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Interview of Robert M. Solow

Conducted by Robert L. Hetzel

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Robert L. Hetzel: With the 1960 analytical framework paper that you wrote with Paul Samuelson?

Robert M. Solow: Right.

Robert L. Hetzel: Okay, when you–

Robert M. Solow: Hello? You there?

Robert L. Hetzel: Yeah, I'm here. When you read that paper, it reads as though you were thinking out all the pros and cons of an aggregate demand policy for an administration willing to conduct such a policy.

Robert M. Solow: That's certainly one of the things we were doing, yeah.

Robert L. Hetzel: So, everything is–you know, you consider all the possibilities, you know, what would happen. That was on your mind when you wrote the paper that Kennedy–

Robert M. Solow: You have to remember that the intellectual background within economics then was all this talk about the distinction between cost-push and demand-pull.

Robert L. Hetzel: Yeah.

Robert M. Solow: And I think that it was that that got us started. The two questions were–the first question was how could you make sense of this distinction? What could you observe that would tell you whether a particular episode of inflation was cost determined or demand determined? That was the background question. But it's certainly true that the other question that was in our mind was what was the appropriate fiscal and monetary policy for a government that was prepared to try to do some demand management, under what circumstances could it reduce unemployment without causing any inflationary problem and what circumstances couldn't it? Or under what circumstances could a government go after control and inflation without causing a lot of damage to the real economy? Remember, the title of the paper was something like "Analytical Foundations of the Anti-Inflation Policy," I think.

Robert L. Hetzel: Right.

Robert M. Solow: And so the particular form in which it posed itself to us was that. Could you ever expect to do something about−in terms of demand management policy, not in terms of life controls or anything like that−do anything about inflation, and what would the consequences for output in employment be? That's the way we looked at it.

Robert L. Hetzel: So, the intersection of these two issues, cost-push versus demand-pull and a practical implementation of an aggregate demand policy, came down to the years '56 and '57. That is, if you were going to have a four percent target for the unemployment rate, what do you do about those years when the inflation rate rose from−

Robert M. Solow: The so-called creeping inflation, yeah.

Robert L. Hetzel: Right, when the inflation rate rose to three and a half percent in that time.

Robert M. Solow: Exactly.

Robert L. Hetzel: And so, you start the article by talking about generals fighting the wrong war, and I assume that was because you wanted to highlight the issue of, you know, what was inflation in those years? If it was cost-push, then that has different implications for what you can achieve with aggregate demand policy than if it was demand-pull.

Robert M. Solow: Exactly. That was the issue as it presented itself to us then. Yeah, I think you put your finger on it exactly.

Robert L. Hetzel: Now, once you get into the Council of Economic Advisers, once the Kennedy Administration and the Heller Council are in place, then you actually have to take stands on these issues.

Robert M. Solow: That's right.

Robert L. Hetzel: And you made the most optimistic assumptions, that is, the paper is completely either or, it considers all sides.

Robert M. Solow: Yes.

Robert L. Hetzel: But when you actually come to decide on an aggregate demand policy, you assume that there is some ability to move along the Phillips curve, and also that there was a significant amount of−

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Robert M. Solow: Of slack in the economy as of 1960, yes. And, well, as you know, we decided that a reasonable target was four percent for the unemployment rate, and that that could be accomplished without excessive risk of inflation. We may have been optimistic about that, in retrospect, but that was the way−that's the conclusion we came to. What we were sure of, of course, was that at the beginning of the Kennedy Administration, when the unemployment rate was something like 6.7 or 6.8 and there was plenty of excess capacity, that we thought that there was certainly no immediate danger that an expansionary aggregate demand policy, monetary or fiscal, or both, which is what we had in mind, we didn't think that that was going to run any immediate risk of inflation.

At that point−and this, I think, is something you have to keep in mind in interpreting it. At that point, we discovered−or I discovered, anyhow−that the intellectual argument−the argument then began to turn on the issue of structural unemployment. What we found when we−and by "we," I mean the whole of the Council. What we found when we tried to discuss the idea of emerging from that recession by expansionary fiscal and monetary policy, we found what particularly some of the Republicans in the Congress said, was that no, no, no, you guys have it all wrong. It's true that the unemployment rate, as we measure it, is 6.7 or 6.8 percent, but most of those are unemployable people. They are unemployed not because there is a shortage of aggregate demand, but because they are simply mismatched to the kinds of labor that business firms will need, so that unlike, perhaps, half a dozen years ago−sitting in 1960 now, '61−unlike the recent past, any attempt to increase the demand for labor would be met by wage inflation passing into prices.

So, in fact, the first task that Walter assigned to me was to peek through that argument and collect what information I could and come to a conclusion about the validity of this structural unemployment argument, and that's what I did. You should also remember that that was the period of what, in my experience, anyhow, was the first organized fear of automation as threatening the disappearance of work altogether, or nearly altogether. There was a group called the Triple Revolution. I can't remember what the Triple Revolution was anymore, but these were people whose argument was that unemployment was technological and was going to get worse.

Robert L. Hetzel: Right.

Robert M. Solow: Because the automation would diminish the need for labor at any level of aggregate output, so that the notion that you could aim for a lower unemployment rate from anything as low as four percent was just flying in the face of technological forces. So, in 1961, that's the way the discussion shaped up. The other part, which may not be of interest to you, was the general fiscal responsibility board of argument and Kennedy's interest in being able to describe anything he did as more fiscally responsible than the large Eisenhower deficits. But that's a different matter. And you'll find all sorts of locutions in Kennedy's speeches and Walter Heller's features which indicate that the policies that were being proposed would somehow or other not be any more deficit prone than Eisenhower.

[00:10:00]

Robert L. Hetzel: Well, but it is right up my alley, because in those days Republicans and businessmen argued that business deficits caused inflation. And so, if you had a deficit you were going to have inflation.

Robert M. Solow: Yes, absolutely.

Robert L. Hetzel: And so, the issue was the Treasury–and those views were widespread within the Fed and the Treasury.

Robert M. Solow: Yeah, and since we found that no one was bothering to make the distinction between a cultural deficit and a endogenous–

Robert L. Hetzel: Yeah, a full employment deficit.

Robert M. Solow: Yeah, the full employment deficit as against the current deficit as of whatever the level of output was at the time. So, we were trying to make a case for a deliberate expansionary policy. We tried to make it with Martin at the Fed, and we tried to make it with Kennedy and with the Congress on the Hill, and we had to make it against this whole collection of arguments that deficits, budget deficits, were intrinsically inflationary, that the excess unemployment was illusory, all those things.

Robert L. Hetzel: Yeah, you said a number of things. I wanted just–perhaps, as a footnote, I wanted to comment on the issue of whether six percent unemployment represented a significant amount of structural unemployment. The most articulate opponent was Arthur Burns.

Robert M. Solow: Yes.

Robert L. Hetzel: And that always sort of amused me that when he became Fed chairman in 1970, he inherited a six percent unemployment rate, and he took your position then, that this was excessive, and–

Robert M. Solow: Well, I'll tell you one anecdote that's funny. We were carrying on. The Council was carrying on a controversy with Burns, which you've undoubtedly read.

Robert L. Hetzel: Yeah.

Robert M. Solow: And Henry Wallich, who was then on the Board of Governors and, of course, a very conservative sort of person–

Robert L. Hetzel: Is this 1960 or…?

Robert M. Solow: I would guess this is '61 or '62.

Robert L. Hetzel: He was on the Council of Economic Advisers in the Eisenhower Administration.

Robert M. Solow: Yeah, but I'm talking now–but maybe this was before he was on the Fed Board, but anyhow, in the midst of this controversy that we were carrying on with Burns, Henry wanted to–he was, of course, an old friend of Jim Tobin's from Yale and all that.

Robert L. Hetzel: Sure.

Robert M. Solow: Henry wanted to form an opinion about where the truth was, and he went to see Arthur and asked him what level of GNP he thought–Burns thought–corresponded to–I don't know what. I can't remember whether it was full employment or "x" percent unemployment or whatever.

Robert L. Hetzel: Sure.

Robert M. Solow: And Arthur replied, "I don't think in GNP terms." And that shocked Henry Wallich. He came back and told us he could hardly believe it, that here was Burns who wasn't interested in what the level of aggregate output was, at least not as measured by the GNP. But yeah, Burns was one protagonist, but there were also people in the universities. A guy named Hollingsworth. In fact, there is a current labor economist, Mark Hollingsworth, and it was his father. Charlie, I think his father's name was. Charles Hollingsworth, who was a protagonist of the structural unemployment view, and there was a congressman who was a Republican from Missouri, Tom something or other–I can't remember the name anymore–who was very articulate on this, and in hearings–he must have been on the Joint Economic Committee or some committee before which the Council testified–would produce the structural unemployment argument. So, we had to work on that and, in fact, that was really where more effort went than in trying to estimate Phillips curves, although, of course, that was the framework in which most of the thinking took place.

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Robert L. Hetzel: You said something earlier that I think was important. Martin had the earlier view that inflation came from an inflationary boom and that you had to deal with it early on. So, he was of the school that as economic recovery began you had to keep the psychology of the markets under control and you should begin to move interest rates up early. The aggregate demand, excess capacity view that you referred to, of course, says you should begin to move interest rates up as excess capacity begins to fall toward–

Robert M. Solow: But Martin's view was just as you described–and not only Martin. There was a general view that, as is it sometimes seemed to me, looked only at rates of change and not at levels.

Robert L. Hetzel: Yeah, exactly.

Robert M. Solow: Going up is dangerous, no matter whether you're on the ground floor or the basement or whatever. In fact, wasn't Martin the author of the famous phrase about taking the punch bowl away just as the party gets going?

Robert L. Hetzel: It's attributed to him. I don't actually put that into print, but that he's the one that–yeah.

Robert M. Solow: I think I remember the phrase being current then, and we attributed it to Martin. But, yes, that was certainly another side. As it seemed to us, there were all sorts of arguments for not expanding the economy, and no one was bothering with the arguments for expansion.

Robert L. Hetzel: This gets down to sort of a little more ground level, but in looking at this period, it seems to me that this issue with the Fed over how you manage interest rates over the business cycle, that that was really fought over in the issue of appointments. That is, were the appointments to the vacancies on the Board to be Treasury Fed appointments like Dewey Daane, or were they to be people recommended by the Council, like Seymour Harris? Eventually, a number of people got appointed with the view that you mentioned, Andrew Brimmer, George Mitchell, who was a Kennedy appointment, Sherman Maisel, but–

Robert M. Solow: Maisel, right.

Robert L. Hetzel: That was, it seemed to me, behind the issues of personalities and so on, that this was sort of an underlying–

Robert M. Solow: I'm sure that's right. I was never part of that kind of discussion, and so I don't know actually what was said by whom to whom or anything of the sort, but certainly the appointments to the Board were one of the ways in which this kind of argument was fought out, absolutely.

Robert L. Hetzel: Do you have any recollection? Was it difficult to get Kennedy to put the four percent unemployment figure into the economic report of the president?

Robert M. Solow: The person to ask that question of is probably Jim Tobin.

Robert L. Hetzel: Sure.

Robert M. Solow: But I don't remember that. I remember a lot of discussion amongst ourselves as to how much confidence we felt in that number, should we choose as a formal target something higher. I remember a lot of that kind of talk. I don't recollect that there was a struggle in the White House over that. I don't remember any relief, you know, any cheering when we–oh, yes, we can say four percent or something like–I don't recall that. So, I don't think that Kennedy raised–Kennedy was much more interested in the question of not being tagged as a deficit spender. There, I do remember lots of going over sentences and inserting clauses or changing commas, whatever, in order that–I mean, in terms of potential speech language for Kennedy which would provide him the kind of cover he needed against this label of being a deficit spender.

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Robert L. Hetzel: So, he must have felt he was politically vulnerable on those grounds, then.

Robert M. Solow: Yeah, politically vulnerable is hardly the word. You have to remember that he was barely elected. He was elected by a fraction of a percent of the vote, and not only that, but the Congress was very evenly divided and, in fact, those are the days when the southern Democrats voted on domestic issues probably more often with the Republicans than with the Democrats. And Kennedy−that was another phobia of his, and probably a correct one. He was very conscious of the fact that he did not have a reliable majority in the Congress in either house, as I remember. And he was desperate not to appear to be a weak president, a president who proposed legislation and then couldn't get it through. So, he was very, very cautious about that. He thought that when he ran−if he would have, you know, ran for re-election in '64, if that had ever happened, that he didn't want to be attacked by the Republicans as having been weak, and meaning by "weak," ineffective in getting things done. So, we had to be very careful about what was proposed, because the political people in the White House needed to be able to say to Kennedy that, yes, they thought he could get this or get that.

Robert L. Hetzel: Well, given what you just said, that's very interesting. Does that offer any insight into the timing of when Kennedy was finally willing to be−

Robert M. Solow: Oh, sure, absolutely. It took a long time. Well, remember that so far as fiscal policy was concerned, we began with the investment tax credit in the Revenue Act of '62.

Robert L. Hetzel: Right.

Robert M. Solow: And the point there was that that, we hoped, would attract the business community, and eventually it did. You know, initially it didn't. Initially it seemed like demand management and much of the business community−not the Committee for Economic Development, of course, but some of the business community−it smacked of demand management, and therefore it smacked of too much government, and we didn't like it. But finally, I think, when businessmen realized what was in the investment tax credit, you know, simple, ordinary greed took over, and they came to favor it. So, that was the first thing. The Revenue Act of '64, it took a very long time before−that was the big personal and corporate tax reduction−it took a long time before Kennedy was prepared to put himself on the line for that and, of course, it didn't pass until after he was killed. It was Lyndon Johnson who was able to get that bill through on the sort of, you know, wave of emotion after Kennedy's assassination. The timing of things was very, very tied to what the political people in the White House, people who walked the Hill, thought could, in fact, get through the Congress.

Robert L. Hetzel: On the tax cut, did the Treasury come along independently when it decided it was time to push for tax reform, or did they come along when Kennedy began to−

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Robert M. Solow: I think they came along when Kennedy began to shift his ground. The Treasury did have an interest in allowable depreciation and issues like that in the corporate tax, but the investment tax credit itself, and the personal tax and corporate tax reduction in the '64 Revenue Act, I don't think–I don't remember. You would have to check with others, because I might easily have got that wrong. But I don't remember any independent initiative from the Treasury on that.

Robert L. Hetzel: Mm-hmm. So, there must have been two other things, too. One is that there is a willingness in Congress to relax the stranglehold that the Committee chairman had over legislations in this period. That is, through the–

Robert M. Solow: I don't remember anyone ever challenging Wilbur Mills, who was the chairman of the House Ways and Means Committee. That may be so, but I don't remember that, from the time. That doesn't mean it's not true.

Robert L. Hetzel: Yeah. Okay, it's a little beyond my expertise, but I think there are ways to figure that out. The other thing is that there was a slowdown in the economy in the summer of '62, and it looked like there might be another Eisenhower recession brewing, and that must have pushed Kennedy towards–

Robert M. Solow: I think that did. I think that–yes, I do remember that, and the fear that it would relapse back into the kind of recession that defeated Nixon and made Kennedy president certainly helped to change Kennedy's attitude, absolutely.

Robert L. Hetzel: Mm-hmm. I mean, you show that the full employment budget surplus was increased significantly in '59, and must have been corrected in–

Robert M. Solow: Right, and we talked about fiscal drag and things like that, yes.

Robert L. Hetzel: And so, you may have, over time, educated Kennedy.

Robert M. Solow: Oh, I certainly think that we educated him. And I think that Kennedy understood the nature of the argument before he was able to think that it was a politically viable thing to do. You know, when was that Yale speech that he gave? He gave a speech at a Yale Commencement, I imagine.

Robert L. Hetzel: Yeah, I know exactly what it is. I suppose it was–

Robert M. Solow: It might have been June of '60–I don't know, June of '60-something, but which–

Robert L. Hetzel: I was going to say June of '62.

Robert M. Solow: Yeah, possibly. And at that time, we thought that– "we," I mean Walter, and Jim Tobin, and Kermit Gordon, and Art Okun, and I–we thought that we had got him to understand what the theory of the situation was, we thought, and had actually convinced him, because he put a lot into that speech himself, into that Yale speech. I remember Walter saying that Kennedy had been rewriting it in the train on the way to New Haven. And we thought we had convinced him, but it still took quite a while before he was prepared to make a substantial fiscal policy move other than the tentative–not tentative, but the investment tax credit, the 1962 bill that had this sort of special characteristic that he thought would make it fly better.

Robert L. Hetzel: In terms of educating about the full employment deficit, what about the Treasury, Dillon and Roosa? Did you feel like you had to educate them, too? Were they part of the problem?

Robert M. Solow: I think they were more part of the problem than part of the solution. I'm not sure that "educate" was the right word. That is, hard to believe that someone like Bob Roosa didn't grasp what we were saying, but the Treasury was simply conservative. And, remember, Dillon was a Republican, after all, and was unwilling to–the Treasury didn't like the idea of discretionary fiscal policy. They liked automatic stabilizers, but they didn't like the idea of discretionary fiscal policy, and so I don't think we had to educate them. I think the problem was simply to fight for Kennedy's agreement and fight and argue against Dillon and Roosa, who were forever, as we thought, dragging their feet.

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Robert L. Hetzel: The Treasury was charged with maintaining the Bretton Woods system and the value of the dollar. By summer of '62, had the danger of international crises receded so that Kennedy became less concerned about the dollar and more willing to–

Robert M. Solow: I'm not sure how–for that, I think you have to talk to Jim Tobin. I was not involved in that part of the Council's work. I do think that–I do remember, just from conversations at night, when we were all together, that Tobin and Heller were very much concerned that Kennedy might not decide to preserve the dollar by protectionist measures. I mean, one battle that I think we lost was there was a rule that for some government procurement, Federal Government procurement–certainly Defense, but maybe other as well–the Defense Department was to buy American unless the price disadvantage rose above 20 percent or 30 percent, or whatever. And we were engaged in trying to argue down the buy American notion as a way of preserving the dollar, and Tobin forever had to explain to Kennedy that he shouldn't panic any time we lost gold, any time the Treasury started to lose gold, that the gold was there to be lost, so to speak. And so, but the details there, you can't get from me, since I don't remember them. I was not that much involved in them, so I didn't–they don't stick with me.

Robert L. Hetzel: Sure. Do you remember this discussion on the guideposts and the–

Robert M. Solow: Oh, yes, I was involved in that.

Robert L. Hetzel: Were the issues that you debated within the Council how explicit to be? In the initial '62 report, the rationale is just to educate the public, create awareness of what constitutes an inflationary–

Robert M. Solow: Yeah, but we were always concerned, first of all, as to whether the guideposts could be–were intellectually justifiable, because we were not particularly interested in controlling prices. And so, our argument was somehow how could we phrase this and do it in such a way that it would have an effect on the nominal price level but not on relative prices, and certainly not on real wages, on the relationship between the wage level and the price level. And so, we were trying to find a way to formulate this educational guideline, although I'm sure we understood that eventually there would be a certain amount of jawboning about this. But we wanted to find a way to formulate what was said in jawboning that would not be distorted and that would allow enough room for what we thought would, on truer market ground, be relatively small changes in, say, the share of wages, the relationship of real wages to productivity or things like that. We wanted there to be enough slack so that that could come out right from the relative price point of view, but not spill over into simple inflation of the nominal price level without having any effect on anything else.

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Robert L. Hetzel: The guideline, of course, was that price changes should be related to productivity changes in individual industries. Do you think initially you were over-optimistic about how easy it was going to be to get agreement on, you know, productivity? Because the corporations had lots of ways of spinning their productivity figures.

Robert M. Solow: Yeah, but–no, I don't think that we–first of all, our argument, I think, as I remember, from the very beginning, was not that wages should be related to the particular employers or even industries' productivity, but that the right thing to do was that wages should rise at the national–at the rate at which productivity was rising nationally, and if everything worked well, then industries that had faster than average productivity increase could have falling relative prices. And that was all, and we did not–in fact, I'm pretty sure that we were not only not in favor of, but were opposed to the idea that industry by industry or employer by employer wages should follow productivity. In fact, our argument was that that could not be a stable situation since workers of given qualifications were going to have to be paid the same amount wherever they worked. So, the idea was that our wages should follow the productivity of the national productivity trend, and prices should rise in slow productivity growth industries and fall relatively in fast productivity growth industries. So, we were not worried about–of course, any given firm or even any given industry could window-dress or doctor its productivity numbers, but we didn't think that–we were concerned primarily with the broadest aggregates we could find.

Robert L. Hetzel: Mm-hmm. On the steel strike–not the steel strike, the steel price increases, do you feel like Kennedy came out looking presidential on that, or was everybody lost–

Robert M. Solow: Well, at the time, we thought he did, yes. I haven't read back to know what general opinion is now, but we thought that he had a) done the right thing, and b) looked presidential, and c) done what the broad public wanted him to do. So, we were rather pleased with that. And, you know, I remember being especially−that some people in the steel industry−can't remember the man's name, the president of one of them.

Robert L. Hetzel: Blough?

Robert M. Solow: No, Roy Blough was the sort of Colonel Blimp of the−not Roy Blough. Roy Blough is an economist.

Robert L. Hetzel: Yeah, right. I know who it is, I just don't remember.

Robert M. Solow: But there was at least one executive of a major company, whether it was Republic or Inland−I don't remember−who saw things our way, and we were very grateful to him.

Robert L. Hetzel: I've got a few more specific questions about the Council and monetary policy, but let me ask you about, kind of thinking retrospectively on your 1960 paper, you argued that, empirically, it was either impossible or very difficult to distinguish between cost-push and demand-pull−

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Robert M. Solow: Yes.

Robert L. Hetzel: And that if−but in principle you could do so by conducting an experiment, a vast experiment. That is, if you were getting three percent inflation at four percent unemployment, if you raised the unemployment rate and the inflation rate didn't disappear, then you knew it was very hard to control, it was cost-push or−

Robert M. Solow: Or push, in principle. I don't know that we ever put it that way. You could distinguish between movements along and shifts of the Phillips curve.

Robert L. Hetzel: Yeah. So, then you did have more observations after that. By the end of the '60s, the observations looked very favorable to the−

Robert M. Solow: Yeah, inflation began to pick up only about 1965, as I remember, when the unemployment rate was getting down toward four percent.

Robert L. Hetzel: Right, it was the end of '65 that the inflation rate begins to pick up, and then−

Robert M. Solow: Yeah. And that looked pretty good from our point of view. When I say "pretty good," I mean, it seemed to confirm what we had anticipated.

Robert L. Hetzel: Mm-hmm. In the article, you write if mild demand repression checked most cost and price increases not at all or only mildly so that considerable unemployment would have to be engineered before the price level updrift could be prevented, then the cost-push hypothesis would have received its most important confirmation.

Robert M. Solow: That would be a very adversely located Phillips curve.

Robert L. Hetzel: Right, and that's what seemed to happen in '69 and '70, the unemployment rate moved up to above six percent–

Robert M. Solow: Right.

Robert L. Hetzel: And you had continued high–

Robert M. Solow: And that was both stagflation, and all that.

Robert L. Hetzel: Right.

Robert M. Solow: And of course that was the origin of expectations-augmented Phillips curve, the Phelps-Friedman version.

Robert L. Hetzel: Right, but that's a different intellectual line–

Robert M. Solow: Yes.

Robert L. Hetzel: Than saying it was cost-push.

Robert M. Solow: Oh, yes.

Robert L. Hetzel: So, that generated an enormous debate within the economics profession. But, basically, the political system sided with the cost-push view, and Arthur Burns, who had earlier argued that six percent unemployment was structural, began to think of four percent unemployment as structural.

Robert M. Solow: Yeah.

Robert L. Hetzel: The continued apparent shifts in the Phillips curve in the '70s, did you see those as some combination of expectational, and cost-push, and oil price shocks?

Robert M. Solow: Well, yes. Not so much cost-push as the expectational, as a setoff, in particular by the experience of the Vietnam War, and oil prices, yes. So, I think that was our general view. Now, we never adopted–I may be the last remaining skeptic about the long-run vertical Phillips curve, but certainly, in the '70s I would never have accepted that as the proper explanation for what was going on. But I think that, at that time, the profession certainly did start to accept it.

Robert L. Hetzel: Mm-hmm. Let me ask you about perceptions of the debt at the time. Did you often feel like the Fed and the Treasury presented a united front against the Council, or did you consider them as separate?

Robert M. Solow: Again, that's something that you should talk to Jim Tobin about, since I was rarely at those high-level meetings.

Robert L. Hetzel: Yeah, the Quadriad.

Robert M. Solow: Yeah, but I don't–yeah, I guess there were times when it was felt that the Treasury and the Fed, within the administration, were the opposition, so to speak, yeah.

Robert L. Hetzel: Was there a concern that if there was a tax cut that Martin might thwart it through an interest rate increase? Do you remember any of that?

[00:44:55]

Robert M. Solow: I don't know. I don't remember. There may have been talk about that, but I guess the point of all those Quadriad and whatever meetings was to make sure that everyone was on the same page. So, I don't know. I can't speak to that, as to whether there was ever any serious fear that Martin might simply go off on his own and thwart and offset the demand effects of a tax cut. I don't believe that that was an active fear, but I'm not sure.

Robert L. Hetzel: Mm-hmm. There was a proposal to change the Federal Reserve Act and make the term of the chairman, FOMC chairman.

Robert M. Solow: Yeah.

Robert L. Hetzel: Did the Council have anything to do with that? Did that originate with the Council?

Robert M. Solow: I don't know. I doubt that it originated with the Council. The Council often–not often, but the Council occasionally was worried. We understood the value of an independent central bank. We thought that there was a very strong case for coordinating fiscal and monetary policy. Especially, remember, since in particular Jim Tobin and I were arguing all the time that ultimately there was a delicate distinction between short and long-run or short and medium-run here, and that while we were for fiscal expansion for business cycle purposes in 1961 and in 1962, our ultimate goal was a policy mix that had easy money and a tight fiscal policy. A budget surplus at full employment was what we were fundamentally after, and it was our belief that high employment could be maintained by monetary policy. So, we were very interested in achieving coordinated fiscal and monetary policy, because we regarded the policy mix as–

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[BEGINNING OF TAPE 42, SIDE B]

Robert M. Solow: On fiscal and monetary policy. So, we wanted to find some way of coordinating fiscal and monetary policy, but not−I don't remember that the Council originated the idea of aligning the term of the chairman with the term of the president.

Robert L. Hetzel: Mm-hmm. On the latter issue of the optimal mix of fiscal and monetary policy, that was because you had not only cyclical objectives, but you had a growth objective, too?

Robert M. Solow: Yes, we wanted to shift the GNP in favor of investment.

Robert L. Hetzel: So that you could maintain 12 percent growth.

Robert M. Solow: That's right.

Robert L. Hetzel: Mm-hmm, that's interesting. So, the main projects you were involved on were the study of structural unemployment, the guideposts. I'm just curious, when you come into work in the morning, is most of the day occupied with short-run things, memos that have to be gotten out to deal with various sources, things that come up or−

Robert M. Solow: In those days−I hope it doesn't work that way now. But you have to remember that Walter was a night person.

Robert L. Hetzel: I didn't know that.

Robert M. Solow: And Walter would hang around the White House all day long, and any time any question arose, Walter would say, "Would you like a memo on that in the morning?" And then around 5:00 or 6:00 o'clock, Walter would come back to the Council Office with this list of memos that had to be available, preferably by 9:00 o'clock the following morning. So, an awful lot of work went on at night on those short-run issues.

Robert L. Hetzel: Well, did he sleep? Or, I mean, did−

Robert M. Solow: Well, he must have slept somewhat, but I'm not sure exactly when, and I'm not so sure when the rest of us slept, either. It was a very common event for a lot of us, including me, to call home at 6:00 o'clock and explain that we wouldn't be back for dinner and who knows when, and then work for much of the night getting out the memos that would be available, would be on Kennedy's desk or Ted Sorensen's desk or somebody's desk, the following morning. So, an awful lot of the short-run stuff was done after hours. And then during the day was actually−of course, there were a lot of committee meetings. Walter understood that whenever there was a White House originating committee that was meeting there, if it had any kind of economic implications at all there should be someone from the Council there. We were the memo.

[00:50:54]

Robert L. Hetzel: How did you stay awake if you'd been up all night?

Robert M. Solow: Well, I don't know, exactly.

Robert L. Hetzel: Did you drink coffee or…?

Robert M. Solow: Yes, a tremendous amount of coffee, a lot of eating during the night, hamburgers brought in, that sort of thing. But, of course, we were younger then. Couldn't do it now.

Robert L. Hetzel: Yeah. So, the Council really gave specific content to aggregate demand management, what it would mean to implement practically−

Robert M. Solow: Yeah, we tried.

Robert L. Hetzel: In terms of setting targets and strategies. So, it must have been an exciting time to be in Washington.

Robert M. Solow: Oh, absolutely, yes. I never worked so hard in my life, but I enjoyed it.

Robert L. Hetzel: Yeah. I mean, a little like, I guess, being there in the '30s. You felt like you had a mission, and you had a president who listened to you, and you were, as I said, you were setting, you know, the terms of the intellectual debate.

Robert M. Solow: And by the way, Kennedy did play a very important role there. The wonderful characteristic that Kennedy had was that he read. He read memos. And Walter did something very remarkable. All the memos that went to Kennedy were, of course, signed by Walter. But he would do something the way you find in an academic journal article, "This memo was really written by…" and he'd say. And Kennedy read the things, and it was not uncommon−it wasn't an everyday occurrence−but it was not uncommon for Art Okun's phone or my phone to ring and it would be Kennedy, who said, "I'm reading this memo and I've come to the fourth paragraph, and I don't understand that. I don't really follow the argument, so you better tell me what it means."

Robert L. Hetzel: That's extraordinary.

Robert M. Solow: And that would buy you a lot of good will and a lot of hard work.

Robert L. Hetzel: Were you ever in a meeting with Kennedy?

Robert M. Solow: Yeah. Not terribly frequently, but−

Robert L. Hetzel: So, you did see him?

Robert M. Solow: Many times.

Robert L. Hetzel: Wow, it must have been exciting.

Robert M. Solow: Yeah.

Robert L. Hetzel: Well, okay. Anything else I should–

Robert M. Solow: No, I think you've got your finger on most of the important issues. I do urge you, on some of these things, to get hold of Jim Tobin.

Robert L. Hetzel: Yeah, I did actually talk to him at one point.

Robert M. Solow: Good.

Robert L. Hetzel: Although he has such a remarkable, productive mind, you know, I talked to him, and then, you know, now I keep thinking of other things that I wish I'd asked him.

Robert M. Solow: Yeah.

Robert L. Hetzel: But, anyway. Okay. Well, I really thank you for taking the time to talk to me.

Robert M. Solow: Oh, you're more than welcome.

Robert L. Hetzel: Thanks a lot.

Robert M. Solow: All right, bye-bye.

[END OF RECORDING]