Federal Reserve Board Oral History Project

Interview with

Steven M. Roberts

Former Deputy Director, Division of Banking Supervision and Regulation

Date: January 31, 2008

Location: Washington, D.C.

Interviewers: Lynn Fox and David H. Small

Federal Reserve Board Oral History Project

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

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

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

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MS. FOX. Today is January 31, 2008. This interview is part of the Oral History Project of the Board of Governors of the Federal Reserve System. I am Lynn Fox, a senior adviser in the Board's Office of the Staff Director of Management. I am joined today with Dave H. Small, from the FOMC (Federal Open Market Committee) Secretariat in the Board's Division of Monetary Affairs. We are interviewing Steven M. Roberts who is currently the deputy director in the Division of Banking and Supervision Regulation. This interview is taking place at the Board of Governors in Washington D.C.

MR. ROBERTS. Today I am deputy director of the Division of Banking and Supervision Regulation. Tomorrow I will be retired. [Laughter]

I started at the Board in 1971 in the Division of Research and Statistics, in what was then called Special Studies. Special Studies had responsibility for the quarterly economic model and for most of the basic research that was going on about the economy and banking, and financial markets. I left the Board in 1977 to become chief economist for the Senate Banking Committee under Chairman William Proxmire from 1977 to 1981.

Paul Volcker's Senate Nomination Hearing to Become Fed Chairman in 1979

MS. FOX. Would you tell us some of your recollections of Paul Volcker's nomination to become Fed Chairman?

MR. ROBERTS. It was interesting and sudden. I met Paul Volcker for the first time when he was nominated to be the Fed Chairman. G. William Miller had been asked to be Secretary of the Treasury and had stepped down as Chairman. As chief economist, it was my responsibility to prepare the Banking Committee for the nomination hearings for Paul Volcker.

I may have known then, but I don't remember all of the rationale for moving Chairman Miller over to the Treasury from the Fed. Miller didn't have the same type of background that other Fed Chairmen had, and he may have voiced some interest in moving to the Treasury. In any case, I didn't think at the time that Mr. Volcker was a shoe-in. There were two or three other people whose names I had heard, and the Banking Committee had heard, before we heard Paul Volcker's name. But once his name was announced, it was well received by Chairman Proxmire. He [Volcker] had a speedy confirmation hearing, and I don't remember any objections to him. He came to the hearing with E. Gerald "Jerry" Corrigan. I had not known either Corrigan or Volcker before then.

MR. SMALL. Could you explain the nomination process—what the staff responsibilities are and how the machinery works?

MR. ROBERTS. Sure. The White House is responsible for sending background information to the Banking Committee members. The first action that takes place from the Senate side is a nomination hearing where members can question the nominee orally and can afterwards submit questions for written responses. Once all questions have been reviewed, the Banking Committee holds a vote on the nominee. This can be a formal meeting of the committee or an informal canvassing of the committee members. In the case of Paul Volcker, the vote was pretty routine. Sometimes it's not so speedy. With Bill Miller it took months because of his role as chairman of Textron, when Bell Helicopter faced allegations of improprieties under the Foreign Corrupt Practices Act. Those hearings took months, and they were very contentious. But eventually he became Chairman.

Volcker's hearing was relatively smooth. If there was any concern, it was because monetarism was a big issue. The monetarists were not convinced that Volcker would behave in a fashion in which they would be comfortable. Proxmire had made up his mind fairly quickly that Volcker was going to get through, but he had to entertain these views that were raised by other members of the committee. I don't recall any delays by those favoring monetarism. The nomination went through the full Senate fairly quickly. As it turned out, in 1981, when interest rates had to be ratcheted up pretty quickly, Volcker did position the move as a monetarist strategy.

Being Special Assistant to Chairman Volcker (1983–87)

MS. FOX. In 1983, you became then-Chairman Volcker's special assistant. Tell us how that came about.

MR. ROBERTS. It came about through a phone call from Neal M. Soss, who was then special assistant. He explained to me that it was his time to go back to the New York Fed, that my name had come up in internal discussions, and that he'd been authorized by Chairman Volcker to see if I would be interested in returning to the Board.

MS. FOX. Where were you at that point?

MR. ROBERTS. I was vice president for Federal Government Relations at American Express Company, where I had been for about two and a half years. I went there after leaving the Senate Banking Committee in 1981.

MS. FOX. What appealed to you about the job as special assistant to the Chairman, and what concerned you?

MR. ROBERTS. Chairman Volcker wanted an economist; he had always had an economist in that position. The day-to-day activities could range from anything having to do with financial markets and monetary policy to bank operations. It was a broad agenda. Volcker was most comfortable with a small number of people around him; day-to-day there were only a handful of people that Volcker saw on a regular basis. The job appealed to me because there were a couple of things in my personal life that made my stay in Washington convenient. And I was about to have to make a decision at American Express because my rotation in Washington was coming to an end. I'm an economist by trade, and I started my career at the Board. I had been away from pure economics and monetary policy for a few years. I felt that I should return to my economics training. It just seemed an opportunity that wasn't ever going to come again—not only for me but one that wouldn't come at all for most people.

When I left the Board in 1977 to go to the Senate Banking Committee, I was a senior economist; I wasn't part of the official staff. My biggest concern was that I was returning to the Board as an officer and leapfrogging over a whole bunch of really talented people who had been my colleagues. But both Paul and Neal told me that issue had been discussed thoroughly and that there was no one on the staff that had any question about my ability to come in and do what I needed to do, regardless of where I was before I had left the Board, which made me feel pretty comfortable.

MS. FOX. What was it like? Where was your office?

MR. ROBERTS. My office was as close to Chairman Volcker's office as it could get. In between my office and the Chairman's office were the secretaries—my secretary and his two secretaries. So I was within footsteps of being in his office as soon as he needed me.

MS. FOX. What was the routine of your day?

MR. ROBERTS. There was absolutely no routine. Often I would come in, and I would have a number of things that I thought I needed to accomplish that day. More often than not, the agenda would change during the day for one reason or another. One of the more interesting parts of the job was that you never knew what was going to come up; that's the way it is at the Fed. You don't always know what's going to happen on any given day.

MS. FOX. Do you remember on which projects you spent time—economic policy, congressional relations?

MR. ROBERTS. We had a strong legislative staff at the time. But again, Chairman Volcker liked to deal with a small number of people. Since I had Capitol Hill experience and had been at the Fed before, he was as comfortable talking with me about the Hill as he would be with the legislative people.

Bush Task Group on Regulation of Financial Services[1]

MR. ROBERTS. My first assignment was to get involved in the Bush Task Group on Regulation of Financial Services formed in December 1982. As it was explained to me, there had been a huge staff effort ongoing for the last six or seven months and the issues were not as clear-cut as they might seem on the surface. I was told that the whole effort was concocted by the Secretary of the Treasury to get the Fed out of bank supervision.

MS. FOX. This was during Ronald W. Reagan's Administration. The Bush that we're speaking of was then Vice President George H. W. Bush, who was the head of that task group.

MR. ROBERTS. He was the nominal head—the chairman—of the task group. Treasury Secretary Donald T. Regan was the vice chair. The task group was run on a day-to-day basis by one of Bush's assistants, Richard C. Breeden, and by one of Don Regan's staff, Thomas J. "Tom" Healy, who had come down from Goldman Sachs to be Assistant Secretary of the Treasury for Domestic Finance. The mandate for the task group was to reexamine the way financial institutions were regulated in this country. By the time I stepped in, it was pretty clear that there were 13 agencies involved and the way it was being managed, it was 12 to 1 against

[1] The Bush Task Group on the Regulation of Financial Services was formed to make recommendations to simplify the regulatory structures of the financial services industry. The task group consisted of the heads of the federal regulatory agencies, the SEC, the Attorney General, the director of OMB, and others.

the Fed. I spent numerous hours talking to both Michael "Mike" Bradfield and Edward C. "Ed" Ettin about the task group, the parties involved, and the politics of the task group. (Mike was the Board's General Counsel and Ed was the deputy staff director in the Office of the Staff Director for Monetary and Financial Policy.) My job was to help get the results that Chairman Volcker wanted and that the Federal Reserve could support.

The final Bush Task Group report, issued in July 1984, was called the Blueprint for Reform. It didn't go to the Congress because it was pretty close to the end of President Reagan's term. It was not picked up again during the Bush Administration, primarily because Richard Breeden became Chairman of the Securities and Exchange Commission, and nobody was really interested in pushing the regulatory reform effort at that point.

It was an interesting venture. I think the first three months was mostly staff of the different agencies getting nowhere other than to gang up on the Fed. At some point we made a collective decision that Volcker would need to speak out publicly and do so before the conclusion of the report. He gave a speech at an ABA (American Bankers Association) conference—I think it was the fall of 1983—in which he expressed his view on the need for the Federal Reserve to be involved in banking supervision and regulation.[2]

MS. FOX. How did the Fed become the one to be ganged up upon?

MR. ROBERTS. I don't know the answer to that, but it was pretty clear that the Reagan Administration wanted to concentrate banking supervision in the Office of the Comptroller of the Currency (OCC), which was a part of the Treasury Department.

MS. FOX. Was that supported by the banking industry?

[2] Paul A. Volcker (1983), "Remarks at the Annual Convention of the American Bankers Association," Honolulu, Hawaii, October 10, 1983.

MR. ROBERTS. The banking industry, whenever this issue comes up, is pretty squeamish because they don't want to take one side or another. They like to stay neutral, so I don't think it was directly supported by the various trade associations publicly.

MS. FOX. Why was that the Treasury Secretary's goal? Was it because the OCC is an arm of Treasury?

MR. ROBERTS. It was really deeper than that. Treasury would have explained its position as a need for the Treasury to have greater input into the way our banks and financial systems are regulated and that the Federal Reserve doesn't need to participate in bank regulation in order to carry out its duties as a central bank.

MS. FOX. Did you and Chairman Volcker work through the issue with others?

MR. ROBERTS. Sure. We were prepared to do a grass-roots-type lobbying job through the Reserve Banks if needed. So the Reserve Banks were fully informed of the status.

MS. FOX. Did you and the Board's congressional office have communications with the Hill during this process?

MR. ROBERTS. No. They tried to keep this at the Administration level. I don't remember that the Hill forced us to have hearings on it until after the whole thing was done. Whether anyone in the Reagan Administration was talking to the staff on the Hill or not, I don't know. It may have come up in unrelated or related testimony, monetary policy or otherwise. We didn't want to raise it as a congressional issue because it was already seemingly out of control. It would have been more out of control if the Congress had gotten involved.

After the speech that Volcker gave to the ABA in October 1983, I said in my meetings with Richard Breeden, "You know, we're not going to sign onto anything that we can't live with." That was the signal that there would have been a formal dissent. I came in September, so this may have been in November. Several weeks later, Vice President Bush hosted a lunch at his house at Observatory Circle. I remember it distinctly because the Vice President's house was decorated for Christmas. Attendees were Volcker, Secretary Regan, Richard Breeden, Tom Healy, and me. Volcker said, "You guys can do whatever you want, but if you want me to sign something, then I'm going to have to feel comfortable with it and I don't feel comfortable now." After that lunch, everything loosened up and reversed itself. Bush didn't want to be embarrassed, and he must have told Regan that the Administration shouldn't go out on a limb for this particular issue. So it was starting from scratch to come up with a formula that met certain objectives of, I guess, the Vice President and the Treasury, one of which was that the Fed would not be taken out of bank supervision.

MR. SMALL. Was Don Regan pushing hard for taking the Fed out?

MS. FOX. Did he argue with Bush at the luncheon?

MR. ROBERTS. It was a pretty animated discussion, but it was cordial. Chairman Volcker said that the Fed needed to have involvement with the largest institutions because of our role in monetary policy and in helping to stem systemic crises; that was the starting point from which the final report was written.

Bush and Secretary Regan were interested in changing the split that still exists today between supervision and regulation at the bank level and supervision and regulation at the holding company level. They thought that it would be more efficient to have the same agency oversee both the bank and the holding company. At the time, today's concept of consolidated supervision was not at issue. We pushed for supervision at the bank and at the holding company level for banks that were a certain size or internationally active, or both. At the time, I think, it turned out to be 35 banks—there were a lot more banks then than now. The Treasury and the

Vice President's staff also wanted to cut the number of agencies involved in banking supervision. In the report, they stripped the FDIC (Federal Deposit Insurance Corporation) of supervision and regulation of state non-member banks and gave that to the Fed, which we didn't necessarily want.

MS. FOX. Did the FDIC dissent?

MR. ROBERTS. No. Nobody dissented. The other agencies were told not to dissent, and at that time the Administration had a fairly strong grasp on all of them. I think the FDIC is more independent today than it was then.

MS. FOX. Was there a lot of follow-up when the report came out?

MR. ROBERTS. There were some hearings, but there was no immediate reaction by the Congress. I gave a speech at a Chicago Fed banking structure conference in April. The Bush Task Group report would have been pretty close to finished by then. Richard Breeden and I were supposed to be on a panel discussing the outcome, but he cancelled at the last minute. I never found out why he didn't show up. I was left either discussing it without him being there—which I didn't want to do because I didn't want him to later say that I was off in what I said—or I could change the speech. I changed the speech and gave some of the details that we were thinking about, but I also brought in other current events.

The notion that the Fed should oversee the largest companies was a fairly important breakthrough. It was also fortunate for the Board that Richard Breeden and company decided to take away the small banks from the FDIC rather than from the Fed. If they had wanted to take the small banks from us and give them to the FDIC, there would have been a huge cry from the Reserve Banks, but we didn't have to face that.

MR. SMALL. The issue about the largest banks and the Fed having the supervision, is that just an issue of quantity?

MR. ROBERTS. Today we would call them systemically important institutions.

MR. SMALL. Because they operate payment systems?

MR. ROBERTS. Because they operate payments, because they're important in some financial market or markets. And we used the criteria of size or international activity, or both.

MS. FOX. Did that argument gain credence over the years with subsequent crises?

MR. ROBERTS. Certainly, over the years, the Fed has shifted its view of supervision and regulation to pay much closer attention to the largest, most systemically important institutions, and so it's consistent with where the Fed is today.

Continental Illinois Bank Failure

MS. FOX. The failure of Continental Illinois was the largest bank failure in U.S. history, and it happened very rapidly. There were deposits from abroad that were withdrawn very quickly.

MR. ROBERTS. There was a fair amount of concern that Continental, as a clearing bank, had correspondent relationships with a whole host of small banks in the Midwest, and that disturbing those relationships was something we didn't want to do.

MS. FOX. Do you remember when you first heard about it?

MR. ROBERTS. I remember parts of it, but I don't remember all of it, maybe because I was buried in other stuff. It was mostly handled through Supervision and Legal. I do remember one thing that is critically important and perhaps little known. Before the resolution was decided, various officials from Continental came to Washington to express their views to the agencies and to the Congress. Paul was asked to meet with them. They marched in and said they had just been at the FDIC and the chairman of the FDIC had agreed to a plan they offered, all of the specifics of which I'm not going to recall. But one of the specifics was quite troubling—the shareholders were not going to be wiped out with the government rescue. They laid this out and asserted that this was okay with the FDIC. Volcker came back at them very quickly. He said, "That's the FDIC's solution perhaps, but it's not my solution. I will not go along with anything where the stockholders have anything left." These Continental representatives kind of wilted. They left very humbly. The agreement with the FDIC was wiped out, and the resolution was done in a way that the stockholders were wiped out.

MR. SMALL. What was the motive for that?

MR. ROBERTS. Not to reward the people who caused the problem.

MR. SMALL. Volcker had quite an experience at resolving failing institutions and some of his standards must have been evident early on.

MR. ROBERTS. I don't know that for a fact. But it was clear afterwards. After he retired, he was asked to help Arthur Andersen. He served on United Airlines' board. He was involved with issues at the United Nations. He once said to me, "You know, people call me now to resolve things that are unresolvable. And this is not good."

MR. SMALL. I don't think people have much of a sense of him in that role, as a negotiator.

MR. ROBERTS. Oh, he was a pretty tough negotiator. The Continental Illinois thing may have looked like a negotiation, but it wasn't really a negotiation. He just said, "If you want me to sign anything, this is the way it's going to be." End of discussion.

MS. FOX. Do you recall if there was any request from Continental for discount window lending?

MR. ROBERTS. I don't, but any loan would have been supported by collateral. If I recall, Continental's problems started with a smaller bank that it was supporting, or that it had bought some investments from, and there were oil investments of some type.

MS. FOX. Do you remember internal discussions about the banks?

MR. ROBERTS. The banking industry came in quarterly, various elements of it. We had the Federal Advisory Council (FAC), with bankers appointed from each Federal Reserve District. The banks were quite concerned with the Continental situation. I think the difference was that the resolution included a retired executive from Standard Oil named John Swearingen to be put in as chairman rather than resolving it through a takeover by another bank. Ultimately, I think the bank was taken over by First Chicago but not immediately.

Ohio Thrift Crisis

MS. FOX. You were quite involved in the Ohio thrift crisis.

MR. ROBERTS. The Ohio thrift crisis was first, then Maryland. The issues were that the states had created their own deposit insurance systems that worked fine when there were no problems but not when there were. The thing that made Ohio different than Maryland was that the governor of Ohio was an activist, and he declared a banking holiday in March 1985.

MS. FOX. The issue was that the state-insured thrifts were insured by a state fund that went bust because of thrift failures in the state.

MR. ROBERTS. Correct. We were monitoring the depositors along with the Federal Home Loan Bank Board from about the beginning of 1985 on. I remember Edwin J. "Ed" Gray was chairman of the Federal Home Loan Bank Board starting in 1983. He was much maligned after the fact. He was from Florida. Gray and Volcker got along pretty well. Gray and Preston

Martin (then serving as Fed Vice Chairman) didn't get along well, as I recall. We had a good working relationship with early warning systems set up with Federal Home Loan Bank.

MS. FOX. Of what does an early warning system consist?

MR. ROBERTS. In that case, it was early notification of a problem at a given bank that might result in a run on the institution with long lines of depositors and perhaps massive withdrawals.

MS. FOX. Were the examiners told to be vigilant, or were the institutions told if anything's going awry tell us quickly?

MR. ROBERTS. I think it was a combination. Initially, the examiners were from the Federal Home Loan Bank Board, not Federal Reserve examiners. Our role was to make sure that problems didn't spill over to the banking system. When there was the possibility of a run, we had committed that we would supply both cash and the assistance in determining the viability of a state thrift becoming a federally insured institution.

MS. FOX. Do you remember talking to the Reserve Banks?

MR. ROBERTS. I remember talking to William "Bill" Taylor (the director of the Division of Supervision and Regulation). Taylor had direct talks with the supervisory people in the given District, the cash people, and the [Reserve] Bank officers. Everybody got involved.

MS. FOX. What was Volcker's day-to-day involvement?

MR. ROBERTS. It was informal. Taylor would come over and brief him on what was happening. At some point it was daily, other times it was not as frequent. As we got later into 1986 and it was clear that what might have started as a state insurance issue was a broader savings and loan issue, Taylor was sent to find out what was going on in Texas and California. Bill went down to Texas to look around. He had a video camera with him to photograph some of the construction for which the thrifts had lent money. A lot of these places were just flimsy cardboard structures that wouldn't have stood up under any type of adverse weather. In some cases, there was supposed to be a structure and there was a vacant lot. There were all kinds of shenanigans going on that we happened to find out about, that Bill documented.

MR. SMALL. What is the timing of this and the deregulation of thrifts, allowing them to invest more broadly than in housing?

MR. ROBERTS. That happened in the early 1980s. They were deregulated on what they could pay in interest on insured deposits. We had high interest rates because of the Fed's role in controlling inflation. Thrifts had little capital. There was a mismatch between the term of the deposits they were issuing and the loans they were making. Regulation Q was coming off on a schedule consistent with a law passed by the Congress in 1979 or 1980. All these things came together and they got special capital rules from the Federal Home Loan Bank Board, which eventually led to a lot of lawsuits.

MS. FOX. The Bank Board allowed them to count goodwill as capital?

MR. SMALL. I believe Ed Ettin said in his interview that he had a role in the creation of the goodwill capital certificates, and he begs forgiveness.

MR. ROBERTS. That was somewhere between 1981 and 1983. I don't think it happened when I was here. I don't know whether Chairman Volcker had any input into it or not. But I assume that Mr. Ettin was involved in some way. At that point the thrift industry was pretty big and pretty powerful.

MR. SMALL. During this time, Preston Martin was Vice Chairman and he had come from the thrift industry.

MR. ROBERTS. I think his claim to fame was the development of the secondary mortgage insurance market or private mortgage insurance.

MR. SMALL. Did he have an active role in the thrift crisis?

MR. ROBERTS. He had a very active role. Chairman Volcker let him deal with the thrift industry rather than Volcker getting directly involved himself.

MR. SMALL. Did they work well together on that issue?

MR. ROBERTS. Yes, on that issue.

MS. FOX. Did anyone from Ohio and Maryland want anything from the Fed?

MR. ROBERTS. Volcker was out of town when a call came in from the Ohio governor's office. Catherine Mallardi (Volcker's secretary) passed it on to Mike Bradfield. Bradfield took it and called me and Bill Taylor. The governor's assistant told Bradfield that the governor wanted to talk to Volcker because he wanted to make sure that there weren't going to be more runs on state-insured institutions. And he said that the governor was going to declare a "banking holiday." Everybody's antennae went up because we hadn't had a banking holiday since the 1930s, and we didn't like to use that term.

This must have started around 4:00 in the afternoon. Volcker was at the San Francisco Fed. By the time the senior staff all got together to talk about the governor's possible action and its implications, we knew we had to reach Volcker. We also knew that he might be able to persuade Ohio's governor not to use that terminology. We made a call to the San Francisco Fed. We were told that he was in the car on his way to the airport. We had them patch us through to the car. By the time we got through to the car, he was out of the car in the terminal.

Bradfield had been with Chairman Volcker and knew better than I how the White House worked. He said we needed to get to Volcker before he got on the plane. We got through to the

White House and asked the White House to get to United Airlines—I think it was—and see if we could stop Volcker so we could patch him in with the governor. All of this took enough time so that he was through the airport, through the gate, on the plane, and the plane had taxied back. So the decision was to go back to the White House and tell them that we needed Volcker to be able to talk to somebody. I don't think we told the White House what was going on, but we said we needed to reach him promptly and asked would it be possible to patch him through on the plane's communication system to the governor. That didn't work. For some reason, they couldn't do that. We asked the White House to see if they could pull the plane back to the terminal. As it turned out, the plane was first in line to take off. The plane was in line to take off when the pilot got the message and he obeyed it. As he turned off the active runway, he got on the intercom and told people he had to go back to the gate because there was some guy named Volcker on the plane that made a call. [Laughter] Paul was absolutely livid. He got off the plane.

MS. FOX. Mad at the pilot? Mad at you guys?

MR. ROBERTS. He was mad at us. He was not happy. He didn't know why he was being called back, but he was not a happy camper with the pilot at that point. Then when Bradfield talked to him, he understood the urgency. We tried to patch him through to the governor, but the governor had gone. So he got back on the plane, they took off, and we're here.

Okay, what do we do next? Bradfield and I brought Bill Taylor over and decided there were a certain number of things that had to be done because we had learned that the governor wanted these things shut until they had federal insurance. Taylor devised a plan where we could mobilize our examiner resources from around the country to help look at each one of these thrifts with the FDIC. The FDIC would proceed as fast as it could to either approve or not approve. The other part was that we weren't sure how people were going to be accommodated, so we knew we had to mobilize cash. A call was put in to Karen Horn, president of the Federal Reserve Bank of Cleveland. It was her responsibility to make sure that cash was available with a nearby federally insured bank, should we need it, so that somehow people who needed their money could get it. We also knew that perhaps as part of this we would have to open the discount window to some of these state-insured thrifts to keep them alive.

We explained all the ins and outs and what was going on to Volcker when he landed. Mike Bradfield, Joseph “Joe” Coyne, and I drove out to Dulles Airport to meet him, and he was briefed in the car on the way back. We got back to the Board about 1:00 a.m. There were things the Board had to approve that were outside the ordinary way we did business, including possibly lending to state-insured institutions. In our eyes, it was a real emergency because a banking holiday hadn’t been declared for a long, long time. Chairman Volcker decided that the Board had to meet before the thrifts opened, so he set a Board meeting for 6:00 a.m. Each of us took one or two of the Board members. We woke them up in the middle of the night and said, “You need to be in here for a 6:00 a.m. meeting.” I called Lyle Gramley. I think I also called J. Charles “Chuck” Partee as well. I gave them a flavor of what was going on. Their reaction was rather straightforward.

We considered whether we’d stay here overnight, but we all went home and came back for the 6:00 a.m. Board meeting. The minutes of that meeting show exactly what happened. They approved whatever needed to be done. The next day there was a state banking holiday, but it turned out to be of little consequence because we were able to take care of things that needed to be thought through in the middle of the night.

Working with Board Members

MS. FOX. Tell us about the Vice Chairmen and the Board members that you worked with. Were you an intermediary with them and the Chairman or did he deal with them directly?

MR. ROBERTS. It depended on the issue. I spent a lot of time with individual Governors on issues, but I wouldn't want to generalize that that was my role; from time to time that was something I was asked to do.

MS. FOX. At the time, the new members were Vice Chairman Preston Martin and Martha R. Seger. Seger came in July 1984. Do you remember first meeting her?

MR. ROBERTS. No. What I do remember was that her nomination hearing did not go smoothly. She was blocked by both Republicans and Democrats because she had been active in the Republican Party in Michigan and had gotten sideways with the Republican governor. It was not a partisan thing. It was not the Democrats going after a Republican nominee. It was more a Republican backlash because of her activities in Michigan. I think they adjourned without her being confirmed, and she got a recess appointment, which was a new thing for the Fed.

MS. FOX. It has been reported that in the summer of 1984, as the reelection campaign was going on, Volcker went to the White House for a meeting, and James A. "Jim" Baker, the chief of staff, told him they didn't want any interest rate increases before the election. It has been reported that Volcker at the time thought that he should report that to the Senate Banking Committee. Is this something that he might have discussed with you?

MR. ROBERTS. No, he didn't discuss it with me. I don't think I've ever heard that story before. It's kind of interesting. Volcker had a handful of people here at the Board that he interacted with regularly. He also had his own set of relationships with people he knew well and trusted in the financial markets that he relied on from time to time, most of the time without our knowledge. He sometimes did things with the White House that the staff did not know about.

Volcker Outvoted on the Discount Rate in 1986

MS. FOX. Let's turn to internal politics—the February 1986 vote on the discount rate. In February 1986, two new Reagan appointees joined the Board—Wayne D. Angell and Manuel H. Johnson. They joined Martha Seger and Preston Martin, who had been appointed by the Reagan Administration. What happened on February 24, 1986, when the four voted against the Chairman and two other Board members in a discount rate decision?

MR. ROBERTS. It was not one of the best days of my life [laughter] or anybody else's in the building. It was at the end of a regular Board meeting. In those days, the Board met Mondays and Wednesdays, and sometimes Fridays. I think this must have been Monday. After the regular briefing, the Board Room cleared out, and the Board members went into this discussion of a reduction in interest rates with only senior staff attending. It was pretty clear as the discussion went on that the difference between Volcker and these four Board members was more about timing than substance. They pressed for an immediate interest rate reduction with a decrease in the discount rate. Chairman Volcker argued that he was concerned that, if we did it alone without other countries—particularly Japan, the United Kingdom, or Germany—it wouldn't have the same impact globally. He held his ground. The Board members pushing for the reduction held their ground. Eventually they pushed for a vote; the vote was four to three. At that point Volcker got up and exited the room. I was sitting at the Board table. As I recall, there were very few staff members left. Joe Coyne and I were there. I think Mike Bradfield was there, and William W. "Bill" Wiles was probably there, as Secretary of the Board. I don't remember anybody else being there. The whole discussion was rather heated, and it was clear to us watching what was going on that this was not a spur of the moment thing. It didn't just happen; this had been orchestrated. They had walked in knowing that they were going to do this.

After Chairman Volcker walked out, Vice Chairman Martin asked that there be a meeting of the staff in the Special Library, I think at 11:00 or 11:30, to discuss how to communicate the change in rates to the Reserve Banks because, after all, the Reserve Banks were the ones who ask for discount rate changes. Everybody disbursed. I went to talk with Joe Coyne to get his view on how things might play out. We were concerned knowing the Chairman the way we knew him that this might precipitate him deciding that it would be embarrassing when word got out and that he just might resign.

I don't exactly remember the sequence, whether I went to this 11:00 a.m. meeting or did something else, but at one point I went down to Manley Johnson's office and said to him quite directly, "What's going on here?" He told me his view of what was going on, which was consistent with later press reports suggesting that the Administration wanted to get this done. I didn't talk to Wayne Angell, Martha Seger, or the Vice Chairman. I think I went into the meeting in the Special Library and argued that the Board staff shouldn't act precipitously to inform the Reserve Banks because there may be other things that were going on that might intercede.

At that point I hadn't talked to Volcker. He was shut up in his office. We assumed that he could resign at any moment. Preston Martin said that we needed to push ahead with this and directed the staff to prepare whatever they needed to prepare to advise the Reserve Banks that the Board had approved the discount rate cut. Although staff warned the Governors that were present that it might be premature to get that out quickly, we were not successful in dissuading them.

After that meeting I went to talk to Angell. My discussion with him was that this is a timing issue; the institution could be harmed if the Chairman decides to step down. I suggested to him that he might want to talk to Chairman Volcker before too long. Angell interpreted that as Volcker asking me to tell him to go to the Chairman, which was not the case. I went to Angell on my own.

MS. FOX. Why did you go to him and not to Governor Johnson?

MR. ROBERTS. I had already talked to Johnson. He said he had made a commitment.

MS. FOX. You felt the commitment was to the Administration?

MR. ROBERTS. Yes. So I'd already talked to him. I wasn't going to go talk to Preston Martin or to Martha Seger because I knew that would have been a waste of time. But as it turned out, before too long Wayne Angell, Manley Johnson, and Preston Martin all had individual conversations with Volcker, and they decided to reconvene the Board. They reconvened, Volcker explained his view and why he was concerned about the international aspects of this, and the vote was reversed.

MS. FOX. How far into the day was that?

MR. ROBERTS. This was like 3:00 or 4:00 in the afternoon.

MS. FOX. Did Chairman Volcker talk to you during the course of all this?

MR. ROBERTS. The only conversation I had with him was to inform him that I had talked to Manley and tell him about my conversation with him. I assume I also informed him of my conversation with Governor Angell.

MS. FOX. Did you know that he was thinking of resigning?

MR. ROBERTS. No, I didn't have to ask. And he wasn't going to tell me.

MS. FOX. You were obviously working to prevent his resignation. What did you think about the prospects?

MR. ROBERTS. I didn't really have any time to think about the prospects. I just did what I thought I needed to do to see if I could get the thing reversed.

MS. FOX. What about your other colleagues?

MR. ROBERTS. I don't remember. I talked to Joe Coyne, and I talked to Mike Bradfield. I think it was only the three of us. I don't think that it involved Bill Taylor, Edwin M. "Ted" Truman, or Stephen H. "Steve" Axilrod.

MS. FOX. Was there much awareness around the Board building among the staff?

MR. ROBERTS. No. Steve Axilrod and Bill Wiles found out about it. There may have been other people in the mechanism, in the process to inform the Reserve Banks, but that was it. It was maybe another handful of people that knew. I don't think what happened was generally known outside of that small circle.

MS. FOX. The press reports say that the story did not reach the newspapers until several weeks later? Do you recall any of those days following?

MR. ROBERTS. No. I recall being surprised when it did reach the newspaper because I knew it wasn't going to be released by anybody connected with Volcker.

MS. FOX. Well, thank you for the interview.