

# Al Broaddus & Tom Humphrey

*Editor's Note: This is an abbreviated version of RF's conversation with Al Broaddus and Tom Humphrey. For the full interview, go to our web site: [www.rich.frb.org/pubs/regionfocus](http://www.rich.frb.org/pubs/regionfocus).*

Al Broaddus and Tom Humphrey joined the Federal Reserve Bank of Richmond in 1970 as economists. Both have had long and illustrious careers at the Bank. Broaddus was named Director of Research in 1985, a post he held until Jan. 1, 1993, when he was appointed President of the Bank. After more than 10 years of heading the Richmond Fed, Broaddus stepped down from his post in July 2004, when he turned 65, the age at which Fed presidents customarily retire.

Humphrey has been one of the Bank's most prolific economists, publishing numerous articles and books on monetary economics, macroeconomic theory, and the history of economic thought, and teaching at universities throughout the Fifth District as a visiting professor. He also has served as editor of the Bank's scholarly journal, *Economic Quarterly* (formerly called *Economic Review*), since 1975. Humphrey will retire from the Bank at the end of 2004.

During their more than 30 years of service to the Federal Reserve Bank of Richmond and the Federal Reserve System, Broaddus and Humphrey have witnessed significant changes in the way our nation's central bank operates. In the following interview they reflect on those changes, as well as what the future may hold for the Fed and for them personally. Aaron Steelman spoke with Broaddus and Humphrey on Aug. 26, 2004.

**RF:** How did each of you join the Fed?

**Humphrey:** There was a vice president here, who died a few years ago, named Pete Snellings. I think Pete was more responsible than anyone else in bringing me to the Bank. He was my teacher at the University of Tennessee and he also directed my master's thesis there. He and Bob Black, the former president of the Bank, were really good friends. They both went to the University of Virginia, where they got their Ph.D.s, and they both taught at Tennessee. Wherever Bob Black went to work, Pete seemed to follow him with a two- or three-year lag. So shortly after Bob Black came to the Richmond Fed from the University of Tennessee, Pete went as well.

Pete was an excellent teacher, and he really encouraged me. After I got out of school, I would see him periodically at conferences and he would keep tabs on me. He would say, "We have to bring you to the Richmond Fed." And eventually he and the research director at the time, Jim Parthemos, did bring me here.

**RF:** How about you, Al?

**Broaddus:** I actually grew up in Richmond. I left town when I went off to college, and I didn't really anticipate that I would come back. But while I was in the Ph.D. program at Indiana, my principal teacher was a fellow named Elmus Wicker, a great monetary historian. Elmus knew Jim Parthemos, who, as Tom mentioned, was research director at the Richmond Fed when I was entering the market. Jim interviewed me and offered me a job. I also had an opportunity to go to the Cleveland Fed and an opportunity to go to the Federal Deposit Insurance Corporation. So those were the three options. I had a lot of trouble getting comfortable with the idea of coming back home but, ultimately, this seemed

to be the place where I would be happiest professionally. Jim Parthemos is a wonderful scholar, a great research leader, and a real gentleman too. I think that was the determining factor in my decision.

**RF: How has the Research Department changed over time?**

**Humphrey:** It has become more academic in orientation, with staff economists encouraged to publish not only in Bank publications but also in scholarly journals outside the Bank. The economists here are in an academic-type setting, and are expected to do the same things that academics do except teach. In place of teaching they give policy advice. So I think that is a fundamental change. The people we had here when I first came were fine economists, but they were business, not academic, economists. They were not into heavy theoretical and empirical work.

**Broadus:** As Tom has said, I think I would put the emphasis on the word “academic.” The department has definitely become more academically oriented. But I want to make it clear: There were very good economists here not only when we came, but before we came. It’s just that their emphasis was different. Under the direction of Jim Parthemos, the department began to focus much more on basic research.

**RF: The Richmond Fed has long had a reputation for supporting “hard-money” or “hawkish” views on inflation. Do you think that reputation is justified — and if so, what accounts for it?**

**Broadus:** Yes, I think it is deserved. This is an oversimplification, but when we came to the Fed, you had two camps. There was the monetarist camp, which was really more of an outsider group at the time. And there was the more mainstream, Keynesian camp. The key distinction, for me at least, was that many in the Keynesian camp seemed to think that it was possible to use monetary policy to fine-tune the economy, while the monetarist camp thought that we should have a more limited set of objectives.

For whatever reason, we had more people who were in the monetarist camp. Bob Black certainly felt very strongly about keeping a close check on the growth of the money supply. And Bob



Hetzel, who had studied under Milton Friedman at the University of Chicago, came to the Bank in the mid-1970s with a strong monetarist orientation. When I first got here, I had a bit more of a Keynesian point of view but I was quickly converted.

**Humphrey:** I think that the hawkish tradition is warranted, and I think it goes to the old classical notion that the principal function of the central bank is to preserve the value of money. As long as inflation is a problem, much of the time you are going to be perceived as being hawkish if you’re worrying about inflation. But on the other hand, I think the classical economists were very much worried about deflation too. As a matter of fact, they feared deflation more than inflation for the adverse effect it would have on real economic activity, but deflation just doesn’t happen as frequently now as inflation. So I think that at this Bank we are hawkish on inflation because it occurs more often, but we’re also concerned about deflation. Our real goal is price stability.

**Broadus:** I want to add a quick note about terminology. When we came to the Bank, people didn’t use the term “hawkish” very much. I think that whole terminology developed during the Volcker years when the Fed began to bring inflation down. The people who had this strong quantity theory orientation — and were determined to not allow inflation to rise again — were described as hawks, because they were seen as looking around at the economy for any sign of inflation so that they could stamp it out.

*Al Broadus (above left) and Tom Humphrey reflect on a lifetime of economics.*

**Humphrey:** When we came to the Bank, the idea was widespread that inflation was so thoroughly entrenched in the economy that you really couldn't do much to get it down. More precisely, you could get it down, but the costs would be even greater than the benefits. So it was better to learn to live with some inflation than to try to get it down close to zero. But here in Richmond we thought that if a central bank could establish credibility as an inflation fighter — which is a really hard thing to do — it could actually get inflation down fairly readily, without great cost to the economy. That was certainly what Milton Friedman and the monetarists were teaching at the time, and it was in fairly sharp contrast with the views of some other people within the Fed and the profession generally. So, to get back to your question, I think that the Bank's reputation as being hawkish is well deserved and I'm very proud of it.

**RF:** Both of you have worked at the Fed during periods of high, erratic inflation as well as periods of low, stable inflation. What do you think the Fed has learned from those experiences?

**Broaddus:** I think the key thing we learned from the high-inflation period is how costly it can be to bring it down. Unless you have credibility, it is very costly to change expectations from a continuing inflation environment to something else.

And once inflation gets up to a certain point you lose credibility. You can't get it back just by assertion — you have to earn it.

**Humphrey:** I also think we learned — although I'm not sure we subscribed to it in the Federal Reserve System as much as the rest of the profession did, especially the Keynesian wing of the profession in the 1950s and 1960s — that we can't really use monetary policy to fine-tune the real

economy like we can use it to stabilize prices. The big lesson that we have relearned is the old classical doctrine that the main objective of monetary policy ought to be to stabilize and protect the value of money. Also, as Al mentioned, credibility is very important. If

the Fed has credibility, it can focus in the short run on keeping disastrous things from happening to the real economy because people will know that, when push comes to shove, it's going to stabilize prices. Credibility is extremely fragile so you have to protect it. But if you have it, you have a lot more flexibility for dealing not only with the problem of maintaining price stability, but other short-run problems that creep up from time to time.

**RF:** The Fed's actions now garner a great deal of media attention, from both the financial and popular press. Indeed, Chairman Greenspan has gained almost celebrity status. How does this compare to 1970?

**Broaddus:** I think that the media have always paid attention to the Fed. But we now have more media outlets — for instance, cable television networks devoted entirely to financial news. That means that the Fed is naturally going to get more coverage. Also, I think that beginning in the late 1970s — when Chairman Volcker was working to bring down inflation — people started paying more attention to monetary policy. Volcker put a public face on the Fed, which may have increased media attention.

**Humphrey:** I generally agree with what Al said. But I think the difference may be more stark than he suggests. When I came to the Bank, the general public wasn't really aware of the Fed. To give you an example, in the 1970s I went to a conference in Boston. While I was there, I was looking for the Boston Fed and I was asking people on the street, "Could you tell me where the Federal Reserve Bank is?" I asked five or six people, and they had never heard of it. They knew where their own bank was, but they had no idea about the Fed. They thought it was just another commercial bank. So I think that the general public was not as aware of the Fed as it is now. I think that the same is true to a lesser



## Al Broaddus

### ► Positions

Worked as an analyst at the Defense Intelligence Agency from 1964 to 1966, before joining the staff of the Federal Reserve Bank of Richmond in 1970. Served as the Bank's Director of Research from 1985 to 1992, and President from 1993 to 2004.

### ► Education

B.A., Washington and Lee University (1961); M.A., Indiana University (1970); Ph.D., Indiana University (1972)

extent of the financial media. In the early 1970s, the financial press paid attention to the Fed. But their coverage was a bit superficial and not nearly as sophisticated as it is today. There are now several reporters who seem to know their economics and to really understand what monetary policy is all about.

**RF: Recently, the Fed has taken a number of steps to enhance the transparency of its monetary policy decisions. Why has this been done — and what do you think have been the consequences?**

**Broaddus:** I think it's very difficult for a central bank to have credibility unless it's transparent. I think they are two sides of the same coin. We're now at a point, I think, where the public needs to understand that we're going to give as clearly as we can our best estimate of where the economy is heading and where policy is going. At the same time, there needs to be a recognition that, in making such statements, we are not locking ourselves in to a particular policy path — and that if we do things that may be unexpected, we are doing them in good faith and in reaction to developments in the economy we ourselves did not anticipate. I think that we're pretty close to achieving that understanding.

**Humphrey:** There was this old idea that secrecy was a good thing for a central bank — that the policy analysis and actions were so complex that the public couldn't possibly understand them, and so the high priesthood of the central bank would just run things without telling why or how they were doing it. I think that has gone completely out the window now. Most people accept that transparency is important, and the real debate is not whether the central bank should become more transparent but how fast it should move in that direction.

**RF: What do you think is the role of a regional bank within the Federal Reserve System?**

**Broaddus:** In a democratic society like the United States, the central bank has to have public support, and I think that the regional structure of the Fed helps to build that support. Even though we have an economy that's highly integrated nationally, there's no question that there are regional economic differences, and it's important the central bank be aware of those differences when it is making its aggregate policy decisions. The regional Reserve Banks serve as a conduit. We gather information from our districts — in a variety of forms, both formal and anecdotal —

and present it during discussions of the Federal Open Market Committee (FOMC). The regional system, then, gives the public a way to communicate what is happening on the ground more effectively to policymakers.

Also, I think that the decentralized structure promotes a diverse set of views within the System. Each of the 12 Reserve Banks has its own staff of economists, and arguably those economists pursue a wider variety of research agendas than they would if they were all located in Washington. The best of this research ultimately influences the way the FOMC thinks about and implements policy.

**Humphrey:** I think Al's last point is very important. If you believe, as economists do, that competition is healthy and promotes efficiency and ingenuity, you want 12 regional research departments rather than only one located in Washington, D.C.

**RF: Tom, you are one of the few historians of economic thought working within the Federal Reserve System. How does your work fit in with the broader mission of the Fed?**

**Humphrey:** I think it's good to have historical perspective. When we take a policy position, it's comforting to know that some of the greatest monetary economists of the past are supporting you. But going beyond that, history of thought can illuminate current policy discussions. For instance, the greatest of all monetary controversies was the debate between the bullionists and the anti-bullionists that took place in the first three decades of the 19th century in England.

All the things we worry about today — inflation, deflation, exchange-rate fluctuations, etc. — were discussed for the first time then, and were discussed very well by some of the greatest minds in the profession. Also, toward the end of the 19th century, Knut Wicksell established the model we use in central banking today of correcting price-level deviations from target by interest-rate adjustments. So I think that some of the insights and wisdom that these old fellows had to offer are still there to be rediscovered; they haven't all been teased out yet.

Some of the greatest economists of the 20th

## Tom Humphrey

### ► Positions

Taught at Wofford College (1960-1963), Auburn University (1964-1965), Tulane University (1966-1968), and St. Andrew's Presbyterian College (1968-1969), before the joining the staff of the Federal Reserve Bank of Richmond in 1970.

### ► Education

B.S., University of Tennessee (1958);  
M.S., University of Tennessee (1960);  
Ph.D., Tulane University (1970)

century were historians of thought: Wesley Clair Mitchell, Jacob Viner, Joseph Schumpeter, Frank Knight, F. A. Hayek, Lionel Robbins, George Stigler, Don Patinkin. Even Paul Samuelson, arguably the greatest pure economic theorist of the 20th century, has contributed to history of thought. These economists used history of thought to inform their policy analysis and advice, especially Mitchell and Viner. Even though it's not practiced or respected very much today, I think history of thought has an awful lot going for it. It has ideas and analyses that have survived the toughest test of all — the test



of time. These time-tested ideas can be used to shed light on current problems. That's why I think history of thought is important, in addition to being fascinating in its own right.

Having said all that, I think I have been especially fortunate to have worked for four Bank presidents who have been willing to tolerate me and who think that history of thought had something to offer. I'm reminded

of a story that a fellow who jogs with Al and me tells. A friend of his came up to him and said, "Who is that crazy-looking guy I see you running with? And what does he do?" So he told him, "His name is Tom Humphrey and he works on the history of monetary thought." The guy responded, "You can make a living at that!" So I think that I have been really fortunate to have worked with such a sympathetic group here.

**Broaddus:** Tom is being too modest. His work has been crucial to the development of the Bank's research department. When people talk to me and mention Tom, they often say, "How did you manage to pull that off at Richmond — to have someone who could devote his time to history of thought?" The reason is because the leadership at this Bank — not just me, but the people before me — saw it as crucially important to having a good research program. I don't see how you can have a complete research department without having someone looking at things from this perspective.

**RF:** Tom, in addition to your own work, you have edited the Bank's *Economic Quarterly* and its predecessor, *Economic Review*, since the mid-1970s. What have been some of the more rewarding aspects of that job?

**Tom:** I think the most rewarding aspect of the job is seeing manuscripts take shape, all the way from a mere idea to a final, published article. The author gives us the initial draft, then the referee panel goes to work and tries to improve it, and I'm kind of an intermediary. I go back and forth between the authors and referees until both are satisfied with the end product. To see that process at work and to see fine, beautiful articles emerge is a great joy to me.

Also, there are two things that I think are unique about our publication. First, we are able to publish longer, more detailed, and more policy-oriented articles in the *Economic Quarterly* than most journals are willing to accept. So these ideas can be expressed more fully than if they were presented elsewhere. Second, the referees for papers in the *Economic Quarterly* are other economists at the Bank. These people are your colleagues, and you get to talk to them, instead of just seeing an anonymous referee report. Sometimes the discussions get kind of heated. But I think that everyone understands that the referees are trying to do the best they can to improve the papers. The economists here are genuinely open and receptive to suggestions for improvement. This give-and-take is really unique in scholarly publishing and I think it ultimately results in better papers being published here.

**RF:** What do you plan to do with your time after you leave the Bank?

**Humphrey:** I really don't know. I'll do a lot of reading, of course, and if I can stay healthy I hope to do a lot of running. I would also like to return to college teaching.

**Broaddus:** I am active in a number of nonprofit organizations, and I will be serving on the boards of a few public companies. But I have no plans to stop pursuing my interest in monetary economics and policy. The Federal Reserve is a great institution and I have been privileged to work here. No matter what I do in the future, I will always be a Fed person.

**Humphrey:** What Al said really is true. The Richmond Fed has been a huge part of my life, and I feel like I will always be part of the institution in some way. It has been a great run. **RF**