardi, his secretary, was sitting there guarding the door to his office. When we got through, Burns said, “Would you accept?” I said, “I haven’t discussed this with my family or anybody, and I am not an aspirant for the job. I am not seeking the job, but if you find that the President would appoint me, I will give you an answer in 24 hours.” He said, “That is certainly reasonable. I will call you. I am certain the President would appoint you.”

The next Saturday, I went over and interviewed with Ms. Hills. I told her that, if given a choice, I’d probably choose the Fed. She said, “If you won’t take the job here at HUD, you’ll have to find somebody else who will.” That is another story, but I did. Early the next week, Dr. Burns called me and said, “I’ve come from the White House, and President Ford will appoint you if you’ll accept.” I called him the next day and said I would accept.

MR. SMALL. So you were unemployed for a week.

MR. JACKSON. Yes. And that’s how I came to the Fed. In our conversation, Dr. Burns said, “The real estate market is in chaos in our country, and we need somebody on the Board of Governors that understands the real estate market and the mortgage market. We desperately need somebody who really understands it. And we need you.”

So I was appointed not by President Ford but by Dr. Burns. [Laughter] Let’s be candid about that. Burns and Ford were extremely close in their relationship and had total confidence. So President Ford appointed me, but really I was appointed by Dr. Burns.

The Confirmation Process

MR. JACKSON. The confirmation process proved to be interesting, because my own Alabama Senator and friend, John Sparkman, had been the chairman of the Banking Committee. He had retired as chairman of that committee to go to Foreign Relations but was still on the

Banking Committee. William “Bill” Proxmire, from Wisconsin, who held a doctorate in economics before he got elected—people forget that—became chairman of the committee. I was the first Governor who had the dubious privilege of being interviewed by Senator Proxmire for the job. He had an intense personal interest in addition to his official responsibility.

Proxmire asked the standard question in the opening comments: “What is the definition of money?” He asked the classic college “first day” money and banking questions. And he asked some probing, difficult questions—as I later understood. I answered him truthfully: “I don’t know, because I haven’t seen all the information it will take to make an informed judgment.” That went on all morning long. He was exasperated—understandably, in retrospect—and said, “This man didn’t answer my questions, and I refuse to even call a vote on him. We demand that you come back again.” I said, “Yes, sir. I’ll be glad to.” I had had the experience of testifying often with that committee in my previous relationship. You think you’re at home before a congressional committee until they’re talking about you as the subject. It’s quite a different experience when it’s you being confirmed. At any rate, Senator Sparkman afterward came around and said, “Don’t worry. Just answer the man’s questions any way you want to. It isn’t going to make any difference.”

They had submitted to me a long list of complex economic and financial questions about policy. And I solved all the world’s problems in the most glibly short answers you ever saw in my next hearing. After about an hour and a half, others had some questions. Senator Proxmire was not the only one. But Senator Proxmire turned to me at the hearing and said, “We asked for answers, and you have given them. I don’t agree with all of your answers, but I’m going to vote to confirm you because we asked for it and you gave it to us.” As I was sitting there, one of the aides said Senator Sparkman wanted to see me afterward. While I was waiting, Proxmire called

a meeting of the committee around his chair, so to speak. About that time, I walked up to see Senator Sparkman. Proxmire looked up and said, “Oh, Mr. Jackson, we just voted to confirm you. In fact, are you sure you didn’t vote for yourself?” [Laughter]

I am happy to say my relationship with Senator Proxmire during the time I was on the Board was excellent. He and I worked together on a number of issues, the largest one being the simplification of the Truth in Lending Act of which he’d been the original sponsor. We worked intensely on consumer affairs.

I remember vividly that he had an aggressive principal aide in that subject area. Proxmire and I were discussing the revisions to Truth in Lending, and the aide was objecting to the revisions that the Senator and I had agreed on. Finally, I turned to him, and I said, “Excuse me. Did the people of Wisconsin elect you or this gentleman over here?” He was dutifully quiet. Senator Proxmire said, “Don’t worry. Governor Jackson and I are on the same page. This is going to get passed if I have to harelip half the Congress.” And he did. He showed great political courage to get that simplification passed.

Excuse me. I wandered off to a later subject.

MR. SMALL. Oh, no. That’s fine.

At any time between your first conversation with Arthur Burns and the successful confirmation vote from the committee, were there any discussions about or questions about your views on easy money, tight money?

MR. JACKSON. There were never any discussions with any members of the Board.

MR. SMALL. Were there discussions with the Treasury or the White House?

MR. JACKSON. No, none—zero. I remember vividly, during my initial conversation with Dr. Burns, we were about to finish, and he said, “By the way, do you belong to a political

party? Some shoe clerk over at the White House is going to ask that question, so I need to be able to fill out the blank. But,” he said, “it’s immaterial.”

I said, “Dr. Burns, we need to get something straight. I thought money and banking was one of the dullest courses I ever took. I made a C in it when I took the course and was glad to get it. You’re not talking about somebody who’s a trained economist.” His answer was, “Don’t worry. At this level, the issues are not technical. The issues are philosophical.”

MR. SMALL. Before we started the interview, you mentioned that you knew Paul Volcker before you came to the Board.

MR. JACKSON. Paul was undersecretary of the Treasury from 1969 to 1974. In my Mortgage Bankers Association relationships, we had some dealing with Paul. And I got to know Paul on a personal basis then, even before I came to the Board.

MR. SMALL. That would be government financing issues and mortgage—

MR. JACKSON. They were mostly trade association, public policy issues, lobbying, and things of that sort, where it was part of my job to know the people who were participating in the public policy process. And, of course, Paul was part of it. So I got to know Paul then, when he was still at the Treasury.

I was not involved in Paul’s leaving the Treasury and going to New York. I was involved right on the edges of deciding how much he was going to get paid as president of the New York Fed [laughter]. I didn’t make the decision, but I was involved then because, about that time, I had gotten on the Reserve Bank Operations Committee.

Swearing-In as a New Board Member and First Weeks at the Board

MR. JACKSON. The swearing-in on July 14, 1975, was an interesting experience. There was some delay after getting confirmed, as is quite often the case. After being confirmed

and getting ready to get sworn in, I found out that President Ford was going to use my swearing-in ceremony as an opportunity to do honor and deference to Dr. Burns and the Federal Reserve by coming to the ceremony. It was President Ford's birthday that day. The whole grand staircase, from C Street up to the Board Room, where we were going to have it, was filled with people. All the Cabinet was there. All the employees of the Board of Governors were lining the stairs and singing, "Happy birthday, Mr. President." There were television cameras, the works. I was getting puffed up like a toad saying to myself, "I think I like this very much, with the President of the United States coming to my swearing-in ceremony and all that. I think this is going to be just wonderful!" [Laughter] We had a luncheon afterward for my guests and family in the Martin Building. I said, "This is really nice!"

After the luncheon, I walked down to my new office, where Don Kohn is now. My new assistant, Patricia Shoen, was very experienced around the Board and had been the secretary to other Governors. I had arranged for my out-of-town guests to go to dinner that night. I was really feeling great about this.

Then probably about 3:00 in the afternoon or so, Patricia Shoen walked in and plopped down a stack of papers about that thick and said, "Governor, there's going to be a meeting of the Board at 10:00 tomorrow morning. Because of the vacancy, the Board has been hung up 3-3 on this issue, so you will make the deciding vote. Here's the information on which the decision will be made." Well, the bottom fell out of me, of course, as you can imagine, because that meant I stayed up all night long trying to digest that massive stack of reading material. [Laughter] I'm embarrassed to say, I've forgotten what the subject was. But speaking of that, I learned then that

a new Governor gets thrown into the pond and is expected to swim instantly. There's no break-in period for a new Governor.²

It happened again, I think, the next week. I've forgotten. Well, right away, almost within a couple of days or so, we had the first FOMC meeting.³ We all gathered around. Paul Volcker was there for his first session as president of the New York Fed. Dr. Burns said, "Gentlemen, we have two new members of the FOMC with us today, and we want to welcome them. They come from a different perspective than we have had, so I would like for them to speak first about what they think we ought to do and what the economy is likely to do." Then he turned to me and said, "Governor Jackson, would you please tell us your views about what we ought to do, and what's going to—?" That was my first few moments as a member of the FOMC. There again, the custom was that you get thrown in, and you start swimming immediately. [Laughter] Paul and I were the opening speakers in our first meetings without even hearing how you did it or what the custom was. That's probably more personal than you wanted me to get for this oral history.

MS. HURT. No, not at all. You've answered my next question. It was going to be, what were some of your first impressions coming to the Board? You immediately received stacks of papers to digest, and then there you are, the star attraction at the FOMC meeting.

MR. JACKSON. Right. You had to do that. I have no idea what your procedure is for new Governors now, but that was the procedure then. And, in that particular case, as I said, they had had a 3–3 vote on some issues that I had to then decide right away. [Laughter] So it was not a dull experience, I'll put it that way.

² Editor's note: July 15, 1975, was Mr. Jackson's first FOMC meeting at which he voted with the majority, including five other Board members, to maintain prevailing bank reserve and money market conditions. At the previous FOMC meeting, on June 16–17, before Mr. Jackson was sworn in, four Board members voted with the majority and two dissented.

³ Editor's note: Mr. Volcker's first FOMC meeting as president of the New York Fed was August 19, 1975; that was Mr. Jackson's second meeting.

MR. SMALL. Were there surprises—for example, that being a Board Governor is less glamorous and less about dealing with the big thoughts of the domestic economy and the world economy and more about banking regulation cases or something?

MR. JACKSON. No.

MR. SMALL. Were there any surprises in that dimension about what the day-to-day job was like?

MR. JACKSON. First, the collegial aspect of Board service was a challenge to a lot of people who joined the Board. At the time I was here, I noticed G. William Miller having the most difficulty of any of them. But my activity with a trade association and its leadership and being involved in it over several years was excellent training for me in working in a collegial-type, decisionmaking environment.

MR. SMALL. Because you're not a CEO that just—

MR. JACKSON. Right. It didn't take long in the trade association business, even when I was the national president. An issue would come up, and I'd say, "Surely we're going to do this." And I would call my colleagues, and they'd say, "What? Surely you're not going to do that!" [Laughter] You had that training, so working with the other six members of the Board was not a cultural shock for me, although you knew then that, whatever your decision was, with due respect for the others, you had to call them like you see them. And I—perhaps here, again—was fortunate.

Arthur Burns

MR. JACKSON. Within a week or two of my coming on board, some trivial issue came up. I have no remote idea what it was. In one of the regular Board meetings, Dr. Burns said, "If it suits you all, we'll do this." I said, "No, it doesn't suit me." He said, "Oh, really?" I said,

“No. I don’t think that’s the thing to do.” He said, “Why don’t you?” I explained why. And he said, “Have you, then, considered—” and then explained his point of view. I said, “Yes, sir. I’ve heard you, but I don’t share that judgment, and I would not support it.” He said, “Well, it looks like we’re going to have to vote on it.” I said, “Fine, no problem.” And I was outvoted, but I didn’t think anything about it.

That afternoon, Dr. Burns came into my office unannounced and said, “I hope there wasn’t any problems about our disagreement this morning.” I said, “Mr. Chairman, what are you talking about?” He said, “You and I had that little cross back-and-forth this morning.” I said, “Of course not. You and I both took an oath of office to perform this as best we could, to the best of our knowledge. That’s what you’re doing, and that’s what I’m going to try to do. And the fact that you and I might not share the same final judgment doesn’t have anything to do with my respect for you and my pleasure in working with you and working with—” He walked around my desk, shook my hand, and said, “I can tell already. You and I are going to get along fine, and it’s going to be fun working with you.” And we did become very close personal friends in every respect.

In fact, when Burns died, I was just in tears. Miss Burns called and said, “Would you please be an usher at his service?” I said, “Absolutely. I would be more than flattered.” And she said, “I know how close Arthur and you were personally, and I know he would want you to be there.” Of all the flattering things anybody ever told me in my life, that was one of the greatest, for her to say that.

As I said, the collegial experience of prior jobs helped me enormously in working in a collegial atmosphere at the Board. Burns was not a shrinking violet—far from it. At the same time, among his great traits was, he never confused human beings with issues. You could

disagree with Burns—so long as it was honestly held, based on factual information—and your personal relationship wouldn't diminish one whit.

Now, on the reverse side, if you came in with some half-baked idea, Burns could be ruthless. I remember one day, we were having an economic presentation about some international affair, and some member of the staff made a statement. Burns said, "Excuse me, Mr. Whatever, where did you get that information?" He said, "I talked to some bankers in New York about it." And, boy, the thunderclouds just roared. And Burns says, "Young man, we don't make the monetary policy of the United States of America based on what some pipsqueak vice president of a New York bank says. You get out of here, and you find out for yourself independently before you ever tell us anything!" Of course, the young staffer fled in terror.

We had some interest rate discussions and so forth about policy. And after wrestling with it for a while, the staff made a recommendation, and I stupidly and glibly said, "Dr. Burns, I kind of had that opinion all along." He looked at me with a professorial scowl and said, "Their opinion has more value than your opinion, because they worked hard to come to their conclusion, and you just guessed at it."

The point is, when you worked with Dr. Arthur Burns, you felt like you were getting a master education in public policy of all types. But you also got an education in how to conduct yourself as a human being, because he never walked in my office without stopping to speak to my secretary and visiting with her. He knew where her parents were, where they lived, and what their names were. He really did know her as an individual, not just somebody who worked here. He treated everybody the same way.

One day we were having a Board meeting, and the messenger came in with the usual little note and handed it to him. In a minute, I noticed Burns was crying. You can tell I'm not

very bashful. I said, “Mr. Chairman, has something happened where we need to adjourn this Board meeting?” He said, “No. But they just told me Hubert Humphrey died.” Well, in that day, there were never two people in the government area that had more differing views about how to run the country than Arthur Burns and Hubert Humphrey. But that didn’t keep Arthur Burns from respecting Hubert Humphrey as a high-class individual and weeping over his death as a fine American.

Another instance was after Burns left the Board—Carter refused to reappoint him. I invited Burns to have lunch at the Metropolitan Club up here. I’ve been a member since my earlier lobbying days. We were sitting, and I said, “You’ve been off in Japan for nearly three months.” The Japanese had invited him over there to be their special guest for a long series of things. “What’s the most important thing that’s happened while you were gone?” He thought a minute and said, “I think the most important thing that’s happened is Ms. Betty Ford telling the world that she is alcohol- and chemical-dependent and is committing herself to be treated. If the former First Lady of the country could tell the public that she has fallen victim and agreed to try to find a cure, that will give other women in the country the courage to step forward and do the same thing to help themselves. I think that’s the most important thing that’s happened in our country.” That was indicative of Dr. Burns and how he did treat people, even when he disagreed with you.

The privilege of serving with someone like that was both an education and a true privilege, to learn not just about economic policy, not just about economic statistics, but how to behave yourself and live a better life. Therefore, it was more than a privilege to serve under Dr. Burns, because he did teach you all of it.

MR. SMALL. When you talk about his insistence on evidence-based arguments, did Chairman Burns talk about what he was trying to do with the staff that he inherited, how he was trying to develop it, what he envisioned for a professionally staffed Federal Reserve?

MR. JACKSON. Not so much. At that time, Lyle Gramley, who later became a member of the Board, was on the staff. Burns and Lyle had a very happy—but very disciplined—relationship working together. For example, I noticed he used Lyle heavily in preparing congressional testimony and things of that sort. I noticed occasionally he'd say, "Lyle, look this up," primarily related to earlier business cycles. Lyle would go dig, dig, and dig. Then he'd come back and would tell the whole Board, not just Dr. Burns, what he had found. Then Burns, because of his mastery of that subject, would say, "Lyle, you forget. In 1926, we changed the definition of this economic statistic, and before that it meant this, and then after that it meant this. Therefore, your answer needs to be modified a little bit because of the change of definition." And Lyle would say, "Yes, sir, yes, sir. I understand," [laughter] and would understand. It was not bitter in any respect. He really knew the subject matter well. As you can tell from my tone of voice, Burns was a major influence on my life.

G. William Miller

MR. JACKSON. Personally, I got along well with G. William Miller when he was Fed Chairman. But it was clear from the very beginning that Miller had limited experience in the job and the subject matter of the job. It was particularly awkward because he had been almost a militant CEO, a majority of one in all respects. He had never worked in a collegial environment. And he had difficulty in communicating and working with some of the other members of the Board.

The most notorious, silly instance was when we walked into the Board Room shortly after he became Chairman, and there weren't any ashtrays in there. Philip Coldwell and Henry Wallich were addict[ed] smokers. The Board started meeting and both of them got up, walked out, went back to their offices, came back, slammed the ashtrays down on the table in front of their seats, and immediately started smoking. [Laughter] What had happened was that Miller didn't like smoking. Instead of having a visit with the Board and saying, "This is a problem. How are we going to solve it?" he just ordered that the ashtrays be removed. You can imagine the Board members, feeling that they are equally empowered in certain respects, didn't accept his decision very well. [Laughter] It was that kind of little thing. But having said that, Miller and I communicated well, and we had a cordial relationship.

More on Arthur Burns

MR. SMALL. Are there times when a Governor needs to step forward and reassert that he or she was appointed directly by the President, and he or she is not serving the Fed Chairman in a subordinate way?

MR. JACKSON. I'm sure it varies from Chairman to Chairman, insofar as that's concerned. Here again, I'm praising Arthur Burns indirectly by what I'm about to say. After Burns had left the chairmanship, *Time* magazine ran a long article about the Board of Governors and the individual members. The article stated that Governor Jackson was not a major contributor to monetary policy. Well, Burns called me up, outraged, really mad, and said, "I'm going to write a letter to the editor of *Time*. That's the worst thing I ever heard of." I said, "Oh, Dr. Burns, don't worry. I probably wasn't. I'm not a professional economist. I probably didn't." He said, "You just don't know." I said, "Why would you say that?" He said, "As Chairman, I had to develop who was going to vote for what beforehand, so I'd know how to

manage the meeting with all these people, but I couldn't cubbyhole you. I could cubbyhole most of those other Governors to know how they were going to vote, but I never knew how you were going to vote. Therefore, I had to wait until you spoke to find out how you were going to vote before I knew where we were going to be able to end up. You had a lot more influence than you think." I consider that a compliment for myself, but it was one of those situations. That indicated the way Burns ran a collegial group. I remember vividly one day, I said something about managing a meeting, and he said, "The first rule of managing a meeting is that until you've decided what the group is going to do, don't hold the meeting."

MR. SMALL. Under Chairman Martin, in the go-round at the FOMC meetings, he always waited until the end, whereas Chairman Burns spoke first.

MR. JACKSON. No, Burns always spoke last. And Burns always voted last.
Correction: I may be wrong about the speaking first. I remember vividly about the voting. And I remember vividly when G. William Miller got outvoted. It became a notorious public event that the Chairman had "lost control of the Board."

MR. SMALL. Burns had the reputation of being very hard on people and being very forceful in running the staff. Was that an image that he cultivated?

MR. JACKSON. I never had the impression that Burns was the chief executive of the staff. My impression working with him and working with others is that he preferred that other people do that. Issues like supervision and regulation, Reserve Bank operations, and things like that—I found Burns mostly deferential to what the committee of Governors had decided. It was very unusual that he would weigh in on that.

I remember several instances, particularly in the supervision and regulation area, where, for example, I would get involved in an issue, and Burns said, "I think I'm going to vote with

Governor Jackson.” It was instances where I was at odds with the staff. Lloyd Bentsen, the Senator from Texas, later Secretary of the Treasury, was from a little town called McAllen in south Texas. The Bentsen family was very prominent there. Even before coming up here, I knew Lloyd’s cousin who was still there. Lloyd’s father was chairman of both banks in town, at about age 83 or so. The Board staff proposed an order to order Mr. Bentsen out of office, because you can’t be the chairman of both banks. The Board staff did what the regulations said. The proposal came before the Board, and I don’t think it was because I happened to know the family, but I said, “Do we have any evidence at all that these banks are operating in an anticompetitive environment?” No, none whatever. I said, “Well, frankly, it troubles me that we’ve got an honorable citizen, at age 85, who is going to be ordered out of his office because of some regulation, even though the purpose of the regulation is being served by him being there. There are no problems. That bothers me, and I’m not going to vote for it.” Then Burns weighed in and said, “Let’s go over this one more time,” and said, “I’m voting with Governor Jackson. I don’t think we ought to order him out, either.” As you might imagine, another one of the members said, “That suits us.” And the proposed staff order about Mr. Bentsen being thrown out of office at the bank was ignored.

That later had a little personal history. Later I served as a member of the Resolution Trust Corporation (RTC) Oversight Board to clean up the savings and loans along with Alan Greenspan and some others. Lloyd Bentsen became Secretary of the Treasury and de facto chairman of our board. At the first meetings, Secretary Bentsen looked at me, and he said, “We’ve never forgotten what you did for Daddy, and we want to thank you.” I thought that was appropriate and indicative of the quality of Secretary Bentsen. And he showed it in some other respects in the RTC days. He showed exceptional courage, foresight, and willingness to sacrifice

himself for what he thought was the benefit of the country, in connection with that mess. That's the kind of way Burns reacted, too.

Views as a Board Governor

MS. HURT. Before we move forward, can we circle back to around the time that you came to the Board? You said that your time at the Mortgage Bankers Association helped with your transition to the Board because you were familiar with a collegial environment. And because of the business you were in, you were an advocate for housing finance, et cetera. How difficult was it to convince former colleagues, who may have wanted you to come to the Board and continue to be an advocate for housing finance and the like, that you had to take a more neutral position as a Governor? Was that ever an issue for you?

MR. JACKSON. It was never an issue at all. I would say, the closest you might have guessed that it would have come was with consumer affairs. I have long had a belief that regulations should serve the public, not the public serves the regulations. Therefore, when you find that regulations don't serve the public, you need to change them.

Because of my involvement with the Consumer Affairs Committee of the Board and my experience having made a lot of loans and collected a lot of payments, I realized that the Truth in Lending Act regulations—not the statute, but the regulations—were preventing consumers from having open-end credit secured by their primary residences. That struck me as being poor public policy, because you're denying the consumer the legal right to use their homes as collateral for open-end-type consumer credit. That meant that consumers were paying higher rates, because they didn't have the house—at that time, a very stable collateral base—on which to base longer-term and lower interest rate consumer credit. So I went to work and did a lot of the supervision of the staff and finally got a majority of the Board, over some Board members'

personal objections and some staff members' personal objections, to change the Truth in Lending Act regulations to make what we now call home equity loans legally possible, which, part of that time, were not. It, de facto, opened up that whole new type of consumer credit as a result of that change.

If you ask, "What did you get done while you were here?" and you look at magnitude of what happened as a result, that may have been the largest thing I did. Now, in retrospect, [given] its abuse in the last few years [concerns about some predatory lending practices on home loans], you might say, "Well, darn you, why'd you do that?" [Laughter] Here again, that leads you back to the philosophical question or back to Burns' interview and so forth. Should we permit citizens free choice to act even if they act foolishly? Or should we be the godfather that says, "We're not going to give you any freedom to make a bad decision"? That's a major philosophical question.

Going back to Bill Proxmire—at that time, the Federal Trade Commission [FTC] had jurisdiction over certain aspects of consumer credit, and the Board had other jurisdiction over the banks, savings and loans, and so forth. The FTC had all the nonsupervised institutions. Proxmire called me one day, and he said, "You all are always issuing some different approach to this whole question of consumer credit than the FTC. Could I get you all to agree on a common denominator and go forward from that?" I said, "Certainly. I'll call them up and see." He said, "No, you won't. I will call them up, and they will come see you. You outrank them. And that's not proper protocol." I said, "I don't care. I'll go see them. I don't mind it." So, sure enough, dutifully, they got an appointment, and they sent a delegation in. They were all here seeing me in my office. I said, "Could we please just start at the very beginning? If we have an admittedly egregious event that happens to a citizen—no question about it, it's egregious and it's bad—how

many people have to be hurt before we have a regulation that controls the freedom of the other 300 million citizens?" They looked at me and said, "One, of course." And I said, "Well, gentlemen, I wish we could finally agree, but I don't think that, as a matter of policy, I could get the Board of Governors to issue a regulation because we had a single notorious, egregious event with a single citizen. I just don't believe we think that way. And I don't think we'll ever be able to reconcile our point of view with yours, if you express it the way you've told me." They said, "Well, we certainly think so." I called Senator Proxmire up and told him what had happened. He said, "I tried. And I agree with you. I don't think you'll ever get together, given the divergence of points of view about the role of government in the lives of the citizens."

I think that issue hasn't gone away. It hasn't changed a bit. I think Chairman Greenspan has gotten unfairly blamed for his philosophical points of view when things went awry as a result of it. People are running around pointing fingers at Alan Greenspan, saying, "How dare you let this happen?" when, in fact, what he was really doing was pursuing his philosophical point of view that the role of government is not to regulate every act of every citizen and protect them from their own foolishness, that the foolishness itself will ultimately be a regulatory tool. I hope I'm not interpreting Alan falsely in you all's point of view. But I saw that at the heart of much of the so-called consequences of the recent mortgage and mortgage-backed securities and the other types of problems that we've been trying to unravel.

MR. SMALL. Some people would interject, into what you said, the view that things become complicated when people look for implicit government subsidies or guarantees, and that distorts behavior. You've mentioned the Resolution Trust Corporation and deposit insurance. Paul Volcker talks about access to the discount window and safety net issues. Did you run into

some of these problems, the Resolution Trust [Corporation], the deposit insurance, about how this becomes complicated when the government gets in one hand subsidizing—

Resolution Trust Corporation

MR. JACKSON. This comment doesn't have anything to do with what we're doing here, but the Resolution Trust [Corporation] had a five-person [Oversight] Board consisting of the Secretary of the Treasury, the Secretary of Housing [and Urban Development], the Chairman of the Board of the Fed, and two private citizens. I was one of the two private citizens. And more than once Alan Greenspan and I, in the pre-meeting informal conversations, would say, "What in this world are we going to do if there's a massive run on the savings and loans with people wanting to withdraw their money?" I remember looking at him and saying, "Alan, there ain't but one answer. It's going to end up on your doorstep at the Fed, providing whatever it takes. The consequences may be dramatic, but that's going to be it. I don't know any other answer." And he said, "That'll really be messy, at best." And when we went through the thing, we never had the first run on the first savings and loan association because the public respected FDIC deposit insurance. The sign would be in the front door: "This savings and loan is broke. It is now under the control of the RTC." And the depositors wouldn't ask for their money. So there was never a liquidity crisis of any sort with that process.

MR. SMALL. But did you think that deposit insurance allowed the management of the banks to have easy access to fund—

MR. JACKSON. Oh, absolutely.

MR. SMALL. —and blow up their balance sheets and take on risk?

MR. JACKSON. The problem was that the deposit insurance coverage was not coupled with minimum capital requirements. Savings and loan associations borrowed short, invested

long, and got caught in the interest rate squeeze—mismatched maturity risk is the technical term—so they kept losing money. Well, at that time, they were not in the major FDIC insurance pool. They had a separate home loan mortgage fund. I forget the name of the deposit insurance fund that was effectively all savings and loan associations. [The agency was the Federal Savings and Loan Insurance Corporation (FSLIC).] It didn't have the resources to pay off. Therefore, the Federal Home Loan Bank Board, not being able to pay depositors, had no choice but to take all sorts of steps to keep the balls up in the air by not closing them.

They had all sorts of things. First, the Bank Board changed the minimum capital requirements to 1 percent. Well, you can imagine every speculator in the world saying, "You mean the government is going to put up 99 cents, and it'll be guaranteed? So I have no problems with people wanting their money, because it's government guaranteed. I put up one cent and yet, anything over, I get to keep it all? That's too good of a deal for me to turn down." One, I'm going into the business, and, two, there's an incentive to speculate, because if you guess right, you win really big with 99-to-1 leverage. So they all went into it.

The other thing is that when Fernand St. Germain, the then-chairman of the House banking committee, led the fight to increase deposit insurance from \$10,000 to \$100,000 to protect the average household savings, this enabled those people then to garner deposits massively with which to do that 99-to-1 speculation. Savings and loan associations that were \$3 million in assets in 24 months were \$3 billion, all of which was invested in highly speculative ventures. Of course, it ended up as a catastrophe. But what I am talking about is not the purpose of this interview.

MR. SMALL. You are providing some perspective on the financial system.

MR. JACKSON. Well, that was the problem. In all fairness, [the] Resolution Trust [Corporation] got lucky. The board supervised \$120 billion of losses being covered by the taxpayers. Today we spill more than that “getting it to our lips,” as they say. But we were lucky that interest rates, which had been very high, declined materially during our efforts, so that some of our financial assets that were still earning higher interest rates became very attractive in the market. Basically, we didn’t have to liquidate them at relatively low prices. But the loss of the total system was something like 15 percent in total. When you really got down through it, the taxpayers lost about 15 cents on the dollar to get the job done. That was, in retrospect, very low.

The Board’s Responsibility for Regulating Consumer Financial Services Laws

MS. HURT. When Governors come to the Board, they have a broad range of responsibilities. The Chairman usually assigns Governors to committees, correct?

MR. JACKSON. I honestly don’t remember, but that’s my impression. The Chairman proposes, and the Board concurs. By and with the advice and consent of all the Board members, the Chairman appoints committees. That’s the way I would put it in those days.

MS. HURT. You were assigned to the Consumer Affairs Committee. Governor Jeffrey Bucher was the chair. Then later you became the chair of that committee.

MR. JACKSON. Yes.

MS. HURT. The Truth in Lending Act had become law in 1968.

MR. JACKSON. There was a blizzard of other so-called consumer things. They had just passed the Equal Credit Opportunity Act of 1974, and the Board had not yet issued the

regulations under the act when I got here in 1975. We got right in the middle of that highly controversial subject.⁴

MS. HURT. How did you feel about the Board being given the responsibility for all these consumer credit laws? Did you think it might be better at another agency?

MR. JACKSON. You had a difficult situation. At that time, there was no doubt that the Congress had high confidence in the Board of Governors' intellectual and general fairness capacity to get a job done. Therefore, there were many members of the Congress who said, "We don't need to worry about those details. Just give it to the Board, and the Board will figure out how to solve that. Don't get into too much detail in the legislation itself and rely on the Board to do 'the right thing.' "

In a number of instances, this put the Board in a very awkward position, because there were serious differences on how to implement the general broad policy. And the devil was in the details of that. It also put the Board in connection with the Federal Home Loan Bank Board that existed at that time—before the SAIF (Savings Association Insurance Fund) was created—the FDIC, and the Comptroller. They were much more sensitive—or maybe even subject to the current political winds that might be blowing at that particular time—than the Board, for reasons we all understand. So that put the Board in kind of an awkward posture of trying to work jointly with them, particularly in some of these consumer areas that had very strong advocates for points of view. Many times, those advocates had limited perspective on what they really wanted. The Congress had even more limited perspective about how to do it.

⁴ The Equal Credit Opportunity Act prohibits credit discrimination by creditors on the basis of national origin, marital status, religion, sex, color, race, age (provided the applicant has the capacity to contract), receipt of public assistance benefits, or the good faith exercise of a right under the Consumer Credit Protection Act. When enacted in 1974, it prohibited only discrimination regarding sex and marital status in connection with credit.

For example, under the Equal Credit Opportunity Act, it was against the law to consider the gender of a credit applicant. When we were working to develop the regulations, Fair Isaac and all the credit-scoring people would come in and testify, put it on the record, that in a credit-scoring operation, a female is more likely to repay debt than a male. That meant that not being permitted to ask the applicant's gender was effectively denying the very credit that the National Organization for Women and some of the stronger advocates for that act had tried to get passed. They effectively had shot themselves in the foot, if I can put it that way, by advocating something that denied them the very thing that they were entitled to on their merits. This conflict put the Board in a number of situations where the Board was pressured, if I can use that word, by advocates of various sorts to do the wrong thing.

There is another example. The Congress passed, as part of the Truth in Lending Act, that it was against the law to charge someone a surcharge for credit but not against the law to give someone a discount for cash. Immediately, we said, "Huh? How can you tell the difference? Which is the cash gasoline pump and which is the credit pump, and which is the surcharge and which is the discount?" For weeks, we worked truly hard trying to solve that dilemma.⁵ I remember vividly that I was the victim to go up [to] the House banking committee, to Mr. Frank Annunzio from Chicago, the chairman, who had been one of the sponsors of the Cash Discount Act. I said, "Mr. Chairman, we don't know how to do that [determine the regular price]!" And his response, in essence, was, "You're a bunch of idiots. Everybody knows the difference between a discount and a surcharge. Now you all go back down there and solve that problem."

⁵ Under the Cash Discount Act amendment to the Truth in Lending Act, in a sales transaction—for example, obtaining gas at a gas station—a discount for paying in cash is permitted if such discount is offered to all prospective buyers and its availability is disclosed clearly and conspicuously; however, a fee imposed for using a credit card (a surcharge) is considered a finance charge and would have to be included in the calculation of the annual percentage rate on the credit card.

I'm not trying to be derogatory of Mr. Annunzio when I say that. I am just illustrating that the Board got thrust into those types of issues, which, in my judgment, both distracted and detracted from the Board's primary function in our system of government, because it put the Board in the position of solving some problems involving some issues that, really, the Board shouldn't have been involved in.⁶

I'll go ahead and stick my neck out now. Some of the proposals that are under intense discussion with the Congress—I'm afraid I would say that getting some of that out of the Federal Reserve is probably a good idea, no matter what those banks and major creditors think, simply because it gets the Board constantly in an argument that detracts from the Board's capacity to perform its more important functions. That was true, and I say all this as a historical fact.

You could see that then, the worst being the Community Reinvestment Act [CRA]. There was congressional, specific history that was very explicitly contrary to the regulations that the Board, the FDIC, and the OCC [Office of the Comptroller of the Currency] adopted to implement that act. But the Administrative Procedures Act says that the assumption shall be that a federal agency who issues regulations is correct unless—there is an abnormal burden of proof—someone who would try to say the regulations are contrary to the intent of the Congress can prove otherwise. And the Board and everybody went off and implemented CRA in ways—when it comes into reasons for denial and all of these types of highly emotional consumer issues, political[ly] sensitive issues.

MS. HURT. You're talking about the Equal Credit Opportunity Act?

MR. JACKSON. Well, the Equal Credit Opportunity Act. The reason for denial of credit was entirely a creature of some members of the staff, unrelated to any congressional

⁶ Editor's note: Since 1968, the Board has had statutory responsibility for supervising, enforcing, and rulemaking for various consumer financial protection laws and regulations.

testimony at all in connection with the Equal Credit Opportunity Act. That was a very big issue. And, as I said, it's not those individual little questions. It's the fact that the Board was getting thrust into those issues constantly with some people who had very strong opinions. Ralph Nader would testify on proposed regulations and all that sort of thing going on that, in my judgment, were distracting and, to a degree, diminished the Board's capacity to perform its more important functions.

MS. HURT. Do you think that view was held by other Board members at the time?

MR. JACKSON. Some yes, and some no. Again, it was a philosophical issue—it was not a detail issue. Let me give you a follow-through that may be helpful. I don't want to speak ill of Bill Miller, particularly after his departure as Fed Chairman. I remember Bill weighed in publicly on something. I went around to see him. Miller and I had an excellent personal relationship, no problem at all. I said, "Bill, hold the phone. You're getting our dog in other people's fights. We need all the arrows to save when it's our critical fight. And you're messing into some things that really aren't our business." He said, "Philip, I didn't come down here to approve bank holding company applications. I came down here to run the country!" And I said, "Well, Bill, you and I just don't share that judgment. And I'm afraid it's going to detract from your capacity to do the job for which you were appointed." Again, there wasn't any continuing animosity about it. I just told him I thought he was wrong. And, over time, I think that proved to be the case. Miller moved from the Board to the Treasury, where he was much better suited.

[Laughter]

Janet Hart, Director of the Board's Division of Consumer Affairs

MS. HURT. During your time here, Janet Hart was the director in the Division of Consumer Affairs. Do you have any memories of her?

MR. JACKSON. Yes, I have very fond memories. She was a very professional, high-class lady. My impression of Janet Hart was all very positive. She and I didn't always agree, but you don't agree with anybody all the time. I had absolutely no problem working with her or with her management and so forth. I thought she was very sensitive to the very types of concerns that I just expressed. She was sensitive to the degree to which the Board was getting involved in something that really wasn't our primary function, but they kind of had thrust upon us. I found she was a very high-class professional lady. I had no problems at all.

We did have some people with whom I did have some problems. One day the Board made a decision in this general area, and it was slightly different from the original staff proposal that had come from the discussion papers. The Board voted and said, "We're going to vote this way, and do it this way. Now, we'll appoint Governor Jackson to work with the staff to sign off on the final implementation of the regulations to get it done." Fine, no problem. About 10 days later, I called and said, "Where's the final regs, the *Federal Register*?" The staff response was, "Okay. Well, uh, uh—" It got to my desk, and I looked at it and said, "This isn't what the Board approved." I scribbled some note, bucked it back through the manila folders with holes in them—I guess they're still around. [Laughter] Finally, I called the individual involved, and I said, "Where are those blooming regulations?" He came down and said, "Well, I don't agree with what the Board said, and I'm not going to do it."

MS. HURT. That's unusual.

MR. JACKSON. I said, "Well, I would encourage you to get your resume up to date, because I want to advise you that that is not your job, and I'm going to make your life so miserable down here if you're going to operate that way that you're going to wish you could resign, whether I can fire you or not."

There were some members of the staff that felt strongly enough about issues. They just weren't going to do it. They wouldn't agree to it. I found, as a member of the Board, you'd better do your homework in detail so you knew what you were talking about, because occasionally you'd find some member of the staff that didn't share the Board's judgment or your judgment, either one, that you had to just wade in and get cleaned up.

Consumer Advisory Council

MS. HURT. The Equal Credit Opportunity Act established the Consumer Advisory Council in 1976. That group came in several times a year. It consisted of consumer advocates, bankers or financial services industry representatives, and I think there was supposed to be a third category consisting of academics.

MR. JACKSON. It was supposed to be a broad gauge, with no one point of view being the dominant point of view.

MS. HURT. What was your experience with and impressions of the council? Did you attend the meetings?

MR. JACKSON. Oh, yes. I felt that if at least one or more members of the Board of Governors didn't think it was important enough to participate totally and fully and listen, then we ought not to have it. That was disrespectful of the citizens who were devoting their time, energy, and efforts to help us. To have something like that, that no Board member attended, I thought that was, to a degree, insulting of the public, that you'd do something just for show and really don't mean it enough to show up.

I thought that was true of not only those types of advisory groups, but others as well. At that time, we had economics experts come in periodically. I thought the Board ought to all attend that. And then we had the Federal Advisory Council that would come in. I also felt that

that wasn't truly representative of the entire financial community over which the Board had concerns, so I had a couple of conferences with the chief financial officers of life insurance companies. Later we got the savings people—the savings banks and savings and loans—involved, did some things like that.

I don't know whether it was ever publicized or not, but I even, outside the Federal Advisory Council, asked some of my banker friends to come in maybe once every six months or once a year. It was kind of a "kitchen cabinet," if I could put it that way. The sole purpose was for them to say what's going on that hadn't gotten to the staff or to the newspapers or to the statisticians, what is going on that we need to start working on or worry about, or what is going on that hadn't gotten to the attention of the Board yet. That was my question of them—or, conversely, "What are we doing that is creating more harm than good, from your perspective, that we need to give some thought toward modifying or worrying about?"

More Reflections on Being a Board Member

MS. HURT. While you were at the Board, what would you say was your most significant contribution in the consumer financial services area?

MR. JACKSON. How can I say this without sounding egocentric? I don't think there's any doubt that, in retrospect, I led the drive to make home equity lines of credit possible, which prior to that time was not possible.

MR. SMALL. And, I suppose, when you came to the Board, you never would have guessed that that would have been your highest achievement?

MR. JACKSON. You never know. I had several interesting things. We were in the middle of an energy crisis in those days. The Middle Eastern countries had accumulated enormous wealth with oil exports, which, in turn, we were trying to work hard to recycle to the

oil-importing underdeveloped countries. I went to Dr. Burns and said, “Mr. Chairman, we’ve got a little awkward situation. We are dependent on those Middle Eastern oil-exporting countries”—not just the Middle East, but they are the largest—“to help finance the economies of a lot of our developing-nation friends around the rest of the world and recycle that money. We never go to see them. We never show them any degree of appreciation for the part they’re playing in keeping the economy moving by recycling that money.” Burns said, “You’re right, but I’m an orthodox Jew. An orthodox Jew would be awkward over there.”

MR. JACKSON. I said, “I understand that.” He said, “But you aren’t.” I said, “What do you mean by that?” He said, “Would you please take on the job of doing that?” I said, “Well, if the other Board members want me to, yes, of course, I think it’s worthwhile, and I’ll do it.” It wasn’t long before all the Board members tacitly agreed. So I went to the Federal Reserve Bank of New York, got a list of who had deposits up there and how much and who and the names of the players, so to speak, and got on the plane and traveled around the Middle East, going from Iran to Saudi Arabia to Abu Dhabi and Bahrain and Egypt and so forth. I’d show up, and the governor of the central bank would say, “Why are you here?” And I’d say, “I’m here just to say thank you. I’m not here to ask you for anything. I’m just here to say thank you for doing it.” And they said, “Oh! Wonderful. Thank you for coming.”

I didn’t intend it that way, but it ended up a very personal benefit to me, because when they’d come to Washington at the IMF or whatever meeting, they’d come see me. The Board has had miserable budgets to entertain people from abroad coming in, which is another issue and another disgrace, but that’s not the point. So I’d invite them to our house to dinner. In their culture, that was a big deal. That was a big honor. It wasn’t long before I was their friend. It

really helped. I can't say that it caused us to be able to do things that we couldn't have done otherwise, but you just never know the degrees to which that little going to see them—

One day, the governor of [the central bank of] Bahrain came in my office down the hall and said, "My wife's bought you a present." I said, "I don't know what you're talking about." He handed me a crudely wrapped package. I unwrapped it. It was one of those thobe and ghutra situations, with the headdress and the flowing robe and all that, made of the finest cotton you could imagine, that they had had made as a present to me. I talked to the Board Secretary and said, "What do I do with this?" They said, "Just don't tell anybody, and you keep it. We'll claim it's worth less than \$50," which was the cutoff then for gifts. They said, "It's clear that that would be most embarrassing for you to reject. You keep it." I've still got it. And that was one of the things that, it doesn't show up in any minutes or anything like that, that I think probably helped.

At that time, Saudi Arabia had a deposit at the Federal Reserve Bank of New York. When I arrived in Jeddah, I said, "The New York people have asked me to ask you, Governor, why is it you always roll over government bonds that come in, you always just buy the next issue that's offered, just refinance the old one that's coming due?" He looked at me, and he said, "Because we don't know what we own." And they didn't.

MR. SMALL. You mean they had so much money?

MR. JACKSON. Yes. He said, "We're working on it. We're about to get our hands around it, but we don't know what we own. We just automatically say, 'Renew'—or whatever—'the next issues.' "

MS. HURT. During your time at the Board, as you reflect now or as you've reflected in the past, what do you think was your most significant contribution overall?

MR. JACKSON. Well, as I said, in retrospect, if you put Arabic numbers with commas and periods on it, probably the home equity decision. In my judgment, even in the face of the recent abuse, there are more American citizens that benefited from the availability of that change in the regulations than anything else I did.

MS. HURT. Just so I'm clear on that, didn't consumers opening home equity lines of credit really take off after the changes in the tax laws, and the Congress—

MR. JACKSON. It wasn't the tax law. It was the changes in the Truth in Lending Act. Prior to that time, every advance that a lender made to a consumer carried the right of rescission. If you had a home mortgage and wanted to go to the lender and get another \$100, open-end credit, the lender was subjected to the right of rescission, which flagrantly would not work. You cannot manage a situation where the borrower can decide they want [to give] their money back after the lender has loaned it.⁷

MS. HURT. If the consumer rescinds such a loan, the consumer can get back all the expenses he or she incurred to open the line of credit and any interest paid on money borrowed.

MR. JACKSON. And therefore we changed the right of rescission to say, "You have the right of rescission when you first put the home equity loan on the books, but you don't have the right of rescission with each subsequent advance that the lender might make on there." But prior to that time, as I said, that right of rescission applied under the regulations, and therefore no lender would make home equity lines of credit. You can understand that. And that just wouldn't work.

⁷ With several exceptions and under certain circumstances, the Truth in Lending Act provides consumers with the right to rescind home-secured loans. When the consumer executes this right properly and in a timely fashion according to the regulation, the collateral securing the loan becomes void, and the consumer is not liable for any amount, including any finance charge.

We had an unusual situation that has existed from time to time in the Board. At that time I think I was the only member of the Board of Governors that ever made a loan or collected a payment. And the Board needs, even at the Board level, some people that have had that hands-on, dirt-under-their-fingernails-type experience to know what really happens.

MS. HURT. The Board needs a banker.

MR. JACKSON. I don't want to in any way downplay the proper role of the staff, in the part they play, but many of them are under the same situation. They just hadn't done that.

Let me give you an illustration. While I was here, the staff proposed that "We shall require every bank to totally write off as a loss any loan that is three monthly installments past due." It came to the Board for consideration, and I said, "Why would we do that?" The staff replied, "The bank's just procrastinating recognizing the loss." I said, "There are a number of times when the lender is not subjected to the loss because the loan is past due. Therefore, we shouldn't require them to show it as a loss." The staff said, "What are you talking about?"

I said, "I'll give you several situations. The one that quickly comes to mind is that, occasionally, homeowners burn their houses down. The lender has insurance, and the mortgage clause protects the lender—through the fire insurance company—against arson. That is not a defense. The homeowner burns their house down. The insurance company still has to pay the lender off. But the insurance company might say, 'We've got a criminal act here, and we're trying to gather evidence. The insurance policy not only includes the house, for which we've agreed to pay you, but also includes the furniture and extra living expenses and some other things. We think, if we put a little pressure on them, we might finally be able to draw the evidence and put this crook in jail. So we're not going to pay off for a while, keeping the pressure up.' Because of not living in the house and you're having all this, the homeowner has

quit making the payments on the lender's loan. But the lender, de facto, has the insurance company now on the note instead of just the homeowner. Instead of having a less secure loan, they've got a more secure loan because of the change in who's going to pay them. Do we really want to require they write that off as loss?" The staff replied, "Well, no. We hadn't thought of it that way."

I tell that little personal story just to say, the Board really needs people who have had that direct, hands-on experience when you get in the regulatory type of functions. Sadly, there are times when they don't have it. They're fine economists and so forth and have got distinguished careers in other areas. But the Board gets involved in some pretty nitty-gritty, downright personal individual-transaction-type decisions from time to time. You need somebody who really understands it.

Last year flagrantly showed that the Chairman was making public statements about defaulted mortgages to the Congress and to the public, and Mr. Paulson at the Treasury was doing it, where they did not know what they were talking about. And if they were sitting here, I would not hesitate to say the same thing, because they hadn't been there. They didn't know how that really worked. I hope that they got better counsel later and withdrew some of their ideas.

The Board has to be extraordinarily careful how they deal in particular types of credit transactions and how those markets operate before it makes public statements about solutions to macro problems. You need Board members who are able to participate in that process and get solutions.

I have really gotten off on a soapbox this afternoon.

MR. SMALL. Thank you for taking the time to talk to us.