Federal Reserve Board Oral History Project

Interview with

Ralph C. Bryant

Former Director, Division of International Finance

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Interviewers: David H. Small, Edwin M. Truman, Larry Promisel, and Jaime Marquez

Federal Reserve Board Oral History Project

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

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

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

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MR. SMALL. Today is Thursday, October 22, 2009. I am David H. Small from the FOMC (Federal Open Market Committee) Secretariat in the Board's Division of Monetary Affairs. I am joined by Edwin M. "Ted" Truman, a former director of the Division of International Finance (commonly referred to as IF or the IF Division); Larry Promisel, a former senior associate director; and Jaime Marquez, who is currently a senior economist in that division. We are interviewing Ralph C. Bryant, another former director of IF. This interview is taking place at the Board. Mr. Bryant worked at the Board from 1965 to 1975.[1]

Educational Background and Decision to Work at the Board

MR. SMALL. Let's talk about your background before you arrived at the Board, including your education and any influences leading up to your coming to the Board. Also, when you started working at the Board, what were your views on how the economy operated? To what economic theories did you ascribe?

MR. BRYANT. I came to economics a little late. As an undergraduate, I was most interested in history and music. But I won a Rhodes scholarship and went to Oxford to read what's known there as the PPE (Philosophy-Politics-Economics) degree. At first, my main interest was in philosophy and politics. But I had the good fortune of having several fine tutors in economics. So I ended up staying to obtain a graduate degree in economics at Oxford (known as the B. Phil. degree) and then came back to Yale and got a Ph.D. in economics.

The possibility of my coming to the Federal Reserve Board came up in 1965. I had started a dissertation for my Ph.D. on how to analyze the U.S. balance of payments and to determine the appropriate measures of imbalances. Robert "Bob" Triffin and James "Jim" Tobin

[1] During 1969 and 1970, Mr. Bryant was in London on an International Affairs Fellowship of the Council on Foreign Relations.

were two of the people at Yale who inspired me to work on financial and international economic issues. I wanted access to the data on the liabilities of U.S. banks to foreign private residents and foreign central banks and governments, but the data were confidential. The questions I wanted to ask were not possible to answer unless I had access to the data. So I came down to Washington in early 1965 to talk to Treasury and to Federal Reserve representatives.

Here at the Board, I had a wonderful day or two getting to know John E. Reynolds. He was the key staff person for the so-called Bernstein Review Committee on the balance of payments.[2] Eddie Bernstein and John wrote an interesting report that was very close to the subject of my dissertation. John tried to interest me in coming to the Board to work, not merely to do the dissertation. I had been over at the Treasury, too, and ended up with offers to work at both the Treasury and the Federal Reserve Board. But having met and talked to Ralph A. Young, the IF Division director, and spending quite a lot of time with John Reynolds, it seemed to me that the most congenial place to work on my dissertation and do that research was here at the Board.

In February 1965, French president Charles de Gaulle made his famous "return to gold" speech. All of the hot international monetary questions were on the table in a way that greatly interested me. A big part of my decision to come to the Board was that I would have a window on all those topical issues and that I could participate in some small way, at least as an observer. I had a very congenial time working on my dissertation, and I finished it rather quickly. I think I was the first one to process the capital flow statistics of the United States into a computer-readable form. I spent hours in the evenings with boxes of IBM cards processing them through

[2] The balance of payments statistics of the United States were examined by a committee chaired by Edward M. Bernstein in a report submitted to the U.S. government in 1965. See Richard N. Cooper (1966), "The Balance of Payments in Review," *Journal of Political Economy,* vol. 74 (August), pp. 379–95.

the Board computer. [Laughter] John Reynolds continued to be an important person to me, because he was deeply interested in my dissertation topic given his experience on the Bernstein Review Committee. But I also developed important relationships in an intellectual way with other people here.

Shortly after I came, for example, I met Robert "Bob" Solomon. He was a person who especially interested and stimulated me. Ralph Young was the IF Division director. Bob was here as an adviser in the Division of Research and Statistics, but then he went to the Council of Economic Advisers. He was away a lot because he was a key person on the so-called Ossola group, a group of senior government officials chaired by Rinaldo Ossola of the Bank of Italy. The group was studying the question of deliberate reserve creation and whether world governments could find a reserve asset that would substitute for gold and for reserve currencies. Whether this intended "substitution" was mostly away from gold or mostly away from reserve currencies depended on the individual with whom you talked. Very quickly, Bob pulled me into working on drafts of the different memos and the report itself. By working with Bob, I had a wonderful taste of all the then-hot issues on international monetary arrangements in a firsthand way. I even managed to meet people at Treasury who were working on this.

That is the background of when I came to the Board to work on my dissertation. Then the whole international financial situation became more and more turbulent. I decided to stay at the Board after I had finished the dissertation, and I was increasingly pulled into working on all the international discussions and meetings about international finance.

MR. SMALL. You mentioned that you went to Oxford. Who were some of the people that you interacted with there—your teachers, people who influenced you?

MR. BRYANT. At Magdalen College, the economics tutorials that I had at the end of the first year and in the second year were with the two dons: David Worswick, who was later to become the head of the National Institute for Economic and Social Research, and Christopher "Kit" McMahon, who later became an executive director at the Bank of England. They were both very thoughtful and stimulating men. I was poorly informed about economics issues but got deeply interested and switched my major to obtain an economics degree. I sat in on numerous economics seminars, including ones run by John Richard Hicks, Thomas Balogh and Paul Streeten, Roy Harrod, and W.M. (Terence) Gorman. Hicks and Harrod, though famous, were then elderly, and their seminars were a disappointment. There were other students there in my Oxford seminars that were excellent intellects. I made good friends among fellow students. For example, I got to know Martin "Marty" Feldstein and John Fleming well when we were all in the same seminars. Over time, I drifted apart from Marty in our policy views.

I had a challenging time at Oxford. It was a wonderful place, though it has its faults, as all institutions do. After I came back to the United States, it was at Yale where I really became committed to economics as a long-term profession. The people that were crucial were Jim Tobin, Arthur M. "Art" Okun, and Bob Triffin. And I saw something of Richard N. "Dick" Cooper, William J. "Willy" Fellner, and a lot of other people. I had had a wonderful education in economics by the time I left New Haven.

MR. SMALL. Did your Oxford experience cause your interest in international?

MR. BRYANT. I'm sure it played a part. My interests became deeper back in New Haven, interacting with people like Tobin and Okun, and to some extent Triffin. I didn't feel like Triffin was the same "giant" in an analytic sense that Jim Tobin and Art Okun were.

MR. PROMISEL. That's a high standard.

MR. BRYANT. That's a very high standard. [Laughter] That's right.

Fixed but Adjustable: Problems with the Bretton Woods Exchange Rate System

MR. SMALL. Nations came out of World War II with the Bretton Woods system. For a while that looked great, I guess, and the United States was the lynchpin of everything. But by the mid-1960s, there were concerns about capital flows and even the dollar. As I understand it, Robert Triffin started poking holes in the Bretton Woods analytic framework. His critique became known as the "Triffin dilemma." Were you exposed to that?

MR. BRYANT. I spent a lot of time with Triffin. I think the so-called Triffin dilemma—the way he first articulated it—was influential and important. When I say that there was lots of interest in finding a new reserve asset that could be a complement to, if not a substitute for, gold or reserve currencies, it was because of the way the Triffin dilemma was complicating the international financial system. In particular, the United States, which by that time really needed changes in exchange rates, could not initiate changes in exchange rates by itself, because the dollar price of gold was the link that kept the reserve assets system from being unstable. That's the way most people thought about it. The conventional position about gold and its central role in the Triffin dilemma was essentially correct but too strong, in my view.

The Ossola group work and all the studies of deliberate reserve creation were driven by a consciousness that the world had a financial system that wasn't sustainable. The single biggest problem was that we were not getting exchange rates to adjust enough in order to begin to mitigate payments imbalances. In particular, the U.S. balance of payments was increasingly in trouble during the late 1960s.

MR. SMALL. I have not heard the term "deliberate reserve creation." Were the U.S. trade deficits or balance of payment deficits creating reserves in an undisciplined way?

MR. BRYANT. The gold was dug up by South African miners and others, and its supply was erratic and not controllable.

MR. TRUMAN. Russia, too.

MR. BRYANT. If a single economy needs a reasonably stable growth of "outside money," to use the old Gurley and Shaw term—and that's what central banking is all about, after all—what determines the supply of that high-powered money? You want that to grow over time as the real economy grows and the financial system expands. What's the analogue of "outside money" in the world system? Well, the world financial system didn't have one. The only "outside" asset was gold. "Inside" assets were quintessentially the reserve currency assets of central banks and governments, predominantly denominated in U.S. dollars. If the United States had a balance of payments deficit, other countries intervening to keep exchange rates unchanged would accumulate dollars. Does that sound familiar? It makes you think of China today, for example. The system was getting increasingly rigid, and there were different parts of the rigidities. The single most important thing was to find an acceptable, nondisruptive way to achieve changes in exchange rates.

MR. SMALL. But not everybody saw it that way?

MR. BRYANT. No, and I'm leaping over lots of discussions that took place. By the time I came to the Board, there still wasn't a sense that the key was getting more exchange rate adjustment. That certainly was my view, however, and I was not shy about emphasizing that view. And I think it was increasingly the view of people like John Reynolds and Arthur Hersey. Ralph Young and Herbert Furth—Herb was one of the people Young leaned on most—were a little more cautious. They thought, "Maybe we can get the Europeans to make one-time revaluations to their parities, and then things would be fine." So there was a big divergence of views in the world at large—and even in the IF Division—about how to get more and smoother adjustment in exchange rates. By 1968, there was much dispute that we somehow had to get exchange rates to change.

MR. TRUMAN. It was complicated. The United States was not running a trade or current account deficit in most of the three decades leading up to the mid- and late 1960s. Our trade surplus, although declining, was matched by a larger net capital outflow. The immediate "problem" was, in effect, largely a capital-flow issue. That was where the exchange rate came in. The issue was actually a buildup of short-term liabilities against the gold stock. We stood ready to convert those short-term liabilities into gold. That was the nature of the Bretton Woods system. We had a fixed amount of gold and a growing stock of the short-term liabilities to both private and official foreign holders. So in order to preserve the system, the exchange rate adjustment had to be sufficient that we could run large enough trade and current account surpluses so that we did not build up even larger short-term liabilities. At least that's how I saw it at the time, or at least in retrospect.

MR. BRYANT. That nexus of issues was the topic of my dissertation. And a refinement of the question that Ted has just annunciated is, which short-term liabilities were the important ones to take into account? Or, to put it another way, how should you analyze the deficit in the U.S. balance of payments? At that time, the United States was not running a current account deficit, but rather was experiencing large net capital outflows that were not sustainable. The current account surplus was gradually turning into deficit, to be sure, but had not yet done so. But which liabilities were the most important? Was it all the private and the official liabilities? Was it just the official liabilities? There were lots of differences of views about that.

The evidence that things were not working well was accumulating. In November 1967, the British were forced to devalue. It was plain that the international financial system, with its infrequently—and disruptively—adjusting exchange rates, was in trouble. The Board's staff was challenged to write some confidential contingency planning memos. That was delightful and stimulating for me. By September 1966, I had become involved. There was a fat "strictly confidential" compendium of what was called "Contingency Planning for Sterling" that analyzed what should happen if the British should be forced to devalue. A year before, we were already agonizing about it and sensing that this could happen. And it did in fact happen, in November 1967.

MR. SMALL. November 18, 1967.

MR. BRYANT. Yes. So, by November 1967, it was becoming increasingly clear that things were not going to be stable. By 1969, it was really clear. And another fat collection of papers was written. I may have been the only person who wrote this collection of papers because I had talked Bob Solomon into believing that we had to do this collection. In particular, in June 1969, I prepared a 182-page report called *Contingency Planning for the U.S. Balance of Payments.* It analyzed what options were open to the United States. The Board staff gave briefings to the Board. Chairman Martin was not too keen on explicit discussions about this. And when Arthur Burns came along, he was even less keen.

Differing Views within the International Finance Division on International Financial Issues

MR. BRYANT. In 1969, the IF Division gave several pointed briefings to the Board on the difficult international financial issues facing the United States. Arthur Burns became Chairman in February 1970. Then in 1970 and 1971, the staff gave many more briefings, escalating the prominence we felt the issues deserved.

Parenthetically, I should note that I spent the months of the academic year 1969 to 1970 in Europe, based in London. In the spring of 1969, I had been awarded an International Affairs Fellowship from the Council on Foreign Relations. With the blessing of the Board, I chose to take the fellowship year abroad to continue research on international monetary and financial issues. I had offices both at University College London and at the Bank of England. Among other favorable things that happened during the London time, I established good working relationships with numerous staff members at the Bank of England and renewed the relationship with Kit McMahon, my former don at Oxford who was now an executive director at the Bank of England.

To come back to your question about differences in view within the IF Division about international financial difficulties, the Young Turks on the staff of the IF Division—if I can put it in that provocative way—were saying we had to tell the Board that the difficulties were getting to be a bigger and bigger problem. The United States and other major countries needed changes in exchange rates. We didn't have an international monetary system that permitted this, that made it easy, so we needed to really focus on all the interrelated aspects of international monetary arrangements: exchange rate adjustments, reserve creation, what to do about gold, what to do about the roles of reserve currencies as reserve assets (the dollar and sterling), monetary reform, and a bunch of other issues.

MR. TRUMAN. Stipulating that you were a Young Turk, who were some of the others?

MR. BRYANT. Larry, what month did you join the staff?

MR. PROMISEL. August 1968.

MR. BRYANT. I remember being involved in discussions about whether we should hire Larry and a bunch of other people. By that time, Bob Solomon and the Board had agreed to create a Special Studies Section. We had people like Dale Henderson and Lance Girton. I don't remember when David Dodd came. Don Roper came earlier; that was another person I brought in. "Young Turks" is probably an unfortunate phrase, but there were several of us younger economists who felt that this whole range of questions needed much more focused attention by the U.S. government, and that meant by the Federal Reserve Board and the Federal Reserve System. So all this analysis was taking place behind the scenes, and some of it was getting into Board briefings. That leads us up to 1970 and 1971, when things really did come apart, in the sense of stability of the arrangements.

MR. SMALL. How did the lines of authority and the lines of communication work between the Young Turks and senior staff?

MR. BRYANT. I am going to regret introducing that term into our conversation. [Laughter] Every organization has a dispersion of views. Younger people coming in have the tendency to be exposed to thinking that others haven't, so they think they have the answers to all the world's problems. The experienced people who have been around a long time know that "it ain't nearly so simple" as the younger people think. So this dialogue was always going on. By saying this, I am not for a minute suggesting that the younger members of the staff who had come recently were systematically either more or less cogent than others.

Herbert Furth was, by that time, acting as a consultant to Ralph Young. I think Furth left the staff as an officer. He was very conservative. He thought that we could not get radical changes in the international system and, therefore, it wasn't prudent for the United States to be pushing for that. Arthur Hersey was another wonderful staff member who, in my view, understood better than Herbert some of the changes that had to come. But he too was not sure that it was possible to do. John Reynolds was also not sure. These people had seen a lot, and here we come as newer and young staff members saying, “You’ve got to change the world.” They rightly said, “It ain’t so easy,” so to speak. So there was that tension within the division. Bob Solomon, who had been here longer, was somewhere in the middle. I think Bob had been exposed more to academic thinking, and he was more sympathetic to the younger people’s views than some of the other people I mentioned—certainly more so than Ralph Young.

MR. TRUMAN. Was this reinforced by Bob’s experience at the Council of Economic Advisers, where he worked with Richard Cooper and James Tobin?

MR. BRYANT. Bob Solomon interacted with a lot of those people. And then he had contacts in foreign governments with the people that were attending the Ossola group, who tended to be the better European people from central banks and from finance ministries. So he was exposed to all the pressures more than some of the people who were sitting here in Washington on the Board staff.

MR. SMALL. Suppose during the mid- to late 1960s, someone in IF came up with the idea to go off gold, for example. Would that intellectual debate be encouraged up and down the chain of command, or would you be seen as naïve? Were some issues taboo? How would you describe the intellectual give-and-take?

MR. BRYANT. There was a lot of intellectual give-and-take. There was nothing within confidential discussions that was taboo. That particular question—let’s label it with a shorthand phrase “suspension of the convertibility of the dollar into gold”—was the subject of countless memos that I wrote beginning in 1966 and certainly by 1968 and 1969. And, in different ways, we considered a variety of options. One option was where the United States would unilaterally initiate that step as a way of getting changes in exchange rates and starting the discussions about international monetary reform. At the other end of the spectrum were options focused on what happens if the United States would be forced to do that (because of such a big loss of U.S. gold resulting from important governments and central banks cashing in their dollars that there was clearly nothing to do but to close the gold window) and all the things in between. The contingency planning collections of memos that I mentioned and the memos I wrote were focused on the contingency of suspending the convertibility of the dollar into gold as the immediate likely cause of further problems and tensions. And that's exactly what happened by August 15, 1971, when President Nixon halted the convertibility of the U.S. dollar into gold.

MR. SMALL. Was there a run on the gold, or was the United States forcing other countries to change their exchange rates?

MR. BRYANT. My view, and I think the view of a majority of people in the division, was that closing the gold window would be seen as abrasive and offensive to foreign governments if we initiated it without being "forced to do so." In the division, we thought, for example, that the United States should willingly sell the gold to foreign central banks to a large extent, so we could then say we had no choice but to close the window. That would put the onus on foreign governments to help produce a new international set of arrangements where we wouldn't repeat the then-current problems.

MR. SMALL. We had no choice but to close the gold window because we had run out of gold?

MR. BRYANT. Yes, or we were threatening to run out of gold. In 1971, there was much more turbulence in the exchange markets, and it was clear that something was going to have to happen. But most foreign central banks, partly because they had had their arms twisted, were not asking to buy gold. They weren't cashing in their dollars. And there was an unstable but temporary hiatus in the way things were going.

John B. Connally, who was Secretary of the Treasury, Paul Volcker, Arthur Burns, and Herbert "Herb" Stein met with President Nixon at Camp David over that August 1971 weekend. They decided that President Nixon would unilaterally announce a closing of the gold window and various associated measures without first consulting with other key member countries of the international monetary system. In my view, the United States didn't handle that well. There was tremendous resentment abroad. It took us three months to get a "resolution," the Smithsonian realignment, but it wasn't really a resolution. Many of the hard issues hadn't been faced and were deferred. The August 1971 measures were not done very well from the perspective that many of us in the division had.

MR. PROMISEL. Going back to this intellectual dynamic within the IF Division, did those memos that were written go to the Chairman or to the full Board?

MR. BRYANT. Well, that question doesn't have an easy answer. Some memos went to the Board as a whole. But if we get up to February 1970, when Arthur Burns became Chairman, he did not want the Board to be so closely involved in all of this. He wanted it all to go through him. So Burns saw much more of it than the other Governors.

MR. TRUMAN. Was Martin more collegial, in that sense, or was it just a different culture?

MR. BRYANT. I believe he was more collegial, but since I had much less personal contact with Martin, I am not sure just how he handled all that. I am conscious of some memos that went to the full Board under Martin, but not many. I don't know whether some of the very delicate issues went to the full Board, like the contingency planning on what to do if sterling were devalued and, later on, what to do if the United States was put into a position where we were forced to close the gold window. Eventually the Board did see them, but I am not sure initially. If the word had gotten out outside the Federal Reserve that the Federal Reserve staff was writing memos about the pros and cons of closing the gold window, all hell would have broken loose. [Laughter] Both Martin and Burns were very cautious about having that sort of discussion go on in a wide group—because the possibilities of leaks would have been great.

Special Studies Group

MR. PROMISEL. Let's go back to that Special Studies group that included Dale Henderson, Lance Girton, Roper, and you. Dale and you were Yale trained. If I recall, Roper and Girton were Chicago trained. To what extent in the hiring was there a deliberate effort to bring in people with different perspectives? And did the fact that you had people with different mindsets approaching these issues make a difference in the intellectual discussion?

MR. BRYANT. I was directly involved in the hiring for the Special Studies Section, and subsequently for the division as a whole. I wanted a diversity of views in the Special Studies Section, and that was certainly my goal for the division when I became director. So, other things being equal, to me it was a bad idea to have one school of thought dominate. Recruiting was difficult. You wanted to get the really good people. My contacts were pretty good with, say, Jim Tobin, Art Okun, and Bob Triffin. I could learn about Yale people, and that's why, for example, Ted Truman, George Henry, and Larry Promisel came. I didn't know people at other universities as well. But the goal was to have a diversity of views. It was very helpful, for example, that Girton and Roper brought insights from their Chicago training. Later, when I became division director, I worried a lot about intellectual diversity. Still, we ended up with a disproportionately high number of Yale graduates for a while, but it gradually got better.

MR. TRUMAN. We got more systematized in recruiting later. It wasn't particularly systematized then. Part of it was a function of who was getting turned on to things. For a period of time, a lot of people came from Wisconsin to the Board, and it related to Don Hester. The best students at Wisconsin were turned on to the questions. Also Chicago, because it had people like Harry Johnson, Milton Friedman, and Robert Mundell. I assume that is partly where Lance Girton and Don Roper got it. Yale had Triffin, Tobin, Okun, and Cooper. So that was turning people on. Students at the universities went to work for the people who were interested in these topics. In some sense, it was a secondary selection process. If there was no one at Harvard who was interested in international monetary issues or monetary issues in general, you weren't going to get the best students from Harvard, because they were off worrying about some other topic—labor force participation, or whatever it might be.

MR. PROMISEL. Girton and Roper were here from a school where flexibility of exchange rates was consistent with their training to an extent that wasn't ingrained so much at Yale. Did that affect the staff's view? You said the staff felt that the key issue was getting more flexibility in exchange rates. A couple of Chicago people were here. Did that matter?

MR. BRYANT. I believe that wasn't so important. There was lots of discussion among the staff, but when you ask me the question about exchange rate flexibility, I am thinking about other people as well as Roper and Girton. Let's take Ralph Smith as an example. He could not be labeled—and would not want to have been labeled—simply as a Chicago product, but he was strongly convinced that we needed more flexibility in exchange rates. So was John Morton. Both of them were staff economists on the foreign exchange call. They had to listen to Charles "Charlie" Coombs and David Bodner at the Federal Reserve Bank in New York day after day reporting on exchange market developments. [Laughter] Because both Charlie and David were unenthusiastic about changes in exchange rates, especially floating exchange rates, someone on the outside might guess that Ralph Smith and John Morton were unenthusiastic as well. But their views were, in fact, very different from the views they heard daily on the call. At that time, even among the officers in the division, there wasn't unanimity about exchange rate flexibility, but there was a growing, division-wide sense that the way things were set up, the world was heading for trouble, and we did need changes in exchange rates somehow.

Relationship between the Division of International Finance and the Division of Research and Statistics

MR. TRUMAN. On these international monetary issues, there was a link between what was going on in IF and what was going on in R&S (Division of Research and Statistics). To what extent were international developments affecting domestic monetary policy? The view associated with Paul Volcker ex post is that the Federal Reserve could have fixed things by raising interest rates more. I've heard him say Arthur Burns wanted to go off gold, but Burns didn't want to raise interest rates, so Burns had his own dilemma. How did these international issues relate to the domestic economy?

MR. BRYANT. In answering that question, I would differentiate a lot between periods. And my window on things changed over time. I did not have a lot of contact with R&S people in 1966 and 1967, when I was first getting deeply involved in all these issues. I think Bob Solomon did. And before Bob became division director, Ralph Young was the director of both divisions, so, in principal, Ralph Young was supposed to be integrating work between the two divisions. But I didn't talk to Ralph Young enough to have a good sense for that.

By 1969 or 1970, I started to get to know people better, like Lyle Gramley, Stephen "Steve" Axilrod, Robert "Bob" Holland, and Charles "Chuck" Partee. There was a lot of conversation going on, but probably not enough. They might have thought that the analysis of deliberate reserve creation and complicated options for exchange rate adjustments was an international problem, and the details of that were not directly relevant to the conduct of monetary policy, so they weren't engaged deeply in those issues. And I would say that the IF Division was probably not sufficiently engaged in how the international events were conditioning the options that domestic monetary policy faced.

There was certainly some discussion, and probably more than I was aware of at the top level. I am guessing that Bob Solomon, Chuck Partee, Steve Axilrod, and Lyle Gramley talked about this in many meetings where I wasn't present and wouldn't have observed it. By 1970 or 1971, I was talking with them all the time, and there was a lot of discussion. But perhaps the division of labor between domestic and international dimensions of Federal Reserve policy may have been carried too far. Arcane negotiations were being conducted with foreigners (for example, about reform of the international monetary system through the Committee of Twenty—a topic we will discuss in a few minutes). What do you do about changing the IMF (International Monetary Fund) Articles of Agreement? Should we create SDRs (Special Drawing Rights), and, if so, how much? What do you think about the sustainability of the exchange rates of the German mark, the French franc, the Belgian franc, and on and on? To people like Chuck, Lyle, and Steve, all that probably seemed like stuff that IF was supposed to worry about. And, similarly, was the IF Division pulled as much as we might have been into the details of how the Bluebook options got phrased? I think probably not at that time.

The biggest reason why the integration of international finance and domestic monetary policy was limited was because none of the Board staff had an adequate ability to analyze how the international events were influencing the American economy. The analytic ability to integrate things was weak. One of the first things I wanted to do when I became division director was to see if we could improve our analytic capacities. We set up a special group to start the work on that task. It was known at the time as "Bryant's folly," and probably since.

[Laughter] But we had a poor ability to build the beginnings of a multicountry macroeconomic model so that we could ask intelligently "what if" questions for the Board, and what would be different if monetary policy were different, or how would outcomes be different if foreign countries implemented alternative policies.

Bretton Woods—Academic Considerations

MR. SMALL. I want to get to the question of the advocates and defenders of Bretton Woods—the early designers, their concept of international finance, monetary policy, fiscal policy, and how this all fits together. Someone now could look at the 1960s and say, "Those guys defended fixed exchange rates. We know government intervention is bad and stabilization intervention doesn't work. It was government interference in free markets, and that's just bad, suboptimal economics. The interest equalization tax didn't work. And there was one type of capital control or the other." Did those people back there really believe that exchange rate intervention was the long-term solution to imbalances? Did they not believe that, but thought that monetary and fiscal policy should be disciplined by exchange rate pressures? How would those people back there defend themselves against being viewed as old-time government interventionists who just didn't get it? I've heard Volcker talk about Bretton Woods. It was supposed to impose monetary and fiscal discipline. That was the overarching discipline. And if you didn't have discipline—which we didn't—fooling around with government intervention wouldn't work. What were attitudes back then? Did anyone strongly advocate government intervention?

MR. BRYANT. Well, you've asked a complex set of questions, so we need to cut into that nexus in several ways. But even if we talk most of today about this topic, we're not going to deal with it adequately.

The older, more conservative people in IF did not have any simple-minded views that free, untrammeled markets are either always good or always bad. Nor did they believe that flexibility in exchange rates is the answer to the world's problems. They didn't have extreme views like that, nor did they support unequivocally government intervention of various sorts. When the interest equalization tax and then the capital controls were imposed, most people in the division felt those efforts were not likely to be effective in achieving U.S. goals. Most IF staff were uncomfortable with them. For example, the Voluntary Foreign Credit Restraint Program, or the VFCR, which was a millstone around the division's neck for years, was not at all popular.

Trying to understand why the U.S. government took the position it did is difficult. First of all, changes in key Administration personnel were significant. When John Connally was Secretary of the Treasury [1971 to 1972], he wasn't interested in exchange rate flexibility. The quote that's attributed to him in addressing his foreign counterparts who were worried about exchange rate fluctuations—though I am not certain that he ever said it just this way—is "The dollar is our currency but your problem." [Laughter] When George Shultz became Secretary of Treasury [1972 to 1974] and Paul Volcker was at Treasury, they both had a much more sophisticated view. With his Chicago background, Schultz was interested in exchange rate flexibility. And Herb Stein, who was at the Council of Economic Advisers then, was not a strong advocate of fixed exchange rates. They didn't have rigid or ideological views about what should happen about exchange rates.

That's not quite answering your question, but I think you want to guard against a view of "the good old days" when people thought the Bretton Woods system was wonderful—that there were just a few minor glitches here and there, and if we only had a little bit more skillful exchange market intervention, we could keep those parities and all would be well. Every once in a while, I wondered if that was the view of key individuals at the Federal Reserve Bank of New York because [laughter] they didn't seem to understand just how shaky the current system was getting to be. But, on the whole, even they didn't think that.

So a lot of people felt—including those with more conservative views—that the world was beginning to be awash with speculative capital movements. Does that theme sound familiar? [Laughter]

MR. SMALL. They didn't know what "awash" was.

MR. BRYANT. They didn't know just how volatile things could get. But, in fact, the world back then was afflicted with large volatile capital movements, though on a smaller scale than we've seen in 2007 to 2009. That issue was beginning to be a major topic of conversation: What kind of restrictions, if any, on financial markets and capital markets made sense, particularly restrictions on cross-border flows? Were such restrictions feasible and desirable or not?

MR. SMALL. Is it possible that a person back then would say, "I believe in the Bretton Woods system. It was built to expand free trade. These government interventions in the foreign exchange market—capital controls and interest rate equalization—are not going to work." You just mentioned that there were some doubters. Perhaps they thought, "The correct way to make Bretton Woods work is through policies A, B, and C—monetary policy, fiscal policy, whatever."

MR. TRUMAN. At that time, in what sense did you perceive that the exchange rate regime was and should be a constraint on policies, whether you are talking about U.S. policies, British policies, or German policies?

MR. SMALL. Macrofinancial.

MR. TRUMAN. Was there a division between the exchange rate regime out there and the macropolicies?

MR. PROMISEL. Or, stated another way, was the discipline that was thought to be an element of Bretton Woods a positive factor that should be enforced?

MR. BRYANT. I'm uncertain how to deal with your questions the way you've put them. Instead of trying to characterize other people's views, let me say what I thought the division's balanced view was on Bretton Woods, and then we can come back and ask who agreed with it and who disagreed with it.

The world community needed—and I'm now speaking loosely—to make the Bretton Woods system work the way it was supposed to work. The Bretton Woods system didn't mean that we would never have any changes in exchange rates. When countries have disequilibria in their balance of payments, if other measures were not successful, the Bretton Woods rules of the game acknowledged that we need changes in exchange rates. But the system of rules and understanding was not working. It was certainly not working for Britain and the United States, because we were reserve currency countries and because of all the issues about the price of reserve assets. We couldn't initiate changes in exchange rates the way, in theory, other countries could.

I don't believe there was anybody who felt a system could work if countries had irresponsible fiscal and monetary policies. So when someone like Paul Volcker says, "We needed the discipline of a system," of course we did. The question is, what kind of discipline? A country with an open economy can't get away with "blue murder" in its fiscal and monetary policies. The rest of the world won't stand still while the policy mistakes occur. Trade and capital flows will respond to the situation and force changes on the misbehaving country. There is, however, a partial exception: A reserve currency country can get away with blue murder longer than other countries.

MR. SMALL. That was the de Gaulle point?

MR. BRYANT. That was part of de Gaulle's point. But he and his advisers didn't put it well. He was criticizing the "exorbitant privilege" of a reserve currency country that could pursue inappropriate policies and get away with it because the other countries, speaking loosely, had to eat their currency and put it into their reserves.

MR. TRUMAN. And expand their money supplies.

MR. SMALL. The United States is exporting inflation.

MR. BRYANT. Yes. That would be the foreign governments' contention: If they had to expand their high-powered money bases because they were buying reserves more than they wanted to, then they risked inflation. So I was sympathetic then—and I'm sympathetic now—to the worry that we need some way of disciplining countries' policies. And when policies are not good, we need some way for the system to adjust as best it can to that. And for a particular country, the market's going to punish it in some way, and some combination of reserve changes and exchange rate changes will eventually be necessary. From the world's viewpoint or from the viewpoint of individual countries, we didn't think it was efficient to put a lot of restrictions on cross-border movements of goods, and even cross-border movements of capital—although, for capital movements, the diversity of views was greater, because not every kind of cross-border movement of capital was thought to be unambiguously beneficial. "Speculative activity" is not a good thing sometimes, and you could wish that there were less of it.

MR. SMALL. Disciplining countries is clear, at least in my mind, for balance of payment deficit countries. Wasn't there an issue back then about an asymmetry in the Bretton

Woods system for countries that continually ran surpluses? Surplus countries don't experience the same market discipline.

MR. BRYANT. Sure.

MR. SMALL. Could you review that without mentioning China today? [Laughter]

MR. BRYANT. Do you want a half-hour, one-hour, or two-hour discussion? It goes way back into the 1920s and 1930s. Keynes wrote about that. His proposals in the 1940s on what to do with the IMF were partly driven by a fear that the system was asymmetric, and that surplus countries did not feel any pressure to adjust their policies even though they might be causing a lot of the imbalances.

The world has not changed in the sense that this problem has gone away. It's still very much with us and was a key consideration in the 1960s and 1970s. That was part of why the IF Division linked the question of reserve creation and reserve management so closely to exchange rates. These are just opposite sides of the same coin. That's why when we talked about "international monetary reform" then—and I believe when we talk about it now—it should be about this whole nexus of questions. One of the difficulties that we faced in the 1970s was that many people thought too much that it was just about exchange rates. We didn't deal with the entire nexus of issues in a satisfactory way then, and we're still not dealing with them in a satisfactory way now.

Special Drawing Rights

MR. TRUMAN. The SDR is an international reserve asset created by the IMF in 1969 to supplement its member countries' official reserves. The SDR was an attempt to deal with a part of the Triffin dilemma. Bob Solomon and, I think, Chairman Martin were involved in those negotiations. You were involved in that.

MR. BRYANT. I was involved, but as a flunky, so to speak, working with Bob. I got a chance to see all the papers, comment on drafts, and change them. And when Lyndon Baines Johnson signed the U.S. legislation, Bob and I went to the White House signing together, to get a pen and be thanked for our contributions in making that happen. [Laughter] Somewhere my wife has a picture of Lyndon Johnson handing me a pen.

I was deeply involved, but not so much in conversations with Martin. I don’t know enough about how Martin was or wasn’t engaged about this. I remember Bob Solomon saying that Martin was supportive but not actively engaged in the details of it. He gave Bob quite a lot of freedom to work out the details of a U.S. position with the Treasury. And because Treasury wanted deliberate reserve creation to occur via a new reserve asset, the Treasury and the Federal Reserve positions were similar. I have to say, however, that I don’t think Treasury was imaginative enough about how these changes should happen and what they should mean about the reserve currency role of the dollar.

En route back to the Board from the White House for the signing of the SDR legislation, I remember getting out of the Board car and joining an ongoing demonstration about the Vietnam War. [Laughter] I was very upset about the war’s consequences for the United States and the rest of the world.

MR. PROMISEL. Did President Johnson take back your pen? [Laughter]

MR. BRYANT. The signing was in June 1968.

The IF Division was deeply interested in the question of SDRs and their potential for improving the world financial system. But, I am sorry to say, it was not possible to get Chairman Burns as deeply interested in the SDR as Chairman Martin may have been, and certainly as interested as Bob Solomon was. So during 1971, 1972, 1973, I didn’t feel that the

Federal Reserve was quite as farsighted and showing as much leadership as I would have liked to have seen. But that was a difficult time, with many things going on, and maybe my view was naïve about what was possible.

MR. SMALL. Was the creation of the SDR linked to the concept of deliberate reserve creation?

MR. BRYANT. That was it.

MR. TRUMAN. So it was “paper gold”?

MR. BRYANT. Yes, though that often-used phrase can be misunderstood.

MR. TRUMAN. At least one concept was that you would have regular SDR allocations. You would expand base money, in some sense, and that satisfies the demand for reserves, which you had to have increasingly as the global economy expanded. They had an SDR allocation for three years—1970, 1971, and 1972. They created $3 billion a year.

MR. SMALL. So the Fed can control its balance sheet and its liabilities, and the IMF can control its balance sheet?

MR. BRYANT. Except your remark has some wrong nuances, Dave, because nobody thought the IMF should be an actual central bank for the world as a whole. Governments weren’t going to give “IMF bureaucrats” the authority to make decisions like that. But, collectively, the major countries of the world, in their wisdom, would decide how much SDR to create. So the SDR was a world “outside” reserve asset, to again use the Gurley and Shaw term, and the idea was that it would be created smoothly over time. There was also a provision in the amendment to the IMF articles for destroying SDRs temporarily, if that should ever be judged desirable. But such an occasion, so far, has never happened. Then, after 1972, when so many other aspects of international financial cooperation crumbled, SDR allocations stopped. I don't recall just when they were again allocated for a short period.

MR. TRUMAN. Well, there were two periods of about three-year allocations: 1970 to 1972 and 1979 to 1981.

MR. SMALL. Did you interact much with former Governor Dewey Daane, who worked a lot on international matters?

MR. BRYANT. I worked extensively with Dewey beginning in 1971 and especially in 1972 and 1973.

MR. TRUMAN. In March 1974, when Dewey left the Board, he was succeeded by Henry Wallich.

The Suspension of Gold Convertibility

MR. SMALL. Let's go to the topic of going off gold. There were a lot of strong personalities—Charlie Coombs and Paul Volcker, for example.

MR. PROMISEL. And Arthur Burns.

MR. SMALL. And there were some differences. For whatever reasons, Volcker was moving toward going off gold—as part of the Connally team, I guess. Coombs was more of a Bretton Woods advocate. To what extent did the Board bump up against the New York Desk or Treasury? Did you know about the interactions between the Board and Treasury or other players?

MR. BRYANT. Let's talk first about the substance of the interactions and the policies. And, if you force me to, I'll say something about personalities. But I think the policies themselves are most important.

Treasury was primus inter pares about all these issues before Paul Volcker became undersecretary for Monetary Affairs in 1969, and certainly after Paul was there. The Federal Reserve was constantly pulled into dialogue with the Treasury, but it was clear that Treasury, not the Federal Reserve, had the primary policy formulation role. The New York Federal Reserve Bank also was actively involved because it had day-to-day authority for the operations in the exchange markets. The New York Fed would, of course, consult with the Board, notably the Chairman. And because you couldn't divorce the intervention operations from the larger policy formulation questions, the New York Fed had a strong interest in being involved in that, too.

MR. TRUMAN. You probably need to explain that, because we didn't have any foreign exchange reserves. If we wanted to intervene, we had to get them from somewhere.

MR. BRYANT. For purposes of Dave's question, we can avoid for a while talking about the Federal Reserve's swap network and how ammunition was made available to Charlie Coombs and Dave Bodner if they were going to intervene. There were many hard questions about that, too. I was just trying to address the larger issues of suspension of gold convertibility, how policy was formulated, and all of that.

Before Arthur Burns became Chairman, I think that the Board staff and the Governor who was charged with international matters took more initiative in dealing with Treasury. Chairman Martin didn't as often get involved in the details. But I couldn't observe that always firsthand, so I am less sure about that. I was pulled into many meetings where policies were being discussed, and I was asked to comment on drafts. I went to a bunch of meetings at Treasury with Bob Solomon, so I had a little bit of a window, but much less than I had later on. Paul Volcker was certainly much more amenable to major changes in arrangements than Chairman Burns was or the New York Fed thought was appropriate. So there was often some tension about that. Arthur Burns and Paul Volcker had a good, but not always easy and smooth, relationship.

There was a lot of contingency planning going on at the Treasury as well as at the Board. By the time Burns became Chairman in early 1970, we were doing a lot more. It was focused on this whole nexus of questions that we started to talk about before, not merely how to get changes in exchange rates to remedy the U.S. payments imbalance that was beginning to be worse and worse. What do you do about all the restrictions on capital flows and some of the other things that had been in place here and in other countries? What do you do about deliberate reserve creation—let's just use that summary term for that whole nexus of questions—and several other things about international monetary reform?

I remember distinctly, for example, a series of papers, which were labeled as "secret," that Paul had the Treasury staff draft. They were then sent over to the Board, to the Council of Economic Advisers, and to a couple of other places. The papers dealt with different options for thinking about suspension of convertibility. I think this was in the spring of 1971. We had lots of exchange market turbulence in 1971 in the spring and the summer. By August, almost everybody was aware that something was going to have to give, but there wasn't any real agreement on what to do. And, as I said, the view of Board staff was that you needed to look at the whole range of questions. I think that was much less true at Treasury. By the time President Nixon was asked to think about options, and they got together on the weekend of August 13 and 14 at Camp David, the focus was on suspension of convertibility, imposing a new import surcharge, and wage and price controls because they already thought that inflation might be getting out of hand.

I don't think that the international monetary reform questions made the cut in that weekend's discussions. By the time an announcement was made, there was pro forma lip service saying that we need to think about what the consequences are for international monetary arrangements, but they really didn't do much about that. I don't know whether Paul Volcker would agree with that assessment. By the fall of 1971, there were a lot of question marks of what could and should have been done. In December, President Nixon and Georges Pompidou met in the Azores and made a deal about changing the dollar price of gold and some changes in European exchange rates. That was largely the only thing they focused on. By the Smithsonian meeting, which I think was December 17 and 18 in 1971, most of the compromise had been cooked. It had been talked about for weeks. The pattern of exchange rate changes that came out of the Smithsonian was, with the wisdom of hindsight, clearly not enough, and the United States changed the dollar price of gold from $35 to $38 an ounce. Then the hope was that things would settle down. That was certainly the hope of Chairman Burns and the New York Fed. We, the Board's staff, were pretty skeptical.

MR. TRUMAN. But you hoped so, too, I assume? [Laughter]

MR. BRYANT. Well, yes. We weren't looking for trouble, but we felt it was our job to identify problems that could come up.

MR. SMALL. Earlier, I think you said that the August 1971 announcement wasn't handled well. Were the particulars that there wasn't a well-thought-out successor to Bretton Woods?

MR. BRYANT. Maybe we should come back and talk about 1971, because that was very important in what my role became. And, Dave, I wish I could get you to not talk about Bretton Woods as though there was a clear-cut model. [Laughter]

In the spring of 1971, there was all sorts of turbulence in the exchange markets, which was reflected in interventions. Board staff was on the phone all the time with the New York Fed—"the Germans took in $X billion today," or the Dutch, and so on. Coombs and Bodner were very exercised about the day-to-day developments. That, of course, was their job. The Board's staff gave a series of briefings to the Board indicating that changes in exchange rates were part of a package that was necessary to reduce the U.S. payments imbalance, and that the deficit was only going to be amenable to that. That view was controversial and not pleasing to the Chairman, because he didn't want this issue discussed very much. But, confidentially, he knew that we were right.

There was a briefing in May 1971 in which we talked about the balance of payments situation of other European countries. We also gave a briefing in June where we talked about the U.S. balance of payments. It was pretty clear that we thought things weren't going to go on very smoothly. And all the contingency planning referred to earlier was going on behind the scenes. We get to August 15, that weekend, and the President announced big unilateral U.S. policy changes—wage and price controls, an import surcharge, and suspension of gold convertibility. I was very upset, because I felt that the publicity had been handled poorly and the full range of issues had not been addressed. I probably overreacted. I was still just a section chief in Special Studies.

I had worked with Bob, and, by that time, I knew that Chairman Burns and Bob Solomon were not always on the same page in their interactions. The Chairman was sometimes critical of Bob's and the division's analysis. I had been pulled into helping Chairman Burns draft testimony in the spring and, for some reason—I think because I was just very young and inexperienced—the Chairman found it easier to get along with me than with Bob.

I might have been indiscreet in doing this, but, right after the weekend of August 15, I wrote the Chairman a memo. Because I knew it was sensitive, I didn't show it to Bob right away, although we didn't disagree about policies. The kind of advice in the memo essentially stated that this was a real opportunity for U.S. leadership, and the way the announcement had been made was likely to be offensive to many countries—this is an opportunity, but a danger. I don't know for sure how Burns reacted to the memo. But he did call me in, and the two of us had a bunch of conversations over the next month or two. He asked me to work on particular problems that developed. Bob and I were both in his office some, but it was delicate, because Burns was not confiding in Bob as much as I think he should have. IF staff continued to write memos about what compromise agreement should be arranged. I remember some memos that you wrote, Larry. You weren't at the Board yet, Ted. We were trying to be as helpful as we could at identifying what the outcome could and should be.

By September 1971, I had been asked to think about setting up a research center at a university, and the funding had been put together. I wanted to maintain my contacts with the academic community, so I was seriously thinking about leaving the Board to do that. And, out of frustration for where things were with policy, I then submitted a letter of resignation to Chairman Burns in September 1971.

MR. SMALL. Did you say to Chairman Burns that you were frustrated, or that you had a better opportunity?

MR. BRYANT. I don't remember the exact language in my letter to the Chairman. I certainly didn't literally say, "I'm frustrated." I strongly criticized the current stance of U.S. government policy, but I did not overtly indicate the degree to which I thought the Chairman shared the current stance of policy. And I said that I wanted to maintain my links in the academic community. I didn't talk about the specifics of the academic opportunity in the letter. I just said, "I am submitting my resignation."

MR. SMALL. But your motive was in part frustration?

MR. BRYANT. I had several motives. My children were young, and I wasn't spending enough time with them. In the preceding month or two, I had been in Burns's office a lot, and I didn't get home until 8:00 or 9:00 in the evening. The way things were going, I would not have any time with my children. So the first consideration was family matters. Second, I wanted to maintain my contacts in the academic community, and the conversations in the background were giving me what looked like quite an opportunity to do that. Third was the frustrations about U.S. policies and the status of relationships here at the Board. I had a sense that it would be difficult to stay, especially if Chairman Burns didn't show confidence in Bob Solomon, who was the division director, and if I were de facto asked in some ways to be a substitute for Bob. That was a delicate situation that wouldn't be good for Bob, for me, or for the Chairman.

To make a long story short, I had many conversations with the Chairman after that letter. He urged me not to resign. He said we could make changes that would be attractive to me, and he agreed with my goal of increasing the analytic capacity of the division. He asked Bob Holland to talk at length with me about various changes we could make. And, by December, I had agreed to stay as division director.

There was strong agreement between the Chairman and me about the kinds of things that I could do to reorganize the IF Division and bring in new people. But we didn't write enough of it down. And, by the time we got into 1973 and 1974, the world was in such a shambles internationally that some parts of the understandings could not be fully implemented. In the end of the discussions in the fall of 1971, I did feel that it was an opportunity to stay here at the

Federal Reserve and work with what was already a very good staff. It was clear I could bring in many new people, and we could build up the research and analytic capacities of the division. So all the discussion about contingency plans for U.S. policy were somehow tied up with my personal situation and trying to decide whether to stay or leave. That's one reason why I am mentioning it here.

MR. SMALL. You indicated that, with the August 15, 1971, announcement—informally named the "Nixon shock" by the international community—the United States might have rubbed other countries the wrong way. What was the problem?

MR. BRYANT. I had a set of ideas that were widely shared in IF about the tactics for how to resolve the dilemma that we weren't getting changes in exchange rates. Almost all of us were fairly sure that, at some point, we'd have to suspend convertibility of the dollar into gold. But rather than that being the focus of what we did, and the United States initiating that without seeming to be forced into doing it, we wanted to tie it to the whole nexus of reform questions. So, in the memo that I sent to Chairman Burns, I summarized all the major issues. There was the post-crisis-period pattern of exchange rates—the post-crisis values of national currencies in terms of gold. And there were SDRs and reserve decisions in the IMF. Those were only two out of a list of eight. Other things included institutional procedures for ensuring greater flexibility of exchange rates in the future rather than just a single one-time realignment of parities, reduction of the reserve currency role of the dollar as part of a move toward a consolidation of reserve assets, methods for increasing the ability of the United States in the future to initiate changes in the exchange rate of the dollar vis-à-vis other currencies, and on and on.

My pitch to the Chairman—which I think was right—was that there was a whole nexus of things. If the United States was focusing on the entire package, it could get other countries to come along. There was a real chance of getting a major adjustment in international monetary arrangements. But focusing just on the first two—and, in particular, focusing just on the suspension of convertibility—would seem as though the United States was saying, “We’re going to do this and you guys have to adjust to it, end of story.” That was largely the flavor of the way it was done, and Connally’s announcements encapsulated that. At Camp David, at first Chairman Burns argued against the suspension of convertibility. But Burns probably didn’t tie it to a sensible view of the whole package of things, even though he’d seen a lot of our memos. We had given him all these memos in the preceding months. Who knows? He was very busy. I don’t know what he had a chance to read and what he didn’t, or whether he disagreed or agreed. It’s probably not easy for you, Dave, in particular, to remember how much the fat was in the fire by August 15, 1971. There was a lot of focus by the domestic division on the price and wage controls, and many other people focused on the import surcharge.

MR. TRUMAN. And were the domestic aspects of August 15—particularly the wage and price control component—a surprise, or had such ideas been in the pipeline for a long time before that weekend?

MR. BRYANT. I believe as far as the staff—Chuck Partee, Lyle Gramley, and Steve Axilrod—knew, the wage and price controls were a surprise.

MR. TRUMAN. Even though, if I remember my history right, Burns himself had been an advocate of wage and price controls.

MR. BRYANT. I don’t know what position about this he took during the discussions at Camp David.

MR. TRUMAN. Burns was more sympathetic than you might think to wage and price controls, in terms of his intellectual reputation. I might be wrong. It doesn’t matter. But it was a surprise. For the Board and the FOMC, you had two things going on at the same time: You had just destroyed the international monetary system [laughter], and you imposed wage and price controls.

MR. BRYANT. You are forgetting the import surcharge.

MR. TRUMAN. Well, and destroyed the international trading system, too.

MR. BRYANT. "Destroy" is not quite the right verb. It was a bombshell of a first-order magnitude. The rest of the world thought so, too. We ended up in a period of two or three years in which the dust didn't settle.

MR. MARQUEZ. If you were to compare that episode with the current situation, would you say they were on par in being unsettling?

MR. BRYANT. The situations are quite different. The financial crisis in the last 18 months or two years—wherever you want to date it from—had dimensions that didn't exist in 1971 to 1974. From the perspective of policies, I think the bombshell was even bigger in 1971. The recent financial crisis brought all kinds of policy issues to the table on what was going to be done, but the financial meltdown wasn't instigated in the first instance by policy, whereas I think the failure of policies in 1970 and 1971 to deal with the payments deficit issues meant that policies here and abroad were a prominent cause of the crisis. But it would not be right to say that policies played the dominant role in instigating the crisis in 2007 and 2008.

MR. TRUMAN. Was the U.S. economy in 1970, 1971 overheating?

MR. BRYANT. I'm going to dodge that question because I'm genuinely not sure, and IF wasn't sure. And I don't believe that R&S was completely sure either. One of the IF Division's concerns about the way that the international stuff was being triggered was that the Federal Reserve Bank in New York wanted to raise the discount rate, for example, to protect our currency. We felt that tightening monetary policy and making the U.S. economy grow below potential was a costly way of dealing with an international situation that needed other kinds of changes. So we were emphasizing that you don't want to depress the domestic economy as a way of dealing with international imbalances. From the long-run perspective, depressing the domestic economy was very much the wrong thing to do. By 1972, I think the staff believed that policy wasn't tight enough, and that Chairman Burns was too reluctant to raise the funds rate and tighten policy. But that is a 1972 question. The issue was beginning, no doubt, to come to the surface in 1971, but I can't recall staff discomfort that somehow Federal Reserve policy was definitely too easy prior to the August 1971 Camp David bombshell.

MR. TRUMAN. Well, you should go back and fill in the blanks that you think should be there.

You left one thing out. You sent a memo to Burns. You also briefed the FOMC.

MR. BRYANT. Yes. In an FOMC briefing on August 24, I tried diplomatically to say, "There's big trouble ahead. The best way to deal with it is to have a package of international monetary reform decisions made. The United States should push those. We shouldn't focus just on a pattern of changes in the adjustable par values." But I don't think I managed to convert many people around the FOMC table. They weren't deeply involved in the details of all of this. Only the Chairman and Dewey Daane were.

MR. TRUMAN. And presumably Alfred "Al" Hayes, president of the New York Fed, or Coombs.

MR. BRYANT. Coombs, yes. Al Hayes had views similar to Charlie Coombs. Let me put it that way.

It was also my view, which I said privately in the memos to the Chairman—and I think other people in the IF Division shared the view—that focusing predominantly on the dollar price of gold was much the wrong way to focus on an international compromise following the unilateral U.S. decisions on August 15. Foreign governments were likely to push an increase in the dollar price of gold on the United States as a compromise way of getting changes in exchange rates, and indeed, that is what happened at the Smithsonian. As early, at least, as July and August 1971, I thought that the United States would not need to agree to change the dollar price of gold if the United States was forthcoming on the whole range of other things, including issues about reserve creation and the reserve currency role of the dollar. I think we could have gotten a change in parities without revaluing gold, and hence would not have had to abandon a lot of the momentum that we tried to establish about creating the SDR and having a more rational set of arrangements for reserve assets.

It was a long shot to take that view, and, given the other aspects of the U.S. August 15 decisions, it turned out not to be politically saleable: The Europeans insisted that the United States "do its part" by devaluing the dollar against gold if they were going to revalue against gold, which is what happened at the Smithsonian.

OPEC and High Oil Prices

MR. SMALL. OPEC was pegging the price of oil to the dollar, as it still does. So when the United States devalued the dollar, that caused problems for OPEC, and it reacted. Were the repercussions on OPEC and oil important for the oil shocks that came later?

MR. BRYANT. In retrospect, before October 1973, I don't think many of us were focused on oil nearly enough. But I don't believe that OPEC decided it had to change its policies because of what happened at the Smithsonian. By that time, we'd had a second devaluation of the dollar and a huge set of crises in Europe. What were we going to do? We were floating major currencies, because the governments couldn't agree on anything else. But once the Yom Kippur War started and OPEC started to raise the price of oil, then nobody could talk about anything else *except* the price of oil. By January 1974, the international financial negotiations were foundering, and then, boom! There was an oil price increase, and nobody wanted to talk about the financial negotiations. So the world began to focus on oil facilities and the IMF, and various other things. The conventional view quickly became, "We can't do all the things necessary for international monetary reform. We've got to deal with the oil price and its consequences." I don't think the oil price issues were central before the fall of 1973, but after then they did become really central. With the wisdom of hindsight, we can argue that the international community should have paid more attention to that. We reported changes in the oil price when they occurred before, but they weren't really big before the Yom Kippur War.

MR. TRUMAN. My memory of this is that there had been a flat price of oil. It was pegged by the Texas Railroad Commission. That broke down, and there was a gradual increase in the price of oil starting sometime in 1971 or 1972.

MR. MARQUEZ. Correct.

MR. TRUMAN. It went from $2.00 a barrel to $2.50.

MR. BRYANT. But it wasn't on the list of "big deal" issues, so to speak.

MR. TRUMAN. No, no. And in the 1973 period, there was a general increase in commodity prices. You could argue about whether that was triggered by the going off the gold or lack of discipline or just that the global economy was overheating. And there was a certain amount of interaction with what was going on—on the political side, the Yom Kippur War and the fact that commodity prices were already starting to rise. There was a bit of a chicken-and-egg, but clearly they played off of each other.

MR. BRYANT. In 1972, there was the controversy about whether Federal Reserve policy was too easy prior to the November 1972 elections. I won't touch that one. But by the end of 1972 and early in 1973, when all the international turbulence was going on, we were writing memos about commodity prices in general but not focused exclusively on oil. The thought was, yes, there are various conditions in the world economy leading to upward pressure on commodity prices, and that will have possible consequences for domestic prices in the United States and other countries. But, again, it was only in November and December 1973, after the October Yom Kippur War, when the oil price went up like a rocket. And then it was clear that we had a different problem on our hands, partly political and partly economic: what to do about OPEC, and so on.

The Development of the Econometric Models in the International Finance Division

MR. SMALL. Would you talk about the development of the econometric model in the IF Division?

MR. BRYANT. Between the time I came to the IF Division in 1965 and when I became director of the division in January 1972, essentially there wasn't any macroeconometric modeling going on in the division. There was some in R&S. I don't recall just how much earlier the Ando-Modigliani project had gotten started. I was pulled into that a little bit.

MR. MARQUEZ. Didn't the MPS (MIT-Penn-SSRC) model begin in 1967, 1968?

MR. BRYANT. Maybe it was 1967. That effort was certainly an inspiration to me and a few others in the division, but it had no international dimension of which to speak. The burr was under my saddle that the IF Division should be doing something about this. As I said earlier, I expected to be leaving at the end of 1971 to set up a research center at a university.

When I became division director, I wanted to organize a group to get to work on modeling. I knew it would be a years-long exercise and couldn't have quick payoffs, but it seemed to me something that should be started. It was partly in parallel with the MPS, Ando-Modigliani, Gramlich, Tinsley, and others effort. But in the first instance, it had to be separate, because we had to think through what a multicountry model could be and the interactions among the country modules. That was difficult in many ways, but not the least was, what do you do about modeling exchange rates?

MR. TRUMAN. Ralph, talk about MCM (the multicountry model). What was your strategy? In my view, it was very important. Some called it "Bryant's folly."

MR. BRYANT. There were some people who criticized it as a risky enterprise, not likely to pay off. These were people that weren't sympathetic to analytic modeling of that sort.

My memory about the sequence of events in 1972 won't be good. I certainly remember that by the time we got it organized, Guy Stevens had agreed to be a section chief. Peter Clark, Peter Hooper, Dick Berner, Howard Howe, and Sung Kwack were all involved. Ernesto Hernandez-Cata came in later. I don't think that's a complete list. I gave them a mandate to start thinking about all the hard questions and what could be done. A question that interests Jaime a lot is whether the emphasis should be on empirical estimation of coefficients and what we knew empirically about the interactions among countries, or whether we should go further in imposing theory when we couldn't get empirical estimates. My view then, as it is now, is that you couldn't be a purist in either direction. The thing would never be an ultimate success if it wasn't empirically grounded in lots of careful empirical estimates. There were so many hard questions we didn't know how to answer about formulating the specifications of models. It made sense to think the theory issues through first. I hope I'm not misremembering my mandate. My view was to give the staff wide latitude to proceed in the way that they thought best. And what emerged over the first few years was a mixture of the two.

We brought in as many people as we could find who would talk about either the specifics of particular trade equations or how to specify the capital account. Larry Klein and a bunch of people like that came in, and we got people from Project Link to come in. Nothing was satisfactory that existed anywhere else, but we drew on the people in the profession who thought this was an important problem and picked their brains about how to proceed. We wanted to link up with what was going on in R&S. The goal was eventually to have some way of either combining the domestic and the IF multicountry models or have an iterative process that would go back and forth that would enable the Board's staff to produce much better projections for the Greenbook as one part of the policy process—and, even more important, answer "what if" questions for the Board. And it eventually came to that. Jaime knows the details of developments in recent years better than I.

This effort, in my mind, was part of the broader objective of beefing up the analytic and research capacities of the IF Division. There was some capacity there, but not nearly enough. The officers running the division in 1965 and 1966, when I first came, had neither the background to promote this kind of research with the younger staff nor the interest. And it was still true in 1970 and 1971 that we could do much more. By that time, the younger economists in the division really agreed with the thought that we needed, in all sorts of ways, to enhance the analytical capacity.

One reason I was so interested in people like Dale Henderson, Lance Girton, Don Roper, and others was that we needed some way of thinking about stocks and flows of assets and liabilities cross-border. To use a metaphor, we were almost just at home base, a few steps toward first base, and hoping to get off the ground. The first thing to do was to be clear about the theory, and the portfolio balance stuff that Dale and Lance and others were working on was a start on that. Sadly, by the time we get to the 1990s and the first part of this century, the profession as a whole drifted away from an emphasis on portfolio-balance analysis. It's now been coming back in the last five years.

Once I had agreed to stay and be division director, I saw my job as enhancing the capacity of the IF Division as well as serving the Board, particularly the Chairman, in the conduct of policy and being helpful about these huge policy options that the U.S. government as a whole was confronting. At the Treasury, the issues were most pressing. But the Federal Reserve was deeply engaged. And that's the story of 1970 to 1974, which was a good part of the time when I was here as division director. What I cared about immensely was building up the division's analytic and research capacities. That was at the top of the list, or at least second on the list, of reasons why I decided to stay at the Board. I thought it was feasible to enhance the analytic and research capacities here. It wouldn't have been feasible at any place like the Treasury.

MR. TRUMAN. It sounds like you sold enough of your vision to Arthur Burns so that he signed on, even if he didn't deliver everything that he promised. You were frank about what you wanted to do, and he said, "Yes." Maybe he didn't deliver everything on his side, but you probably didn't deliver everything on your side, either.

MR. BRYANT. No, I didn't. It's difficult to summarize a balanced assessment.

MR. TRUMAN. But, to his credit, Chairman Burns was sympathetic to what you were trying to do, at least intellectually.

MR. BRYANT. Yes, I think that's true. There were times when I felt that the division was getting through, and the Chairman was working on Volcker and, at first, Connally and, later, Schultz to do the right thing. There were a couple of occasions when I was asked to draft a memo for Burns to send to the President. I know on one occasion he did send it, and he was pushing against Treasury in the right direction. But there were many other times when I don't think he followed up. Let me come back to that.

Aftermath of the August 15, 1971, Announcement and the December 1971 Smithsonian Agreement

MR. BRYANT. During the second half of August and early September 1971—before I had submitted my letter of resignation—the so-called Volcker group, which was Paul's Treasury staff and a few other people, was looking hard at memos about what the President's options were. Dewey Daane was the Federal Reserve representative on the Volcker group. Given that the United States had thrown the fat on the fire on August 15, what should we do next? What kind of exchange rate change did we think we wanted? Were we willing to go back to convertibility of the dollar into gold? When were we going to take off the import surcharge? What should be done about all the capital controls: the interest equalization tax, the Federal Reserve had the VFCR, et cetera? Prompted by Volcker, Schultz gave a speech—I think later in the fall, not early September. Should we be in favor of a sweeping reform of international monetary arrangements? What did that mean? Were we really behind the SDRs as a reserve asset to substitute for gold and dollars? Though nobody wanted to put it this bluntly, were we going to tolerate or even encourage the diminution in the reserve currency role of the dollar? Or were we not going to touch that, because it was in the interest of the United States to let that run?

Volcker drafted a series of option memos and sent them to Burns and Daane. I was given the chance to comment on those memos in detail. I remember going over to Treasury and handing Paul in person a bunch of comments and changes in the drafts. That all kept feeding into the deliberations. But, behind the scenes, the European central bank governors were working on Burns and the finance ministries in Europe were working on Connally to produce a compromise agreement, and they didn't give lots of weight to the international monetary reform list of issues that we've talked about. They were for as small as possible a revaluation of their currencies as they could get away with, and they insisted that the United States make a contribution by changing the dollar price of gold. That's where we came out on December 17 and 18 in the Smithsonian realignment. As I said earlier, that was probably partly conditioned by the meeting between Nixon and Pompidou in the Azores a few days earlier.[3] The IF Division kept working on the Chairman and on Dewey Daane to take a bolder attack in all this. And to the extent that we had the chance, we were trying to persuade Paul Volcker to be more assertive. I have enormous respect for Paul, but I think he was too cautious and timid. I wanted a more drastic and bold policy from the United States on a bunch of fronts than he thought was possible and maybe even desirable.

In any event, the United States and other major countries negotiated realignment of the major currencies toward the end of December 1971.[4] Then the question was, where are we now? It was the division's view that we shouldn't take all the international reform issues off the agenda. So we kept working on those. We also had the view that the realignment at the

[3] Editor's note: Georges Pompidou was the prime minister of France from 1962 to 1968.

[4] Though it was hoped that the Smithsonian Agreement, announced in December 1971, would produce a new stable pattern of exchange rates, it constituted a formal end to the fixed system of par values pegged to gold established at the Bretton Woods Conference of 1944. Bretton Woods had established an international fixed exchange rate regime in which currencies were pegged to gold and to the U.S. dollar so long as the dollar's peg to gold remained unchanged. The Bretton Woods system is often referred to as a "gold-exchange standard."

Smithsonian wasn't likely to last. Nobody could be sure. Indeed, we got halfway through 1972, but then things hit the fan again. The British were forced to float, and the exchange markets were in turmoil day after day. Charlie Coombs and Dave Bodner were having fits in New York every day [laughter], and the 9:30 and 2:30 [foreign] exchange [market] calls were full of drama and angst.

So we were forced to think more boldly. In the spring of 1972, to my surprise, Chairman Burns called me into his office and said, "I want to give a speech about international monetary reform. I'm supposed to go to a big conference in Montreal in May, and I want to give a speech. This is your chance to persuade me of the kind of things you've been writing the memos about." So, painfully, over a couple of weeks, we went through draft after draft of that Montreal speech. [Laughter] Burns had a good sense of what role he could play. I started out with 14 points he should make. In one of the first sessions, he said, "Get rid of 4 of them. I don't care which 4, but I want 10 points, not 14." [Laughter] That's an example of how shrewd he was. He was thinking of the Ten Commandments. So we worked it down to 10 points. He painstakingly went through all the wording of the speech. Some of my drafting that was loose and inadequate got tightened up. By the time he gave the talk in May, which got lots of attention, I thought, "We're making progress." [Laughter] And maybe, to some extent, we had.

The Volcker group deliberations were still cautious and timid. And then the British currency—sterling—had to float, and everything got to be a terrific mess in the summer of 1972.

An example of a hard policy question was, should the Federal Reserve get back into the markets with exchange market intervention? The Federal Reserve Bank of New York was eager for that to happen. A majority of people in the IF Division thought this was not likely to be a good idea, because it was not likely to be successful. We'd be overwhelmed. There was lots of fighting about that. Then, in July 1972, the IMF board of governors formally approved the suggestion to create a committee on reform of the international monetary system.[5]

MR. TRUMAN. Ralph, post-Smithsonian, we went back to fixed exchange rates. Other countries were defending our exchange rate. So the issue was whether we should also be involved in this. The Germans were buying dollars to the extent that they had to defend their exchange rate. So it was a burden-sharing issue.

MR. BRYANT. Yes. I took for granted that that was understood. The December 1971 Smithsonian Agreement was a readjustment of so-called par values around narrow margins, and the European countries were supposed to keep their currencies within those margins. The United States, if it ever intervened, was buying or selling foreign currencies, but we didn't have a margin around gold. Gold was then priced at $38.00 an ounce instead of $35.00 prior to the Smithsonian. And, as Ted put it, if some exchange market intervention were to occur on the part of the United States, it was "sharing the burden" with the European central banks and finance ministries who were trying to maintain those parities. The British couldn't do it, so they had to throw up their hands and say that sterling was floating. The Bundesbank was taking in an enormous amount of dollars, adding to their reserves, trying to keep the mark from appreciating further. Several other European countries were in analogous positions. Everybody could see that things weren't holding, which is one reason behind the establishment of the Committee of Twenty in the summer of 1972. It became agreed internationally that the entire set of reform questions should be examined. The IF staff was enthusiastic for this development, because we thought the world really did need to look at the whole range of issues, and that we couldn't just carry on with the new par values that had come out of the Smithsonian.

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[5] The IMF Committee on Reform of the International Monetary System and Related Issues was called the Committee of Twenty (C-20).

The deputies of the Committee of Twenty started to meet late in 1972. Bob Solomon became one of the three deputy directors, working under the leadership of Jeremy Morse, until that time at the Bank of England. Bob was no longer physically at the Board a lot because he was off helping to organize and chair these C-20 meetings and the working group meetings.

International Finance, 1972 to 1974

MR. BRYANT. The year 1972 was a difficult time for domestic monetary policy. I was involved in FOMC discussions about the appropriateness of Federal Reserve monetary policy during that period, but I was largely listening to others. It was my view that the Committee was too sluggish in raising the federal funds rate. That was the view of R&S staff as well as the IF Division. I'm sure that the controversy about what the motives of Chairman Burns and other Committee members were has been discussed by others, so I won't talk about that.

The exchange market turbulence didn't subside toward the end of 1972 and into early 1973. The Swiss franc had to float. Germany announced additional exchange market controls. The G-20 deputies were meeting in Paris, and it was clear that things weren't going to hold together. So Paul Volcker went on his famous five-day trip around European capitals to negotiate a second devaluation of the dollar.

MR. TRUMAN. And Japan.

MR. BRYANT. And Japan. And at the end of that period, on February 12, the United States announced a second devaluation of the dollar against gold, which also meant then that there was a further devaluation against major European currencies. The Germans revalued modestly against gold a second time. So by February 12, we'd had another tentative "resolution" of it all. It continued to be my view—I won't say it was the view of the whole IF staff—that, again, it was a mistake to focus just on a realignment of the parities and the change in the dollar price of gold. A much broader set of questions had to be looked at anyway, and if the United States pushed for a much broader, comprehensive package, we would have been much better off. But we didn't do that.

Beginning in late February and early March, the turbulence in the exchange markets started all over again. On March 1, the Germans, I think, took in more than \$3.5 billion right at the beginning of the market opening. By the next day, the exchange markets were closed throughout Europe. The margins around the new February 12 parities just couldn't hold, and everybody said, "Where do we go from here?" There was an immense uncertainty in markets. It didn't affect U.S. financial markets nearly as much as it did European and Japanese markets and the rest of them, because we were a less open economy and, to some extent, less exposed to the exchange market turbulence.

The European finance ministers met in Brussels on March 4 and March 8. They were going to organize a joint float of the European currencies against the U.S. dollar, but the French were not so keen on that. Basically, between March 8 and March 17, 1973, if I'm remembering the dates correctly, Chairman Burns, Governor Daane, and I were traveling around Europe—mostly in Paris, but somewhat in Brussels. Burns also went to London. The goal of all the discussions was to see what could be negotiated as a cooperative compromise for the situation everybody saw as close to utter chaos. There was a finance ministers and central bank governors meeting on March 9. Basically, they couldn't agree on much. They issued a press communiqué saying they were going to cooperate with each other, and things were going to be fine. But [laughter] the communiqué didn't say what was going to happen, and, in particular, didn't specify whether currencies would float or whether there was going to be a new realignment yet again. That was a difficult week.

By March 11, two days later, the EEC (European Economic Community) ministers announced a joint float of six currencies, but Britain, Italy, and Ireland all said they were going to float independently. Germany revalued the mark officially, so to speak, by 3 percent. But things still didn't calm down. So there was another big ministers meeting in Paris on March 16. By that time, I think everybody thought, this is not working at all—we're just going to have to accept a temporary period of floating of the major currencies. How long that was going to last wasn't agreed. Hardly anything really major was agreed upon. I have vivid memories of those meetings. I would like to say that the United States had a forthcoming and farsighted leadership position, but I honestly can't say that we did. By that time, George Schultz was Secretary of the Treasury. His view was much more inclined toward general floating and, in effect, to hell with all these meetings about market turbulence. I think he was more right than some others who were around the table or sitting in the back row who thought that we could still resurrect some version of the par values system, so long as exchange rates were going to be able to adjust a little more.

The Committee of Twenty had been meeting and was expected to continue its work. It was agreed that the C-20 should be able, eventually, to come up with a compromise package about all the outstanding issues, so the world didn't have to decide everything on March 16. Nations would just carry on and put the best face possible on things. That's what the March 16 communiqué was like. Markets reopened on March 19, and things calmed down a little bit. There were further meetings of the Committee of Twenty deputies. Then the finance ministers met a few days later in Washington. But in mid-May, the exchange market turbulence started again. The dollar depreciated substantially further against European currencies. Chairman Burns testified before the Congress on June 27, 1973. It was pretty transparent. As I remember—I haven't gone back to reread it—his testimony reflected his lack of enthusiasm for floating rates. But what were we going to do? We had the floating rates. Burns was discouraged, and the Federal Reserve Bank of New York was discouraged. The work on international monetary reform continued, at least in some ways.

Ted Truman had joined the Board's staff in 1972. That summer, you went off to work with Bob Solomon on one of the technical working groups of the C-20 (on adjustment of imbalances, and "indicators" that could be used to monitor the imbalances). Later that year, both Jeff Shafer and you were working with Solomon on another Committee of Twenty working group.

In July 1973, an agreement was worked out with Treasury that the Federal Reserve would resume some intervention in exchange markets after the period in which we had not been doing so. The annual meetings of the IMF and World Bank were held in Nairobi in September 1973. The meetings continued about reform issues—not merely the exchange rates, but what would happen about reserves and all these other things. Although the markets weren't quite so volatile, they didn't fully calm down. By November 1973, the gold market was acting up again. In 1968, there had been a meeting here at the Federal Reserve Board where the central banks had decided to stop supporting private sales and purchases of gold in the London market, creating the so-called two-tier system of gold. In November 1973, the central bank governors meeting in Basel decided to terminate the two-tier gold agreement. Chairman Burns played an important role in that decision. I think he tended to be the person trying to work out the agreement, and I think, on balance, he was on the right side of that. It would be fair to say that he held a convoluted press conference on November 13 here at the Board Room—I think it was in the Board Room—trying to explain the thinking behind terminating the two-tier gold market.

Toward the end of 1973, the optimists on the Board staff, among which I was certainly included, thought that our chances for negotiating serious international monetary reform were not dead. There had been a bad couple of years, but maybe we could do it. But then, in October 1973, the Yom Kippur War started. The price of gold went shooting up. And all the central banks and finance ministers could talk about, when they met in January 1974, was how to deal with the oil price increases, what to do about OPEC, and whether we needed special IMF facilities to loan to countries that were having big balance of payments deficits because of the higher oil price.

So the year 1974 was preoccupied with oil price increases and the payments imbalances that those were generating. A comprehensive package of international monetary reforms began to seem only a remote possibility by June 1974, the last meeting of the Committee of Twenty, which was held in Washington. The Committee of Twenty concluded its work formally in October 1974 by issuing a document that was called an "outline of reform." Some immediate steps were suggested in the outline. But, largely because of the oil crisis, the outline agreement was never fully implemented. In January 1974, there had been an agreement that the world would have to proceed in an evolutionary manner in its reform of international financial arrangements. Nothing comprehensive, it was judged, was feasible. Life went on, but that reform set of understandings was close to being put on the shelf.

Then things started to happen in other dimensions of international finance. The Herstatt Bank failed in June 1974. Franklin National Bank had been a big issue during 1974, and by October 8, that bank had failed formally. The Basel Committee on Banking Supervision was not created until December 1974 formally, but a major impetus for its establishment was the failure of Herstatt earlier in the year and Franklin National Bank. That brings us up, in a very jerky and hasty way, through 1974.

MR. TRUMAN. Among the unresolved issues was the exchange rate regime. The Committee of Twenty discussions perpetuated a formula, which was that the system should be based on stable but adjustable par values, with a provision for floating in particular situations. This formulation was what they could agree on in March 1973. But the exchange rate issue was not resolved by the Committee of Twenty. The March 1973 formulation was in the outline of reform, with the par values at the center of the system, even though at that time the major currencies were floating. So the proposed rules said limited floating at a time when the major currencies were all floating, except that some of the European currencies were tied together while floating vis-à-vis non-European currencies. It wasn't until later, after the Committee of Twenty had finished, that the basic issue was resolved.

MR. BRYANT. Ted, what you said is largely right, but I'd state it in a slightly different way. The United States was reluctant to accept a world that was largely dominated by floating. Paul Volcker, in particular, insisted on the language—when we thought about an amendment of the IMF Articles of Agreement—that we should have a system of adjustable par values, with floating in particular situations. That was the language Paul thought would work. The joke among us in the IF Division was that we actually had a system of floating exchange rates, with adjustable par values in particular situations, which par values we had not seen for a long time and probably would not see for quite a while. [Laughter] There was a lot of murkiness. Let's put it that way.

MR. TRUMAN. Yes, the formula came from Europe. It didn't come from Treasury.

MR. BRYANT. It certainly was what a lot of the Europeans were pushing. But it was not what Schultz wanted, and if Paul Volcker had insisted on stronger language about floating, I think he could have gotten it. But Paul himself was of two minds.

MR. TRUMAN. That is consistent with where he is today.

MR. BRYANT. Yes.

MR. TRUMAN. I think that's a fair representation of Volcker's views because, subsequently, Volcker stepped down as undersecretary. He was at Treasury for a long time—1962 to 1965, and 1969 to 1974 as undersecretary. And his two successors, Jack Bennett and Ed Young, were much more of the Schultz "we like floating exchange rates" regime. So they negotiated the current regime that was implemented through an amendment to the Articles of Agreement in 1976.

MR. BRYANT. Chairman Burns was not arguing for a more sweeping reform of exchange rate arrangements. He was yearning to go back to something like the Bretton Woods par values regime, and that was also the view of the New York Fed. Paul Volcker was on the fence. And most Europeans wanted to go back to that old world, too.

I remember, with some chagrin, writing a memo for the Chairman. At a Board meeting, the question of the staff's views about flexibility in exchange rates came up. And I wrote what was intended to be a balanced characterization of heterogeneous staff views in which I made it clear there wasn't agreement or uniformity. There was a whole spectrum of views. I think I used the phrase "a sizable minority of the division staff feels that we should go to an untrammeled system of flexibility in exchange rates." And I then got a thoughtful note from Ralph Smith, who was very unhappy about my language. He said, "Your phrase 'sizable minority' is not accurate. It's probably a majority of us that think we should have much more free flexibility, and you mischaracterized us." I'm not sure what my exact language was in the memo, and I have not gone back to look it up. But if I'd seen Ralph's objection beforehand, I would have modified my language still further. [Laughter] I was trying to give the Board the flavor that there was a lot of uncertainty even among thoughtful analysts about the right way to deal with exchange rate flexibility. All of us thought that focusing just on exchange rates alone wouldn't get us out of the pickle. We needed a much more comprehensive package of arrangements.

MR. TRUMAN. To Volcker's credit, he agreed, too. He had his reserve indicators regime.

MR. BRYANT. Yes. He kind of agreed, but then he didn't press energetically enough for it, in my view. Paul did positive and wonderful things, but on this, he was not showing enough leadership. And I think it was not in the United States' interest that we ended up where we were in 1974 and 1975. And to tell you the truth, we're right there now. The United States has never courageously taken on analysis of the reserve currency role of the dollar and talked about it in the way in which it needs to be talked about.

We are still living with these issues, and we will continue to live with them. Who knows? Maybe now we're in for a dustup about them with China, India, and Brazil instead of the Europeans.

On gold issues, I thought Burns once took a forthcoming position. The United States was in a difficult set of discussions with the Europeans. They wanted to go back to an official price of gold that was agreed among central banks. I think there was even some sympathy for that elsewhere in Washington, but Burns took a farsighted, and I think correct, stance that that would be a bad idea. You didn't need a new agreed official price of gold. This would have been before the termination of the two-tier arrangement.

There were definitely times when I thought Burns took a very good stand, but there were other times when I think he held back and did not. That was my personal view.

MR. SMALL. Burns had a reputation of being fairly stubborn. You mentioned your input in a 1972 Montreal speech that he gave and the 14 points that he wanted reduced to 10 points. Did he move at all during that process?

MR. BRYANT. Yes, he did move. Not nearly as much as I'd hoped he would, but maybe my initial hopes were not well founded. By the time that he gave the speech, the kind of penumbra around it, if I can put it that way, was, "Here is a balanced, sensible outline for international monetary reform. The Chairman of the central bank of the United States has taken a forthright, farsighted view. Blah, blah, blah." It got very favorable press. I don't know that the journalists read it quite carefully enough, because many of the statements were hedged.

MR. TRUMAN. Was the speech viewed favorably because it was more comprehensive than current thinking, or was it because Burns had an attachment to what one would call today a rules-based system rather than a completely discretionary system, or both?

MR. BRYANT. Well, I don't know why different people reacted to the speech the way they did. I think the fact that it was comprehensive, that there were 10 points, was important. The 10 points gave the sense that there were a bunch of things that were important for the United States, and the Chairman of the Federal Reserve has said all these things matter.

Effect of Watergate on International Issues

MR. PROMISEL. This was an era where the President of the United States was seriously distracted by Watergate. That may have affected the United States' ability to influence world events.

MR. BRYANT. The Haldeman-Nixon tapes were released, if I'm not mistaken, in 1973, about the time that the exchange market turbulence was so great. Most articles in the New York Times or other newspapers about Nixon were on political or domestic matters, but, every once in a while, there was something about Nixon being informed about exchange market pressures and international financial tensions. Do you remember the famous quote from Nixon about Italian concerns on the Watergate tapes? "I don't give a shit about the [Italian] lira." And there were numerous other quotes almost as bad. So it was pretty clear that the President of the United States didn't know what the hell was going on. Did Schultz, Burns, and others have things under control, or was it as bad as it sounded? The Watergate developments were very damaging to confidence in the United States.

MR. PROMISEL. When did Nixon resign from the presidency?

MR. TRUMAN. He resigned in August 1974.

The Great Inflation

MR. SMALL. Up into the early 1970s, before the first OPEC price increase, U.S. inflation had been on a general uptrend after the wage and price controls had taken effect. For a lot of developed countries, inflation was on the rise. From the international perspective or from the perspective of developing models, and taking into account the views in the R&S Division, what was your view at the time about the cause of the rise in inflation? The rise was widespread across countries. Was it the reserve increase through the balance of payments deficit of the United States? Was it just bad policy across countries?

MR. BRYANT. I am not going to be able to give you an adequate answer, Dave. I felt inadequate at the time thinking about this problem, and I was conscious that our analytic framework wasn't good enough to really get at it. Here's an example. I had to go to some international meeting in South America. I was asked to give a paper about commodity price inflation and general inflation, and the paper I gave was hopelessly inadequate. It wasn't dead wrong about a lot of things, but it didn't emphasize nearly enough the risks that inflation could get worse. I talked a lot about the increases in commodity prices, but, as I remember, there were a series of things that had happened that were not all integrally related. I'm exaggerating now just to make the point briefly, but my paper seemed to say only that the anchovies had disappeared off the South American coast, and that there were some problems about oil, and that mineral prices were going up. I didn't get into domestic prices and wages because I was sure I didn't know enough, and I didn't want to step on Chuck Partee's or Lyle Gramley's toes too much.

I remember that once I went to a Working Party No. 3 meeting in Paris and was asked about the inflation issue. I probably said too much about wages and domestic prices in the United States without an adequately based foundation. I implied that there was more inflation than we wanted, that policies might not be hunky-dory, and that was a difficulty. I got my wrists slapped gently and graciously when I came back. I think it was either Chuck or Lyle who had read the State Department telegram about what I had said. I didn't have a good enough basis for how I was talking about it.

MR. TRUMAN. But you may have been right.

MR. BRYANT. I probably was, but not because I had a good, solid analytic foundation for what I was saying. It was just an intuition. I mentioned that speech I gave in South America: I wasn't right. The risks were even greater than I was saying. And it's all tied up with how you should think about the price and wage controls that went on in August 1971, and how we took them off, and what Federal Reserve policy was in 1972. With the wisdom of hindsight, we can be even more confident that Federal Reserve policy in 1972 wasn't tight enough. That's certainly what Chuck, Lyle, Steve Axilrod, and I all thought. Maybe Steve was not quite as certain.

I remember sitting at the end of the [Federal] Open Market [Committee] table, and Burns doing his massaging exercise and influencing the members of the Committee, at which he was very good, and our looking at each other and saying, "Ugh." [Laughter] Sitting next to each other, Lyle and I exchanged a bunch of notes during FOMC meetings. We'd turn a chart upside down and label it, the kinks and curves with various light-hearted things. We had a grading exercise on what was being said that day by various Governors, both on how articulate the remarks had been and how substantively appropriate they were. There were some unquotable things written on our charts, and not a few FOMC members were graded with low marks.

The staff was nervous about what happened in 1972 and early 1973. By the time we went through all the turbulence in the first quarter of 1973, I was confused about what the domestic implications were. The United States couldn't get international agreement and wasn't trying hard to do so. And then the dollar depreciated even more.

MR. TRUMAN. Then when the oil price increased— you were in the first half of 1974, not 1973.

MR. BRYANT. I was analytically confused then, too, but I was confused even well before 1974. [Laughter]

MR. TRUMAN. When the oil prices initially went up, the FOMC eased based on the argument that this was going to have a negative impact on employment and output.

MR. BRYANT. Yes.

MR. TRUMAN. Inflation went up in 1974, and then they tightened up.

MR. BRYANT. I don't remember keenly enough November and December 1973. That's when the oil prices really took off. So your point would probably be most pertinent for the early months of 1974. And I am not sure how clear the staff was about the complex tradeoffs between general price increases and output losses.

MR. TRUMAN. Your remarks about analytical confusion illustrate the point. In some sense, economists didn't have a good model. I am not sure we still do now, but we do have at least a better way of sorting things out, arguing about it. It is true that an oil price increase has depressing effects, and as inflation rises, the question is how to strike that balance in terms of—especially when it's a supply-shock type of oil price increase rather than a demand shock.

Interactions between the Board and Academic Centers

MR. BRYANT. Here is another example of how difficult it was for the staff confidently to give sound analysis. Let's move into the first half of 1975 and ask what was the right policy for the Federal Reserve to be following. The IF Division—and R&S too, though I am not absolutely certain to what degree—thought U.S. output was getting much weaker and that we were headed into a recession. That analysis turned out to be right. But Chairman Burns and several Board members were very nervous about our talking about those risks. I remember the academic consultants coming in for a meeting. Lyle and I gave the briefing to them before they met with Board members. We didn't try to hide our worries that output was weakening and that we were possibly headed for bad times. The Chairman wanted to keep policy much tighter than the staff thought would be appropriate. So there was a disagreement between the Board and the staff in 1975 about that. Then the evidence began to come in that we were experiencing a lot of weakness in output.

MR. TRUMAN. In those days, the academic consultants meetings were very different than they are today. How did the Board use these academic consultants? What was the interaction of the staff with them?

MR. BRYANT. It's difficult to generalize. I thought the academic consultants meetings were wonderful, because the Board received a diversity of views. The consultants never fully agreed with each other. They provided cogent expressions of the differences of view in the community at large, which was good for the Board to hear. And they could ask questions. I don't think Chairman Burns felt comfortable with this, because he had all the internal debate he wanted (in fact, more than he wanted), and he wanted to shape the debate within the Board. So at that 1975 academic consultants meeting, for example, it wasn't useful for him to have someone say, "It looks to us like output is weakening and policy is too tight." Milton Friedman and Jim Tobin usually attended the academic consultants meetings. There were others who wanted to express a monetarist view or a nonmonetarist view, and too much of the discussion tended to focus on that controversy within the academic discipline. Some of it was very useful for the Board to hear, but maybe it went too far.

When it got to focusing on what the FOMC was doing at the time, it was really helpful to hear the differences of view and why people thought different things. The meetings started under Martin and continued under Burns, although the meetings diminished a little bit because Burns didn't find them as useful as maybe the staff did.

MR. TRUMAN. Did the same people generally attend?

MR. BRYANT. It varied through time, but there was a core group of people that came often. For example, James Tobin, Milton Friedman, and I think Jim Duesenberry were usually there.

MR. TRUMAN. I think Jim Duesenberry was the chairman for a while.

MR. PROMISEL. Franco Modigliani was often there.

MR. BRYANT. And Franco came. All of the consultants played a useful role, but few of them were influential in shaping Federal Reserve policy.

MR. TRUMAN. The Board staff used to give briefings to the consultants before the meeting with the Governors started, so that at least the consultants had a common point of departure.

MR. BRYANT. Yes. In the early 1975 meeting I mentioned, for example, when Lyle and I briefed the academic consultants, the two of us were alone with them at first. We got lots of pointed questions, which then came up later in the full consultants meeting in a way that probably was uncomfortable for the Chairman.

MR. SMALL. In these meetings or elsewhere—and particularly in the modeling effort—on issues like rational expectations, the natural rate of unemployment, sometimes the Federal Reserve is/was criticized for being slow to catch on, especially about rational expectations or inflation expectations getting unhinged. Do you remember debates about how to model, how seriously to take those issues?

MR. BRYANT. Yes, but my memory about the timing is not going to be precise enough, Dave. We had countless discussions about expectations and how to build forward-looking expectations into our models. The earliest focused discussions came up in the context of the MPS model. Issues about expectations were an important component of how best to structure the MCM model.

MR. SMALL. On channels and mechanisms of wage–price interactions?

MR. BRYANT. Yes, especially on wage–price interactions. Certainly, views about the natural rate of unemployment and all that hadn't shaken down into something like a convergence of professional views. So on the issues of how best to model wage-price interactions and expectations of the process, we had the whole range of heterogeneous advice from outside. There also existed a significant dispersion of views within the staff. Rational expectations hadn't gotten such strong professional legs by 1975 or 1976, which was the last time when I observed in detail discussions inside the Federal Reserve staff. But I can well remember lots of arguments within the staff. I was probably one of the sluggish ones to catch on to the usefulness of using rational expectations despite the constraining nature of the assumptions required.

MR. SMALL. On this subject you were an "Old Turk"? [Laughter]

MR. BRYANT. I was an old fogey by that time, in terms of expectations modeling. [Laughter] And I thought rational expectations were being way overdone. I thought expectations themselves were important, but the Bob Lucas form of rational expectations didn't appeal to me. There were plenty of staff people who said, "You're missing something important here." The best analytic people were beating on me. I gradually learned. I didn't get all the way to where they were, and I think then they pulled back, too.

MR. TRUMAN. Weren't you involved in the process—which I think was under Burns, and being managed by Jim Pierce and people like that—for using the models to have an optimal control framework? I think that was before you left.

MR. BRYANT. Oh, yes.

MR. TRUMAN. And it got quite far. It was presented to the Board, and Burns said "no." That was not rational expectations, but it was a precursor. You build in a feedback loop process by which you—

MR. BRYANT. I'd discuss that with slightly different nuances than you did. I spent a lot of time on this subject myself because I was so interested in it, and it had potential implications for the MCM and all sorts of other analytical research. Peter Tinsley and I used to talk about modeling issues, including expectations and possibilities—advantages and disadvantages—for optimal control approaches for hours. I learned an enormous amount from Peter. I was favorably disposed to optimal control approaches of thinking about the issues—not that one could really do it successfully, but that these approaches provided a way to ask the "what if" questions of the models. There was a lot of talk about that before I left, and there was much more later on. If Burns actually said, "We don't like this, and we don't want the Board to hear any more about it," this probably occurred after I went to Brookings in 1975.

MR. TRUMAN. It was as you were leaving.

MR. BRYANT. Well, Burns was unenthusiastic about presenting to the Board some of this technical material. He probably preferred to have the technical stuff swept under the carpet and have the Board be presented with just nice and tidy and main conclusions. Burns was wrong in not letting the Board see more of what was going on, but I don't remember his cutting it off, in the sense of, "I don't want you to do this." But I know he was unenthusiastic about Board presentations based on it. Even Jim Pierce and all the people who were working on it weren't trying to put it forward as, "This is how you should be making policy now." Rather, they were arguing that this is another set of tools that's useful to think about in framing projections and thinking about Board policy.

Leaving the Board

MR. SMALL. When did you leave the Board?

MR. BRYANT. I formally left the Board in the summer of 1976. But in the summer of 1975, I asked the Chairman and Bob Holland for a year's leave of absence to go to the Brookings Institution. I could feel my analytic capacities depreciating more rapidly than I wanted. I wanted to write and concentrate on a few problems at a time. Most of all, I wanted to spend some time with my family. My children were very young, and I was keeping incredibly long hours virtually every weekday and often on weekends, and seeing almost nothing of my wife and children. So I went to Burns and Holland. The first thing that I mentioned was not being able to spend enough time with my family, and the second was worrying about my analytical capacities depreciating too rapidly because I didn't have enough chance to write and work. And, third, we talked a little bit about some frustrations I had. In retrospect, I did not speak as candidly about the frustrations as I probably should have. I was feeling that I really needed a break.

An agreement was worked out, and I went to Brookings on a year's leave of absence. The Board and Chairman Burns himself were very generous. I intended to come back. Although it was understood that possibly I might not come back after the year, I thought the probability was .7 or .8 that I would come back. It was a difficult time in the division, because I had helped to bring so many people here. It was a difficult decision for me, in part because of the problems I knew my leaving would cause for them. There was uncertainty and discomfort in the division about the arrangements and about my leaving for a year. We structured a management team to run the division. John Reynolds was acting director, and Ted and a group of others were on this team. I think it worked remarkably well for that year—1975 to 1976. But John Reynolds's kidney problems were getting worse through time. He was not as strong as he had been and couldn't devote full time to being the acting division director. It put a tremendous burden on people like Ted, Charlie Siegman, George Henry, Larry Promisel, and others.

During that year at Brookings (1975 to 1976), I had a productive period for my own research and writing. I made substantial progress on the book Money and Monetary Policy in Interdependent Nations, which was eventually published in 1980 by Brookings. No less important, I had a wonderful year with my family. At the end of the year, in the summer of 1976, my family pressured me very strongly to stay at Brookings and not go back to the Federal Reserve. Deciding whether to return to the Federal Reserve was one of the hardest decisions I ever had to make in my life. In the end, I decided to stay at Brookings, which meant that the IF Division was going to go through another difficult transition period. And it wasn't until 1977 that Ted became division director and things got normalized.

MR. MARQUEZ. After going to Brookings, what did you miss the most out of the division or the Fed?

MR. BRYANT. Immediately after I went to Brookings, I missed greatly the flow of information. One of the terrific things about being at the Board was that I had a clear window on practically every important international economic and financial problem. The flow of information was terrific. And I had a collection of colleagues who were stimulating to work with. The people at Brookings were wonderful and stimulating to work with, too. I don't mean to downplay that. But there were only a few that had enough background in international matters to be able to work on those in detail with them. It was the combination of information flow and stimulation from Fed colleagues that I missed the most then. And that feeling remains true to this day. I found the IF Division a wonderfully active, mightily intellectual location for thinking about all these questions. It was one of the big costs that I had to bear by moving to Brookings.

MR. MARQUEZ. From your description today and from what I have read, you were in the middle of one of the biggest transitions in the history of economics: from fixed to flexible exchange rates. You were a pivotal element of it. Leaving the Board created withdrawal from being in the middle of the action, not just the informational flows.

MR. BRYANT. I suppose that's part of the feeling of being out of the information flow. But that sword has two edges. I missed the information flow and the feeling I was in it with an opportunity to contribute, but then I had to look back over the preceding four, five, or six years and ask whether my views had been really instrumental in shaping policy. And I felt there were big things that should have happened that did not. Then I faulted myself for not being persuasive and influential enough in advocating the policy changes that should have happened. That's what I meant by the two edges of the sword. After 1976, I have tried to stay active in lots of ways on the issues, writing about them and participating in ways that were more academic than policy. I cared just as intensely about the policy questions, and I still do. It's not easy to play much of a role if you think you have ideas about what should happen and yet you are not in the places where people are making the actual decisions. So, yes, I have missed the Board greatly.

MR. TRUMAN. Is it an oversimplification to say that turning down the offer in the summer of 1971 to leave the Board to set up a research center allowed you to stay at the Board and create your own research center here? Then you found that you weren't able to do enough individual research, so you went to Brookings where you could do more research and have a few more hours for your family. And did you feel that being at Brookings, the IF Division was an adjunct to you or you were an adjunct to the IF Division, so you were able to maintain a foot in both locations?

MR. BRYANT. That's a delicate question, Ted, as you well know. I made a hugely difficult decision to stay at Brookings and not come back to the Board. I felt I might have let down many people who had been counting on my coming back. I wanted to maintain just as strong and frequent contacts as was feasible with the people at the Board, but I didn't want to be imposing or putting people in a difficult position. For example, I'm thinking especially of you, Charlie Siegman, and George Henry. Early on, in 1976 to 1978, I was a little hesitant about how much I should myself initiate detailed contact with you all. Whenever any of you wanted detailed contact, I was delighted and responded immediately. I hope that is what you felt. But I was trying to be careful not to impose. Over time, sand goes through the hourglass, and at some point that became less of an issue. So by, let's say, 1980, or certainly 1982 or 1984, I didn't hesitate at all to initiate contacts, to pick up the phone and call.

MR. TRUMAN. I wasn't thinking as much about that as about the research program. You ran a research program at Brookings in some sense. And you provided opportunities to your former colleagues and prospective former colleagues at the Board to participate in many aspects of that research program. There must be half a dozen publications that you did at Brookings that have co-editors or contributions from the division. I would bet there are 25 different contributions in your publications that have Division of International Finance participants in them. I was thinking about the research program aspect of the policy, and not that the research program wasn't motivated by the policy questions. But that's the sense in which—and maybe one part of what you answered. Did that give you some satisfaction?

MR. BRYANT. "Yes" is the answer. Every time I thought of a hard question, probably in the next paragraph, I was thinking about one or two people at the Board who had thought about it or with whom I'd interacted about it and whom I wanted to carry on the conversation. Or if there was a paper to be written, I thought about either getting someone at the Board to write it or writing something together. Modeling is an example. Over the years, I helped to organize all sorts of books and conferences for people who were doing this. First and foremost was the MCM group and then spinoffs from that. It was very satisfying to have that interaction. And I probably wasn't above the vanity of thinking that I helped play a role in bringing a lot of good people to the Board and taking pride in what a fine group of people it was and the kind of work that they were turning out.

It was certainly true that, to the extent that I put together a research center at Brookings, it wasn't dominated by international economics and international finance because there was a research center here in town doing it, and it was at the IF Division of the Federal Reserve Board. So the more interaction I could have with the people at the Fed, the better, from my point of view. I was fortunate in having it both ways, to some extent, especially in the first few years I was there at Brookings, and when Burns was still Chairman. I didn't have to worry about the daily digest, or the details of how somebody was redrafting the Martin letter about foreigners' deposits in the U.S. banks, or on and on. I could think of lots of examples.

MR. PROMISEL. Is it incompatible to have someone with strong academic interests as a division director over the long haul? Are there inevitable frustrations or tensions that would arise? Those frustrations might be because there isn't time to do the research or the analytical thinking that lies behind the policy decisions; or because the policymakers, the Chairman, or the

Governors don't understand the technical policy issues; or because the real world intervenes; or because of political constraints that are frustrating to an academic.

My sense is, you were frustrated with some members of your staff who were not analytically inclined. Some people, particularly on the trade and balance of trade and current account side, came from a background where they knew a lot about trade statistics and how those were generated. I'm thinking of Sam Pizer, Dan Roxon, and Kathy Morisse. My sense is that you were frustrated on occasion that these people were playing a central role but didn't have the same analytical mindset that you had. It may be inevitable that there is going to be a need for nitty-gritty things that run against an academic interest. So, should one not hire an academic to be a division director?

MR. BRYANT. Well, there are lots of parts to your question, Larry. Starting with the broad question, my answer is that it's not incompatible, in principle. Some people who may have been in the academic community are much too academic to work well at the Board, and they wouldn't be good choices. But if you can find people that have good judgment about a whole range of things, including administrative and data questions—not merely what's been said in the journals in the last five years—the Board's staff is better off including them. You do need people that are sensitive to the variety of tasks that the Board and the FOMC have to face.

I disagree with the characterization implicit in your question of my views about the value of detailed analysis of trade statistics or, for example, what Sam Pizer, Dan Roxon, or Kathy Morisse would do. Their analyses were valuable for the division, and the Board needed that sort of work. But that wasn't enough by itself. You needed to supplement that type of work with other things. When I took over the division, it was skewed too much toward good, solid work on the details—if we are talking about trade as an example, and why the trade statistics had come out the way they had over the last two to three months. But the analytic basis for generalizing was not strong enough. So when we had to say what pattern of exchange rates would produce a better pattern of trade for the United States and other countries, those people were not able to do enough to answer that kind of question.

The staff needed to have both sets of expertise. And I had this vision that I could be the person that could do and stimulate both. Perhaps I wasn't adequately doing well either of those tasks. [Laughter] But my aspiration was to do that.

MR. PROMISEL. Of the division directors that I'm familiar within the economics divisions—Lyle Gramley, James L. Kichline, Michael J. Prell, Don Kohn, even Truman, and Dave Stockton—they were all technically trained, but I wouldn't say that they had the academic mindset that you had. Yet they have all been very credible, impressive division directors here. Being an academic, it seems to me that your frustrations were greater. Your willingness to make a policy decision quickly, if you weren't comfortable with the analytical basis for it, is inevitably going to make it difficult to be here over the long haul. I might be off base on that, but I think you are different from the rest of the people that I just mentioned.

MR. BRYANT. I like to think of myself belonging in that group, not as "different" as you apparently do. Perhaps you are shortchanging a bit the analytical interests and mindsets of the others? And the word "academic" may either have positive or negative nuances. I don't know which nuances you were most thinking of, but I like to think of myself when I was here as able to make a decision quickly on the basis of very uncertain information.

MR. PROMISEL. Able, but were you comfortable also?

MR. BRYANT. If there is tremendous uncertainty about what the consequences of a decision are, anybody who is "comfortable" making it might be fooling themselves. But decisions have to be made, and you make them the best way you can. I didn't think I was temperamentally ill suited to that. I was frustrated by not being able to spend time with my family. And, having worked hard to present a balanced view of something, if I thought I wasn't getting through, then I did find that frustrating, but not because I thought an academic perspective was needed.

MR. SMALL. We've brought you through your career here.

Empirical Models and Exchange Rate Determination

MR. TRUMAN. When we were talking about the MCM and your vision of it, which very much was informed by a parallel research effort for the creation of the MPS model, you mentioned that you needed to have a financial side to the model. That goal was one of the reasons why, in the first round, the MCM group modeled capital flows, which turned out to be difficult. And so the group also had to incorporate some sort of process for determining exchange rates. Yet there was especially great uncertainty and controversy about the appropriate approach to exchange rate determination. What were your views about this set of problems? Wasn't the issue of MCM-type modeling complicated because the profession did not have agreement about these issues—one could not have a lot of confidence in the exchange rate determination process? Maybe you don't feel the same way. Is the question clear?

MR. BRYANT. Yes and no. In domestic financial markets, efforts at modeling were also bedeviled by lack of clarity about behavior and the ways to analyze it. Modeling efforts for the process of exchange rate determination and capital flows were unclear in an analogous way. I think I understand many of the nuances you had in mind when speaking of "exchange rate determination." But the cross-border international aspects of financial behavior were especially complex and, hence, especially difficult to model. Yet paying attention to those aspects was urgent. Researchers in the modeling group looked out at a world and could see that no robust exchange rate arrangements were set in place, and one could not be sure what exchange rate arrangements would prevail in the future. For that reason, too, there was hence no fully acceptable way of modeling exchange rates and capital flows. But that great uncertainty did not permit one to conclude that the cross-border financial dimensions don't matter, making it possible for the Board staff to have a model that doesn't include financial aspects and doesn't include exchange rates, including how they might be determined.

My view then—and it's even more my view now—is that it's sensible to work with a model in which exchange rates are determined analytically as though exchange rates were reasonably free to float. And, in such a model, you have asset-demand and liability-supply equations that help to drive the model. When using such a model, you look at all the simulation results that come out, including those for exchange rates and capital flows as well as cross-border trade and domestic economic activity, and then you use judgment to amend those model results. The judgmental amendments include, as best you can, modifications and alterations reflecting the fact that exchange rates aren't fully floating. In real life, then and now, many countries "peg" their exchange rates one way or another. If you have enough disaggregated detail in your model, you can take into account the facts that country A is keeping its currency more or less pegged against the U.S. dollar, in country B it's floating freely, and in country C it's in an arrangement like a European Union currency union. Remember the EEC "snake in the tunnel" and all those exchange-regime complications—ideally, one could have tried to incorporate that institutional detail. But in the early modeling efforts, and by and large still now, the best can be the enemy of the good. Inevitably in a modeling effort, a lot of the macroeconomic issues will be modeled inadequately. The goal is to make the models incorporate what is currently best-practice knowledge and analysis in the profession. Then one keeps trying to refine and improve.

Some critics of the Board staff's models, including the MCM and its successor models, asserted that the models were too difficult and too problematic. They argued that trying to do anything at all in creating and using such models would lead you down the path of relying on a "black box," and it was better to have nothing than to use a black box. I never agreed with such assertions. You can't beat something with nothing. If you have a framework that's known to be inadequate in several key ways, you can and should take those inadequacies into account when you use it. But if you haven't got a framework at all, you really are sucking the eraser on the end of your pencil. When policymakers or their analysts have no explicit framework at all, they can easily make poor decisions on the basis of implicit frameworks that would obviously be seen as unsound if made explicit. So I have never liked arguments about black boxes. I don't think a good approach to analytics will put you in either of those camps. Sensible analysts will not be a zealous protagonist of the inadequate models that are available today, nor will they be a zealous opponent of trying to work with and improve those models. The best approach is to use cautiously the least inadequate models currently available and to keep refining them.

Supervision and Regulation and International Monetary Cooperation

MR. TRUMAN. We touched on banking issues. We mentioned Herstatt, Franklin National Bank, and the Basel Committee. Talk about that and, as a segue, talk more broadly about international monetary cooperation. From 1965 to 1975, you directly observed international monetary cooperation, and you have observed it for the last 30-plus years. Today we have a global financial crisis. We are talking about international regulation of financial institutions across borders. In some sense, that started with Herstatt, Franklin National—maybe

I'm wrong—or it started with the International Banking Act? What was going on at the Board about that?

MR. BRYANT. I was a great enthusiast for setting up the Basel Committee on Banking Supervision, but I wasn't a very informed enthusiast. I don't think any of us were. Bob Gemmill was a partial exception because he had thought about these issues more than others in the division. I don't even think the Division of Banking Supervision and Regulation (BS&R) at the Board had thought about them nearly enough. So once we got into the Herstatt crisis—my gosh, we hadn't thought all kinds of things through about exchange markets and settlement of contracts and how payment systems could be undercut by exchange crises. The issue of "too big to fail" came up. I remember using phrases like that in conversations about Franklin National, Continental Illinois, and other things. But the staff, certainly in the IF Division, was not sensitive enough to the cross-border aspects of supervisory and regulatory issues.

Even when the Basel Committee got started, the initial questions were how to work out some guidelines about which supervisors were going to be responsible for which institutions. Hence, the development of the Concordat and, later, its subsequent revisions. The Concordat was a significant step forward. And then, when we finally got to international discussions about capital adequacy guidelines, that was a step forward, too, but that was after I had left, and we probably should have had that on our agenda earlier than we did.

Now, after the meltdown of 2007 to 2009, it has become transparent how important the supervisory and regulatory issues are. The Board staff in my years as division director did have some analysis and discussion in a rudimentary way of what would now be termed "herd behavior" in financial markets and how such behavior can drive markets way away from any concept of stable equilibrium in financial prices. We talked a lot about volatile capital movements and tried to make sense of disequilibrating capital flows and speculative cross-border movements. But we didn't get far in developing an analytic framework, and we didn't tie our analyses closely enough to questions about capital guidelines and other possible constraints on financial institutions. We didn't have a lot to go on yet about how the world had changed. We didn't think enough about banks versus nonbank financial institutions and what role they were playing in cross-border financial activity. We agonized about what the heck was going on in the Cayman Islands or offshore banking centers or about tax evasion, but we didn't dig into those issues nearly enough. And I don't think BS&R was on top of those issues enough, either. To be sure, the issues were not nearly as hot as they later became. But we could have done better, and I wish we had done better. That was the first part of your question. Now, remind me of the second part.

MR. TRUMAN. What were your observations of the process of international monetary cooperation, broadly defined? For the regime operating in the mid-1970s—the Ossola group and the activities of the Committee of Twenty in 1974—was there continuing cooperation? Was cooperation a constant, or were there ups and downs? How do you see that era or that decade compared to where we are today?

MR. BRYANT. It's tempting to make big generalizations, but I'm too cautious a person to wade way out into that swamp. I am a strong believer in international cooperation, and I don't shrink from using the word "coordination" in all kinds of ways. Such efforts have had ups and downs that are episodic. They were never as productive as they might have been. We talked earlier about how international cooperation could have been more ambitious in the late 1970s and especially in 1971 and 1972. It's certainly true about the Committee of Twenty and 1973 to 1974. I felt international cooperation could and should have been more ambitious in the decade following 1975. During the stock market crash in 1987, there was quite a lot of consultation and cooperation. That was all to the good, and there are not too many ways for that episode that we think it should have been better. But if we get onto some of the other crises, cooperation was not nearly good enough. There was a lot of cooperation in some respects—often, the rhetoric about the need for cooperation was appropriate. More recently, think about the big meltdown crisis of 2007 to 2009: Was there enough consultation across borders with other major central banks and governments? National governments and central banks could have done more and could have done better. But it's not that we didn't have any cooperation. For a while, in 2008, I thought the Federal Reserve was in the forefront. The kinds of actions and announcements and things that happened in September, October, and November 2008 by the Federal Reserve were much better than in other parts of the U.S. government.

So there are many episodes of international consultation and cooperation where good things have been done. But, again, much more could and should be done. The current time is another instance where enhanced international cooperation is needed. In particular, the world urgently needs substantive reform of the IMF and the World Bank, including some of its governance procedures. Ted, you and I have talked about these current issues endlessly. We did get some real steps forward at the G-20 summits in London (April 2009) and at Pittsburgh (September 2009), but the cooperative steps taken were modest compared with what would be really beneficial.

There's a subject on the table now that wasn't on the table in the 1970s and 1980s, though it probably should have been even then. Today we use the label "global governance" to talk about the subject. The concerns are driven in part by the rising relative importance of China, India, Brazil, Mexico, and other "emerging market" countries. The United States' leadership about reform of the governance of international institutions has been weaker than it should have been. It's been better in the last year since Barack Obama became President. It's better by far than it was under George Bush. But it's not strong enough.

MR. PROMISEL. It was strong enough to get to a Nobel Prize.

MR. BRYANT. Well, the award to President Obama was, as often said, an ex ante prize rather than ex post prize.

Anyway, the need for international cooperation is certainly greater than ever. And we haven't made good progress on the regulatory and supervisory front—for example, strengthening the Financial Stability Board, improving the activities of the Basel Committee on Banking Supervision, the International Organization of Securities Commissions, the International Association of Insurance Supervisors, and refining cross-border aspects of accounting standards through the International Accounting Standards Board, et cetera.

MR. TRUMAN. Is that lack of progress because of "sovereignty" issues? What was the line from Mervyn King, the Bank of England governor: "Global banks are global in life but national in death."

MR. BRYANT. Concern about undermining national sovereignty is always in the background, but I don't think that's the main thing. Part of the explanation for slow progress is analytic confusion about what is the best thing to do. Another part is the typical view that "I don't want to stick my government far out on this limb until I'm sure that other governments are walking out there too," with the result that nobody walks out on the limb. It's the old problem about achieving collective action, how hard it is to get people to pull together. But I wouldn't underplay the analytic uncertainty, either. Recall the old [Robert] "Bob" Solow line translating William "Bill" Brainard's article about this issue for the general public: If you don't know what you're doing, for heaven's sake, do it cautiously! And in the regulatory and supervisory area, that's not a bad piece of advice. [Laughter]

I'm not as up to date as I would like to be about where we stand on regulation and supervision, what role the Bank of International Settlements (BIS) should be playing and what the Financial Stability Board can do. I am disappointed about how China, India, Brazil, Mexico, and others are stepping up to the table after we finally got them in the door in 2009 as a result of the G-20 summits. Maybe that will change. Some things that happened at Pittsburgh were positive. But I think in changing governance of the IMF and the World Bank, they were modest. So we've got a long way to go. As Robert Frost said, there are miles to go before we sleep.

Bank for International Settlements

MR. TRUMAN. When you were here, Chairman Burns was interested in getting the Federal Reserve into the BIS. But that didn't happen until eight years after he died. How did you perceive the BIS as a central bank's central bank in the 1970s? And comment on its role in today's world.

MR. BRYANT. I can't give a concise characterization of Burns's motives. He played his cards so close to the chest that you couldn't always tell. I'll give you a guess, but I don't pretend to know all of the things that motivated him about this.

The BIS was a place where a few people from major central banks could get together and discuss important issues they shared. It was a venue for central bank cooperation and coordination. I thought that was a good thing because we didn't have enough such venues, and not enough of that activity was going on. I did not share the view that people like Dewey Daane and Charlie Coombs probably strongly held, and that Chairman Burns, if he didn't have it at the beginning, came to hold: that we needed to keep central bank conversations away from finance ministries and treasuries, and that the central banks were more likely to get it right than finance ministries, and so it was helpful to have a venue that kept out the finance ministers. There were incidents that I know a little about but don't know the details. For example, the undersecretary of the Treasury wanted to go to a BIS meeting, but he was told, "No way." I think it was Frederick "Fred" L. Deming, and he wasn't able to get in.

MR. TRUMAN. That was in the late 1960s.

MR. BRYANT. I had a few conversations with Chairman Burns that did not go well. The Chairman would make a comment, arguing, in effect, that "The BIS is the central bank for central banks." I had the temerity to say that there were some other institutions, like the IMF, that may also need to play such a role in some dimensions of international financial cooperation among central banks. If we look far down the road, I remember saying, there is a big question mark about which international institutions should be involved in the discussions. The BIS, as currently constituted, does not bring enough countries in, and so on. Burns didn't have much patience for those conversations. He thought I was talking about life way down the road, and he was worried about the meetings next month, or at most next year.

He didn't go to the BIS all that often, but when he did go to Europe and the BIS, he had several good colleagues—the slang would be "buddies." Jelle Zijlstra, the head of the Bank of Netherlands, and Karl Klasen, the head of the Bundesbank, were two of them. Burns relished the opportunity to speak with just a few people, work out deals, bring those deals back to the United States, and sell them to Treasury and to the FOMC. For example, he had the leadership role in the way the two-tier gold market was terminated. As we discussed earlier, he worked out an arrangement, I think, with Klasen and several of the other Europeans, and then he came back and more or less told the FOMC and the Treasury, this is the best arrangement the United States can obtain. That was 1973, I think.

MR. TRUMAN. Burns convinced the Europeans that it was foolish to continue to worry about it.

MR. BRYANT. I don't remember all the background well enough on why he became convinced of that position, but it did seem to me the right position. Burns and most of the other people in the Federal Reserve at that time saw the BIS as the central banks' venue, or the potential future central bank for central banks, maybe. I didn't find that persuasive, but I think they did. So Burns's desire to have the Federal Reserve become a formal member was driven in part by that view. And then there was some second-order jockeying with the Federal Reserve Bank of New York, because the New York Fed thought it was the part of the Federal Reserve that ought to be represented at most or all Basel meetings. This hearkens back to the earliest days of the Federal Reserve when Benjamin Strong, the head of the New York Fed, was the dominant person in the Federal Reserve System. Of course, eventually the Chairman won that battle with the New York Fed. [Laughter]

MR. TRUMAN. Different Chairman. [Laughter]

MR. BRYANT. Well, but I think that by the end of Burns's tenure, the battle had already been won.

MR. TRUMAN. I think that's right, though it took 20 years to be implemented. Did Burns ever call Klasen on the phone?

MR. BRYANT. I think he did. I was never in his office personally when he had a phone conversation with Klasen or his secretary.

MR. TRUMAN. Nowadays, the Chairman of the Federal Reserve must be on the phone with Jean-Claude Trichet a few times a day, under crisis circumstances.

MR. BRYANT. But the last 18 months are not representative.

MR. TRUMAN. That was probably true of 10 years ago, too. But in 1970, do you think Arthur Burns walked into the office and picked up the phone to call whoever it was?

MR. BRYANT. No. But by 1971, 1972, and 1973, things were different, and there was so much going on. Some of the consultations were by telegram or phone. Some of them were through Coombs and Coombs's counterparts in the intervention. Still other contacts were through Dewey Daane and, of course, Volcker. There was quite a lot of contact.

It was much harder to arrange consultations in detail then. For example, when they were working out detailed language for one of the communiqués or some BIS or IMF matter, back and forth through telegram, it was really quite difficult. Sometimes people had to read things on the phone to each other. So it's much easier now.

MR. TRUMAN. You did it by Telex?

MR. BRYANT. I do remember some Telex.

The Relationship between the Federal Reserve and the Treasury

MR. TRUMAN. While you were here, how did you see the role of the Federal Reserve relative to the Treasury? Did we cooperate with them too much or too little? Was there a feeling that Chairman Martin cooperated too much with the Administration, which led to the need for the Great Moderation? [Laughter] Did we politicize monetary policy starting about 1965 by cooperating too much with the Treasury?

MR. SMALL. Brought in too much through the Quadriad?

MR. TRUMAN. Yes, the Quadriad. What was your perception of what people here thought at that time about that type of cooperation, and what was your own view?

MR. BRYANT. I might be able to think of a few occasions, but only a very few, when somebody here in the Federal Reserve asserted, “We are cooperating too much with Treasury,” or “We spent too much time talking with them,” or “We let them have too much of an input into our decisions.” But my perceptions were mostly about the international issues. I was not often involved in Treasury–Federal Reserve discussions where the main subject was domestic monetary policy. That’s the type of contact about which the suggested assertion would be made, if it were made at all. I would have heard from my colleagues like Chuck, Lyle, or Steve if this was a widely held perception.

The breakfasts between the Chairman of the Federal Reserve and the Secretary of the Treasury were an ongoing tradition. I was occasionally invited to sit in on those when international discussions came up. I would say they were cordial, yet nothing was given away. Burns, in particular—and I would be surprised if it was different with Volcker—said nothing that could even implicitly be interpreted as surrendering the independence of the Federal Reserve.

Consulting and informing in a cooperative way was a different matter. Let me give you a concrete example. At the time when there was so much discussion about whether the Federal Reserve should resume exchange market intervention, most of the key discussion took place between a few people in the Federal Reserve, like the Chairman and Charlie Coombs in New York. Dewey Daane was sometimes involved and sometimes not. I was occasionally involved, especially when the IF staff wrote memos or reacted to the daily foreign exchange calls. Burns wisely said, “We have to talk to Schultz and Volcker about this.” So I was sent over to Schultz’s office with a draft statement that was being considered, and Treasury was given a chance to modify the language. I don't know how much private conversation Burns might have had with Schultz. I think it's quite likely that at least one conversation or probably more had taken place. There was a needed level of consultation and cooperation, but not something excessive. Burns was certainly not going to give Schultz the impression that Schultz could tell him what to do about this. But because it was a Treasury responsibility, too, it had to be a jointly taken decision.

MR. TRUMAN. Because the Federal Reserve didn't have any foreign exchange, we got to draw on the swap lines. Treasury, in effect, had to backstop you with losses, at least surreptitiously.

MR. BRYANT. Yes, but quite apart from the losses question, the statute was clear that Treasury had primary responsibility for exchange market intervention, and that the Federal Reserve was bound by those statutes to consult and cooperate.

From my perspective, because I was concentrating on international issues, I don't think there was too much consultation with the Treasury. Nor do I think any independence of the Federal Reserve was ever compromised.

MR. TRUMAN. Later on, even on the foreign exchange side, the view was "It's Treasury's business, so why are we even doing this at all?" And by being engaged through the Federal Reserve Bank of New York, whether it's our balance sheet or theirs, we are implicated in the Treasury decisions about intervention. That would be a characterization of a later view.

MR. BRYANT. I don't think the differences of view were as sharp as that during the period in which I was listening to these conversations.

MR. TRUMAN. That may be because, for the first five or six years, you were involved in the Bretton Woods system.

MR. BRYANT. It was partly that, sure.

MR. TRUMAN. You also attended the Treasury lunches.

MR. BRYANT. Sometimes, yes. I think those lunches were a good arrangement.

MR. TRUMAN. By the time I took over as division director, it was routine that someone from the IF Division went to the Treasury lunch.

MR. BRYANT. I went often, but my memory is that it was more flexible. One didn't have to go all the time. If something was going to come up that needed discussion with you there, then you were sure to be asked to come. I don't remember for sure. Maybe it was routine by the end of my time as IF director.

I thought about the independence of the Federal Reserve much more after I left the Board and was at Brookings than I did when I was here. Things were so busy. It was clear that the key people on the Board were not about to let Treasury run things here in any sense. And it was also clear that Treasury didn't always welcome the Federal Reserve sticking its nose into business that Treasury thought was its own. [Laughter] The problem was achieving good consultation and cooperation, not drawing a red line and a boundary between the two. Later on it may well have become more important to be very clear where the boundary was.

MR. TRUMAN. By the time you left, in 1975, was there more interchange between the Federal Reserve and the Treasury than there was earlier on?

MR. BRYANT. I think it depends on the period. If we are talking about the summer of 1972 or January/February/March 1973, we were on the phone or in meetings four to six times a day. But by the time we get to 1974, there was far less frequent interaction. It was driven by the nature of events, not by some subtle change in the political chemistry between the two institutions. It was more event-driven than structured.

MR. PROMISEL. And, in general, personality driven.

MR. BRYANT. Yes.

MR. TRUMAN. During Burns's chairmanship, David Kennedy, then John B. Connally, then George P Shultz served as Treasury Secretary under President Nixon. Then William E. Simon served under Nixon and Ford until January 20, 1977. You left the Board in 1975.

The Relationship between the Federal Reserve and the State Department

MR. BRYANT. We haven't spoken about the relationship between the Federal Reserve and the State Department. The world was in turmoil, beginning in the fall of 1971 and then carrying on through 1972 and especially in 1973. When did Henry A. Kissinger become Secretary of State under President Ford?

MR. TRUMAN. He was Secretary from 1973 to 1977.

MR. BRYANT. The Chairman saw himself as a player in talking to State. I believe Chairman Burns thought he could enlist Kissinger in the debates he was having with Treasury to support his view. He may have been successful sometimes but not in others. After the Yom Kippur War and after January 1974, everything was oil prices and OPEC. Then State was much more involved.

MR. TRUMAN. Would you characterize Burns as fundamentally being an internationalist, more so than John Connally?

MR. BRYANT. I don't know.

MR. TRUMAN. I mean in the broad sense of valuing international cooperation. For both economic reasons and political reasons, he was concerned about the import surcharge and things like that.

MR. BRYANT. Burns was probably sensitive to the international implications of all sorts of U.S. decisions. He understood the importance of weighing those as part of the package.

Whether or not he always got it right is another question, but he was sensitive to the international parts. My memory is that Connally was less sensitive to the international implications.

MR. TRUMAN. As opposed to being an isolationist, a term we don't use these days very much.

MR. BRYANT. The thing that people remember about Connally's stance was, "We're the United States. Here is what we're going to do, and that's the end of the discussion." Burns wasn't above acting as though the United States was the most important country in the world, and that our way was the way things were going to be. But he understood the need for diplomacy much better than Connally did. [Laughter]

Russia in the International Finance Community in the 1970s

MR. SMALL. Is there anything that students of American history and central bank history should know about international monetary policy very broadly, in the context of the Cold War?

MR. BRYANT. Dave, that's a good question but a complex one. The changing status of Russia in the world was important for a variety of financial and economic questions, as well as political, military, and nuclear ones. It was important for gold, for oil, and in the governance of international institutions like the IMF and the World Bank.

MR. SMALL. During your time at the Board, were Soviet officials completely out of reach?

MR. BRYANT. If you are asking whether there was any contact between the IF Division and the Soviet Embassy, there was hardly any. They were not involved in key financial decisions. Nobody had even thought about a G-8. The G-8—the G-7 plus the Soviet Union

(Russia)—was a question that arose only in President Clinton's time in the 1990s. Strobe Talbott deserves some of the credit—or blame—for that.

MR. PROMISEL. Was there ever anybody in the IF Division seriously assigned to work on Russia?

MR. TRUMAN. We didn't even have anybody on Eastern Europe. The Iron Curtain existed. The United States said to the Japanese and said to the Germans, "You either go along with us, or we withdraw the nuclear shield."

MR. BRYANT. Financial decisions among the major European countries, the United States, Japan, sometimes Canada and sometimes not, were not greatly affected by whatever Russia was doing, and the United States, it was thought, didn't need to consult the Russians.

MR. TRUMAN. Were we able to use the Soviet threat and make the Europeans and the Japanese believe they had to go along with us?

MR. BRYANT. I don't think that threat was often used in the economic and financial arenas. At least it wasn't used in my presence. But I wouldn't be surprised to learn that Burns or Connally did make use of it.

MR. SMALL. And I guess Russia didn't have large financial balances to put into markets and pull out.

MR. TRUMAN. No, Russia was isolated.

MR. PROMISEL. Reed Irvine was one of those interesting personalities in the IF Division. He was a strong anticommunist force. We already talked about John Reynolds. You mentioned Arthur Hersey and Sam Pizer. I had thought about a couple of these people who were major players in the division for many years.

Mr. Bryant. I'm not sure what your question was. Reed Irvine was a strong-willed person who wanted to have his section run in the way he wanted it, and it didn't coincide with my notions about reorganizing the division. Probably not in a skillful enough way, I was taking resources away from him so we could reorganize the division. I was not going to make it easy for him. To bring the division together and to have a more unified approach, for a time, I made the decision, in consultation with others in the division, to take the whole division over to the old Watergate Building. We could all be together there. We could have easy staff meetings, and junior and senior people could interact with each other regularly.

MR. TRUMAN. The 600 building, not the 2600?

MR. BRYANT. The 600. Reed was not happy with that, as well as other things. Reed and I became increasingly at loggerheads on issues about the organization of the division. At one point, Reed went to Governor Robertson, who was his main contact person, and got Robertson to lobby Burns about what I was doing in the division. That was one of the early tests of whether Burns would honor his agreement. And, as in life, everything is complex.

The Chairman made it clear to me that he would like me to moderate the way this controversy was developing. He didn't say he wouldn't support me, and I put him on the spot to say it may come to that. I promised to do my best to modify and mollify. In the end, it worked out okay, although Reed never retired from the division until the years, Ted, when you were director. You asked about that, Larry, while we were talking about Russia.

MR. PROMISEL. He reminded me of personalities in the division.

MR. BRYANT. Though we were an international division and thinking about the rest of the world, we were much too centered on Europe and Japan, with the wisdom of hindsight. We didn't understand the enormous developments that were happening in China.

Sad things were happening in 1974 and 1976. India was isolated by its own choice from the rest of the world. Latin America was significant, but its problems were less appreciated than they should have been. In the division, we were not thinking enough about all those questions. We weren't being forced to think about them. It might have been better had we been more sensitive to that. But, as you pointed out, Larry, we didn't have anybody working on Russia. We did have somebody thoughtfully following Latin America, Yves Maroni. We certainly had some analysis of Asia, but not nearly enough. It was mostly focused on Japan. My goodness, the world has changed a great deal since then. [Laughter] Looking back, it was inevitable that we didn't pay much attention to those questions, because everything else was so hot that we had no choice but to put a lot of the division's resources into covering the hottest issues. And I had this objective of beefing up the analytical capacity of the division, which also required time and resources. There wasn't lots of time left over.

Conclusion

MR. SMALL. What if, in 20 years, we're interviewing Nathan Sheets, and we talk about 2009, and he says, "Oh, my goodness! I was so focused on the financial crisis and the meltdown that I wasn't looking at—and should have been looking at—X"? [Laughter]

MR. BRYANT. Well, there will certainly be an X. I don't know that I am bold enough to say what X would be.

MR. SMALL. He won't be alone among division directors who say, "I wish I had"?

MR. BRYANT. I am pretty confident in saying that some of the issues we have talked about today will still be on the table and will still be demanding close attention from the IF Division. I doubt that many of them will be resolved.

MR. TRUMAN. Many of the things that you dealt with during your period are still here today. The world has changed, but how we organize and think about the global financial system, and so forth and so on—we didn't have the word "globalization" then, but it was going on. Part of the transformation of the Bretton Woods system was making it possible to have capital sloshing around the world, for better or for worse. Capital flows and exchange market turbulence undid the Bretton Woods system, in some sense, and it's a debatable question whether it's good or bad. I don't think it's particularly debatable, but there are people on both sides. It's remarkable to what extent some of the issues that Ralph dealt with during that period, and dealt with nuance and sensitivity, are here today.

MR. SMALL. Especially issues that were left somewhat unresolved. We talked about the international roles of the dollar and about imbalances in the U.S. external payments position, how issues such as these have continued. Your point, I take it, is that you know they're there, but they don't get fully resolved.

MR. BRYANT. Here is an illustrative way of making the point from a different perspective. Have you ever heard the words "substitution account," and do you know what we mean by that term? You could surprise me by saying "yes." Discussions about a substitution account focus on whether there is some feasible way governments could substitute assets denominated in, say, SDRs or some other outside asset in exchange for assets denominated in reserve currencies (in particular, U.S. dollars). For example, could China hold some "international" assets in its reserves rather than such large amounts of dollar-denominated U.S. Treasury securities? Creating and using a substitution account might facilitate this structural transformation for how governments and central banks hold their international reserves. During the time of the Committee of Twenty, one of its technical working groups worked on reserve assets and consolidation of reserve assets, deliberate reserve creation, even substitution accounts, et cetera. I attended the meetings of that group in part because I felt the issues were so important. I'll bet you a bottle of good claret that, over the next six or eight years, you are going to hear that phrase "substitution account" quite a few times. Not today, but sometime in the next decade.

MR. MARQUEZ. Keynes was involved in that. When they were deciding the structure of the IMF, he had the Keynes plan versus the White plan, and I think he had in mind something that was very similar to—

MR. BRYANT. It wasn't quite that. But its motive was driven by similar things.

MR. MARQUEZ. Yes. Keynes was proposing the use of a unit called "bancor" for IMF accounts, and bancor was, in effect, a precursor of the SDR.

MR. TRUMAN. Because you had reserve currencies in the pre–Bretton Woods period.

MR. MARQUEZ. Correct.

MR. BRYANT. Who knows what we are going to do with the reserve holdings of China, India, and many of those other countries. Discussion of this issue could even happen early. It might even happen in 2010. But it's just about a certainty that it's going to come up prominently in the future.

MR. TRUMAN. If Fred Bergsten has his way—and maybe if you have your way.

[Laughter]

MR. SMALL. Thank you.