

Oral history interview with John E. Sheehan
Conducted by Mark Fischer and Sam Rushay
College Park, MD
August 19, 2002

Q: It's August 19, 2002, and we'd like to welcome John Sheehan, member of the Board of Governors of the Federal Reserve System during the administrations of President Richard M. Nixon and Gerald R. Ford. Welcome, Mr. Sheehan.

Sheehan: Thank you.

Q: First of all could you briefly discuss your business background in Louisville, Kentucky?

Sheehan: I went to Louisville in late 1965, and I became the chief executive of a corporation called Corhart, C-o-r-h-a-r-t. It was a joint venture of the Corning Glass Works and the Hartford Empire Company. Corning bought Hartford out, and the company had lost money for five or six years, and we turned that into the number one earning property Corning owned by the time I left to enter the government in 1971.

Q: And there was also a broadcasting venture?

Sheehan: Well, I was a director of WAVE, which was a television broadcasting company that had five stations. Their flagship station was in Louisville, and they had stations in the Upper Midwest, one in Green Bay and one in Des Moines, Iowa. I forget where the other two were.

Q: You were appointed as a member of board of governors of the Federal Reserve System on December 23, 1971, and sworn in on January 13, 1972. Could you discuss how that came about?

Sheehan: I'm not sure those dates are accurate. They may be. But as I remember there were two swearing-ins. I was sworn in, I think, in late '71 as a recess appointment. And then when the Congress reconvened I went up to Capitol Hill and had an interview with the Senate Banking Committee and then I was sworn-in in the Oval Office after I was confirmed by the Senate. So I think there were two swearing-ins, but I wouldn't bet my life on that. But that's the way I remember it.

Q: Did you have any contacts or business relationships with anyone on the White House staff?

Sheehan: None. I didn't know anybody. I was a registered Republican. The interesting thing is when they interviewed me they never asked me if I was a Republican. Now they may have researched it and known that. But I don't think so. The way that appointment developed, I was asked to give the keynote speech at an economic conference which General Electric Company had annually in Louisville. General Electric had a huge operation in Louisville. And Darrell Francis was president of the St. Louis Federal Reserve Bank, and I had never met Darrell Francis. But I gave a paper at that conference, and I merely highlighted it as the keynote speech. And Darrell Francis came up after I finished and asked for a copy, which I gave him, and he asked me if I were a director of a commercial bank. And I said, "no," and he said, "would you be

willing to become a director of a Federal Reserve Bank?” and I said, “certainly.” So I was then appointed as a director of the Louisville branch of the Federal Reserve Bank of St. Louis. In order for that to happen, the board of governors in Washington has to approve such an appointment. And so my resume was in Washington.

When Richard Nixon appointed Arthur Burns as chairman of the Federal Reserve, he made a deal with him that Burns could select the members when chairs came open. That’s a serious blunder. I noticed that the President has just appointed two governors, one of whom is the number one economist and the key advisor to Alan Greenspan. Big mistake. I mean the guy is probably as well qualified as anybody could be. But what happens when something like that happens, the appointee becomes a sycophant for the chairman. And he’ll vote with the chairman no matter what happens. And they [should] go on there as completely independent people because the chairman is not the chief executive. Under the Federal Reserve Act he’s supposed to function the way the chief justice functions. The governors do not work for the chairman. They all have one vote. At any rate, Burns had a falling out with Nixon that was not well known. Burns pretended when he testified that he and Nixon were talking hour by hour. They weren’t. Burns had little access to Nixon during that period because Burns had given a speech at Pepperdine University, and he insisted on wage and price controls. And that was *contra* the Nixon policy at the time and Burns, while he was a Jew, he wasn’t a practicing Jew, although he was an expert on the Bible, he was really knowledgeable, but he didn’t go to synagogue. So on Sundays he was invited to the White House to the prayer services which Nixon had in the White House. But after Pepperdine, no more invitations. And so when Burns spent the better part of a year preparing a distinguished business executive from Texas to take the chair which was opening up, which was, would be the second Nixon appointee, Burns having been the first. So Burns took that portfolio to the White House for a meeting with Nixon. And the President said “well, I know we have this arrangement where you’re supposed to be able to select the governors,” but he said, “and I will live up to that.” But he said, “I want you to give me three nominations and I will pick one of the three.” And he said, “go by Fred Malek’s office and pick up a resume of the kind of guy we’re looking for. So Burns very reluctantly did that, and he went back to the Fed, and he called in the chief of staff, who was Bob Holland, and Bob looked at the resume and he said, “we just put a guy with that precise resume on the Louisville branch board.” So Burns called Malek, Malek sent a car over, got the resume. Within an hour they called me in Louisville. Pen James called me, he was Malek’s deputy. And later Pen James was Ronald Reagan’s chief headhunter.

Parenthetically, Malek ran the most professional headhunting operation that any White House has probably ever seen. It was right out of corporate America. They didn’t play many political games. They were looking for excellence, and I think they succeeded to a great degree.

At any rate, Pen James called me. First he very carefully identified me all the way back to, practically my high school. And I said “yes, that’s me, that’s me, that’s me.” And then he said, “would you agree to come to Washington and be a member of the board of governors of the Federal Reserve System?” And I said, “hell, no.” You know. And he said, “would you be willing to come up here and talk about it?” And I said, “with whom?” And he said, “John Connally and Arthur Burns.” I said, “I would walk to Washington to talk to those two fellows.” He said, “can you be here at 10:00 [Saturday] morning?” Well I had access to corporate jets, and I said, “sure.”

So that night I went to a cocktail party and the mayor of Louisville was there, a scion of the Sloan family, General Motors heirs, a physician named Harvey Sloan, a wonderful young man. And he and his wife told me they were going to Washington the next morning. And I said, "Well I'm taking an airplane up there, why don't you come with me?" So they did. And all the way up, they didn't know why I was going until we boarded the aircraft, and they asked me why I was going, and I told them. And his wife, they asked me what did I think about it, and I said, "well I'm going up, but it's a *pro forma* visit, I'm not about to take the job." And Harvey's wife argued with me, well I just listened, I didn't counter her, all the way to Washington. She was telling me why I could not turn it down. So I got to Washington, Fred Malek picked me up, and he took me to John Connally's office.

Now another parenthetical comment. It turned out in my experience that John Connally was the most able man in the government that I met. And I got to know John very well. He was an extraordinarily powerful presence. He was an extraordinarily brilliant person.

So I went to his office, and he was in shirt sleeves, and we talked. I'll never forget it, he put his leg up over the side of the chair that he was sitting on. And we talked for at least an hour. And I'm telling that a.) I'm not qualified b.) I really don't want to come, I've got a wonderful family life in Louisville, and I've got a nice income, and, you know, I've got three small children and John kept telling me how important it was to come. And then I said, "well, you know, I'm not qualified. How can I go over there and sit around a table with six Ph.D. economists and make a contribution in monetary policy?" He said, "it's very simple." He said, "when I came to Washington," he said, "I didn't go to any cocktail parties, any dinners for the first six months. Every night I took memoranda home from the staff and I studied the memos." He said, "at the end of six months I was the smartest son-of-a-bitch in this whole building." You know, so that kind of tipped me over, then I went over to see Arthur Burns, and I spent a good hour with him, and at the end of that meeting he said, "would you agree to be one of three candidates?" I said, "no, I would not." I said, "if you want me in this chair you have to invite me, but I'm not about to discuss it with my family if I'm one of three." So Malek picked me up and drove me to the airport, and he said, "what do you think?" And I said, "Fred, I'm not about to be one of three candidates." He said, "you're the guy. If you want the job, you're it." I said, "when do you have to know?" He said, "by 10:00 Monday morning." This was Saturday evening. So Sunday morning we had a family meeting and we talked about it. And all the girls are crying. And,

Q: How old were your children at the time?

Sheehan: Thirteen, ten, and seven. And my ten year old son broke the ice by saying, "Well," he said, "Louisville is kind of a small town, I think it's time for us to try the big city." So, there's another comment, when I came home on Friday evening after Pen James had called me, I went by my lawyer's office first. One of the, the senior partner in that firm [Wilson Wyatt] had been Harry Truman's HUD manager, although it wasn't called HUD under Truman, and he was, had been the mayor of Louisville and the lieutenant governor, a man of great wisdom particularly with regard to the Federal Government. And my personal lawyer there and the company's lawyer was, became the managing partner of the firm. They were two great lawyers. And I spent a good hour and a half with them. They thought I should take the job. So I drove home and I had to go to this party that evening, and I was late, and I wanted to run up and take a shower. My son met me

at the door, "I hear the White House called." I said "yes they did, but I'll tell you about it tomorrow." "No, no I've got to hear now." I said, "well come on up I'm going to take a shower." So he stood out in the bathroom while I'm taking a shower. He's ten years old. He says, "what kind of a job is this?" And I said, "it's hard to describe." He said, "is it bigger than the job you have now?" I said "oh, it's much, much bigger." He said, "then they will pay you a lot more money." And I said, "no, they won't. They'll pay me about a third of what I'm getting now." He said, "I can't get along on eight cents a week." He was getting a twenty five cent allowance.

So we decided to take the job. I called Fred Malek on Monday morning. And it was a difficult time for me because we were on strike. We had prepared for three years, we knew we going to have that strike. And the preparations were extensive, rigorous, thorough. And we had district 50 of the mine workers and they were very rough characters. They, the first night of the strike they blew out the windows on the main door of the office building. I had foremen asleep in there. They fired shotgun blasts, nobody got hurt. The next day they fired high powered rifle rounds into our transformer bank. We had electric furnace melting units. We got a non-union contractor in and built walls around the furnaces. They lit the bushes around the production superintendent's home at 2:00 in the morning. He had two small children less than five years of age in that house. It burned to the ground. [00:15:00] They all got out. We built him a new house. So it was a very vicious strike, and we won it big time. We made more money during that strike than we ever made before that. We hired strikebreakers. And that was one of the criteria that Malek had used. They wanted somebody who'd been through a strike, who knew where the rubber meets the road, who knew that when you raise interest rates and create unemployment how serious that is. I mean they really had thought it through as to what they wanted.

And Connally said to me, "look, we need a manager over there." He said, "they [have] six Ph.D.economists. Their budget is out of control, it's growing at the rate of 25 to 30 per cent a year." See, the Federal Reserve's income is on government bonds in their portfolio. So you take that income, you subtract their expenses, and the Treasury gets the rest. So if you could control Federal Reserve spending, the Treasury's going to get more money. And so John being very practical he was interested in the Treasury's income from the Fed, and he didn't like the fact that their budget was going up at 25 to 30 per cent a year. Now that was rational because the Congress had passed the holding company amendments to the Federal Reserve Act, which gave the Fed cognizance over all the bank holding companies that were being created to avoid the Federal Reserve Act, and to avoid the supervision of the Federal Government. The banks created holding companies and they felt that would then permit them to buy consumer finance companies and other things that would be totally unregulated. So the Congress pulled them up short, and passed the bank holding company amendments to the Federal Reserve Act. And therefore the work of the Federal Reserve went up on a rocket because any time a bank holding company wanted to buy a consumer finance company they had to make an application to the Federal Reserve, and it had to be reviewed in Washington after it went through the Federal Reserve Bank in that district. So the workload really went up, and so there was justification for the budget going up at the rate it did. So that's how I got on the board of governors of the Federal Reserve System.

Q: How about President Nixon? Do you recall your first meeting with him, and did you ever do any campaign work for him, or any other work prior to his '68 election?

Sheehan: No, I didn't. I wasn't active in politics. I was a contributor on both sides of the aisle. The mayor of Louisville was a Democrat. I was a strong backer of his. I voted for Richard Nixon against John Kennedy. But I didn't take, I didn't get involved in Kentucky politics. In fact one senator from Kentucky vigorously opposed my appointment because they hadn't cleared it through him. They had—

Q: Cook or Cooper?

Sheehan: Not Cooper. The other one. Cook.

Q: Cook. Marlow Cook.

Sheehan: Marlow Cook. And in fact he was in Mexico, and Burns had to talk to him on the telephone to get him to withdraw his objections. And I had never met Marlow Cook. And that was what he was complaining about. Probably looked at his list, and saw that I hadn't contributed to his campaigns.

Q: As you took your position on the Federal Reserve Board, did you subscribe to Milton Friedman's policy of monetarism, or were you more Keynesian, or somewhere in between? And did your views change?

Sheehan: I was a neophyte's neophyte. I mean I had taken a course in macroeconomic policy at the Harvard Business School. So I had a general perspective. And I studied the economy, and I understood the economy very well. But I didn't know very much about monetarism. I knew what Keynesianism was, but I didn't, I was eclectic, I wasn't in one camp or the other. And Friedman tried to influence me when I first went on the board. The St. Louis Fed got in touch with me, that was a monetarist center. And they wanted me to meet with Friedman. And I talked to the staff at the Fed, and they advised me not to do that. And I didn't meet with Friedman, and I never became a monetarist. Which theory of monetary policy it has been amply demonstrated in subsequent decades is a false theory. Monetarism is not a sound theory. And if Milton Friedman got a Nobel Prize for that, they made a helluva mistake. And if he got his Nobel for the other part of it, the Adam Smith economic theories, that wasn't original with Friedman either. So in my view he never should have gotten a Nobel Prize, even though on his 90th birthday you'd think he hung the moon when you read the articles about him. But I was never, the Federal Reserve staff were very down on monetarism. And I'll never forget, there was one experience, Friedman wrote a paper about the decade of the '60's, I think, and he propounded this theory, mathematical, and the Fed staff put it on their computer and of the forty quarters, only two supported that theory. So they wrote to Milton and told him that. And he wrote back and said, "oh, I knew that."

Q: His theories did have subscribers in the White House, of course. George Shultz being probably the most prominent.

Sheehan: Sure. And there was a whole body of professors that called themselves the shadow open market committee. And they were always criticizing the Fed. One of the fundamental weaknesses of monetarism is that it depends on a constant velocity of money. If you take the

GNP and divide by the quantity of money at that instant that's the velocity of money. Well it isn't constant. It changes over time. And their theory depends on it being constant. And it's not. You know, they say just set the throttle at 4 percent money growth or 5 percent and you don't need a Federal Reserve Board, you don't need a Federal Reserve System, and everything will even out. Well suppose the Arabs quintuple the price of oil, how does it even out? Does the UAW and the USW meet immediately and say, "okay we'll take a 25 percent cut in wages." You know, forget it. You know, the Federal Reserve has got to manage that system, and we did when the Arabs dramatically increased the price, and we couldn't have done it if we'd had the throttle set at 4 percent money growth or 5 percent. So, I have never, and the staff at the Fed, and they were sensationally competent people, the economic staff. I've never worked with a group of people as qualified and as competent as they are, and they are today. They have twice as many Ph.D.s as they ought to have but, and that was one of the things I did.

We, when I went on the board of governors I was assigned as the management member. And I had two governors working with me on a committee called the Committee on Bank Activities but the two economists that were on there with me were totally disinterested in managing the Federal Reserve System. They were interested in monetary policy. So I practically ran that myself, and we reduced employment from 28,000 to 20,000 in four years. We put a management system in, we used, we reduced Federal Reserve float from almost \$4 billion to $\frac{3}{4}$ of a billion, and when you're paying six percent for money you can see the savings involved. Now Federal Reserve float. When you go to New York and you write a check for a purchase in a department store, that check goes to that department store's bank and immediately the department store gets credit. The bank sends it to the Federal Reserve Bank of New York, then the check is sent to, here it would be to the Baltimore branch of the Federal Reserve System, and then the Fed gives that bank credit. And until that cash is collected out of your personal account all the way from that department store in New York to that collection is Federal Reserve float, so the US government is financing the checking system of the country. So what I did was we put in computer operated regional processing centers for checks. Then we flew the checks, we chartered airplanes instead of trucking them we flew 'em from one place to another, and we collapsed Federal Reserve float dramatically, and the government made a lot more money.

Q: In 1969 to slow down inflation fueled by the Vietnam War the Nixon Administration undertook an economic policy called gradualism: monetary and fiscal restraint. Do you think the administration was wise to abandon it in 1971 in favor of wage and price controls?

Sheehan: I was very much opposed to wage and price controls. I thought wage and price controls were a disaster, which they turned out to be. You can't legislate a free enterprise capitalistic economy. I just thought it was a huge mistake. And the reason that Nixon adopted that was that Burns convinced him. And the reason that Burns had so much influence over Nixon was that during the eight years that Nixon was Eisenhower's vice president every Friday after-. Well, Burns was chairman of the Council of Economic Advisers, and every Friday afternoon for two hours he would go to Nixon's office and tutor him in macroeconomic policy, so that when Nixon became president he was the most educated president we have ever had with regard to economic policy. He really understood what the system was and how it worked. Where, for example, when Bill Martin, who had preceded Burns as chairman, went over to tell Jack Kennedy, and this was after the fact, he didn't go over and say "may we?" He went over to say "I want to report to you

that we just raised interest rates a quarter, or we're going to do it tomorrow at the open market committee meeting." And Kennedy said, "why don't you go a full one percent?" Well of course if you did that you would have shocked international money markets. I mean that was just bizarre. But that evidenced Kennedy's lack of understanding whereas Nixon really understood.

Q: Do you think John Connally also had an important hand in the push toward wage and price controls in August of '71?

Sheehan: I don't know that, but I doubt it. I doubt it. John was a free enterprise guy, so was Burns. Milton Friedman was aghast that Burns would take the position he took. Friedman wrote him a long handwritten letter denouncing him. And Burns had been Friedman's father figure. They had farms together in Vermont, side by side. And they fell out over that and over Friedman's continual harping about the Federal Reserve has no intestinal fortitude, they won't stand up and take a position. It was ridiculous. According to his monetarist theory I can understand where he was coming from, but we did whatever we thought the economy needed, and we did it with vigor. And Burns really resented Friedman's position, and I told Milton Friedman I was amazed that Helen Burns invited Friedman to speak at Arthur Burns's funeral. Because Burns and I used to have a glass of bourbon in the evening and some cheese and crackers before we left. I never left the office before seven in the evening, sometimes eight. And Burns would then go to a, he'd go over and pick up his wife at the Watergate and go to a, he went to a soiree in Washington every night. But it wasn't because he was a social animal, he did business. Every time he went to one of those parties he would work with a senator or a congressman or, you know, he was working on national policy. And so Burns would tell me how much he resented Friedman. And he really came to despise him. I mean Friedman would be shocked to hear me say that but that happened, as Burns expressed it to me in my office in the evenings.

Q: Is it fair to say that your criticism of wage and price controls run along the same lines as your criticism of monetarism. That is the inflexibility of both schools of thought?

Sheehan: Sure. And there was an enormous mistake made that Burns was part and parcel of. He became chairman of the wage-price board, which we thought was a disaster, the other governors. We, Andy Brimmer was really vociferous at the table. He kept telling Burns "you can't do this. You can't serve as the chairman of the Federal Reserve Board and chairman of that wage-price board. That's a conflict." I never said that to him. I just sat there and listened to Andy. But Andy really denounced that. Andy's a helluva guy by the way. If you don't have him on tape, he's a, he was a really important member of the board when I was there. He sat next to me. And I love him deeply. Andy's a great fellow.

Q: How about the reaction of labor, not only George Meany, the Teamsters, how about the UAW, the USW, in conjunction with wage and price controls [00:30:00] and any serious strikes? You mentioned the mine workers earlier. What about their reaction?

Sheehan: Well, you know, all I know about the unions from the Federal Reserve chair I was in was what I read in the newspapers, and letters we got. But, they didn't like price and wage controls. I mean they were, they were imposed in order to limit wage gains beyond the rate of

gain of productivity. And, it didn't work. And then to balance it, they put price controls in effect. You can't control an economy like ours with a bunch of bureaucrats in Washington, you just can't do it.

Q: What was your position on the end of the gold standard, the end of convertibility of dollars to gold?

Sheehan: It was inevitable. The French were making calls on our gold reserves, and our gold would have disappeared. And so, I supported that. They went up to Camp David. Nixon had something called the Quadriad, which involved the Secretary of the Treasury, the Chairman of the Council of Economic Advisors, the Chairman of the Fed. I don't know who, I don't remember who the fourth one was. And, they spent a weekend debating gold, how much to devalue, whether to, whether to cut the dollar loose. And here's the wisdom in the intellect of Connally at work. Connally said it ought to be a twelve percent devaluation. Burns, having thoroughly discussed it and analyzed it with the Federal Reserve staff, said seven percent would be adequate. And that's what we did, we went down seven percent. One year later, we went down the other five percent. Connally was right. Now Connally had Paul Volcker as his Under Secretary for Monetary Affairs. And so, that was a powerhouse, the two of those guys. Burns did not get along with Connally. He didn't like him at all. And one of the things that, when, when Connally interviewed me, and said he would propose me to the President if I would agree, he asked me if I would be willing to have conversations with him when I was on the Board, and I said absolutely. And which I did, numerous times. We never talked about monetary policy as I recall. But, we had many, many conversations, and I got to know him very well.

Q: I don't think anyone imagined that the suspension of convertibility would be permanent at the time though, is that correct to say? They thought it would be a temporary measure until...

Sheehan: I never did. I thought it was forever. I didn't see how you could go back.

Q: That was a big objection Burns had though, I believe he did not want the end of the gold standard in any shape or form. Am I correct?

Sheehan: I would say theoretically, given Burns's educational background and experience, he was probably opposed. But he was also a pragmatist, and he could see that we're going to lose all of our gold. So the practical effect was that we had to do it.

Q: Moving on to 1972, were there any Federal Reserve Board discussions about the possible changes to the U.S. or world economies that might have resulted from the President's trip to China in February 1972?

Sheehan: Not that I can remember. One of the things that ought to be understood, and it is not understood, generally in the country, the Federal Reserve does not report to the Administration. The Federal Reserve is an independent agency within the government. It reports to the U.S. Congress. The Congress could meet this afternoon and remove the Federal Reserve's independence, and the governors know that. And so, they are sensitive to the United States Congress. They are insensitive to the White House. In fact, any attempt to direct the Fed from

the White House is counterproductive. The members would react very negatively to that kind of direction. Now, specifically Nixon sent Charles Colson—I don't remember whether Haldeman came over—to encourage Burns to loosen monetary policy in '72, and Burns threw them out of his office. And then the President sent George Shultz, who had first served Nixon as Secretary of Labor, and at Burns's suggestion. Burns knew Shultz, and he recommended him to Nixon. And so Nixon, knowing that relationship, sent George Shultz over, and Arthur wasn't about to throw George Shultz out of his office. But he explained to him that the Fed is an independent agency, and we cannot take direction from the President. And he said to him, every President in his memoirs, explains that the independence of the Fed was a wonderful thing—in retrospect. But while they were President, they didn't like it. And I was very, very surprised in the excerpts from the Nixon tapes which I heard, to hear Nix..., to hear Burns say to Nixon, "don't worry I will keep interest rates low," or something to that effect. That really, I was aghast when I heard that, because there had been a god-awful article written in Fortune magazine by a man named Sanford Rose. I'll never forget that. And he said that Burns had adjourned a Federal Open Market Committee meeting, gone to his office, taken a call from the President, came back, reconvened the meeting and announced that the President demands that we lower interest rates during the '72 election. If that had happened, Andy Brimmer, who sat next to me, and Louie Robertson, who was the Vice Chairman and sat next to Burns across the table, the two of them would have gone out on the steps of the Fed and demanded, at a press conference, the impeachment of Arthur Burns. I mean that so thoroughly and totally underrated Burns's political sagacity. I mean Burns had ways of influencing the vote at the Open Market Committee meeting as every chairman does, but he would never do anything that overt. And in '72, when we were accused, later, not during the year, but years later, we were accused of pumping up the money supply to get Nixon re-elected, that did not happen. I mean that may have been Burns's intent, but Proxmire, Senator Proxmire, was demanding that we do a lot more than we were doing. He was pounding on us that we were being too tight all through '72. So it just isn't true, and Bob Holland has written a paper on that subject, and Bob is right on the money. I was there. I saw what happened, and that's another figment about the Federal Reserve.

The chairman does not run the Federal Reserve System. Monetary policy is created by an Open Market Committee which is comprised of twelve members. It meets as a group of nineteen, the twelve presidents of the Federal Reserve Banks and the seven governors. So there are nineteen voters or potential voters in the room, and then the walls are lined with staff people from the banks and the Federal Reserve staff in Washington. And they debate as a committee of nineteen, and everybody's views are listened to respectfully. Now, Burns always led off the debate. Bill Martin, his predecessor, always spoke last. Alan Greenspan speaks last. A chairman leads by the power of his intellect. He has to convince the members of that committee as to what ought to be done, but he cannot dictate policy. Now some members will bend to what the chairman wants to do against maybe where they're coming out. But they won't bend very far, and so it really is a committee action. And when they report out after a meeting, about what they intend, they never say, Alan Greenspan decided today to do the following... They always say, the Federal Open Market Committee met today and this is what they decided. And I don't understand why the current members of that committee tolerate the media's adulation of Alan Greenspan. He is not the Fed. He's the spokesperson for the Fed. When he goes up to speak to the Congress, if they do it the way we did it, his statement is prepared a week before hand. It's given to the governors. They go over it, phrase by phrase, line by line. They have a meeting and they debate the

statement, and they modify it, and then it goes to print, and that's what he says. However, during the Q and A, the question and answers, he'll say what he wants to say, and there's nobody there to say, wait a minute I don't agree with that.

Q: Well, as 1972 moves on, things change. And we all know why. What was your initial impression when you first heard about the Watergate break-in?

Sheehan: Well, I didn't, I don't think I read about it in the newspaper on Sunday. It happened on a Saturday night. I might have read about it. I don't remember. But, my practice was to jog to my office. I lived in Georgetown. It was a two-and-a-half mile jog, and I would jog back at night. And on Monday, Wednesday, and Friday, I would play handball. The Fed has a handball court in the basement of the main building. And I would be there at seven o'clock to start the game, we'd play for an hour, and then I'd go up and shower, and dress, and have breakfast. And on that Monday morning, Jim MacIntosh, who was the Director of the Division of Bank Operations on the Federal Reserve Washington, D.C. staff, was there to greet me when I got there. I used to get there about a quarter to seven, change into clothes you wear when you play handball. And I said, "Jim, what are you doing here?" because he usually didn't come in until nine-thirty, 'cause he lived way out, and then he would leave late in the evening. He was a wonderful young executive doing a terrific job. He was the point man in the reduction of Federal Reserve expenses. And he said, "I came to tell you that our spaces in the Watergate building were broken into on Saturday night."

We had four floors in the Watergate building. We had under construction adjacent to the main Federal Reserve building, which was erected in 1937 and the architect was Paul Cray [sp?], one of the great designers. And it's a magnificent building, and we never duplicated Cray's brilliance in what we built behind it, but that was designed before I got there. But it was under construction when I got there, and we were going to move those people out of the Watergate into that building when we finished it. But in the meantime, we had four floors over there, and one of our offices adjoined the Democratic National Committee. And Jim said, "I came to tell you that our spaces in the Watergate building were broken into on Saturday night." I said, "Did you lose anything? All you have are adding machines and typewriters." He said, "oh no", he said, "we have the schedule for the movement of currency from the Federal Reserve vault at the Bureau of Engraving and Printing to all thirty-seven Federal Reserve installations for the next fourteen weeks in eight million dollar quantities." I said, "boy, if the Mafia has that we [have] real problems." He said, "no, we came in on Sunday and changed the schedule." I said, "what else have you got over there?" He said, "we have the architectural drawings for all of the Federal Reserve Banks, and our architectural staff is over there." And I said, "oh my God." I can just see the Mafia tunneling under New York to get at the gold vault at the New York Fed, which is where a lot of the nations' gold is that many of the central banks have their gold at the New York Fed. And whenever they owe each other money, they just move bars from one cage to another. So, it was really worrisome.

Well, one of the things that I was unable to analyze at the Fed was how much security is enough security. We had guards all over the place, and so did the Federal Reserve Banks. I mean if you go into the Kansas City Fed, and you walk into the lobby, and pull out a revolver and say this is a holdup, there are guys up there on both sides of that lobby, and there are vertical slots, and

there's a guy standing there with a submachine gun. There wouldn't be enough left of you to bury. That's how much security the Fed has. And we had it at the headquarters [00:45:00] in Washington, because Arthur Burns, being a Jew, had been threatened by Arab terrorists. So we had taken a group of retired Secret Service agents, the law does not permit or didn't then anyway, permit the Secret Service to protect the Chairman of the Federal Reserve Board. So we hired our own staff to protect him. And he had been threatened numerous times. So, I said to Jim, "look, I have not been able to explain to you, or to figure out, how much security is enough security. I don't know how many guards we [should] have, I just can't figure that out. All I know is, you [have] too many."

So I said, "starting tonight, at five o'clock"—this was a Monday morning—"starting at five o'clock, around the clock until 9:00 a.m., at a different minute on every hour, I want you to"—we were about a mile down the street from the Watergate building—"send all available guards up to the Watergate building and tour our spaces, and pay particular attention to the garage." Because, I said, "I'm personally worried, in the winter time, that garage is dark"—they had lights, but it's not really lit well—"and I'm worried about one of our secretaries getting raped in the parking lot, in the garage there." So, he did that. He came into my office late that afternoon, and he said, "O.K, I've got it all set up. They're going to start this evening. Around the clock, we'll be checking our spaces."

And it was the next Saturday night that, on the eleven o'clock hour, two Federal Reserve guards went over there. And when they toured the floor where we had joined the Democrat National Committee, they found adhesive tape holding the lock open on the door to the hallway. And it was placed horizontally, so it was obvious you could see this wide strip of adhesive. So they removed it. And they came back, and I had had them create a logbook. And so they made an entry in the logbook that they had found this tape. Then the shift changed, and the guards that came on at midnight read that entry. They went over to the Watergate building, and when they got to that floor, it was back on. So, the one guard dropped to one knee, pulled out his service revolver, said to his partner, "go down to the desk, dial 911 and tell the police there's a burglary in progress." Well, there was a Pinkerton at that desk, but he spent much of his time over across the street in the coffee shop at the hotel. But he happened to be there when the guard went down, and he dialed 911. But he handed the phone to the second Federal Reserve guard, who told the police there's a burglary in progress at the Watergate office building.

And then, the rest of this, of course [is] hearsay, I interviewed those guards, so I know what they said, and what they did. But, the rest of this, I don't know where I heard it, but Liddy had a lookout on the top floor of the hotel across the street. I think it was a Howard Johnson's hotel at that time. And he had a two-way radio, walkie-talkie. And the 911 operator was a woman, as I was told, and she located a marked police cruiser with uniformed police officers. And they were at the gas station just below the Watergate filling up their tank. And the police officer said to the 911 dispatcher, "well, you know, I've got a few dollars worth in, do you want me to stop filling my tank, or can I wait?" And she said, "you can fill your tank." She said, "we have a dirty clothes squad in the area. They'll get there before you do." So an old Chevrolet pulled up beyond the front door of the Watergate, and four big guys, looked like hippies, got out. And I've seen them do this, they take their badge out and put it on their shirt when they go into action. And the guy on the top floor of the hotel keyed his mike, and he said to Liddy, "are you

expecting a bunch of hippies to join this act?" Liddy said, "no, and shut up," and he turned off his radio. And the next transmission was, "well, four hippies just went in the front door of the office building, and the fourth guy in had a .38 or a pistol in his hand." Now, if Liddy had heard that, you know, things might have changed. But he didn't, and those were the first guys up there, and they relieved the Federal Reserve guard who was there, and they corralled the burglars.

Now, MacIntosh immediately informed me of what had happened. And, I talked to Burns, and we agreed that we wouldn't tell the other governors. We agreed that we would keep it to ourselves. And we would try to keep a lid on this, because we sure didn't want the White House to know that we were the guys that blew the lid off the whole operation. You know, and it's anomalous that on the one hand they put a businessman in there to lower the costs and to get a management grip on the Federal Reserve System who created the situation that brought down the presidency.

But, we didn't create the situation where they tried the cover-up. You know, if they hadn't tried to cover it up, and I had a hand in that on two different occasions. I proposed to Connally, I said, "look"—this was after the election. There was a furor in the press on a continuing basis, and I said to John, "look, tell the President to appoint John Stennis to lead a review of what happened, what the Watergate break-in was all about." And I said, "have the President go on national television and make that announcement, and pull out of his pocket the resignations of Haldeman and Ehrlichman, and say, I'm going to get to the bottom of this. These two fellows may have been involved or maybe they weren't." So John went over and talked to the President, and when he came back he called me and he said, "well, I made that proposal." And he said Nixon said, "look would you fire two faithful servants who have been with you for decades, and served you faithfully, and you know are honest people, and they were not involved in this thing." And he gave Connally this big speech, and John said, "well, you know, if you know that to be true, no I wouldn't fire them." So that's what John told me. Then later, John called me and he said he was going to Key Biscayne for the weekend to be with Nixon. And he said—well, that week they played a Watergate tape at a Georgetown cocktail party. And I said to John, "look John, this is a perfect opportunity." I said, "tell the President to have a press conference on the White House lawn and burn the tapes. Burn them! Pour gasoline on 'em! Have somebody take a tape or so—he's not going to get burned by the fumes—light them, and destroy them. And then say, if this is treason, make the most of it. But I'm not going to have my conversations with the Chancellor of Germany played at Georgetown cocktail parties. I now know it was a big mistake to record all that stuff because I never dreamed that these tapes were going to become public. So now they're not public, they're gone." And John said, "great idea." So he came back from Key Biscayne and he called me on Monday, and he said, "well, I made that proposal. And the President says that when he writes his memoirs, and somebody has said that A, B, C didn't have it, he said, 'I'll have the tape that proved he said it in my office.' So he said, 'I need those tapes to write my memoirs.' And I just kissed the presidency good-bye when he told me that."

And I have a framed dollar bill in my office with a letter from Arthur Burns. Because what happened was, when that seventeen or nineteen minute erasure on the Nixon office tapes was revealed, my son was a close friend of John Rogovin. Mitch Rogovin was a great liberal, Democrat lawyer, and a warm, warm friend of mine, and our sons were warm friends. And Mitch and his wife used to invite our son to dinner with them. And so, one night, my wife

called. It was raining. I couldn't run home. It was ten o'clock, and she said, "would you drop by the Rogovins and pick up Kevin," our son. I said, "sure." So, I had a Federal Reserve driver, and we pulled up to Mitch's house. And Kevin came running out in the rain and jumped in the back seat with me and he was furious. You know here he is about twelve years old or thirteen. He said, "I will never defend the President again." And I said, "really?" You know I used to feed him lines like "nobody drowned at the Watergate," that he could use on Mitch at dinner, when Mitch was attacking him, which he did! Mitch would really take Kevin on, and they would argue politics at the dinner table. So I said, "why not?" He said, "have you heard about those tapes?" And I said, "no." I hadn't seen a newspaper or heard a television broadcast. He said, "well, there's a seventeen-minute gap, and I don't believe it. They erased it intentionally. I will never defend Richard Nixon again." So the next morning I came in and I had breakfast with Burns which I did regularly. And I said, "Arthur, it's all over. Richard Nixon is finished. When you can lose a thirteen-year-old who is avidly in your corner, if you can lose his allegiance, you've lost the American people." And Burns said, "I'll bet you a dollar..." I said, "Nixon has to resign." And Burns said, "I've known him for so many years, he will never resign." And I said, "Arthur, I'll bet you a dollar he resigns." So we shook hands on it. And the day Nixon resigned, Burns delivered me a letter with a dollar bill and I have it framed, it's hanging in my office.

Q: I'd like to clarify one thing if we could. Is it true that you said that your Federal Reserve office was about a mile away from the Watergate?

Sheehan: It's about a mile down the road. I think it's Virginia Avenue.

Q: O.K., was there something you saw outside of your office window on the night of the break-in that didn't seem right?

Sheehan: No.

Q: No?

Sheehan: Uh-uh.

Q: So this was all... Your knowledge that you gained from the break-in was all from discussions with other...

Sheehan: With Jim MacIntosh.

Q: With Jim MacIntosh.

Sheehan: Yes.

Q: O.K.

Q: Going back to the economy for a moment, sir. In 1972, the Federal Reserve Board adopted a more expansionist monetary policy, and the White House encouraged fiscal stimulus. This led,

of course, to good economic news in 1972 and Richard Nixon's re-election, but also contributed to inflation the next year. Looking back on that, did you agree with the steps taken in 1972, and did you think they were necessary?

Sheehan: Yes, I did. I was a vigorous supporter of policy in '72, not because that I thought Nixon needed an expansive economy to get re-elected. George McGovern didn't have a prayer from the first day. And I'm politically astute enough to have understood that from the beginning. But as I said, the Democrats were pounding on us. I mean Proxmire was really vociferous. Every time Burns went up to Capitol Hill, Proxmire would beat up on him, that you're not expanding the money supply enough. You know, we [have] too much unemployment. And the one thing that I did—well I hope I contributed many things at the Federal Reserve Board table—but the one thing I brought to the table that nobody else around there had was the feel for the terrible pain of unemployment. I mean I felt that to this day. I've spent the last twenty-five years of my career creating jobs by restarting shut down steel mills. And there's no pain as severe as unemployment. So there was fairly high unemployment in '72, and I was anxious to get the economy moving, let's absorb that work force. So my votes for policy then had nothing to do with the re-election of Richard Nixon. And certainly Andy Brimmer wouldn't have voted that way, or Louie Robertson, and our votes were unanimous. I mean if you go back and examine the record, I'll bet there's not more than one or two dissents at every meeting as to what we ought to be doing. There may have been, say the St. Louis Fed and maybe the Atlanta Fed because they were both monetarists, and they may have thought that we were expanding too rapidly. And it's all in the record, I mean I have them in my office. They bind up the minutes of the Federal Reserve Open Market Committee meetings and they give them to the members years later. And I have them in my office. I could go back and look at them. But my guess is there weren't many dissents during '72. And Burns and I were the only two Republicans at the table out of seven governors and all those presidents of the banks had been appointed by a board which [01:00:00] was dominated by people that were appointed by Harry Truman and other Democrats. So, but I might say there that I never saw a vote at the Federal Reserve table that I thought had political ramifications. I never in monetary policy observed anyone voting because he was a liberal Democrat or a conservative Republican, or whatever. We voted what we thought was for the good of the American economy. Did we make mistakes? Of course we did. Monetary policy, you're looking into the future, you're trying to discern what's going to happen because monetary policy takes its impact six to twenty-six months out, and you have to be looking in the looking glass to try to figure out what will happen when you're making policy.

Q: What were the actions of the Federal Reserve Board in 1973 as the Watergate crisis deepened and inflation worsened? And did the President's policies to end the war have any effect on the Federal Reserve Board?

Sheehan: Well when I went up to the Senate to be confirmed, and Senator Proxmire gave me a grilling, and voted against me, he was pounding on unemployment. And I said, "Senator, unemployment is a problem, and nobody feels it more sensitively than I do. But inflation is a greater problem." And I said, "I can assure you I will be leaning against inflation on that board. While trying to create full employment, but my principle concern will be inflation because it robs the poor and it robs everybody else." By the way he denounced me at the end of that hearing, he said I was qualified for any position in the Federal Government except for the Federal Reserve. I

should be a Ph.D. economist. He had the same, he went to the Harvard Business School like I did, he said, “I know as much about macroeconom—“ well, you know, he went on to say, “you’re just not qualified.” Well, he was repeating what I had told John Connally, you know, that I didn’t know enough to be over there. But later, when I left the Fed and went back into business, Proxmire called me and asked me to come and appear before his committee on some subject of which I had knowledge. And I did, I appeared, and when he introduced me to the committee he used my Federal Reserve title, “Governor Sheehan,” and he said, “I want the record to show that I voted against you when you were appointed and I made a serious mistake.” He said, “you performed brilliantly,” and he went on with a few paragraphs and, I have that from the *Congressional Record*, and I’m gonna carve that out one of these days and frame it because I have a picture of me and Proxmire. And I’ll put his comments the first time I was up there with his comments later, so that my grandchildren will have something.

Q: What did the Federal Reserve Board do in response to OPEC’s series of dramatic price increases?

Sheehan: We worried about it. I mean, how can we counteract this? And so we, you know, we managed the money supply at the edge. That is to say, we didn’t provide more money than was required, but we provided enough to take effect of a quadrupling of the price of oil. I don’t remember the specifics of any conversations that we had at the table. I could go back, and I probably should have for this interview. I should have gone back and reviewed the record of the Open Market Committee when I was there during that year to see what we said, and I have that record, but I didn’t do it, and I don’t recall off-hand what the debates or the discussion were about.

Q: Do you think that the oil embargo had a lasting or permanent effect on the US economy?

Sheehan: It was an enormous tax increase. It was an enormous tax increase. I don’t remember the index, but it was something like a dollar cut in the price of oil was a \$10 billion infusion into the American economy. It was that big a tax and had a profound impact on a continuing basis.

Q: On unemployment as well.

Sheehan: Oh, yes.

Q: Of course effecting the automobile industry most directly.

Sheehan: It’s horrible, it’s horrible. We should not be tolerating a \$25 dollar price of oil. I mean It should be down around \$12 or \$13 right now. And we ought to force it down. And this, and I’m getting off the subject, but if we go into Iraq that’s one of the things we should achieve. We should leave an army there, say 50,000 soldiers. We should control the flow of oil out of Iraqi oil fields. We should increase it to its maximum. We should pay back the Kuwaitis for the destruction that Saddam Hussein did to their oil fields and their country. Then we should use the rest of the money to rebuild Iraq, and to create a, hopefully, a democratic republic. And we should leave that army there, and tell the Saudis that we’re here, and the price of oil is now \$12, or whatever, and that if the royal family is overthrown we will move this army into the oil fields.

That sounds pretty harsh, but that's my position, and I've thought about it a lot. And we ought to also tell the Arab nations, first guy that makes a false move towards, or a move toward Israel, we're here, and they're our ally, and you'll have to deal with us. And a 50,000 man army in Iraq would encourage the youngsters in Iran, and most of that population is less than 25 years of age, to overthrow the mullahs and create a democracy in Iran, which I think they will.

Q: Going back to 1973, the other shoe drops in July when Alexander Butterfield discloses to the Ervin Committee that a taping system existed in the White House. What was your reaction to that?

Sheehan: I was absolutely stunned. The first thing I did, well it wasn't until John Dean testified, when Dean testified I came in the next morning and told my, I had two secretaries, and I told them to destroy all the telephone files, records. I had line by line records of every phone call that went in and out of my office. I said, "get rid of them. Because if I'm ever summoned to Capitol Hill to testify I don't want any records that will pin me down as to who I called and what I said." I also made records. I had a taping system on my phone and any time I talked to a commercial banker I had a tape of it. And I destroyed all those. It turned out later I discovered that was illegal unless you get the other guy's permission. But if I talked to a commercial banker I wanted a record of it. I didn't want somebody to say that I did this or I said that. But when Dean testified, I got rid of all that stuff. I couldn't believe that Nixon would have done that. I can understand it now, that he wanted it for his history, but he must have really been addled. He just, he wasn't well advised. He, you know, Connally was so strong, when Connally said, "burn the tapes on the White House lawn," Nixon should have saluted and done it. And he should have said, here's a pragmatist, here's a guy that really has a feel for the grass roots.

Q: It was President Johnson's suggestion.

Sheehan: That he tape.

Q: That he tape. Because—

Sheehan: Johnson was doing it.

Q: President Johnson told him how valuable it was to him.

Sheehan: Right. Well,

Q: And it was part of the culture of Washington—

Q: And he was writing his memoirs. Sure.

Q: —at the time was it not?

Sheehan: It started with Franklin Roosevelt.

Q: Everyone was recording everyone else.

Sheehan: Yes, Roosevelt had a secretary sitting in a shaft, an air conditioning shaft, with a notepad, writing down what people said.

Q: Moving back to the economy again, into 1974, the President, I'm sorry, the administration had abandoned steady-as-you-go, the gradualism policy of 1971, but decided to adopt it in 1974 because it saw inflation, not recession, as the main economic problem. Why do you think were the Federal Reserve Board and the White House so slow to see the onset of the Great Recession?

Sheehan: Well, nobody has an economic intelligence system like the Federal Reserve. You have thirty-seven Federal Reserve Banks. They all have directors, I think nine. They are educators, businessmen, three of them are always bankers who represent the banks, which truly own the district banks. The Federal Reserve Bank of Chicago is owned by the member banks in the Chicago district, they all have stock in that bank. So they by law have the right to name three of the nine directors. So every month you're getting constant inputs from all of those directors, nine times thirty-seven across the country. And then you have, you know, right now they have 250 economists on the staff of the Federal Reserve Banks, and you have 250 in Washington, and they're studying the tea leaves and, so nobody has better information than they have. But, I've always said that only fools forecast interest rates. And the reason for that is that nobody knows. You don't know what the economy is doing until you get the latest figures, you know, and it can turn down all of the sudden. And people start to get laid off, they tell their neighbors, and pretty soon people start pulling in their horns, and they're not buying as much, and consumer spending goes down—and that's one of the three legs of the economy—and so it's very difficult to see what's happening in the American economy.

Q: More specifically, did you think at the time that the monetarist approach—budgetary restraint, tight money, and no tax cut—made sense, or do you think the economy needed a big tax cut at the beginning of 1974?

Sheehan: Well, philosophically, I favor tax cuts in any environment. I would use them astutely if I were proposing to the Congress what it ought to do. Like right now, we ought to have a tax cut right now. They ought to accelerate the tax cuts that are in place that were legislated last year ought to be brought forward right now. We ought to stimulate spending. The Democrats will never permit that before the election in the fall. But it ought to happen right now. So I would use tax cuts as an economic stimulus any time I had a chance. And the capital gains tax is a critical element of tax policy because it triggers the capturing of capital gains. I mean if you drop the capital gains tax, people will sell locked in stock and the government collects, and it usually collects an enormous amount when the capital gains tax is reduced. And so, you know, it would help the treasury right now if you did that. And then that capital will be redeployed and will help economic activity activity generate. So, and so I felt that way in '74 as well, and I've, I can't remember a time when I didn't think a tax cut would be appropriate.

Q: What did the Federal Reserve Board do to instill confidence in the US economy after President Nixon resigned?

Sheehan: It was an agonizing period. The principle function of the Federal Reserve is to maintain liquidity in the economy. So we told the banks, the Federal Reserve Banks, to tell their member banks that the discount window is open, that if they needed money they should come to us, that we would be reasonable, we would not be onerous, which we usually were when it came to borrowing through the discount window we were very cautious of that. But in the instance of Nixon's resignation, we told the banks that we would be forthcoming, that we can not permit a credit crunch to occur, and we won't. And so in every instance, Greenspan gets a lot of credit for what he said in '87, he just enunciated what has always been Federal Reserve policy except during the '30s when they didn't know what they were doing. But we know what we're doing now, and the principle function is to maintain liquidity, make sure the economy has enough cash, and that's what we did. There's nothing else the Fed can do. We generally didn't make too many speeches, they seem to make more now than we did, the presidents of the banks and the governors. But there's not much the central bank can do to stimulate confidence.

Q: But then, don't you think the tax cuts are important to keep that money moving? You can supply it—

Sheehan: But you can't force people to borrow it.

Q: Exactly.

Sheehan: It's like pushing on a piece of spaghetti across your plate.

Q: Yeah.

Sheehan: The cut tax, tax cuts are always effective. [01:15:00] Jack Kennedy taught us that.

Q: Makes sense.

Sheehan: You know. And so those that say that George Bush is responsible for the current economic condition, that's ridiculous, I mean, according to, and that's one of the problems too in determining where the economy is at any moment. The numbers are always wrong when they come out immediately. It's only a year to a year and a half to two years later when they revise the numbers do you find out what was really happening. It turns out the revisions that we've currently gotten tell us that last year we had three quarters of recession. We did not know that last year. The Fed didn't know it, and nobody else knew it. They were acting on what they knew, or thought they knew. And sometimes those numbers, they'll cut 'em in half or double them when the latest revisions come in. So you're dealing with ambiguities that are just very complicated. The Federal Reserve's situation is extraordinarily difficult.

Q: Is there anyone else on the White House staff that you worked with that you'd like to talk about? We talked about John Connally and Arthur Burns and a little bit about George Shultz.

Sheehan: No, of course, Burns was not on the staff. And Burns had the choice of being secretary of the treasury or chairman of the Fed. He took the Fed because it's independent, he could go say what he wanted. And of course it got him in trouble with Nixon. Where if you're secretary of the

treasury you say what the government's policy is. Right now the secretary of state apparently is saying things about Iraq which are not George Bush policy. He ought to resign. If he can't state the administration's policy with confidence then he ought to get out of there and let somebody else be secretary of state. He's undercutting the presidency when he makes the statements that apparently he's been making in the last couple of weeks.

One of the surprising things about my tenure at the Fed was that the White House never, Fred Malek never called me, Pen James never called me and said "gee, Jack, the President's worried about interest rates." They never did that. They called me once and asked me to come over. They wanted me to go to HUD as the number two executive because Jim [Lynn] had agreed to take HUD for one year and then he was going back to civilian life, and they wanted me to succeed him in a year. And Haldeman said to me, "this is something Richard Nixon really wants you to do." And I said well, "if Richard Nixon will call me to his office and tell me that, then I will seriously consider it. But unless he does, I'm not going to consider it."

Q: Did you ever have a meeting with President Nixon?

Sheehan: No. I met him in the Oval Office when I was sworn in. I was one of the few governors on the Fed that was sworn-in in the Oval Office. Like the two that were just sworn-in, they were sworn-in in the Federal Reserve's conference room. It's unusual to have a swearing-in in the Oval Office. I don't know why they did it for me but it was, I still have the photographs. And they were, I had a whole bunch of 'em hanging in my secretary's office right outside my office. And the morning Richard Nixon resigned our son was at tennis camp up in Pennsylvania, and he called me in my office. He said, "did you see the TV?" I said, "no, but I heard about it." And he said, "well, would you go out and turn those pictures around that are in your secretary's office?" I said, "no, I won't."

Q: Did you work with anyone on the Council of Economic Advisers? And how was the working relationship between the Federal Reserve Board and the CEA?

Sheehan: It was conducted by the chairman. None of us, they would come to lunch with us, I think about once a month. And we had an interchange at lunch. But the Fed is an extremely cautious organization, and we never let anybody know, conveyed what we might do, or the trend of our thinking. We would listen to the CEA, but we never said, "well, that's a good idea, I think we'll do that." You know, we never, we used to have twelve of the leading economists in the country come in every quarter, Nobel Prize winners, and they always had two or three youngsters who were just coming up but who were recognized as being people that would be important later. And we would spend, I don't know, a half a day with them. One of them would give a paper, then the others would comment. We never reacted, we never said anything. You know, Friedman would s-, he was sitting beside me one day and, on my right, which was right where he ought to be, and Paul Samuelson was sitting next to me on my left. And Friedman was lecturing the chairman across the table, and this was after of course they had had their falling out. And when he finished his paper, Friedman gave the paper, he kept lecturing, hectoring Burns. And finally Samuelson leaned forward and looked over at Milton, and he said, "Milton, Milton," and Friedman stopped and he said, "yes, Paul," and Paul said, "Milton, are you still speaking *ex cathedra*?" And the place exploded with laughter. There must have been a hundred staffers on

the wall. And Friedman got red in the face and he said, “do not toy with me Paul, this is my life’s work.” I’ll never forget it.

Q: I think we’ve already alluded to this a couple of times, but getting back to Arthur Burns. While having a tenuous but respectful relationship with President Nixon, could you discuss his overall relationship with the White House and Treasury staffs?

Sheehan: He despised John Connally. And he knew I was talking to Connally. And he would tell me “you’d better be careful of Connally, he’s a very dangerous man.” You know, and, hell, I was a big boy. I could see what John Connally was, and he wasn’t a bad man in my view. He was an extraordinarily able man who would have been a fantastic president if we could have gotten him elected. But when that Milk Fund scandal occurred, Abe Fortas and I and Tommy Corcoran were working on the preservation of the little red house on R Street, which was right across from my residence, which was a big red house. It’s where the brain trust for FDR lived. They were all young lawyers out of Yale and Harvard. And a developer wanted to break it up and build town houses around it. And Abe and I and Tommy were trying to get legislation through the Senate. And while the trial of John Connally was on, Abe and I were meeting in my living room one Sunday morning, planning strategy, and I said to Abe, “what the hell is going on?” He said, “listen, Jack,” he said, “if they were talking about John being bribed by all of the oil under Libya, or the King Ranch in Texas,” he said, “that’s the ballpark that Connally plays in.” He said, “at \$10,000,” he said, “he lights cigars with \$10,000 bills.” He said, “this is a move by on behalf of Democrats and Republicans to remove Connally as a candidate to be president.” The next Sunday, I had the same visit with Tommy Corcoran, one-on-one. I asked Tommy the same question. He gave me the same answer. So, Burns’s relationship with Treasury was managed by lower level people because he didn’t like Connally, didn’t want to meet with him. He did meet with him, regularly, but he didn’t like it. And we dealt with Paul Volcker, for whom we all had an enormous respect. And, well, none of us had interrelationships or interactions with other government agencies that I’m aware of. It may have happened. Andy Brimmer may have had, but I doubt it, I doubt it.

Q: What do you think Burns’s vision for the Federal Reserve Board was during his tenure?

Sheehan: [long pause] Well, I don’t think anybody at the Federal Reserve was as close to Burns as I was except for Bob Holland, who was the chief of staff, and he later went on the Board. And I got him on the Board, which was one of the biggest mistakes I ever made. John Connally called me and asked me if, he said that “Burns wants to put Bob Holland on the Board, and Nixon does not want to do that. He doesn’t want a staff person.” And I said, “John, he is the most qualified man I know.” I said, “I don’t know anybody with a better understanding of monetary policy than Bob Holland. He would be a splendid governor.” So John said, “O.K., I’ll carry that message.” And sure enough, Nixon appointed him and Holland was a disaster. He was a sycophant for Arthur Burns. There was a horrible scene. We were in the board room. Burns wasn’t there. The vice-chairman was conducting the meeting. An important issue came up. Andy Brimmer was promoting it. I was vigorously opposed. It had to do with regulatory policy. I won the vote, 4-2. Burns came in at the instant we concluded that, and we were going on to the next agenda item. And Burns sat down, he said, “well, where are we?”—had the agenda in front of him. And the vice chairman said, “we just finished item 2. We’re moving to

item 3.” And Andy said, “well, Mr. Chairman, you might be interested in item #2.” He said, “we just voted that down, but I think we ought to re-open that now that you’re here, because I think you might have strong feelings about it.” So Burns said, “O.K., let’s open it up again.” So we did. Holland switched his vote. And Burns voted with Andy, and I lost it. And that’s why the Chairman of the Federal Reserve Board should never be able to name the members. Now I told Gerald Ford that in no uncertain terms. When I left I had an exit interview with Gerald Ford and I made that clear. And Burns knew that I told him that, and was very upset.

Q: Let’s talk about John Connally for a little bit. Did his influence on President Nixon help or hinder the other economic advisors?

Sheehan: Well, during the gold discussions at Camp David, John’s strong position was overruled by Nixon because he went with Burns. He had known Burns all that time during the Eisenhower years, and Burns had been his tutor. He knew how profound Burns’s knowledge of economic policy was, but John had an enormous influence on Richard Nixon. To the detriment of others on the Quadriad, as John proved himself, it certainly influenced Nixon to a great degree. Nixon wanted him as his Vice-President. But that, what’s his name who was Secretary of Defense, former Congressman...

Q: Melvin Laird.

Sheehan: Melvin Laird convinced Nixon that he couldn’t get Connally through the House. And I wish Connally... I wish Nixon had done it anyway, because I think he could have—but I’m not that politically informed. I didn’t know the House, the structure and how they vote. But it would have been worth the risk. If I had been Nixon, I would have taken that risk. Only because, I knew George Shultz fairly well. I knew Pete Peterson. I knew most of the Cabinet officers. I certainly knew Burns. Connally was head and shoulders in quality and competence above anybody in the government, and that includes George Shultz. And if George heard me say that, you know, he would be horrified. But that’s my view. It’s a considered view.

Q: Well, it also leads into the next question. And let’s just assume here for the next few minutes that what took place at the Watergate in June of ’72 didn’t happen. During his second term, what actions do you think President Nixon would have taken then to help Connally gain the ’76 Republican nomination?

Sheehan: Boy, that’s an excellent question. I think he would have turned out the troops. He would have done everything he could to get Connally nominated—put the force of the presidency behind him. I think Richard Nixon would have worked very hard to get John Connally into the White House. Because I think—and I don’t put myself in a category with Richard Nixon and the great experience Nixon had in foreign policy and domestic policy—but we were of the same view that Connally was a force of nature. He was a very powerful person. After he left the government, he was on the board of a great oil company [01:30:00], and one of my friends is a director with him. They had an important decision to make. And the chairman went around the table, and every director was talking and Connally didn’t say anything. He just sat there, and there were a host of disparate views expressed as to what they ought to do. Finally, the chairman turned to John, and John had organized everybody’s comments and said, “O.K.,

here's the way it is,"—bing, bing, bing, bing, bing—“and this is what we ought to do.” And they did it. That's how competent he is, or was.

Q: One thing I'd like to add just as an opinion. In review of the tapes—whether or not Sam shares this, I don't know—if there is anyone who is more interesting to listen to in having to review these tapes, it's definitely John Connally. From my perspective as one who does it for a living...

Q: His force of personality...

Q: Absolutely.

Q: ...really is conveyed on the tapes. He can be talking about the driest subject...

Q: He could read the phone book and it would be fun to...

Sheehan: [Laughs]

Q: ... and he makes it interesting.

Q: He'd make it interesting.

Sheehan: I heard him speak, I heard him speak numerous times...

Q: Not just voice quality, but what he has to say, of course, as well.

Sheehan: I was in the audience numerous times when John spoke to large groups, never referred to a note, was always—appeared to be extemporaneous. I'm sure like Winston Churchill, he prepared it very carefully beforehand, but John was incredible—a great loss to the country that he didn't become President. Well, I have a friend. I just visited with him last Saturday in Johnstown, Pennsylvania, my hometown. I was up there for the weekend, and this fellow is eighty-eight years old, Charlie Kunkel. He was in the Navy with Connally, and they were in a school in Florida for those individuals who worked on an aircraft carrier in the radar center, the combat information center, directing aircraft and looking for enemy aircraft coming in. And there were other Texans in that class. And Charlie Kunkel told me years ago, he said, “the Texans held Connally in awe. He was their mentor,” and they were all his age. He was a powerhouse at the university. And there's a wonderful story, which Dick..., Richard Whalen wrote. I think it was in the *New York Times* Sunday magazine. I think it was years and years and years ago where Connally was Lyndon Johnson's number one assistant, and they and Sam Rayburn went up to the White House to see Eisenhower. On their way back, up Pennsylvania Avenue, they got into an argument in the limousine. And John said to the driver, “pull over, I'm getting out of this goddamn car.” Here he is with Sam Rayburn and Lyndon Johnson, and he's a young lawyer. And he got out and walked back. That's typical Connally.

Q: In a bit of a contrast in personalities, what was it like to work with George Shultz in his role as Secretary of the Treasury?

Sheehan: Well, Shultz, a very moderate, easy going, profound—he thinks profoundly, didn't know anything about monetary policy—did take his lead from Milton Friedman. I always thought of George, much as I admire Shultz, as being a little soft. Just as I view Colin Powell as being a little soft, not tough enough. George was a great mediator, in fact his career was in mediation. He was a labor mediator. And that's the function—he played that role in the government. He apparently did not get along with Caspar Weinberger, and they were at odds continually. But Shultz was a moderator, and I don't think that he would have permitted his antipathy, if that's the way it flowed instead of the other way from Weinberger, he wouldn't let that interfere with the functioning of the government. George was an effective Cabinet officer, there's no question about that. He's a very good man. But in my view, wouldn't be Arthur Burns's view, in my view, paled in comparison to Connally. You know, I sat down with John and he had a hell of a problem. I forget what it was, and I said, "how are you going to attack this?" He said, "it's very simple. I'm going to Germany. I'll get the Germans on board with what we want to do. Then I will talk to the Japanese. And I will tell the Japanese, that we and the Germans agree on this policy. And they will immediately jump on board. Then I will meet with all the others and I'll say, 'this is the position of the Japanese, the Germans, and the United States.'" That's exactly what happened.

Q: Well, we have one final question.

Q: Why did you leave the Federal Reserve Board in 1975?

Sheehan: Well, when I interviewed Connally to begin with, I said, "you know, it's a long term. And I'm not, I can't possibly come into the government like that. My God, the salary is so low. John said, "look, come for one year, but not more than five." So I stayed the better part of four years, and I was anxious to get back into a corporate job. I'd been offered the presidency of the Federal Reserve Bank of New York before Volcker took that job. David Rockefeller and—oh, that great lawyer from New York who was the number two to McNamara in the Department of Defense—Roswell Gilpatric, they came to me and... Al Hayes was president of the Federal Reserve Bank of New York. He had no standing with the Open Market Committee at all. He was the vice chairman. But, his comments carried no water at all, and besides that, Burns despised him. So they came to me and they said, "Al's going to retire. We want you to come to New York and be president of the bank." And I probably made a huge mistake not taking that job, in retrospect. Hindsight is always clear.

But, I wanted to get back into manufacturing management. That was my forte, and that was what I was good at. I was not going to be a career central banker, particularly at \$42,500 a year. If it had been \$142,500, I wouldn't have done it. So I figured... and I talked to Connally about it, and I talked to Roswell Gilpatric, and I talked to numerous others. It was time to leave. We had employment coming down on a toboggan. It went from 28,000 to 20,000. The Federal Reserve budget was increasing at 4%, was increasing at 28% or 30% when I went there. I had done what I was retained to do. Jeffrey Bucher wrote a letter to the Louisville Courier-General when I left and said that, "Jack Sheehan has made the greatest contribution of anybody who was ever appointed to the board of the Federal Reserve System." Now that wouldn't stand today with Paul Volcker having taken over as chairman and breaking the back of that terrible inflation

that we had, and Greenspan performing as splendidly as he is. But I was very satisfied with what I had done. I never felt that when I left the Navy after six years of commissioned service, that I had repaid the government for the education it had given me at the Naval Academy. And I had wanted to come back into the government in a senior position. I felt that I would do that after I retired, at say age sixty-five or so. But when this job was offered to me at age forty-two, I was the youngest person ever named to the Federal Reserve Board when I went on that board. I couldn't turn it down. When I thought about my life's work and that I owed the government so much, that was one of the big thoughts I had flying back to Louisville that Saturday night. That I've always wanted a senior position in the government to return to the government what it gave me. This is my opportunity. I better seize it. I may never get it again. So after the years I spent at the Fed, I felt it was time to go back and leave the government. I certainly didn't want to be Secretary of HUD.

Q: How about the highlights of your career since you left the Fed? You mentioned re-starting shut down steel mills.

Sheehan: That's been my life's work. I'm probably more sensitive to unemployment than any senior executive you fellows might ever meet. It really pains me in the stomach, it hurts. When Bethlehem started talking about shutting down their—they had 20,000 people working in Johnstown, Pennsylvania—and they were talking about shutting it down. Men went to the union hall on Saturday morning talking about suicide. And they were for real, they weren't kidding. They're thirty-seven years old, they [have] three kids. They're not going to have health insurance for their children. They've got car payments. They have mortgage payments. It's painful, and they can't leave the town. Their mothers are there, the children's grandparents, and they don't want them to leave. And besides, they wouldn't know how to do it. They wouldn't know...what they knew was how to make steel. They don't know how to do a lot of other things. And they wouldn't go to North Carolina where there's zero unemployment. They just wouldn't do that.

So I've been very sensitive to that and my first big—I did several before this one, but—well, the first one I took over was a copper tubing company in Reading, Pennsylvania. I was offered 51% of the stock to take it over. And it would have been bankrupt in three or four weeks when I took it over. And because I took it over, the bank that was involved extended their credit and increased it, and that was a success. And then, one of our distributors of copper tubing out on Long Island was also a distributor of air conditioning compressors. There were only three manufacturers in the United States and Sundstrand had one of them, and it was at Bristol, Virginia. And he came to me and said he was the director of a company in Vermont. They had agreed to buy the Sundstrand operation, but they had just voted it down even though Sundstrand had announced it to their shareholders and it was in the *Wall Street Journal*. And it was going to be terribly embarrassing for Sundstrand. But he had to fly out to Rockford, Illinois and tell the chairman that his company was not going to buy this compressor operation. And he wanted to tell them that I was interested. So I looked at the brochure. It was a beautiful factory. It was a fine piece of equipment, an air conditioning compressor. He told me it was the best of the three that were produced in the United States. But the company had lost \$35 million, they had spent \$50 million building the factory. They had only been in the business for five years. They should have know they were going to lose a lot of money because you can't sell Carrier air conditioning

a million units the first year. They're going to buy ten, and put breadboard models out. Then they're going to buy a hundred, and it's going to be five to ten years before they buy a million. So, that was on a Thursday. No, he went out there on a Thursday, the chief staff officer called me on Friday, asked me to come to Bristol on Saturday morning. I did. Spent the day down there, and I flew out to Rockford with my lawyer on Monday, wrote a contract to buy it. There were three hundred people employed there. When I sold it, there were three thousand employed there. It's an enormous success. When I took it over it had 1½% of the U.S. market. It now has 45% of the U.S. market. We blew the Japanese out of the U.S. market, and that's a long story.

And then, just after I sold that stock, I was... the Congressman, Jack Murtha, from Western Pennsylvania, asked me... he and Charlie Kunkel, whom I've already mentioned, and another fellow who's dead now, called in a conference call and they said, "look, we took the plant..." U.S. Steel had shut down in Johnstown. They employed 1,500 people. It was the second biggest employer in town. And they said, "we went to see Dave Roderick, the chairman of U.S. Steel. And we took the plant managers with us and we suggested that the plant people wanted to boot strap a start up and we were willing to help them, if Roderick would help." And Roderick said, "look, [01:45:00] we hired those guys. They were all in the room. You haven't got a businessman in that group. You've got to have an entrepreneur, somebody that's done this before. And Murtha said, "well, we got one of those," and he dropped my name. Well, the name of the legislative liaison for the United Steel Workers was exactly my name. And two vice chairmen of U.S. Steel who were in the room, fell out of their chairs because they thought he was talking about the other Jack Sheehan. He said, "no, no, we got a different guy." So, they said, "if you'll come back and do this, we can get it done. If you won't come, we won't be able to get it done." So, I went up and toured the plant and talked to the management. And then I led the charge and we raised \$22 million in six weeks. And we bought it and restarted it, and then I did that numerous times since then. It's just very satisfying.

The psychic income one gets when you walk through a plant like I did two years ago in Williamsport, Pennsylvania... I restarted that after Bethlehem shut it down. It was down for eight months. They make... when you ride an elevator, our wire rope is lifting the elevator. And we're on the Brooklyn Bridge, and we're on the Dulles terminal. A guy got off a machine and he came up to me and he said—now, we started that up in 1989, so this was about '99 or 2000—he said, "I just wanted to tell you that when Bethlehem shut down, my wife and I had just completed plans for our retirement home on the golf course." He said, "but then, I was out of work and I didn't have an income, so we put those plans on the shelf. I just wanted you to know that we moved in last week." Well, you know, when you put people back to work that are contemplating suicide, there's an enormous psychic income that comes with that. Whether you make money doing it or not, it's something worth doing.

Q: Well, thank you very much for your time this morning, Mr. Sheehan.

Q: From all of us here on the Nixon staff, thanks a lot.

Sheehan: Alright.

