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Oral History Interview of James Tobin

Conducted by Robert L. Hetzel

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ROBERT HETZEL: -- personal relationship involved that went beyond --

JAMES TOBIN: Not that I know of. Not that I know of, but I wouldn't know.

ROBERT HETZEL: Hm-hmm [affirmative].

JAMES TOBIN: I'm not that close to Kennedy's social affairs.

ROBERT HETZEL: Hm-hmm [affirmative].

JAMES TOBIN: I wouldn't be so sure about Dillon being Conservative. He was, as a Republican, he was--filled a political need of the new President, but I don't--but I think he was a rather liberal Republican, at least a moderate Republican.

ROBERT HETZEL: So he was more in the Rockefeller mold of New York Republicans?

JAMES TOBIN: Yeah, the old public service mold of the elite or aristocratic lawyers and businessmen. So there were both Republicans and Democrats.

ROBERT HETZEL: So did you see a sharp difference between him on the issue of balancing the budget on an annual basis and on government deficits causing inflation? Was there a sharp difference between him and Anderson and Humphrey who preceded him? Were they different on those issues--more liberal, or were they --

JAMES TOBIN: See, I think that Dillon was more pragmatic about that and he was perhaps not as concerned about the balance of the budget as initially Kennedy was. But Kennedy didn't have any economic reason for that, he was only worried about being severely criticized by the Wall Street Journal and elsewhere for fiscal imprudence.

ROBERT HETZEL: And the story is that his father was very concerned about gold, and whenever he saw the son, he lectured the son, and that was an influence. Did you hear that?

JAMES TOBIN: Yes, indeed. I don't know that from firsthand, but we certainly heard a lot about it. Well, sometimes--in fact, rather frequently Kennedy would call us up and say that his father said this and that, his father's worried about this or that, or he'd say, "People are worried," and we would interpret that to mean that it was his father. And so then we would try to reassure him or give him the other side of the picture.

ROBERT HETZEL: Hm-hmm [affirmative]. During this period you basically assumed that there could be no change in international monetary arrangements, no revaluation of other currencies. There was some in '61, but it was a very limited revaluation of the --

JAMES TOBIN: Well, certainly, the gold standard was a sacred thing. And the value of the dollar was thought to be so immutable and so important to him it be immutable that one wasn't even supposed to talk about this--the question, no matter what you said. And the Treasury wanted to assume--just assume that we were always going to have the $35 gold price and they thought that the confidence of the world in the dollar depended on that being something that was not even on the table, even for academic discussion. And I think Dillon was--believed that, all that, but he was greatly influenced by Roosa. And Roosa was very strong and self-assured on most things like that.

ROBERT HETZEL: So was it somewhat--did Roosa have the relationship with Dillon that Volcker had later with David Kennedy, the Conservative Fed view of the time and like David Kennedy really let Volcker apparently, you know, take the lead in --

JAMES TOBIN: That was after my time in Washington. I don't know about Volcker and David Kennedy --

ROBERT HETZEL: Hm-hmm [affirmative].

JAMES TOBIN: Well, you mean--Roosa was undersecretary.

ROBERT HETZEL: Right.

JAMES TOBIN: And he had been appointed from --

ROBERT HETZEL: Well, he had been at the New York Fed.

JAMES TOBIN: --the New York Fed. And I don't know that he and Dillon were friends before or were well acquainted at all before he came, but Roosa was a Ph.D. in economics. He's --

[00:05:03]

ROBERT HETZEL: Hm-hmm [affirmative].

JAMES TOBIN: --from Harvard, as my contemporary and friend. But we disagreed terribly on this whole matter.

ROBERT HETZEL: He --

JAMES TOBIN: And I liked Roosa, but I just don't think he was a very good economist actually --

ROBERT HETZEL: He--he --

JAMES TOBIN: Certainly on this point.

ROBERT HETZEL: He was like--he had the demeanor of an Ivy league intellectual, but on the issue of the deficit and international monetary arrangements, he was very much of a conservative Republican businessman, wasn't he? That --

JAMES TOBIN: Yes, or more so.

ROBERT HETZEL: Hm-hmm [affirmative].

JAMES TOBIN: He--I don't think he cared so much about the deficit, per se, but he thought everything was in terms of what the effect would be on the --

ROBERT HETZEL: Confidence and --

JAMES TOBIN: --opinion of the financial markets about the dollar.

ROBERT HETZEL: Another factor must have also been the sort of perpetual recurrence of international crises, Kennedy's feeling that he did not want a gold crisis on top of all the international problems he was having?

JAMES TOBIN: Well, I don't know about that so much. He was very much worried about the possibility that he would do something to the dollar when he first came into office. And then the Republicans and Wall Streeters would say, "See, every time the Democrats come in, they fiddle with the money." So he wanted to be very sound on--appear to be very sound on money and the dollar. Just for that reason, he didn't want--his political fallout from it. Kennedy also had a simplistic view of what the gold problem was. When he read about balance of payments deficits, he translated those into gold losses, dollar for dollar.

ROBERT HETZEL: Hm-hmm [affirmative].

JAMES TOBIN: And so he--that's why he initiated things like the gold budget and to departments required to keep track of not just what they are spending in dollars, but what it translated into vote losses.

ROBERT HETZEL: But he --

JAMES TOBIN: And vote losses in his view were equivalent to balance of payments deficits. So we eventually we explained to him successfully--he's a smart guy, Jack Kennedy--I worked on this and Kermit Gordon worked on this and Walter Heller did, but it was my baileywick particularly to work on this is to convince the President that no--this is Kermit Gordon's idea, that no--convince him that no gold leaves the country except by political decision of a foreign government. And notably in those years that was DeVeau.

ROBERT HETZEL: Hm-hmm [affirmative].

JAMES TOBIN: And after he understood that, he was personally a good bit more relaxed about gold. Saying he understood, he understood the situation. I could tell you that in 1961 we at the Council engaged my colleague at Yale, Robert Triffin, who is a leading authority on international money --

ROBERT HETZEL: Sure.

JAMES TOBIN: --and who was the originator of the Triffin dilemma, namely, if you--when gold becomes a smaller part of U.S. portfolio--of the government portfolio, then there would be less desire to hold dollars. So he thought that was the sort of paradox and dilemma of the gold dollar standard. And so we hired him as a consultant to the Council because we needed somebody who was well informed on international finance and the gold problem and all that. And Roosa was furious at that, because he thought that Triffin was unsound on the holding of the--holding tight to the dollar value--the gold value of the dollar.

[00:10:00]

ROBERT HETZEL: The balance of payments is a line operation responsibility of the Treasury. Did they, in general, exclude you from discussions of --

JAMES TOBIN: Well, they often did and they tried to, but we did have considerable discussions with them, especially when there were meetings with the President in which the so-called Quadriad, or the Triad--that's not the word --

ROBERT HETZEL: Well, the Quadriad.

JAMES TOBIN: The Quadriad included the Fed. It was the Treasury, the Budget Bureau, and the council --

ROBERT HETZEL: Right.

JAMES TOBIN: --that talked to the President about economic policy.

ROBERT HETZEL: Hm-hmm [affirmative].

JAMES TOBIN: And that often included the discussion of the balance of payments problem, gold, and so on. And so--but Dillon was--and then Roosa, in particular, were very jealous of that, keeping that as a Treasury responsibility. And they would keep us out of it as much as they could.

ROBERT HETZEL: Two of the major innovations of this period, Operation Twist and the beginning of foreign exchange intervention, establishment of swap lines with foreign central banks, and so on, those must have been Roosa's ideas. But did he include the Council in the discussion of the --

JAMES TOBIN: Well, the Twist was not his idea and he didn't like it.

ROBERT HETZEL: Operation Twist?

JAMES TOBIN: That's right, he didn't favor it at all. That was our idea. It was my idea.

ROBERT HETZEL: Okay. That's important, because I just assumed that was--you know, when you hear about Roosa, you talk about--he talks about establishing these outer lines of defense for the dollar and --

JAMES TOBIN: Well, he --

ROBERT HETZEL: I just assumed that this was his --

JAMES TOBIN: He was not wanting to do anything about that, about Twist at all, from his point of view. So, when it was eventually decided to try to do something and the--Martin agreed to try--well, Martin didn't try very hard. And Roosa's view was that if he made transactions like that, that would cause such a lack of confidence it would be counterproductive. It's a famous memo that he sent us to the Council which said--which told us that if they did Operation Twist seriously would have exactly the opposite results from who we wanted.

ROBERT HETZEL: That's interesting, because--this is just sort of later and anecdotal--but I have a friend at the New York Fed who wrote up the history of this period for one of their publications, and she had a comment in there that it was controversial about whether Operation Twist actually had any affect on the term structure. And she got a call from Bob Roosa--this is obviously while he was still alive--and he was very critical. He said, "Oh, yeah, it was very important. It really did have an effect."

JAMES TOBIN: He might have changed his mind, but he --

ROBERT HETZEL: He must have become a convert--later he must have become a convert to it.

JAMES TOBIN: Yes, but he often--from our point of view, he often did Operation Twist in a--at least appeared to be doing Operation Twist, but then he was engaged in anticipatory conversions of short-term assets into long. So it actually wasn't selling in the shorts. He was--or buying them, he was making it easy for holders to convert them before they came due. And --

ROBERT HETZEL: So he had the conventional Treasury view on the desirability of lengthening term structure of --

JAMES TOBIN: Yes.

ROBERT HETZEL: --interest rates. I was just curious--

JAMES TOBIN: So at the same time that he was--we wanted him to be--reducing the supply outstanding of loans.

ROBERT HETZEL: Hm-hmm [affirmative].

JAMES TOBIN: And, but then he was offering loans--in these anticipatory maturations of other debt. So he sort of--but then Roosa is--however, Roosa is mainly responsible for is putting a tariff on bond issues.

ROBERT HETZEL: The interest equalization tax?

JAMES TOBIN: Interest equalization tax. I mean, today, that would be considered a terrible intervention into the markets, wouldn't it?

[00:14:59]

ROBERT HETZEL: Well, I wanted to ask you about that. Capital controls, it seemed like there was a change in attitude between the Heller and the Ackley councils that may have reflected President Johnson's points of view. It seems like capital controls became more acceptable as you went on. Of course, the problem with balance of payments became, perhaps, more difficult. Was there a different intellectual attitude toward capital controls in general, than between the Heller and the Ackley councils? I mean, did you have a somewhat aversion to getting into all the bureaucracy that would be involved in that?

JAMES TOBIN: Well, I don't think--I was not there during Ackley council.

ROBERT HETZEL: Sure.

JAMES TOBIN: And I left before the Heller --

ROBERT HETZEL: Right.

JAMES TOBIN: --before Heller did, and before the end of Kennedy's term. And so I am not aware of that difference. Could be. But the argument that I was making to the

President was that these--that all the things that they were willing to do, like favoritism toward American suppliers of things that were purchased by AID, A-I-D --

ROBERT HETZEL: Right.

JAMES TOBIN: So, we had tied AID that was to save gold --

ROBERT HETZEL: And American soldiers had to import their--in Germany had to import their beer from America. I remember there were things like that.

JAMES TOBIN: Yeah, there were things like that. There were terrible things. So I tell the President that the whole point of the international monetary system was to have easy free trade in commodities so--and without controls. And the reason--the gold standard was thought to be desirable was that it facilitated that; and that was its purpose.

ROBERT HETZEL: Hm-hmm [affirmative].

JAMES TOBIN: And if you saved the appearance of the gold standard, while having all these interventions and controls, then it didn't make any sense at all. It was the throwing not the baby out of the bath, but the mother.

ROBERT HETZEL: Yeah. So there was no sympathy with Galbraith's general ideas that you ought to have--combine easy money and controls; that was just not sort of policy that was considered?

JAMES TOBIN: Well, that was Galbraith's policy for the war, for war mobilization; it was not Galbraith's policy in the '60s. So, Galbraith was on the side of the Treasury.

ROBERT HETZEL: Okay. I didn't know this.

JAMES TOBIN: And the debates in the White House, in the Quadriad or--what do they call the three of us together?

ROBERT HETZEL: Well, Triad, I think.

JAMES TOBIN: Triad, that doesn't sound right. Anyway, the--Galbraith sided with Dillon --

ROBERT HETZEL: That seems hard to believe. I mean --

JAMES TOBIN:--against us.

ROBERT HETZEL: I would have thought he would be sort of, whatever the left wing position is that --

JAMES TOBIN: He wasn't. He was the ambassador to Britain--to India, and he was worried about the American position in the Cold War and he thought that the currency problem was a terrible obstacle to our success in the Cold War. And so he didn't want to do anything which endangered the gold standard.

ROBERT HETZEL: So his considerations were more foreign policy-based.

JAMES TOBIN: Foreign policy considerations, yes.

ROBERT HETZEL: One more quick note on something we just mentioned. You mentioned Martin's attitude toward Operation Twist. Did he have the same sort of attitude toward foreign exchange intervention? Is that something he went along with, because the Treasury wanted, but he really needed to be sort of pushed into it or he made --

JAMES TOBIN: I don't know. I don't recall any--hearing Martin talk about that.

ROBERT HETZEL: Hm-hmm [affirmative].

JAMES TOBIN: That doesn't mean he didn't, but I--not in my presence.

ROBERT HETZEL: So let me ask you some questions about Martin. In the Quadriad meetings, in your contact with Martin, do you feel like he had a sense, at least a grasp, of the economic issues; that he could think--understand the arguments of economists, or did you view him primarily as a conservative banker?

[00:20:03]

JAMES TOBIN: Well, I don't know about how conservative, but he didn't talk economics when we talked.

ROBERT HETZEL: Hm-hmm [affirmative].

JAMES TOBIN: I was not present with him when he talked to the President. I don't think that there were many times when there was a sort of full meeting of the Council and the Treasury and the Budget Bureau and Martin with the President. The President sometimes met with Martin by himself, sometimes, I think, with Dillon, and maybe Heller sometimes. I wasn't there. The--but Martin, Martin was very intuitive and impressionistic about his attitude toward monetary policy, and there wasn't a lot of economics involved in it. It was his sense of the market and the financial markets and confidence and things like that. And so --

ROBERT HETZEL: So, in that sense, he was like Roosa, although Roosa's focus was more sophisticated.

JAMES TOBIN: Well, Roosa is an economist, so Roosa should have--

ROBERT HETZEL: Should have, yeah.

JAMES TOBIN: --had the economic arguments. All right. Of course, Martin had all the economists he wanted to talk to in the staff of the Fed and--but the Fed chairman does have this tendency to think of what he's doing as a psychological game with markets, rather than --

ROBERT HETZEL: Yeah, absolutely.

JAMES TOBIN: --rather than economics. Not just Martin, but he is extreme in this case--in this situation--in that particular attitude.

ROBERT HETZEL: Yeah, that doesn't seem to change. In discussions of monetary policy, did you see --

JAMES TOBIN: I used to meet with Fed people once a week and Martin--Heller and I had lunch with Martin usually once a week. We didn't have lunch with Martin when Dillon had lunch with Martin, which was also at least once a week.

ROBERT HETZEL: On issues of monetary policy and interest rate policy, did you see a difference between the Fed and the Treasury? Did you think of the two of them as basically having the same attitude, or did you see them on a gamut where the Fed --

JAMES TOBIN: I always thought it mixed. Sometimes Roosa was trying to get the Fed to do what we wanted the Fed to do. Sometimes Roosa said he was doing that, and probably wasn't. And sometimes Roosa and Dillon were strengthening the Fed's resolve not to do what we wanted them to do.

ROBERT HETZEL: So there's no easy generalization. You don't see the --

JAMES TOBIN: No.

ROBERT HETZEL: You don't see the Treasury as restraining the--Martin's desire to raise interest rates to deal with balance of payments problems. You don't see him as exercising a restraining influence on the Fed necessarily?

JAMES TOBIN: No. I think that he didn't want them to raise interest rates, and I think that--what he didn't do is lower interest rates. And so we wanted lower short-term interest rates in 1962--1961-62, and the Treasury's argument was that--excuse me, Martin's argument was that they couldn't have lower interest rates because gold would flow out. So we had--he didn't raise them, but he didn't lower them either. That's why Twist was suggested.

ROBERT HETZEL: So Twist came after that --

JAMES TOBIN: It came after that, but we still wanted it. That was the point of Twist, to get lower long-term rates.

ROBERT HETZEL: So you did, at least in '62, sort of late spring, early summer when you were concerned about recession, you did urge the Fed to consider lower interest rates. You weren't happy just to assume that fiscal policy in Operation Twist would take care of a lack of aggregate demand?

[00:25:00]

JAMES TOBIN: We weren't what?

ROBERT HETZEL: You weren't willing to rely solely on fiscal policy and whatever affect on the term structure you might have by debt operations. You weren't willing to rely solely on those, as far as aggregate demand went. You thought the Fed should have pushed rates down in '62 when it, in fact, raised them?

JAMES TOBIN: Well, yes, that--we didn't want them just to raise them.

ROBERT HETZEL: Yeah.

JAMES TOBIN: Yes, that's right. But we were looking for anything we could get.

ROBERT HETZEL: Hm-hmm [affirmative]. And the Treasury wasn't necessarily supportive of that? The Treasury had its own concerns with balance of payments. So it didn't necessarily--the reason --

JAMES TOBIN: Technically, it was that on fiscal policy, too, that a better, a more substantial fiscal policy would be a good idea, if it was done the way the Treasury wanted it to be done.

ROBERT HETZEL: But that was with tax reform, right? And --

JAMES TOBIN: Yeah.

ROBERT HETZEL: Tax reform was--that was a whole political, you know, process in itself. So --

JAMES TOBIN: Yes. If the Treasury does it, then it won't destroy confidence. If you guys do it, it will.

ROBERT HETZEL: So, one of the reasons you finally got moving on a tax cut was because Mills and Dillon got together and said, "Yeah," you know, "we need tax reform and we're willing to get the lubrication that comes from a tax cut"? Was--that sort of changes of subject, but --

JAMES TOBIN: Well, I don't--I wouldn't put it quite that way and I don't know how much Mills and Dillon were together, as opposed to Mills just talking to the group--the group including Dillon and the President and Heller. The--Mills, himself, was more comfortable with a tax reduction, which was described as a reform, an incentive--what would have been called later as supply side reform.

ROBERT HETZEL: Hm-hmm [affirmative].

JAMES TOBIN: So that just made him happier about having an expansionary fiscal policy tax cut.

ROBERT HETZEL: So he was not conservative in the way that, say, Senator Byrd from Virginia was?

JAMES TOBIN: No.

ROBERT HETZEL: He was more of a pragmatic --

JAMES TOBIN: Yeah.

ROBERT HETZEL: --individual.

JAMES TOBIN: He didn't understand anything in economics --

ROBERT HETZEL: Sure.

JAMES TOBIN: --but he did understand that, in a general way, that lowering taxes should improve economic activity.

ROBERT HETZEL: Hm-hmm [affirmative].

JAMES TOBIN: And there was some confusion mixed through there between income and substitution effect sometimes--I don't know--when he tried to say something--exactly what it was, but he didn't like a completely demand-motivated tax cut, or at least one that said it was demand-motivated.

ROBERT HETZEL: So it was partly a question of packaging for him?

JAMES TOBIN: Packaging for him, yes.

ROBERT HETZEL: A cover, so he wouldn't look --

JAMES TOBIN: And as far as--and then Dillon understood we needed demand. So he wasn't against a demand-motivated tax cut, he just thought, if we do it my way, with my tax reforms at the same time, then it will be okay in the financial markets.

ROBERT HETZEL: Oh, I see. So it's the confidence thing again?

JAMES TOBIN: Yeah.

ROBERT HETZEL: Hm-hmm [affirmative].

JAMES TOBIN: But then, of course, what they extracted from Kennedy was that he would submit a balanced budget in the next budget.

ROBERT HETZEL: Yeah. That was at the--mid '61, with the Berlin crisis and the issue of whether they were going to --

JAMES TOBIN: That was a year later than that.

ROBERT HETZEL: So, even a year later the Treasury was still pushing for a balanced budget?

JAMES TOBIN: Yes.

ROBERT HETZEL: Fiscal '63.

JAMES TOBIN: Yes. And that's what they agreed to submit, the tax legislation at the same time, if the President agreed to a balanced budget at the same--at that time.

ROBERT HETZEL: Let me come back to Martin and his attitudes again. There was a debate at this time over whether 6 percent unemployment represented structural unemployment or whether it was a lack of aggregate demand, and Martin was on the, sort of Burns structural side. Do you think Martin's failure to raise interest rates more aggressively was because he really was concerned about domestic economy and unemployment, or was it more the restraining influence of the CEA and the Treasury?

[00:30:02]

JAMES TOBIN: Well, I think it was more of the latter.

ROBERT HETZEL: Hm-hmm [affirmative].

JAMES TOBIN: Hm-hmm [affirmative].

ROBERT HETZEL: So you --

JAMES TOBIN: I think it became--I think Martin became content with the idea that, well, these guys aren't such wild guys or radicals as I thought they were, and if they're going to be satisfied just to keep interest rates where they are, why, I won't feel so bad.

ROBERT HETZEL: Hm-hmm [affirmative].

JAMES TOBIN: I used to play squash with Martin.

ROBERT HETZEL: Oh.

JAMES TOBIN: That's a good friend of mine.

ROBERT HETZEL: He was very --

JAMES TOBIN: He's a nice guy.

ROBERT HETZEL: He was very athletic.

JAMES TOBIN: Yeah.

ROBERT HETZEL: You must have been a good squash player.

JAMES TOBIN: Yup.

ROBERT HETZEL: Good. Let's see. Just moving on a little bit, was there--and this was after you left the Council, so you may not know, but was there a fear that Martin might thwart the tax reduction with a rate hike? Was that a real fear or was that not--I mean, not really something Martin was likely to do?

JAMES TOBIN: That wasn't something Martin was likely to do. And as long as he was included in the discussions with the President about the general stance of policy, I think he was willing to go along.

ROBERT HETZEL: This is sort--completely out of the blue, but it's something that happened at this time--do you know how Mitchell was chosen as a governor? Were you involved in that selection process at all, George Mitchell?

JAMES TOBIN: Yeah. Well, we wanted to get some better governors --

ROBERT HETZEL: Hm-hmm [affirmative].

JAMES TOBIN: --different governors and so, maybe some more economics into the open market committee and we needed somebody who would be okay in Congress and wouldn't be offensive--too offensive to Martin. And Mitchell was this—Federal Reserve Bank of Chicago, seemed to be the ideal guy for that. And he was.

ROBERT HETZEL: Was Seymour Harris considered at this time or later?

JAMES TOBIN: Seymour Harris considered for the Board of Governors?

ROBERT HETZEL: Yeah.

JAMES TOBIN: I don't think so.

ROBERT HETZEL: Okay.

JAMES TOBIN: No.

ROBERT HETZEL: Okay. And this came after your time, so you don't necessarily know the answer, but--well, the guideposts--well, I guess the guideposts would --

JAMES TOBIN: That first came in the --

ROBERT HETZEL: In the '62 economic report.

JAMES TOBIN: In the economic report of 1962.

ROBERT HETZEL: Yeah. Why, if the unemployment rate was so high that the output got negative, why the need for guideposts? Why did the Council put those in the Economic Report of the President at that time?

JAMES TOBIN: Well, the anticipation was that we would have wage pressures before we got to what we regarded as full employment.

ROBERT HETZEL: So you were looking ahead to the time when the unemployment rate would come down from upper 5 percent range to --

JAMES TOBIN: Well, it would come down to--

ROBERT HETZEL: --4 percent and --

JAMES TOBIN: We'd just be moving in the direction which would cause people to give the workers--unions more power and we would--were trying to avoid what we regarded as premature wage pressures and price pressures.

ROBERT HETZEL: Did you see 4 percent unemployment as being accompanied by 2 percent inflation, some positive inflation rate that was--made the guideposts necessary?

JAMES TOBIN: Well, it could be a--some probability, some nonzero probability that that would be true.

ROBERT HETZEL: Hm-hmm [affirmative].

JAMES TOBIN: And the 4 percent looked like a--from a point of view of what actually was full capacity production to look like a good guess as to what it was.

ROBERT HETZEL: Hm-hmm [affirmative].

JAMES TOBIN: And that there shouldn't be sort of a market-related inflationary pressures increasing inflationary pressures at 4 percent. But we did have these big unions --

ROBERT HETZEL: Yeah.

[00:34:37]

JAMES TOBIN: --and big, big businesses, and they were--we had worked on the steel wage settlement in 1961, besides even though we were far, far from full employment or full capacity production of steel, the contract was coming up for grabs and we were afraid that there was going to be an increase in steel wages, and steel prices, as a result. And we got Goldberg, the Secretary of Labor, who used to be the counsel of the Steam Workers Union, to work and do also the business side of the industry to work on trying to get a bargain where the union would hold down the wage increases--this is in '62, '61--or '62--'62, maybe--'62. The union would hold down the wage increase if the--to a noninflationary level and to--if the managements agreed that they wouldn't raise prices at the same time. That's when --

ROBERT HETZEL: Right.

JAMES TOBIN: --the U.S. steel president reneged and he even told the President he was raising prices on the very day.

ROBERT HETZEL: And he just thought he could get away with it?

JAMES TOBIN: What?

ROBERT HETZEL: He just thought--he did it because he just thought he could get away with it?

JAMES TOBIN: He thought he could, but he didn't.

ROBERT HETZEL: Yeah. Let me ask you more general--well, I'm also curious that one of the important aspects of policy innovations at the time was to make explicit the level of the output gap, and that was reported in the Economic Report of the President, you know, for many years. Were you involved in that, in the discussions of how to choose the base year and draw the trend line, or was that pretty much a consensus thing, you know, it wasn't something that involved a lot of need for debate?

JAMES TOBIN: Oh, and that was one of our major items in the Council --

ROBERT HETZEL: Right.

JAMES TOBIN: --in 1961 right away, is we observed this demand versus structure debate. And Martin was saying, and a lot of other people were also saying that it was structural unemployment and that--so we were already had full employment, even with 7 percent unemployment.

ROBERT HETZEL: Hm-hmm [affirmative].

JAMES TOBIN: And so we thought that was a terrible attitude, which was undermining our policy. And also, the President said--and Ted Sorensen said that they didn't understand what we were excited about. They said--he said, "When he went to college, 96 percent was A, and 93 percent was A minus." And so why should he spend a lot of political capital to raise his grade from A minus--it's 96 percent employment for 7 unemployment--from 93 percent to 96 percent, which should be an A? He had other things to use his political capital on. Of course, we knew that there was a lot more change in the--of our economic situation since employment and production were related, et cetera, et cetera.

So what I did was to--we knew that was true. We wanted to quantify it, so we could tell the President what was involved. So that's when I called up Art Okun, who was still up here at Yale, and asked him to do the empirical research so he'd give a quantitative estimate of that, which became Okun's Law. And so that's--we were very active. And meanwhile, Bob Thoreau [unintelligible 00:39:22] was getting the guy up at MIT, whose name I've forgotten this moment--to show that there wasn't any evidence of structural unemployment in the distribution of unemployment across different roofs in the labor market. So we put on a big campaign, being sort of a political economy campaign on this whole point, which changed the way people look at --

ROBERT HETZEL: So --

JAMES TOBIN: It's between cycles and growth, same for all time.

[00:40:00]

ROBERT HETZEL: So you had to first persuade Kennedy, though. And he signed on to the 4 percent unemployment goal that was in the economic report of the President?

JAMES TOBIN: Not only signed on to it, he signed the report which said it.

ROBERT HETZEL: Hm-hmm [affirmative].

JAMES TOBIN: He's the only President who ever did specify and accept a numerical target for unemployment.

ROBERT HETZEL: Yeah, and that was very important. Do you feel like at the time you must have been, you know, sort of--you know, you were involved in doing intellectual combat with the conservative Washington establishment that wanted to balance the budget every year and viewed deficits, per se, as inflationary? But you really won the intellectual battle, wouldn't you say, on that issue, because of getting Kennedy to sign on to the unemployment--4 percent unemployment target, because of making the output gap explicit? You wanted a strategic --

JAMES TOBIN: Yeah. I had to agree to advocate a demand increasing tax cut, even though we were not in a recession.

ROBERT HETZEL: Hm-hmm [affirmative].

JAMES TOBIN: So obviously, we weren't where we were supposed to be, in terms of our macro target. That was what the innovation and --

ROBERT HETZEL: When you go back and you read this period--about this period, it's amazing how many international crises there were--you know, Bay of Pigs, Berlin Wall, Cuban Missile Crisis, Tiananmen, Vietnam. Did you feel like it was hard to get Kennedy's attention on economic issues, because he was distracted with these world, you know --

JAMES TOBIN: Well, it was when there was a crisis going on, but it wasn't hard to get his attention otherwise.

ROBERT HETZEL: Because he thought it was important and he was --

JAMES TOBIN: Thought it was important and he liked it.

ROBERT HETZEL: And he was interested?

JAMES TOBIN: He was interested in it.

ROBERT HETZEL: He was a person who liked ideas and you could --

JAMES TOBIN: He liked ideas and he liked to talk to professors.

ROBERT HETZEL: Well, that makes him pretty extraordinary as a politician. I'm sure it was a special time for you. Do you have anything--I don't want to take too much of your time. Do you have anything else about this period that you feel like I ought to understand?

JAMES TOBIN: Well, I --

ROBERT HETZEL: I've run through my questions.

JAMES TOBIN: One little thing I might tell you is that there's a--during the period between the election and the inauguration, there was a--various task forces appointed by the President-elect . And he appointed a task force on--well, it wasn't called macroeconomic policy, but that was the general idea of it. And Paul Samuelson was the chairman of it, Heller was on it and I was on it and some others. So, Dillon, I guess, or somebody prevailed on the President to appoint another task force, which had Roosa on it, and that was sort of to offset the radical ideas that he anticipated coming out of the Samuelson --

ROBERT HETZEL: But wasn't that also McCracken and Sproul --

JAMES TOBIN: McCracken, yeah.

ROBERT HETZEL: --and Blough? I guess that was a very conservative group of people. Were they afraid that you were going to advocate revaluation in the deutsche mark or something, you know, something that was just going to --

JAMES TOBIN: I guess they thought we might do that --

ROBERT HETZEL: Were they disappointed or --

JAMES TOBIN: --or we might--or advocate a $10 billion deficit instead of a $2 billion one, or something like that, I don't know.

ROBERT HETZEL: Yeah. I mean, he really--Kennedy really had to kind of avoid the irresponsible spending label, I guess, so that it, you know, kind of feelings that like, you know, Franklin Delano Roosevelt deficit spending --

JAMES TOBIN: Well, Samuelson is not a reckless guy.

ROBERT HETZEL: Yeah.

JAMES TOBIN: He wasn't going to do that.

ROBERT HETZEL: No. No. Well, that's very interesting.

JAMES TOBIN: Have you read the--what's called the "Fort Ritchie Memoirs"?

ROBERT HETZEL: Actually, I was able to get a copy of that, and I have it.

JAMES TOBIN: Yeah, it's there at the Kennedy Library, yeah.

ROBERT HETZEL: Right. I have gotten a copy of that. If there's anything in there I want to quote from you, may--do I have permission to do that?

JAMES TOBIN: Sure.

ROBERT HETZEL: Oh, super. That's great.

(END OF RECORDING)