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Interview of John H. Auten

Conducted by Robert L. Hetzel

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John H. Auten: Sure. I got an undergraduate degree at Ohio State University, finishing up after World War II and I did a Ph.D. in economics at MIT and taught at Rice University in Houston, Texas during the 1950s. I came to Treasury mid-1963 as a consultant and have been here ever since.

Robert L. Hetzel: Okay. When you went to the Treasury then, Dillon was Secretary of the Treasury and Roosa was under him.

John H. Auten: Right.

Robert L. Hetzel: The key economic decisions would have all been passed through Roosa? He was the key person economic consultant beyond Dillon?

John H. Auten: I think that's essentially accurate, although Dillon's deputy, Joe Fowler, later Secretary in his own right, you know, was an active participant in a lot of the decisions, but general recognition that people deferred to Roosa to some degree in both domestic and international financial areas.

Robert L. Hetzel: Did you have contact with Roosa?

John H. Auten: Yes.

Robert L. Hetzel: What position did you come in as?

John H. Auten: I came in as a consultant. Actually, I had written an article in *Fortune Magazine* on sort of the outer defenses of the dollar, and I guess it came to Roosa's attention and was not unduly critical and sort of piqued his interest and they were doing a lot of hiring at the time and so I was approached and was glad to take a year's leave I thought at the time. And so I came up here [unintelligible -- 00:02:12] as I said before.

Robert L. Hetzel: So your specialty was international, then.

John H. Auten: That's correct.

Robert L. Hetzel: And the mechanisms--the outer defenses that Roosa put in place--those were pretty much all in place by the time you got there. The swap network was set up in '61.

John H. Auten: They did some token market operations. Didn't really go much beyond the token area.

Robert L. Hetzel: The dollar really didn't come under attack, then, for several years, essentially until '66?

John H. Auten: Yeah, quite right and, you know, really didn't come under attack until the early '70s, although ample signs were apparent in the late 1960s that trouble might well lie ahead. And we had a succession of ad hoc balance of payments programs beginning somewhere there in the '60s, you know, in sort of annual reinstallments and changing programs, sometimes in cooperation of the Commerce Department. So there was, you know, an effort to avoid arranging adjustments that later did take place. I don't know how you want to describe it. Left the Bretton Woods Agreements or closed the gold window or a series of actions taken in mid-1971, as I recall.

Robert L. Hetzel: I'm curious. There was a standard view of the balance of payments problem at the time where economists viewed it as structural. Americans had too many defense commitments abroad. American corporations were investing too much abroad, but those were viewed as problems that could be dealt with special programs. We had a balance of payments surplus on the current account of merchandise, a strong positive balance of payments on trade accounts. So people basically thought the dollar was healthy, apart from these other kinds of problems. Did you essentially accept that view at that time? You know, I assume this was a conventional view of the problem.

[00:04:57]

John H. Auten: Well, I don't think quite that view was held at Treasury, taking more seriously, you know, some of the developments even in the late 1970s as I recall under previous Republican administration had reacted--some might say overreacted to signs that the dollar was going to have to undergo some adjustments. And at least at Treasury there was sufficient continuing concern over the balance of payments deficit before the special programs were introduced in the Vietnam era, so-called Operation Twist, an effort to sort of separate as best one could the internal and external objectives. And, of course, opinions differ. I think the verdict on Operation Twist was essentially negative now and maybe fortuitous that the ED was being developed and Euro Dollar markets were beginning to grow, and so it probably was easier than to keep short-term rates up as we sought to do in the interest of some sort of short-term balance of payments equilibrium. There was also a period when there really was not the consensus that there might be now on sort of a market oriented,

that definition of a payments deficit because we had it, as I recall, headed by now deceased John Reynolds of quite a study internally in the government as to what the appropriate definition of a balance of payments deficit was. Commerce, Walter Heller, and others say -- I forget what they called it--liquidity balance and there was a basic balance, which might be the offset on the current account surplus and voluntary long-term capital outflows.

Robert L. Hetzel: Right.

John H. Auten: And we had a lot of heavy borrowing for foreigners in this market and Mr. Roosa and Volcker put in the interest equalization tax. This was an era when some modicum of agreement between CEA and Treasury that we ought to try to pursue. It's sort of an active growth-oriented policy at home without leading to some deterioration of the external payments position. It all seems a long time ago, and our sensitivity to the issues must have appeared to be absurdly high, although in retrospect, I don't think the long-term diagnosis was all that wrong, accentuated and accelerated by Vietnam. It did result in departing from the gold standard and floating in the '70s and difficulties which some would argue beats an even larger scale at the present time.

Robert L. Hetzel: Okay. You mentioned

John H. Auten: The non-Treasury diagnosis.

Robert L. Hetzel: Yeah. You mentioned a number of things I'd like to ask you about.

John H. Auten: Go ahead.

Robert L. Hetzel: Let me go back to Operation Twist. That, of course, was instituted before you came to the Treasury. Did you have any sense of...

John H. Auten: Oh, it was talked about. Yeah, I guess. It was hard to separate rhetoric from action in that whole area, I think.

Robert L. Hetzel: The reason I ask is that when I've gone back and I've talked to people who were--say, at the New York--they viewed it primarily as a way of putting off the Council of Economic Advisors, especially Tobin.

John H. Auten: Right.

Robert L. Hetzel: Giving themselves some flexibility to raise short-term rates.

John H. Auten: Right.

Robert L. Hetzel: The Council caring almost exclusively about the long-term rate. But Roosa himself was an interventionist by nature. So he probably took this very seriously,

do you think, and really thought it would have a significant effect given what one knows about him coming out of the New York Fed and that interventionist tradition?

John H. Auten: Sort of a sophisticated, cautious interventionism, I would say but I wouldn't go the with idea that he certainly was more interventionist than, let's say, a series of predecessors in the 1950s here at Treasury and probably also elsewhere in the system at the time of Volcker and Roosa. Of course, Roosa was the first and preeminent person at the time viewed as innovators.

[00:10:05]

Robert L. Hetzel: What was the reference to? What did you have in mind about prior intervention?

John H. Auten: Phil was only in the monetary policy area and Roosa would be more inclined--he pioneered in advance refundings and a whole series of innovations in the debt management in both domestic and international financial areas. Possibly more form than substance, but more of a concerted effort to try to never to obstruct or try to divert market forces but to shape them in a promising direction. How much of that was rhetoric and how much in retrospect appears to have been form and substance I'm really not sure.

Robert L. Hetzel: Okay. Let me ask you about your comment. You said the CEA and the Treasury jointly believed that they could stimulate economic growth.

John H. Auten: Right.

Robert L. Hetzel: And there was a corresponding unwillingness to sacrifice domestic objectives for balancing...

John H. Auten: Which was strongly argued for at the Council and, by and large, very strongly by most of the professional economic community.

Robert L. Hetzel: How did Dillon and Roosa balance off the two conflicts, domestic versus international? When you go back and you look at this period, it does seem as though there's some willingness to tolerate interest rate increases in response to losses. On the other hand, you have the interest equalization tax, which is a highly-interventionist major designed to circumvent classical procedures.

John H. Auten: Oh, I think that's a value judgment of yours. It was an expedient sort of step at the time to try to separate the domestic and international interest rate structures in a key area. Sure, it was interventionist in some sense of the term, but I always thought of it as more a reaction to a problem at the time, a palliative more than anything fundamental or lasting in its effect. It was one in a series of sort of stratagems to try to reconcile external and internal balance.

Robert L. Hetzel: Okay. So let me ask...

John H. Auten: I mean, neither Dillon or Roosa was interventionist in anything more than a sense of a non-intervention stream of policymaking, which had gone before and the extent to which--I always thought Dillon and Roosa were pretty artful, but they also probably functioned in an atmosphere which allowed them either to achieve these objectives or to seem to and the line between the two is very difficult to draw.

Robert L. Hetzel: Okay. Well, let me ask the question slightly differently. What I'm trying...

John H. Auten: Their views, it seems to me, have worn as well or better than Tobin's.

Robert L. Hetzel: Yes.

John H. Auten: In this area it would probably even impose the transactions tax.

Robert L. Hetzel: Yes. That's still [unintelligible -- 00:13:49].

John H. Auten: The Czechs are using one now, I think. Let's hope it works.

Robert L. Hetzel: Yeah. Well, I suspect they'll find the same...

John H. Auten: It might work better there than it would here. I'll give them that much.

Robert L. Hetzel: Wasn't the response of the interest equalization tax the Euro Dollar market moving offshore. So it's hard to believe in an economy like Czechoslovakia, which is right in the middle of Europe, that they can make it stick.

John H. Auten: The Euro Dollar market clearly predated the interest equalization tax. It surely did give it a great stimulus.

Robert L. Hetzel: Well, I guess the Russians started the Euro Dollar market and then that's the same story.

John H. Auten: They're given the credit whether they started it or not. I guess so. [unintelligible -- 00:14:33] Bank as I recall.

Robert L. Hetzel: Yeah. Well, let me ask you. In thinking about this period of Council and the Treasury as working fairly closely together or should one think of them often at loggerheads, competing?

John H. Auten: Never at loggerheads. Adversarial but respectful, cooperative in most areas.

[00:15:02]

Robert L. Hetzel: But the Treasury was more sensitive, I guess, because of its operational reasons and the personalities.

John H. Auten: Right.

Robert L. Hetzel: I mean, it was definitely more sensitive to the international situation.

John H. Auten: Correct. Surely.

Robert L. Hetzel: And because of the importance attached to the international situation and the Treasury's operational responsibility, everybody generally deferred to the Treasury on policy issues?

John H. Auten: Well, on the areas of international economic policy. That's my general recollection. On domestic, I'm not so sure that that would as easily be established. The Council throughout most of that period and well on into the later period was very strong and ably staffed. You know, probably it was a heyday of the Council in many respects in terms of the talent drawn there and the impact that they had on economic policy. On domestic policy, I would say the Council clearly had the lead and Walter Heller had the president's ear and probably Dillon and Roosa were sort of cautionary, slightly more conservative figures deferred to in the international area but certainly not given any carte blanche by any means. You know, they had some strong and very respected figures at the Council. It was always cooperative as I recall. Only on the periphery of it, not having been there that long but the Council of Economic Advisors and the Federal Reserve and Commerce Department--all participated closely with the medium of variety of ad hoc inner agency groups. But Treasury did have, I must say, keep very close control of the process.

Robert L. Hetzel: Yeah, that was...

John H. Auten: It could under Dillon and Roosa and George Willis and a number of other figures who had considerable influence at the time.

Robert L. Hetzel: Sure.

John H. Auten: Dewey Daane.

Robert L. Hetzel: Yes. I want to talk to him, but he's so busy he's hard to get a hold of.

John H. Auten: Right.

Robert L. Hetzel: But he's still around. When did the voluntary direct credit restraints and the voluntary direct investment program come up? They came up later on. Did you work on those?

John H. Auten: No. It's my impression that they--I'm just sitting here with my feet up on the desk. In '66, '67 that they started that. They persisted, I think, throughout the 1960s, if I recall correctly in one guise or another.

Robert L. Hetzel: Okay. But in any event, you didn't work on those programs.

John H. Auten: No. They were our international people in cooperation with Commerce Department.

Robert L. Hetzel: And given that you're a specialist in the international, you didn't have any involvement in the tax cut. Council tried to persuade Kennedy from the beginning to go for an increase in the...

John H. Auten: Right. Well, the '62 of course had been accomplished before I arrived, and I worked for Volcker when I came, at some distance but, yeah, I knew what was going on in the tax area.

Robert L. Hetzel: Okay. Before I go on to the impressions you're willing to share with me and the key economic advisors at the time, Dillon, Roosa, Volcker, Heller, you worked with some of them. Did you have contact at all with Dillon?

John H. Auten: Yeah, to the--I was a political appointee. Yeah, I knew Dillon.

Robert L. Hetzel: Any impressions? He was generally kind of very competent, very capable.

John H. Auten: Extremely so. In manner patrician and somewhat withdrawn but remarkably effective. Of course, he had had a very distinguished career at the State Department before he came over to Treasury. He had, I guess you'd say, a special relationship with the Kennedys and...

[00:20:06]

Robert L. Hetzel: I guess they ran in common social circles.

John H. Auten: I believe that's correct. And Dillon was a remarkably efficient administrator. I can remember to this day--this is all, I suppose, contrived but it was effective. He had sort of a blue buck slip that would be put on a memorandum that was sent in to him and it would ask a question or something of that nature and would be returned to the originator and he had to respond within 24 hours without going through regular channels and that sort of thing. I thought it was a rather ingenious way to sort of circumvent usual administrative channels and keep the whole organization on its toes, so to speak. But also, he had the practice which I thought extremely valuable of being an omnivorous reader of all the memoranda sent into him that sometimes some people would feel somewhat trivial. He was not above correcting grammar or raising what seemed to be rather minor points but--and I suppose it was either modeled after or it may be presumptuous to say it served as a model for

the President himself whose well-known at the time to pick up the phone and call some civil servant across town and ask him a question or something. It was, I suppose, part of sort of the modus operandi of the new administration. And so, it was remarkably effective at Treasury, which was, at the time, quite a hierarchical, stodgy organization. Some vestiges still remain, although regrettably too few. But Dillon, within that structure, I thought was--there was mystique and that sort of thing but was remarkably effective. Quite a gifted person by any standard, certainly, and I sometimes wondered whether he was as gifted probably in the foreign, diplomatic and international areas, but that would be a guess on my part.

Robert L. Hetzel: Thanks. That was a very good description. Did Roosa have any operational administrative responsibilities? Or was he primarily...

John H. Auten: Oh, no. Roosa--as Under Secretary, he had at least line organization for all domestic financial operations in Treasury and then international, too. It was a very powerful position, Under Secretary for Monetary Affairs.

Robert L. Hetzel: So he'd be heavily involved in making decisions about deciding...

John H. Auten: Absolutely.

Robert L. Hetzel: ...and that kind of thing.

John H. Auten: Surely, yes.

Robert L. Hetzel: Okay. That makes sense.

John H. Auten: It was on his watch that indexing began in the U.S. Government, which is sort of an insider's tale.

Robert L. Hetzel: Indexing? I wasn't aware. Indexing is a special topic of mine.

John H. Auten: Oh, really? I'll give you a name to...

Robert L. Hetzel: I've written on it.

John H. Auten: How interesting. I'll give you a name. You can call him direct. A fellow named Blaine Saunders who served here in the debt management area for a very long period of time. He was here--pre-dated Roosa certainly. He was here in the early 1960s and can tell you in a charming anecdotal fashion that I can't reproduce as to just how indexing sneaked by Roosa. It was really I think an administrative breakdown in the system that indexing every started. Of course, obviously it would soon have started thereafter, after the inflationary pressures intensified.

Robert L. Hetzel: So precisely what do you mean by indexing? What was indexed? How was it indexed?

John H. Auten: Well, I think it started with federal retirement, but forgive me. I'm not certain on that. But I think that was--as Saunders tells it, the indexing precedent, in terms of the federal budget. And memory fails me, as it so often does these days, in just what obscure, largely technical way it first escaped Roosa's attention and then it was impossible to reverse it when the oversight was discovered.

[00:25:09]

Robert L. Hetzel: Why would he have been opposed to indexing?

John H. Auten: Oh, visceral.

Robert L. Hetzel: Admitting defeat on inflation?

John H. Auten: Well, just general beliefs that indexing--that was just taken as axiomatic at the time, although the Treasury now is considering the possibility of issuing index bonds. But for people like Dillon, Roosa, and Volcker I think would still have grave doubts as to the desirability of indexing debt, which is another issue entirely, I recognize.

Robert L. Hetzel: Yeah.

John H. Auten: But, indeed, is it not the case that it is the indexing and other things in the entitlement area which make the current budgetary situation, if not impossible, at least terribly difficult? Maybe it's a target of opportunity, too, because indexing minus beta or epsilon or something other time, but that's just a measure of how difficult the problem has become.

Robert L. Hetzel: Well, I'd love to talk to you about indexing, but let's go back to the '60s because I don't want to get off.

John H. Auten: Okay.

Robert L. Hetzel: What about Volcker? You worked with him?

John H. Auten: Right.

Robert L. Hetzel: Very hard working, very smart, very capable.

John H. Auten: Very disorganized. Organized in that disorganized fashion. He used to have an inbox that would periodically get up to two feet or so. Sort of creative delay, never making a decision until he felt he absolutely had to. Artful beyond belief in dealing with Council of Economic Advisors. He was very valuable and valued assistant at the time. Volcker could approach and deal with his CEA colleagues in a way that Roosa might find a little more difficult. Roosa's a little more distant personality and Roosa would find it, I don't know, difficult. And then he was a contemporary. I suppose a lot of the heavy hitters at CEA

regarded him as gifted but lacking sort of the academic cachet, and Volcker would just loaf around like a Great Dane and accomplish a lot more than Roosa could.

Robert L. Hetzel: Roosa wasn't an easily approachable...

John H. Auten: No.

Robert L. Hetzel: ...congenial person. I just assumed he was.

John H. Auten: Oh, he was a very nice person but very sophisticated and distant. An extremely nice person, but I would not say a particularly approachable person.

Robert L. Hetzel: You wouldn't just drop into his office to chat.

John H. Auten: No. A different personality type altogether than Volcker.

Robert L. Hetzel: But you might do that with Volcker.

John H. Auten: Oh, I can remember Dave Meiselman was here when I came. Meiselman and Volcker used to sit around for hours at night talking about Sidney Homer on interest rates or Meiselman's work. Volcker was given to long conversations.

Robert L. Hetzel: That's probably why he ended up as Fed Chairman.

John H. Auten: Possibly so.

Robert L. Hetzel: So Volcker then worked with the Council on triad meetings doing projections, that kind of staff work, preparatory to the Quadriad meetings they had.

[00:29:17]

John H. Auten: Right. I wouldn't make too much of the Quadriad. That's sort of a pet peeve of mine. It never amounted to very much. Occasionally I'd have to go back and search the files or something with Bill Martin over at the Fed for most of that time. The Fed valued their distance and independence, although it didn't have the ability nor the political leverage that they do at the present time. I remember when--I think it was 1965 it must have been. I think McChesney Martin--we were into Johnson now. Finally pulled down to the ranch and allowed to raise the discount rate or something. I think Volcker had been trying to persuade Martin for a period of months before. So it was not that the Quadriad really functioned. It was more for appearance than anything else. Council was hot on beginning of the year, have the CEA forecast and call the Fed in and make sure that what they did was consistent with the economic tableau, but it never worked like that. It only worked like that once with running ahead and that was in 1968 and the results were, if not catastrophic, far from ideal.

Robert L. Hetzel: Yeah.

John H. Auten: The Quadriad's more--it was a gleam in the Council's eye rather than anything more.

Robert L. Hetzel: My understanding of the Quadriad is that it was primarily--served as a forum where the economic advisors of the President could get the President together with the head of the Fed and exercise that kind of moral persuasion that comes with it. That is if the head of the Fed meets with the head of the OMB and head of the Council or even head of the Treasury.

John H. Auten: Sure.

Robert L. Hetzel: You're one among equals. But if you bring the President, it's an additional way of bringing pressure on the Fed.

John H. Auten: Oh, I suppose that's true. That's right, and Volcker knew it so well that he wouldn't return phone calls from the Reagan White House. So, sure, there's something in there and I can remember--I guess it must have been in 1965. We had a series of--to me, the identifying--and this is sort of pedantic or bureaucratic. Identifying the characteristic of an operating Quadriad would be if you had staff level participation.

Robert L. Hetzel: Yeah. Apparently, that was tried in the late '60s and '70s.

John H. Auten: In '65 we tried it and again forced to try it in '68. But in between those interludes--I'm trusting to memory--and I don't even know of the instances when they did meet. I think it was a principals meeting. It was, as you properly put it, an exercise in moral suasion.

Robert L. Hetzel: Tell me about input from economic analysis that was organized for Treasury, as opposed to the Dillon Treasury. Dillon had a background obviously in financial markets.

John H. Auten: Right.

Robert L. Hetzel: But Fowler's background was as a lawyer.

John H. Auten: Right.

Robert L. Hetzel: He was a lawyer for TVA and then he had a private practice.

John H. Auten: Right. And then a stint post-Korea war production board and that sort of thing.

Robert L. Hetzel: Right. And his real advantages were in working the Hill and getting programs through organizing support, that kind of thing.

John H. Auten: Correct.

Robert L. Hetzel: So he didn't come with a background in financial markets or economics.

John H. Auten: Correct.

Robert L. Hetzel: And Joe Barr had studied some economics, but he himself had been in Congress and private business.

John H. Auten: Sure. Right.

Robert L. Hetzel: So how is economic analysis funneled up to the top in the Fowler Treasury, as opposed to the Dillon Treasury?

John H. Auten: Well, a lot easier probably than under Dillon and Roosa. Roosa would let stuff go to Dillon if he thought he should and otherwise wouldn't, and Joe Barr was not that kind of person by temperament, or for that matter, ability although he was an absolutely first-rate guy and someone with whom you should talk. But Fowler and Barr were more hands-on managers who were in the congressional relations mode and much more approachable and recognized, if you will, their own sort of shortcomings. Certainly, they didn't have the expertise of Dillon or Roosa. Without a table of organization, I can't even remember. Let's see. Volcker was in and out and then back up to Chase and I guess you had Fred Deming coming in somewhere in there.

[00:35:00]

Robert L. Hetzel: Deming came in in early '65.

John H. Auten: Yeah, that's what I thought.

Robert L. Hetzel: And Volcker left in the Fall of '65.

John H. Auten: Yeah, right. So Deming was sort of the key--the replacement figure for, I guess, parts of Roosa and Volcker. Roosa seemed to be--I'm not just sure when they moved out. But by and large, there was an obvious and perceptible change when Johnson took over.

Robert L. Hetzel: In the Johnson Administration, apart from tax matters, the Council was pretty dominant on domestic economic issues and then the Treasury...

John H. Auten: Certainly more so than they had been earlier in the '60s. And if I recall correctly--well, let's see. There's first Gardner Ackley and then Art Okun, I guess, later in the period.

Robert L. Hetzel: Right. Okun came in, I suppose, January of '68.

John H. Auten: And, of course, they were each in their own way extremely gifted and capable and probably to some degree, overmatched Treasury to a degree which had not been characteristic of the early part of the '60s.

Robert L. Hetzel: In terms of forcefulness of personality, was there a difference between Heller, Ackley and Okun or were they all extremely capable?

John H. Auten: I think they certainly were all extremely capable. No question about it. And Treasury had no Assistant Secretary for Economic Policy until I think Murray Weidenbaum was first after the 1968 election and he comes in maybe '69. I'm not sure. And so Treasury was a little short in that area at the time. And, of course, it was much more an intensely political episode and, I guess maybe tragedy would be too strong. The irony was that in the extremely gifted Council of Economic Advisors, some might say it would apply perhaps with greater force. The Treasury was kind of complicitous in a very unfortunate fiscal and ultimately monetary outcome by the end of the decade.

Robert L. Hetzel: A lot of the questions in this period, '65, '67 have to do with whether Johnson's willing to ask for a tax increase

John H. Auten: On again, off again as I recall during most of the period.

Robert L. Hetzel: Yeah.

John H. Auten: And then finally came in with hindsight, we might say, too late.

Robert L. Hetzel: Were you involved in any of that kind of discussion?

John H. Auten: Well, to some degree, probably continuously throughout the period.

Robert L. Hetzel: What about '66? With the Regulation Q. Its extensions with the S&Ls, that kind of thing?

John H. Auten: Well, yeah. I remember--and I think it was in early '66 as sort of an emergency program since maybe we took off the investment tax credit. I've forgotten just what else was done. We had close to a recession in early '66 and most of the indicators gave a false signal and it was right next door to a recession.

Robert L. Hetzel: That was early '67.

John H. Auten: Huh?

Robert L. Hetzel: That was early '67.

John H. Auten: Was it?

Robert L. Hetzel: Yeah. Okay. On the international side during this period of SDRs, were you involved in those discussions at all?

John H. Auten: I don't know. I don't recall too much of--mostly, I think in the Office of the Assistant Secretary for International Affairs, if I recall correctly.

[00:39:53]

Robert L. Hetzel: Okay. The Fall of 1967, the depreciation of sterling in early '68 with the closing of the gold pool and the removal of gold cover. How much sense of anxiety was there within the Treasury that something cataclysmic might happen? That is, if the speculators were successful in toppling the pound and then went on and the U.S. couldn't bear the burden of keeping gold at \$35 an ounce, that that might create an uncontrollable demand for gold from the Treasury. The gold window might close. Was there a feeling that things might break down at that point?

John H. Auten: Oh, the existence of balance of payments programs and continuing concern testifies to some degree of concern. I would not phrase it nearly as strongly as you have. I don't myself recognize those sort of fears arising until somewhat later. I could be wrong. You know, memory is pretty hazy. You might benefit from--there's a Johnson Historical Project. I know you're in the oral tradition, but...

Robert L. Hetzel: Yes. I've read the oral histories that people have submitted. Joe Barr, for example, has--I've read his oral history. He talks about the period.

John H. Auten: I was in charge of the project here. And I don't know what you've read. He did some sort of overarching introduction.

Robert L. Hetzel: Oh, no. This is for the LBJ Library.

John H. Auten: Yeah. We did an intensive study of both international and domestic policy at the time. I've probably got it around here someplace. Yeah, but that's neither here nor there except that I'm not familiar offhand with the international chapter except I'm sure they were perhaps painfully detailed. I seem to remember them running on forever.

Robert L. Hetzel: Okay. Well, if you...

John H. Auten: And some things that might be worth your while looking at--not that they ever amounted to anything, but they're symptomatic of thinking within Treasury at the time. There were a variety of not very carefully thought through proposals to try to deal with some of the domestic financial market difficulties in the '60s, but I just don't trust recollection. I prefer to trust the written word, which is probably clear at the time rather than extemporaneous.

Robert L. Hetzel: Sure. Well, if you find...

John H. Auten: I don't recall. But just because I don't recall doesn't mean that there wasn't considerable concern. But I didn't think we--I would think it was to Roosa and Dillon's credit that they saw the difficulties coming long before the Council did, and those

were the difficulties that culminated in '71. But it was not clear, I think, by the late '60s as to just what was going to happen.

Robert L. Hetzel: David Kennedy comes in with Nixon. Did you continue to work with...

John H. Auten: I didn't work much in the international area.

Robert L. Hetzel: So you weren't working for Volcker when he came back.

John H. Auten: Well, I was but I worked more on the domestic--but that's just a personal thing. I did not work organizationally in the international area for very long after I came to Treasury simply because it did not fall within really the area of responsibility. But it just occurred to Volcker because he drew things like a magnet. But he himself, in the earlier period, didn't work in the international side. He just worked on the international side. He just really roamed throughout Treasury under Roosa. He just pretty much went wherever he wanted to go. When he came back in, yeah, I guess he had pretty much domestic and international economic responsibility, although my good friend Charlie Walker would probably question that. And I just have forgotten how they did carve things up between them.

[00:45:18]

Robert L. Hetzel: So what were you doing at that time? What were you involved with?

John H. Auten: What period of time are we talking about now?

Robert L. Hetzel: '69, '70. The two years that David Kennedy was Secretary of the Treasury.

John H. Auten: Well, I had the same position that I had held through the late 1960s, the same position I hold now, Director of this office of Financial Analysis and we had responsibilities for Treasury's GDP forecasting and monitoring a Federal Reserve policy and then the usual variety of special tasks that you do in government.

Robert L. Hetzel: Okay. Well, you can tell me in a minute about monitoring the Fed, but I'd love to hear your impressions of David Kennedy. He was religious, very hard working, but he wasn't a source of policy and ideas. He had some pretty heavy competition at the time of George Schultz and Paul McCracken.

John H. Auten: Right.

Robert L. Hetzel: So the Treasury was not one of the players in policy in a fundamental way under Kennedy?

John H. Auten: No. I think that's not the case. He had been at...

Robert L. Hetzel: Continental.

John H. Auten: Yeah, and before that he had been debt manager in the 1950s--that Treasury, and it was a source of considerable disappointment and chagrin. People had known him in his earlier stint there that he lacked a lot of the vigor and dynamism and vitality by the time he returned to Treasury in the Nixon Administration. But you must recall that he came in with two very strong deputies, Charlie Walker and Volcker. Well, McCracken and Schultz got a pretty good press, I thought that Treasury's probably a more dominant period than almost any other.

[00:47:40]

[END TAPE 69, SIDE A]

[START TAPE 69, SIDE B]

[00:47:45]

John H. Auten: ...increased greatly under the Nixon Administration because it had atrophied. It indeed had the influence of almost all economic policy-making bodies in the late stages of the Johnson Administration. It was, frankly, in shambles.

Robert L. Hetzel: That's the impression I had when I looked at the Nixon Administration. The memos from the Council--instead of going directly to the President--were going through a variety of staff people at the White House.

John H. Auten: Yeah.

Robert L. Hetzel: Which suggested that there wasn't nearly the kind of direction...

John H. Auten: Very unfortunate, right.

Robert L. Hetzel: Volcker--did you have enough contact with him to kind of understand how his thinking about the dollar evolved when he began to think that the dollar really was overvalued and when there would have to be some kind of rearrangement of exchange rates?

John H. Auten: Yes. He and Weidenbaum and I were close, I suppose daily, association throughout most of the period.

Robert L. Hetzel: And did he think through early '71 that the parity of the dollar with other major currencies could be maintained and it was primarily the heavy gold outflows in Spring of '71 that turned the situation around?

John H. Auten: Well, no. We were doing contingency planning probably for a year or so before and wrestling with CEA. I think Houthakker probably wanted pretty fluctuating exchange rates. Volcker was, I think, quite fatalistic about the need for--oh, to just put it

crudely--devaluation of the dollar. But as to how it was to be achieved and made consonant with the responsibilities that went back to Bretton Woods, that was not too easy and also had to sell it to Connally and then within the Administration.

Robert L. Hetzel: Volcker was very traditional, very conservative and defender of Bretton Woods. He attached a lot of importance to fix the exchange rates and stability of exchange rates.

John H. Auten: Well, yeah, and then presided over two large devaluations. But, yes, he would have preferred until it became patently impractical. He would have preferred a fixed exchange rate system, sure.

Robert L. Hetzel: And, I mean, if he had been some kind of an economic czar at the time, presumably he would have run a classical policy where when we lost gold we'd raise the discount rate.

John H. Auten: Oh, no.

Robert L. Hetzel: No?

John H. Auten: No. He never...

Robert L. Hetzel: He wasn't that type?

John H. Auten: No. He and Okun were not far apart at all on economic policy whenever they were in Washington at the same time. Volcker was in the Roosa tradition, still trying to harmonize internal and external balance. Oh, no. He recognized it and has never--indeed, it was his or anyone else's recognition of the patent impossibility of achieving some sort of gold standard solution which possibly had never been achieved except maybe before World War I. You just couldn't do that. And so obviously when the internal and external balance came into serious conflict, the external considerations had to be tossed aside. It was a practical impossibility to operate. I supposed you'd have to ask Volcker or read his books.

Robert L. Hetzel: Yeah. I have read his books.

John H. Auten: Yeah, well...

Robert L. Hetzel: He's pretty reserved about the things he says. I've not interviewed him yet.

John H. Auten: That's true. That would be characteristic of him, but much more prone to experiment. Without Volcker, I don't know. He was the dominating figure in '71. No question about it. Everyone was--I mean, he did it all for practical purposes. [unintelligible -- 00:52:50] and others were bystanders.

Robert L. Hetzel: When Connally came in--let me ask you before we get on to that. Why did Kennedy leave? Nixon just wanted someone who was...

John H. Auten: Oh, God only knows. We'd have to look at the Watergate tapes, I think. Nixon was, for all accounts, entranced by Connally, but for accident of history would undoubtedly chosen Connally to be his successor. Well, Kennedy--I don't know. Nixon's early choices were far from ideal. I've forgotten Bob Mayo at OMB. Kennedy here--they were closer together in the past, but that team didn't work too well, you know, with Ehrlichman and Haldeman in the White House and who knows whether any could have. The strength and power was in the White House. The Cabinet was regarded as sometimes almost with derision and certainly not much responsibility granted to them. More for ceremony and show than anything else. Of course, when Connally arrived on the scene, that changed.

Robert L. Hetzel: Okay. Now, Connally was a lawyer. Had been a lawyer for oil interests in Texas. He'd been Governor of Texas.

John H. Auten: Right.

Robert L. Hetzel: So he was not an economist. Obviously, he needed an education. So Volcker must have been the one who went around with him and educated him about what a Treasury Secretary had to know.

John H. Auten: You'd have to ask Volcker. I think it sounds too patronizing, as far as Connally is concerned. It was rather my impression that Connally came in and took hold of Treasury by the scruff of the neck and...

Robert L. Hetzel: Okay. No. That's an interesting concept.

John H. Auten: But Volcker--I don't think you could educate Connally. Any thought that you were engaged in an educational exercise and your ass would have been booted right down the street. He's a very proud, almost incurious, man but an extremely intelligent one and sort of intelligence in the raw but practical intelligence. And, sure, Volcker and he got along well together.

Robert L. Hetzel: So Connally was not the kind of person to take somebody like Volcker and talk over wage and price controls with him and say, "What do you think about this as an economist? Will this work?"

John H. Auten: Connally didn't have much respect for economists. He had respect for people. And if he trusted someone and felt that they were knowledgeable, he'd take their advice. But I don't believe that he thought that there was any sort of receptacle of economic wisdom from which we could dip and drink deeply to our benefit. He was more pragmatic, reckless almost in his ability and willingness to experiment. And, if anything, he probably had to be restrained and guided maybe by someone like Volcker. But educated? No, never. Connally didn't feel he needed any education. In a very fundamental sense, he would be contemptuous of education.

Robert L. Hetzel: He had the businessman's attitude toward the economics profession. "I'm a self-made man. I understand how the world works, so..."

John H. Auten: He was a different, much more complex character. Read biographies of Johnson and Connally. Johnson ducked the war and sort of paraded around as if he had participated in it. Connally was a flight director on a carrier. Connally was a leader. A failure, politically, but a man of great personal dignity and went down and crashed in the traditional sense in Texas, but essentially paid off his debts and died probably by virtue of the Homestead Act in Texas, still in the possession of some land but little else. But he was a very unusual individual.

[00:57:53]

Robert L. Hetzel: So he didn't have an advising team the way Kennedy did in the quorum of Volcker, Walker and choosing his own men.

John H. Auten: He had subordinates.

Robert L. Hetzel: At this time, you said you were involved in GDP forecasting and monitoring of the Fed. There was a famous--I don't know what to call it--instance wherein late 1970 after the Republicans had not done too well in the election. Unemployment rate was unacceptably high and the Council thought that they couldn't get it down to four percent by Fall 1972 unless they had very strong GDP growth, and the McCracken Council thought that they needed 1065 as GDP for 1971 if they were going to make progress in getting the unemployment rate down. Arthur Laffer came up with the amount of money growth that would take.

John H. Auten: Well, as I recall it, it was Laffer and David Ranson at OMB working for George Shultz. He came up with a model and it was crammed down the Council's throat.

Robert L. Hetzel: It was just a regression of GNP on money.

John H. Auten: Right.

Robert L. Hetzel: St. Louis stuff.

John H. Auten: Pretty much. I don't recall. It was kind of strange. Laffer and Ranson returned when Shultz was Secretary. I don't know. It seems to me by the time all the GDP revisions were done, they felt that they'd been vindicated. Well, I won't digress and maybe we've overstayed your time. Laffer is a--well, I don't know if you know him. He's an extremely interesting individual. Ranson himself, in his own right, up with Wainwright in Boston. Yeah, both are gifted but by standards of the profession, close to being charlatans at the time, or so many thought.

Robert L. Hetzel: Yeah. In following the Fed, did you develop any opinions on the relationship between Arthur Burns and the administration and the pressures? There was...

John H. Auten: No. That's one episode that I wish I did have formed opinions on. I'm aware of--I don't know if it's a conventional wisdom, but at least the allegation that Burns went political in '72 and I've heard it argued on both sides. And I would hope and prefer to believe that he didn't, but the case has been made. At least a statistical case has been made that if not compelling, it certainly leads you scratching your head. I don't know what I knew at the time. I'm not sure that I know what I know at the present time.

Robert L. Hetzel: Did the Camp David decision to close the gold window and impose wage and price controls, the surcharge, changes in the tax law--did that come as a surprise to you or did you see the international situation deteriorating in the Spring and think something dramatic was...

John H. Auten: Yeah. We knew something was going to happen. We didn't know when it was going to happen or how dramatic it was going to be, and I doubt that I knew even at the time the details. I might have. I don't remember. The United Kingdom wanted some gold put in [unintelligible -- 01:02:02], if that's the term, I think on Thursday and Friday and it's generally regarded as a precipitating event. And I can remember being in, as a good part of Treasury was, over that weekend and each had his own little chore to do. No. Certainly, nothing came as a surprise except the actual timing and some of the high-level salesmanship. I've read accounts of it that--I forget by whom. Published accounts of what transpired at Camp David. We stayed down here.

[01:02:44]

Robert L. Hetzel: Did you become involved at all in the--you were still in the domestic side at that time.

John H. Auten: Right.

Robert L. Hetzel: Your impression on the international was that primarily the U.S. was just trying to negotiate the biggest depreciation it could with very reluctant allies?

John H. Auten: Yeah. I suppose that's probably--I could not phrase it any better. When Volcker came back, I did dabble around the international area and with Ralph Wood at the Fed, we did sort of a tour of the European capitals. I think then we were exploring...

Robert L. Hetzel: Was that Ralph Bryant?

John H. Auten: No, Wood. I knew Ralph Bryant well at the time, but it was another guy. We did a tour of the European capitals, primarily wider bands or crawling peg. That's the very late '60s and we were just thrashing around, trying to figure out something that would meet the needs of the situation. So I was not unaware of the pressures that existed and then worked fairly closely with Volcker on the question of devaluation and whether or not it would or could be effective, leaving to him the details as to how it might be implemented.

Robert L. Hetzel: What can you tell me about George Shultz? I'm interested in him and obviously I'll try to talk with him, if I can.

John H. Auten: He was certainly an able individual. A little more doctrinaire on the monetary area than I personally would have preferred in a Treasury Secretary, but didn't do a lot of damage with it.

Robert L. Hetzel: But he had very strong free market views.

John H. Auten: Right.

Robert L. Hetzel: He'd been opposed to the wage and price controls, but his role was primarily as a consensus builder, as someone who could get people to a policy and then he could moderate it in a direction that he considered desirable.

John H. Auten: That's the book on him. It wasn't clear to me that he had too much influence in the wage price thing. He was more along for the ride I always thought. Herb Stein I think was a more important figure in terms of the design.

Robert L. Hetzel: Sure.

John H. Auten: But, sure, Shultz was an important player.

Robert L. Hetzel: Simon, Shultz' successor...

John H. Auten: Midas Touch.

Robert L. Hetzel: Well, yes, but he didn't have a lot of experience in government, while through the end of the Ford Administration, the primary players on the economic scene would have been Burns and Greenspan? Or was Simon influential?

John H. Auten: Well, in the areas that they more or less relinquished. You know, he's energy czar there for a time and sort of vied with Kissinger as to who knew the most or the least about international economic matters. Activist, but certainly not--I don't know what his own assessment would be, but certainly not in the same league with Burns or Greenspan on economic or financial matters. An activist.

Robert L. Hetzel: Okay. I'm kind of rushing through this, but I don't want to overdo your goodwill. I'm loving your descriptions of people. I think it's wonderful because [unintelligible -- 01:07:04].

John H. Auten: Sure, I understand.

Robert L. Hetzel: Did you notice a big change with the Blumenthal Treasury? Their Council of Economic Advisors, Charlie Shultz--they were very much Keynesian. Went back to the output gaps.

John H. Auten: Sure.

Robert L. Hetzel: Ways of looking at things in the middle '60s. Did it seem like a change after Shultz and Simon? A very free market people? Or...

[01:07:36]

John H. Auten: Sure. Right. And Blumenthal was something of a disappointment. Obviously, didn't last. Lasted about half the term. The key player here was Dan Brill, who had been at the Fed in the 1960s and then returned to Treasury.

Robert L. Hetzel: I'm interested in that comment. Obviously, I can't talk to him since he's dead.

John H. Auten: Sure. Right.

Robert L. Hetzel: I would have loved to have talked to him.

John H. Auten: Yes.

Robert L. Hetzel: He was the one who as much as anyone was responsible for what you mentioned earlier with the passage of the tax surcharge of June 1968.

John H. Auten: Right.

Robert L. Hetzel: The Ackley--sorry. It would have been the Okun Council then.

John H. Auten: Right.

Robert L. Hetzel: It was sure there was going to be a recession.

John H. Auten: Right.

Robert L. Hetzel: Of course it was an election year.

John H. Auten: Yep.

Robert L. Hetzel: And the Fed lowered interest rates to stimulate housing.

John H. Auten: Right.

Robert L. Hetzel: And inflation really took off.

John H. Auten: It was a Quadriad exercise.

Robert L. Hetzel: Brill, as much as anyone, was responsible for that exercise.

John H. Auten: Yes.

Robert L. Hetzel: But when he came back to the Treasury, somebody told me he wasn't--he wasn't an academic.

John H. Auten: No.

Robert L. Hetzel: He was kind of self-trained in economics, but he was--I can't talk to him. Someone just said that when he came back, he was much more conservative, much less Keynesian. Why do you say he was a major player?

John H. Auten: Because particularly after Blumenthal left, Brill was--I guess you'd say he was a hawk by current terminology. A belief in the necessity of quite a bit more restraint than was being applied. The Council had a predilection then for all sorts of tips or wage price programs and almost any kind of effort you might want to cite.

Robert L. Hetzel: Yes.

John H. Auten: None of which--in retrospect, to the wisdom of hindsight, if they made no negative contribution, we were lucky. The thing was just away from us and through oil price shocks and a Federal Reserve which did not cover itself with glory by any means throughout the entire period.

Robert L. Hetzel: So you said earlier you thought that Shultz was a little too doctrinaire monetarist, but you were--it sounds like you yourself were...

John H. Auten: Shultz I meant.

Robert L. Hetzel: Shultz. That's what I meant.

John H. Auten: Sure.

Robert L. Hetzel: You yourself were becoming more concerned of...

John H. Auten: The problems in that--they began with the Carter Administration coming in with the proposal for a \$50 rebate or something. But it's easy to be critical.

Robert L. Hetzel: Yeah.

John H. Auten: It went fairly well, I would say, during the first two years. A little too much stimulus, but maybe one can be forgiven from skating a little close to the edge. But from then on, it was just a rolling disaster.

Robert L. Hetzel: I have a lot of G. William Miller stories when he was Chairman.

John H. Auten: In a different light.

Robert L. Hetzel: But I have very--I've heard very little about him at Treasury. What perceptions did you have of him as Secretary Treasury?

John H. Auten: Generally speaking, favorable, although I've heard--not the wealth of anecdotes that you have, but I knew Steve Axilrod well and, yeah, he was a very unfortunate choice for the Fed, to put it mildly. He did much better here. He's an interesting individual. Very strong person, deceptively so. I know he stood down here in the Cash Room Textron scandal and bribery abroad and faced down the wolf pack of Washington reporters with considerable aplomb and dignity. And I had quite a bit of respect for Miller. He was in a very difficult situation, and I didn't think he did that--I've known worse Secretaries here. I would put Blumenthal in that category.

Robert L. Hetzel: Blumenthal was a liberal, but he didn't--as you said, he was attracted to initially lots of different schemes. He was not educated as an economist, so he didn't have...

John H. Auten: Blumenthal?

Robert L. Hetzel: Yeah.

John H. Auten: Well, he was a Princeton Ph.D., but, no, I guess you'd say not educated as an economist in the strict macro-economic sense of the term and a little too intellectual and precious for my taste. I mean, really, I didn't feel he ever came to grips with the realities of the situation here.

[01:12:58]

Robert L. Hetzel: No. He was not a forceful personality within the Administration.

John H. Auten: No, quite the contrary. That's right. That's why I mentioned Brill because Brill did establish a good personal association with Blumenthal and Brill was tough and strong and had the qualities which I felt Blumenthal lacked.

Robert L. Hetzel: Who were the [unintelligible -- 01:13:24] within the Carter Administration or was it just Jimmy Carter?

John H. Auten: Oh, no.

Robert L. Hetzel: Jimmy Carter [unintelligible -- 01:13:29] unemployment and...

John H. Auten: Who do we have at the Council? Let's see. Don't we have Charlie Shultz and Lyle Gramley?

Robert L. Hetzel: Yes.

John H. Auten: And then others, but I don't remember. I'm awfully hazy on names and details. And, of course, you can't imagine in some ways a stronger personality than Lyle, but I think through no fault of their own, certainly the Council had no more than an advisory status. I think it just got away badly.

Robert L. Hetzel: Yeah.

John H. Auten: Bosworth is in there somewhere. Was he at Council of Wage and Price Stability?

Robert L. Hetzel: That's right.

John H. Auten: Yeah, okay. He did a lot of mischief there. No really, I mean. You know, you can see a person that's able and well intentioned and I guess there's such a thing as doing the wrong thing but, you know, believing it to be the right thing. And also I guess the one episode isn't mere experience when--well, I wouldn't want to say we got close to open inflation, but we got way up in the double digits in quite an alarming way and a 21-and-a-half percent prime rate, a 15-and-a-half percent Treasury bill rate. So I guess something went wrong.

Robert L. Hetzel: Yes. That's a fair assessment. Okay. Let me finish up.

John H. Auten: All right. Sure.

Robert L. Hetzel: Because, as I said, I know you're working.

John H. Auten: That's all right. I recognize it to be a serious enterprise on your part.

Robert L. Hetzel: Thank you for your time. I'm loving the conversation.

John H. Auten: There might be a few phone calls piled up, but the boring government--they can wait.

Robert L. Hetzel: The Treasury must have been an interesting place under the Reagan principles.

John H. Auten: Fascinating. In some ways more interesting I felt than at any other period.

Robert L. Hetzel: Given that Reagan allowed [unintelligible -- 01:15:33] latitude.

John H. Auten: Right.

Robert L. Hetzel: The Treasury was very important in the Reagan Administration.

John H. Auten: Right. Well, and also it was such a collection of diverse views. Supply side and Beryl Sprinkel was the representative of monetarism and we had sort of encapsulated here all the diverse or many of the diverse strands of the Reagan revolution.

Robert L. Hetzel: Did you personally get along philosophically with these people? As an MIT Ph.D., you'd come from a different sort of background. Or did it seem kind of a wild place to you?

John H. Auten: I had been here so long after that time that differences of philosophy meant nothing to me. It was just very interesting to see and to some degree to interact with people that were--well, I had the benefit of--I guess it was the benefit of an MIT education. I suppose because of the unique circumstance in which I happened to be here I felt the deficiencies of the Keynesian approach to the extent that I welcomed some kind of change, although not the sort of mindless experimentation that transpired during some of the period.

Robert L. Hetzel: Were you still involved in the GDP forecasting and monitoring the Fed?

John H. Auten: Yeah. Right. It became almost ceremonial during some parts of the period.

Robert L. Hetzel: And there's a very famous in 1981, I guess.

John H. Auten: Right.

Robert L. Hetzel: Were you involved in that at all? Or...

[Comment removed at interviewee's request]

John H. Auten: Incidentally, that period is well captured in Craig Roberts' Harvard University Press book, *The Supply Side Revolution*.

Robert L. Hetzel: Okay. I have not read that. I will.

John H. Auten: It's well worth looking at.

Robert L. Hetzel: Okay. You mentioned you were a good friend with Charles Walker.

John H. Auten: Yeah.

Robert L. Hetzel: He's somebody I should talk to.

John H. Auten: Right.

Robert L. Hetzel: Would you have a phone number for him or an address?

John H. Auten: I think my secretary would have.

Robert L. Hetzel: What about Murray Weidenbaum?

John H. Auten: I'm sure she's still around. Well, Murray, of course, is a very old and good friend, although I haven't seen him in longer than I'd like to...

Robert L. Hetzel: I'd love to talk to both of them, but I don't have phone numbers for either one. So could I call your secretary?

John H. Auten: I was trying to get my secretary, but she may have...

[01:18:23]

[END OF RECORDING]