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Interview of Arnold Weber

Conducted by Robert L. Hetzel

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Robert Hetzel: It's, on the face of it, odd that somebody who had starred as Secretary of the Department of Labor would become so important. We don't think of that as one of the key positions. But at this time, labor was very important for the Nixon administration, in particular given the militant labor environment, the large numbers of strikes, it was important to maintain communication with labor leaders. So George Shultz and you were unusually important as Secretaries of Labor because of the lines of communication the two of you could keep open with labor, and the individuals you knew personally.

Arnold Weber: It's true. But George's success and movement to more visible and I guess you could say more influential cabinet offices reflected as much – well, two things: one, although he was a labor economist, he had come, as you know from the University of Chicago, and I won't say was 'converted,' but certainly had moved towards a monetarist free market position on that, so he was an eloquent spokesman for that within the administration. Secondly, it was the force of his personality and character, which I saw repeatedly. You know, he was a guy of integrity in an administration that had problems along that line, and he had a great capacity for identifying the essential policy issue. In other words, there'd be all these discursive discussions; do you do this, and do you do that? And Shultz would really go to the heart of it. But I think it's also significant to note that early on in the Labor Department, he had played on a broader stage, and there was some task force set up to deal with oil imports. I remember, there was a fellow who ran it, or was the chief staff director, Phil Areeda – A-R-E-E-D-A – who was a professor at the Harvard Law School, and it had to do with, as I said, something related to oil imports. And George was either chairman of the committee or a principal person. So early on in the administration he was more expansive than just playing pinochle with George Meany.

Robert Hetzel: There was a west coast longshoremen's strike early on, and Shultz advised, stay away from it and the parties will figure it out themselves, and Nixon took Shultz's advice and it turned out to be right.

Arnold Weber: Well, that's right. I mean, he was a non-interventionist. We'd all been tutored by a professor and active arbitrator at University of Pennsylvania, George Taylor, who liked to say, 'If the government hangs out its shingle, it could get all the business it'll handle.' So he was not an interventionist in the sense that the government should intervene to force any particular solution, which it often devolved into, although we were certainly in favor of mediation, and he could do these things about thwarting or diverting presidential administration. Of course, Bill Usery was his Assistant Secretary for Labor-Management Relations, and Bill was a guy who came out of the labor movement, a machinist, and probably was the best mediator of his generation. He's still going. He later became Secretary of Labor in the Ford administration.

Robert Hetzel: Shultz was chairman of the Construction Industry Collective Bargaining Commission. Was that more a way of making sure that the wage demands of the local construction unions were more in line with what the national–

Arnold Weber: Well, right, you know, it was the construction unions that were sort of the–

Robert Hetzel: The bad boys of the–

Arnold Weber: [unintelligible 00:04:41], right. And I forget the exact details on who set it up, and whether George was the chairman. If you tell me he was– but the heavy lifting was done by John Dunlop, on that.

Robert Hetzel: Okay.

Arnold Weber: And John was very much opposed to explicit wage guidelines or guideposts, a number, you know, because he thought a lot of it was structural, as between the crafts, and you sort of brought them down over time. So Dunlop and he, George knew him from academic life, and also they both hung around Cambridge for an extended period of time.

[00:05:28]

Robert Hetzel: Dunlop was from Harvard, right?

Arnold Weber: Harvard, right.

Robert Hetzel: So I wouldn't have thought that that would have–

Arnold Weber: He was Secretary of Labor too.

Robert Hetzel: Okay, I'm glad you told me that, because I just assumed that he, being from Harvard, would have had a guidepost, Johnson sort of philosophy. So thank you.

Arnold Weber: Oh, no, John was very different, you know, in that regard. And people often thought he was too close to the labor movement, but he did it his way. And, incidentally, he subsequently resigned from the position of Secretary of Labor when Ford backed away from his, Dunlop's pledge to pass a law relieving unions of common situs picketing limitations, which was a very important thing for the construction unions. That is, if one union struck, it would shut down the whole job because they were organized on a craft basis, the so-called 'common situs' issue, and that was determined to be a secondary boycott. And Dunlop led the charge to get legal relief through a modification of Taft-Hartley, but Ford backed away from it. He was probably right, but in any case it gives you some of the color associated with those characters.

Robert Hetzel: What was the politics of the suspension of the Davis-Bacon Act? Was it done primarily with the idea of influencing bargaining in the construction–

Arnold Weber: Well sure. Well, it wasn't so much the bargaining. It was– you know, this was a conveyance belt. Walsh-Healey was passed in 1934 or something like that, '32, and everybody knew it was a vehicle to transmit union wages to areas outside union strength by defining the labor market in that context. You know, classic cases were the wages for construction workers in Washington D.C. were applied to government construction in Quantico, Virginia. And they put in the same high labor. So that was a hoary issue – it'd been around for years – to deal with Davis-Bacon and its twin, Walsh-Healey, on that. And they suspended it– from a policy point of view, it was the thing to do, but politically it had always been intractable because of the strength of the unions, and I guess it still is on the books.

Robert Hetzel: Yeah. It was put back in after a few months. When it was taken off, was the idea that it would be permanent? And then there was just so much political heat?

Arnold Weber: When was it taken off? Refresh my memory. Was it part of that '71 package, or…?

Robert Hetzel: It was suspended, early 1970.

Arnold Weber: Yeah.

Robert Hetzel: It was about the same time that things were heating up with the Construction Industry Collective Bargaining Commission.

Arnold Weber: Well, I guess they would have hoped it would have been permanent, but it had been so deeply entrenched. Remember, at that time, another interesting by-play, is Nixon was beset over the Vietnam War, and his big supporters on the war were the construction unions, and he didn't particularly want to anger them. I do not know, or if I did know, I don't remember, what the specific politics of it were, but I suspect what I just said was an important contributing factor going against the notion of a permanent change.

Robert Hetzel: This gets a little away from the subject, but I want to ask you about the Philadelphia Plan, since it was so controversial at the time, and–

Arnold Weber: It was.

Robert Hetzel: –for political reasons, seemed to be sort of a loser. Was that Shultz's?

Arnold Weber: That was Shultz's, right.

Robert Hetzel: And he just thought it was the right thing to do?

[00:09:58]

Arnold Weber: Yeah, and, you know, he didn't view it as quotas. The operative words were 'goals' and 'timetables,' which were earnestly meant in their narrowly descriptive terms, and the unions were highly discriminatory; not just in the notion that if a black would show up, they wouldn't give him a job, but in the way they did business, particularly in entrance into the apprenticeship plan. And the one thing I did on my side when I was Assistant Secretary was promulgate what we now call Affirmative Action with respect to apprenticeship programs. I mean, a lot of the provisions in place were demonstrably aimed at restricting entrance. That's what those unions had done since their inception. For example, I always remember in Dallas, in the plumber's union, they gave tests to get in the apprentice plan, and 25%, or something like that, of the weight was given to 'social skills,' you know? [Laughter] It's really important for a plumber, right?

Robert Hetzel: Yeah, that's funny.

Arnold Weber: Those were the things, you had to have validated tests. But George pushed the Philadelphia Plan and the whole non-discriminatory practices at that time as a matter of good policy, and if you will, personal conscience. And I know there was really strong and vociferous leadership opposition voiced by some of the Republican leaders, particularly Senator Dirksen–

Robert Hetzel: Yes.

Arnold Weber: –who was then the Minority Leader.

Robert Hetzel: Right. Let me ask you about incipient support for wage and price controls. You were like Shultz; you had graduated from M.I.T., but you had been at Chicago since–

Arnold Weber: Right. '58.

Robert Hetzel: Right. And philosophical you and Shultz were very much aligned.

Arnold Weber: I was to the left of him. I mean, you know– And Shultz– I mean, George was friends with Milton and Stigler and people like that, and I think went through an honest intellectual shift. I did too, obviously, you know, I'm sitting in that corn field, I'm going to understand corn, and get to like it. But I had more of an institutional view of the labor market, and therefore I thought wage and incomes policy, if justly formulated and administered, could have a significant impact on deflecting wages, which in fact it did. You know, if you read some of the stuff that Dan Mitchell did, and the book he and I did, and he's done a lot of articles since that time, but it didn't have that impact on prices, obviously, or created a bubble later on. But in any case, I wasn't instrumental in formulating the policy. Certainly more sympathetic, and I viewed it could have a constructive impact. George, I think, it was clear, although he would never make public statements, as I recall, because it would show disloyalty to presidential policy, fenced it. And there were two people who led the charge, really three, that explained it. One was Proxmire. You know, it all seems a little quaint now. What was inflation, 4.5% at that time?

Robert Hetzel: Well, it was 6%.

Arnold Weber: No, it was lower than that, by the time it happened–

Robert Hetzel: Oh, yeah, sure, by the summer of '71, yes it was coming down.

Arnold Weber: –in '71. Proxmire had held hearings, as I recall, early in the summer, and was going to bring up legislation calling for some sort of wage-price controls. And remember, there was a historical record in the Kennedy administration, and Walter Heller, and he was going to re-convene hearings on this in September, and for political reasons they wanted to undercut him, or steal his thunder. But the two guys who gung-ho for it, for different kind of reasons, were Arthur Burns, who was very, very influential, and, probably the key person was John Connally, who was charismatic, you know, very activist, and he was Secretary of the Treasury then. And George was not for it. And McCracken, who was then head of the CEA, wasn't for it.

[00:15:34]

Robert Hetzel: But McCracken had come around. He had been pushing since early in the year something called the 'Abuse of Powers' bill, which would have made economic crimes subject to this tribunal, so he had come around to the view that it was labor unions who were driving inflation–

Arnold Weber: Right.

Robert Hetzel: –so he was sort of weak support for–

Arnold Weber: Yeah, I don't think intellectually, I mean, he could speak for himself, and I'm sure you're going to talk to him–

Robert Hetzel: I have, yeah.

Arnold Weber: –that he really believed that, but Paul's problem was he was the nicest man in the administration. You know, I mean he wasn't a bare knuckles guy, and who could stand up to Arthur and John Connally on that. So maybe he did. Remember, this was sort of the heyday of cost push inflations, with unions being an important conveyance belt for that.

Robert Hetzel: Well, the politics of it was that right inflation had eroded the relative position of the labor unions in the late '60's, and they were pushing for wage increases that would restore their positions, but when the recession came, that was putting pressure on businessmen not to raise prices so that they were caught. Their profit margins were declining, so that the businessmen were saying, hey, we need some government help dealing with–

Arnold Weber: They were all for it.

Robert Hetzel: Yeah, exactly.

Arnold Weber: All of them. But I went down to the business council in the summer of '71 and Fred Borch was the head of G.E. – I think he was chairman – and there was some panel on incomes policy. I forget whether it was before or after I– no, it was before August 15th–

Robert Hetzel: Yes.

Arnold Weber: –because they all then went and visited the President. And everybody was getting up and saying 'Do something for these naughty unions.' I remember David Rockefeller said something, and the only one who said, 'Hold your horses,' was Shultz. And on that panel was Shultz and Burns. I don't remember who else. But that's right.

Robert Hetzel: Actually Carl Rowan mentions that incident in his book, and he says that after the meeting, Shultz asked you to get stuff together, and what controls would look like. Is that right, that he asked you to–

Arnold Weber: He asked me. I don't think it had anything to do with the meeting. You know, what had happened is they'd made a decision to do it, and he asked me, and I didn't know what was going on for maybe a couple of weeks. You have to work out the dates. You know, I wrote this little book, *In Pursuit of Price Stability*, in which I–

Robert Hetzel: Right.

Arnold Weber: –it was published by Brookings. I don't know whether I lined out all the details, but he just called me in. I was then something called Associate Director of OMB in charge of Management, and basically gave me the charge of doing research on the administration of wage-price controls. And we went into the War Labor Board and the Wage Stabilization Board and things like that. And then I was invited up to Camp David, and I didn't know what the hell it was about, but I was told to pack and go on that August 15th weekend. I guess it was the 13th and 14th.

Robert Hetzel: Yeah.

Arnold Weber: Sunday night, I think was the time they announced it, the President. So I didn't know the decision was reached until I got to Camp David.

Robert Hetzel: Through June Shultz prevailed. The primary argument was that, well, these controls, they've been tried again and again, and the unions will challenge them, you'll get a strike, and then you've got to make an unpleasant decision, and they'll break down. So through June, basically, Shultz carried the day?

[00:20:13]

Arnold Weber: Well, I guess he did. I wasn't privy to those discussions that were taking place. You know, if that was his argument, he was wrong. There weren't many strikes. There were a few. There was this crazy guy appropriately called Luna, who was the head of the Railroad Trainmen; it was the longshore issue. But they're all fixed, in some instances at the expense of the guidelines themselves. But remember, in part, this was sort of a game of imagery. I mean, the whole staff of the Cost of Living Council was forty, of whom twenty were PR people. And we got the IRS to 'enforce' it because that struck fear in the heart of the normal citizen, businessman. But I think he was against it for all the, you know, free market notions that it would, in the long run, or even in the intermediate period it wouldn't work, and it would cause distortions and inefficiency, and would lead to the bubble. Herb Stein was part of that group too, and I don't know whether you've talked to him on that.

Robert Hetzel: Yes, I have.

Arnold Weber: Herb was very funny.

Robert Hetzel: Yes. Yes, that comes in.

Arnold Weber: He was. We sat around thinking of Q & A's, I remember, in his office at midnight. And we said, 'What kind of controls will these be?' And he said, 'Fair and even-handed,' you know? We wrote that down. [Laughter]. Okay?

Robert Hetzel: Labor had been opposed to the controls. I mean, it had been opposed to the Johnson guideposts, but by summer of '71 Meany was making favorable comments. He was saying that, well, if you're going to get inflation down, it's better to do it with controls, as long as they're applied evenly. Is that right? Labor had changed positions?

Arnold Weber: As I recall, I mean, but that was sort of a disingenuous argument, you know? Maybe he meant it, but he seldom said just what he meant. He was against controls. Well, remember, these guys came out of World War II experience. It wasn't an alien thing to them. And, I mean, if he was smart, and this was sort of an inherent structural defect in the operation and controls in the sense that whatever it is, four million employers were all enforcers on the wage side, and who could enforce it on the price side? It was some lonely corporal's guard of a bureaucracy. I mean, you expect the consumer to go out, but the rules, even the ones that were simple at the beginning, were sufficiently complicated so that you really didn't receive a hell of a lot of complaints, and a lot of them were just trivialized.

Robert Hetzel: And apparently the decision at least to start talking seriously about controls within the administration occurred in early July, when the Council of Economic Advisors told Nixon that the economy was not growing fast enough to get 4.5% unemployment by summer 1972, and at the same time the administration was getting the rapid money growth it wanted. But what was happening, at least initially, was that bond rates were going up. There was a lot of nervousness in financial markets, so there was a feeling that if policy was going to stay expansionary, and it was going to impact on output and unemployment, something would have to be done about prices. Apparently that's when Shultz and Connally and Nixon began talking about controls. But at that point they were talking about early in 1972. But several things–

Arnold Weber: Well, '72, you mean early '71, right? Controls were put in in August '71.

Robert Hetzel: Yeah, so at this point in early July of '71, they were talking about controls, but the idea was that they would be put on in early '72.

Arnold Weber: Hm-hmm [affirmative], I see.

Robert Hetzel: But several things pushed up the schedule.

Arnold Weber: My perception was that Proxmire's play in the Congress was very important. Well, that was my perception, and I remember that clearly, that he talked about controls. He held hearings–

[00:25:06]

Robert Hetzel: Right.

Arnold Weber: –and said he was going to draft legislation as I recall, for presentation after the summer recess. They wanted to undercut him.

Robert Hetzel: And those hearings – I believe they would have been the Joint Economic Committee hearings.

Arnold Weber: Probably.

Robert Hetzel: They highlighted Burns, and Burns made a strong plea that the administration's economic policies were not working, and it needed to go to – he called it an 'incomes policy' but he had already been sending memos to Nixon arguing that they should think about full-fledged controls.

Arnold Weber: Well it is his view, and he always alleged, and a lot of other people, that, you know, when they talked about incomes policy, it just wasn't the wage-price controls;

it was doing something with the minimum wage, and Walsh-Healey, and, you know, other frictions and institutionalized impediments to market mechanisms. I think that testimony – he had a long list of those things.

Robert Hetzel: Right, but that was always, you know– For him the solution was to limit the market power of the labor unions by reducing the bargaining power of unions, but then, well, you couldn't do that politically, so the next thing was controls. Do you remember about the role the steel companies played in the decision to go to Camp David? Right before Camp David, at the end of July, the steel unions announced price increases after agreeing to large wage increases–

Arnold Weber: Right. It was 36-39% for three years, as I recall. That was the wage increase.

Robert Hetzel: Right, and the speculation at the time was that the steel unions didn't want to take the labor unions on and have a long strike, but they didn't have the pricing power to pass on the wage increases so that they agreed to the wage increases, advertised the price increases as a way of inviting controls on prices that would in turn push back and control their wage costs. And the Nixon administration was in a box; if it told the steel unions, no, stand tough, then it would get strikes, and if it got strikes it wouldn't get 4.5% unemployment by summer of '72.

Arnold Weber: Right.

Robert Hetzel: So going back and looking at it, it looks like that was the initiating factor in terms of when to start talking seriously about controls.

Arnold Weber: Well I never remember that logic being spelled out. You're talking about things that are almost thirty years ago.

Robert Hetzel: Sure.

Arnold Weber: But there were two, you know, *bêtes noires*: One was the construction unions, and they had put that construction industry wage stabilization group in place in early '71, or in '70. And the other was the steel contract.

Robert Hetzel: Right.

Arnold Weber: And the steel contract wasn't so much from my vantage point, you know– they couldn't pass through the prices and therefore clipped the wages and protect our profit margins, and do for us what we can't do for ourselves, but the pattern kept going up. You know, it went from 30% for three years, to 33%, to 36% and this was at the high end. And they saw this as part of this process of whipsawing, which ratcheted up what the pattern was. That was my perception on it, not that it was the precipitating event. That doesn't mean it didn't happen.

Robert Hetzel: Hm-hmm [affirmative]. Sure.

Arnold Weber: But I was not aware of it.

[00:29:29]

Robert Hetzel: Let me read you what was in Fortune magazine later on, where they're quoting you. It says, 'It was not until August 4th that Shultz instructed Arnold Weber, then Associate Director of OMB, to get together a study of wage-price controls, telling him it was for use in Congressional hearings coming up in the fall–'

Arnold Weber: Right. That's right.

Robert Hetzel: And that may have been the Proxmire hearings, so–

Arnold Weber: That's right. That's right. August 4th would make sense.

Robert Hetzel: Yeah. 'Weber was somewhat surprised when on Tuesday, August 10th, Shultz asked him to produce a summary of his findings by the next day. His surprise turned to astonishment when Shultz, after hearing his report, said, 'Okay, go ahead and deal with the operational problems by Friday morning.' Weber and his aide William Kolberg had been working on a general review of various control mechanisms–'

[00:30:20]

Arnold Weber: Hm-hmm [affirmative].

Robert Hetzel: '–They had not focused on a freeze, except to recommend it as a desirable prelude. The Council of Economic Advisors had concluded a similar study that same week.' So you were working on sort of general review of wage and price controls, which you hadn't–

Arnold Weber: Well, review how it was done. That's my recollection of my instructions.

Robert Hetzel: So very quickly–

Arnold Weber: Find out what was to be done and look at it in terms of its operational significance. The fact that they asked me to get the operational aspects was a surprise, but largely in terms of the compressed time that I was given to do it, because there was no intimation at the beginning that this was, a hurry-up exercise in the sense that that passage indicated.

Robert Hetzel: When you went to Camp David, at that point did you realize what was going to happen? Or was it still–

Arnold Weber: Not until I got there, right?

Robert Hetzel: Hm-hmm [affirmative]. When you got there, did you feel that all of the major decisions had been made in advance between Shultz and Connally and Nixon, and that they were just primarily, I don't know, trying to bring Burns on board, and then tell the rest of the staff members what had–

Arnold Weber: I wasn't at that level, but everything wasn't buttoned up. There was the question of coverage, the nature of the freeze, and as I recall, and Herb could tell you, they really decided probably the most decisive thing was to close the gold window, you know? And my impression was that that was decided up there. But I wasn't privy to those discussions.

Robert Hetzel: Which part of the discussions were you in on at Camp David?

Arnold Weber: I was, you know, in the ones where we talked about the big issue. I remember going in with the President as whether we'd cover agricultural commodities. It was sort of subsequent to the decision to have the controls. I was not part of that discussion. I was, you know, a second level guy at that point. But really the mechanics and coverage, which were not unimportant – for example, to exempt agricultural commodities – and then there were subsequent other issues, you know? The commodities and futures market, the stock market, things like that, and I was involved in the drafting of the initial executive order. As a matter of fact, somewhere in my files I think I still have a copy of it with my notations on it, and also Burns' as I recall. And Bill Safire at that time got in on it. He was the…

Robert Hetzel: Speechwriter.

Arnold Weber: –the speechwriter. It's a funny thing; he insisted that it be called the 'Cost of Living' Council. It was originally the Council on Wage and Price Stability. It doesn't mean anything, but– So that's where I got in on it. The duration – that was another discussion, how long it was going to be.

Robert Hetzel: Shultz assumed that it would be a relatively short program and would be over quickly? Or was there really no…?

Arnold Weber: I think everybody did, everybody assumed that it would be over quickly, and remember, the notion and the theory was one, deal with unions, you know, an institutionalized power along the way you described it, and the other thing was to deliver a sharp blow to what was called 'inflationary expectations.' So that was part of the theory of the case, which I remember all the time, which is sort of a *deus ex machina.* But that was the other one of the explanations that were floating around at the time.

Robert Hetzel: Were you privy to any of the international or trade discussions, textile quotas with Japan, that kind of thing?

Arnold Weber: Not that I recall, no.

Robert Hetzel: Did you and Herb Stein do most of the sort of nitty-gritty work in designing Phase 2?

Arnold Weber: Did a lot of it, yeah. And there was a guy– I've got a picture, somebody from the Treasury Department. He was associate general counsel or something. I've got a class picture, one of my prized ones, with Ehrlichman and Haldeman and Paul Volcker and Shultz, and Ken Dam. He must have been in on that, because Ken was up there as well. He's at the University of Chicago now.

[00:35:18]

Robert Hetzel: Right, at the law school.

Arnold Weber: Right.

Robert Hetzel: I haven't talked to him yet, but I will. My son–

Arnold Weber: He might, because he was up there on the international stuff. He had come into the administration recently, I think, to head or be the principal staff guy or the deputy director of the Council for International something-or-other. I'm not sure Pete Peterson didn't run that. I think Peter was there too.

Robert Hetzel: Was Flanigan involved in that sort of thing?

Arnold Weber: I don't remember. Flanigan was always around, but I don't remember whether he was up there. I'm not sure that he was. You can jog my memory on it, was he?

Robert Hetzel: I don't think he was at Camp David, but–

Arnold Weber: No, I don't think he was at Camp David.

Robert Hetzel: –in terms of discussing–

Arnold Weber: Flanigan was ubiquitous.

Robert Hetzel: And he could sort of– I mean, I just basically know about him from Fed recollections that he was viewed as somebody who could get things done, and it's kind of of–

Arnold Weber: Well, he had the President's ear.

Robert Hetzel: Yeah.

Arnold Weber: And he was a guy of great self-confidence. And after Camp David, we started having meetings of the Cost of Living Council, he used to come as a White House representative. There was one very amusing thing, off the record.

[comment redacted at interviewee's request]

[00:36:53]

Robert Hetzel: Did C. Jackson Grayson get involved at this point?

Arnold Weber: No, he wasn't there at all.

Robert Hetzel: He wasn't there? What about–

Arnold Weber: He came in afterwards.

Robert Hetzel: What about Charlie Walker from the Treasury? Was he involved in setting up the control programs?

Arnold Weber: Not that I know of. Certainly not the mechanics. Unless– yeah, where Charlie was, Jesus– you know, you have to cross-check all of these things.

Robert Hetzel: Oh, sure, sure.

Arnold Weber: It's hell getting old. But what happened is you had the Cost of Living Council, which was the cabinet level council, you know? Agriculture and Labor and Commerce. And Arthur used to come regularly. And we'd meet every day or every other day. But then there were the 'Four Wise Men' that would meet before, hash over the issues, and make the preliminary recommendations. And that was me and Charlie Walker, and I don't remember the other people. But there was a group. But that was, you know, the actual, sort of running process of policy formulation as issues came up.

Robert Hetzel: So Arthur Burns actually came to these meetings?

Arnold Weber: Oh, yeah. Oh, yeah, he came regularly.

Robert Hetzel: The story was he only slept four hours a night, so he had time to [unintelligible 00:36:53]–

Arnold Weber: Well, whatever it was, he was there and was very vocal. And you know most of the cabinet officers came. I remember this was a big thing, and an exciting thing, and if for no other reason, they were there to participate and to protect their own pea patch. Virginia Knauer, she was there.

Robert Hetzel: Burns regularly lobbied for a low inflation target, and a corresponding low pay guideline, 5.5% originally–

Arnold Weber: Right.

Robert Hetzel: And he was always pushing for getting the wage guideline down.

Arnold Weber: Right, yeah. That's right. Right. Of course, in a way, he succeeded, but as you got into the actual administration, I came to appreciate that you had a choice between a relatively high or generous guideline and few exceptions, or a relatively low, demanding guideline – demanding in terms of the environment – and a lot of exceptions. Now in Phase 1, we didn't have any exceptions. I mean, a few, but very little, because the notion was that anybody could stand anything for ninety days.

Robert Hetzel: Yeah.

Arnold Weber: And equity demanded that what happened to you was determined by just randomness, where you were on August 15th. Now you're talking about Phase 2, and that was a different evolution.

[00:39:55]

Robert Hetzel: Why was labor so virulent in its attack on you and the other administration members of the pay board, Kermit Gordon…?

Arnold Weber: Oh, well, we were just a fire hydrant, that's all.

Robert Hetzel: So–

Arnold Weber: And George Meany would call me a son-of-a-bitch, and the like, and come over and put his arm around me and say, 'You know I didn't mean anything personal.' In my case, there was another little twist, because my father was an activist in a construction union in New York, which is where George Meany came from, and he was a construction electrician of the same generation of Meany. I don't think they knew each other. They certainly knew the business agent of my father's union, a guy by the name of Harry Van Arsdale, who was legendary in his day–

Robert Hetzel: Oh yes. Yes, I remember that name.

Arnold Weber: –for being, you know, both progressive and benignly autocratic. I mean, a funny little thing that I often said was, my dad by that time was retired down in Florida where good union electricians from New York went to retire in those days, and he went to the AFL-CIO convention in December of '71, you know, for old times' sake, and heard Meany attack his good-hearted younger son by calling me 'Connally's running dog.'

Robert Hetzel: I think he called you a 'hatchet man' too.

Arnold Weber: Yeah, oh yeah. But that was just, you know– Meany was a guy where vituperation was sort of his standard idiom. And that's what people do in collective bargaining in those days.

Robert Hetzel: But the meeting you talked about, that was the one where Nixon came, and–

Arnold Weber: The meeting in '71?

Robert Hetzel: Yeah.

Arnold Weber: I guess he did.

Robert Hetzel: And Nixon really–

Arnold Weber: He really–

Robert Hetzel: –felt that he was treated rudely. I'm sure he was.

Arnold Weber: The guy who was really treated in a demeaning way was Jim Hodgson, who was Secretary of Labor, had been Undersecretary, and replaced George Shultz. And I remember, after we announced controls, we went over to the Labor Temple on 14th Street there, or 16th Street, I guess, and we went up to the board room and I sat at the table, and somebody else. He made Hodgson sit in back. I mean, he wouldn't let him at the table. Thought I didn't sit at the table, but that's all right, you know. I was the second guy. But the Secretary of Labor, he wouldn't let him sit, and all of those guys sort of went around the table, saying this was the end of the Judeo-Christian morality, economic justice and everything else, in rather spicy language.

Robert Hetzel: But labor stayed on initially, because basically they got most of what they wanted. Initially there were lots of contentious issues, but there labor didn't lose any big battles.

Arnold Weber: Well what they viewed– I mean, the longshoremen– I forget, it was before or after the walkout. Again, you'll have to–

Robert Hetzel: It was the longshoremen–

Arnold Weber: I mean, the longshoremen–

Robert Hetzel: That's what triggered the walkout in the spring of '72.

Arnold Weber: Yeah. And then either before or after was the railroad trainmen. But remember, this was tripartite board then. Employers, as was usual, helped create the environment and pressure for it, but once they got into the situation, they were looking at their own self-interest, and they often were accommodators, and wanted to be flexible, and it was the public members, Kermit Gordon, Bill Caples, Neil Jacoby, me and the hapless Judge Boldt–

Robert Hetzel: Oh, yes.

Arnold Weber: –that stood for things. Particularly Kermit, who was wonderful. But I remember when there was somebody associated with the railroad industry, and when we were going to cut their wages, you know, the settlement down to I think it was the 7%, you know– it was the so-called 'last cows in the barn,' as I recall. This guy came into my office and told me I was going to ruin his industry. I mean, in language that would elicit the envy of George Meany.

[00:45:07]

Robert Hetzel: This was the employee?

Arnold Weber: Employer. Employer.

Robert Hetzel: Employer. Oh.

Arnold Weber: You know, in other words, we might create a situation where there was a strike.

Robert Hetzel: Did labor walk off in the spring primarily because Meany didn't want to support the administration in an election year?

Arnold Weber: That was probably it. You know, as you indicated, they had been there. We had set the rules and argued for them, and got some accommodations that might be expected, and you know, I don't know, but they just sort of announced one day that they were walking off. And I'm sure that it was in a significant measure political. And they didn't want to be, you know, class collaborators with what they considered an iniquitous system.

Robert Hetzel: Hm-hmm [affirmative]. Well, it did eliminate the role of the labor unions in negotiating wage increases, so it was– I mean, they must have stayed with it as long as they did because of popular support, and not wanting to–

Arnold Weber: But it was well into Phase 2–

Robert Hetzel: Right.

Arnold Weber: –that they stopped. And remember all the issues about how you figured the– what was the guidelines?

Robert Hetzel: The pay guideline?

Arnold Weber: That 5.5.

Robert Hetzel: 5.5.

Arnold Weber: You know, and how you figured it; there were these all sorts of methodologies, whether you took a snapshot, and whether you counted rollup, which was the cost of benefits, and what was the base.

Robert Hetzel: Right.

Arnold Weber: There were all of these things–

[END OF TAPE 40, SIDE A]

[BEGINNING OF TAPE 40, SIDE B]

[00:46:50]

Arnold Weber: –so now it was in the sense of more routine applications.

Robert Hetzel: What were the debates over in moving to Phase 3 at the beginning of ’73?

Arnold Weber: I was out of it by then. So I can’t contribute to that.

Robert Hetzel: Okay, then let me go back. In ’71, before Camp David, were you an advisor to President Nixon, or were you just on the OMB?

Arnold Weber: No, I was on OMB staff. I was not an advisor in the sense that that term is used. If I was, it was through Shultz, and to the extent that I got on that platform at Camp David. And I remember making a presentation to the Cabinet once – pretty heady stuff for a kid at that time. You know, and where we are– but you know, I always thought when they started Phase 1, nobody really had in mind what the hell was going to be Phase 2. And I think they were all confounded at how popular the controls were, and particularly from the business people. I mean, they just, you know, thought it was wonderful, and there was a lot of public control. Remember the market went up the day after?

Robert Hetzel: Right, yeah.

Arnold Weber: It went up 50 points, which was an enormous increase at that time. I remember. So in a way, they had created their own momentum where they couldn’t easily back away from it, was at least my perception on it from Phase 1 to Phase 2.

Robert Hetzel: Right. It would have been too much of a shock than just to abandon the program when it appeared to be working so well. Well, when did you leave the administration?

Arnold Weber: The end of Phase 2.

Robert Hetzel: So you left at the end of 1972.

Arnold Weber: Right, whenever that was. Wasn’t it March ’73 before they put in Phase 3?

Robert Hetzel: I think Phase 3 came– I think Nixon announced it in his inaugural address, which would have been early January ’73.

Arnold Weber: And then there was a month or so just cleaning up. But I left at the end.

Robert Hetzel: So you went back to Chicago?

Arnold Weber: I had been back in Chicago.

Robert Hetzel: And you didn't–

Arnold Weber: See, I left the government full time right after the wage-price freeze, and went back to the University of Chicago when the pay board was nominally part time. I was then on a per diem compensation and had a different appointment.

Robert Hetzel: I see. So you weren't involved in the internal–

Arnold Weber: No.

Robert Hetzel: –debates that went on at that point.

Arnold Weber: No.

Robert Hetzel: Let me ask you about passage of the Economic Stabilization Act in December of 1971. At that point, or at any time that you were aware of, did you feel that Congress came close to extending the controls to profits and dividends and interest rates?

Arnold Weber: Not from my angle of perception, it didn't. I mean, there was talk about dividends, but for whatever reason it wasn't serious. At least I don't remember it as being serious. It might have been at another level. I mean, throughout the freeze I was pretty well tapped in, because a lot of these issues were discussed at the meetings of the full Cost of Living Council, and as I recall there was some discussion of dividends, but it never got serious. It might have. You know, this was more *Rashomon*, who saw the reality. Remember the Japanese movie?

Robert Hetzel: Yeah.

Arnold Weber: The 19 versions of the same events?

Robert Hetzel: Right.

Arnold Weber: We never did any planning.

Robert Hetzel: So your timing was just impeccable, as when to leave. The problems with the program really began in '73, when–

Arnold Weber: I'll tell you whose timing was better: Don Rumsfeld, who you might talk to. He's in Chicago too. Don replaced me as head of the Cost of Living Council.

Robert Hetzel: Where is he now, do you know?

Arnold Weber: In Chicago.

Robert Hetzel: Okay. You don't know what organization?

Arnold Weber: Well, let me see here. In the interest of scholarship, I have an address book. You know, he's sort of doing what these guys do, investing. As a matter of fact he's in Washington today. He's on some CIA presidential committee. Let me see. Here we are. You're in luck. [phone number redacted]

[00:52:07]

Robert Hetzel: Great. Well– [break in recording]

Arnold Weber: We set price limits on it. I remember leather pelts, whatever the intermediate product is, and they all disappeared from the market, went overseas, you know? They were Argentinian or something like that. But pretty much if you looked at steel and rubber, and there were a few cases– I remember when Henry Ford– You know, it was sort of funny, if you looked at the authority for the Economic Stabilization Act, it was like 450 words in one section of the Defense Production Act, and it gave us more power than the Duma, than the Russian Czar had, for Christ's sake, in terms of setting all these things. And you probably did it. You know, what happened with the controls is– I mean, certainly they were innocent and mischievous at best, but one of the problems is they lasted too long, you know? And nobody had a walk away strategy, which at the least could have mitigated that bubble which came on in '74.

Robert Hetzel: Yeah. Yeah. The other that thing I remember was that – which we don't think about now – but in 1970, the combination of 6% unemployment and at that point 6% on inflation, the whole economics profession was in disarray.

Arnold Weber: Oh, yeah.

Robert Hetzel: They hadn't seen it–

Arnold Weber: Capitalism was crumbling.

Robert Hetzel: And the economics profession ultimately went in two very different directions, but at that point, mainstream economics went in the route of inertia in the price system–

Arnold Weber: Right.

Robert Hetzel: –and contracting, and all kinds of institutional factors, and it turned out to be a dead end, but at that point it was kind of what mainstream economics was. And then a very small group went the route of credibility and rational–

Arnold Weber: But who were they? I mean–

Robert Hetzel: Not very many. Just a few.

Arnold Weber: –mainstream guys were Heller, who has continued to live off his past glory with the Kennedy; Art Okun, you know, very smart guys. Charlie Schultze. A lot of them, that Brookings crowd, joined by Arthur Burns. At that time the Friedman, Stigler, et al were sort of viewed like primitive Christians, you know? Some sort of cranks, espousing extreme and unrealistic proposals and policy. For the mainstream, you're exactly right. And remember, they had had incomes policy in England and France – they were pretty general. Canada.

Robert Hetzel: Do you think the main reason George Shultz stayed through this whole period was that he thought that by being there that he could get the controls off? That people like Shultz and Stein needed to stay or they might become permanent? A bureaucracy might develop? I mean, there was considerable support within the administration up to the very end for maintaining a controls bureaucracy, a Cost of Living Council.

Arnold Weber: I think he saw that. You know, he was also smart enough and broad enough to see a whole set of other, in the long run, more profound developments taking place with the end of Bretton Woods, you know – the reduction of tariffs and things like that, which were really powerful. I've often said – I'm probably wrong – but if you look at what's happened now and sort of trace it back to '71 and going off the gold standard and going to a floating exchange rate, which was a major step towards establishing international market discipline, and what policies are.

Robert Hetzel: Yeah. Well, if you look at the figure on the percentage of world trade that's formed by American exports, it declines but it's pretty steady through '65, and then the dollar becomes overvalued, and then there is a precipitous decline at the end of the '60's, so that what we think about, it's just sort of living with day to day the sort of economic uncertainties that come with having worldwide competition. That's really when it hit. That's really when it hit home, in the early '70's, and the political system had to deal with the demand for individual security. And that reflected itself in government commitment to a low unemployment rate. And the government was asked to do things that it simply couldn't do. It was asked to do things on a timetable that was just not of this world. End the war, and end inflation–

[00:57:14]

Arnold Weber: Well, and there was another thing taking place that we didn't know, and that was that step function decline in productivity.

Robert Hetzel: That's right.

Arnold Weber: You remember, the reason it was 5.5 is, you know, we thought there was 2.5% productivity. The guidelines in Kennedy were 3%. In fact, towards the end of the

'60's it was dropping down to 1%, and it stayed there for more than twenty years. That was another thing.

Robert Hetzel: Yeah. Well, it was an extraordinary period, and I really appreciate you sharing your reminiscences with me.

Arnold Weber: You bet.

Robert Hetzel: Thanks a lot.

Arnold Weber: Good luck.

Robert Hetzel: Good bye.

Arnold Weber: Thank you.

[END OF RECORDING]