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ARTHUR OKUN ORAL HISTORY, INTERVIEW II
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Arthur M. Okun
Donor

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INTERVIEW II

DATE: April 15, 1969
INTERVIEWEE: ARTHUR OKUN
INTERVIEWER: DAVID G. McCOMB

Tape 1 of 2

M: This is a second interview with Dr. Arthur M. Okun. Once again I am in his office in Brookings Institution. The date is April 15, 1969, and my name is David McComb.

I'd like to ask something about Lyndon Johnson and your work under him. Was he a difficult man to work with? Was he hard to see, for example?

O: I think it's important to separate my relationship to him in the period in which I was a member and the period in which I was Chairman. The whole operation of the Council leaves in the Chairman's hands most of the responsibility for any direct dealing with the President. As a member I would see the President from time to time but never felt a direct responsibility. I'd talk to him occasionally. The contacts were largely through Gardner Ackley. Certainly I didn't feel any sense of responsibility directly for the Council's relations to the President.

M: You might say something about your appointment as Chairman then, go into that.

O: Yes. I knew that Gardner Ackley was interested in resigning from the chairmanship in late '66-early '67 and basically just that the pressures were accumulating on him physically and personally. It is a grueling job. Your work week is fantastic. He had been doing it for four-and-a-half years, and he just wanted an opportunity for a more relaxing kind of activity.

I don't remember when he first made it clear that he had asked the President for authority to leave. I did suspect that the President had

asked for his recommendation and quite likely that he would recommend that the President ask me to be Chairman. It was actually during March 1967 at a time when I was really in the last throes of planning to return to Yale for the '67-'68 academic year, really ready to tell my tenant to get out of my house back in New Haven, and end my lease here and so forth, that I think Gardner made a stronger plea to the President for authorization to leave his job.

It was during the week that Gardner was in Europe on some OECD meetings that the President called me into his office--I believe it was March 25, 1967--and he said at that point that Gardner was interested in leaving, that he was going to ask Gardner to stay through the economic report--the '68 report. And he asked me whether I would serve as Chairman.

This was about a fifteen-minute conversation in which he did all of the talking. I knew I was prepared to accept right on the spot. Somewhere, somehow I did jot down some notes on that conversation, but I think I pretty well remember it. He said that he wanted to make it clear that he was not asking me merely because I was there and sort-of the second man and the obvious choice, but rather that he had asked lots of people for their views--the Secretary of the Treasury, Budget Director, people outside the government--and had this fully explored, was convinced I was the man for the job. He went out of his way to reassure me on this rather long period of interregnum that--we were talking about my assuming that job ten or eleven months hence. I guess I was particularly amused and impressed that he said, "Look, this may leak into the press. I recognize that. I hope it doesn't, but that's really up to Gardner in part. If he felt that he wanted to make it clear, maybe there's some purpose in not now, but sometime before January or February of next year, preparing the way by announcing it.

That's up to him. I'll be glad to go along with it. In any case, even if it should leak tomorrow--don't you leak it tomorrow, but if it should leak tomorrow, that's not going to change my view." He went on at some length to say that he'd never lost a good man yet because of the premature news of an appointment and that this was one of the many myths that had been invented about his operation; that it was important to him to have the best man, and the question of when the public knew about it wasn't all that important.

He also said some things at that time about the good advice the Council had been giving him, and his recognition that I contributed to it; his regret in some instances that he hadn't taken, or hadn't been able to take, all the advice he got from us. I don't remember whether he made particular reference at that time, but I know a number of times he did mention that somehow if the tax increase and the fiscal restraint that the Council had been recommending early in '66 had become policy, we would all be in a lot better shape. He also recognized and emphasized his appreciation for the Council's hard work and long hours. He was very sensitive to the fact that people did put in a lot of effort for the Administration, for the country--very appreciative of it.

It was remarkable actually that that story didn't ever really leak. It was announced deliberately on January 2, 1968, as I recall. And, as I say, it was a very amusing example of the kind of problem of communication. There was immediate speculation when Ackley's resignation was announced as to why he left, and whether he was falling out of grace, whether he had been pushed--the typical kind of press insistence on finding some ulterior motive and some hidden meaning, lurking under the bed.

In the first couple of months of the chairmanship I was rather concerned

that the President didn't seem to be turning to the Council as often as he had when Gardner had been there, and perhaps took it as a bit of a personal affront that he didn't seem to have the confidence in me that he'd had in Gardner. I think the real breakthrough in my feeling of participating and really getting the Council's voice through came around mid-May when the tax debate was at its peak.

You know, the Council is in rather a unique position--perhaps not unique, but different from many of the President's advisers in that there are no operating responsibilities. The Secretary of the Treasury has business to transact; he had decisions which he has to make on which he wants the President's approval. He has decisions which only the President can make where he has to make recommendations that something has got to be done one way or another. He can't get ignored in some sense. The same thing is true, really, of the Budget Director. The Council doesn't have any of that sort of obvious entree to the President, claim on his time. There are no decisions, no operating responsibilities.

M: Did the President's decision not to run again affect you in any way?

O: It hit like a ton of bricks. I had seen the draft of the speech right up to that last couple of paragraphs. I remembered afterwards that when the speech had come over, Harry McPherson's secretary had alerted us that the conclusion was missing. I thought, well, that meant that some grand peroration or summary at the end was going to be tacked on. Boy, those words were ominous. The conclusion was missing indeed in the draft that I had seen. I think it struck me all the more, having sort of read the material and having commented on the economic points of the speech, then sort of waiting for it to end, and finding he was going on.

I think there was a lot of implication for lots of people around, and

yet you could see a sense of concern about people's own future. Lots of people began planning ahead toward January 20 who would otherwise not have been doing so. I don't think it really affected the operation of the White House or the Administration in any significant way. It was just remarkable how right until January 19 it was "business as usual", and the President was the President--he wanted to know everything that was going on and with no real change in his attitude. There was no lame duck quality whatsoever in his feelings about the world.

I think in putting together the fiscal '70 budget program and the legislative program a lot of the Cabinet agencies seemed to have a certain detachment and lack of enthusiasm that was a reflection of the lame duck character of the Administration. Even there, that was not uniformly true. Wilbur Cohen was fighting the battles right to the last minute. But I think as far as the operation of the Administration is concerned, the remarkable thing was how little it meant rather than how much.

I knew the Vice President. I certainly enthusiastically supported him, did a little moonlighting in providing him with some speech material, worked with his staff on some economic matters during the campaign. Obviously I don't know whether he would have asked me to stay on had the election turned out differently. The press' judgment was that Art Okun was safe in his job if Humphrey won. I would have been glad to serve, although I'd never had much of a close relationship with the Vice President. It wouldn't have surprised me if he had turned to people whom he personally knew better and asked them to come onboard.

M: After you became Chairman of the Council, how often did you see the President? Say, three times a week, or what?

O: It varied. I don't think it averaged three times a week. It would be

maybe more than once and probably less than twice a week on the average. There would be periods, particularly at the beginning, when--I would guess from mid-February until mid-April that I saw him only four or five times, and this did concern me. When I did see him--in those circumstances I had no real occasion to ask for a meeting. In fact, I would guess I probably asked to see him no more than three or four times during the eleven months that I was Chairman. It was almost always at his initiative. There was throughout clear evidence that he was reading the stuff that we were sending him.

M: How often would you send him memos? Once a day?

O: Flood--that would average about once a day that he would get a piece of paper from us. Now some of these were what we called "Economic Newsnotes". I think I mentioned last time that he'd asked Walter Heller right early in 1964 to keep him briefed with information on anything he wanted to know about that was going on--economic numbers, views that were expressed that were of some significance, foreign attitudes, Congressional hearings on the major economic problems--inflation, prosperity, questions of that--monetary policy. I would guess there were ten or twelve newsnotes a month which were purely--"the Federal Reserve Board Index of Industrial Production went up a lot" or "didn't do much," and "this is significant", or, "it adds to the evidence that the economy is moving strongly," and so forth. It would just be, you know, a couple of numbers and a couple of sentences. I remember on a number of occasions mentioning something to the President and his saying, "Oh, yes, I know that. You had that in the memo to me last week." There was just lots of evidence of that sort that he did his homework.

M: Did a lot of this go into the night reading?

O: Yes. In fact, there was always a real procedure of trying to make sure that Juanita or whoever was on duty to put his night reading together was going to get our piece of paper in there. I think on one or two occasions, perhaps during the time I was Chairman, I had some little complaint or reminder that he had read something in the newspaper that he should have known about before. In some ways that was a compliment, that he did rely on us for the information and briefing material.

M: The President has the reputation of having a rather bad temper. Did you ever see an example of that?

O: No. I never really saw him display temper. I saw pieces of evidence which are not inconsistent with someone who under some circumstances could lose his temper. When he didn't like something, he made no attempt to hide his feelings. I've seen him cut people off rather sharply.

M: But this was never a problem to you?

O: No. I was trying to remember whether I could ever say I got anything such as a real bawling-out. I guess the closest it came was back in the spring of '66 there was a story that Ed Dale had in the Times which angered the President and which he was convinced came with the help of some briefing background from the Council. And he got on the phone, and Gardner was out. He got me. He made it clear that he was angry. His kind of strongest language that might have gone something like: "If you fellows want to be the economic advisers to Ed Dale, then you don't have to send me your memo anymore," or something like that. It was obviously anger. It was no invective. Words of displeasure coming from the President of the United States take on an added meaning.

I think perhaps the sense in which he might have been hardest to work for was that it was very hard on many occasions to get him to react to

something, to tell you what he thought of it, to indicate which way he was coming down on an issue as it was getting down the homestretch. The secrecy, the keep-the-options-open kind of strategy, which is attributed to him--there was a good deal of validity in what I saw of his obvious way of working.

M: Was this kind of secrecy necessary?

O: I don't know how you'd define that. Maybe it was necessary to him. I remember some examples under President Kennedy when virtually transcripts of meetings in the President's office appeared in the press. That kind of thing is just terribly disruptive of government operations, not for political reasons in the narrow sense, but really it seems to me that if the President can't get the honest advice of his advisers without their worrying about how it's going to look in the newspapers, whether they're going to be on record in a way that when he makes his decision everybody's going to know that he was on the side of A, B, and C, and rejected the advice of X, Y, and Z--he just can't get the kind of advice he needs; he can't get the kind of unified Administration position that you need once you've made a decision to go up the Hill and to present the case. His concern about the destructive nature of leaks and press speculations and so forth was not entirely idle by any means. It had a good deal of substance to it.

Now, how far it went and all of that, it did seem extreme to us at times, just working for him. It made it harder to really get a feeling of what considerations were uppermost in his mind because he did hold his cards close to the vest until he was ready to come down to a decision on something often couldn't find out quite what was the trouble.

I had a report which was negotiated by the Cabinet Committee on Price

Stability that was established last year. We wanted the President's authorization to release it. This wasn't anything formal. Certainly it was the kind of thing where it had some substance; it was going to be a newspaper story; surely the President should have an opportunity to see the report, to rule on whether this was the kind of thing he wanted to make public or not. I sent it in with a little summary note on it, explaining what I thought was of substance in it; how I expected it to appear in the press when it was written up; why we felt it was a desirable thing to make that report public; and then supplied the traditional "Yes, No" box. Nothing happened for a few days. I guess I spoke to--I don't know who--whether it was Jim Jones or Juanita Roberts, asking whether that was in fact on the President's desk. Yes, it was, and, yes, he'd seen it. And he just put it back in the pile. A few more days went by, and nothing happened. I saw him in an interagency meeting and was hoping to get a chance at the end to catch him and call it to his attention. Didn't. [I] just didn't know quite how to approach it, and didn't think he would take too well to a phone call which very bluntly said, "Mr. President, what have you got against our report?" or, "Why don't you want to react to it?"

Subsequently, I saw him on another matter and did raise it. He looked it over and said, "Yes, that's fine. Let it go." And I'll never know why. He wasn't a guy to let his "In" box accumulate. It wasn't that he just didn't want to bother. I know he did his homework, and there was some reason why he wasn't convinced or wasn't sold or something, and then subsequently let it go.

There are a few other examples of that sort, this perhaps was the most significant one. It was a little hard to know how to operate--why exactly--

M: Did he understand the memos that you sent him?

O: Yes. We made every effort to communicate in non-technical terms and didn't feel the President should have to learn a lot of professional economists' jargon to know what was going on in the world, that it was our job to put the thing into laymen's language, if you wish. There were several times when he complimented us on the fact that he could always read our memos--very spontaneously when he signed the 1969 Economic Report. I was very gratified and delighted. I know that it wasn't in anything that any speech writer had drafted for him. He went off at the end and said something about how pleased he'd been with this Council and all his CEA's had been able to write economics. He joked a bit about the fact that he would have learned a lot more economics as a student if he had had books which were written by people who wrote as lucidly and clearly as we did.

There was a grand tradition whereby an awful lot of Treasury memos that came to him were bucked to us for what we used to call "English translation." He didn't make any comment in every case. Sometimes it would just come over with a note from anyone ranging from Mrs. Roberts to Jones to Califano or Levinson just saying, "The President wonders whether you could summarize this and develop the issues in it." It was clear that he wasn't happy with the kind of memos he was getting from Treasury and that he was counting on us to do a better job of exposition. We used to wonder where the Council would be if the Treasury could write.

M: Did he have lots of physical energy?

O: Tremendous enthusiasm, energy--you know, just bounded out all over the place. It was an inspiration, I think. There was no question that working at midnight was a lot easier knowing that my boss was also willing to do that and that he was as alert and hard-working as he was. When he reflected

on this, as I say, he often expressed his appreciation of the grind that we went through. On the other hand, on specific things he often showed very little conception of the time of day or the work week. It was not uncommon to get a call from one of the White House aides saying, "The boss would like a piece of paper for breakfast tomorrow, laying out the following." This might come in at 6 p.m., and it might be a very complicated issue that required quite a bit of staffing out. But he got it at breakfast, although it may not have been the best memo that could have been written, and he read it. And the fact that he read it made it worth doing too, that he did take it seriously.

M: How many hours a day would you work?

O: I never really kept a record. I'm not an early bird. I got into the office 9, or 10 after 9, but rarely left before 8:30 p.m.; often took home work.

M: Your worst working time would be in the preparation of the economics report?

O: Yes. The hours I just outlined were sort of the regular period. During the report, I think I literally averaged a hundred-hour work-week from Thanksgiving until January 10. I think there was one week when I never got home before 2 a.m. at the earliest. I saw more of the President, I think, during the budget making and the economic report period than at any other. There was a meeting for obvious consultation. There was a lot of negotiation on this whole issue of what the Nixon people would say about the surcharge and such.

M: Would you help draft speeches, say, for his--?

O: Yes. Several occasions I was the principal draftsman of speeches he gave--one to the Business Council last May, things like signing the Economic Report, and things like that. There were other examples.

Almost everything that had any major economic content would come

across to us. We had very close relations with Joe Califano, good relations with other people--Harry McPherson, Charlie Maguire. Hence I think it's fair to say that almost nothing on the economic front ever took us by surprise, and that's very important.

M: Were you at work with these other members of the White House staff in preparing a draft or a speech? Did you pass it back and forth?

O: Yes, that's right. Sometimes we would be asked to draft a couple of paragraphs of economic content in a speech. Sometimes we would just get what had been drafted for the President by somebody else and try to straighten out the economics and put the numbers in. We also provided a steady flow of briefing material on the record of prosperity and poverty reduction.

I always joked that the most frequent call on the White House line for me was the question of "What month are we in?" None of the speech writers or press guys could ever quite keep straight the calendar on the length of the economic expansion; and they would often begin with an apologetic, "I know I asked you this recently. I can't remember whether it was last month or this month that you told me it was eighty-nine. Now is it still eighty-nine or is it ninety?" It was a very informal and very easy relationship.

I think it was important. I think on a number of occasions we really were able to shape some of the ideological, or contribute to the ideological image in the Administration by suggesting words to the President; in other cases, to head off some things which we thought were undesirable. And the speech writers in the White House were very sensitive to nuances, at least to the extent of recognizing this even when they couldn't quite grasp the substance. You know, there would be a Rose Garden speech to give a 4-H

gal a medal and something would come over from Agriculture suggesting what the President ought to say, and sometimes in the purple prose there was a real policy initiative, and occasionally a policy initiative that really had never been thought through. It was not uncommon to find an agency trying, if you will, to hook the President on some words, and then two months later saying, "Look, this is foreclosed. You can't argue about it. The President said he was going to send up a program." When indeed, the President was handed something on three minutes' notice which he didn't expect to have any great substantive content in it.

I remember an amusing series of incidents of this sort back in '65 and '66. Some of the White House speechwriters, in trying to put the emphasis on Great Society goals and human considerations and so forth, often seemed to deliberately downplay economics as though there was a basic conflict between the human considerations and the material considerations. There was one speech which kept on back and forth--it was, as I recall, Dick Goodwin who drafted it--which said, "We must be concerned about the quality of our goals and not the quantity of our goods." We kept trying to change it to "as well as the quantity of our goods." The implication somehow that it helped humanity if we stopped producing goods and services never struck us as a very logical conclusion nor one that seemed consistent with the way the President viewed the world. There's a lot of fussing about the President's words, and there ought to be. It does have an element of the image of the Administration.

M: Was it fairly easy to work with the White House staff?

O: In general, yes. A clearer delegation of authority and jurisdictions and so forth would have made it easier. When in doubt, we always turned to Califano and had very close relations with him. I could imagine that some

of the Cabinet officers would have found it more difficult, particularly. There's no question that toward the end Califano and his extremely able and very small staff was really, in many cases, operating independently of Cabinet officers in areas in which they were responsible.

I mean, it was easy to have a kind of Executive Office alliance, Budget Bureau and Council. It was terribly important to us that there was no economist in the White House and that the only place that there was an answer to the question of "what month are we in," or "what's the percentage increase in real living standards since November 1963" and all the other trivia was through us. I think the responsibility for that kind of trivia also gave us a kind of natural "in" on things that were by no means trivial, as well as on stubbing our toes on things that looked trivial and weren't.

It's in this sense, I think, that there might be grounds for concern by my successor on the presence of Arthur Burns and his deputy in the White House. I think there has been a lot of discussion of that. I'm not sure how--just comparative government organization is of some interest to me. You know, Arthur Burns is a former Chairman of CEA, and indeed, he deserved a lot of credit really for saving the life of the Council in 1953 when it looked as though Eisenhower might not use the Council at all. I think on grounds of institutional loyalty and on grounds of his own very good personal relationships with Paul McCracken, he'd lean over backwards to avoid stepping on Paul's toes.

At the same time, I think the fact that Burns and Marty Anderson, who is a younger guy now who works for Burns, maybe one or two other economists, who are closer to the President's desk and closer to his ear and closer to the White House staff, will interfere with the flow--well, let's say, reduce the flow of communication between the White House and the Council.

Walter Heller says that Saulnier told him back in January 1961 when Walter was ready to take over that he thought Walter might be making a mistake in asking that there not be an economist in the White House, that this was going to force Walter into doing all kinds of trivial things like worrying about the Rose Garden speeches--and gosh, it certainly seems to me a misassessment of where time ought to be spent. Anything that the President is going to say, anything involving his words, actions, and so forth, has got to be top priority for the Council.

- M: You mentioned earlier that the surcharge was sort of a breakthrough for your relationship with the President, as Chairman, and it's obviously an important event in the Johnson Administration, so we might talk about that somewhat.
- O: I just thought of another example of where there is some substance to the problems of the President's concern about secrecy and privacy. The whole issue about tax reform last year was one where I'll never quite understand why the President felt, as he did, that a bill should not be sent up, that he should not take a position on this. Memos went over to him; questions were raised about it. He always listened; he always responded; he always showed interest, but never moved, and never any real explanation. Not that he owed an explanation, but it does get hard to operate in an environment where at times you don't quite know what it is that's bothering the boss. It would have been easier if we'd had a better understanding of what the negative considerations in his mind were.
- M: Was there trouble on the Hill over this? Was that part of his problem?
- O: It could have been. I am sure it would not have been universally applauded. On the other hand, a case could have been made, and there were lots of issues which ran into more trouble on the Hill than tax reform where the

President was perfectly ready to take a stand.

There is one element in the whole posture of the Johnson Administration which may have made tax reform unattractive to him. All the way through the President did operate on this sort of consensus basis of never being anti-business or anti-farmer or anti-labor or anti-anything else. And most of the economic policy was sold on the principle that the real benefits are in enlarging the national pie and more for everybody, and you don't fight over the sharing in the pie. When we did things for the poor, you could defend these to the middle classes as turning tax-eaters into taxpayers. It was no real sacrifice explicitly in doing this. You know, tax reform is a divisive issue. It's a class issue. But I'm speculating on sort of what the negative reaction was.

And this kind of thing, it seemed to me, made us always looking for clues and hints. I heard that the President had asked one of the guys in the White House whether it was true that every will in this country would have to be redrawn if the Surrey estate tax program was enacted. Gee, could that be a major factor inhibiting him! Things like that where you'd be trying to guess what kind of argumentation, what kind of documentation, what kind of a presentation would really sell him and convince him.

You know, I haven't been following all the miserable Johnson biographies that have come out, but I guess I do have a feeling that there's some degree of substance in all the criticisms that are made and yet they are caricatures--they're completely caricatures. They miss a lot of the breadth of the President's character, and they miss the warmth that he could show and that he did show on many occasions; they miss his dedication of principles and his real interest, I think. The guy could just light up with enthusiasm and inspire everybody around him with enthusiasm when he'd

talk about what equality of opportunity ought to mean and what the importance was of having job security for American families and things like that. It could be very moving to listen to him really get started in a very spontaneous, very earnest way about what he saw as the goals of this country. And it was not the picture of the wheeler-dealer, the riverboat gambler type of operator, yet there were nuances of that at times, and there were indications of his really seeing ways of using power that could be Machiavellian in a way--the whole sense of making things feasible when the goal was right by techniques that may not be right out of Høyle.

I'm sure that when there was a key congressman who needed to be convinced on a measure, and if the thing that convinced that congressman was a compromise on some other, less important measure, or an appointment that was near and dear to the heart of that congressman, even if that would not have been the President's first choice, he'd give way. Things like that, I suppose, detract from the purity of the image and all that, but they also were the essential difference between the legislative success that he had, particularly in the pre-Viet Nam period.

I think I was really struck by how he approached proposals in terms of, "How do you turn them into legislation, who has to be convinced, who's going to be against this, who's going to be for it." In many cases when we made a recommendation on policy, this was immediately when he said, "Who's going to lobby against it; what are they going to say, how are you going to answer them; how are you going to sell this; whom do we need?" He didn't ask us whether we could count the votes, but he was counting them all the time. "How do you get the 218 in the House of Representatives and 51 in the Senate!" That was the name of the game and he was a master

at it, and everybody who had any contact with previous Administrations said it had never been done before.

M: Did you have to work much on the Hill?

O: We worked very little on the Hill. Indeed, in some respects I wish we had had better contacts and more contacts. We made a few pilgrimages. The operating responsibilities for most of the legislation that we were interested in lay with Treasury, and we worked a lot with their people in providing briefing material and information and speechwriting and such. I should say also of course with the White House legislative liaison staff--Barefoot Sanders, Mike Manatos. The Congressional Record was full of our words when a friendly congressman or senator would make the right speech on the right issue.

M: You didn't get your tax reforms--all of them that you wanted. You did get the tax surcharge.

O: We did get the tax surcharge. We didn't get any reform. We didn't get the President onboard a tax reform, and Joe Fowler, who was really pushing this very hard on his own, got the President's authorization to send up as a Treasury staff program a tax reform program in the closing days of the Administration.

You raised the question--I was wandering after you asked about the surcharge issue. The President's surcharge recommendation went up in August '67, and that followed a Troika recommendation. There was no problem there whatsoever. The President was firmly onboard, and basically when the Troika told him that the economic outlook seemed strong enough to be able to justify and make the case for the tax increase in the summer of '67, he moved really on that recommendation.

M: It wasn't difficult to convince the President that you needed the surcharge?

O: Not at that point. There was a whole other and very different episode from December '65 until the summer of '66 where there had been a constant battle to try to convince him that something needed to be done and that it was important for him to use whatever legislative skills he had--his enormous legislative skills--to try to achieve it.

Then there was a period from September '66, roughly, until mid-'67 when tight money had pretty much brought the economy under control; and indeed for awhile it looked as though that all the dangers were on the other side of possibly falling into a recession. The January '67 budget did contain this proposal for a tax increase to be enacted at mid-year. I guess I think of the notion of a delayed measure of that sort as being my idea, I carry it proudly. But it was clear that you'd have to wait until economic activity was perking up, and people were no longer talking about recession, before you either wanted a tax increase or could hope to make a case for it.

Then there was this period late in '67 when the basic problem was trying to convince the Congress that we needed fiscal restraint. Then when we moved in '68 it became very clear that the economy was going too fast, and nobody could deny the need for fiscal restraint. Then all the peripheral issues came up, some congressmen saying, yes, they would be for the surcharge, but only if it was coupled with tax reform. Others, yes, they would be for the surcharge, but only if it was coupled with some increase in high priority federal programs; and others, yes, they'd be for the surcharge, but only if it was coupled with a big cutback in federal programs. And it was awfully hard to find that consensus here.

It was particularly tough. Congress wanted the President essentially to eat his January budget recommendations and revise them and, in effect,

confess that they were bigger than they should have been. He didn't feel that way. I think he was right in feeling that the January '68 budget program for fiscal '69 was a good program. If they wanted to cut it, fine, that was their business, but this demand that he do the cutting I think particularly infuriated him, and with a good deal of justification in terms of the whole tradition and legislative-executive division of authority and power.

And yet, I think it was at that point that when this thing seemed to be falling apart there was a conference involving the Senate bill that carried the tax surcharge coupled with a six-billion dollar expenditure cutback, and a minor House bill which did not have a surcharge or the expenditure cutback in it. The initial House bill was just extending a postponement of an excise tax cut. While the conference seemed to be falling apart because there was no agreement, it was clear that they were waiting for the President to ask for a reduction in expenditures or accept it.

During this early period I felt I was not getting into meetings that Gardner would have been in on and [I] was concerned about it. Let me say, even then there was a good deal of contact with the President. For example, he gave a speech I wrote for him to give at the Business Council, one of those things. When it looked as though the conference might bust up, I sent the President a memo urging him with a degree of emphasis and candor that we didn't usually use that if the only alternative to a failure on the surcharge was a cutback in programs; that I felt very strongly that the latter course was better for the country, that certainly he needed to establish on the record that he wasn't being intransigent on the budget cutback issue, and that the opponents of the surcharge would

always have that as an excuse if the thing failed and if indeed there were adverse consequences.

I got invited the next day to a meeting which involved the House leadership as well as Fowler and Charlie Zwick. The President began the meeting by reading my memo. It was a very exciting meeting. I would say that there was a good deal of emotion, certainly on Wilbur Mills' part, in which he was protesting his allegiance to the President and high regard for him and insisting that all his actions on the surcharge had been entirely misunderstood. I would say that in the course of that meeting that Wilbur Mills made an unqualified promise to the President, which he subsequently broke, that he would make every effort to push that thing through with a four-billion dollar cut on it. To the best of my knowledge there was never any explanation of why he just turned around on this. He made apparently no effort to get the four-billion dollar cut. In fact, he pushed it through with a six-billion dollar cut on it. But it was very tense. The President basically at that meeting said that he would agree to give his full support to the combination of a surcharge and a four-billion cut. And while there was a little bickering over whether he would make the statement or Joe Fowler would make the statement on behalf of the Administration, he refused to make the statement.

M: Do you think the reading of your memo was a sort of breakthrough for you then?

O: Yes. I'm not claiming that he came out any differently on it, but at least my morale was very much affected. At the end of the meeting, he said, "All right. Did I do what you told me?"

So I said, "Yes, sir."

He said, "All right, you can have your memo back. I don't need it any

more." I guess it was the first demonstration on an issue of considerable controversy that he was taking my advice very seriously, and not just using me for a briefing and information service. And I suppose the sensitivity of a new man in the job--I needed something like that to provide me the reassurance.

M: Did you have anything to do with the gold crisis that came?

O: Yes.

M: That would be November '67.

O: Yes. My participation in the whole international monetary area really began way back in the fall of '65 when that Deming group was formed. Francis Bator, who was on the White House staff at that time, felt that there was a strong need for some kind of more formal and still informal interagency group that would report to the President on these issues, and Fred Deming chaired the group. Francis Bator, Dewey Daane of the Fed, Tony Solomon of State, and I were the other four members. It was a group of five. We met regularly, a primarily principals-only kind of session in Deming's office, not the big staff meeting type arrangement. It got to be a very good group, I think, because we worked through the issues, and we did them when they weren't crises. We did a lot of contingency planning. We developed a very close relationship which transcended agency positions. We didn't report regularly to the principals or ask for authorization. Then when I became Chairman, that took me out of the Deming group; and Jim Duesenberry became the Council representative there.

But this is where the SDR posture and negotiating position and plan got hammered out. It was where we talked and defined gold policy.

M: Did the two-tier system come up in your meetings?

O: Yes. Interestingly enough, we pretty much rejected that in our contingency

planning. We talked about what would happen if the gold market blew up after a sterling devaluation, and the general position of the group was that the contingency plan ought to be to stick with it and pay it out with a smile and lose the gold if necessary. We did this for awhile. As you know, in December of '67, January and February of '68, it looked at one point as though the outflow had stopped, and then there was another meeting at which unfounded rumors came out and Fred Deming was taking a pasting in the journalistic history of the period for indiscreet remarks at a meeting, some of which he never made.

But anyway, for whatever reason, the second meeting that Fred Deming went to on the gold crisis, which was really supposed to reaffirm and celebrate the victory of the first meeting in curbing the outflow, just triggered off another outflow that got up to hemorrhage proportions. It was at that point, I think, that the negotiability of the two-tier system first became clear. I don't think we could have gotten the other countries onboard if we had opted for that earlier. They had bled a little, and they knew that some accommodations had to be made. They wanted to stop their losses of gold. They didn't want to keep paying it into the gold pool, and they became very enthusiastic about this.

My own position right at the end was "keep paying it out and try to keep a stiff upper lip." Bill Martin shared that view, too.

M: Why did you take such a position?

O: I was not as optimistic as I should have been about how well a two-tier system would work. I felt that perhaps a crisis would have been a way to demonetize gold, and I think the sooner that happens the better off we'll be. It wasn't that I was really eagerly looking for crises. I think there's no doubt that much would have been made politically about the horrible

gold outflow and the departure from that under Johnson and such.

In retrospect the two-tier system, which was really worked out with the Deming group, was originally an idea of Carli, the Italian central banker. That turned out to be a good idea. I guess I would say the decision that was taken was a wise one. In all perspective I don't think we've postponed indefinitely the more fundamental question of the role of gold in the monetary system. We've postponed it long enough, and this seems to be holding together well enough so that it was a good idea. I will confess error in not seeing it at the time.

There was a meeting in the President's office on this issue when the decision was made really to close the London gold pool, and to call this conference at which the two-tier system was negotiated over a quick weekend in Washington. The only flaw in the whole operation was that the British insisted on announcing that we had instructed them to close the gold pool. This was not intended. It was supposed to be--in fact it was a coordinated decision in which they took as much responsibility, or they played as much of a role in making the decision as the U.S. did. Yet they said, "Upon the advice and request of the United States government," which was rather irritating.

M: Did you have anything to do with the decision to lift the gold reserve requirement off of SDR's?

O: Yes. There too was something participated in the Deming group. We'd been urging it all along. We were disappointed that on the previous round Secretary Dillon had compromised with the Congress. We were convinced that a bigger fight wouldn't have brought the whole thing off all at once. As you recall, at that point the gold requirement was removed on Federal Reserve credit; that is, on the number of bank reserves in the Fed,

but not currency. It was just an illogical position. It was one of these half-way compromises of deciding to perform an amputation, one finger at a time. It was clear we'd have to come back for the rest of the package.

But when the President moved, there was unanimity on it. There had been some timidity on Treasury's part on taking on the legislative burden. It was a burden. We certainly did contribute to putting that high on the priority list for action. There are always--well, Joe Barr particularly--a kind of joshing relationship as if he was saying, "You guys are always full of great ideas that I have to sell."

M: Was that idea hard to sell?

O: It didn't create as much of a problem as might have been anticipated. It sailed through fairly readily. As a matter of fact, it was inevitable that it would provide an opportunity for some speechmaking about how we got to the sorry state and why we lost all that gold; and if this Administration had done the right thing, we'd never be facing this sorry prospect. So the Republicans made some good speeches in which they really didn't tally--

M: Did the Deming group also work on the idea of the SDR's, the Special Drawing Rights?

O: Yes. I was trying to remember--maybe the vote wasn't quite that lopsided. At one point I guess there was a fairly close vote in the House. I'm not sure I remember the history of it. It would give some indication that once the legislative battle began, we were not in the thick of it. Probably my memory of it's being easy is not the same as Joe Barr's.

The SDR thing--yes, this was the job of the Deming group. At every stage in the long negotiations and studies, we were in on it. We were devising and working out what the U.S. position ought to be. This was a very cooperative venture.

M: Does the SDR itself make sense to you?

O: Oh, yes. The only rational solution to the growth of world liquidity is a managed international money. You know, there were lots of compromises. The right solution of the problem is you print paper and you say, "For all intents and purposes, we view this as gold," and all the countries who are party to it say, "This is gold, paper gold." Now, you couldn't get that kind of thing negotiated, and you had to put a lot of trappings on this to control its use and assign it particular ways, and give some of the concessions that would enable people who wanted to say, "This is really credit," to still say that it's credit and not money. The effort was always to try to be reasonable in such a way as to isolate the French and not give the other Common Market countries an excuse or a rationale for saying that the U.S. was being so extreme that they were forced into the French camp. A lot of it was a combination of trying to make the cosmetics and the substance fit together as well as possible so it would be negotiable and still do the job.

M: Did you get in on any of the negotiations?

O: I never made a trip--let me put it this way. I was in the Federal Reserve Building the weekend of the big Washington gold accord conference and looked at some papers and revised them.

M: Treasury mainly carried on the negotiations.

O: Yes. The SDR--the Treasury, and the Fed exclusively. Well, Francis Bator and his successor Ed Fried got into a couple of the trips. This was sort of maintaining the tradition that the Council is not a negotiator and not an operating agency. It would never have occurred to me to ask whether I could accompany Deming--no reason to do so.

M: The Council also apparently had the responsibility of setting guidelines?

- O: Yes.
- M: Did you get in on this--guidelines for labor and also business
- O: Yes. A very major responsibility--I don't know where to begin. It begins of course in the Kennedy Administration where the guideposts were set forth in 1962.
- M: The major purpose of the guidelines being to control inflation, is that right?
- O: Yes. But I think recognized always as being a kind of backup against cost-push inflation in a time in which the economy was not overheated. No one ever thought of the guideposts as an alternative or a substitute to a reasonable fiscal-monetary policy; rather as a supplement to them--and in the early days, as insurance that you wouldn't get inflationary pressures arising out of the highly concentrated areas of the economy, big labor and big business, at a time when the economy as a whole had lots of slack.

Now, I think the amount of emphasis on this initially was certainly conditioned by the experience in the mid-'50's where the monopolistic sectors of the economy had been very important initiating forces in the inflationary pressures of that time. There was the big confrontation between President Kennedy and Roger Blough in April 1962. Then there were continued negotiations and conversations and consultations with the steel industry under President Kennedy. There was discussion with the automobile industry, I think initially in 1964 and then every year thereafter on a strictly off-the-record basis of trying to discuss with them what the importance to the country was of the prices they set on their new models each year; how this would price out in terms of a rather complex procedure that the Bureau of Labor Statistics has of trying to credit them with quality improvements when they make them, and they fold formerly optional

features into standard features; to try to distinguish that from a price increase. There was quite a wave of confrontations and battles in late '65 and into 1966--aluminum, copper, steel--on a Bethlehem move.

M: Was the threat of the use of the stockpile, say, against the aluminum distributors effective? Was that an effective way for the Chief Executive to work?

O: Yes, I think where there are stockpiles--I don't think we want stockpiles for that purpose--but where there are, they ought to be used for that purpose, and they help. I think the use of government procurement for a bargaining lever on prices is entirely appropriate and has some effect. I was rather uncomfortable with that role being played by the Council--I think that's true of my two predecessors as well--in terms of the adversary procedure and the kind of rhetoric and invective that often got used and which the White House staff and the President encouraged, really trying to use the patriotism and public image issue. That's really the only weapon you have other than stockpiles and such.

M: It would seem that in the case of the automobile industry the stockpile would not have much effect at all.

O: Oh, no. There was no lever on the automobile industry. There was never any attempt to point to any action that the government would take.

M: How responsive would they be then to an appeal to patriotism?

O: Well, this varied among people. I think Roche of General Motors was very responsive and very concerned about General Motors' image. No one ever said, "We're going to break General Motors up if you don't do this." But I think General Motors probably recognizes that it lives by the grace of the Antitrust Division; that if anybody really wanted to bring a monopoly suit on a firm that big, there was a fair chance that it would win in the

courts and it would force dissolution; that at minimum it would be very disruptive to them for a considerable period of time while this was all pending. In their procurement in the safety area and every other area they've got a lot of links with government, and it's important for them to have good relations. It's also important to them to have a good public image if they don't want to be painted black in the eye of the American consumer.

There was one specific instance where there was no question that General Motors rescinded a planned price increase because Ackley asked them to do it and made clear that it would be strongly criticized if it went through. [Ralph] Nader got some pieces of that story and has totally distorted it into an accumulation of sorts--that Ackley gave them permission to raise prices by some amount.

I felt this in talking to Roche last summer. There were several conversations: one, he brought his people to my office essentially at my request. The conversation went: "I know that in the past you've had some conversations with my predecessor. I think these were helpful to clarify things. What do you think?" By the time we'd finished, he'd volunteered to bring his people to my office. It was clear what I wanted, and that I wasn't going to say, "Appear at my doorstep!"

It seems to me the basic issue is, one, that you can't draw a line between perfect competition and complete monopoly in the United States economy. There's just a lot of shadings in between. Where you can say there has got to be monopoly, sure, you can create public utilities and have formal regulations; and where you can say there is completely effective atomistic competition in the market automatically and impersonally determining supply and demand, then the government has got nothing to say about it.

But in the whole range in-between, there is a certain measure of discretion on prices and wages, and how people behave does make a difference. To say, "These are important, you ought to make laws," really says you ought to turn 80 percent of this economy into a public utility. I guess you can look at guideposts as asking businessmen to behave to a degree as self-regulating public utilities and recognize that there is a public interest in what they do; that they do have some power, that they ought to use it in a responsible fashion. The obvious implication is if they don't, there will have to be some kind of a structural reform in the U.S. economy to reduce the power of big business and big labor.

M: Did the President ever talk to you about these guideposts?

O: Sure. In many instances.

M: Did they look to him like a useful tool?

O: Yes. He always encouraged their use. Sometimes I think he had more faith in what they could do, or more of a picture of individual misbehavior rather than general market conditions affecting our price behavior than we did, and hence was always encouraging us to go out and crusade for more restraint by business and labor. I don't think he or anybody else in the Administration ever thought that these were a substitute for good fiscal-monetary policy. I don't think he ever made that mistake. But he certainly wanted them used. And he wanted the good guys-bad guys patriotism-unpatriotism issue made as clear as could be to the public.

You know, you're talking about business firms which spend millions and millions of dollars on public relations advertising, and you're asking, "Now, why do they do that!" Well, they do think that their image is important, and that in addition to all the concrete ways in which they have linkages to government and feel that a general sense of amicable relationships--there are some dangers in this, you know, of too much chumminess between

powerful business and powerful government.

I think from the Council's point of view we felt that some of this had to be done. We were sorry that we were the guys who had to do it. It's awfully hard to play policeman one day and be blowing whistles, and another day, try to make pronouncements where we're really trying to be in the posture of the scientific technician speaking professionally. It was totally out of keeping. This was an operating role which we never had in any other direction.

Okay, why did we do it? The answer is nobody else was there to do it. The Secretary of Labor wouldn't do it; the Secretary of Commerce wouldn't do it. There were some ill feelings about this, or certain frictions in the interagency relationships reflecting the feeling on part of, I guess most particularly Jack Connor, that we'd been too tough on business. Often Wirtz was critical of our statements or actions and behavior toward labor. The President's stillborn proposal on a merger of Labor and Commerce looked to us that it might have some hopeful implications of producing somebody who would be less tied to a clientele relationship who might be willing to assume the nasty job of blowing the whistle.

You know, if you are operating moral suasion and if really, apart from the very specific government stockpile procurement links, your only weapon is to, if the guy does something irresponsible, you'll brand him as irresponsible in the eyes of the American public, and somebody has got to be ready to do that. I always wondered whether there would be some way of trying to get a more nonpolitical group with a great deal of stature--maybe even nonpartisan--that would be willing to respond informally to price increases or wage settlements, make statements that these seemed to be consistent or inconsistent with the public interest; and wondered

whether they would have more influence on public opinion than anybody would, than the Administration could have; and whether they might give it a bipartisan flavor.

Yet on the other hand, we were never too enthusiastic about Congress getting into this act. We felt there were more dangers than benefits associated with that. It was just really out of character, I think--out of the character of everything else the Chairman of the Council did for him to be the guy getting out and saying, "While our boys are fighting in Viet Nam, it's wrong for the aluminum industry to be fattening its profits in an unjustified price increase." Yet that's the kind of language that once in awhile we found ourselves involved in.

M: Did you in your position as Chairman get involved with any of the reorganization that went on, such as formation of the Department of Transportation?

O: Peripherally. Charlie Zwick had a very major role in that planning on the Transportation department. He talked to us about some issues. We had a couple of meetings with the first Heineman Commission on Government Organization, whose report has never been made public and which really ought to be, and I'm sure is being preserved in the Archives.

M: I've heard of this Heineman report. Was it a useful report?

O: I never saw that full report. I saw sections of it that related to us in economic matters, and it was a damned good job. Yes, it was.

M: Did you have anything to do with legislation such as Medicare or the Model Cities program? Did the Council have to give evaluation of the impact of those?

O: Right. All legislative matters relating to anything that could even vaguely be called economic came to us by a routine procedure through the Budget Bureau; but usually that had been preceded by, if it was a major program,

participating in an interagency task force and by meetings in Califano's office. We had lots of opportunities to influence legislation, and we did so. The whole pollution area was one where there were quite fundamental differences of view between Interior, Treasury, and other agency people, and we got stuck in there as a kind of arbiter. Ackley had to, for one year, spend a lot of his time on the pollution area.

M: Was this fairly well settled by the time you took over as Chairman?

O: Yes. The pollution had been pretty routinized. We were always involved in some kind of a task force on social security or income maintenance or education-welfare programs, which took us into contact with HEW and HUD programs.

M: Is there any of this legislation that you were particularly concerned with?

O: Personally?

M: Yes.

O: You see, most of the program areas were not in my jurisdiction as a member of the Council. As Chairman, let's see.

M: Let me change tape.

O: Sure.

INTERVIEWEE: ARTHUR OKUN

INTERVIEWER: DAVID G. MC COMB

April 15, 1969

Tape 2 of 2

M: I'd asked you before if there were any particular programs or legislative matters you were personally involved with that come readily to mind.

O: Yes. Every piece of tax legislation that went up was something in which I--

M: Such as the surcharge.

O: Like the surcharge.

M: That's something we can talk about.

O: The Maritime was one program area that I had responsibility for as a member of the Council. And I was involved in that task force that was supposed to dream up a Maritime program, and we did dream up what we thought was a good one when Alan Boyd was still Under Secretary of Commerce. That leaked to the press and got killed. It kept popping up in one form or another.

M: Did you ever have to deal with the Hill on that?

O: No. I dealt just internally. Labor and some elements of Commerce were ready to go much farther in meeting the desires of the maritime industry than the Budget Bureau and the Council wished, or than Alan Boyd wished. There was always negotiation within the Administration on this. I think collectively we had a major role in never selling out to the damned pressure elements. There's a very powerful pressure group, considering the numbers of workers and firms involved, which are really quite small.

I remember more the fish that got away than the ones we caught on the legislative front. We pressed hard for a presidential recommendation to repeal resale price maintenance legislation. There was the so-called fair

trade laws which are really--the States can have, but they can have it only because there are two pieces of legislation--Millard Tydings and McGuire, which specifically exempt this from the bounds of the Antitrust legislation. Without those two pieces of legislation it would be a violation of the Antitrust laws. There had been pressures the other way in which a lot of the congressmen wanted to make this federal legislation which would no longer be enabling to the States, but rather mandatory on the States to permit fair trading.

I think we influenced the President in always taking a firm stand against such legislation. We wanted to go in the other direction and kill the enabling legislation. I guess January of '66, maybe it was, that he told Ackley that if he could be sure that this would get as far as the hearing stage on the Hill, even though he felt convinced that the legislation wouldn't pass, if it would get even that step of the way, he'd make that recommendation. But he wasn't prepared to make the recommendation unless he felt there'd be at least some legislative action.

He said, "Would you go up to Wright Patman and try to sell him that?" Gardner took me along and we walked into Wright Patman's office, and one of the things I noticed on his wall was a little certificate from the National Association of Retail Druggists for meritorious service. Patman wouldn't budge on this. We never did get the proposal.

- M: Did the President often operate this way when a group such as yours would be pushing for a type or piece of legislation? Would he say, "Go talk to people on the Hill and see what they say."
- O: It was rare for him to say it to us. Indeed, in many more instances we'd be preparing papers for somebody else to do the job.
- M: But this was the way he would test--?

O: Yes. Almost everything had some kind of a testing of the waters up on the Hill.

M: Was there other legislation of this kind that you got involved in?

O: I was thinking of pilgrimages to the Hill. There was one on the investment tax credit--I guess two--that both Ackley and I talked to Wilbur Mills on early in '66. And then later in '66, maybe June and August, may have been the two dates. In June he was very much opposed to it; in August he was much more receptive to it

You know, I can think of particular instances where we had a marked influence on the provisions of a piece of housing legislation, indeed, of the whole big Housing Act, where we cooperated with the Budget Bureau, on, say, a constant battle going on between the Budget Bureau and the Council on the one hand, and Agriculture on the other, in which I would guess--

M: Over Agriculture policy?

O: Yes. We probably lost three battles out of four.

M: Did President Johnson have any particular interest in Agriculture?

O: He had obvious political interest in Agriculture, and a lot of muscle up on the Hill over it. We worked very hard to slow down the so-called farmers' bargaining initiative. Gee, I'm trying to think of one thing, the IAE--an effort to get an egg program devised in which there would be some authorization for cooperative purchases to hold eggs off the market. And the agricultural staff effort just 'way oversold the benefits to the egg farmers and understated the cost to the American consumer in a very blatant way. We staffed this out--as a matter of fact, it's Hank Houthakker, who was on my staff at the time and is now a member of the Nixon Council, who did a really good analytical job of just tearing apart their estimates and that destroyed the credibility of the proposal and really killed it.

There are a number of things on the oil front, too, where when residual fuel oil regulations were relaxed we played a role in it. We worked with the Budget Bureau in really implementing Charlie Schultz's idea for auctioning off oil import quotas.

That was another example of things that went astray, and we could never find out quite why. The President signed on to a statement that he would do something in unveiling a plan for auctioning off oil import quotas, and for providing a special provision for petrochemical exporters in terms of oil imports, both of which would have relaxed the oil import program and were strongly opposed by the oil industry. Having made that statement late in '67, nothing happened thereafter. Efforts by the Budget Bureau to get the program implemented just somehow got lost in the White House, and we never found out quite what happened or why. But we did succeed in some areas on oil.

The President was just great in backing up anything--most things on free trade issues. There were constant efforts to get him to sign on to bad trade legislation, to water down the good trade legislation. We worked with Bill Roth on that--resisting the pressure on textile quotas, steel quotas.

M: Was the economics involved with the Viet Nam war a continual problem with you? Did this come up all the time?

O: There's no dimension of the American economy in the last three-and-a-half years which hasn't been touched by Viet Nam. Viet Nam changed the entire budget posture. It took all the elbow room away. It just obviously made the task of overall economic policy tremendously more complicated. It exacerbated the balance of payments costs.

Let me emphasize that those are not the considerations that ought to

be primary in whether a war is worth fighting. If it's worth shedding blood for, then it's worth a couple of points on the price index and the other headaches on the economic side.

M: What was your position on the Viet Nam war when you were Chairman? Now, I assume you'd have an economic position, and maybe personal views as well. What was your economic position? Was it purely a professional one to--?

O: Yes. Throughout the period our main professional concern was seeing that the war was financed responsibly and sensibly, and it wasn't financed responsibly and sensibly until we got the surcharge enacted. It was also to make sure that we were saying sensible things about our posture and watching the guns-and-butter kind of statements to make sure that they were responsible to the actual circumstances. We were never asked and we would not have been expected to have a vote or a say or an opportunity to advise the President on what were essentially national security military decisions.

There were times, for example, back in March of last year when there were three or four alternative programs before the President, some of them very large escalations in the war. We were asked to staff out their economic implications. And basically what that means is that, "if you take option A, Mr. President, then unless you want more inflation and still higher interest rates, you have to consider either an additional 10 percent surcharge or a \$5,000,000,000 budget cutback and another 5 percent surcharge," essentially telling him ways of neutralizing the economic impact of those decisions.

M: This was strictly an economic analysis on the war implications.

O: It was strictly an economic analysis that sort of told him the hard things he had to do to add to the defense budget.

Personally, the war was a headache and from that point of view, like everybody else, we wished it would go away. I had no reason to be critical

of the President's decisions through '66 and into '67, And like everyone else, when the war looked like a big sink that seemed to have no end to it, where all the optimistic forecasts of victory seemed to turn sour, then I think we became more and more concerned about it. Our feeling was always that--in the period in late '67 and into '68--rooting for the doves and hoping that the President was paying more attention to them than worrying about what Walt Rostow was telling him--but never really engaging in any way.

I remember a conversation in the Council in which Jim Deussenberry raised the question of whether we were meeting our responsibilities and obligations, whether we shouldn't send him a memo or staff paper trying to make clear just how big the economic costs were, and the sense in which this did interfere with other objectives.

I was strongly opposed to that course of action. I felt that we had in one way or another, without really underlining it, conveyed to the President a recognition of these things. I felt that he would not at all be receptive to such an obviously hortatory position on the part of the Council; and that this might very severely prejudice his confidence in us and his relationship with us in things where we did hope to influence him more directly. Basically we have to take the National Security decisions as given.

There's really a completely different channel of communication where rarely would we even pick up what was going on, and only to the extent of seeing things in terms of economic implications--for example, seeing the alternative programs and getting a feeling of how big an escalation some generals must have been recommending in March of 1968. It was very clear on many occasions how emotionally involved the President was in the war; how much this upset him; how concerned he was about it.

M: Let me ask you about the transition and Nixon. What did you do to prepare

the way for the new Administration?

O: I knew Paul McCracken--have known him for many years. I got on the phone as soon as he was appointed, and said, "Can I help?" He was in four or five times, and we had sessions ranging anywhere from an hour to three hours on Council operations, procedures, manpower, budget--everything from secretaries to White House liaison problems. The staff of the Council was very anxious during this period. We were staffed, as we have been in recent years, primarily with academics on one-year leave--about two-thirds of the professional staff on that kind of temporary basis. Here were people who needed to make plans promptly if they weren't going to have a job after January 20. It took awhile before McCracken came down to a blanket invitation for everyone on the staff to stay on, one and all. He did make such an invitation and most of them accepted it.

M: There was no clash in the economic philosophy?

O: Oh, there are differences in economic philosophy to a degree. Sort of liberal-conservative spectrum; there's some distance between us in the expected direction.

M: This wouldn't bother the staff that stayed on?

O: Not decisively. I doubt that there was more than one vote for Nixon in the Council staff--maybe two. But the people at staff levels are doing more or less a technical job; and while they're trying to influence policy, they can live in a variation of political environment. Moreover, while there's a difference between Paul McCracken and me in political philosophy to a degree, there's likely to be a much wider difference between Paul McCracken and other people in that Administration which would be in the direction that the staff would favor. Basically, I would see McCracken as one of the more liberal elements, as well as the conveyor of those things which are professional consensus among economists.

M: He could take over the staff without any great difficulty?

O: Yes. There are a few places where he will be staffing with people whom I would not have been staffing with for the year ahead. I'm not suggesting that we'd have exactly the same preferences and attitudes toward staff people. Perhaps in terms of economic methodology the question of how you look at monetary policy is the biggest difference, where McCracken has more sympathy and interest in a Chicago view of money supply than I do--or the whole Kennedy-Johnson Council tradition does. There, for example, his next staff man will be Phil Cagan who is a Milton Friedman protégé. Now, I wouldn't have thought of recruiting Cagan to be my--

M: How does Cagan spell his name?

O: Cagan. Also, a man named [Leonall] Anderson, who's at the Federal Reserve Bank at St. Louis, is now consulting for the Council on monetary policy.

M: Are you impressed that the transition was relatively smooth then?

O: Yes, I would say so. McCracken had been a member of the Eisenhower Council, so he wasn't new to the Executive Office Building. He knew a lot of the problems. Things had changed a great deal. Yes, I think that went very smoothly.

I think it's predictable that there will be the same battles over agricultural policy in which Mayo and McCracken will be allied against the Secretary of Agriculture. There will be the same battles over maritime policy where the attitudes of the Transportation department may be less predictable, but the attitudes of the Budget Bureau and the Council are entirely predictable. Just as we had much less enthusiasm for increases in the minimum wage than Secretary Wirtz did, McCracken will have less enthusiasm than Labor people do now--although George Schultz may be different on that now.

And there's a wide area, particularly in the microeconomic areas.

[interruption]

I was saying there is some professional consensus among economists which usually in the political process comes to defending the consumers' interests against special producers' interests. [On] every one of these trade policy issues, I can guess where the Council will be coming out.

M: In other words, many of the problems remain the same.

O: Yes.

M: Regardless of the Administration.

O: No question about that. I think there is a difference in the attitude toward the size of the government budget, where I think the considerable skepticism is the first reaction of a Republican administration--anything that adds to the size of the budget. The whole scrapping of guideposts in a very blatant way seems to me to be a mistake that they're paying for. I don't think you would have gotten the oil price increase and as many of the non-ferrous metal price increases as we've had in recent months if not for a feeling that the White House is never going to raise its voice against such business decisions.

There's a very considerable difference of view on activism--what sometimes gets caricatured as fine-tuning in economic policy where the Republican CEA would like to find a policy strategem that's good for all seasons and doesn't need to be changed, and where they can talk about pursuing a steady course and not whether the steering wheel is turning or not. That's much less significant a matter. Sometimes it takes a lot of turns of the steering wheel to keep the car on a steady course.

A lot of the posture in the Administration, of course, fits in with Nixon's "lower your voice, don't make waves; don't shoot until you see the whites of their eyes." There's no doubt that the revolution of rising aspirations and rising expectations is the best caricature and single summary

of the problems of social unrest, dissatisfaction, and so forth, that were stimulated during our years. We wanted to do things. The President was always setting forth goals and lifting his sights. A lot was accomplished. In many cases the whole posture of selling programs had to emphasize their great possibilities, and perhaps we oversold at times; perhaps inevitably when we swept some of these problems like the whole Negro oppression in the economic field out from under the rug, it was inevitable that you'd get a lot of ferment over it. So far this effort to consolidate forces, to slow down the expectations, is the dominant difference between the administrations and their domestic policies.

The other element of the transition was, of course, this whole question of what the Nixon people's response to the budget would be, and there was a lot of behind the scenes negotiation between the outgoing and the incoming Troika on what they would say and what the statement would be. The President had a very strong conviction that it made absolutely no sense for him to recommend the extension of the surcharge unless Nixon was prepared to give some kind of qualified support to it. We were rather disturbed at his decision on this. I say "We"--all three of the Troika--Joe Barr, Charlie Zwick, and myself.

And he couldn't quite understand. He said, "You're the guys always concerned about credibility. If I say I want extension of the surcharge and Nixon announces that he's cutting taxes, then I've made an incredible proposal. I've just compromised the position of the Democrats on the Hill without doing anything for the country except increasing divisiveness, making our fiscal policy into a political football." He was very eloquent, very convincing on this; and yet we were very upset at the prospect of coming out with a budget program which we knew was on a bad piece of economic

policy. Near the end of this series of discussions, the President was prepared, if he couldn't get the kind of assurance that he wanted, to essentially say that he was recommending a bad budget and letting us say whatever we wanted about it, but saying that he had been forced to operate under the assumption that there could be no extension of the surcharge since the incoming President was against it; hence, he'd done the best job he could do, given that constraint, and it still wasn't a good job; and what it really proved to him was there had to be an extension of the surcharge. At an earlier date it looked as though he was prepared to not only present a budget without a surcharge, but also to defend it; and I think that was a matter of considerable concern to us--that we would be trying to defend the indefensible. I think we did influence him on that. It was really at the very last minute that the Nixon people came through with a sufficient indication of their willingness to back up this budget, to put the whole thing together. Joe Barr had a fair number of conversations with Dave Kennedy on this; I with McCracken; Charlie Zwick with Mayo.

It was rather interesting. The President did not want us to meet with them as a Troika--as two Troikas.

M: Why was this?

O: He said, "You guys will sell me out. You're just so gung-ho for that extension of the surcharge that you'll take whatever they give you." It was a pretty frenetic experience right until Friday evening that the thing fell into place, and that Charlie Zwick was able to go with the budget that was coming out the next Tuesday. Up to that point, he'd really had two budgets ready to go, one with and one without; and I had to have the President's section of the economic report and one section of our report held in abeyance to see which way it came out. It was a kind of brinkmanship

tactic on the part of the President. It worked out very well. I don't know how Nixon would find a way to eat his words if he hadn't eaten them then. This has been an incredible aspect of this administration--its ability to ignore anything that it said in September or October and the first week in November. The country has much to be grateful for, that Nixon feels absolutely no commitment to anything that he said during the campaign. He said some terrible things during the campaign, really very frightening. Sixty million Americans heard him say on election eve, "If you want the surcharge ended, vote for me; if you want it continued, vote for Humphrey. That's the biggest single economic issue in this campaign." No need even to explain or justify--it's wonderful! We used to have a credibility gap when things like that happened.

M: Let me ask you one last question. Is there anything that I should have asked you and I didn't ask you, or any statement you want to make or comment you want to conclude with?

O: It occurs to me that we sort of got into the relation between the Federal Reserve and the Administration last time near the end, and I don't think we went into that as much as it probably deserves. Maybe there are others who will fill that gap. I'm not the only one who can testify to it, but I think it's fairly important. Maybe when we see the transcript, if it looks as though we ought to supplement that--

M: Whatever you wish to do.

O: It strikes me that as I talk my recollections and references are usually to fiscal-monetary policy because they were always the closest to my heart, and they were the things in which I directly participated most. Probably I don't give enough emphasis to the Council's activities on other fronts. We paid some attention to it. A couple of other things that struck me.

One thing--it seems to me that the economic policy decision that's going to get the most scrutiny from the historians is the whole question of why there wasn't a better fiscal policy early in 1966. I'm not sure I've told you everything I know about it. There are two, I think, Ackley was Chairman. He was in on the meetings. Somebody ought to really detail that rather--there are some elements to that story which are going to have to stay confidential a long time that I know about; there are probably lots more. Really, it was an uncomfortable experience because we were so--you know, we were there obliged to defend the policy that we weren't happy with. I think that's about all.

We could go on to the whole question of relationships with the Treasury. We worked very closely with them. Joe Fowler and I got very friendly and worked together very well. But there were some natural problems, inevitable frictions, some of it just the point that the Treasury is expected to maintain in defending the dollar. I think indeed the fact that things went so well between the Council and Treasury while Fowler was Secretary was a remarkable event.

M: Is that a tribute to Fowler or to the Troika or what?

O: I think we all deserve some credit for being reasonable men--Fowler, yes. Fowler--the one place where I don't really understand, never have, just what Joe's role was was in that late '65 and early 1966 experience where he was the one presidential adviser who was saying, "You don't need a tax increase." I don't know whether he was guessing what the President wanted to hear and feeling he had an obligation to do so, or whether that was just a bad calculation on his part, or what. [I] never quite understood that.

The whole area of guideposting in terms of these off-the-record sessions with businessmen and such, I don't know how much interest there is in them.

There isn't a hell of a lot of written material on them, for obvious reasons. It seems to me if you feel that they deserve high priority in preserving some kind of a record of them, probably you ought to be sure that Ackley testifies in some detail on the meetings held in his period. There were a number of other sessions that I could go into. I wouldn't think of them being terribly interesting. We had a lot of meetings with oil company executives last summer about their pricing of gasoline and fuel oil. We did exert some pressure on them in terms of a plea which was actually delivered by C. R. Smith for them to roll back a fuel oil increase and they did.

M: Again, was this an appeal to patriotism? Moral suasion?

O: Moral suasion. You know, the oil industry gets so much support and help from government; the whole oil import program, the depletion allowances--from soup to nuts. Sure, you talk about patriotism, but I don't think there's any question that the industry people are thinking in terms of prejudicing their general relationship with the government or with the President of the United States. In that sense, there is an obvious threat.

A number of times we tried to plead with some labor leaders. We had sessions with AT&T during the telephone strike in which I was playing a very dangerous game, and would have just brought labor down on my head, of trying to stiffen their resistance to a settlement.

M: Again, to hold to a guidepost?

O: Hold to some reasonably low figure. We were no longer talking about 3.2 percent, but trying to hold to 5 and not 6.

M: It's a role that made you uncomfortable though?

O: Yes. Some of these cases we checked with Califano, and he'd say, "Go ahead, the President doesn't want to know what you're doing." Now whether that

meant that he was taking responsibility for telling the President or not, I don't know.

M: But you didn't get into trouble on that?

O: No. Never saw any indication of displeasure from the President for a too aggressive role on either labor or management privately. Quite the contrary. He'd always be egging us on--"Why did they have to get that settled? Couldn't you have done something about it! Why did that price increase have to take place? Isn't there somebody you can talk to? Maybe somebody, some way to roll it back, something we can do." But never eager himself unless absolutely necessary to get into the act. Joe Fowler had a session with the President on the steel case in which he made a personal plea for the President to issue a statement himself which the President asked me to get out, as a Cabinet Committee statement.

M: Did you do that?

O: When Joe heard that it was to be issued as a Cabinet Committee statement, he said, "I want to talk to the President." He raced in and came out fifteen minutes later, and next the President--whether he called me or whether he called Joe Fowler, Joe Califano--he changed the signals and said, "Okay, I'll issue the statement." There's a lot of unwritten history and episodes in this whole area of the moral suasion operation on prices and wages.

M: Maybe we can leave it at this. It could well be that when we learn more, I'll want to come back and talk to you about this. And when you get the transcript, you may want to add some to it which you're free to do.

O: There was--I think of another kind of thing. All through the Viet Nam period we've been subjected to a flood of rumors on impending wage and price controls. They really had no substance whatsoever--never close, and never really any work on it at all.

M: How about rationing?

O: Except for materials allocation for particular defense items, there was never a starter. Yet for some reason the President would never make as unqualified a statement as to his opposition to these as we wanted him to make. We felt that he really should sort of say, "Cross my heart and hope to die," and try to head off these rumors once and for all. Indeed, there was one speech which--this was back at the time when I was a member--Gardner had given me to look at where Jack Valenti had written in something that looked like an implied threat, that if prices and wages didn't behave we might have to go to controls. I sent back a screaming memo saying, "The President surely doesn't want to say this. It will have very unfavorable effects." Then Valenti called me back and said, "I've been working with the President and we've toned it down in the following way. Does that meet your objection? He asked me to be sure that you were satisfied with it." He read it, and I was still not satisfied. I tried to make the case that the reaction to the threat was not to behave better but rather to make sure that you got your price and wage increases in there before the controls took effect. I know Valenti was very skeptical as to that prediction of the economic behavior, and I don't know whether this reflected the views of the President. He did tone it down much further--in fact, virtually eliminated the reference in the speech that was given. He made some statements on our recommendation indicating his opposition to them. I remember his kidding me last spring some time about, "Well, Gardner used to say he had all the nasty experiences of trying to run price and wage controls in Korea. What's your excuse?"

We weren't terribly happy about the mandatory investment controls, just as a precedent that pointed toward other kinds of controls. I think

the statutory powers of the President in this regard were, according to lawyers, a little fuzzy. [I] would have liked to see, even after they were put in place, some kind of a ratification by the Congress of these just to make it clear that it was being done with legislative as well as executive powers being used. This recommendation didn't float.

There was somebody--I never found out what the source was--who was urging the President to use executive authority to control tourism last year. And, boy, that excited us terribly. One of Gardner's last memos as Chairman indicated--it must have been last January--one of Gardner's last memos as Chairman took a very strong position on this.

Occasionally one got the feeling that the President was letting these ideas float around even though he wasn't taking them seriously as a little bit of a goad to get better alternatives. "Okay, you don't like this way of doing it, you come up with something. If this is the wrong way, what's the right way? Here, this guy tells me we can cut back tourist expenditures by half-a-billion dollars. Now, you admit that you can do it that way." I think there was an element of that kind of thing which is a way that the President would operate--sort of make everybody else's case against you and stimulate you to greater and greater achievement.

Those are some of the missing links I think of. As you say, when we look it over, maybe we'll think of some more.

M: Very good. I think you for your time.

[End of Tape 2 of 2 and Interview II]