

Council of Economic Advisers Oral History Interview –JFK#1, 08/1/1964
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Biographical Note

Heller, Economist, Chairman, Council of Economic Advisers (1961 - 1964); Gordon, Economist, Member, Council of Economic Advisers (1961-1962); Tobin, Economist, Adviser, Presidential campaign of John F. Kennedy (1960), Member, Council of Economic Advisers (1961-1962), Adviser, Presidential campaign of Robert F. Kennedy (1967); Ackley, Economist, President's Council of Economic Advisers, member, 1962-68, chair, 1964-68, U.S. Ambassador to Italy, 1968-69; Samuelson, Nobel Prize-winning economist, Newsweek columnist, author, economics professor, and adviser to presidents John F. Kennedy and Lyndon B. Johnson, discuss the Council of Economic Advisers under Kennedy, the recession issue, the budget, and the relationship between the Treasury and Federal Reserve, among other issues.

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Oral History Interview

Of

The Council of Economic Advisers: Walter Heller, Kermit Gordon, James Tobin, Gardner Ackley, Paul Samuelson

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Council of Economic Advisers—JFK #1

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Oral History Interview

with

Walter Heller
Kermit Gordon
James Tobin
Gardner Ackley
Paul Samuelson

August 1, 1964
Fort Ritchie, Maryland

By Joseph Pechman

For the John F. Kennedy Library

PECHMAN: The participants in this conversation are: Walter Heller, chairman of the Council of Economic Advisers since January 1961; Kermit Gordon, director of the Budget [Bureau of the Budget], who was a member of the Council of Economic Advisers from January 1961 up to December 1962; James Tobin, professor of economics at Yale University, who was a member of the Council of Economic Advisers between January 1961 and August 1962; Gardner Ackley, who is now a member of the Council of Economic Advisers and who joined the Council in September 1962; and Paul Samuelson, professor of economics

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at Massachusetts Institute of Technology. I am Joseph Pechman, director of economic studies at the Brookings Institution. Paul Samuelson and I have acted from time to time as consultants to the Council of Economic Advisers. Paul Samuelson, would you tell us when you first met John F. Kennedy and under what circumstances?

SAMUELSON: John F. Kennedy became my congressman in Cambridge in 1946, after he returned from war service as a naval officer. I believe that his connections with the academic community were very sparse at that time. I know that I was hardly aware of him as a congressman. That district had had Tom Eliot [Thomas Hopkinson Eliot], a Boston Brahmin, for a two-year term. Then Michael Curley [James Michael Curley] decided he wanted it and it was amazing how easily he was able to get it. I can't remember whether he was in prison at the time or not. There was also a little gerrymandering. But then Kennedy came in, but he definitely was not part of the Harvard Yard group at that time. I think that Jim Burns's [James McGregor Burns] biography of Kennedy will bear that out. In 1952, Kennedy defeated Henry Cabot Lodge.

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PECHMAN: Paul, let me interrupt you. You did not meet Kennedy during the period he was a congressman?

SAMUELSON: No. In 1952 Kennedy ran for the Senate and defeated Henry Cabot Lodge. I recall this because quite a number of academic people, it's my impression, voted for Lodge and not for Kennedy because of Joseph Kennedy [Joseph P. Kennedy, Sr.] and their attitudes towards the father of John F. Kennedy. Then in 1958, when Kennedy ran for the Senate, he began to have connections with the academic community. I think I met him first during that campaign. He spoke before the MIT faculty club and very successfully. It was a well-received speech.

Earlier I had had some peripheral connection with the Finletter [Thomas K. Finletter] group. Tom Finletter had organized a brain trust for Adlai Stevenson. I'm sure that I was recruited to that group through Kenneth Galbraith and Arthur Schlesinger Jr. and Seymour Harris. Alvin Hansen had some connections. I can recall Leon Keyserling was sometimes there and already the fur was flying somewhat between Leon Keyserling and people like

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Alvin Hansen.

HELLER: Now, was this the Democratic Advisory Committee?

SAMUELSON: No.

HELLER: This was a separate Stevenson group?

SAMUELSON: This was a private group. I always had the impression that the minimal expenses of travel and so forth were actually probably paid for by Bill Benton [William B. Benton], but I never knew. Finletter was the one who ran it. We'd meet in Finletter's apartment in New York, yes.

PECHMAN: Paul, since you've mentioned the Finletter group, we might just as well identify it. Didn't it start in the '52 campaign?

SAMUELSON: It started in the '52 campaign. My own contact with this, that I'm not recalling, was around 1955, before it was known that Stevenson would be the candidate again, while he was still keeping his irons in the fire.

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PECHMAN: Just a moment, Paul. Wait, were you a member of the Finletter group in '52?

HELLER: Well, I came in peripherally in the '56 campaign. There is one thing that might be interesting, just by way of contrast with Kennedy and that is we had a four-hour meeting out in Chicago on tax matters with Stevenson.

PECHMAN: Oh, yes, I remember you told me about that.

HELLER: Yes, that's right. We found it extremely hard to hold Stevenson's attention during that meeting. I do recall that the contrast really was very great in terms of his looking...He was really bored, I thought, with economic problems.

PECHMAN: Who was at that meeting, Walter?

HELLER: Oh, I could probably recall but at the moment it doesn't come back to me.

PECHMAN: Was Stanley Surrey there?

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HELLER: No. I think Dick Musgrave [Richard A. Musgrave] might have been there.

PECHMAN: I know Dick Musgrave and Cary Brown are the two tax people, aside from Walter, that were involved in that Finletter group. They wrote some memos.

SAMUELSON: I was going to a little later make some contrasts between my impression of John F. Kennedy as an economist and as consumer of economics and Adlai Stevenson.

PECHMAN: Just a minute, Paul. Jim, were you a member of the Finletter group?

TOBIN: Well, I attended one meeting of the Finletter group in Finletter's apartment in New York. I think Paul was there.

PECHMAN: Which campaign? The '52 campaign?

TOBIN: I think this was in '55 or '56, because I remember the discussion concerned the ability of the United States to stand defense or other government expenditures and I remember making a strong point of this. Hansen was there and Harriman [William Averell Harriman]

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and Stevenson. I think this was before Stevenson was nominated because it was still a possibility that Harriman might be the candidate.

SAMUELSON: Yes, now one thing that's related to the Finletter group is something that Walter mentioned, namely, the Democratic [National] Committee had an advisory committee of which Ken Galbraith was the chairman.

HELLER: Economic advisory committee.

SAMUELSON: Economic advisory committee. I think the fur flew in that committee between Leon Keyserling and Ken Galbraith and others. I remember, because this was relevant to our recruiting Walter into the cause, that Ken Galbraith said that Walter had been very useful and had at his own expense attended meetings in the East and so forth.

PECHMAN: With respect to the Finletter group, was John F. Kennedy involved in any way, do you know?

SAMUELSON: No. My impression is that we knew a very little bit about it. The reason I bring it up is that after 1958, when John F. Kennedy decided that he was going to go for the presidency and had his staff and they

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were aiming for the presidency, there was a mystique of the Finletter group. They wanted the best of everything and since there had been a marvelous Finletter group, of which they had heard so much, they wanted to have one too. I believe that it was Earl Latham, who was a professor of political science at Amherst [Amherst College], who was the first one to sound out academics to work for Kennedy. He had some sort of assignment.

PECHMAN: What year was that, Paul?

SAMUELSON: I should think that this was '58 and/or '59. Latham had taught summer school almost every summer in Cambridge and so....He was from Amherst.

PECHMAN: Did you know him, Kermit?

GORDON: Yes, he was close to Sorensen [Theodore C. Sorensen]. I remember that Ted used to go up to Amherst every spring when Kennedy was in the Senate to give a lecture in a seminar at Amherst, Mt. Holyoke [Mt. Holyoke College] and the

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other colleges in the neighborhood. Also, Ted Sorensen, after Kennedy became president, tried very, very hard to find a spot in the government for Latham. And, apparently, he did not succeed.

PECHMAN: Where is he now?

GORDON: He's still at Amherst.

SAMUELSON: So I would guess I began to meet with early Kennedy supporters and assistants in 1959. I think it was probably the late summer or some such time. By this time...

PECHMAN: May I interrupt? At one point I'd like to make the matter of record. Earl Latham was a strong supporter of Eisenhower [Dwight D. Eisenhower] in 1952, I'm certain, and also, I think, in 1956.

SAMUELSON: That astonishes me. I certainly would be astonished that in '56 he would.

PECHMAN: I'm sure in '52 and I think it's true in '56 as well.

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HELLER: That is hard to believe. He was at Minnesota [The University of Minnesota] when I went to Minnesota in the forties, on the staff there. I would never have believed that.

ACKLEY: I remember I used to run into Earl Latham frequently at the SSRC [Social Science Research Council] where we worked together. He was the first academic I ran into who was a Kennedy enthusiast. I was a little surprised at the time, I remember.

PECHMAN: Before you go on with your own personal contacts with Kennedy, you reminded me of something that I had forgotten. Apparently I met John F. Kennedy before any of you did. After the war, the major fiscal problem in the District of Columbia was whether to adopt a sales tax or to improve the personal income tax. I, and quite a number of young economists, were members of a small ABC group and tried to convince the Congress to accept a beefed up progressive personal income tax. Kennedy's first committee assignment as a freshman congressman obviously was to be a

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member of the District Committee [Senate District of Columbia Committee]. You recall, the Democrats were in minority in that Congress. I and the others contacted this group of minority congressmen in the House and we actually succeeded with their help in pushing a personal income tax through the House.

I met Kennedy when he signed the letter that I wrote outlining the fiscal program for the District of Columbia that was published in the Washington Post. He and four other minority members of the District committee signed it. I met him at that time. My only recollection of the meeting was that he was not very interested in the fiscal problems of the District of Columbia, except he did seem to have his heart in the right place. He was not interested in having a sales tax but certainly approved of a progressive personal income tax. But I don't recall anything more about it. Just to finish this little story, when it went over to the Senate, the Senate District committee replaced the personal income tax with the sales tax. That's what we have in the District of Columbia today. The House accepted the Senate amendment.

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HELLER: By the way, Joe, we probably should also talk a little bit – maybe Paul's intending to – about Kennedy as a member of the Joint Economic Committee.

SAMUELSON: I was going to say that in appraising and in learning about what Kennedy did in Congress, I was somewhat under the impression, very early on, that he hadn't been a very active congressman. One of the things that led me to that conclusion was that I learned, to my great surprise, that he was on the Joint Economic Committee when he was in the Senate. I testified many, many times before that committee. The attendance was never perfect but he never was at a single meeting. Even Barry Goldwater, who attended very irregularly, was occasionally at meetings.

PECHMAN: This was much later. Barry Goldwater didn't get to the Senate the same time Kennedy did.

SAMUELSON: No, I'm speaking in the late fifties.

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PECHMAN: Walter, do you have the same recollection when you testified?

HELLER: Absolutely. I don't recall ever meeting him there. I do recall comments to the effect that he was not at all an active member, though I think if you talk to the people of the Joint Economic Committee staff, they'll tell you that he made a point of weighing in on the important votes.

SAMUELSON: At the time, I learned that he actually was a very active senator and a great leader in many a fight in the Senate, but primarily these were not on the academic abstract issues of fiscal policy. Now when people like myself began to be recruited in Cambridge for this, it was made very clear to us that you did not have to be for John F. Kennedy for president. In fact it was thought...

PECHMAN: Who made it clear and when were you first contacted?

SAMUELSON: That was Latham, Sorensen...

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PECHMAN: When did you meet Sorensen?

SAMUELSON: Sometime in mid or latter 1959, I should guess. There was also Archibald Cox. The argument was the following: here was a man who would play a great role in American history whether he made the presidency or not. If he made the presidency, he would be important. He wanted the best advice. He did not want personal loyalty. He did not need our votes, he wanted our ideas. It was under those circumstances that I agreed to cooperate.

I believe a little bit earlier Kenneth Galbraith had come out with the half-facetious remark that he was for Kennedy because he was in politics and in politics you're for native sons. Kennedy was from Massachusetts. We regarded that as a great joke, and I never knew whether Ken made up his mind as to whether it was a joke or not. I think he half meant it seriously. I would say that up until the turn of the calendar year, at the very least, I was, in my own mind, still for Stevenson as against Kennedy. But no pledge of allegiance or loyalty was asked for and I think it was rather understood that most of the people like me were for Stevenson at that point.

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PECHMAN: Well, he would have had a great deal of difficulty finding a lot of academics who were pro-Kennedy at that stage.

SAMUELSON: Yes, and the recruitment was not easy. Now, in the course of this recruitment, they wanted some people to do some work and there weren't enough voluntary people. I didn't have the time and they actually said, "Let's get somebody who would do the work for money. Can you recommend anybody?" It's my recollection that at a meeting in the Parker House with Ted Sorensen and Dick Goodwin [Richard N. Goodwin] – then, I think, of the Harvard Law School – I suggested Jim Tobin's name. I'm not sure.

PECHMAN: Did they contact you, Jim, at that time?

TOBIN: They did contact me. This was in the spring of 1960 before the convention during the pre-convention campaign. I believe Dick Goodwin called me from Washington. Perhaps Paul called me also to explain what they had in mind. In regard to the loyalty business,

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I did say to Dick Goodwin when he called that I was not at all sure whom I was for, for the presidential nomination. I said I had always been a supporter of Stevenson's before. He said that made no difference; that they thought if people could work for them and help them understand the issue, then they might choose to be for Kennedy in the end, which perhaps was the case. They did employ me then for writing some memoranda. It was proposed as paid employment and I accepted it as such.

PECHMAN: You did write some memoranda?

TOBIN: Absolutely.

PECHMAN: Well, let's get to that in a minute.

SAMUELSON: But my impression is, by the way – I can't remember the details – that you must have expressed your neutrality in very pungent terms because there was just a little backlash at a later stage as to whether you'd been brutally frank in the way you put your lack of certainty that you would be for Kennedy. No particular offense, but somebody

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remembered. I can't remember who.

GORDON: They just hadn't met Jim yet.

HELLER: Well, the issue will come up again when we talk about Kermit's appointment.

PECHMAN: Let's just get the spring of 1960 clear. Walter, did you have any contact with the Kennedy group in the spring of 1960 at all?

HELLER: None whatever.

SAMUELSON: By this time, by the way, Archibald Cox, I believe, was named the acting coordinator in the Cambridge community. So from this time on, I had no contact with Latham at all. Archibald Cox was nominally the coordinator with Goodwin and Sorensen coming up occasionally, usually when Senator Kennedy was up on a trip.

PECHMAN: Kermit, did they contact you in the spring of 1960 also?

GORDON: No, they did not.

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PECHMAN: Earlier or later?

GORDON: I wasn't involved in any way in the pre-convention activity in 1960. That brief connection that I had with the Kennedy campaign forces occurred in the '58 senatorial race.

PECHMAN: Will you tell us about that?

GORDON: I think first I got a letter from Arthur Schlesinger saying that Senator Kennedy wanted someone in Massachusetts who would work for him on preparation of analyses of economic issues, both relating to state and regional matters and national matters, and saying that Ted Sorensen would give me a call. I got a call from Sorensen and met him in New York. I was going to be in New York, I remember, at that time, and we had a quick lunch. Ted explained that what they wanted was someone from whom they'd accept voluntary proposals and recommendations with respect to economic policy questions. But they wanted principally someone to whom they could refer assignments, ask for an analysis of this problem or that problem, etc.

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I remember telling him first that it seemed to me that what he wanted was more than one man could take on, but that I thought I might possibly line up others who would help. I also said that since it seemed to me that this would be a very time-consuming matter to receive frequent requests for analysis from Senator Kennedy's office that I hoped they did not expect that this would be without compensation. Sorensen, I remember, asked me what the going rate was for such services and I said in the neighborhood of fifty dollars per day.

It was a pleasant enough lunch. Sorensen had to run for his plane. I paid his check, for which he has not reimbursed me. I think I had a desultory exchange of letters with

Sorensen in which he was vague and noncommittal and I was vague and noncommittal and the matter simply dropped. But this was in '58 in the senatorial campaign. I also made clear to Sorensen at that time that although I favored and would be happy to work for Kennedy's reelection for Senate, I did not want any association I had with the campaign at

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that time to be interpreted as committing myself for the presidency. This, of course, was already being widely discussed in '58.

TOBIN: Can I just make one comment on this matter of support of Kennedy before the convention for the presidency. Some of us thought at least the external appearances of the exhibit in Cambridge where certain Harvard professors seemed to change sides from Stevenson to Kennedy when they saw the wind was blowing to Kennedy was a bit raw. I wanted to avoid that sort of thing when I made a declaration of neutrality.

SAMUELSON: This was in the spring of '61?

TOBIN: Spring of '61.

SAMUELSON: I was going...

TOBIN: Spring of '60.

SAMUELSON: Spring of '60. I was going to comment later on the announcement by Ken Galbraith and

[-20-]

Arthur Schlesinger, but that was at a slightly later stage. I don't know how good your memory is, Kermit, on the terms of your refusal to work. You just mentioned fifty dollars a days. That isn't at all the remembrance, right or wrong, that stuck in the mind of the group around the president, including the president.

GORDON: Oh, wait a minute. Well, go ahead.

SAMUELSON: My recollection is, and you can split the difference, it was something like fifty dollars an hour. The whole point of this was, if you asked for fifty dollars a day, this was a perfectly reasonable compensation. Jim probably gets more than that. What did you get paid? The thing that stuck in the craw of the Kennedy people when your name came up later was the insulting way you refused to work, namely, by naming an outrageous price. It was two hundred and fifty dollars a day as I remember it was quoted to us. Either fifty dollars an hour or two hundred and fifty dollars a day.

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HELLER: Paul, when you say quoted to us, you don't mean to me too, do you?

SAMUELSON: Yes, I do, at the Carlyle [Hotel].

HELLER: Well, that's not the kind of thing I'd forget.

SAMUELSON: Well, that's the whole point of my remembrance of the incident.

TOBIN: I think I was paid fifty dollars a day which was my government consulting rate. But on Kermit, I can't remember the exact figure. But in the Hotel Carlyle, when this matter of Kermit's appointment came up, it was stated to us, in something in the way that Paul said, namely that you, Kermit, had named a figure that was obviously one that would keep you from being hired. The apparent reason for this was that you were extremely occupied and busy at the time and only a very high figure would buy you away from what you were doing.

GORDON: Well, I remember, Jim, what my salary was as a professor of economics at Williams College in 1958 and fifty dollars a day seemed like an

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awful lot of money then. It's inconceivable that I could have proposed a higher figure.

SAMUELSON: We're not arguing about what you proposed but what it was thought that you'd proposed. I'm sure that what was told to us was not in the same ball park as fifty dollars a day, because the problem was the insult, not your refusal.

HELLER: Let me just add my recollection of it, which is quite different in tone, Paul, that the idea that he asked for any money, I understood, was rather insulting as of 1958. Now, Jim, when was your consultancy?

TOBIN: My consultancy was in the spring of '60. I didn't ask for money. It was proposed.

HELLER: Let me give what I think is a very clear recollection and that is that they had expected him to work for nothing and that Kermit, as I recall your telling me, you had some other work that you were lined up to do.

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You had debts to pay off and you could not afford to work for nothing.

SAMUELSON: And you weren't terribly enthusiastic about the cause.

GORDON: No, no. I never said that. I remember very clearly making it clear to Sorensen, and I felt at the time that this chilled the atmosphere a little bit, but I was happy to do this in the context of the campaign for the Senate in 1958. I had not made up my mind about 1960 and certainly didn't want him to feel that there was any commitment to continue this in the presidential campaign. There was a chill in the discussion.

HELLER: The reason I trust my recollection on this a good deal better than on many things is because I, after all, had to make a decision. Ken O'Donnell [Kenneth P. O'Donnell] came to me and said, "Your boy's in trouble because he wouldn't work for the forces back in 1958. He wanted to be paid for it," and so forth. And he said,

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"Are you sure he's the man you want or do you want to drop him?" I said, "I'm absolutely sure," and he said, "Good, go ahead," and he said it with a certain relish that indicated there wasn't complete harmony between Ken O'Donnell and Ted Sorensen on the matter. Then I called Kermit after I found out what the nature of the difficulty was and Kermit explained to me exactly what had happened. Then, of course, we went on through. As long as we're talking about this incident, I suppose we ought to follow it through, even though it's chronologically out of order. First, Ted Sorensen's reaction had been apparently to Ken O'Donnell, "You know that SOB." I talked with Ted about it and said I was determined. He said, "Well, take it up with" – were they still saying senator or president-elect? Anyway, "Take it up with Kennedy," and then we did take it up. Now, were you there when we took it up with Kennedy? His reaction was a sour one as I remember, at first.

SAMUELSON: Kennedy's reaction was?

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HELLER: Kennedy's reaction was because he had that recollection in mind. Now Jim....

SAMUELSON: I use this as an illustration of the president's memory, that when your name came up he said, "Now let's see? Isn't that the fellow that wanted to charge us a heck of a lot of money to do some work or something?"

PECHMAN: Sorensen must have reported this conversation with Kermit to Kennedy.

SAMUELSON: Jim, although I was at the Carlyle, I wasn't with you when you got the final clearance on it.

PECHMAN: You came in a little bit later?

SAMUELSON: I think I was in the anteroom or something. But you quoted the president-elect as saying, "Oh, hell, I'm spoiled by this free MIT-Harvard labor. If he's the best man, go ahead with it."

TOBIN: Well, I think, as I remember, Walter, you explained that Kermit was very busy and

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financially pressed at the time and the president said, "Oh, sure, there must be good reason for this," and he sort of dismissed the thing as sort of not worrying about anymore.

HELLER: In effect, he said, "If he's the man you want." I think he probably said however and picked up the phone and called you while we were sitting there in the Carlyle. He brushed it aside finally. Just to close off the incident, let me say that about four months later I was talking to Ted Sorensen and I made some comment referring to the 1958 incident, and Ted said, "God, I'd completely forgotten about that."

SAMUELSON: Let's go back to the fall of 1959 when academics were still being...

PECHMAN: You still haven't told us the first time you actually met and spoke with John F. Kennedy.

SAMUELSON: Well, I think that probably was at the MIT faculty club in the 1958 campaign, when he came to speak.

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PECHMAN: He came to make a plea to the group, is that it?

SAMUELSON: He gave a speech and a very good one on some problems in Massachusetts. It was during the campaign. There were some meetings in the Commander Hotel [Sheraton-Commander Hotel], I remember, and there were some in the Parker House. At that time there were quite a number of law school professors in that group. I think Mark Howe was in the group. I think Sutherland [Arthur Eugene Sutherland, Jr.] – whom I always had thought was a Republican, but was very much

interested in civil rights – of the Harvard Law School was in the group. I know that from the standpoint of medicines, Clark [Dean R. Clark], who was head of the Massachusetts General Hospital, who had a very liberal physician's attitude toward public health and Medicare, was in the group. Walt Rostow was in the group, and I think Paul Rosenstein-Rodan was. About this time, a little after I went in, Carl Kaysen began to meet with the other people.

I'd like to make clear a problem that was in my mind as a typical academic economist who was for Stevenson. I had to satisfy myself even to work for John Kennedy, on about three or four matters. One, the fact that he was a son of Joseph Kennedy, who had been an ambassador to

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England and thought to have been an appeaser, was a problem. Secondly, we did not think that Jack Kennedy had a very courageous record in the McCarthy [Joseph R. McCarthy] era. Thirdly, and this may seem strange now that this was an issue, but there was a problem that he was a Catholic and just what the position of the Catholic Church would be. You have to remember that in Massachusetts politics the Catholic Church was generally so anti birth control legislation, which academics were typically...I had a feeling at that time that in many democratic countries that when the Catholic Church was in the minority, it favored free opinions, but that when it got into the majority, it didn't symmetrically extend that. So I had to satisfy myself on all of those points even to work with him. That takes us into...

PECHMAN: The spring of 1960.

SAMUELSON: ...1960. There was a need for more people to do more work in terms of economics. That's when Jim came in. I'm not sure Francis Bator wasn't hired to do some work.

PECHMAN: Let's identify Francis Bator.

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SAMUELSON: Francis Bator at that time was an assistant professor or associate professor at MIT and is now in the White House working with Bundy [McGeorge Bundy], having been in the AID [Agency for International Development] program.

PECHMAN: I'd like to put into the record the kind of things you people were called upon to submit, either orally or in writing, to the Kennedy people or directed to Kennedy during the pre-convention period. Paul, did you do any writing to speak of or were you just in telephone contact? I'm talking prior to the convention.

SAMUELSON: I think prior to the convention there were several oral meetings in Cambridge or Boston, some of them at which John F. Kennedy was present and participated and some with Sorensen and Goodwin.

PECHMAN: What sort of issues did you talk about?

SAMUELSON: We talked about how the business cycle situation was developing. I know that people like Paul Rosenstein-Rodan talked to him about development problems. Didn't Kennedy have a strong stand with respect to Algiers in which he came out anti-colonial? I can remember his being quite interested

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in development problems. He appeared on Eleanor Roosevelt's program at Brandeis [Brandeis University] on educational TV with Paul Rosenstein-Rodan and I don't remember who else. He obviously had been briefed upon the issues.

PECHMAN: These were the general discussions on quite a variety of policy issues, not only on economic issues.

SAMUELSON: That's right. But you must remember that people like Archibald Cox were discussing all sorts of labor problems with him which did interest him as a senator. Many of his most active fights had to do with labor bills, labor legislation, union issues and matters like that.

PECHMAN: In these meetings, did he carry the ball or did Sorensen carry the ball? Or did Arch Cox?

SAMUELSON: I'd say when he was present, he'd carry the ball. Sorensen would be very quiet.

PECHMAN: Decisive questions?

SAMUELSON: He also was selling himself in many of these meetings to the academics. There'd always be new academics at these who hadn't been at the other meetings, like any movement that's recruiting. He was also

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very good at remembering names. I have an impression of how tireless a politician had to be because of his tight schedules. He was meeting with so many groups, including the academics, and always a little late, as usual, for each appointment.

PECHMAN: Was he interested in economics?

SAMUELSON: My impression is that prior to the summer after the convention, he was not very familiar with economics and he was not terribly interested in economics. He hadn't really thought too much about it.

HELLER: Can I just break in there to say that when he had me down in Georgetown to ask me to become chairman of the Council, he said, with a smile on his face, "You know, I think you'll find me not only more interested in economics than my predecessor, but possibly just a little bit more competent in this field."

SAMUELSON: I perhaps am running ahead of the story, but after the convention, in Hyannis Port, the first long serious briefing in economics that we had with the candidate was arranged by Archie Cox and included Seymour Harris, Ken Galbraith, Dick Lester [Richard A. Lester],

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and myself.

PECHMAN: Excuse me, Paul, I do want to finish the pre-convention. I have only one more question. Jim Tobin, what memoranda did you prepare for the Kennedy people in the spring and did you see Kennedy during the spring at all?

TOBIN: I didn't see Kennedy during that spring at all. The only personal contact I had with his staff was a breakfast meeting with Ted Sorensen in New York, where we sealed the arrangement that I should do the work. I remember that meeting came just after the candidate had made a speech about the presidency, about leadership in the presidency differentiating what a president ought to do from what Eisenhower had been doing, at least by implication. Sorensen was very much interested in public reaction to the speech, which was a very good one. Sorensen didn't indicate very much interest in economics, but he seemed to think that it was a duty that had to be gone through. He told me that the candidate was awfully concerned because his father was telling him one thing and these academic economists kept telling him the other.

PECHMAN: They wanted you to arbitrate?

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TOBIN: They didn't want me to arbitrate. The upshot of this was that the main thing I did was in connection with the Democratic Advisory Committee policy meeting on economic policy. The Democratic Advisory Committee has already been mentioned. Leon Keyserling wrote a long

memorandum on economic growth policy. It's fair to say there was only one growth policy in the Keyserling memorandum even though the memorandum went on for one hundred pages and that was "more spending, more spending, more spending" by everybody. I was asked to write a detailed critique of this for the use of the Kennedy forces within the DAC [Democratic Advisory Committee] and I did that. I got a phone call then from Dick Goodwin afterwards that "you really took care of him." The Keyserling document was rejected as a statement of Democratic policy. I believe some of the poor relations or bitterness that later developed that Keyserling had toward this Council may have one root in that episode.

PECHMAN: I didn't know this episode at all.

SAMUELSON: Jim has brought out one point which impressed me, namely that the people around Kennedy, and Kennedy himself probably, had a feeling that they needed some economists but they weren't sure just why.

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It reminds me of a story I'm told and I'm sure it was a true story. In the 1932 political campaign for Roosevelt [Franklin D. Roosevelt], Leon Henderson was named economist and I think that may have been the first time that a person was appointed economist to a campaign. He allegedly reported to duty to Charles Michelson, I think it was. Was he the man in charge of public relations? Mike was supposed to have said, "You see these buttons on the sleeve of my coat? They're not worth a god damn, but everybody says I've got to have them. That's the way I feel about an economist on this campaign."

I think the Kennedy people just wanted to be sure they had a full line. They'd heard about the Finletter group and they just wanted to be sure they weren't missing a trick. But they couldn't have told you just exactly what it was that they expected to get from economists or what it was they were going to need.

PECHMAN: In retrospect, I find that a little hard to believe because, after all, economic policy is really an important part of total policy. They must have recognized that as far as recessions and so forth were concerned, this had to be a major concern.

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SAMUELSON: Well, yes, but that isn't inconsistent.

HELLER: Remember the campaign was void of any aggressive economic policy. We'll talk about that a little later but...

ACKLEY: I wondered whether any of this group or any economists had any input into the platform, which was a rather curious one, you will remember, on economic affairs?

SAMUELSON: I think that if I had wanted to go, I could have gone to the convention and the previous thing, but I had no desire to do so. I have no remembrance of this.

ACKLEY: It had the 5 percent growth rate pledge in it. Also, as I recall there was not a word on the balance of payments.

TOBIN: There were two other main things I did professionally for the Kennedy pre-convention campaign, besides the anti-Keyserling memorandum which was quite long and detailed. One was in connection with the 5 percent growth pledge which was already being mentioned by the candidate before the convention, I believe. At any rate, accelerating growth seemed to be a major theme. I took this seriously and wrote a long memorandum about how you raise the rate of growth.

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PECHMAN: Did that later become the New Republic article?

TOBIN: It was the New Republic article, yes, modified and in more detail and extended and so on.

PECHMAN: Would you identify the New Republic article for the record?

TOBIN: Yes. The article was called "Growth through Taxation" and it's in the New Republic in the summer of '60, July.

SAMUELSON: Didn't you have a research project in that subject that you were doing in an academic way?

TOBIN: No.

SAMUELSON: I always thought that that article was a report on some research that you'd been doing.

TOBIN: No. That was just a reaction to all the talk about growth.

SAMUELSON: Can I ask you a question? Did candidate Kennedy ever use the 5 percent figure?

TOBIN: I'm not sure about that.

SAMUELSON: One of the things that I know I did, and perhaps some others did also, was to warn him against the

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5 percent figure. The 5 percent figure first came into prominence in the Rockefeller Brothers [Rockefeller Brothers Fund] report. Actually, it was not their preferred figure, but it was the one that was picked up by the public and mentioned as the possibility. Also, the 5 percent figure was in one of Keyserling's Congress for Progress, or whatever that was.

TOBIN: It was in this Keyserling memorandum which I referred to also.

SAMUELSON: It was in the Democratic platform, but I know that in my talking with Kennedy and with people around him, I warned that that seemed to me too high and that he should be very careful about promising a 5 percent figure. I had the impression that he was rather restrained in naming any figure.

HELLER: The interesting thing is that at my first meeting with Kennedy in October 1960, that was the first question he put to me: "Do you think we can really make that 5 percent rate of growth that we've promised in the platform?" I guess without knowing what the Samuelson party line was, I said, "It's going to be mighty tough. You just don't jump 5 percent to a growth rate overnight." So that fitted right in.

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SAMUELSON: By the way, Nelson Rockefeller, in a burst of enthusiasm, I think in 1960, on one occasion upped the ante to 6 percent in one particular speech.

PECHMAN: Jim, that's the second memorandum.

TOBIN: The third memorandum – and I might say that all of these I still have in the files and they could be...

SAMUELSON: ...incorporated in the record.

PECHMAN: Let me just ask Walter.

TOBIN: Yes, the third memorandum was on the balance of payments and gold policy.

PECHMAN: Was that before the convention?

TOBIN: Before the convention. I have no evidence that the candidate had read this.

PECHMAN: Did you have evidence that he read the other two?

TOBIN: No, not really, but I think they were things that he was more interested in than the balance of payment one. The staff had heard about balance of payment and thought they ought to do something about it.

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One thing that sort of indicates that there was not too great an interest in economic matters is this: one of the things that Dick Goodwin said to me over the telephone was, "All this accelerated depreciation stuff or tax credit business, that's a lot of hogwash, isn't it?" I said, "Well, I'm not sure about that," and that was one of the things I put in the growth memos.

Just to get my previous associations with the Kennedys on the record, I did know Joe Kennedy [Joseph P. Kennedy, Jr.] – Joe, Jr. – class of 1938, Harvard. I was in the class of '39. He was a member of the student council, a class and school leader, and I knew him on the student council. He was a very open and extroverted young man, very able, not particularly deep or scholarly, at least, in appearance at that time. But I did not know John in Harvard College.

SAMUELSON: It's my impression that at the Carlyle Hotel when you were introduced to President-elect Kennedy as the new man, professor at Yale, that a look came over his face that said, "Don't I know you from somewhere?" And you said, "Well, I was in the class after your brother and before yours and served with your brother on the council." He said,

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"Well, I thought you looked familiar." Then he said something like, "Well, gee, here we were trying to get away from Harvard."

TOBIN: Yes, "Here I thought I was not appointing a Harvard man but a Yale man and it turns out there's a Harvard man under the skin after all."¹

SAMUELSON: Then he said, "Are you by any chance related to the Boston Tobins, Maurice Tobin?" or something like that. You said, "I don't think I can claim that." And he said, "Are you related to Jim Tobin, the Pittsburgh Pirates player?" And you said, "No." Somebody said he was Negro.

TOBIN: No, no, not a Negro. As I pointed out to Kennedy, he also played for the Braves when they were in Boston. I gained some prestige at Harvard from people who thought I led a double life.

PECHMAN: He is not a Negro?

TOBIN: No.

¹ See Appendix A, note 2a.

SAMUELSON: Oh, I thought... This was my way of leading into the following story. Then he said, "Was he a Negro?" That is, Jim Tobin on the Pirates, because then he told the story about during the campaign at a big rally, Nat King Cole came out for Kennedy

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and he came out and the crowd went mad, waving and everything. Nat King Cole said, "I'm not him." This is the story Kennedy told.

TOBIN:² When I agreed to do some professional work for Kennedy before the convention, I received a nice letter from him confirming the arrangement and expressing the hope that he would meet me. I was anxious to do so and in my reply I said perhaps I would be in Washington for other reasons and could stop in at his office. This was not taken up, naturally enough. When I did happen to be in Washington that June, I was too shy to call the senator's office, which I now realize I should have done.

When I went out to Wisconsin around July 1, I told Dick Goodwin where I would be. After the convention I read in the paper that Kennedy was summoning his economic advisors to Hyannis Port. I was really quite disappointed that I was not asked to come.

PECHMAN: Paul, we're ready now to get to that famous briefing session which, if I remember it, was reported in the newspaper.

SAMUELSON: Yes, because it was a very big day in Hyannis Port.

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It was soon after the convention. On that same day, Governor Disalle [Michael V. Disalle] was brought to Hyannis Port and met the press. Walter Reuther was there and met the press. We had a long session. I would guess from about – my memory is imperfect – but I would guess it lasted from about 10:30 till 3:00, starting out in the Kennedy home in the compound with lots of Kennedy children underfoot. It then went out on the boat, the Marlin, and we had a long session of talks there. Now, to show Kennedy's interest in economics, I don't think that he felt the show was pinching in terms of general economics. I would say that during the whole campaign, these five hours represent at least half of the formal time that he spent on formal economics. But that was a big day of concentration.

As we started out, he had a number of duties to perform such as to appear before the microphone and the newsreel and television cameras with Governor DiSalle. Then we met with Walter Reuther. Walter Reuther said, "My boys can help you on what you're doing. Anything that you do," he said, "just send it down to our boys and we'll fix it up for you." Then he told us how we should do our job. It consisted of, "You can't just talk to me abstract

² Statement inserted by Tobin upon review of transcript.

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about gas and stuff. You've got to make it in terms of human beings. Now here are people without work and if we put these people to work we could have so many hospitals, etc., etc." After Walter Reuther left, John Kennedy said, "Forget it. You don't have to report to anybody. You just do the best job you can and don't clear it with them down in Washington or anything else."

So then we started to talk economics as if it were a seminar. Almost at the very beginning, Seymour Harris began to talk in his fashion, very fast with lots of ideas and a million facts. Archie Cox, who was there as a lawyer, broke in and said, "Seymour, slow down, you're going too fast. Think of this as Ec A." Seymour Harris said, "Oh, Jack's had Ec A." Senator Kennedy said, "It's true I did, but it was in 1940, and I got a C in the course. I had Russ Nixon for my teacher, so don't omit anything."

PECHMAN: Identify Russ Nixon.

SAMUELSON: Russ Nixon was a popular instructor in the Harvard economics department who later became an official of the United Electrical Workers Union. I think that I later checked up and that John F. Kennedy

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had Nixon for only one of his two semesters of Ec A. It's my impression that he had a more distinguished economist for the other one. It might have been Dick Musgrave, but I'm unsure about that. Do you know the background of that? But he did not consider himself as knowing economics. In this respect he was like Adlai Stevenson, who at that time was very unsure of himself and unlike Governor Harriman, who really thought and probably thinks to this day that he does know economics.

HELLER: Ted Kennedy [Edward M. Kennedy] apparently did have Seymour in economics. If my memory serves me, when Ted was in Europe prior to his running for the Senate, we had a luncheon which was ostensibly in honor of Dirk Stikker, but was really designed as part of the Ted Kennedy indoctrination course. I remember talking with him afterwards in the garden, and he was talking real good sense on debt matters, debt policy, and the budget and so forth. He said, "I got all my ideas from Seymour Harris' Ec A." That's the way I recall it.

SAMUELSON: I'm surprised at that. At a meeting for Ted Kennedy, when he was running for the Senate, where

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very few academics appeared because very few Harvard people or

MIT people were for him – I being one of the exceptions – I was asked by Seymour to make a little speech. I said, “I hope that you’re not going to follow the unsound fiscal policies of Seymour Harris when you are elected to the Senate.” He was scared. He didn’t know whether I was joking or not and he talked around the question. I thought at the time, his brother John would have viewed that remark very well and very differently.

Well, we discussed many issues. I would say that from our discussion that day there’d be some signs that he had not digested the content of your memos, but I do think that he maybe started out with a desire to disbelieve in Keyserling economics. I always felt that one of the reasons that I was in so solidly with him was that I was considered to be a sober and respectable and even a conservative New Deal type and this was a quality that was very much valued. In fact it was used later almost as a stalking horse, that even such a conservative as Samuelson says this or that, which would cause a laugh in some circles. I used to say, “I’ll go along with the indignity of that for the good of the cause.”

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PECHMAN: I’ve always attributed this tendency of Kennedy and the Kennedy group to be sort of moderate on economics largely to the influence of Papa Kennedy. After all, he grew up in a wealthy family and Joe Kennedy was a very conservative man in economics. Basically John F. Kennedy was a liberal guy, but having grown up in a conservative atmosphere, his natural instinct was to be much more moderate than the Keyserling approach would lead him to. Is that right, Paul?

SAMUELSON: I think there is something to that. Let’s make clear to the record that although John F. Kennedy went to the London School of Economics after he graduated from Harvard...

HELLER: And also went to Stanford [Stanford University].

SAMUELSON: ...that he...I didn’t remember that, but I’m quite sure that at the London School of Economics he studied in the political science Laski [Harold J. Laski] area and not in the Lionel Robbins economic area at all. It was very easy to do in the London School, too. What did he do at Stanford Business School? I didn’t remember that, Walter.

HELLER: Oh, yes. He went there for the better part of a year.

PECHMAN: Would you explain one thing? We agree that he

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couldn’t stomach – he and/or Ted Sorensen – the Keyserling laws. How do you account for the close friendship with Seymour Harris?

SAMUELSON: I think Seymour Harris had close connections with him in connection with what you might call the reactionary side of Seymour Harris, namely, the protective tariff for New England and New England development. Once the MIT economics department got a request from Dow Chemical [Dow Chemical Company] or one of the chemical companies asking, "Couldn't you find a respectable economist who is for the protective tariff?" We said, "The only one you could find would be Seymour Harris." Arthur Okun might qualify completely. I think that Seymour, by the way, testified in favor of the bicycle companies against Emile Dupre, who was for the importers of bicycles.

GORDON: I'd forgotten Seymour was on the other side. Emile was in fact representing the bicycle importers.

SAMUELSON: So...

PECHMAN: Excuse me, Paul. Jim, you had a comment here.

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TOBIN: I think the group around Kennedy felt politically that a kind of unmitigated Keyserling or old-style Democratic liberalism in regard to economics and fiscal policy wasn't going to pay off politically, both during the campaign and afterwards. This must have influenced the sorts of things and the sorts of economists they wanted.

SAMUELSON: But I think it also didn't fit in with his visceral feelings.
Now I had the strong impression that the father was in the background already. It was felt that if he was to become a Democratic nominee, he would have to be a liberal person. The father had been much more influential, I believe, in the earlier campaigns. For example, there was a very good financial writer for the Boston Globe, John Harriman, who is now dead, who told me that he had been hired and paid by the father to write speeches for Kennedy's 1952 senatorial campaign. To show that although the father was in the background and certainly had been in the background as far as the academics I was with, Harriman told me that during the 1960 campaign or pre-campaign, the father, Joseph, Sr., called him

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up and said, "Do you think that easy money is going to be an important issue in this campaign? Does Jack have to take an unsound view, namely to be in favor of easy money, for political reasons or would it be unnecessary for him to do so?" Now I construed this to mean not that his father was calling signals in any important way, but he had the feeling that he was still in there calling the signals. That doesn't mean that he had any real impact upon Kennedy. But now to go back to what we talked about at Hyannis Port.

HELLER: I think one thing should be cleared up a little about the father's influence on the president's monetary thinking, because what you're implying is that the father, Joe Kennedy, was effectively in favor of tight money.

SAMUELSON: That's how I construed the inquiry to Harriman.

HELLER: Well, it came in on the other side several times when the president, you remember, used to tell us his father had no use for the banking fraternity and so forth. This came up in the context of high

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banking profits and bankers like tight money because it's produced high profits for them. I interpreted the father's influence in this case as at least equivocal, that is to say that he thought the standard banking fraternity was reaping great benefits from tight money. As far as the president was concerned, this seemed to weigh in on the side of keeping money easy. I don't know. Jim may have some comment on that.

SAMUELSON: I would have no knowledge of that. But let me say that my own influence – in fact I think it was one of the reasons that I tried to get Jim in – my original decision to work with Kennedy, which is not the sort of thing that I typically did because I was never involved in politics, came about because I thought this was a great country of ours. It was too important to leave a great country of ours to the likes of universal geniuses like Walt Rostow and Ken Galbraith. I thought that what was needed, also, was some little picture men, which is what I regarded myself as. During the campaign and before, as far as my monetary policy is concerned, I thought it my duty to offset the influence of Ken Galbraith,

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who was strong in the opinion that the only good interest rate is a low interest rate. This should be definitely stated. I remember being told I think by Jim Tobin at a slightly earlier date, the complaint of a young Swedish economist, who worked for the Swedish government and who was at Yale, about Ken Galbraith. On his way back from Moscow, he was the guest of the State of Sweden, and went to their weekend place. In two hours he undid the good work of two years of the civil service in which they were trying to get some use to be made of the interest rate to ration out scarce money in the inflationary Swedish situation. Ken Galbraith said, "That's absolutely nonsense. Decide what interest rate you want for the next three or five years, namely three percent, and announce that." I believe that if you examine the statements made by Kennedy during the campaign there were no pledges as Keyserling, Harris, and Galbraith would have liked for unmitigated low interest rates.

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ACKLEY: Of course, the Democratic platform for '60 had a very strong low interest rate plank in it and was very critical of Republican tight money.

SAMUELSON: My impression is that we paid no attention to the platform. We didn't think of it as ours. We didn't think of it as binding.

PECHMAN: For the record, let me just button up the platform. Nobody here had anything to do with drafting language for the platform. Is that right?

ALL: That's right.

PECHMAN: Could you tell us specifically what points you advised him on during that Hyannis Port meeting? It's clear to me that the Galbraith-Harris kind of approach did not permeate the campaign.

SAMUELSON: No, as a matter of fact, I would say, in a minor way that day in Hyannis Port was a battle between Ken Galbraith and myself and that my views prevailed on the battlefield that day and subsequently. We discussed the problem of unemployment. It was the opinion, I think, of all the people there

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that we probably were in for a recession, but that it was good politics probably not to let it start to hurt before it was used.

PECHMAN: What was the date? This must have been after the convention. It must have been August 1960.

ACKLEY: The recession began in May.

SAMUELSON: That's right.

PECHMAN: Paul is quite right. Nobody called the downturn a recession during the campaign. It was only after the Joint Economic Committee held a session in December.

SAMUELSON: No, I think that in the final Pennsylvania, Illinois, and Ohio speeches, Kennedy began to use the growing unemployment.

HELLER: I think he was rather careful – although I think that's something the historians can find out – not to use the word recession, because he even balked a bit at that on December 23. I'll bring that in later.

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SAMUELSON: He didn't want to be a prophet of gloom. You see, Paul Douglas [Paul H. Douglas], two recessions earlier, had been denounced as a prophet of gloom. On that day, we thought this was working for him. There was some discussion, I remember, in the Kennedy camp that the Eisenhower people would fix things up and not let there be a recession so Nixon [Richard M. Nixon] would win. I was pretty optimistic for them and pessimistic for the country that they wouldn't do a thing. They wouldn't even know how to do a thing and what friends did Nixon have there who would turn a finger for him?

HELLER: Allen Wallis.

SAMUELSON: Allen Wallis was complaining bitterly to me before the Republican Convention [Republican National Convention] and after the Democratic one on the coast about how the Federal Reserve was killing them – murdering them – because he was looking at the great change in the money supply. He was very bitter. Arthur Burns told me, and I think this is literally true, that Nixon,

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in February of 1961, reminded him that a year before that, on February 15, he – Burns – had told Nixon that he was going to have a recession and he was going to be running in the face of a recession. When Burns told me that, I said, “Yes, and Milton Friedman on February 17, 1960, said there was a recession.” Burns said, “Yes, but he just said it because of DMDT.”

PECHMAN: Identify that.

SAMUELSON: The rate of change of the money supply; whereas Burns had used the comprehensive set. So both sides, even before the turning point in May, although they weren't sure that the recession was there, thought that the prosperity was running out and this would be a favorable factor for the Democrats.

HELLER: Can I inject one thing that I'd like to have recorded for history on Allen Wallis? I have a clipping of the speech he gave just before the election of 1960, in which he said, “If the Democrats were elected, it would be a return to

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mercantilism. We would have total state control of the economy.” He just made the most dire set of political predictions I've ever heard an economist present.

SAMUELSON: I always thought Wallis always caused Nixon – although he did not write the speech – to give his St. Louis speech on growthmanship, which was thought by many Nixon supporters, including I think Nixon, to have been a mistake, when he laughed off the problem of growth and compared it to the problem of a child. It was a very bad comparison.

HELLER: There was a very close correspondence to a Wallis speech.

SAMUELSON: Yes, and I thought after that Nixon went away from that and considered that it had been a mistake.

But to go back to Hyannis Port, we then discussed the problem of growth and we hammered away at the point. We were already on the boat. I had anticipated, by the way, a magnificent meal on the boat. A colored chef went along, and that

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was all primed for us. We got bloody marys which was okay, and then as I remember it, fried, cut up frankfurters. I had prepared my stomach for tenderloin steak. Well anyway, we discussed the problem of growth. We hammered away at the point that by doing a great deal, you could get the growth rate up from 3.8 percent to 4.1 percent. I must say that candidate Kennedy found this discouraging. He said, “Well, you haven’t encouraged me on the problem of growth.”

PECHMAN: Did Seymour Harris agree with that?

SAMUELSON: I think that on this that there wasn’t any disagreement. In fact I discovered this to be characteristic of Mr. Kennedy at that time that big numbers could look very small to him. He would ask again and again, “Well now, I don’t understand it. How can a 3 billion dollar deficit mean anything in a 400 billion dollar gross national product?” Or, “What have you accomplished if you go from a 3.8 to 4.1?” And I’d say, “Well, 3.8 points to 4.1 points, a man could work all his life and feel rewarded if he succeeded in doing that the way compound interest behaves.” But it still tended

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to look small to him. Also, I know about this, to bring the unemployment rate from 7 percent down to 6 percent, he would say, “Well, now, is that all one can accomplish by this?” And the impression he gave was that that’s a tremendous amount of work. I remember arguing on that same day that probably in terms of welfare and well-being, it was much more important to get from 7 down to 6 than to get from 4 down to 3. But these doubts would come back again and again.

Then finally, we talked in the last part of the afternoon, at great length, about the gold problem. He was going to be in for real trouble; that the balance of payments problem was not a joke and that it was a very serious thing. I know I was so very amused and it illustrated

to me an engaging quality of Seymour Harris who, to my mind, is completely partisan. If he's for you, there isn't anything you can do wrong. Now I'm a pal of his and I could do anything and it would be all right. Try Milton Friedman who isn't, could hardly get into his good graces. Well, Seymour Harris had an

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elaborate program about what ought to be about the balance of payments and he really berated the Eisenhower administration. But many of those points were things that the Eisenhower administration in a half-hearted or another way had been trying to do. He was warned that that was going to be a big problem and there was a problem of possible gold runs and confidence and the balance of payments problem was a very tough one.

PECHMAN: Was there agreement between you and Ken Galbraith on prescriptions for solving the balance of payments problem at that point?

SAMUELSON: No, because frankly it's my impression that Ken did not get interested in the balance of payments problem until October, during the campaign itself when things began to erupt on the balance of payments front. Well, the upshot of it was that although candidate Kennedy talked about getting the country moving again and the inaction of the Eisenhower administration, neither he nor his staff had really thought through at that point just what it was that it would take to get the country

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moving again. I always felt later as the events developed that maybe his education should have been carried further on the need for deficits.

PECHMAN: Did the debt come up during the Hyannis Port meeting? What was his attitude toward deficits?

SAMUELSON: I don't think that we sufficiently explored it. We kept explaining that you had to get in more fiscal stimulus, but I don't think we really shot home the unpleasant point, that this did involve an extenuation of the deficit. I say this because of the later reaction to our task force – the preliminary findings – when there was great surprise and consternation on the part of one and all in the Kennedy camp as to what it was going to take to get the country moving again.

TOBIN: I guess we don't have the campaign speeches here, but in regard to the easy money question, I seem to remember a campaign speech after the convention by candidate Kennedy which was a very strong easy money speech.

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SAMUELSON: I think you registered some pain.

TOBIN: I registered some pain in my letter to you. It had all the earmarks to me of a Galbraith-written speech. Yes, I'm sure I wrote to you about it. It caused, I know, consternation in the Federal Reserve and distrust of Kennedy in the Federal Reserve because this was mentioned to us later after the administration began by Chairman Martin [William McChesney Martin, Jr.]. It caused, I think, concern among central bankers abroad.

The other question I'd like to ask Paul is, during the discussion of the balance of payments that you had in Hyannis Port, was the question of the maintenance of the exchange rate of the gold clearance discussed explicitly? Was there a possibility that the new president, if he were elected, could follow the Roosevelt precedent? I'm sort of interested in the point of view of history, whether this was ever mentioned to the president that this was an alternative that he might consider as he came into office?

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SAMUELSON: I have often reproached myself that that wasn't brought to his attention. I think that it was never brought up, certainly not at Hyannis Port.

I want to say about the campaign though, as the campaign developed, Archibald Cox stayed in Washington coordinating the speech-writing out of there. Sorensen and others were on the road. There inevitably came to be a gap between Washington and the people on the road. I know that Archie Cox felt very unhappy and neglected and felt that he was having no influence. Moreover, candidate Kennedy often threw away his script and some of his most newsworthy speeches weren't as they were written. For example, he gave a very protectionist speech in New Hampshire. He felt that that's what they wanted to hear and he was getting a response from the crowd that was quite typical. When he got a response from the crowd he poured it on, and this caused a certain amount of consternation.

GORDON: This was an area, Paul, where he had a great deal of experience. His whole Senate career was sharply focused on the trade and protection problems of New England industry. It just came naturally.

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SAMUELSON: I don't think that morning he'd planned to say what he said. It's my impression that the campaign first came to life in the Labor Day speech in Detroit. It may have been the first time he used the expression, "Don't ask what your country can do for you but what you can do for your country." That got a big response. I believe that he began to ad lib at that point and things went very much better. There was quite an anti-climax – like a phony war – period in the campaign in that he wasn't registering during the first part and nothing was happening. The crowds were apathetic, if you can remember.

PECHMAN: Paul, when the meeting broke up, were there any definite plans laid for further discussions or for organization of economic intelligence during the campaign for...

SAMUELSON: I'm sure there was. I know at least my efforts were supposed to be cleared through Archibald Cox and most of the communications that took place either by phone or by letter from my end were with Cox.

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PECHMAN: Did you supply written materials throughout the campaign on the economic matters for speeches and so on?

SAMUELSON: Memos, yes, although I did not do speech-writing and quite little of the memos I wrote did I ever find anything in speeches that looked to me like the very words. This would be in contrast to Ken Galbraith for example. I think a lot of the material as given had been written by him.

PECHMAN: Did you see the candidate between Hyannis Port and the election at all?

SAMUELSON: I guess probably I did, but I can't remember. Let me think. I don't remember. I worked very closely with Deirdre Henderson, as I remember it, who was the coordinator in the senator's office in Massachusetts. Any materials that I prepared would be sent down. Later, when the time came for discussions of appointments, it was also through her. I'm running ahead of the story.

PECHMAN: Who's she?

SAMUELSON: She was his personal assistant. I don't know what happened to her in the new administration. At one time she was going to work for Bundy. I don't know actually where she did work, but she was his girl friday who did much of the coordinating.

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Now later on, when the concern about easy money and Europeans and balance of payments began to heat up, Kennedy gave a very statesman-like speech before the security analysts in Philadelphia, I think it was, on his solution on the balance of payments.

PECHMAN: Let me remind you about why he did that, I think. Remember that was the time, I think, that Anderson [Robert B. Anderson] was over in Europe on his very worried trip about the balance of payments.

SAMUELSON: With Henry Wallich?

HELLER: A very ill-fated trip.

PECHMAN: My guess is they were asking you for advice on what to say and do about that particular trip. Isn't that right, Paul?

SAMUELSON: Yes. Now, the fund meetings took place in September. Europeans and foreign experts generally, many of whom came through Boston on the way down and talked to me, were very concerned about the lackadaisical Eisenhower tail-end administration. They couldn't figure whether these people were serious or they were lying. You know Anderson gave a speech that said everything was rosy, that there was no recession, that there was a pickup to be expected. They couldn't get any serious discussion about the balance of payments problem. They were just clamming up and although

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there was a briefing of the rival candidates on security matters, I think that there was no briefing – I couldn't find out that there was – on the problem of gold. This had importance a little bit later.

Well, in any case, this was an extremely statesmanlike speech that he gave before the security analysts. I can remember Leonard Silk calling me up and saying, "Elliot Bell wants you to know that you've done a great thing for your country," and so forth. That speech was written, I think, in its entirety by Kenneth Galbraith. Every one of those statesmen... Now, it's true that people like me had been feeding material.

PECHMAN: Did you see the speech here before it was delivered?

SAMUELSON: No, I didn't. I might have seen it. I drafted all kinds of drafts here. Then particularly the Business Week people said that Kennedy ought to clarify the attitude on gold and so forth, because everybody was worried. Before the business economists, Nixon gave a speech in October in which he said – I would myself term it in an inflammatory way – that "If Kennedy is elected, there will irresponsible fiscal policy." He said it so there would be a gold flutter and that day is when the gold flutter started in Europe.

Now, at that point, the price of gold began to rise and I believe there was a complete vacuum of communication

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between the Bank of England and our Treasury [Department of the Treasury] and our Federal Reserve. Our people just clammed up. They didn't know what to do. They let the price float. It went higher and higher. I'm quite sure there was no communication to the Kennedy

camp directly.

By chance, Per Jacobssen was in Cambridge at Harvard talking all day and he felt a vacuum of communication. I know he talked to me about the problem. At that point Karl Brandt got in touch with somebody in New York, who got in touch with Ken Galbraith to try to make some rapprochement between the two camps. That's when Ken, I think, for the first time really got involved in the gold problem. I say this as a joke, but Ken didn't know much about the problem up to then. He'd say, "What's the g-o-l-d they're talking about?" His first reaction was to give an announcement to the press that this was just European speculators that just appeared. Then later, he started analyzing it.

At this point, I didn't know whether maybe some move by the Kennedy people oughtn't to be made to the Eisenhower team, so it would

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be a united front, and I asked you whether I should approach Henry Wallich.

HELLER: Yes, I remember that.

SAMUELSON: And you said, "No, Wallich is a bitter man. He's saying, 'The spenders are going to be taken over.'"

TOBIN: Was this still before the election?

SAMUELSON: Yes. "And it would be a mistake to do anything." Yes. I always thought to myself that Henry Wallich had probably written Anderson's speech and done a good deal of what went before the fund. Whoever wrote that speech knew better, because he selected out statistics. He must have known the other side of the story or he couldn't have selected the statistics that were selected at that particular time.

I might say that my advice was never asked and never offered on agriculture. Congressman Kennedy and Senator Kennedy of Massachusetts had what many economists would call a sensible policy towards agriculture. He learned that it would have been political suicide, and he wasn't going to make that mistake again and so he didn't need the likes of me again. I regarded Walter's colleague, Cochrane [Willard W. Cochrane], as something of a wild man, but that was in a different division.

TOBIN: I did write, before the convention, something about agriculture from the economist's point of view to the candidate in one of these memoranda. I might say that after the convention I had no role whatsoever during the campaign.

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PECHMAN: Walter, you had no role during the campaign, did you?

HELLER: No, but I wonder if you want me to say anything about my meeting with Kennedy in Minneapolis in October?

PECHMAN: I think this is the time. Let me just button up one point. Do we know that candidate Kennedy was in touch with Will Cochrane on agriculture during the campaign?

SAMUELSON: Yes. Cochrane was probably a paid official who was in Washington and who was really a thorn. He was behaving very badly in terms of swinging his weight around down there. I remember hearing the people: "What are we going to do with this man?" I think he was knocked down a bit, too, by Sorensen and some others.

I might give you one little vignette on Kennedy and Sorensen. At one point very early in the campaign, Ken Galbraith said to Sorensen, "I've been on these campaign trips before and I can tell you one thing: everybody ends up hating the candidate, all the speechwriters and everything, on every campaign." Ted said, "Well, I can say there'll be one exception to that rule," namely himself. I think that was the case. I always had the feeling this his prime loyalty was to the man, John F. Kennedy. This was his prime loyalty and I think this is an indication of Kennedy. According to the story I heard – now this is a story told second but not thirdhand – Ben Lewis had a daughter who worked in Senator Kennedy's office. This is before the sprint to get the nomination. I don't know whether this would

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be 1958. She loved the job and probably was an effective worker. But some friction developed between her and Ted Sorensen. I don't know whose fault it was. John F. Kennedy called her in and said, "I'm terribly sorry to have to lose your services, but it boils down to this, that you and Ted don't get along and Ted is a much more important person than you are. That's the way it has to be." I felt that that was very typical. I mean it fitted in with what I would have thought from my own observations would have been his reaction if a similar situation had happened again.

PECHMAN: Well, let's complete the pre-convention contacts, Walter, with your meeting with Kennedy before the election.

HELLER: Yes, perhaps I should just say by way of background that I was, of course, pretty much devoted to Stevenson before the convention. I found it somewhat difficult to get reconciled to the Kennedy candidacy. However, I talked...

PECHMAN: You supported the Humphrey [Hubert H. Humphrey] candidacy while it lasted, didn't you?

HELLER: That's right, while it lasted. I finally was persuaded to join the, what were the groups called, Citizens for Kennedy and Johnson [Lyndon B. Johnson]? I think that was it. We had a Minnesota citizens group. I was more than a lukewarm supporter of Kennedy but not an all-out enthusiastic supporter of Kennedy until that day I met him out at Minneapolis. The circumstances of that meeting, of course, were unusual in that I had just gone down to hear him at a bean feed. This was a thought,

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that there were going to be fifteen or twenty thousand people. I was outside, but I did go into the hotel. I was outside of his suite where he had the cordon of people protecting him. Ted Sorensen was there.

Incidentally, on the matter of Will Cochrane, I found out at that point that they were already having difficulty with Will and there was some comment about it. Will did get on the plane with the president from Minneapolis but there was obvious friction.

I would never have gotten in to see him at all if it weren't for the fact that suddenly Hubert Humphrey popped out of the presidential suite and said, "Have you met him yet?" I said, "No." He said, "Well, come on in." He took me by the arm and pulled me in. Kennedy was already, by the way, as usual running an hour to an hour and a half late. He had to do tapes with Freeman [Orville L. Freeman] who was running for governor and with Humphrey and then had to address this big bean feed down at the auditorium. He was already taking off his shirt and getting ready to get dressed and so forth. What struck me was that what I really had expected, frankly, was the candidate to say, "Well, nice to meet you. Send your ideas into Archie Cox," or something like this. Instead he turned around and talked for seven to ten minutes.

PECHMAN: Now wait, before then, how did he know you were an economist?

HELLER: Oh, well, Hubert Humphrey did the honors with his usual hyperbole and told the president, "This is an economist you ought to

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listen to" and that not all the economists were east of the Mississippi. He did a superb job of introducing me to Kennedy.

At that point, one of the things that struck me most forcibly was the contrast between the presidential suite before a Kennedy talk and the presidential suite before a Stevenson talk. With Stevenson, as many people will remember I'm sure, there was complete chaos and hubbub and Stevenson himself would be sitting in the middle of it still working on his speech. That's not legend, that's truth. Here, the moment Kennedy indicated some interest in this conversation, there was dead silence. People fell away and we just stood there just outside this little hallway.

PECHMAN: Was he changing his shirt or something?

HELLER: He was changing his shirt and I remember, as a matter of fact, he stood there sort of scratching his chest while we were talking, with his shirt open and ready to take off. His first question was, "Well, now, you're an economist. Tell me, do you really think we can make this 5 percent growth rate we talk about into a platform?" And I, as I said earlier, apparently underscored what you had told him, Paul, and others, that it was going to be awfully tough. You couldn't move the economy around that readily on growth rates. Now, by the way, I'm not going to go into all the details on this, because I wrote this up almost immediately after the meeting. That, I think, should be entered in the record. I'm sure that's

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much more accurate. I sent you a copy. That was the purpose of it. I sent you a copy and Ken Galbraith a copy and Seymour Harris, because I wanted you who were working with him in the East to know the kinds of things that he was saying on the spur of the moment in a meeting like this.

SAMUELSON: You said you were impressed in that document.

HELLER: I was tremendously impressed. I was going to come to that as the final point. I sort of remember three fives: the 5 percent growth rate, the \$5 billion dollar tax cut. I thought he was talking about a \$5 billion dollar deficit or tax cut by then moving a \$500 billion dollar economy, but this may be imperfect memory. I also remember wondering how could he do it? The answer, of course, was obvious, which I thought of six months later. You are not talking about a \$500 billion dollar economy, you are talking about a \$30 billion dollar or \$50 billion dollar gap. The interesting thing is that this theme came up again and again. When I took John Lewis over – John and his wife and the Ackleys – way on into 1963, May of 1963, I found it still necessary to repeat this. I had to remind the president that we had talked about that way back in October 1960. This was one of these cases and I think it is often the case in some of these economic policy matters, that we found he would revert to type or at least there'd be an inner battle in him between what he knew as a matter of logic was right and these doubts that still hung in his mind from earlier training or conditioning or

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what have you. Gardner, you must remember that incident.

ACKLEY: Yes, I remember that very well. I remember also in the summer – this is getting ahead of the story – in the summer of '63...

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ACKLEY: ...we were talking about the tax cut. I had to take something over. I think you were on vacation, and Evelyn Lincoln sent me in with it. The president said then, "Tell me again about this multiplier? What's the multiplier?"

SAMUELSON: I want to go back to the reaction of intellectuals generally to Kennedy, because the same battle was fought again and again. It was much easier in Massachusetts to be an academic for Kennedy than elsewhere. There was a softening-up process in which we all became involved, which took place even before the year 1960 had begun. It took place later elsewhere. Even after the convention, when I was in California, all of the academic economists, people like R.A. Gordon [Robert A. Gordon] and so forth, couldn't understand how anybody could be for Kennedy. My own metamorphosis of opinion is typical. I would have said on New Year's Day 1960, "If I had the deciding vote in the nomination between Stevenson and Kennedy, I would give it to Kennedy," because I regarded Stevenson as the weakest candidate the Democrats could put up. Our cleaning woman, thirty years out of Ireland, had never voted for anybody but a Democrat, but Stevenson managed to lose her vote. I think Ike helped, but he just wasn't her type. So I thought that Kennedy might

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win the election and Stevenson couldn't. But I said at that date, "If I had the deciding vote on the election between Kennedy and Stevenson, I would pick Stevenson." However about two months later, I really thought through that and I changed my opinion. In my contacts with Stevenson and the Finletter group and from all I'd heard from Ken and others, Stevenson really did have a Hamlet-like quality and was unsure of himself. He wouldn't have slept well – that was my impression – in the White House. He was the sort of man who would say, "Would you explain that multiplier again" fifty times. It was thought by Arthur and Seymour and so forth that he would go back to Chicago and talk to his conservative banker friends in Chicago and have the courage taken completely out of him. The joke was in 1956, there was only one man in the country who was really worried about deficit spending in his viscera and that was candidate Stevenson. They'd have to again and again go over for him, "Now why is this all right for me to do this?" He also felt unsure of himself in terms of his understanding of it. He was generally modest about those things whereas Kennedy turned out to be very briefable with a very good memory and an understanding of the issues. I, myself, had changed my opinion, namely, that I would prefer to see him as the president between the two.

HELLER: Now wait. When did you...

SAMUELSON: I would have said that about two months into 1960, as a

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result of contacts. However, I don't know whether this was during the campaign. Before the convention, Arthur Schlesinger and Kenneth Galbraith came out in a manifesto for Kennedy as against Stevenson. Now, I thought that Stevenson had released them, and I was amazed to learn that that was not the case. I was indignant. I thought that was absolutely unnecessary. They were associated with Kennedy. It wasn't necessary to kick Stevenson when he was down. Moreover, Seymour Harris refused to do so, by the way, on that occasion. He could have and was invited to do so. I think they volunteered. Ken really was in his political mood and thought of himself as the fellow who could win the intellectuals. I don't even think the Kennedy camp made them or put it up to them; they wanted to. Of course, as you know, Mrs. Roosevelt [Eleanor Roosevelt] was very upset, particularly about Arthur, of whom she was very fond. I thought that it was quite unnecessary. Of course, Ken's function, both at the convention and subsequently, was to lead intellectuals back to Kennedy. He made speeches before Westchester County groups and so forth in New York for this particular purpose. In fact that's where he was at the time of that gold flutter when Karl [Karl Brandt] tried to make contact with him.

PECHMAN: Let's go back to Walter's meeting with Kennedy.

HELLER: Shall I wind that up? Well, there were other questions. The third five was the 5 percent interest rate in Germany. He said, "How is it, if you fellows want low interest rates, how

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is it that West Germany is able to grow at this miraculous pace with a 5 percent interest rate?" And that question recurred again and again during the administration. But there were other questions. As I say, I wrote it up. That can be made part of the record, when I can dig it up.

PECHMAN: By this time he was in his shorts?

HELLER: No, he was still scratching his chest. But the thing that struck me was that steel trap kind of, well, I don't know if I should say steel trap mind, but that barrage of acute questions. The interesting thing is that, as I reflected on it afterwards, of course, he did the questioning, which was extremely acute. Naturally he didn't say anything about these issues for the most part, although there were some implications in his questions that were pretty clear. But I must say, I went out of there just totally converted. I was singing his praises from then on in.

PECHMAN: Did you think he was, did you have any idea that he was pumping you? Was there some ulterior motive or was he just interested in the issues?

HELLER: Not at all. No, no, as far as I knew that's the first time he'd ever heard...

SAMUELSON: He remembered the visit because he said to somebody and it was brought back to me, something like, "This is the first time I ever met and economist who wasn't from Harvard." He was surprised that they really exist or something like that.

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Then later, when your appointment came up, he did remember that particular occasion.

I had a very strong impression that he didn't like gabby types. I always wondered how Walt Rostow would get along in the long pull with him because he was talkative. I heard the story – I can't remember who told me – that whatever chances Chet Bowles [Chester Bowles] had for anything were dissipated on an airplane trip. He went on the airplane with candidate Kennedy, probably a two hour trip, and talked the whole time. When he got off that airplane, if he ever had any chance, which I rather doubt, of being secretary of state or something, that chance had evaporated.

GORDON: After we'd been in Washington for about three months, a story appeared in one of the magazines trying to rank people in the Kennedy hierarchy – who was up, who was down. The story said at the moment you were down and Jerry Wiesner [Jerome B. Wiesner] was down, because you talked too much.

HELLER: Yes, that was the unkindest cut of all. That was Joe Kraft [Joseph Kraft] in Harper's. I like Joe Kraft but I have never forgiven him for that.

GORDON: The reason I remember it is because shortly after, the very day the thing came out, I remember walking across the West Executive Avenue to the west basement with you for lunch. Jerry Wiesner was coming the other way, if you remember, and Jerry had a kind of bounce in his step. As he passed us he waved merrily to you, and said, "Hi, Gabby."

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SAMUELSON: There's a certain cold, matter of fact quality of his mind. Ted Soresen once told me that he -- Kennedy -- liked a lawyer-like mind. I don't know what that was supposed to mean exactly. This showed itself in an aside at that Hyannis Port meeting. We were having lunch and having a drink and not talking about economics. He reminisced about his acceptance speech and he said it had been a mistake. He had cast aspersions on the good faith of Dick Nixon. He had said, "We ought to cut the deck with tricky Dicky" or something. I don't know whether he used that language. He said, "I regret that. It was a mistake strategically to have done that. I felt he

had it coming, but it was a mistake.” And then just thinking aloud, he said, “I just don’t get at the fuss they make. For example,” he said, “Take Nixon’s mother and all the fuss about her American look. I never saw a tougher looking broad in my life.” Now that really grated on me. I hadn’t heard the word broad practically anyway for twenty years and come to think of it, Nixon’s mother is probably anybody’s middle western mother. With all deference to Rose Kennedy, what did Jack have to talk about?

I say Jack, although I never called him Jack. By the way, I fell into a pose of the professor with him. Seymour always called him Jack, Ken always called him Jack, all those people did. I always called him Senator Kennedy and he always called me professor. For a long time, he’d say, “Professor.” Once, this must have been a good deal later,

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Ted Sorensen said, “Is there anything the president could do for you?” And I said, “Well, it isn’t much but you might tell him that professors don’t like being called professor.” Then he called me Paul after that.

Now Ken was the only one in that group – well, the primary one – who I would say was on a social relationship. For example, when we went to Hyannis Port, Jackie Kennedy – Mrs. Jacqueline Kennedy [Jacqueline B. Kennedy Onassis] – wanted to talk to Ken about the “Liberal Hour,” one of his essays that was on economics and art. She was very much interested in art. I had the impression that Ken was much more likely to be in the family part of the White House than most of the people I knew.

HELLER: Among the economists, there’s no question that Galbraith was closer to the president and Jackie in particular. He bought art for her over in India.

SAMUELSON: I may say by the way – I don’t know how confidential this should be – but I think the president had different people’s numbers. The fact that he liked Ken Galbraith didn’t mean a thing as to whether he would necessarily regard his ideas as good. He might regard them as very good or he might regard them as terrible. This really shouldn’t be in the record, but I think he had a definite lack of confidence in Seymour Harris. This came out in a number of occasions.

HELLER: He had a very great affection and something less than full confidence in him.

PECHMAN: I think these are relevant points.

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HELLER: But it’s worth noting in this connection that friendship of Galbraith with the president and Jackie, after all, gave him access and meant that the president was fully exposed to Galbraith’s ideas all the way through. It did not mean that he accepted the ideas.

SAMUELSON: Moreover I honestly think...I know that Kenneth Galbraith wouldn't have contemplated being chairman of the Council of Economic Advisers. He had said that. I think he actually had a refusal of it if he had wanted it. I think I asked Carl Kaysen back in the Finletter days what Ken was bucking for in the Stevenson administration, secretary of agriculture? Carl laughed and laughed and said, "Don't you know that Ken has a low opinion of Foster Dulles [John Foster Dulles]?" And then I laughed and laughed but I think there was a great deal of truth in that. But to go back to the choice between the men, I had the feeling that somebody like Ken could have been a Harry Hopkins to Stevenson or Svengali and really had a tremendous control over his mind in economic affairs. I never thought, by the way, that he could be secretary of state or secretary of treasury but I thought that in the White House he could unilaterally run things. I never had the impression that any one person would ever be able to do that with Senator Kennedy, candidate Kennedy, President-elect Kennedy, or President Kennedy.

PECHMAN: We only have about fifteen minutes before lunch. I'd like to go around the table and ask you what you think of the

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campaign: how well it was run from the standpoint of bringing home the economic issues and whether it was a successful effort or whether it didn't matter very much?

SAMUELSON: First, I was very worried about the debates. I thought that Nixon, the boy debater, might well make a monkey out of Kennedy, and I was hoping that people would vote for the monkey. But from the first one on, I thought it was such a sensational success for Kennedy. I think that was the turning point.

PECHMAN: Did you do any briefing for those debates?

SAMUELSON: Yes, there was a lot of briefing before these things as to what things would come up and paragraphs written and so forth. I would be phoned and I would phone in and write things. I winced because in a number of the four debates a number of the answers to the questions were not optimal. On the other hand, the way he had command of the facts and so forth was terrific and Ithiel Pool told me the next day that this was very decisive. He said, "It isn't just that it wins the doubtful, I mean the other side, but it confirms for the Democrats that this is not a youthful kid who's irresponsible and so forth."

PECHMAN: But Paul, with respect to economic issues, my recollection was that he sort of took them very lightly. I mean he hit them very lightly. He didn't hit hard on the economic issues. For one thing, we agreed that he didn't even use the word recession at a time when most of us thought there was a

recession going on.

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GORDON: Now wasn't it a point in the strategy in the campaign to avoid criticizing or attacking Eisenhower?

PECHMAN: I thought so.

HELLER: Well, I suppose so.

GORDON: That's my recollection and, of course, any direct use of the recession would have been an attack on Eisenhower's policy.

SAMUELSON: It seems to me that towards the end, in Illinois, Ohio and Pennsylvania, he was saying, "You see the unemployed here." He was not using the word recession, but more or less...

PECHMAN: But that was structural unemployment. He was very impressed with the poor poverty conditions he saw in West Virginia, you remember.

GORDON: West Virginia was early. That was...

PECHMAN: But he kept pounding away at that during the campaign, the whole question of depressed areas.

GORDON: He never forgot that, by the way. I think his experience in the hills of West Virginia colored part of his economic policy throughout his whole career as president. Remember how often he sued to harp back to his own experiences?

HELLER: Let me add a third thing and that is there was that speech in New York in which he committed himself very firmly to some form of accelerated depreciation. I'd like to know who did that? I was surprised by it.

SAMUELSON: Well now, what date was this?

HELLER: Well, it was late in the campaign.

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SAMUELSON: I would say that probably by that time...I don't know whether the Surrey task force was already meeting.

HELLER: No.

SAMUELSON: Well, I would say it was probably about the time of Jim's article. I know that...

HELLER: No.

PECHMAN: My guess is that you were talking to Cary Brown, your colleague in the economics department at MIT.

SAMUELSON: Well, probably. Jim wrote a memo, that earlier memo. We already were thinking of specific things. I remember thinking – I can't remember the details – that he had made definite commitments that he was going to try to stimulate investments.

HELLER: Exactly.

SAMUELSON: Later on the investment credit was the payoff on the campaign promises. Accelerated depreciation would have been one of the...

HELLER: This was the speech in which that was made as a very firm commitment and a very firm appeal on the investment side and probably also on the growth side. But I'm just curious to know what the inputs into that were?

SAMUELSON: I would have that...Who was it you said? Did Goodwin call you up and say, "This is all rot," to some of these things? It seems to me there was a certain amount of shadow boxing with Ken Galbraith and others on things like that. They'd say, "Oh, you know this is of no importance to Jack's position on business, and such and such."

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I'd say, "Well, are you taking growth seriously? This is one of the specific things that you can do." I know that nothing like that would have gone in without my opinion having been asked about it. There was some screening of things that he should be for. I know my impression at the time was that everybody that was connected with Kennedy was scared to death he was going to say things he would regret, like Roosevelt in 1932. On the whole, although wincing on some occasions, I felt very happy with the way things went.

PECHMAN: That's right. He entered the presidency with – virtually with – no commitments on economic matters as I recall it, virtually none. Isn't that right, except for the commitment to get the country going, the growth commitment. Isn't that right?

SAMUELSON: He came out for easy enough money but he didn't say we'll never use the interest rate as a weapon of control.

PECHMAN: That's right. He was going to defend the dollar.

HELLER: There was this commitment – very specific, at least, as I read it – for the accelerated depreciation or investment credit or whatever it was going to be.

PECHMAN: But there's no commitment... There was some commitment about... I guess you could call that economic, but the national defense issue, of course, was very important in the campaign. He clearly stated that he was going to increase the defense expenditures.

SAMUELSON: What I winced about, I remember, weren't economic things.

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It was when he was chastising Nixon for being soft on Castro [Fidel Castro], which he got a very successful response from and continued it and so forth. That was the sort of reproach about which friends would say, "Now what about this?"

ACKLEY: I observed the campaign from an essentially politically isolated community of Ann Arbor in the Midwest, which was highly conservative. There was a liberal minority wing, but which was very strongly sentimentally attached to Stevenson. All of us, I think, were very skeptical about Kennedy from the beginning. It was only after the nomination and well into the campaign, that some of us began to get enthusiastic about him; particularly after he made a brief visit to Ann Arbor and simply rode through the streets. I remember the enthusiasm he generated. I think it was at that time though, that he spoke to the students in Ann Arbor and I think that was the first place he used the Peace Corps idea; at least it was so reported. On the campaign itself, I don't have much of a memory on the economic issues. I think that, as several have suggested, they were pretty muted. They didn't come out clearly other than the idea of getting the country moving again. I think some of us as economists out there were pleased to know that he was listening to the distinguished advice of people like Paul Samuelson. I think this made an impression on some of us.

The one interesting sidelight on the campaign that I

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want to add concerns when Ken Galbraith, very late in the campaign, came out to Ann Arbor to give essentially a campaign speech for Kennedy. It was at the Ann Arbor high school auditorium. All the intellectuals of the town were there, expecting to hear this great man who everybody knew about through his books, but most of whom never heard. There was terrible

disappointment in that speech. It was just one of the worst speeches I've ever heard anybody make. It was an effort to be highly political and he used the kind of language that a politician running for sheriff would use. It just let everybody down, just terribly.

TOBIN: I think he gave that same speech in New Haven at which I had the honor of introducing him.

PECHMAN: Did it give the same effect?

TOBIN: It was much the same effect, yes.

SAMUELSON: He debated, during the campaign, Congressman Curtis [Thomas B. Curtis] on TV. I didn't see it but ? gave me a blow by blow account and said that he was political, and that Curtis was able to capitalize on that. He said, "I thought we were here to discuss economics, but if you want to discuss politics," and so forth. But Ken told me if you're going to be a politician, you should act like a politician and that was the part of politics that appealed to him. I can't remember, were the St. Louis meetings after the campaign?

PECHMAN: After. After the campaign. Those meetings were in December.

SAMUELSON: It was after the campaign because I remember Senator

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Symington [Stuart Symington] was at a dance with his wife and family. Ken and I were there and we saw them and he said, "Come on over. Let's go on over and meet Senator and Mrs. Symington [Evelyn W. Symington]."

PECHMAN: Kermit, you haven't expressed your opinion about the campaign.

GORDON: No, I haven't.

PECHMAN: Or the importance of economic issues.

GORDON: I have nothing to add, Joe. I was not personally involved in the campaign in any way and only partly and generally aware of what was going on. I certainly shared the common view that economic themes were not the dominant themes in the campaign.

Paul was talking a little easier about the differences in the reaction to Kennedy among Massachusetts academics and other academics. There's one point that weighs on the other side, Paul, that I think ought to be on the record. Many of the academic intellectuals in Massachusetts had a hard time forgetting the 1952 campaign when Kennedy was running for the Senate. Stevenson was running for presidency and the campaigns never crossed at any point. Do you remember that?

SAMUELSON: Yes.

GORDON: Kennedy had his own headquarters. He would not make common cause with Stevenson in Massachusetts. This rankled a good many people and I think in some quarters of Massachusetts it made it most difficult.

SAMUELSON: And the McCarthy thing was just after that. Weren't you managing Jim Burns's campaign? What

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year was that?

GORDON: '58.

SAMUELSON: Now in '58 as I remember it, Senator Kennedy, in the background, was definitely helpful.

GORDON: Oh yes, indeed he was.

SAMUELSON: Including some handling of, there was some church interference.

GORDON: He interceded with the hierarchy in a matter in which there was some fairly blatant political use of the machinery of the Catholic Church in this congressional election.

PECHMAN: What matter was that, Kermit?

GORDON: The intercession?

PECHMAN: Yes.

GORDON: Intercession through the hierarchy, the consequence of which certain priests in western Massachusetts thereafter, played a lesser role in the political campaign than they had previously.

PECHMAN: Were they publicly opposing Burns?

GORDON: Oh, yes.

PECHMAN: On what ground? That he was not a Catholic?

GORDON: He was a liberal.

PECHMAN: James McGregor Burns, I remember that being brought....Some of the academics in Cambridge, I believe, did some position papers for Kennedy on the relationship of the Catholic Church issue. I always thought that he handled that whole set of problems extremely well. I remember one remark of his, namely, that the upper hierarchy of the Catholic Church you could never hope to win, they were always Republicans. I

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think he made this in a speech later. I think he said, "I like to be with the sisters because that's where the Democratic votes are. It's up at the bishops that the Republican votes take place."

TOBIN: On the general matter of intellectual attitudes toward Kennedy, I can remember I think in May of '60 a dinner party with quite a group of liberal intellectuals in New Haven – law school people mainly – at which my wife and I were the only ones who were for Kennedy at all, even in the sense of being willing to vote for him in the election, should he be nominated.

PECHMAN: When was this?

TOBIN: This was in May of 1960 before the convention. Now I'm sure all those people ended up voting for Kennedy but in May of 1960 they were so much concerned about the Catholic issue. They hadn't been sufficiently convinced of Kennedy's being a real liberal to accept his liberalism overcoming the Catholic issue. They just were not prepared to say they would vote for him.

SAMUELSON: And in California after the convention, I met with most of the economists in the Berkeley [University of California at Berkeley] department and there was still that, including the greatest amount of lack of information. Somebody would say naively, "Well, now it seems to me he had a bad record in

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McCarthy, didn't he?"

I think perhaps something ought to be said about the gold flutter in October of 1960 and the balance of payments problems incident to the election itself. I myself had the impression that the price of gold started to rise and a great deal of speculation started to take place about the time the Gallup polls seemed to shift decisively towards Kennedy. I think this was a terribly mismanaged period in which the Eisenhower administration just shut up and the Bank of England people didn't know what to do. Since they didn't have the go-ahead to feed the market and they had no reassurance that they would be replenished in their gold supply, they starved the market and then the price rose. Subsequently Parsons and some

other people came over and they decided to feed the market. The point of the story is that I don't think there was any consultation with the Kennedy camp at all during that period.

Secondly, there really was a period of floundering. For example, Ford [Ford Motor Company] at that time, bought into Ford of England and nobody had any idea whether they were free to do so or not. I can remember Bob Roosa [Robert V. Roosa] – this was at a time before anyone thought of him for the new administration and before he thought of the new administration – saying to me, “Now something ought to be done about this because you

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can't run a railroad by vague intimations that people aren't free to do things.” I believe that Secretary of the Treasury Anderson was making certain veiled communications to the New York community about acting responsibly. I believe it was Roosa's opinion and that of many others, that this was the worst of all possible worlds. This scared people. There was some reason that they had to be responsible but you didn't scare them enough not to do things. Now, my guess is, from having heard Theodore Einthem and some other people....I heard somebody once ask Einthem a cryptic question which I took to be, “How much trouble do you really have with the government?” And I understood him to say, “Well, except for a reproachful telephone call, nobody prevented us from doing anything.” I thought that was a very sound business decision to do, and they had a lot of money. By the way, it's been terribly profitable, incredibly profitable, even in terms of our balance of payments.

HELLER: Over \$300 million, wasn't it?

SAMUELSON: It was \$300 or \$400 million.

PECHMAN: It's very interesting that you say that, because at that time I mentioned to Ted, “How come you're investing this money?” I said, “As a Ford stockholder, how about some more dividends?” “It's all right,” he said, “it's a good investment.”

SAMUELSON: I think, see, Ted Einthem has definitely been one of the few economists in this country who very early thought

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that the dollar was overvalued and that the cost structure was high, although he probably vastly exaggerated this. They decided they could control the whole process much better if they owned it all. I know Charlie Kindleberger [Charles P. Kindleberger, II] knows somebody in the organization, and how incredibly profitable it has been. Well, the point is, there really was a vacuum going on, but I will say that the nicest thing that Eisenhower did in the closing days was to seal off by executive order the holding of gold in Puerto Rico, Canada, and foreign places. There was a loophole in the regulations which could be closed off by executive order and it was much better to have Eisenhower do it than have the new president have to do it.

TOBIN: This was after the election? Eisenhower did this after the election?

SAMUELSON: Yes, and the Ford thing was after the election.

TOBIN: You didn't make that clear.

SAMUELSON: Oh, yes.

PECHMAN: Was there any contact on this matter by Anderson or somebody in Treasury with the Kennedy group after the election?

SAMUELSON: Not to my...

PECHMAN: I remember he spoke to me about it.

SAMUELSON: ...knowledge. Well, I think that after the election, if you mean all the way into December, then there

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was beginning to be some Budget Bureau contact.

PECHMAN: The transition kind of thing.

SAMUELSON: Yes. Do you remember, for example, when Sam Cohn [Samuel Cohn] was briefing the new people?

PECHMAN: Yes.

SAMUELSON: I remember Sam Cohn saying, "These figures can be defended," and being very loyal but it sounded, at least to me, as if they really had to be.

PECHMAN: Sam Cohn is a member of the staff of the Budget Bureau and was with the staff during the Eisenhower administration.

SAMUELSON: I'd also like to say for the record that there was a great storage of money for Kennedy workers. It was thought that after the election, Brookings [Brookings Institution] might pony up some money or that some foundation might pony up some money to pay for people like Walter Heller making trips from Minnesota. That money was never forthcoming, despite the...

PECHMAN: I remember I mentioned this problem to Bob Calkins [Robert D. Calkins]. He was sympathetic but there just was no money. We just gave some office space.

HELLER: Can I clear up on point, on this matter of the Ford of England purchase. The principal executive officer for the Ford Motor Company at that time was Bob McNamara [Robert S. McNamara].
Correct?

PECHMAN: That is correct. Has anybody ever discussed this thing with him?

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HELLER: I'm sitting here trying to recall the conversation, because I have and I can't remember the ins and outs. This came up in connection with the whole automobile thing. But I believe that more than just a casual request was made; more than just a casual intimation was made.

PECHMAN: By the Eisenhower administration?

HELLER: By the Eisenhower administration. I believe that is true. Do you remember something like that?

SAMUELSON: I think that the implication of this remark that I overheard was, "Well, we really didn't have a bad time. We were sort of requested not to, but not requested in such a way that we had to." I will say this, that I heard very similar people, in fact I guess I heard Theodore Eintham just before the interest rate equalization tax went into effect, when the business community suspected something was afoot. He said he didn't think that in the environment of that day, which is June 1963, that they would be allowed to do what they were allowed to do back in December, was it?

HELLER: By allowed you mean government pressure would have been put on. There obviously was no law.

ACKLEY: This came up in the cabinet balance of payment committee, Walter, in the spring of '63, when they were discussing the possibility of capital controls. Bob McNamara at that time said something about this, but I also can't recall what it was he said.

HELLER: I remember that he was more violent in his denunciation

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of the whole idea of capital controls than any other subject I've ever heard McNamara ever pronounce on. I've forgotten that perhaps there

was some reference to the Ford of England purchase.

SAMUELSON: On the lack of confidence of European bankers in the candidate Kennedy and in President-elect Kennedy, I could add some details. Many people called me, such as Elliot Bell, through Leon and Silk long distance, for Kennedy to say more in a reassuring way. I mentioned this at one occasion, for example, with Kenneth Galbraith, and he said, "Oh, they know about that." And I said, "Well, tell them again." He said, "They know because I sent out a hundred copies of the security analysis speech to leading bankers all over Europe under my letterhead." I said, "My God, Ken, that will cost \$100,000,000." There was a rumor in England that Ken Galbraith was going to be the new head of the Federal Reserve that Gottfried Haberler brought back. You may remember that humorous article in the London Economist on lowering the price of gold when the mythical Kenneth Galbraith gets into power. So there was a great deal of discussion about what the relationship would be between William McChesney Martin, Jr. and the new president. This is after the election; when it was known that Kennedy was to be the new president there was a great deal of gossip and alarm.

TOBIN: On this point, Joe, at the time of the IMF [International Monetary Fund] meetings in Washington, I guess, in

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September of 1960, during the campaign, it was rightly reported to me by, I can't say firsthand, but Robert Triffin attended the meetings, that the American bankers present, the American private bankers present, were scaring the Europeans with what would happen if Kennedy won. Indeed Henry Alexander gave a large reception for the foreign delegates to IMF and bank meetings at which he delivered essentially a stump speech against Kennedy, and on the dangers of unsound financial policy if he were elected. I think it's rather interesting because at later times there was some contact with Kennedy and Henry Alexander. But he was certainly at that time, at least according to Robert Triffin's report, attempting to scare the Europeans with what would happen if Kennedy won. So their reactions to the possibility of the effect of a Kennedy victory weren't entirely self-generated.

SAMUELSON: No, Robert told me that at the time, up to the point, that at least one official thought that this was preposterous behavior. How could a person in his own country talk in such a way? I was also told by quite a number of European civil servants that New York bankers were always telling them, "You're very disturbed by policy in America, aren't you?" One of them said it was ungracious of him, but he had to say he really wasn't very disturbed. He felt that he had given the wrong answer in doing so.

PECHMAN: Well, let's go on. Incidentally, I think this is a very

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important part of economic history, and probably should be researched into a little bit more. My impression is the same as yours, that the financial community did not distinguish itself.

GORDON: This is the theme of banker's talk and the atmosphere surrounding the dollar was very important throughout 1961, not only in the pre-inauguration days.

PECHMAN: We'll have to touch that later.

HELLER: Well, we should record here that that was one of our major functions in OECD [Organization for Economic Cooperation and Development] to know the backfire. The American banker had a monopoly of European opinion so to speak, or at least European financial opinion. We had to break that monopoly.

SAMUELSON: Do you remember whether it's in this period that we're now talking about that Nick Kaldor [Nicholas Kaldor] wrote to you?

PECHMAN: No, not yet.

SAMUELSON: Was that in January?

PECHMAN: He wrote in late December or early January.

SAMUELSON: But he must have known that Walter was tapped.

PECHMAN: Yes, he did know.

SAMUELSON: I think that ought to be read in the record just what it was he suggested. Do you remember? I remember. He sent me a copy.

PECHMAN: Let's leave that. Paul, when did you hear next after the election from the Kennedy group? Obviously the next contact must have been about appointments and

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so on. Is that right?

SAMUELSON: I think there was a period of very intense activity following the election itself, including the appointment of the task force and my sitting in on the Ball [George W. Ball] task force, which I had the impression must have been a point long before my task force. It had already been meeting.

PECHMAN: Let's try to keep together the chronology and also the significance of the task forces. The Samuelson task force of which I was a member did not convene until late November or early December. Now you say there was a Ball task force already in existence around election time?

SAMUELSON: Yes, that's my impression. I think the purpose of the task force was perhaps not quite that of the ones that President Johnson has in mind. The thought was that Kennedy had won the election but now actually what were we going to do? There was no staff. Things had to be done and therefore on an informal basis, he began to get people together, but you'd have to do it on the supposition that you didn't know who was actually going to be tapped for jobs. So something informal like the task force gave you the possibility of getting some thinking done. In other words, there was a great scarcity of thought about what would happen and time was rushing.

PECHMAN: Whose idea was the task force? Do you have any idea?

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SAMUELSON: I don't remember. As I remember it, the word task force became popular around that time. Earlier it had been "working party" in the English and American wartime lingo and suddenly then everything became task forces. I had the impression that under Ball there'd been some conversations going on even before there was a formal appointment of my task force, for example. I would suppose that you and I met with the Ball task force on November 15. Weren't you present?

PECHMAN: Yes, I was but I don't think it was that early.

SAMUELSON: You think it was later than that?

GORDON: It was around December 1, I guess.

SAMUELSON: But they had met earlier.

GORDON: Yes, they had already met, that's right, and had done some work. They in fact had some draft material.

GORDON: Why George Ball, Joe?

PECHMAN: I don't know. Well, he was Stevenson's partner.

SAMUELSON: I think he wrote a memo, suggesting that there was a need for some investigation. I remember Paul Nitze being involved. In fact, I remember being involved with him before the Democratic.... Which was first, the Republican or the Democratic convention? I think it was after the Republican convention, about June of 1960.

PECHMAN: There are two things to discuss, in this interim period. One is the task forces and the other is the appointments. Now do you recall which was first?

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SAMUELSON: Yes. It was definitely the task forces, because the task forces had to be appointed right away to get something done. It couldn't wait. In fact that's why the device of a task force was used. You couldn't wait upon appointments. If you just take my task force as an example, Walter was appointed to it and Jim was appointed to it and then had to be removed from it because the public announcement of the appointment as Council members was made and this was to be a sort of an outside blue ribbon panel.

PECHMAN: Do you remember now who was on the original list of your task force? There were lists in the newspaper, but I've never seen an official list. Can you reconstruct it?

SAMUELSON: I should have thought it was the final list plus Walter and Jim.

PECHMAN: And Henry Fowler [Henry H. ("Joe") Fowler].

SAMUELSON: No, Fowler was on the final list.

PECHMAN: Samuelson, Colm [Gerhard Colm], Pechman, Fowler, Otto Eckstein, and Jim and Walter.

PECHMAN: Do you think you have a record of that, Jim?

TOBIN: I think there's a record here.

PECHMAN: Who spoke to you about organizing the task force? I take it Ted Sorensen must have been the ringleader.

SAMUELSON: Yes, I'm sure it must have been Ted or it could have been Kennedy directly.

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PECHMAN: How frequently did you talk with the president-elect after the election and before the inauguration?

SAMUELSON: I would think that I talked to him by telephone about appointments about three or four times. I can't remember whether there was any face to face contact before the Carlyle when we handed him a task force report. It was the first time that Jim was introduced to him and that was the occasion when we invited Kermit.

PECHMAN: Were you given any guidelines for the task force or did they just assume that you would sort of take over?

SAMUELSON: I think we had to formulate our own job. There was to be a report on what was to be done and it was decided the focus would be on the state of the American economy.

ACKLEY: What happened to the Cox operation at this point after the election?

SAMUELSON: Well, Archibald Cox was, I think, quite naturally a little bit unhappy and a little bit disgusted that he had wasted a lot of time and had worked very hard to no purpose. He decided he would go back to the Harvard Law School, and I think indicated, if I remember correctly, to the president-elect that only a very good job could possibly interest him in Washington. He was offered the solicitor general, which is a very good job and which he's been very distinguished in, and he went to that.

Right after the election I remember Ken Galbraith's house, Arthur Schlesinger, Ken and I discussing appointment after having been asked to do so. There was a great

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deal of telephone calling from minor people on the Kennedy staff. Deidre Henderson was always asking me about people and to check out people and asking me my opinion about them. Also Yarmolinsky [Adam Yarmolinsky] and Shriver [R. Sargent Shriver, Jr.] were asking. I think maybe Shriver had some responsibility as nominal coordinator of this. But just as an example, somebody like Paul Rosenstein Rodin felt that he was very much on the inside. He worked through Holborn [Frederick L. Holborn] who in fact was being more and more peripheral, I think, through that period. There was a great deal of tugging and hauling.

On the occasion when Arthur, Ken and I were meeting, we were not meeting primarily for the purpose of naming economists but primarily for the purpose of suggesting people, because our opinions were asked, for the higher offices. We went through many lists and I would say there was a great shortage of Lovett [Robert A. Lovett] types. The ideal was a man like Lovett, if his health had permitted, who was known to be bright and was known also to be acceptable to the middle of the road opinion.

PECHMAN: Well, let's see. I think we'd better get into the appointments. Let's get the Council of Economic Advisers. Well, when was the first time you talked about the Council of Economic Advisers and the appointments to it? With whom?

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SAMUELSON: I can't remember who my contact was but I was thinking about nothing but that sort of problem I would say for a month and a half after the election. Every day there'd be a question of, "What about this name? What about that name?" It included such things as the Harvard quota is filled.

HELLER: That came up very strongly.

SAMUELSON: Surrey's was one of the last decisions that were made. People were calling me up, some of whom I didn't even know. I never knew Joe Barr [Joseph W. Barr], for example. He came up to Cambridge to see various people, including me, about getting some sort of job. He was a lame duck congressman from Indianapolis and he was Littauer [Littauer School of Government] educated. As he pointed out, there were only three economists in the Congress: himself, and I've forgotten who the other two were whom he regarded as economists. The major preoccupation that I can remember discussing for a great length was the secretary of the Treasury.

PECHMAN: Well, look, we'll get there in a minute. What names were seriously considered for the chairman of the Council of Economic Advisers, or was Walter the...

SAMUELSON: I would say that the names that were seriously considered were Walter and Jim.

HELLER: You always said publicly you weren't asked, but certainly you, and now you've said Ken...I didn't know that Ken...I would not have thought that the president would have wanted Ken in this job. I'm a little surprised to hear that he could have had it if he wanted it.

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SAMUELSON: I always say this because I've been given some impression that Ken could have the job if he wanted it. I knew he wouldn't want it. He said that in '56 campaign. Having been an adviser to the president-elect, he wanted me to serve in the administration with him. I had six kids, I really thought that it wasn't to my comparative advantage. I thought that being on the go all this time I would lose sleep, I'd begin to get under the weather. I thought that was really not the best use of my talents. I told him that, yes. I really felt guilty. Ken said to me, "You're absolutely right. It's not the sort of job that you'd take." I said, "Ken, you misunderstand me completely. I think that I ought to take it if I could be best at it, but I just can't sort of see myself doing that. I've never been in Washington before, even a week. I've been a consultant all the time and I feel pretty sheepish about this." Of course I felt very sheepish

about trying to recruit people and I wasn't myself.

PECHMAN: Let me get this for the record. You weren't ever actually offered the job as the chairman of the Council of Economic Advisers?

SAMUELSON: I was offered the job.

PECHMAN: Reporters always say you were offered the job and you refused it.

SAMUELSON: My answer always has been that I always had reason to think I could serve the administration in some capacity and that's all. I think the president might have called

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me twice on that, the first time when he offered and the second time to be sure I wouldn't reconsider. So after that was eliminated, I would say – maybe this should be a confidential thing – there was some reason to think that Seymour would have liked the job, although it was hoped by his friends that he would be steered to health and welfare [Department of Health, Education and Welfare]. Just at that time, Seymour became ill. It in a way seemed pathetic that he should be ill, just as the promised land was there after all those years.

PECHMAN: Surely if he had not been ill, he would have landed a position with Ribicoff [Abraham A. Ribicoff] in health and welfare, which would probably have been his second choice, not his first choice. I believe a decision was made, by the way, that there wouldn't be a Hauge [Gabriel Hauge] in the White House, who's an economist, with a Burns in the Council, quite early in the game. Do you remember that?

HELLER: That interests me. I...

SAMUELSON: The president didn't want to.

HELLER: And that was one of the things that Joe Pechman put on my checklist, so to speak, after the president asked me. It had to be after, because I didn't know he was going to ask me. In the time that I was considering the job, one of the things that I took up with the president was a sort of condition that there not be a layer between the president and the chairman of the Council. There was absolutely no equivocation. But I didn't know till this moment.

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SAMUELSON: But I think that decision was made for quite different reasons, namely, the president liked a small group of people. He was very much against duplicating people. He believed that one, two or three men could do

more work than ten men could and there was no point in having that double layer. Walt Rostow was not in the White House, because the president thought that was a good idea but it was because some complications came up with respect to Rusk [Dean Rusk]. Bundy, I think, was picked to be in the White House from the beginning, although my memory is a little imperfect on that. Let me also say for the record, but also because it's true, that it was my opinion that Arthur Burns gave up the chairmanship of the Council job at the strategic moment – was it December 1956? – just when the business cycle was at its peak. He didn't want to go through the grief of writing another report, which he always sweated blood on. I think there's a little evidence on this but I can't remember it all but he really thought he was still going to run things from New York and he picked his boy, Steve Saulnier [Raymond J. Saulnier]. He did bypass Steve, you know. There were some jokes around the Council about no carbon paper. They were going to send carbon paper to Arthur Burns because he was sending private communications to Eisenhower. Eisenhower had a very critical briefing – I can't remember which one it was – where he was going to be on the griddle before the reporters about something which had broken. He was in fact briefed by Arthur Burns, who came down, and not by Saulnier.

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HELLER: Let me just say, for this group and for the records, that the only parallel to the situation in 1956 is the date in 1964, which was not of my choosing.

SAMUELSON: I formed the impression very early, and I also knew about Burns's experiences, that you can't run things from outside, so I assured the president that I would be available for any sort of special duties that he would ask, but that he needed people who would be beside him. So there wasn't any thought that I'd be a gray eminence who could work from the outside. That worked out, and it fitted in very well with my being a professor. Even in the first days when I went to Washington, I always wore my academic coat, never a matched suit, just...If I could have smoked a pipe, I'd have brought the pipe with me. But in picking Walter, Ken Galbraith was very important too. I think that...

PECHMAN: Only the two people in running were Walter and Jim?

SAMUELSON: I think there would have been some doubt as to whether Jim would have been the man to be chairman of the Council. I think that Ken was more distrustful of Jim as a practical man than he was of you and he spoke about your yeoman service to the Democratic Advisory Council. You may remember when you had some hesitation about coming to some task force meetings because of expenses. I referred to this earlier. I said,

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“Walter, it would be awfully important if you could come.” At that time, I was all but sure

you would be named chairman, but I wasn't free to say that to you. You probably got a hint from me didn't you, from what I said?

HELLER: All I can say is, I was thick as I could be about this. Do you know that the first inkling came from an individual that we all know, from Gerhard Colm. But even prior to that, I got a call, late one evening from a newspaperman in Chicago, early in December. He said, "Our word is that you're going to be the chairman of the Council, that we've got him right here in our own backyard." I could reply in all honesty that this was ridiculous.

PECHMAN: You called Walter about the task force late in November, that must have been.

SAMUELSON: But the particular time when I said it would be nice if you would come was at the second meeting. You already were, for some purpose, in Washington for the first meeting, I think, and you stayed over, staying for the weekend, but that involved a second meeting. Then we met at the convention, if I remember correctly. Maybe you'd already been selected.

HELLER: I didn't go.

PECHMAN: Did Walter have any political support from Hubert Humphrey or people like that?

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SAMUELSON: Yes. I think that there was a check made and that Orville Freeman and Humphrey spoke well of him, and said that you had advised the governors there and had worked at the Treasury.

HELLER: I think it's of some significance that the initiative on this, and I take it on other jobs too, came essentially from the academic advisers, not the political advisers. Now in retrospect, I can assure you that one or two political figures have told me that they beat drums for me with Kennedy, but I'd always felt that this is where it came from. Ken has not been bashful about telling me.

SAMUELSON: In fact this amazed me, that they really said, "Who's the best man for the job?" The questions weren't, "Are we getting too many Jews," and so forth. It was very muted on the political problem. Almost everybody who in fact was selected had to go through some sort of political investigation and so forth. But in almost every case, including the businessman type, the original suggestion came from somebody who said, "He did very well on the Paley [William S. Paley] commission or he was very good in this or that." There was no need in other words to pay off political debts. Now I won't say that there weren't some things....Maybe Chet Bowles and maybe Ribicoff. There were a number of decisions that looked as if there had been some

sort of agreement made, and that there was an understanding that they would be taken

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care of. I was absolutely flabbergasted that the men of the stature who became the cabinet had their people picked for them. In fact Rusk is the one who blew his top. Walt Rostow was the last straw. He had everybody picked for him. Walt, as far as I can remember, was the only man who announced to the press that he was being offered a high job in government. Do you remember that, which was a bit of gaff. In the last analysis Rusk said, according to the gossip, that, "Everybody's been picked for me. Damn it, I'm going to pick one man." Who was picked for the planning job?

HELLER: McGhee [George McGhee].

SAMUELSON: McGhee. Walt had then to be placed in the White House at a slightly lower salary but he probably preferred, at least at the time, that assignment. This made Ken very angry. Rusk was dragging his heels on Ken's appointment as ambassador to India and said to Ken – this infuriated him – that he was against political appointments to ambassadorships. He had always believed in career and merit appointments. This was one aspect of politics that Ken didn't take to. So it was a very intense period of the talent search.

PECHMAN: Now, let's complete the appointment of the Council of Economic Advisers. At this point Walter steps in. As I recall it around mid-December you got a call to come to Washington, didn't you? It was that late.

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HELLER: This is one that I can date precisely so we might as well. The fifteenth of December I got a call from Shriver saying could I come down the next day. This was Thursday afternoon, could I come down the next day? I still, except for just the comment by Gerhard Colm, didn't put any stock in it. I had no idea what the job was. I thought it might be undersecretary of the Treasury. I thought it might be a Council job, but I didn't know at that time, so I hustled down. Joe will remember that I was one of the few people that got in and out of the town, and in and out of the Georgetown house without the press knowing about it.

PECHMAN: Well, Walter called me from Minneapolis and said he was coming down. He said he didn't know what the job was and I kidded him, I said, "You're going to be asked to be chairman of the Council of Economic Advisers." His reaction was, "Oh, that's nonsense." So he was really surprised.

SAMUELSON: I suggested names like Gerhard Colm as a very deserving citizen who had done a lot in the previous administrations but I couldn't get any enthusiasm for him. I'm sure that names of people like yourself...I can't remember whether you told me or whether...I can remember saying, "I don't think Joe will take an assistant secretaryship. I think it would have to be an undersecretaryship or he wouldn't take it." We went through all the tremendous lists of

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people as you could gather, but that gave us two Council members: Jim and Walt. Walter, I guess we certainly checked with you on what you thought of Jim as a Council member.

HELLER: It was done so well that I thought it was my suggestion. That shows how well you handled that.

PECHMAN: Wait a minute, you're going ahead of the story. Let's get the December 15 meeting on the record, Walter.

HELLER: December 16. I dictated notes on that, but this was years after the event. Needless to say, it's something I remember very vividly. I'll skip the part en route but when I got to the house in Georgetown, I found that it was a real beehive. They brought me in through the back door and I waited in the dining room for awhile where I was joined for a period by Clarence Cannon. He and I had a very fine discussion of fiscal responsibility. Let me tell you, it could make a man's heart sink to hear his talk about how he was going to hold that spending down and achieve a balanced budget.

SAMUELSON: You told me he said revenues were falling off and we're sure going to have to sharpen our knives.

HELLER: That's right exactly and he said also he assumed that that young man was going to be fiscally responsible. It was incredible.

PECHMAN: What was he doing there? Do you have any idea?

HELLER: Well, I do not know what he was doing.

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GORDON: Secretary of the Treasury.

HELLER: Then Foster Furcolo came in.

GORDON: That surprises me. Kennedy and Furcolo were at sword points. They hated each other.

HELLER: Well, he was in there for something or another. The most fascinating part of this juxtaposition is that he had Doug Dillon [C. Douglas Dillon] in the other room. As a matter of fact the reason I waited as long as I did was, a good part of the time, the president-elect was talking with Doug Dillon, trying to persuade him to get on the secretaryship of the Treasury. As I recall, and I think we ought to check this out with Doug sometime, he was from that house, I believe, calling to see what the Eisenhower forces thought about this.

SAMUELSON: Yes, that's the impression you gave me at the time, I think, or I got that impression. I must say, by the way, that there was the problem of balance. One of the things that made it more likely that Walter would be made the chairman was the prospect, although it hadn't yet been decided on at that time, that Dillon would be the secretary of Treasury. It was thought that with he, being a Republican, being more conservative, Walter would be a check to him and also it would mean something to the more liberal wing. I may say that the announcement of Walter's appointment was greeted with great joy as "that very conservative economist." You remember the first news item about how

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respectable you were?

HELLER: It didn't last long.

SAMUELSON: It didn't last long but it surprised me that he was a Minneapolis Star Tribune.

HELLER: It didn't last long, especially after U.S. News [U.S. News and World Report] got going.

PECHMAN: Tell us about the conversation you had with the president-elect.

HELLER: I'd waited about an hour and then Kennedy just burst into the room. The reason he burst into that room was because, as I say, he had Dillon checking something out in the other. I still wasn't sure. I thought maybe he was just going to discuss appointments with me and so on, but within ninety seconds, he popped the question and said, "Would you come and serve as chairman of the Council?"

PECHMAN: Was there any recognition that he had previously met you and so on in those ninety seconds?

HELLER: I just don't recall that there was any mention of the October meeting at all.

SAMUELSON: My impression from vague memory is that he did definitely remember Walter and he took it for granted that you each remembered that occasion.

HELLER: No, no, there was not, "Glad to meet you," and so forth. We'd met before. Then he indicated that I'd been on top of your list and Galbraith's and he did

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mention Freeman and so forth. I think these notes remind me of the fact that he did refer to my approach in economics, that he liked my approach in economics. That could only have come from the Minneapolis meeting. He also said, and this is where I think I can quote him more or less verbatim – a better quote than I made before – "You'll find that I'm a good deal more interested in economics than my predecessor and maybe a little better informed on it." Then I told him that that had been apparent in our talk in Minneapolis. Now, my memory isn't entirely clear about the sequence concerning the secretary of the Treasury, but there were the following elements: he asked what I thought about Eugene Black, and I think we ought to discuss this a little bit. I told him I thought he was a considerably more conservative man than he'd want to have to conduct an active fiscal policy in the Kennedy administration. Then he argued that Black was really a considerably better man on this score than I thought. He was really more liberal or at least more open-minded than I thought and that it was Black's illness that was really preventing him, Kennedy, from pursuing the matter any further. I don't know whether we want to stop here. There was a little talk about this in the car yesterday.

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PECHMAN: We'll come back to the Treasury appointments later.

HELLER: All right. And then he told me he'd just about decided to ask Doug Dillon to be secretary of the Treasury and he had him in the other room. This is what I say in my notes here. I seem to recall his saying something about Dillon having to check things out with Eisenhower or members of his party or something like that before he could decide. This isn't too clear a memory but it would be interesting to find out from Dillon. Then he talked about under secretary of the Treasury and asked me what I thought about Roosa. I joined a rather distinguished list of other liberal economists in saying a good word for Roosa. I particularly recall that he'd been willing to stand up at the New York Fed and battle the Federal Reserve Board in the internet of a more permissive monetary policy. Then actually coming back to the Dillon thing, and this is a very sharp recollection, the president-elect said, "I think Dillon will accept. I need you as a counterweight to him. He has conservative leanings, and I know your leanings are liberal." I told the president this was going to be an awfully tough decision and that I'd take a beating in Washington from the conservative press and so forth. That would be part of the job. I

needed some time and he said, “Any-

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time by the middle of next week is fine. Get in touch with me.” And then, as he was helping me find my coat, we walked up the steps together, inside the house, and I raised with him the question of the tax cut because we were actively considering it in the task force. This was a tax cut as an anti-recession measure. He said it might be a possibility but it would be awfully hard to square it with the sacrifice theme that he was stressing. After all, we kept fighting for it all the way to April, but I never forgot in the back of my mind that little stairway conversation.

GORDON: I’m interested, Walter, that the president should have referred to the sacrifice theme before the inaugural. It never struck me that this was a dominant theme in the campaign, but became dominant in the inaugural address.

HELLER: At least from Labor Day on.

SAMUELSON: I flew to Hyannis Port. I don’t know if you were in the room when I was saying that he had already said that he had the feeling that this was the time to ask the people for sacrifices.

GORDON: But he already told me that he was tied down.

HELLER: No, Kermit, he stressed that quite a bit after the election too. There was a good bit of emphasis on people were going to do things for their country rather than vice versa.
Well, as far as just one incident of interest,

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I did get back out to the airport without the reporters seeing me. Then I ran into the dean of our graduate school, Bruce Crawford. I told him what had just happened and he said with a good deal of humor and wisdom, he said, “Now, Walter, we all know what you’ll do. You’ll fit and you’ll fuss and you’ll weigh the pros and cons and then you’ll say yes.”

PECHMAN: Well, you called me from the airport then and reported the substance of that conversation.

SAMUELSON: Now, you called me, Walter, probably back from Minneapolis, to tell me what happened and I urged you to take it. You told me that one of the problems would be financial. I said, “My God, Walter, I realize that, but if you can’t, a job....This is the highest paid job an economist can get in the government,” twenty thousand dollars or whatever it was. It shows what’s happened to

university salaries and the way we live now compared to the first New Deal when people had got eighteen hundred dollars as instructors and then doubled their salaries working for the government.

HELLER: I'm glad you mentioned that because it now reminds me that the president told me at the time the job paid twenty-two thousand five hundred dollars, and justice will only be done when the pay bill is signed. He was thinking of the budget director's job at twenty-

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two five, I'm sure he was. He just assumed this was in the same bracket which also, by the way, says a little bit about his conception of the job, which was in that same category.

PECHMAN: Well, you returned to Washington the following week, as I recall, or was it Palm Beach?

HELLER: I was in Washington first and then went down to Palm Beach.

SAMUELSON: By this time, you were beginning to get your way paid. No, that was later. But by this time you were getting some tickets from the government, weren't you, once the announcement was made?

HELLER: Yes, by then I was on some Kennedy credit card, not for everything but for the basic transportation.

SAMUELSON: Some of the telephone calls, by the way, Kennedy made himself. I'm trying to think now. I was told by Deidre Henderson or somebody. I'm not sure whether it was the one to Jim when he dialed himself from Palm Beach or maybe you were the one.

HELLER: That story I can tell blow by blow down there, yes. That's another thing that ought to come in here and I see it's not in these notes of mine. We did talk about the other members of the Council and I said to him, "Well..."

PECHMAN: In Palm Beach?

HELLER: No, no, in Georgetown. I said, "Well, now if I do take this job on, we'll have to think quite soon about

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other members of the Council." He said, "Well, do you want to think of Jim Tobin?" He brought that up before I did, yes, he did. He said, "Jim Tobin," and I

said, "I hope we can get people of that eminence, but if we can't, I'm not going to settle for second rate people. If I have to, I'll go to younger top notch people." And he said, "Well, I hope you don't have to. I hope you'll be able to get the older top notch people."

SAMUELSON: By the way, there was a real problem of recruitment that everybody whose names were suggested were all in their forties and there was a vacuum in the fifties at that time. This will come out in connection with Roosa.

HELLER: Then, let me see, if I have these notes as a crutch, I'll use them. I remember I talked with you, Joe.

PECHMAN: Yes, from Minneapolis.

HELLER: I talked with Paul and I talked with Ken and, of course, they both urged me to do it and indicated something about the caliber of the new president. I remember that both you and Ken gave me the kind of assurance about his responsiveness and economic advice and academic and intellectual advice, if you will. They were reassuring and certainly turned out to be right. I had a couple of conversations with Florida during that period. One of them was with Dave Bell [David E. Bell] and Dick Neustadt [Richard E. Neustadt] who were helping

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the president put together some of the administrative aspects of his administration. We talked some about the conception of the job and the close cooperation we'd have between the Budget Bureau and the Council. Indeed, we even talked a little bit, Dave Bell and I, about the merging of the fiscal policy operation.

SAMUELSON: Bell had been appointed budget director about this time.

HELLER: That's right. We also discussed the additional jobs that the Council might be asked to take on and so on. Then, I believe it was on Wednesday, the twenty-first of December, I called the president-elect at the Joseph Kennedy home in Palm Beach. To my surprise, Mrs. Kennedy answered the phone, which is a little indication of...

PECHMAN: Disorganization.

HELLER: Well, disorganization or informality, call it what you will.

ACKLEY: Mrs. Rose Kennedy or Mrs. Jacqueline Kennedy?

HELLER: Jacqueline. She either called the president to the phone or had him call me back. Then I had a brief conversation with him, indicating these main points. We talked about not having

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an intermediary at the White House and so on and so forth and all his answers were favorable. I was to come down for the announcement.

GORDON: You might explain that, Walter, about not having intermediaries at the White House.

TOBIN: It was explained earlier.

HELLER: Then I went down to Washington on Thursday, the twenty-second for the meeting of Paul's task force. Joe Fowler was on that task force, I note here, and he seemed raring to go on tax cuts and other policies to combat recession.

TOBIN: He said, "Don't temporize."

SAMUELSON: Joe Fowler was on that task force, by the way, because I asked Eli Shapiro, "Who is the best person on the Commission on Money and Credit?" Eli thought and he said, "Joe Fowler" and then I think he said, "Jesse Tapp isn't so bad."

PECHMAN: No wonder Eli had a bad time on the commission.

SAMUELSON: Later on I felt some grievance toward Eli on this and I think even reproached him.

HELLER: Well, Dave Bell and Dick Neustadt were there, not at your meeting I guess.

PECHMAN: Dave Bell was at one of our meetings.

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SAMUELSON: Bell came for part of the time. He was already, I think, meeting, he had a desk space in the Budget Bureau.

PECHMAN: He was appointed very early.

SAMUELSON: I think by the way that his appointment – this is running ahead of the story – probably was the one fruit of the meeting between Ken Galbraith, Art Schlesinger and myself. We were really canvassing all sorts of names and then suddenly someone said, “Well, what about Dave Bell for the budget director?” He’s so young and he is academic and, well, but what about it though? He obviously might have come up through some other agency as well, but that was one of the stimulants.

PECHMAN: He had not been in contact with the Kennedy group.

SAMUELSON: He was surprised.

GORDON: I remember being told that all the channels that were feeding in, suggestions to the budget director, every list had Dave Bell on it.

SAMUELSON: It seems to me I heard something like that, namely that there’d been multiple namings of him.

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HELLER: By the way, with respect to this appointment process, was the net thrown terribly widely in terms of the people from whom they solicited suggestions in a formal way? You say every list that came in. How many lists that would come in on a budget director, for example, would actually be actively solicited?

SAMUELSON: I would think that you could probably find four or five not very overlapping groups, including probably the father, Joseph Kennedy, who would have some thoughts about particular people. If you take people like Yarmolinsky and Shriver and Fred Holborn – do I have that name right? – certainly thought that his opinions were being solicited. So if Paul Rosenstein-Rodan had an idea he would give it to Holborn.

HELLER: Carl Kaysen was consulted, at least by me, but I thought I heard Carl say that he was consulted a lot by Yarmolinsky, directly. Dick Neustadt put together the presidential statement that was to be issued at the time of my appointment announcement the next day in Florida. I think that announcement ought to be entered in this record, because it said a good bit. It was cleared with the president-elect and said a good bit about his ?

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about the enlarged role and the function of the Council. I took a jet down to Palm Beach that night for the announcement the next day and I remember very vividly, of course, going into the Kennedy home down there.

PECHMAN: When? The following morning?

HELLER: The following morning. I met the elder Kennedy as I walked into the house. That was my first meeting with him. As a matter of fact, I talked with him again on the way out. He was extremely cordial. He told me how delighted he was I was coming to join the administration and so forth. Then I was ushered into the house. The president-elect wasn't there yet. There was a clutter of children's Christmas presents off to one side of the room, together with the family Christmas tree. There were two or three interesting sidelights, while I was waiting. Sometime after I'd gotten there, maybe half an hour after I'd gotten there, Kennedy came bounding through the room in his tennis clothes, obviously having been out for a workout and going in for a shower and so forth before getting dressed. He told me to wait, he wouldn't be too long.

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I think there's no point in recounting other specific incidents during that period of waiting, except to say that one got the impression of totally normal family goings-on, plus in the course of that and later discussions around the household, some corroboration for the proposition that Jackie Kennedy was going to protect the inner family workings and informality and naturalness at all costs. You know there were stories being written about it at the time. This certainly was an impression one had there. The family were all, perhaps not surprisingly, very casually dressed and they simply went about their business. Elie Abel came in to be offered something in the press office which he turned down. In other words, in spite of the fact that there was a steady stream of visitors in to this living room, normal family life just sort of coursed all around you. The doctor came in for little John-John [John F. Kennedy, Jr.], who had a bad cold at the time.

PECHMAN: Did you call Jim from there?

HELLER: Now I'm going to come to this now. Finally the president did come down and went into the study.

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We quickly discussed what ought to be said in the course of the announcement. By that time people were gathering – the press and TV and so forth – out on the patio. We talked some about the Neustadt statement and how the Council might broaden its scope. The Neustadt statement was fairly general. The president wanted to know what did I think the Council could do which it hasn't done in the past? We mentioned the manpower areas and the resources areas and consumer areas, all of which we lived to regret.

SAMUELSON: Did you mention the communications satellite?

HELLER: No.

SAMUELSON: One of the arguments I used in trying to recruit people and, I think I used with you, was that there needed to be a council as a brain trust, which is more than just a fiscal policy watcher. There were new problems such as, for example, the thing which was hanging in the fire, whether the Bell system would be allowed to have a private satellite. I said nobody had the time to think about these things and I think that bright people at the Council could really begin to lay the foundations for new legislation for all times on this. It was delayed. In the last days of the Eisenhower administration, there was some chance of its going through. I'm sure I would have mentioned this to you as a possibility of the sort of thing that could be done.

HELLER: I think that one return on your deposit was our getting

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Burt Klein [Burton H. Klein] in. Well, the most interesting part of this discussion before we went out to face the press revolved around the word recession. The president asked me what I intended to say and I told him that I was going to say to the group that we had to overcome the ravages of seven months of recession and three years of lag and five years of slow growth or whatever the figure was that we were using. Then Kennedy questioned me very closely on were we really in a recession, should we really use the word recession, might that not have an adverse confidence effect? I think Kermit and Jim will remember that the confidence argument came up quite vividly two or three times fairly early in the administration. There were some people in the White House who argued a bit that talking so much about the recession and hearing so much about it might have an adverse effect. But then most of that came from the outside. We had to answer outside criticism to the effect that we were worsening the recession by facing it.

SAMUELSON: Were there some lawyer versus economists queries on this point in those early days? I almost think there were but my memory isn't reliable.

HELLER: I don't recall. Well, I said to Kennedy that it would be wrong to call it anything but a recession, that the august National Bureau [of Economic Research] had ruled that it was recession as of the preceding May.

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SAMUELSON: But they did that only at hearings of the Joint Economic Committee held on December 6, 1960. Jeff Moore [Geoffrey H. Moore] for the first time publicly stated that the recession was dated...

HELLER: This was very fresh in mind at the time I was down there.

SAMUELSON: ...and they delayed this until after the election.

HELLER: I said that businessman, business journals like Business Week and so forth were using the term; that Nixon and Saulnier had been criticized for not using it and I didn't see how we could operate without calling it a recession. Without hesitation, at the end of this little homily, the president said, "Okay, so it's a recession." We had a very good little press conference in which he made some other statement. He used the announcement of my appointment as an occasion to bring in some other points. I'd have to go back to that transcript to find out what. Then we came back into the study and the president said, "What do we do now?" And my answer to that was, "We call Jim Tobin." Sue Mortensen [Sue Mortensen Vogelsinger] came in. She was working with the president down there and as a matter of fact, she and Chris Camp [Christine Camp] were the first two girls I had encountered from the Kennedy entourage. They were helping the president. The president then may have put the call in himself, at least he picked up the phone and I don't recall that he dialed it himself or whatever. Do you remember, Jim?

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Was he right on the phone when he got you?

TOBIN: Well, he was right on the phone by the time I got to the phone. There was a misfire of the first phoning.

HELLER: I think he tried it the first time and then it misfired.

TOBIN: It misfired in the sense that he was called to another phone right away and he couldn't complete the call. So they first told me in my office that Palm Beach is calling and then they said they would call again. Meanwhile it was lunchtime and I had an appointment to have lunch with Richard Ruggles and Hollis Chenery, so I went to lunch leaving word that I could be reached at the faculty club.

PECHMAN: And did they reach you at the faculty club?

TOBIN: They reached me at the faculty club.

PECHMAN: How long an interval was it?

TOBIN: It must have been an hour.

ACKLEY: Did you have any previous intimation, Jim?

TOBIN: Well, there had been some press speculation in the Washington papers sometime before Walter's appointment that had listed various possibilities including Walter in the article, and others.

GORDON: What day was it when the president called you?

TOBIN: It was the twenty-third of December. Moreover, after Walter's appointment, then we had this task force meeting in Washington, right? We had the task force meeting in Washington prior to your going to Palm Beach. Isn't that right?

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SAMUELSON: That's right. You asked Jim whether he would accept...

TOBIN: You said, "Would you consider it at all if I go down to Palm Beach and the president is interested at all?"

HELLER: That is correct. That was the day before. I talked about it on the phone too.

TOBIN³: I told Walter Heller I would at least consider it seriously but that I would want to be sure it was something that the president wanted and not just Walter. I also would want to be sure the whole Council would be actively involved in policy, not just the chairman. I had the impression that the two other members in the previous administration weren't doing much except, as they say, like Henry Wallich, might have personal relations that gave them independent influence, such as Wallich with Anderson. Walter gave me assurances on this point, and I would like to say that they were fully realized. The Council functioned as a unit, with the two members as well as the chairman involved in relations with the president and the White House.

BEGIN TAPE I, SIDE I

PECHMAN: There was apparently an hour interval between the first and the second phone call to Jim. What did you do during that hour?

HELLER: No, actually I have a feeling it was a lot shorter than that, Jim.

TOBIN: Maybe a half hour.

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HELLER: Yes, but during that half hour, a couple of things are worth recalling. One is that the president tossed me a long dispatch from Macmillan [M. Harold Macmillan]. It was a letter that Macmillan had written him. The fascinating thing of that letter – the essential theme – was we have got to get our two economies operating at full tilt if we're going to maintain our leadership in the world.

³ Statement inserted by Tobin upon review of transcripts.

This was really very much the essential theme of a good chunk of the letter. Then the second thing was, what were the main points that we should stress, he asked me, in selling Jim on the job? One of the main points I underscored was the extent to which the jobs of the other two Council members would be coordinated with the chairman. They'd have a full measure of responsibility in their fields and Jim, in particular, would play the top role in monetary matters and have a real crack at some of those policies of Bill Martin's. I thought if he didn't rise to that bait, there wasn't any bait he'd rise to. Then I thought that...I say here we'll have to have Jim dictate his recollection of the call if he hasn't already done so. The most memorable exchange was when I heard the president say, "That's the best kind," which was his answer to Jim's demurrer to the effect that he was an ivory tower economist. The whole presidential quote was, "That's the best kind. I'm an

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ivory tower president," to which Jim replied I found later, "That's the best kind." Well, that's my part of the recollection and Jim should take it from here.

PECHMAN: Well, Jim, before you tell about the conversation, tell us when you had an inkling of your appointment at all and your conversations with Paul and with Walter about the appointment.

TOBIN: Well, on the occasion of the task force meeting, which was the twenty-second of December, I guess, Walter mentioned in a properly noncommittal way that he would be interested to know if I would consider such an idea if the president considered it. I believe I said I certainly would consider it. Also I believe I said that I would want it to be not just Walter's desire but the president's desire. Then Walter was going to Palm Beach.

PECHMAN: Didn't you have a leave, by the way, or something.

TOBIN: Well, I did have a leave to go to the Center for Advanced Studies in the Behavioral Sciences at Palo Alto the following year.

PECHMAN: You've never taken that up?

TOBIN: I've never been able to take that up. Something has always come along. So that did mean, in a sense, that I had already planned to be away from Yale although not away from economics. I went back to New Haven on the train

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with Paul Samuelson that night and told him Walter had mentioned the possibility to me. I asked Paul what he thought about it and whether he thought a useful purpose would be served by my doing so. As I remember, the main purpose that Paul thought would be served

would be that if I were a member of the Council it might help in the recruitment of staff.⁴

SAMUELSON: I probably didn't put that well but what I was trying to say was the importance of having a scientifically respected economist on the Council.

GORDON: That offset Walter's...

SAMUELSON: That's right.

TOBIN: At any rate, I also got from Paul the reasons why he wasn't doing it, which were the same ones he's already given on this record. Well, as stated then, this next noon the president reached me at the faculty club. He said he had Walter Heller there and they both were very anxious for me to join the Council as a member. I did say, "I think you have the wrong kind of economist. I'm an ivory tower economist." He said, "Oh, that's the best kind, I'm an ivory tower president." I said, "Well, that's the best kind." I had a couple of other things I wanted to say. One was about the function of the members of the Council other than the chairman. I said I had the impression under the Eisenhower administration that at least part of the time,

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the two other members were not doing much. I had better things to do with my time than to sit at a desk in Washington and not be doing anything. He said he and Walter Heller had no such idea about the Council and he was sure there would be full functioning as a Council of three with important responsibilities for all the members. I asked what minimum length of time would be worthwhile. After checking with Walter, he said a year, but hoped for more. I also brought up the article which I had written for Challenge magazine which was called, "The Future of the Fed". That was the title given to it by the editors. It was an article that I had written at their request right after the election, having no idea I was going to be a member of the administration. It was an attempt to say what issues might arise between the Federal Reserve and the new administration in connection with monetary policy. Since, by implication at least this was fairly critical of the monetary policy of the Federal Reserve under the Eisenhower administration, I thought particularly because of the talk about my having monetary responsibilities as a member of the Council, he should know this might be an embarrassment to him.⁵

PECHMAN: And this article was yet to come out? It was in page proofs?

TOBIN: Yes, it was yet to come out. He brushed this aside and

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⁴ See Appendix A, note 8.

⁵ See Appendix A, note 2.

said he wasn't the slightest bit concerned about it and it wasn't anything the administration wouldn't be able to absorb...

PECHMAN: He was right about that.

TOBIN: ...without difficulty.

PECHMAN: Did you agree to....Did you accept the appointment?

TOBIN: No, no, no. Then of course I said I'll have to discuss this with my family and with the Yale administration and consider it further and probably talk to Walter about it also, as he suggested. Then he said, "Okay. Just call me back. Here's the number. Call anytime you're ready." He gave me the number in Palm Beach. I did then talk to my family and the Yale administration. They were very agreeable and so was my family. I also talked to Henry Wallich. This was an interesting conversation.

PECHMAN: He was then a member of the Council.

TOBIN: He was then a member of the Council and was a professor on leave from Yale, a colleague of mine on the faculty. I just wanted to ask him about what it was like being a member of the Council. At the end of the conversation he said, "You know we're supposed to report all conversations with the new administration to General Persons [Wilton B. Persons]. All contacts with the administration go to General Persons and so that's what I propose to do." I said, "Now look, Henry, I just called you as a personal friend to find out what life

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in Washington is like."

PECHMAN: Do you think he reported the conversation?

TOBIN: I don't know.

SAMUELSON: Jim, I seemed to have heard two stories. You can perhaps tell me if they're correct. One was that your daughter, Margaret [Margaret R. Tobin], thought that it was your duty to go. Secondly, I remember hearing a story of your saying plaintively, "If Paul Samuelson didn't have to go, why do I have to go?" to Betty [Elizabeth F. Tobin] and Betty is saying, "Well, Paul has to live with Paul Samuelson's conscience and you have to live with Jim Tobin's conscience."

TOBIN: That's true. Both of them are true.

PECHMAN: Let the record show that Betty is Jim's wife.

TOBIN: So I did call the president back at Palm Beach from St. Louis, the American Economic Association convention, which was the week after Christmas, and accepted the position.

HELLER: Do you want the rest of the conversation with the president at Palm Beach?

PECHMAN: Yes, I think it would be better.

HELLER: I think it would be better before we wound up. As soon as we were through talking to Jim, then we discussed a little bit the question of the third man on the Council. He had no specific suggestion there, but he did ask me to start thinking very seriously about the steps we should take to fight the recession since he wanted to swing into action right

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away in the new administration. Again there was some mention of the tax cut and some indication that while he would consider it, he was boxed in by two things. One was the sacrifice theme and the other was fiscal responsibility. He made some comment about, you know, he was going to under the gun because of this issue and because of the very narrow margin of victory.

He recalled then, as he did a number of times afterwards, and I think both Jim and Kermit will remember this, how few votes there were in the Senate for a tax cut in the more severe recession of 1958. As I recall, and this I'd like to check with both of you, and with Paul, the president said that Seymour Harris persuaded him to vote for a tax cut in 1958 but there surely weren't many votes around for it. Now I have always been a bit confused and haven't looked up that bit of history as to whether there really was an issue that came up that sharply in '58 on the tax cut.

SAMUELSON: I don't know whether it came to a vote, but when Congress went away to Easter time, it was thought that the heat from Congress would be very heavy on the president for a tax cut. But they found the country wasn't hurting and wasn't desiring it, and by the time they came back, after the Easter recess, the heat was off and the tax

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cut was a thing of the past.

HELLER: That's why I do not understand this. I know that he mentioned in his office, after he was president, something about how few votes there were for it even though Seymour Harris had persuaded him.

TOBIN: I think he meant potential votes.

HELLER: Is that really what he meant? All right. I don't know whether you want any personal comments.

PECHMAN: About the president? Yes.

HELLER: Well, he walked me down a rather long driveway to the street there, in front of Joe Kennedy's house, and we talked for a moment. Then his father came and it was at that point that he congratulated me and said he looked forward to seeing me again while I was working with the president. Then the president-elect talked to me about two fellow Minnesotans, Orville Freeman and Hubert Humphrey. He asked my opinion of these two men and gave me his. He was complimentary in both cases but was particularly complimentary about the toughness of Freeman's fiber, with a somewhat invidious comparison there growing out of the West Virginia campaign.

SAMUELSON: I think that was so bitter....I'm amazed because I thought Freeman had rather flubbed the campaign in Minnesota at the last....Am I confused?

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HELLER: John F. Kennedy made the finest character reference statement about Orville Freeman that a man could possibly ask for.

SAMUELSON: But did that tally with Freeman's recent behavior? Hadn't Freeman...

HELLER: He had been a very active candidate for vice presidency, of course.

SAMUELSON: But there was an election. Wasn't he running for an election?

HELLER: He had been beaten in the election...

SAMUELSON: But hadn't he lost his nerve actually in the home stretch? I thought you told me the difference between a real pro like Humphrey who, when the chips are down, will fight harder and...

HELLER: Oh no, I would never have said that, I don't think.

SAMUELSON: There was nothing like that, of Freeman's actually...

HELLER: Losing his nerve in the campaign?

SAMUELSON: In his own candidacy and flailing around rather wildly.

HELLER: Oh, not losing his nerve, no, no. But yes, there was a period when I thought his campaign strategy floundered somewhat. In other words, at one and the same time, he was making the basic pitch that there ain't no Santa Claus, that if you people of Minnesota want the services, you have to pay for them. Then realizing that was such

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strong medicine, he somewhat drew back a bit and wondered if he had done the right thing.

SAMUELSON: Then in any case the president had no inkling that Freeman had in any sense been other than adequate in his own – in Freeman's own – campaign?

HELLER: No. But I'm talking really here about a character reference, that this was a man who was really a stalwart and went down the line, whereas he felt there was some, in Hubert's case, tendency to bend. That's interesting in a sense in retrospect because then, of course, in the course of legislative leaders' breakfasts and so forth, Hubert became unquestionably, at least as far as my impression goes, the man on whom he relied more than any other single person with respect to congressional relations. Perhaps not as far as the flow of power was concerned, but as far as the reliance on judgment and advice and analysis, Humphrey just stood out above all the others. And then as we completed this conversation about Freeman and Humphrey, the president-elect opened the cab door for me and put me in the cab. I thought that was probably the first and last time that a president of the United States would ever open and close a car door for me. That was the end of that particular...

TOBIN: I'd just like to add one thing. The president in his phone call to me mentioned the important economic problems

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facing the country and the need of the new administration for a lot of new thinking and initiative and imagination in dealing with these. Recession, growth, and balance of payments were the ones he mentioned. One should say, I think, that he was certainly impressive on the telephone and very persuasive and one's inclination to accept his invitations was considerably increased by his own persuasiveness and obvious intelligence.

HELLER: Yes, I think that kind of comment is important. One tends in the course of these discussions to leave out overall impressions. He was, both in the Georgetown meeting and the Palm Beach meeting, just immensely impressive, in terms of his grasp of what you were talking about as well as in terms of his whole handling of the matter, in the sense of confidence that he gave you.

PECHMAN: Let's just finish the forming of the Council. You came back to Washington from Palm Beach or did you go to...

HELLER: No, I flew directly to Paul's office in MIT and had a meeting with him on the twenty-fourth.

SAMUELSON: We probably met with Ted, didn't we?

PECHMAN: Oh, you met with Ted that morning?

HELLER: Paul will have to pick it up there. I'm just a little hazy on what we did.

SAMUELSON: I think we met with Ted. Ted was coming for some reason to Boston – for some other purpose – and he met us at the Sloan Building and we talked about the task

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force report. I think it might be interesting to say that when the task force started, I was perhaps already becoming somewhat conservative in terms of what the president could take – what I thought could be sold to the president. I did not start out with the intention on the task force of recommending a tax cut. My memory is imperfect as to just who on the task force was keenest for it but I do remember some of the people. I remember Walter was very keen for a tax cut.

HELLER: Yes, I was.

SAMUELSON: And Joe Fowler, the one and only time in his life, stood up very strongly for it.

PECHMAN: What do you remember about the whole task force? I remember very vividly you called me and you asked me what I thought about recommending a tax cut in the task force report, mentioning that there was some resistance to the idea.

SAMUELSON: Weren't you on the task force?

PECHMAN: Yes, I was. I mean this was official discussion about the report between you and me. I don't recall why you called me but you were concerned about it. You had told all the members and you said there was quite a bit of resistance to the idea of the tax cut in the Kennedy entourage. They felt they needed the revenue for government programs and national defense and so on. Then I expressed the idea that I wouldn't put that at the highest priority. You said that

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I was the most conservative of the whole group...

SAMUELSON: I don't remember that.

PECHMAN: ...and that everybody else was in favor of a fairly strong recommendation for a tax cut.

SAMUELSON: But I can't remember Jim and Otto, whether they were young Turks for it. I remember you were one of those for it.

PECHMAN: Gerhard was. We'll come back to the task force in a minute. Kermit's appointment was after New Year's, wasn't it?

HELLER: Oh yes, yes indeed.

SAMUELSON: It was on the fourth or fifth.

PECHMAN: Now I remember that the idea of Kermit being the third member was hatched in my house when Jim and Paul and Walter were visiting. What were you all doing in Washington then?

TOBIN: It was the last meeting of the task force.

PECHMAN: I see, I see.

HELLER: That's right but I want to make very clear that while it was hatched there like an egg hatching, the implantation had been a good bit earlier.

SAMUELSON: Yes, as I remember, one of the first thoughts was that we needed somebody international because Jim didn't know anything about international and you didn't. But that's right, and there were names mentioned like Walter Salant; not seriously, but I'm just mentioning they were looking

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for somebody international. Then the thought was, well, but what about industrial organization and incomes policy? We didn't use those words at that time. It was widely believed by me, at least, that Kermit would not be available, because hadn't you turned down the broadcast...

GORDON: "The Continental Classroom."

SAMUELSON: "The Continental Classroom?"

GORDON: I was in the process of accepting it.

SAMUELSON: Oh. Well, I was in both recruiting committees and everybody said, oh, he's been in the Ford Foundation and has millions of responsibilities. I was pleasantly surprised that you accepted when you were asked. So there was a big question mark on Kermit's availability from the very beginning but then finally we said, what the hell, all you can do is try. And the president was very persuasive on the telephone.

GORDON: That's right.

PECHMAN: I remember that remark at my house, but when was Kermit's name first mentioned to you, Walter, and by whom?

HELLER: Look, here and there you claim credit for an idea yourself. On the basis of our contact in the Ford Foundation...

GORDON: Very polite, Walter; very polite indeed. I remember berating

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you for wasting your time in Jordan, that's the only subject I think we discussed. You were very persuasive.

HELLER: Yes, yes. That in terms of having somebody who is a combination of a good economist and a good operator and so forth, that you were the logical one to round out the Council. I had this thought some days before we met in Washington, but one had to go through, you know, a tremendous number of names before we were able to sort of sift down and get the consensus.

TOBIN: I had the distinct impression that I was responsible for Kermit.

HELLER: Well, this is all great tribute to Kermit.

PECHMAN: Well, in any case I do remember when your name was mentioned at my house, that the question about your availability was raised and somebody simply said well, why don't you just call?

HELLER: We four all got on the phone.

GORDON: That was the evening of January 4. It was 11:00 p.m.

HELLER: We talked to you for an hour.

PECHMAN: Was it that long?

GORDON: That was a long call. I talked to each of you individually.

TOBIN: Kermit has a number of assets among which was that he wasn't at Harvard.

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PECHMAN: By that time, non-Harvard appointments were at a premium.

SAMUELSON: Oh, yes. It was said at the last one, that the Harvard quota is full.

PECHMAN: The president called Kermit from the Hotel Carlyle and what day was that?

GORDON: The next day.

PECHMAN: The next day.

HELLER: Was it the fifth or the sixth that you presented your report? Let's get it.

SAMUELSON: Well, on the record, I think maybe I can't remember whether it was issued on the sixth or whether it was on the fifth.

HELLER: The meeting at the Carlyle, though...

PECHMAN: The meeting at the Carlyle was on the fifth. It hit the newspapers on the sixth.

HELLER: Gee, I didn't realize this. On January 13, I dictated something about that.

PECHMAN: 1961.

HELLER: Yes. On January 13, 1961, I dictated about January 5, 1969. You want me to read this into the record?

PECHMAN: No, wait, I think I just want to get the Kermit Gordon appointment and then...

HELLER: That's what this is.

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PECHMAN: Oh, I see. Go ahead.

HELLER: “A little snag on Kermit Gordon developed at this stage of the game, because it was remembered that he had once set a rather high price on what Senator Kennedy’s office asked him to do. The check with Kermit disclosed: A) he would not say if Kennedy called him; and B) the incident that Kennedy remembered was one in which Kermit was in quite a financial hole and had some alternative assignments that would contribute to getting him out of his hole, hence the price tag on his potential services to the Kennedy offices. It was in no sense an unwillingness to work for Kennedy and Kermit’s devotion to the Democratic cause was well illustrated by his serving his campaign manager for Burns in Massachusetts. This was pointed out to Sorensen and Kennedy, and seemed to end any question that might have been raised. Kennedy called Kermit shortly after 3 o’clock; meanwhile Kermit had given his biographical information to Salinger [Pierre E. G. Salinger] and the dual announcement of Tobin and Gordon was made at 5:30 along with the release of the Samuelson report.”

PECHMAN: Kermit, will you tell us about the phone call?

GORDON: Well, there’s little to add. I had no prior intimation whatever. Clearly from what Jim said, there had been prior intimations in his case, but it came completely unexpectedly. This call from the four of you, as I said,

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came at almost midnight. I was in bed reading the New York Times. After we finished the talk, my wife put on a pot of coffee and we talked about it until about 3 a.m. I decided before I went to bed that I’d do it. The president called me the next day. He obviously, I gathered just as he had in Jim’s case, had memorized a persuasive speech and I made a practical mistake because very early in his speech I said that I would accept. But he was so enamored of the speech he had, he insisted on giving it anyway. So it was sometime after I’d said yes that he completed his speech. He remembered the point that Jim mentioned. I remember he stressed very heavily that in this administration the membership on the Council was not going to be a research fellowship. He regarded the three members of the Council as of equal importance.

SAMUELSON: I think something ought to be said about Walter. Very early in the game you made that clear as a condition because some of us were – at least I was – very aware of what I thought was a rather awful way that Burns had all the power; in fact it was almost pathetic. I remember Joe Davis [Joseph S. Davis] and some people who really didn’t know. They would have to ask the staff members what was happening and Saulnier had more or less done the same thing. From the beginning that was the sort of condition, that everybody be involved.

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HELLER: Yes, it was. As a matter of fact, let me just round that out a bit, because I mentioned it to the president-elect. I said, "Now I want to be sure that it's not just the chairman but all three members that will be seeing you." And within half a year or a year, the president was saying to me, "Now I like this idea of being able to deal with all three of you and you be sure to bring them along." This is interesting in particular because one man had strongly advised me not to constantly be flanked by my two Council colleagues. This was one very tall gentleman. He said, "You want to establish that personal relationship with the president."

SAMUELSON: Do you want to be so cryptic for the record? I also recall at the first cabinet meeting it was thought there was going to be a secretary of the cabinet, Fred Dutton [Frederick G. Dutton]. You stipulated that these two be included in the list.

HELLER: But they were not. They were not in the cabinet meetings. That was not possible.

SAMUELSON: Maybe then it was the meeting that we went over with Dillon.

HELLER: I wonder whether you're thinking of the troika and quadriad meetings, which would come later. I don't think I could make any stipulation because a great point was made of not having the kind of convention of the Eisenhower type at each cabinet meeting; that it was just to be the cabinet and

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four others. We can come to that later.

GORDON: Joe, you thought I was joking when I said we'd get to the inauguration by nightfall.

SAMUELSON: A big question upon which an economist's opinion would be worthwhile was the secretary of Treasury and there was a great sorting out and looking for people. One story I think is terribly funny and has to go in the record. In that discussion at Ken Galbraith's house with Arthur Schlesinger, I said, "Well, I've asked Eli Shapiro who on the Commission of Money and Credit was pretty good and one of the people he mentioned was Jesse Tapp who was chairman of the Bank of America." Ken said, "No, he's impossible. He's an opportunist and absolutely impossible." I said, "Well, what do you mean? Give me an example." He said, "Well, I'll give you an example. Do you remember when Eisenhower had his first heart attack? Who do you think was the first man I met coming out of Stevenson's office in Libertyville when I went in to see him? Jesse Tapp."

As I think back now, knowing more about the world, I think that Ken might well have

thought that he himself would have been a better secretary of Treasury than many of the people whom we were considering at that time. The name of Dillon came up and I was asked to do a lot of scouting around. I did a lot of scouting around and Dillon had been very good,

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as I remember it, in connection with Latin American programs. Prebisch [Raul Prebisch] told me, for example, that the only man in eight years who had listened to him for half an hour or more was Dillon. Dillon I think had been good on that German mission and had been anti-Anderson.

HELLER: The story is that he was so anti-Anderson after the Bonn meeting and talked so freely in Paris about Anderson being the source of the failure of the mission that this is considered to be a current factor in certain interrelationships in the Johnson administration.

SAMUELSON: So his name came up and I was asked my opinion several times. Ken and Arthur were dubious about Dillon. All the reports I had were that Leddy [John M. Leddy] was very influential with Dillon and Leddy was a very good man. But – I don't know how confidential this should be – Shriver was very much opposed to the appointment. He called me more than once and I had to call him back. He said, "Are you sure that Dillon is the best man?" I think it was probably because he was Republican and had also contributed a substantial sum of money to the Eisenhower administration. We were looking for alternatives to him and at least two names came up. One was Black's name and the other was Hayes [Alfred Hayes]. Although Bob Roosa at the time was about to be tapped and he didn't know it, I asked his opinion – should this sort of confidential material

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go into the record?

PECHMAN: Absolutely.

SAMUELSON: I asked him to rate the three men and Roosa's rating to me, according to my best recollection, was Hayes first, which is understandable – Bob worked with him – Black second, and Dillon third, and not a close third.

GORDON: Paul, tell me why Harriman was never considered seriously for that job? This has puzzled me ever since that period.

HELLER: That reminds me of something else and that is, until the president told me that Dillon was in the other room, and before the president indicated that he was really putting the offer to him, I mentioned Harriman to him as the kind of fellow I'd like to see be the secretary of the Treasury. That was when he already was making the offer to Dillon but I didn't know it.

SAMUELSON: I can't remember. I think it was partly that Harriman was considered old. At least I remember in all the discussions he was seventy or seventy-one or something like that. He was also a very close Stevenson man and there might even have been some other plans for him at that time but I don't remember.

PECHMAN: Did he react to your mentioning Harriman?

HELLER: Not particularly.

SAMUELSON: It's my recollection that I wasn't too keen on Harriman.

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I did not have a terribly favorable impression of Harriman from that Finletter group. I felt he knew a lot but I didn't think he knew as much.

GORDON: He was under a cloud in that period, if I remember directly, Paul, because he had made a miserable showing when he lost the governorship of New York to Rockefeller. His stature now somehow is much, much stronger than it was three years ago.

PECHMAN: Well, Paul, you communicated Shriver's doubts about Dillon to me and I said, "Well, it would be nice to have a Democratic secretary of Treasury." And you said, "Do you have a good name?" I couldn't come up with one.

SAMUELSON: But you also did some checking on Black for me.

PECHMAN: Yes, I did.

SAMUELSON: We didn't go into the details of that. You came back and said there was nothing to his poor health. That isn't anything that would stand in his way. I'd forgotten what the details were. But on the other hand, you gave me the very strong impression that he would be much more conservative, even though nominally a Democrat, than we could expect Dillon to be.

PECHMAN: I still think I was right then, that he would have been more conservative.

SAMUELSON: So I would say that if I try to think of the appointments I had an influence on, I really think that Dillon's name was kept in – I think it was thrown out once or twice and came

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back in – because I kept saying, “Now he's the best person of these people whom you were actually considering.” But I have already recorded my impression that in the last analysis, Black at least was sounded out and had a refusal of the job.

PECHMAN: Do you think he was actually offered the job?

SAMUELSON: Now I can't remember what made me think so, but there was a visit of his to Georgetown and some other gossip that putting two and two together made me think that to be the case. You have anything in your records about that, Walter?

HELLER: No.

SAMUELSON: But one of the things that you reported to me, having done some investigations, was that George Willis would scare the pants off Black every day on the gold figures and that that would lead to very restrictive action.

HELLER: I had it reported to me that he was a very conservative gentleman.

SAMUELSON: Now let's shift to Roosa's name. I suggested Roosa as undersecretary and I think his appointment was decided before any appointment was decided with respect to Dillon. There was amusing conversation in which I was talking to the president by telephone. He said, “Well, if he's so good.” I said, “Well, he's considered to be one of the best young central bankers in the world. That's the simple fact of the

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matter. I was very much impressed by his courageous stand with Sproul [Allan Sproul] against bills only up to a point where he made a speech in Princeton which was suppressed by the Federal Reserve and he was persona non grata. So I said, “Well, as far as technical competence and brightness and everything else, he's one of the best young central bankers in the world.” Then the president-elect said, “Well, if he's so good, what about him for secretary of Treasury?” I swallowed my gum, so to speak, at that time. I said, “Well, he's only forty-three.” The president said, “Only forty-three? We can't know that age, can we?”

So it was pretty much decided....It looked as if he would get that particular job. So Dillon did not have the choosing of him. Now of all the responsibilities that I take upon my soul, so to speak, that's one that I think wouldn't have happened if I hadn't put my two cents in and I've often thought about that. With respect to a lot of other appointments...

HELLER: Well, the Fowler appointment, but that was mine. With respect to Stan Surrey, I had a lot to do with keeping it in there when there was put great pressure against it. With respect to Henry Fowler I put in a good word. I put in a good word for Bob Wallace [Robert Ash Wallace]. I'm not even sure that I wasn't confused between two Wallaces. There was a Wallace in the Democratic committee [Democratic National committee].

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PECHMAN: That was he.

SAMUELSON: Oh, that was he? Well, who was the Wallace that used to work with Paul Douglas?

PECHMAN: That's the same one. He, like Henry Fowler...

SAMUELSON: But he was desperately looking for a job, and if you could just put in a good word for him, and I had a generally good impression of him, but I thought of him as a political scientist. Was I wrong?

PECHMAN: He was.

SAMUELSON: And Henry Fowler I was putting in a good word for. With Stan Surrey, there was tremendous resistance. I thought that wouldn't go through. He was sort of the last of the Harvard quota. The oil interests: Byrd [Harry F. Byrd, Sr.], Fred Stamm [Frederick W. Stamm], Kerr [Robert S. Kerr], Mills [Wilbur Mills]...I always thought there was some confusion because there was such violence there that they seemed to confuse him. It had been Dean Griswold [Erwin N. Griswold], who had been very vitriolic on oil. He had said oil stinks and so forth. There was much back and forth before they finally took him.

PECHMAN: His appointment was announced very late.

SAMUELSON: Very late and was held up and I think he even had to allege that he was a sound fellow to them.

HELLER: Oh, they gave him a very hard time in his confirmation hearings.

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SAMUELSON: No, I mean even in private...

PECHMAN: Even though he had completed the task force and so on, he was not appointed when he submitted his tax plan?

SAMUELSON: Oh, no, and at one time he thought he wouldn't be appointed. Now one thing I ought to say is that most of the economists we talked about reluctantly accepted after some soul-searching of their duty and so forth. It was my impression that the lawyers were eager. Archie Cox, once he was offered the solicitor general – Freund's [Paul A. Freund] name was mentioned and Cox's – they resigned their posts. Stan Surrey resigned. He was eager to do it. There was once the thought of giving him Caplin's [Mortimer M. Caplin] job and having DeWind [Adrian W. DeWind] for that particular job. And then Joe Barr, I put in a good word for him, just because he asked me to. Paul Nitze told.... Who is head of the Export-Import Bank?

HELLER: Harold Linder.

SAMUELSON: Harold Linder. He wrote to me that he would like an appointment, and Paul Nitze had told him that I was the man to see about appointments. I wrote back and said, "Well, you're very wrong," but I did check with Lincoln Gordon and some other people on whether he seemed to be a good man and I just told Deirdre Henderson to just put in the files that in the checking I've done, he's eager for the job and he is a good man.

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TOBIN: Can we go back to Roosa? Did you check on Roosa's political and ideological convictions?

SAMUELSON: No, I didn't, because it was only after this was already decided that a lot of people said to me, did you hear his speech at Brookings?

PECHMAN: Are you referring to the fact, Jim, that he was a pretty liberal fellow in graduate school?

TOBIN: No, I wondered what checking of this was done in advance.

SAMUELSON: The point is that I thought I knew him very well. I was a very close friend of his for many years. He'd been around Cambridge. I'd followed his work in the OSS [Office of Statistical Standards] but what I hadn't realized was that he was getting to be more and more of the New York mentality. When he was appointed, the press reports were great and glowing and I said to him, "Bob you've got to live these down." Then he never did live them down.

HELLER: I suppose he's had as fine and glowing a press as any man in the administration, most consistently.

SAMUELSON: And very early, when he took this job, I said to him, "Gee, it's too bad that Tilford Gaines has gone to the First National Bank leaving New York so short-handed just when you're leaving. He said, "It's okay. I go up to New York and keep a desk there." I said, "You do? I don't like that. I'm worried about conflict of interests." He said, "Well,

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I'm not worried about that. And I said, "But I am." Then I had the horrible feeling that the place to which he intended to return, which is the old public finance desk definition of domicile, that New York was that particular place. I had also talked to him earlier before recommending him about what ought to be done about the balance of payments and what the Kennedy team wants to be thinking about. Already at that time, he was very much against Triffin and warned the administration against Triffin. He was very hot about the problem of guarantees but he was also rather critical, I thought, of the handling of the departing Eisenhower team. He thought you couldn't run a railroad by this sort of moral suasion which wasn't even moral suasion. The business community didn't know what was happening.

GORDON: Paul, how much had you seen of Roosa in the five years preceding the inauguration?

SAMUELSON: I suppose if it comes right down to it, I had visited him at the bank once or twice. I heard him in one or two seminars at Littauer.

GORDON: But read everything he did.

SAMUELSON: Well, I probably missed a thing or two.

PECHMAN: That Brookings one was the latest piece. I think those of us who reported it to you were right.

SAMUELSON: I guess there's some sort of process that takes place at

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about the age of forty, at a very rapid rate.

TOBIN: I remember that you called me and asked my view about Roosa, among other people.

SAMUELSON: And what did you tell me?

TOBIN: That's what I can't remember. I have no reason to believe that it wasn't the same thing that you say, that I had a high professional opinion of him.

SAMUELSON: I don't remember your warning against him but I do remember that Ken had some doubts about this, so that's why I really blame myself, if blame is the right word.

GORDON: I remember Emile Dupre was very horrified.

SAMUELSON: Yes, that's right. Emile was the one who warned me against that. I had the impression, by the way – this may be completely wrong, I'll just put it in though – that the sort of people who called me up to give me advice about appointments, I thought, in the case of most of them, that that meant they were available for appointments. That crossed my mind in connection with Emile who did do that. I think probably when you think of all the names that were canvassed when we were looking for an international person – remember one time we thought that was what the requirement was – Emile's name was mentioned. Then the problem was whether he would write the things; whether you wanted a Walter Stewart, who was an idea man but who wouldn't do actual writing for a busy Council. All things

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considered, I don't think his name was given serious consideration, although for assistant secretary – you know, they were all Treasury post...

GORDON: He wouldn't have taken the Council but he would have taken assistant secretary of the Treasury for international affairs.

SAMUELSON: Now I figured you, Joe, would be duplicative on the Council. I never thought you were available for it necessarily, but you were duplicative and you must have given me the impression, in fact maybe you said it, that you wouldn't take an assistant secretaryship.

PECHMAN: No, I doubt it. I doubt that I said that.

SAMUELSON: Were you appointed at the Brookings at that time?

HELLER: Paul, I'm inclined to corroborate your...

SAMUELSON: And I don't think I would have said this a priori grounds. But there was a problem that Stan Surrey did not want a high economist. There was an organization chart problem and he shied away from Dick Musgrave. Do you remember? You could not make a high job because he was only assistant secretary.

HELLER: Just a word or two on the Surrey appointment. I see from my notes on the first ten days in Washington – January 4 to 13 – I talked with both Dillon and Roosa on the fourth on behalf of Stanley Surrey. My note here says it followed up my similar discussion with Kennedy in Palm Beach on December 23, which I'd forgotten till this moment. I wrote out in father

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Kennedy's home a recommendation, a very strong recommendation for Surrey. That Surrey thing...

SAMUELSON: I might have asked you to.

HELLER: You might have, yes. There were, I'm sure, other instances where we had to weigh in on this. There was a strong battle against Surrey. I don't know who was fighting.

SAMUELSON: I never dared say this to the president, although I did call him, maybe even at Surrey's suggestion, that he was in trouble. But I did say to people below him that this was kind of a test of the good faith of the administration. Are you really wanting the best people, even though there's a certain amount of unpopularity involved in it? I think if a number of us hadn't continued that that would have definitely...

HELLER: I'm quite sure of it because I remember talking with the president about this and his telling me what his misgivings were. He didn't say from whom they came but that there were misgivings about him being very controversial on such things as percentage depletion and so forth.

SAMUELSON: It was said he was arrogant. I mean this was the kind of congressional talk, that in testimony he had been arrogant, was impossible to get along with – things I didn't realize as true.

TOBIN: Paul, did you believe that Roosa would be in charge of international monetary matters for the Treasury or that he was being

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appointed as under secretary for debt management?

SAMUELSON: I can't remember. I certainly, probably, stressed his versatility and that he would be an awfully good man for both, but I don't remember. In terms of the organizational chart, it was the debt management position.

PECHMAN: We all thought that Leddy was going to take care of the international stuff.

GORDON: As I said yesterday, one very important thing you musn't forget is that Leddy was taken ill – seriously ill – very, very early. It was in early February and he was out for six weeks to two months. This was a critical period, the period in which things were shaking down. By the time he got back to his desk, there was no desk there. The international monetary function except for Latin America had been taken over.

SAMUELSON: Also Bob told me very early in the game that he didn't see how Baird [Julian B. Baird] spent all his time in debt management. It was something that a good man could really do very quickly and it left you with lots of spare time.

TOBIN: Before the inauguration there was already talk about a balance of payments message, at least a balance of payments position in the state of the union message or the equivalent of that after the president was inaugurated. Since we were supposed to be interested in that, it was arranged that I should collaborate with Roosa to some extent and go to see

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him in New York.

HELLER: Yes, my notes say that.

TOBIN: It soon became clear that as far as he was concerned, this was going to be the most nominal and trivial cooperation.

SAMUELSON: Was he already associating you with Robert Triffin? I had a feeling that this was quite an important reservation in his relationship to you. In fact he may have even warned me that Triffin had sold you a bill of goods and to watch out for that influence.

TOBIN: I don't know whether he associated me with Triffin at that time, but I explicitly advocated or at least thought we ought to talk about – discuss at any rate – the possible value of guarantees of the gold value of official holdings of American dollars. He was just dismissing all that.

SAMUELSON: I think he had a strong feeling about that prior to his even being considered because I remember that.

HELLER: Just a sidelight on my first impression of Dillon which might be...

PECHMAN: I remember your telling me...

HELLER: This again was dictated in January '61. I visited with Dillon for an hour and Roosa in the fabulous new State Department offices and Leddy was also present. It was an excellent, constructive discussion in which it became clear that Dillon is not only very charming, and parenthetically I say, perhaps

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disarming, but also open-minded and anxious to rebuild a brilliant Treasury staff. He is understanding of some of the favorable aspects of impact of expansionary fiscal policy on the balance of payments problem. I had an excellent opportunity to put in some good words on Stanley Surrey and Joe Pechman, which followed up on similar discussion with Kennedy in Palm Beach on December 23.

PECHMAN: I think we're finished with the Treasury, aren't we? Let's now turn to...

SAMUELSON: It was hard to think of economists and I remember plugging Lincoln Gordon for assistant secretary for Latin America. I can't remember whether he was ever offered the job. I think that was the one job he would have taken. I think he was offered the assistant secretaryship in charge of economic affairs, and he refused that.

Let's just polish off the task force very quickly, shall we? The main thing was that Feldman [Myer Feldman] was absolutely horror-struck when he sat in with us and learned that we were contemplating a tax cut. As far as I can remember, all the lawyers, that includes Ted Sorensen, Feldman, and maybe Goodwin, were horror-struck at the thought. I felt that maybe I hadn't done my duty as a teacher if at that late date it could seem such an awful thing about deficits. We probably had really sloughed over the fact of implied

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deficits at an earlier stage. I knew the president.... You said that the president already spoke about sacrifice. I can remember saying about that time that I never mentioned the tax cut to him but that he winced as being incompatible with his whole posture of sacrifice. How could the first act be to give a handout? The result was...

PECHMAN: Wait, Paul. I think there was also another reason why Sorensen and Feldman and these people were horrified. They just hoped they could get away with an anti-recession program which did not involve deficits.

SAMUELSON: That's right. They didn't realize the mechanics of it. They hadn't really thought about what it took to get the country moving again. They hadn't been really briefed on the economics situation.

HELLER: It's important for us to note the president-elect's reaction on the deficit point when you presented the task force report to him. I have some notes on that.

SAMUELSON: But when we presented the task force report to him, it was already typed up. Let's make clear that it was made clear to us as the task force, and to me as the drafter – after all, it was written as a personal document in the end and signed by me – that I should not ask for a tax cut because it would be embarrassing and it would not take place. That is why there was no request for a tax cut. Let it also be clear,

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and if you will look in the Surrey task force report, one of their primary duties – and I checked this with Stan – one of their primary preoccupations was how to get the taxes back up after the tax cut, if there was one recommended by us. In other words, it was not at that time thought of as a permanent tax cut. We weren't sure that you could sacrifice the revenue for an indefinite period, and so it was very much how to have a string on it.

GORDON: Jim would have been against a permanent tax cut at that time.

TOBIN: The tax cut report, as it finally came out, was for a temporary cut.

SAMUELSON: Considering it and taking a look later in March, but it did not come out for a tax cut, but I think we would have come out for a tax cut if the president and the lawyers put it that way. It really would have been an unfriendly act to do so.

TOBIN: The report also suggested various ways of increasing expenditures.

SAMUELSON: That's right and that's quite important in terms of Secretary Dillon's Harvard Business School speech, in which he said that the Kennedy administration early decided that it would be tax cut and not expenditure expansion that would be the chief therapy for growth and so forth. I wrote to him, and in his answer there's some possible recognition that I may be right that at least as far as many parts of the administration and the president's own mind was concerned, that at the very

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beginning, it was definitely the thought that since we can't have a tax cut, we will have

expenditure expansion.

HELLER: Not only that but I think that the distinction that was being made a moment ago about temporary versus permanent is important here. There was really no thinking on the part of anyone, including us, of a permanent tax cut early in the game. Then, when we came around, there was the thought...

SAMUELSON: That is, no permanent massive tax cut. There was a thought, which was part of Surrey's task, which was reform, structural reform.

HELLER: Structural reform lubricated by two or three billion dollars of tax cut. That's all right but the real crystallization of the administration's thinking on the tax cut, which began with us in council in about March '62, was really the first commitment of any part of the administration, as I remember it, to the thought of a permanent tax cut. So the record just doesn't support that part of Dillon's speech.

TOBIN: I'd like to know this, because I think I was a little bit surprised and disappointed that the task force report was so vacillating on the subject of the fiscal stimulus, just saying that we might consider a temporary tax cut and not actually recommending it. Was this notion that this would be embarrassing to the new administration communicated to you otherwise than by Feldman's appearance?

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SAMUELSON: Oh, no, I imagined that this was communicated to me more directly, such as by Sorensen.

PECHMAN: In Boston, you reported to me that Sorensen told you.

SAMUELSON: Oh, in fact you and I talked with him in the office.

HELLER: That's right. That's very important. That was quite an important discussion that day, Paul, and we sort of sloughed it off.

SAMUELSON: Let me say that in the first days of January, when we met many times, and I would say for at least a couple of months, this thing came up again and again. The word from Ted, when we were directly dealing with Ted, was, the last thing in the world that the president wants to have is the reputation of a reckless spender.⁶ That is his fear. That will jeopardize every program and whether you are for an increase in expenditure in a Galbraith fashion or not, the worst thing possible in his view would be to have the reputation of being a spender. Moreover, just about this time, I can't remember what day it was, whether it be around the tenth of January or it was already the twentieth, the bombshell came. Was that after the inauguration, the day after

⁶ See Appendix A, note 7d.

inauguration or the day before?

HELLER: We were in the White House so it must have been after the inauguration.

PECHMAN: Identify the bombshell for record.

SAMUELSON: The bombshell...

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HELLER: The balanced budget bombshell.

SAMUELSON: Sorensen came up and said the president has agreed with the leaders of the Democratic party and Congress – both houses of Congress – that he will balance the budget. He will not ask for a deficit.

PECHMAN: We'll return to that later.

TOBIN: I just wanted to record an impression which I got for the first time very vividly when Feldman arrived from Palm Beach at the end of one of the Samuelson task force meetings. Not only did he express total lack of understanding and lack of sympathy with the idea of fiscal stimulus to get out of the recession, but he also conveyed this feeling which I hadn't expected at all – being naïve, I suppose – the feeling that the whole team around the new administration was still acting as if they were campaigning, as if there was still an election. They were very much concerned about relations with press and about comparisons with the Eisenhower administrations and the tactics of competing with the outgoing administration for a good press during the transition. It was a great preoccupation and remained so for quite a while.⁷

PECHMAN: I also want to recall to you, about the tax cut, that I don't think Dave Bell agreed with the lawyers, as you call them, the Kennedy entourage. But he reported to us that there would be no point in talking about serious tax cut proposals.

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SAMUELSON: That may be another channel since you asked other than Feldman. It may have been from Bell, who had been down there and whom I saw in Cambridge; he was at least coming up weekends or something like that. I know that we were rather for a tax cut but hadn't put it in because that damn Spivak [Lawrence E. Spivak] on "Meet the Press" who talks so fast, surprised it out of me. He said, "Are you economically for a tax cut?" I said, "Yes, economically." He said, "Does that mean you're not a reliable scientist and you're a political thinker?" I had to back up on that.

⁷ See Appendix A, notes 7b and g.

But I do want to say for the record that when the task force began, I was not one of those for the tax cut. I already was filled somewhat with the feasibility problem of the Kennedy entourage.

TOBIN: Yes, I think we can testify that you introduced a note of political realism from the beginning of the task force, a note that was news to us academics and which was certainly confirmed a fortiori by Feldman's appearance.

SAMUELSON: There is another point, and that is what you might call Tobinism or the new look in.... We were taking very seriously the problem of growth. Therefore, the proposition in Jim's August New Republic article that you wanted to get a high consumption economy of 65 percent GNP [gross national product] down to 59 percent or 58 percent or something was very much in our minds. Cary Brown and Dick Musgrave and I were fighting that

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fight in the Commission on Money and Credit, to the consternation of the union people.

TOBIN: Not Dick Musgrave.

SAMUELSON: Why do you say he wasn't? Of course he was.

TOBIN: He would not have supported you at all.

SAMUELSON: Dick Musgrave was defending a memo written by Cary Brown, who wasn't present, in one of the things there, explaining the whole. Nat Goldfinger [Nathaniel Goldfinger] who was there and Stanley Ruttenberg and Emil Rieve were absolutely shocked. Rieve said, "You're going to have something worse than 1929 if this thing goes through." Dick was trying to explain what Cary had meant in this. So part of the union distrust of Kennedy came because of the sort of thing that Jim and I were still trying to preserve. Jim kept.... I gave up long before you did in terms of the depression and the balance of payments problem. In fact, you've never given up, have you?

TOBIN: I was always for a large temporary tax cut.

SAMUELSON: This was really important in setting things at that point.

PECHMAN: Now let's go to the meeting at the Hotel Carlyle. Walter.

SAMUELSON: Let the record read, by the way, that Vermont Royster of the Wall Street Journal, I think, had lunch with the president.⁸ He was the man on the list just before us and he had rather a sour look on his face as he came out and saw who

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was waiting. He had warned the president, I think the president as much as said, against precisely the sort of thing which we had to advise the president to do.

PECHMAN: What I'm asking about the Hotel Carlyle meeting is what was reported to the president about the task force report and the president's reception of the economic idea?

SAMUELSON: The report was handed to him – already you know that tremendous speed he had in reading – and...

PECHMAN: He read the report right then and there?

SAMUELSON: He flipped the pages...

HELLER: We were with him for two hours.

SAMUELSON: He not only read it but showed a comprehension of the matters that were put in it.

PECHMAN: What matters did he bring up? What substantive matters did he bring up, do you recall?

HELLER: I have notes about that. My overall note was we had a two hour discussion of the Samuelson report with the president-elect. Present were Kennedy, Samuelson, Sorensen, Tobin, and Heller. The meeting with Kennedy was excellent in every respect. He seemed to like both the content and the language of the Samuelson report. He seemed to be quite open-minded on the question of the deficit and had already seen the U.S. News and World Report article that a seven billion dollar deficit was in prospect for next year. He stressed

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the need for educating the American people in order to set our record straight; that is, the Republicans got us into the recession and into the deficit. In order to promote better understanding of the fiscal and monetary policy effect on the economy, he suggested that the Council do some serious thinking about how to use the White House as a pulpit for public education. He used that exact term. Then I have a longer memo in which I note that he

⁸ See Appendix A, note 7a.

referred to McNamara's comparisons of cost and productivity of European and U.S. cars in 1950 and today. He suggested we ought to get it and analyze it if possible. Second, on the question of economic messages, the consensus seemed to be that they should be specific messages on the balance of payments problem and anti-recession program and so on, rather than a supplementary economic report as some have suggested. This was still an open question however. Third, Kennedy suggested that we might consider a budget-oriented economic message in February with the particular purpose of setting our economic record straight. He thought it might well interrelate the balance of payments problem and the domestic economy. This is presumably what the Sproul – Blough – McCracken task force will do [Roy Blough, Paul W. McCracken]. Apropos of our discussion last night that's not on taps, we were wondering when that task force was appointed. Well, obviously it was before your task force report was submitted.

SAMUELSON: I think I might even have talked to Roy Blough on the

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occasion of being in New York that day. In fact you pushed him for Export-Import Bank, I think.

HELLER: Did I? I might have. That's right. We had the first meeting of the Council there, at your house.

GORDON: Jim came over to my house and Roy Blough lived next door and you dropped in.

HELLER: That's true. I do recall that we did have some talks with the president later on about what we should get out of this task force. Fourth, a presidential statement on the balance of payments problem was to follow the report of this task force. At my suggestion Kennedy agreed it would be a good idea to have Jim Tobin work with Bob Roosa on the drafting of such a message. I passed this on to Roosa in Washington the next morning and Jim had been working with Bob since then.

TOBIN: When did you dictate this?

HELLER: I dictated this very soon afterward. It may have been the same day.

SAMUELSON: That's not the thirteenth and you mentioned the thirteenth of January.

HELLER: The thirteenth of January. This was a separate memo but it may very well have been dictated that same day. Fifth, on CEA testimony before the Joint Economic Committee, Kennedy's initial view is that we should be prepared to state our own

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views and analysis on the state of our economy and the source of economic difficulties. On policy matters we could deal with broad approaches on philosophy but not with specific policies unless these had been agreed to or made the subject of White House messages prior to our testimony. Then – this is fascinating on wage-price policy – on the matter of wage bargains and wage-price relationships the president mentioned the Galbraith and Rostow articles and suggested that we get these and have a look at them. He's inclined to make hard requests of both business and labor. It's part of his philosophy of asking some sacrifices of the American people in the interests of growth, stability, and a strong defense posture. Sorensen and Galbraith have both promised to send me the Galbraith article but I don't have it yet. These are the notes I'm reading from January 1961. I believe that one of these, perhaps the Rostow article, is in the Harvard Business Review. Kermit is going to follow this up. Seventh, Kennedy suggested that we should be thinking about how we use the White House as a pulpit for public education, especially on the desirable economic effects of the federal deficit in a recession; at the same time, always keeping clear that the recession was not of Democratic origin. I had forgotten that I had those notes. I'm glad I have them.

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Now there was a couple of other notes. I had a note about the Royster visit and also that Mrs. Gimbel [Mary Bailey Gimbel] came over from next door. She gave Ted Sorensen a copy of Al Otten's [Alan L. Otten] story on Ted Sorensen in the Wall Street Journal.

SAMUELSON: Oh, yes, I remember that. There was a Negro task group who came too, and I was impressed with Ted's remembering the names. He could speak by the first name: oh, yes, I think I've met you from Louisville and you're from Pittsburgh.

HELLER: Then we went to Kermit Gordon's apartment for dinner and the first meeting of the CEA, 1961 version. We discussed the Neustadt concept of the Council. Late in the evening, Roy Blough came over and gave us some of the historical background on the Council and some thoughts on its role with respect to forecasting and the setting up of goals. This was advice which we ignored. He didn't want us to forecast and set goals. He also gave us some background information on the Sproul-Blough-McCracken task force. The next day I met with Bob Roosa and discussed several items with him: A) he had submitted a couple of paragraphs on the balance of payments problem for the inaugural address; B) on completion of the Sproul report, he feels that the likely handling of it would be publication of it if Dillon and Heller agree; C) he feels it important for us to have a hand in the state of the union message; D) we discussed the subsequent message on the balance of payments problem. I thought these notes should be entered into the record.

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PECHMAN: Well, the only other thing I think I should ask about the events prior to the inauguration is, did any of you have a hand in the drafting of the inauguration speech?

HELLER: No.

SAMUELSON: Ken had a lot.

GORDON: Ken, yes.

SAMUELSON: I'm sure, and your notes bear this out, that there was a great deal of back and forth on what sort of reassuring things about gold ought to be said.

HELLER: In the inauguration address?

SAMUELSON: Was there an address before the inauguration?

HELLER: No, no. We then had the state of the union message, where there was a great deal of give and take back and forth.

GORDON: Was there anything on gold in the inaugural?

HELLER: No.

ACKLEY: I have a hunch there was.

SAMUELSON: I certainly don't have the impression that any words of mine had any relationship to what appeared, but I have the impression that all the time on speeches like that, that one prepared paragraphs on what emphasis there should be and so forth.

HELLER: During the inaugural, huh?

SAMUELSON: I think so, but I could be wrong on that.

TOBIN: From conversations with Roosa and more general impressions than specific knowledge, I've always had the feeling that the

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Sproul-Blough-McCracken task force was set up through Dillon's influence on the president at Roosa's suggestion, in order to counteract what might be unfortunate – from his point of view – recommendations from the Samuelson task force and the Ball task force and to show European bankers that there were respectable advisers also to

the new administration. But possibly it was also to prepare respectable public opinion for some of the things that would have to be done.

SAMUELSON: I think that that is correct. I have a few remarks to make about Martin and what was going to happen to the Federal Reserve and what the relationships were.

PECHMAN: Before you get into the Federal Reserve, Gardner, did you get anything from Paul McCracken about his experience with the task force?

ACKLEY: No, never did.

SAMUELSON: By the way, I had the impression that in the president's mind he wanted to work both sides of the street and get a respectable group. He was very keen at that time on blue ribbon commissions to justify things and to help sell them. It was an open question as to what would happen about Martin and everybody said, and this was in the newspaper, and all the talk that of course, in the American system, the president has the resignation of the chairman of the Federal Reserve – and that this had allegedly been the case in 1932 – on his

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desk. As far as I know, nobody knew whether that was so or not. I had heard that many people were egging Martin on, that to defend central banks he should not quit. He should stand his guns. I don't think that the president or any of the staff knew what Martin's intention was up till the inauguration time. Now the amusing conversation took place between Ted and me. This was in Senator Kennedy's office, so it must have been before the inauguration. He said, "I'll have to check with so and so" – there was somebody who was an expert on transitions – "what we can do about Martin if we want to." He said, "Can we, for example, take away his telephone and turn off the heat?" He was joking and I laughed and said, "No, there's the independent Federal Reserve with its own portfolio. You can't possibly do that." As far as I know, I would doubt that Martin ever...

TOBIN: I know.

ACKLEY: He discussed with us once later on.

TOBIN: I have a memo of a later luncheon conversation which Chairman Martin had with Walter and me, which bears on this issue.

HELLER: Well, when was yours, Jim, because I...

TOBIN: May 29, 1961.

HELLER: ...because I had a couple of hours with Martin on January 13 or 14 which I have notes on here.

PECHMAN: Before the inauguration?

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HELLER: Before the inauguration. This is the twelfth or thirteenth. Let me see, should we?

PECHMAN: I think that's very timely and important.

TOBIN: This has particular reference to the resignation question, what I was just about to report.

PECHMAN: Let's get the resignation question.

HELLER: I find that this has too. I spent two pleasant and informative house with William McChesney Martin at the Federal Reserve office. I should note that as far as I know, that was the first time I had met him. This was on January 13, 1961. He went out of his way to be cooperative, open-minded and cordial. He obviously has no intention of resigning. He wants CEA members to meet with board of governors very soon; then regular luncheons every two or three weeks with the chairman of the Council and other members that he desired. He hopes to have close cooperation at the staff level and foresees successful coordination of policy under President Kennedy, who he has never met. That was the essence of that.

TOBIN: Did he say something about the "Future of the Fed" article at that time?

HELLER: Yes, he did, he did. That didn't get into those cryptic notes. He did talk about your article and felt that he wanted to talk to you soon and straighten you out.

TOBIN: Well, as I remember your reporting it, the gist of it was

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that he had no animosity or animus in regard to that whatsoever. He wasn't sure about all the facts that were stated in there or all the opinions, but that he was sure that we were going to be able to work together.

HELLER: Yes, I'm glad that you do bring that out, because the aura of that was covered here under pleasant, cordial and cooperative. He was bound and determined that he was going to be cooperative even to the point

of not objecting really to that article. But there were some factual points on which he thought you were wrong.

TOBIN: Which I never found out what they were.

SAMUELSON: I could swear though, that it was my impression from the Kennedy side, that Kennedy had never met Martin.

TOBIN: Well, this is quite interesting. This is a conversation which we had later and which we'll come back to, because it has other subjects. Martin invited Walter and me to luncheon in his office. Martin began the conversation after the amenities by discussing his political position and his tenure in his job as chairman. He said that he was a registered Democrat and had voted for Stevenson in 1952. Subsequently he had been completely out of politics and had not let anyone know what his political preference is. He recalled that he had been appointed to his position by Truman [Harry S. Truman] and he described his attempt to resign when President Eisenhower came in in 1953.

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He said that he had a fine private job offered to him at that time, and he let it be known in the White House that he was quite willing to resign. However, General Clay [Lucius D. Clay, Sr.] told him to hold on for a while and finally there was an arrangement of an interview with Eisenhower. He expressed his willingness to resign to Eisenhower and Eisenhower asked for time to consider the matter. Incidentally I heard from other sources, not in this particular conversation, that Eisenhower wasn't quite sure what job it was that Martin had. Subsequently Martin was informed that the administration and the president desire for him to continue. Martin made clear that he had told the president that he was a Democrat. In 1956 the matter did not come up. During the presidential campaign of '60 there were stories, beginning in Newsweek in June, that the Kennedy administration, if elected, would wish Martin to go. Also during the campaign – this is all Martin speaking – monetary policy was an issue, with the Democrats criticizing tight money. For these reasons, Martin felt that a matter of principle was involved and he decided that he should not offer his resignation to President Kennedy. He felt he had an obligation to those who had supported him in the system and to those persons in private life who had been defending the system, to remain in his position until the end of his term. This he still intends to do. For essentially the same reason, he believes that the Federal

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Reserve and the chairmanship should be non-political, and he regards the best demonstration of this principle to be for him to remain in his position until his term is over. He mentioned this, because he had heard indirectly that some staff members in the White House thought he should resign, and he wanted to make it clear that he did not intend to do so. He did not associate the Council with these rumors.

SAMUELSON: I'm surprised that by May there was any serious thought that he could have been gotten rid of if anybody had desperately wanted to.

HELLER: On that point, I think that Ken Galbraith had kept up a steady gunfire until he went off to India.

TOBIN: The Challenge article was rather obviously in the background of this discussion because that article did discuss the practice of chairmen offering their resignations.

SAMUELSON: That matter of principle was rumored maybe around the time of the inauguration, that as a matter of principle he would not resign because he was defending the independence of the central banks of the Federal Reserve.

TOBIN: Martin did not explain why he changed his mind about proper procedure for the chairmen between '53 and '61 and we did not ask him.

PECHMAN: Gardner, did you say you have another later...

ACKLEY: Well, I would almost swear that at some later occasion after I was on the council, Martin repeated the same story. Now

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it's possible that I merely sometime came across Jim's memo and read it but it's along those very same lines. I somehow associate it with the work of the financial institutions committee at some point, but I can't recall it more specifically.

PECHMAN: Well, Paul, do you have any recollection of either Kennedy or some of his close associates expressing some interest in removing Martin directly, or was this...

SAMUELSON: I have the impression that Seymour was against him and that probably Ken was. I have the impression that it was my opinion, that if the president got Martin's resignation, he should accept it, even though I thought there was a problem of confidence.

TOBIN: You told me once that Martin's departure would be worth X billion dollars worth of gold. I can't remember what X was.

SAMUELSON: In other words, even if it costs in confidence, \$100 million in gold, it was worth it.

TOBIN: I think your price was a billion.

SAMUELSON: A billion? As things developed, it didn't look as if you could get him out without a knock-down fight. I certainly, very soon, came to the opinion that people didn't know what they were talking about in saying, of course, it goes without saying that it's part of the unwritten constitution, because nothing happened.

PECHMAN: Finally, I think, just for the record, we ought to record,

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since this will have been the last presidential transition that was not financed by the federal government, that the only offices the appointed but not sworn-in members of the new Council had – except for Kermit, who didn't appear, I think until inauguration day – use of some offices at Brookings. There was no secretarial assistance. Walter used my secretary.

SAMUELSON: You didn't get paid until....If you had been sworn in one day earlier you would have gotten one more day's pay.

HELLER: I don't know. From the twentieth on we were paid as consultants, until we were confirmed. I've forgotten when that was, twenty-fourth or twenty-fifth, somewhere in there. It wasn't too much later. But there is one point, Joe, that's relevant here. I see in my notes that on January 4, I was installed as visiting scholar at the Brookings Institution, using Walter Salant's office, and then met for three hours with Steve Saulnier. I should say for the record, this is my predecessor as chairman of the Council, who was most courteous about giving me information but did not offer space, secretarial help, or other facilities. He did take me to lunch in the White House Mess.

TOBIN: I will say that in regard to transition, that I believe you, Kermit, and I, maybe not you, had an informal talk with Henry Wallich which was very helpful, in that he went down the list

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of the existing CEA staff and gave us some pointers on who was worthwhile in a technical way.

HELLER: For our record, if not for the Kennedy Library, you know I had such a talk with Steve Saulnier. He gave me high praise for every man on the staff except Dave Lusher; and he said by all means, he's a troublemaker, and you want to be sure to get rid of him. Let it also be recorded that no one

was thrown out but I did suggest to a number of people, not including Dave Lusher, that they should in good season find other jobs.

SAMUELSON: Let the record show that Dave is still a member of the Council.

TOBIN: Henry Wallich's advice was exactly the contrary.

PECHMAN: Oh, Henry supported Dave?

TOBIN: Very strongly, yes.

SAMUELSON: But Walter's memory is correct, because he told me laughingly just this, and I think that Saulnier has praised people like Stettner [Walter F. Stettner] and so forth and it seemed to be a completely inverse relationship.

TOBIN: There is, perhaps, a footnote to the Martin discussion, which takes us forward in time but it's probably a good time to put in close to the other discussion of Martin's tenure. Just recently, I had a short private conversation with Martin, and he was reminiscing about Kennedy and expressing his sense of loss and his great respect for the man. He said, "You know, when he called me over to reappoint me as chairman,

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asked me to accept the reappointment," Martin said, "I asked him if he was doing that only because it was of political value to his administration. Because," I said, "in that case, I wouldn't like to be reappointed. I have served many years, and I've been ready to go elsewhere for a long time." He said that President Kennedy said, "Well, that is one reason. That certainly is one reason because it is useful to the administration. It would be embarrassing not to reappoint you. But that is certainly not the only reason. In our dealings, I've found," Kennedy said to Martin, according to Martin, "I've found you to be independent-minded and willing to speak up for your position. The president needs people like that around him." So Martin said that was what led him to say, "Yes, I will accept the appointment."⁹

PECHMAN: The record might also show that it was reported to me that you predicted that Martin would be reappointed sometime in advance of the reappointment. Do you remember?

TOBIN: I don't take credit for that.

⁹ See Appendix A, note 9.

HELLER: Since we're rounding off that incident the record should show too some other things: one, that our office and I think it was explicitly Gardner, had the assignment of writing the eulogy for Kennedy to issue at the reappointment of Martin. That was written in our office. But more importantly, we had been talking back and forth with Kennedy about the

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reappointment of Martin. We had felt that we ought to have a Troika meeting one time and it was scheduled. The next thing we knew, it was Martin only on one Saturday morning.

This was shortly before the announcement, and that noon I saw Kennedy and he was just ready to go in for his workout to swim. I went in and he said, "Come on along, I want to talk to you about a couple of things." I went into the little gym room with him and the orderly was there – that fellow that gave him his workout. He stripped him down to his shorts and took off his little corset that he wore and so forth and while he was lying on that table, naked except for this pair of shorts, he was talking to me about a number of things. This fellow was moving him up this way and that, and the president carrying on a completely rational and balanced and indeed humorous conversation. One of the main objects was to ask me about what I really thought about the reappointment of Bill Martin. Frankly, I think this was after the fact. I think he and Bill had talked that morning and that he'd come awfully close to committing himself. In other words, and I have some reason to believe this after talking to Bill Martin later, he had asked Bill Martin his views about certain things and that he was pretty much committed already but he said to me, "Well, you know, I understand your problems with Bill Martin in terms of policy but,"

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he said, "You get along with him well personally, don't you?" I said, "Yes, that's true." He said, "Frankly I need Martin and Dillon." He said – and this was funny – "I need these Republicans to maintain a strong front as far as the financial community is concerned." In that sense it was more financial. I don't know what you define as political and what you define as financial but he felt that as far as the balance of payments was concerned and the financial community, he had to have Bill Martin.

SAMUELSON: As long as you're on this point, Seymour Harris had an impression which I think is incorrect, namely, that Mitchell [George Wilder Mitchell] might have been named the chairman but for a frank congressional testimony which he gave in which he spoke about the possibility of using capital controls. That precipitated the Martin appointment.

HELLER: I think that that is just entirely wrong.

SAMUELSON: I think it's wrong because I mentioned it to you, and you told me that it already had been decided long in advance.

HELLER: Mitchell was never in the running and the only way that ever came up was facetiously in connection with the president distinguishing between monetary and fiscal policy. Do you remember that early, when we had one of our very early Quadriad meetings? No, it must have been Troika because Martin wasn't there and the president said, "Now tell me again, how do I distinguish between monetary and fiscal

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policy?" I said, "Well, monetary, M, that's Martin."¹⁰ He said, "Yes, but what about when Martin is no longer chairman of the Fed?" I said, "Well, you've got Mitchell." Now this couldn't have been too early, because I don't remember when we got Mitchell in there but anyway we're getting off the track and we need a whole chapter on this monetary policy.

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BEGIN SIDE II TAPE II

PECHMAN: Well, Walter, right after the inauguration, what was the first assignment to the Council of Economic Advisers?

HELLER: Well, we had been told by the president, both during my meeting in Palm Beach, you remember, and then at the meeting in the Carlyle on January 5, that we should be thinking about and working on the question of an anti-recession program. When the messages were laid out, it was agreed that there would be a State of the Union message on just about the end of January. Well, obviously, that can be checked. We thought we'd have, you know, maybe ten days after that, but we were told that the date that we had to have that program and the message put together was February 2, and this we did. I don't know how much of this I could reconstruct myself. I hope Jim and Kermit will remember some of this, because I can't quite recall the give and take with the president on it, although we have a list of some meetings with the president. We were simply told to take charge and get the various pieces of the program together. I guess there were three or four or five nights in a row when we worked till 4 or 5 A.M. and hammered out that program on that long conference table in my office. Now, some of the pieces in it were prescribed. Some pieces were contributed like, for example, the VA [Veterans Administration] early dividends.

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GORDON: That was Ken Galbraith.

HELLER: Ken Galbraith.

¹⁰ See Appendix A, note 4.

GORDON: He went over and browbeat the veterans administrator into an early disbursement of the VA dividends.

PECHMAN: That was his idea?

GORDON: Yes.

HELLER: And we fought through on the basis...I think it might have been Mike March's [Michael S. March] – Mike March being on the Budget Bureau staff – suggestion, but we then fought through the social security liberalization. It was about one billion dollars, which in many ways turned out to be the biggest piece of the program. We just happened to hit a vein of gold as far as the longer run of the aspirations of HEW [Department of Health, Education and Welfare] and some of the people on the Hill were concerned, and turned it to good use in the anti-recession program. This is just to get us into this. There are other elements we have to talk about.

PECHMAN: Yes, I think it's an important part of the record. To what extent were the major pieces of that anti-recession program: A) things that were entirely new; B) policies that were simply accelerated that would have been done anyway; and C) those that you sort of claimed credit for that would have occurred in any event?

GORDON: As I remember it, it was a kind of an undisci-

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minating dragnet. We simply put out a dragnet for every possible and defensible increase in expenditures, either on the basis of administrative determination – such as the Veterans Administration dividend or the social security thing, which required legislation but where Congress was receptive. I don't think there was any other unifying theme except the urge, for anti-recession purposes, for defined, sensible, and plausible increases in expenditure programs. This was done as I say on administrative basis very quickly. I remember, for example, that it was possible administratively to step up the apportionment of highway funds, highway trust funds, and to get a step up in the rate of contracting highway construction by the state because of this more rapid apportionment. What were the other elements, Walter? They were that kind of thing. It was a scattering of ad hoc targets of opportunity.

HELLER: Well, we had accelerated tax refunds. Our records tell us that in the first three months of 1961, individual income tax refunds were \$2.1 billion, 31 percent more than earlier. This was done as part of that program. Then the veterans life insurance dividend, \$258 million, which was really supposed to be paid over the entire calendar year under the regular schedule, was made available in the first quarter and then a

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special dividend of \$218 million in addition was made available in late June of July. That was over and above this amount. I remember that there was a great deal of excitement about the establishment of the Food Stamp Program. You recall that there were originally six areas and then we were surprised to find the president announced seven or something like that. Somebody got an additional area in. It was originally six and I see it was expanded to eight.

GORDON: Was that an anti-recession program?

HELLER: Yes, February 2 is when it was announced.

GORDON: Then that must have included the broadening of aid to dependent children, that which, in dollar terms, is much more important, because it came at just about the same time. This was the one that made available aid to dependent children in households in which the father was living with the family but unemployed.

HELLER: Well, so far we've been listing executive and administrative actions which, by the way, were announced for the most part by the president on February 1 and then he followed it with the...At the press conference the president announced a series of administrative actions, and he followed it with a comprehensive message which he wrote. Do you remember that?

GORDON: There was a step-up in food distribution, direct distribution of food for public assistance prog-

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grams.

HELLER: That's right. As a matter of fact, that was an executive order [Executive Order 10914] on January 21.

SAMUELSON: Oh, yes, and Paul Douglas, it seems to me, was one of those to urge the president, for his first act, at the inaugural ball, or before the inaugural ball to announce food for the unemployed.

HELLER: As a result of these actions, the annual rate of distribution was raised from \$60 million to \$200 million.

TOBIN: Do we have the message here?

SAMUELSON: Was this all done, by the way, within the framework of balancing the Eisenhower budget on condition that it was bound?

HELLER: We have to come back to that. For a moment let's...

GORDON: This is '61 we're talking about.

HELLER: Yes, that's right.

GORDON: The balanced budget issue arose in the context of the '62 budget.

HELLER: Then there was government procurement areas of substantial unemployment. I think what we ought to say for the record is that while all of these things were not so systematically put into the administrative announcement on the first and message on the second, they are systematically lined up in the appendix to the Economic Report of the President 1962, pages 97 to 107.

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The other parts of the program which should be mentioned in this context that called for legislative action were the temporary extended unemployment compensation, and here is the aid to dependent children. The unemployment compensation action was more basic, but Congress took no action. Then you recall – I'm sure Jim and Kermit will recall with some pain – that we were instructed to put the minimum wage in. That was a presidential commitment. Kennedy had made a commitment he felt that we had to carry out. They couldn't figure out where else to put it in, so it was put in as an anti-recession measure.

GORDON: Remember, Walter, that we had to put together some lengthy analyses designed to prove the proposition that, in this case, the minimum wage improvement would do no significant harm on the rate of employment and I almost convinced myself it didn't.

SAMUELSON: By the way, I think there was some criticism from academic economists about this. How could you justify, in an anti-recession program, an increase in the minimum wage? Whatever its merits were, it wouldn't be an improvement from the standpoint of an anti-recession program.

GORDON: Well, the only vocal criticism, I think, was from Gottfried Haberler. There may have been grumbling, but it wasn't public. Kermit was assigned to write the language in the message that supported the minimum wage recommendation.

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SAMUELSON: Weren't you working, Kermit, on getting Fannie May – Federal National Mortgage Association – not to reverse the easy money out of Federal Reserve?

GORDON: That's a separate story.

SAMUELSON: Wasn't that about the same time?

GORDON: Yes, this started in February. I guess it was pretty close to the end of February before we discovered this leakage that had been going on through Fannie May very quietly. It really came to nobody's attention until the end of February. They were selling mortgages at a very, very rapid rate in the first three months of '61. We stopped that as soon as we discovered it. We stopped it by telling them to raise their prices. Then we set up this informal housing credit committee that was designed thereafter to maintain surveillance over Fannie May policy to make certain that their secondary market policies were in fact consistent with the monetary policies of the administration. Out of this came a reversal in their market policy. They switched from a heavy net seller to a very substantial net buyer of mortgages through the instructions we gave them in this housing credit committee. We also, in two steps – the first early in '61 – lowered the (a very controversial action about which there is still a lot of argument) ceiling rate on FHA [Federal

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Housing Administration] insured mortgages. First we lowered it from 5.75 percent to 5.50 percent and then from 5.50 percent to 5.25 percent. The first step was very successful in that the market rate, curiously enough, adjusted itself very quickly to the ceiling rate, evidencing only serious imperfections in the mortgage market. We discovered that we could actually get down the contractual rate by lowering the ceiling rate. The next step from 5.5 percent to 5.25 percent was a good deal shakier and toward the end of '61, we had serious doubts as to whether we could hold that rate. The mortgage market was moving against us but we were saved, I remember, by the liberalization of Regulation Q, you remember, which enabled the commercial banks to pour a lot more money in the mortgage market. In consequence, this eased the mortgage credit situation and in effect validated the lower 5.25 percent rate.

SAMUELSON: Am I right, by the way, that the Council was the principal architect of this anti-recession program, but that an ally was Secretary Goldberg [Arthur J. Goldberg]? According to the early gossip, as I remember, the two quickest people off the mark allegedly in the New Frontier were Goldberg and Bundy. I forgot who told me that in the first days after the new administration.

HELLER: I don't see how anybody could have been quicker off the mark than we had to be on this anti-

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recession program. Perhaps you mean that in a different sense.

SAMUELSON: I mean who seemed to be carrying the ball fastest.

HELLER: Let's try hard to remember. I don't recall Arthur...

TOBIN: Goldberg was off the mark all right, but he was running in several directions at once. For example, he turned up one day with a draft of the employment act of 1961, which was to commit government to a full employment policy, and we were to submit this to the Congress.

SAMUELSON: I can also remember that Goldberg met with our task force, do you remember in Brookings at lunch? It was very strongly my impression that he was still the chief council to the steel workers union [United Steel Workers of America] at that time, in official affiliation and still in his thinking.

GORDON: Goldberg, if I may say so, was very fast off the mark, certainly in the bureaucratic sense. His real efforts to extend the range of authority of the secretary of labor came very, very early. There were several of them, if you remember, Walter.

HELLER: Yes, that's true.

TOBIN: One was this employment act of 1961.

SAMUELSON: Did that involve setting up a new Council of Economic Advisers? As I remember there at one time was a...

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GORDON: Another was the original charter for his Labor-Management Advisory Committee. When did that come, Walter, the first round on Labor-Management Advisory Committee? Certainly it was in the first half of 1961.

HELLER: Yes, it was.

GORDON: I remember that Goldberg's first draft, which we got quite early on the executive order, setting up the Labor-Management Advisory Committee, in effect, made it into another Council of Economic Advisers. It prescribed responsibilities practically coextensive with the Employment Act of 1946. We compromised it down and got the executive order to focus, if you remember, on manpower and labor relations and wage policy, the narrower questions. Goldberg quite obviously was making a move through the Labor-Management Advisory Committee to extend his concerns to the whole range of the '46 Employment Act.

PECHMAN: Jim, will you, since you've mentioned this so-called employment act of 1961, could you describe its alleged provision?

TOBIN: Well, I really can't, except that I think it was more organizational than anything else. It set up a kind of super cabinet committee and centralized, I think, the administration in the Labor Department to devise government programs to promote full employment. I don't know if Goldberg was unaware of the Employment Act of 1946 or not.

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PECHMAN: I'm curious about what you people were doing during that week or ten days right after the inauguration. There was a state of the union message. Where did you spend most of your time? There was a state of the union message which was terribly important, and there was this anti-recession message which came three days later or something of that sort.

HELLER: There was also the balance of payments message.

PECHMAN: Yes, then there was the balance of payments message. Who was doing that? Who was attending what meetings and so on? I take it, Jim, you were involved in the balance of payments.

TOBIN: I was involved in the economic part mostly for a good part of it.

GORDON: The machinery in those days – I remember those early meetings, the way the messages were lined up and coordinated and the differences thrashed out – was pretty much a Sorensen operation. You remember the Fish Room? We used to meet in the Fish Room in those days.

SAMUELSON: That's where we had a balance of payments meeting.

TOBIN: That was the procedure in general, but that was not the procedure for the economic message.

HELLER: As a matter of fact, Jim's recollection on this is the same as mine, that this was drafted in our offices. Ted started to revise and did revise a little here and there and just gave up, both because it was too much for him, I think, in terms of all things he had to do...

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TOBIN: We had all the interdepartmental meetings. The HEW people came to our office and the budget people. This was not a Fish Room operation, the economic message.

HELLER: That's right. He looked at it late in the game and then touched up a few phrases, I remember, particularly near the beginning of the message.

TOBIN: There was some White House consultation about the message, including the monetary sections. We can go into that if you like.

PECHMAN: Go ahead.

TOBIN: Well, this gets us into Operation Twist, which was to be the purchase long-term securities by the Federal Reserve and the selling of short-term securities in an effort to keep short-term interest rates high enough to keep capital in the country while pushing long-term interest rates down to stimulate the domestic economy. It's true, as you say, it was recommended in the Samuelson task force report and in the Sproul report of January 26. Both of these reports recommended that the Federal Reserve abandon neutrality toward the structure of interest rates, abandon the so-called bills only doctrine by which they had always intervened. Almost always during the Eisenhower administration they had intervened only in the bill market and not in the market for long-term securities. They both recommended that new reserves for the banks be provided by purchases of long-term securities.

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SAMUELSON: The Fed had abandoned bills only.

TOBIN: Not before the economic message.

SAMUELSON: No, they had in a token way in November, I think, of 1960.

HELLER: Didn't they say that their policy was bills preferably, even in an earlier stage before the elections? See Ralph Young's article in the Quarterly Journal [Quarterly Journal of Economics, Harvard University].

TOBIN: There was some difference between the Samuelson report and the Sproul report. The Sproul report was more cautious and explicitly disclaimed "twist", which is a bad word in Federal Reserve vocabulary. And as far as I can find out, the word nudging, which probably caused trouble later, it came from the Sproul report.

SAMUELSON: In fact, Operation Nudge was the name before Operation Twist, wasn't it?

TOBIN: Operation Nudge, and that word came from the Sproul report. The idea was apparently...The image that's meant to be suggested by that word is that long-term interest rates were just on the brink of falling so that it would take a little bit of operation and a little bit of purchases to make them fall. Another difference is that the Samuelson report recommended that the Treasury do all its financing at the short end, whereas the Sproul report explicitly included remarks about the importance of keeping debt structure long.

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to be sharper." We finally did sharpen it up.

¹¹[I have always assumed that Bob Roosa got Doug Dillon to get JFK to appoint the Sproul task force. Bob and his friends were afraid of what the Samuelson task force might say about domestic policy and what the Ball task force might say about gold and the balance of payments. I can't prove this, but I got this impression from Bob in a conversation at his office in New York a week or ten days before inauguration. I think the idea was to have a sound committee, which would reassure the financial community here and abroad. It would recommend the things that Roosa wanted to do, like abandon bills only and give them respectable auspices. Likewise it would oppose the things he didn't like such as gold guarantees to foreign dollar holders.

Incidentally, I might interject that before inauguration, when it was clear that I was to be the CEA member concerned with international finance and the balance of payments, it was arranged, probably between Walter and JFK, that I should get together with Bob on the gold and balance of payments matters. So I went to see him at least once in New York at the Fed bank. He was an old friend and I expected we could work together. But it was soon apparent that he regarded me as an enemy and a threat, some-

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one to be "handled" and kept out of the way rather than collaborated with.]

PECHMAN: But Jim, may I interrupt for a minute. Do you know who was the chief draftsman of the Sproul report? Anybody know him? Was it written in the New York Fed?

TOBIN: That I don't know. But another aspect of the twist operation was the pressure on mortgage rates, which Kermit already spoke about.

SAMUELSON: I do remember that the Sproul report came out and was sort of eclipsed by, I think, a very vibrant presidential news conference or something. It sort of was anticlimactic. It never did get a big play in the news. I can't remember what the details of that were.

¹¹ Comments inserted by Tobin upon review of transcript.

TOBIN: I should say that the official abandonment of the bills only policy by the Federal Reserve came February 26, I think, and the economic message was February 2. But Martin had already gone out on a limb by consenting to the language in the economic message which committed him to the abandonment of bills only.

SAMUELSON: And they had in fact committed some violations, even in the last month of the Eisenhower administration, of their own thing, so there was no great face problem.

TOBIN: Well, there was the problem of getting it explicitly voted and a new statement of policy approved, which they did.

HELLER: I, by the way, recall that presentation of the

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balance of payments special committee to the president. Sproul, Blough, and McCracken came in.

PECHMAN: Let's go through the meetings with the president that you participated in during those early days. Begin with January 25 in the morning. From 9:15 or so until a little after 10 o'clock, the record shows that Dillon, Bell, Heller, Sorensen, and Samuelson met with the president. Does anybody remember what was discussed?

SAMUELSON: Was that the occasion when Dillon spoke about \$5 to \$7 billion being acceptable just before we went in to the president?

HELLER: Well, it probably was. What is interesting also is on the twenty-sixth of January at the first cabinet meeting...

SAMUELSON: I'm not sure that the bombshell didn't arrive about that time.

HELLER: I took some notes in which I noted that Dillon referred to the fact that we do not need a balanced budget. A \$3 to \$5 billion dollar deficit is within the range of reason. Other times he had gone, as I say, as high as \$7 billion.

PECHMAN: You must have been talking at this time about the state of the union message too, and that bombshell sentence. I'd like to get your version of that famous sentence.

SAMUELSON: You mean the sentence that we're going to balance the Eisenhower budget. If the Eisenhower budget could have been balanced on its own merits,

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then we are going to ...

PECHMAN: What message did that appear in?

HELLER: Didn't that appear in a later budget message? I had pulled that out last night and apparently it didn't get brought along with the papers we have.

PECHMAN: I thought that was in the state of the union message.

HELLER: Oh, it wasn't that early. Those seven escape hatches couldn't have been built that quickly.

TOBIN: They were. That was in the state of the union message.

HELLER: No, there was a later statement that I thought was a good deal more escapey.

PECHMAN: Jim and I...I tell you why I remember, Walter. The first weekend, I was in Palm Beach substituting for you at – Palm Springs, not Palm Beach – some saving and loans group. I gave a speech on dividend withholding, I think. When I came back, there was a draft of the state of the union message virtually completed and this famous sentence was in there. I raised some objections to it. Walter shut me up completely. He said, "Well, we've gone through this time and again and this is it." How did it start, Jim? Do you remember?

TOBIN: I couldn't quote it. I wish we had...

PECHMAN: No, no, I mean what were the sequence of events leading up to this? Did Sorensen put such a sentence in to begin with, in the state

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of the union message?

TOBIN: This I do not know. This reflected a policy decision that I was not a party to.

SAMUELSON: I can remember Sorensen giving us the news either at the time of the inauguration or just afterwards on what had been agreed with the leaders in Congress. These were not – I remember this is what caused me so great consternation – it wasn't Byrd and the extreme conservative right wing leaders in Congress. These were Rayburn [Sam Rayburn] and probably Kerr and Mansfield [Mike Mansfield], sort of middle of the road people. I also remember Mills's name in there.¹²

PECHMAN: Walter, were you able to modify that sentence to any extent at all?

HELLER: Well, yes, we did. We, for example, got inserted into it a clause that let us off the hook if the economy didn't measure up. No, we got at least two modifications into it by the time it was....

SAMUELSON: Remember there was a period of education of the president and Sorensen that the Eisenhower budget was in a sense phony, that the way things were in the business cycle it was clear already by, let's say, January 10, that the Eisenhower budget couldn't have been balanced. I think it's fair to say, Walter, that there was a good deal of Machiavellianism in that formula, that

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we were balancing the Eisenhower budget on the assumption that its own premises were correct, but of course everybody realized that its own premises weren't correct and there was no mistaking that fact.

PECHMAN: This is a good point to raise the general question: Do you think that John F. Kennedy was budget balancing at that stage purely for political reasons, that he just felt that after a very close election, he couldn't strike out too far too fast? Or did he believe part of it and hope that he could get away with this kind of fiscal policy?

HELLER: My answer to that is that unequivocally he was not a budget balancer in his desires. After all he had said at the Carlyle, he had expressed his understanding. On several occasions Dillon had no fear of mentioning this \$3 to \$5 million dollar deficit proposition to the president and the cabinet. No, it was perfectly acceptable as part and parcel of expansionary policy. This whole contortion was to carry out the commitments of these men...

SAMUELSON: And remember we were still properly afraid of the recession which was underway. So already I formed the opinion that if we had had a cabinet system of government, and if Kennedy had come in with a whopping majority, that the policy would have been very different. In other words, political constraints were already very much in

¹² See Appendix A, note 7c.

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the picture all the time.

HELLER: You know apart from this commitment to these men, there were several times during the spring when Kennedy said to me, "God, look at what Nixon is doing to me on this whole question of fiscal responsibility," or, "Look what I have to face here by way of the banker mentality," and so on. So he kept coming back to it.

SAMUELSON: May I also say that the fundamental diagnosis as of December, among let's say the task force people and the other economists who were consulted, was that the recession would not be an endless thing and that at the very least, by the six months that the thing would turn up. It wasn't thought that by February 15 things would turn up, and I can remember Ken Galbraith asking, "How do you know they are right that this thing won't be more serious?" I said, "We can't know that," but here was the figure of Otto Eckstein and also Jim had estimates that pretty much agreed that the thing to fear primarily was the sluggishness of the economy and that we would not come out of the recession strong. But it wasn't that we thought the recession itself wouldn't end. Nobody that I know of thought the recession itself would end by February 15. The second quarter was the fashionable prediction.

PECHMAN: But we had some that bottomed out in the first quarter. One of your projections or one of Otto's projections bottomed

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out the first quarter. But as I recall it, all the projections were unanimous and they were right in that respect, that this was going to be a mild recession and the problem was long-term growth.

SAMUELSON: That there wouldn't be much umph in coming out of that.

HELLER: In that connection I'm interested that Business Week on January 7, 1961 reports on the meetings at which you become president of AEA [American Economic Association], didn't you, Paul?

SAMUELSON: Yes.

HELLER: It said that the prevailing view of what would happen to the economy was the shallow saucer theory that people expected the recession to be mild. But I think that the point that was mentioned a moment ago, that there was a good deal of sluggishness and slack, were points on which we were trying to condition the president right along and trying to say to him, "Sure the recession may be over,

but we can stand a temporary tax cut nevertheless because we have a large gap and it's going to be a rather slow recovery.”

SAMUELSON: And the last recovery was a very anemic one.

HELLER: That's right. We brought that up time and time again and said there's no difficulty in absorbing a temporary tax cut. In spite of the fact that we're turning up, there's a big gap where we are and where we could be with 4 percent unemployment.

TOBIN: We proposed to the president a \$10 billion dollar deficit, planned deficit, you may recall.

PECHMAN: When was this, Jim?

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TOBIN: In the early months of 1961.

SAMUELSON: Yes, in fact in connection with one of the projections I remember was the...

TOBIN: Find them in the memos. This was a figure that I suggested we should be aiming for.

PECHMAN: Did this actually go forward to the president?

TOBIN: Yes.

PECHMAN: And what was his reaction?

TOBIN: His reaction was that this may be right, the economists may be right, but we would be kicked in the balls by the opposition.

PECHMAN: Well, you know, this is a very important point for the record because the academic community, for example, interpreted the first year of the Kennedy administration – at least the utterances of the Kennedy administration – as indicating those who argued that Kennedy was really conservative on economic policies and he really hadn't gone very far beyond Eisenhower on fiscal matters. The notion that he felt he couldn't go much further at that time is not well known, I feel.

SAMUELSON: No, but I'm sure that that absolutely did dominate the thinking. The cleavage, which perhaps was at its maximum in those first few months between the lawyers and the economists, had to do with the expediency problem: what you could get out of Congress.

TOBIN: Well, the cleavage between the lawyers and the economists was more than that, because I recall Sorensen saying to me – to us; I don't remember how many – “If you have 7

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percent unemployment, you're getting a grade of 93; if you have 4 percent unemployment, you're getting a grade of 96. Why on earth should the administration make great efforts with all the fiscal dangers and political dangers too, to realize its grade from 93 to 96?”¹³

GORDON: When they're both A.

TOBIN: When they're both A. That was one thing we had to combat.

SAMUELSON: Do you remember the joke of, “There are the Council of Economic Advisers, hoping that things won't get too good or something.”

HELLER: No, “contemplating the dangers of an upturn.” That was Ted Sorensen when Jim and Kermit and I were having lunch in one corner of the White House Mess.

SAMUELSON: What date would that have been?

HELLER: That would have been just before the April second stage program, because our leverage for getting a bolder April program consisted in part in the continuation of the recession, and it was becoming apparent that the recession was not continuing.

TOBIN: It should be made clear in regard to that last remark of Walter's that one of the things that was said in the February 2 message at our insistence was that if things didn't go well in the economy during the spring, that the president promised to take another look at the economy and

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recommend further measures.

PECHMAN: He didn't specify a date at that time but later he was pushed into a date by the press, as I recall. Isn't that right?

TOBIN: I believe that to be wrong.

¹³ See Appendix A, note 7f.

HELLER: It's too bad to get completely away from that February 2 anti-recession program because there were a lot of things that bore in on the president during that period that were interesting. Ken Galbraith said one day, "You fellows don't have any imagination." Remember, Jim and Kermit? He had a list of a dozen things that were all great to do and he insisted on a hearing with the president. He and I had a long session with the president in which he essentially pursued the theme that people really weren't very imaginative, and here were all the things we could do. I wish I could remember them. The reason I can't remember is perhaps that they weren't worthy of it but they were real imaginative. The one thing that stuck was the VA speed-up. Do you remember any of the others?

SAMUELSON: Wasn't he a great one for unemployment compensation?

PECHMAN: There was unemployment compensation with a variation directly proportional to the degree of unemployment in the economy before.

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SAMUELSON: I don't remember whether it was that date or at a later date.

TOBIN: We recommend that in the message for temporary unemployment.

SAMUELSON: But you actually didn't have the rate changing with the intensity of unemployment as Ken somewhere recommended at a later date.

TOBIN: That was in a later piece of legislation that was proposed but never passed. Here are the exact claims of the president about the second quarter: "If economic developments in the first quarter of this year indicate additional measures are needed, I will promptly propose such measures."

HELLER: While we're citing exact language, I'm now quoting a Washington Post editorial, March 25, "A new administration must of necessity build upon the spending and revenue estimates already submitted." Now listen carefully, "Within that framework, barring the development of urgent national defense needs or a worsening economy" (words we inserted), "it is my current intention to advocate a program of expenditures which, including revenues from a stimulation of the economy, will not of and by themselves unbalance the earlier budget." That was a classic. Then it said, and then here I stand corrected, "With those words to Congress, ten days after he took office, President Kennedy boxed himself in."

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Have we been able to reconstruct when that bombshell exploded?

PECHMAN: Well, that message was what, January 28?

SAMUELSON: I have the feeling that it exploded after the morning of January 25. We first met with Dillon, and we hadn't had the bombshell. That's when Dillon spoke of the \$5 billion. But I think about an hour or two later, we got the bombshell; or the next day, something like that, but I'm not sure.

PECHMAN: You weren't there the next day. Apparently it was that day.

SAMUELSON: Oh, I wasn't there the next day.

PECHMAN: I recorded it as having been in the meetings the next day.

SAMUELSON: When do I appear next? I have a feeling I was in Washington when the bombshell arrived.

PECHMAN: There's no record, not in late January. You were at the meeting on the morning of January 25. There is no record of your being at the meeting that same afternoon when the president received the Sproul report.

SAMUELSON: No, no. I wasn't there.

PECHMAN: You were not there. Did you go home?

SAMUELSON: No, because I stayed at that hotel on 19th that night and saw the president's news conference, or something. I was, though, at the Treasury when Sproul and his committee came. Dillon invited me to that and also Sutherland. I was there for lunch, I think.

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PECHMAN: Nobody said anything about that meeting with the president receiving the Sproul report. Walter, you were the only member of the Council that was there.

HELLER: Yes, I started to say something before and you wanted to stay on some other themes. As I remember this meeting – and you'll notice we met for forty-five minutes – we started out, just the four of us, and later were joined by Dillon and Roosa. The president, it seemed to me, while he displayed some of his early interest in the balance of payments problem, was not particularly impressed with what they were telling him. That's my recollection of the aporia of this meeting. But he did ask them to review piece by piece their specific recommendations and listened to that part rather carefully. But I don't remember any substantial give and take. I think that somebody like Roy Blough or Paul McCracken, who had very few contacts with the president, would remember it pretty vividly. We don't need to rely on our memories.

SAMUELSON: But I do have the impression that it was a bit anti-climatic and nothing much came of that report. It was eclipsed by some news.

PECHMAN: Well, the succession of messages, I would guess.

HELLER: This was January 25.

PECHMAN: Well, let's go to the next day. January 26, was that the

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first cabinet meeting? Is that the one where you briefed them on the economic situation?

HELLER: Yes.

SAMUELSON: Well, I must have been in town that morning, because you told me it went very successfully.

HELLER: Yes. It was a good meeting and there were many good comments afterwards. The president started out – as a matter of fact, I kept some notes. Do you want to get a little flavor of that in so far as economic policy is concerned?

PECHMAN: Sure. I don't know how else we can get this in the record.

HELLER: And of course I might say, it started out with Fred Dutton planning a very extensive program for the cabinet and he had all kinds of detailed instructions about how the cabinet was to function and so forth. We were supposed to have weekly meetings and that fell into disrepair, I guess, after the second meeting. That was pretty much that. The burden of what I told the cabinet group was, essentially, our recession slack and slow growth story. I was trying to get across to the cabinet and once again to the president, that our problem was not just the simple one of recession but that we had the longer-run slack since 1957 and the slow growth over this period to contend with.

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PECHMAN: Did the president react?

HELLER: I just don't remember.

SAMUELSON: Well, you came back full of enthusiasm. You not only had a long time for your presentation but had been very well received by the cabinet.

HELLER: In particular Bobby Kennedy [Robert F. Kennedy] came up to me right after it and said, "You know, that was a terrific presentation and we got a good picture of why we need this anti-recession program," and so forth. There was a good bit of give and take. It wasn't just a report and that was the end of it. There was quite a lot of questioning back and forth. Then, while he was not scheduled on the agenda as such, each cabinet officer was supposed to make a five-minute summary and Dillon was on quite early in that list. He was on about twenty-five minutes and discussed the balance of payments deficit. He made a very good presentation on why it was bad now when it had been good in the early fifties and explained why it was so difficult. Then, as I said earlier, this was the meeting at which he said we don't need a balanced budget. A \$3 to \$5 billion dollar deficit would be within the range of reason. So Paul, you're dating that bombshell that we keep referring to between twenty-sixth and thirtieth. Isn't that what you were saying? Would Dillon have said this on the twenty-sixth had we had the clear-cut message? I wouldn't think so.

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PECHMAN: Well, you see, the president worked on the state of the union message on Saturday, January 28 from 3:15 to 4:25.

SAMUELSON: What was that language about, "wouldn't in and of itself unbalance the budget"? What message did that come from that you read?

PECHMAN: The state of the union message?

SAMUELSON: What date was this?

PECHMAN: January 30.

SAMUELSON: Well, you see the bombshell had fallen that weekend. That was part of the formula....

PECHMAN: Were you in on that working party on the state of the union message on Saturday afternoon, Walter?

HELLER: I just don't remember.

PECHMAN: I know I came back that Sunday and it already was locked up.

SAMUELSON: I seem to remember Ken sitting on that and going over some drafts that he had done.

PECHMAN: Do you have any recollection of that weekend, Jim?

TOBIN: No, I'm afraid I don't.

HELLER: Ken Galbraith had some very direct contributions to that state of the union message and indeed some language that later plagued us because it was so essentially exaggerated as to the depth and severity of the recession.

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PECHMAN: While we're doing a little reminiscing, fairly unsuccessfully perhaps, any newsworthy items about the swearing-in ceremony on Sunday, January 29, 1961 starting at 5 o'clock when the three of you were sworn in with a large number of new officials of the New Frontier? Walter, do you remember that?

HELLER: Well, Jim remembers it very vividly because his children were part of the star of the show.

TOBIN: We had the youngest children present I believe. It was a very splendid occasion; all families of the people being sworn in and all the other presidential appointees, whether they had already been sworn in or not yet confirmed.

ACKLEY: Where was it held?

TOBIN: In the East Room. Then there was a reception, cocktails, and buffet supper. The president made a little talk about how he hoped this was only the first of many occasions on which he would see the team.

HELLER: Let me just go back to that cabinet meeting for a moment. One of the things that the president spoke of at that meeting was the method of information flow to him. He urged us to bring too much to him rather than too little. This was that early in the game and he said also keep the vice-president informed. One other point he made very emphatically was get more Negro employees into government.

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SAMUELSON: Did he say something on that occasion about working with small groups, that small groups are much more effective than large groups?

HELLER: I don't believe so.

SAMUELSON: I thought you reported that to me but...

HELLER: Well, it may have been at that meeting but I wouldn't have thought so. I should record for the tape that I have some fairly extensive notes on that first cabinet meeting and I don't remember anybody else taking notes at that meeting.

PECHMAN: Well, Monday, January 30, I think was the day the president delivered the state of the union message personally at noon or thereabouts. He met with Heller and Galbraith at 3:20 to 3:55 that day and at 5:02 to 5:50 P.M. that day. Do you recall what that was all about, Walter?

HELLER: This is part of what I was talking about before when Galbraith was trying to shake up the anti-recession program and get some more imaginative things into it and get some more money spent fast. I know he was also complaining about Martin. He wanted more of a squeeze put on Martin to go all out into the selling of long-term securities.

TOBIN: I doubt that. I don't think he cared a bit about Operation Twist. He just wanted to do anything for easier money.

HELLER: Well, I'm perhaps interpreting liberally the kind of thing that would have carried out his desires which were for drastically easier money.

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TOBIN: He had various ideas about how you could spend money fast. Each of them was checked out with the agencies involved – there was a Budget Bureau task force – and turned out to be either physically or legally impossible.

HELLER: I have this mental picture of a series of cul de sacs or the trail petering out. We did follow many of them because the president said, "Well, you know, that sounds interesting. Let's follow it up, let's see what can be done." These meetings.... Incidentally, the people that checked out these meetings from which, Joe, you're reading here, said that Galbraith in the first two months was in and out of the president's office a great deal. They said, perhaps, it was recorded as fifteen or twenty times in the first couple of months. I think we might be well advised to have a little memory recollection session with Ken on this, because I think it would help us in some later session. Ken will of course record much of this himself.

GORDON: Now wasn't he waiting around, Walter, for what he described as his FBI [Federal Bureau of Investigation] saliva test to come through so the president could send his nomination to the Senate and get him off to New Delhi? It seems to me there was a period of about five months there when Ken – was it that long?

HELLER: It just seemed it.

GORDON: I think he was gone about April.

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HELLER: It was three or four months.

GORDON: Whatever you're saying, the sources of delay was the slowness and the FBI saliva test.

PECHMAN: Well, when did work on....Are we finished on the anti-recession program?

HELLER: Not to my satisfaction, but if we can't remember anything further, I guess we'll have to consider ourselves finished. I should perhaps say this, apropos the general charge that the president sounded pretty conservative, that was very quickly commented on by the New York Times and the Washington Post immediately after that anti-recession message. The New York Times had an editorial on the third of February designating Kennedy a cautious activist and the Washington Post on the same day had an editorial entitled "Careful First Steps." I think the first sentence of that editorial characterizes perhaps what we thought: "For all its ingenuity and breadth, President Kennedy's initial program to revive and accelerate the national economy is cautious and tentative. It is heavily dependent for its success upon what consumers and businessmen choose to make of it." We felt that we'd done just about everything that could have been done within the constraints that were put upon us, and it did give a very good, I think, atmosphere of action. The total content, especially with the delay in

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congressional action on the social security program, the total content as of then was somewhat limited.

SAMUELSON: I might record the impression that as far as the forces making for expansion were concerned, it was my impression that David Bell was in general sympathetic toward the expansionary side but unwilling to cross the president or to fight hard for that cause. He was ready to go along whenever the president was ready to go along with.

HELLER: Yes, I think that's right. I think it's fair to say that. Several times we had counted on Dave to take a somewhat more active role on behalf of some of the policies that we were pushing – a more aggressive role – and he did not then when we actually saw the president. I think that was part of his interpretation of the proper role of the budget director.

PECHMAN: I think he sort of displayed this kind of attitude towards his role even as early as his conversations with Samuelson's task force. Don't you remember?

HELLER: Yes.

SAMUELSON: Yes, he was in some degree interpreting the president's policies to us.

HELLER: But in his conversations with us he often took the more activist liberal role and it was some time before we realized that he was not inclined to follow through and

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make a strong presentation of this to the president.

SAMUELSON: The president, by the way, was not a man to whom you could simply repeat the same arguments over again. After you'd made the argument, he understood it. Then there was no point in going further. If you were to say, "If you do this, you realize there will be that much difference in the unemployment," he'd say, "Well, I realize that but that's what we're up against," and then there was no further...

PECHMAN: Walter, I want to correct what might be I'm sure an impression you don't want to leave, that the anti-recession program and other actions taken during those first few months noticeably increased the level of expenditures over the level that had been previously planned by the Eisenhower administration. I remember when we were looking at the budget figures during deliberations for the Samuelson task force. We drilled Sam Cohn of the Budget Bureau staff as to the prospects of expenditures. As a matter of fact, Sam was giving us balanced budget figures or almost balanced budget figures. I think Paul asked me what I thought and it was at that time that I mentioned to Paul that Democrats will be Democrats and spend. Remember that, Paul? I ventured the opinion that regardless of what the estimates were, that the year would turn out to be deficit and that expenditures were going to rise substantially.

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ACKLEY: Joe, don't you have to clarify with fiscal year you're talking about?

PECHMAN: This was the fiscal year ending June 30, '61 which was really half an Eisenhower year. The year ended up with, I think, as I recall it, a couple billion dollars more expenditures than had been previously planned.

GORDON: That's right.

ACKLEY: Fiscal '61.

PECHMAN: Then there were the fiscal '62 budget expenditures. We have those figures in the economic report.

GORDON: It's a little bit misleading, Joe. The figure was somewhere between two and three billion increase over the Eisenhower budget. Part of this was increased expenditures undertaken through new initiatives, part of it was underestimating of expenditures by the Eisenhower administration before they left.

PECHMAN: Yes, but look at this...

HELLER: And the new initiatives, by that you mean two kinds of things: one, speed up; and the other, starting some new things.

GORDON: That's right.

PECHMAN: Paul, it's incredible in the light of what we were then presented as potentialities for expenditures. In fiscal year 1960 actual expenditures were \$76.5 billion.

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HELLER: \$76.5?

PECHMAN: Yes, there were \$76.5 in budget expenditures. In fiscal year 1961, expenditures were \$81.5 billion. Now, I think about half of that increase of \$5 billion was Kennedy action over what Eisenhower would have spent. Then the following year, fiscal year '62, \$87.8 billion, so for this reason, Walter, I rather think that these actions early...

HELLER: Well, a lot of this of course was defense.

TOBIN: Not in '61.

PECHMAN: Not in '61.

SAMUELSON: I may say that on one occasion Ted Sorensen, who's a lawyer and not an economist, and who was concerned about the deficit, said, naively but near the mark, "Isn't there some other way of doing this thing by increasing both expenditures and taxation, without incurring a deficit?" We kind of all laughed because this was the balanced budget theorem and also it was just a little bit reminiscent of Harry Hopkins. Maybe somebody even quoted Harry Hopkins, "We will tax

and spend and spend and tax.” Well, further apart, which wasn’t relevant to the election...

HELLER: Well, as a matter of fact, the education of Ted Sorensen and Jack Kennedy went on a pace and sort of simultaneously over this period and after awhile, just as Jack Kennedy became a fine practicing economist, so did Ted Sorensen.

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Ted was really, by the end of the second year, I’d say maybe before the end of the second year, able to take fairly complex economic matters and get them about 90 percent right.

PECHMAN: And he was as innocent of economics when he came into the White House as the president was.

HELLER: More so, I had the feeling, but...

TOBIN: At one point Sorensen said to us in regard to something that we were going to have to say or defend – whether it was a balanced budget or minimum wage – that we didn’t want particularly to defend; he said, “The most expendable thing in this administration is your reputations as professional economists.”¹⁴

HELLER: That was in his office, that’s right. I remember that very vividly. And Kermit on that very point – this was the end of the New York Times editorial on February 3, 1961: “With all this, we are particularly encouraged by his continued emphasis on the dangers of inflation in the few sentences toward the end of his message, which seemed to have been deliberately inserted to give assurance that he is especially mindful of the disastrous effect of excessive increases in the cost of living. In this connection the president” (and this should read Kermit Gordon) “took special pains to argue that the proposed

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increase in the minimum wage would not be inflationary and would not affect our competition in the world markets nor our balance of payments position. To raise minimum wages and at the same time to hold down costs is a good trick if you can do it, but we agree with the president that it can and must be done.” So you see you were successful and in the process you got kudos from the New York Times for having declared against inflation.

The only other thing I wanted to say about this, Joe, was that I was again on the agenda of the second cabinet meeting on February 2 and I had to explain the anti-recession message that was going up that day. By the way, I have a table of contents attached and I think it’s worth remembering that we were able to get, under measures for economic

¹⁴ See Appendix A, note 7f.

recovery, twelve separate actions; and under promotion of economic growth and price stability, four separate actions. This certainly gave an illusion of action.

I have some notes here from which I spoke at that meeting and particularly acknowledged the fine cooperation we got from the various departments in the course of putting this thing together. I notice I acknowledged especially Labor on unemployment compensation and minimum wages; HEW on the billion dollar OASI [Old Age and Survivors

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Insurance] program; Treasury on the ticklish monetary policy and debt management section; Agriculture on surplus food; Interior for the help on the natural resources section; and Budget Bureau for help on almost everything. And I didn't mean to say earlier that this wasn't a significant program but I suppose what I was saying reflected my disappointment still in not having a chance to really open the tax issue. The fact is that we were foreclosed on that and that we had to operate under this restrictive budget.

SAMUELSON: Now may I ask a question? Leaving out the tax, was that \$10 billion deficit – remember there were actually quarter by quarter figures that I think were done under you primarily – an expenditure increase program? What created the \$10 billion deficit?

TOBIN: I think alternative ways of creating it were discussed and probably there were formats of alternative ways of creating expenditure increases and also tax reductions, temporary tax reductions, and mixtures of the two. This idea was being presented in the interim between the February 2 message and the unspecified but promised second look at the economy. For example among other things, an idea that we tried to sell – there was a memorandum to the president about it, I believe – was to give a substantial rebate of

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1960 taxes prior to the final filing deadline, April 15.

SAMUELSON: That was one of the things that had been discussed in the task force.

TOBIN: That's right.

SAMUELSON: What was the Treasury attitude toward the \$10 billion alternative estimate? Do you remember who was involved in that?

TOBIN: I don't think this was discussed in the Treasury. We were trying to sell this to the president.

HELLER: One thing that I am reminded of on the anti-recession program was the question of price tags. We had price tags on all of those items and on the specific orders of the president we were forced to take them off. The result, and I have notes here on the press briefing, remember the backgrounder the three of us gave to the press?

TOBIN: Yes, I do.

SAMUELSON: What date would that have been?

HELLER: Well, it must have been the day before. I want to report two things on that. The president had asked me to say something to the cabinet about it and in the process I talked about the cost of the program and said that we were pressed very hard about the fact that there were no price tags on the items. I noted to the cabinet that they had been taken off but later on there would be a budget message which would fold them into the overall expenditures figure.

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I noted that not only was it very difficult to get reliable estimates; what with two fiscal years involved and the cash budget and the administrative budget it was next to impossible. I said that was the explanation I had given last night and then I went on to say this morning I happen to have a rough and uncleared estimate of what it will cost. I passed out a table which as I recall ran somewhere between \$2 and \$3 billion.

TOBIN: Well, we claimed in the March 6 statement to the Congress that the value of the program, in terms of income and product account, was \$3 billion.

HELLER: That's right, we did.

SAMUELSON: With no multiplier?

TOBIN: No multiplier.

PECHMAN: Just a \$3 billion increase in expenditures?

TOBIN: Yes, on national income accounts.

HELLER: And I also then noted that we got this barbed question at our press briefing: "How could we judge a stimulating effect to the program without knowing the cost?", which seemed to us to be a pretty good question.

PECHMAN: How did you answer it?

HELLER: With fast talk and rapid gestures. Then somebody, I suppose Bud Nossiter [Bernard D. Nossiter], said it looks like a \$5 to \$10 billion dollar program. We assured him that it wasn't

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and again they said, "How can you be sure it wasn't if you don't know what it costs?" We were told by one of the reporters afterwards that the Republicans would say it was fiscally irresponsible not to give the costs and that this would be a backfire and they'd say that the reason we were hiding the costs was because they were so enormous. The other point I should mention is that the president sent me a note the following day or two days later indicating that he'd heard that we'd had an especially good press briefing and he wanted to compliment us on it. I might say it struck me that in those early days in the administration, there was time for many of these little touches and also time to sit down and talk for, what was it that one day, an hour and a half with Galbraith and me?

TOBIN: Yes, as a matter of fact, his program didn't get crowded. As I remember it at the beginning there was room to go in at the oddest hours.

HELLER: That's right and the three-man Council had several lengthy sessions with him. Having seen President Johnson go through the same thing early in this period, when he seemed to be accessible to everybody and seemed to have, except for very limited chunks of the calendar, lots of time, I've decided that that happens at the beginning of every administration. But this really went on until the Bay

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of Pigs and then the whole character of that calendar changed in terms of accessibility of the president.

PECHMAN: I'd like to ask Kermit, from the standpoint of the use of economic policies to stimulate employment....You know, economists up until 1961 held the view that even expenditure action on the part of the federal government, while tax action would have to be delayed because of the need of congressional approval, was very slow. In the light of what was done then, what do you think about the use of expenditure policy to promote quick recovery?

SAMUELSON: Didn't Burns in '54 introduce a program of talk it up, spend it, say that you're going to spend, spend, say that you have spent and that there was a concerted use at that time? I can remember at an earlier date before the disillusionment set in, people like Al Hart [Albert Gailord Hart] said, "When you're doing this number of billions of dollars a year, a change in even ten days in the timing is worth so many billions of dollars on an annual rate."

PECHMAN: Of course the trouble with Burns's talk about spend and spend is that the budget was falling by \$10 billion between fiscal year '53 and fiscal year '55 from \$74.1 billion to \$64.4 billion.

SAMUELSON: It came as a very bad surprise to him, and he was really annoyed with the Budget Bureau for not telling him.

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PECHMAN: That's right. Defense cuts far exceeded the Eisenhower expectations. I remember this was in Donovan's [Robert J. Donovan] book. Kermit, do you have any reactions to this thing?

GORDON: Yes, Joe, but certainly not conclusive ones. I suspect if you looked over the items in that first stage program you'd find that the ones that really took hold fast were the transfer payment programs. I don't think there's any question about the fact – always excluding the problem of how long it takes you to get through Congress and forgetting about the legislative delay – that there's no inherent program reason why you can't get transfer payments out very, very fast. The best example is probably the Veterans Administration accelerated dividend. You get out a quarter of a billion dollars very quickly.

I still had very fundamental reservations about whether you can play this way with programs that involve purchase of goods and services. I doubt if you can. I doubt if there is as...

SAMUELSON: But these figures go from \$76.5 to \$81.5 to \$87.8.

GORDON: Wait a second Paul, remember the point I made earlier, remember that the Eisenhower estimates – the Eisenhower '61 budget which was contained in the budget he sent to Congress in January '61- did not represent good estimates of what the rate of spending was going to be. The rate of spending

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would have been a good deal higher if there had been no new policies adopted by the Kennedy administration. It was the kind of budget that every administration tries to leave to its successor.

TOBIN: Not that much though.

GORDON: Not the whole thing but a substantial part of it. I think a considerable element in there is an underestimate of expenditures on the part of the Eisenhower administration. I'd be surprised if you could find anything that took hold in those first six months that did not consist of transfers. I don't think the

Kennedy administration could have done anything in the first six months in goods and services that would have had an impact on the end of 1961. No.

PECHMAN: I'm sorry, I was looking at the wrong year. Let me read you some numbers in the national income accounts: purchases of goods and services in the fourth quarter of 1960 were down to \$53 billion to \$54 billion in the previous quarter. Then in '61 here's how they went: from \$53 billion in the fourth quarter; first quarter of '61, \$54.7; 56.6 in the second quarter; 57.1 in the third; and 59.9 in the fourth.

GORDON: What was it now from the fourth quarter to the first, Joe?

PECHMAN: \$1.7 billion dollars.

GORDON: Well, that's the base. I mean the Kennedy actions had no effect whatsoever on the first quarter.

PECHMAN: Then \$2 billion more the succeeding quarter. From the

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first quarter to the second quarter was from \$54.7 to \$56.6.

ACKLEY: How much of that was agriculture?

PECHMAN: It's hard to say from this stuff.

ACKLEY: Wasn't there a pretty prompt rise in support prices that poured out some money awful fast?

GORDON: Yes, that's right.

PECHMAN: Is that reflected in goods and services?

ACKLEY: Yes.

PECHMAN: But you know, Kermit, from the fourth quarter of 1960 to the fourth quarter of 1961 there was a \$6.9 billion increase in purchases of goods and services and I don't believe that was entirely agriculture, and entirely defense. As a matter of fact, defense really got started in the following year.

SAMUELSON: In discussing whether the president was conservative or not I think I have a memory that in those same months that we were trying to get a more expansionary policy, at times the president was scolding David Bell for not being harder in the way of economy. Do you remember some of those remarks?

HELLER: Yes, particularly on personnel.

PECHMAN: Well, presidents do have this syndrome...

SAMUELSON: That note of frugality in the sense of President Johnson's view was also one strain in Kennedy, even though he was

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total. within the constraint of congressional tolerance, trying to expand the

GORDON: In the fall of '61 there was a holdback spending campaign, was there not?

PECHMAN: Art Okun's [Arthur M. Okun] estimates of the GNP were so high that you were beginning to worry about it.

GORDON: No, the president ordered Dave Bell to clamp down on the rate of spending...

HELLER: But this was in part, if I remember correctly, the result of the commitment made at the time of the Berlin crisis – when taxes were not raised – to follow through with a balanced budget in fiscal '63. And the president at that time, after all, said we could paper over a billion or two but he couldn't go much beyond that.

SAMUELSON: Can I ask this question? We now know that the recession ended around February 15 and most of that end has to be independent of any policies that could have been done in those very few days. To what degree did that cause a ...

GORDON: But it was not independent, Paul, of changed expectations.

SAMUELSON: But to what degree, by the time it was recognized the recession was ended – which I think was only about a month delay since Shiskin's [Julius Shiskin] figures and others were already showing the signs of that – did that take the wind out of the sails of the expansionists?

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HELLER: Oh, there's no question that it took some of the wind out of our sails.

SAMUELSON: That second look never took place.

HELLER: Oh yes it did, but our view of what ought to happen in the second stage program certainly took a licking in considerable part of a result of the improved economic picture. But we should talk some about that. I do, before we do that though, want to correct the record on something we did this afternoon on this matter of how the president voted in 1958. Let me just read you a question and answer on February 8 press conference and then see what you have to say about this. "Mr. President, one of your task forces" (Samuelson) "recommended that you be given discretionary power within limits to cut taxes as a counter-cyclical device. Can you tell us what you think of this idea?" Answer: "Well, in 1958 there were two proposals to cut taxes: one was made in March and I believe the other was made in June. I voted against it in March and I voted for it in June, because it seemed to be, according to the economists I talked to (and that was primarily Seymour Harris as he told us privately later), helpful. As you remember I don't think it got more than twenty-three or twenty-four votes. The recession was serious. We ended up with a \$12 billion dollar deficit." Somebody's got to track that down and find out

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what he's referring to. Wasn't there some attempt to hook a tax cut onto the re-enactment of the Korean wartime excises rate or something like that?

PECHMAN: The June vote would have been that.

HELLER: That's what he's talking about.

PECHMAN: The June vote would have been that, and there may have been some attempt to tack on a tax cut.

HELLER: I think since it had such an impact on his thinking and was so often cited, it's something we ought not leave uncorrected in the record. Now he said, "Now we are going to take another look at the economy in April and make a judgment at that time whether we can expect an upturn in the spring or in the summer." Then he said, "I will say that I am not convinced at the present time that Congress would entertain that proposal." I think there he probably meant just tax cut period, don't you, rather than the discretionary feature. "We need more perspective and more experience." He said, "This is a proposal that will cost the federal budget perhaps \$4 or \$5 billion which is a serious matter and which would limit, perhaps, our ability to go ahead with our other programs, which in the long run may be more useful. In any case, in April we'll try to make another judgment on the state of the economy."

SAMUELSON: Make a judgment became a bit of a joke...

HELLER: That's right.

SAMUELSON: ...from press conferences. The president often

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said, "We're going to make a judgment on this."

PECHMAN: This is almost irrelevant to this discussion but, Paul, I think it might be a good idea to put in the record here, President Johnson's reaction to the standby tax cuts that he expressed during our meeting a few weeks ago with him. Remember that?

SAMUELSON: He said that Congress would never go for that.

PECHMAN: Yes, but what did he say? It's all right to talk about it. How did he express it, Walter, do you remember that?

HELLER: Well, I remember the general point.

PECHMAN: He said it really didn't have a chance but...

ACKLEY: He said you might condition them so that if you come along later with a specific tax cut, they'll act faster.

PECHMAN: But President Johnson doesn't object to talking about stand-by tax cuts, but he doesn't think that there's a good chance of it passing.

HELLER: No, but I must say that I wondered in the course of that discussion whether he wasn't talking about the older notion of having an executive power prerogative to initiate the tax cut rather than doing it the congressional way.

TOBIN: Well, I hope we come back to the question, what President Kennedy's considered view was apart from politics in regard to the use of fiscal policy.

PECHMAN: I think now is the time, Jim. Do you think it's too late in the evening?

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TOBIN: Well, but it's at a much later time in the course of the administration that I can give evidence on this point.¹⁵

HELLER: I wonder if we shouldn't try at least quickly to get through essentially the recession chapter in this history by talking about what happened with respect to the second stage program and a few things that ought to

¹⁵ See Appendix A, note 1.

be brought in there before we go back to other things?

TOBIN: It might be indicative of what was going on to go through the titles and subjects of the memoranda from the Council to the president during this period.

HELLER: I might say that the file that Jim is going to be reading from is not complete, in my opinion, and I'm going to do some personal file searching in our other memos to the president in that period.

TOBIN: Here's a memo of January 24 which encloses an article by Jim Duesenberry of Harvard advocating a federal deficit and apparently arguing that it would not be very bad for the federal budget. This was sent to the president.

HELLER: Yes, I remember, this was in Arnie Solloway's Business Scope and I thought it was so beautifully put. We had been trying really to say the same thing and I thought Duesenberry had put it very well indeed. Note how many pages was that memo and note how many pages the

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the next few memos were, double-spaced, which we started out sending to the president and we had no fear whatsoever about his taking the time to read it.

TOBIN: It was nine pages. Then there was a memo on January 30 about interest rates and about bills only and things of that kind and it's also of an educational nature.

HELLER: And it followed one, and a very good one, by Ken Galbraith; you remember, about Ken Galbraith having a memo indicating that he ought to set Bill Martin on his ass or words to this effect and he'd have much quicker recovery from the recession.

TOBIN: There's a memo also on January 30 which is an educational memo about what the Federal Reserve is and what it does and what monetary policy is about, and what the administration should be trying to get the Federal Reserve to do, and it also covers debt management.

PECHMAN: Walter, I can't believe that the Council wrote only three memos to the president between January 20 and January 30.

HELLER: That's what I'm saying. This early presidential memo file is obviously incomplete.

TOBIN: I don't know. Remember we were writing messages during that period. Here's a comparison of various budget estimates by U.S. News of Eisenhower and current administrations.

GORDON: On February 3.

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TOBIN: February 3.

HELLER: Do you have a legible copy of that, Kermit, because that first page of my copy is illegible.

TOBIN: Here's a memo on February 16 which is in preparation for a meeting with Martin in the White House the following days. Here's a memo about whether the president should advocate saving in the Ladies' Home Journal or not.

GORDON: "Does the journal want you to say, in effect, that women can help cure the recession by spending more and saving less, the implication being that this is a patriotic duty? I would urge that you not make any such statement."

TOBIN: Now here is, I think, an important memo because this is one thing that happened. I think the president felt trapped on the one hand by his political inability to get through Congress, so he thought, any expansion on policy, and on the other hand by the high levels of unemployment. One thing that occurred to him that he proposed to us at a long meeting was the idea of a blue ribbon committee on unemployment. Here's a memo in which we opposed it.¹⁶

HELLER: We did two things, Jim. We carried out his order. You remember, we talked this over with Ted Sorensen and Ted agreed with us after some conversation that this blue ribbon committee was not a good idea but he

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said you have to carry out his order and indicated how he could set up such a committee, and then the other one was against the whole idea.

SAMUELSON: Do you have names?

PECHMAN: Read the names, Jim.

¹⁶ See Appendix A, note 7e.

HELLER: ...and the other one was the memo saying, "Gee, we don't think this is much of an idea."

TOBIN: Solomon Barkin, ILGWU [International Ladies Garment Workers Union]; William Bates, New York Banker; Howard Bowen, president of Grinnell College; Robert Calkins, president of the Brookings Institution; Charles Cole, vice president of the Rockefeller Foundation; Frederick Deming, president of the Minneapolis Federal Reserve bank; John Fischer, editor of Harpers Magazine; Marion Folsom, Eastman Kodak Company; William Foster, Olin Mathieson Corporation [Olin Mathieson Chemical Corporation]; Robert A. Gordon, University of California; William Haber, University of Michigan; Richard Lester, Princeton University; Professor Mason [Edward S. Mason], president-elect of the American Economic Association; J. Irwin Miller, chairman of the board, Cummins Engine Company; Robert Nathan, Washington, D.C.; Stanley Rutenberg, AFL-CIO [American Federation of Labor-Congress of Industrial Unions]; Paul Samuelson, president of the American Economic Association; John Sawyer, president-elect of Williams College; Theodore

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Schultz, chairman of the economics department of the University of Chicago; and J.D. Zellerbach [James D. Zellerbach] of Crown-Zellerbach Corporation.

PECHMAN: What was this committee supposed to be doing?

TOBIN: Well, the true purpose of the committee, I would say, would be to explain how difficult the unemployment problem is and therefore would have a kind of non-partisan, higher respectable excuse for any failure of the administration to solve it.

PECHMAN: Oh really, I thought the true purpose was that they would somehow explain that deficits were okay and that people would understand that. No?

TOBIN: Do you agree with me, Kermit?

GORDON: Yes.

HELLER: I do too, Jim. He was at that point very much concerned about the recalcitrance of the unemployment rate and he wanted some way to explain, as you say, what had happened, if we weren't able to get it down. Didn't Paul's point come in somewhere in one of these blue ribbon committees? I thought it did.

TOBIN: Our purpose, if the thing was done, would have been what Paul said.

HELLER: Did we say that in that memo?

TOBIN: Well, we say that one job of the committee would be to consider the extent to which unemployment is due to

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inadequate demand and the extent to which it is structural, and in particular, to what extent does the large latent federal surplus prevent us from getting to full employment.

HELLER: But there is Paul's point precisely.

TOBIN: But this is our suggestion.

HELLER: I understand but that's probably where Paul's recollection comes from.

SAMUELSON: My notion was that it was his recurring wish for blue ribbon committees, including the foreign aid thing later, that they would somehow get respectable people who would bring pressure to bear on Congress and middle of the road people to do what his experts told him really ought to be done, but which country didn't seem ready to do.

HELLER: I think there was some of that, if not in this one there certainly was in later ones, but I wouldn't be surprised if there had been some on his part in this one as well. What's the date of that?

TOBIN: The date is February 24.

HELLER: The interesting thing is that he had announced the Presidential Advisory Committee on Labor Management Policy by the thirteenth.

GORDON: Of February?

HELLER: Yes.

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PECHMAN: You mean he announced that committee and he was already setting up another one a week later?

HELLER: That's right, and this of course gives credence to the proposition that Arthur Goldberg lit running.

GORDON: I don't think the president regarded the labor-management committee as his committee. That was Arthur Goldberg's operation. I think he talked about this blue ribbon committee as his committee.

SAMUELSON: Also I have the impression that the Council went along with the labor-management committee but in part wanted to head off something worse on the part of Arthur Goldberg. There was fear of unwise activism and possibly empire building by Goldberg.

GORDON: We did a great deal of negotiations with him over the terms of reference of that committee and I think we pulled most of the details.

SAMUELSON: I never thought that Walt Rostow or Ken Galbraith could solve what we now call incomes policy. I made a somewhat Delphic, humorous remark in an interview with U.S. News and World Report, saying, "I can't believe we have the optimum now, but smarter men than I will have to find out how to do it." The labor-management committee was in a way an attempt to be a lightning rod just to be sure nothing worse got done with respect to misguided attempts to set an incomes policy.

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PECHMAN: Jim, complete the record on this blue ribbon committee. Who killed it?

TOBIN: I remember that I, and I believe my colleagues, were very depressed after this proposal was made by the president which was in the same session in which he, I believe, indicated we just can't get anywhere with expansionary fiscal policy in Congress. We got home and we talked it over and the more we thought about it the worse it seemed and we wrote, as Walter said, a memorandum which opposed the whole idea which we sent along with a memorandum explaining how it could be implemented. That's the last we heard of it.

PECHMAN: But you don't know whether it was that memo or Sorensen?

HELLER: This effectively put an end to it, but it kept bobbing up in different forms. It didn't put an end to it forever, just for that period. I wonder whether this came out of the meeting February 9. We worked quite a while in responding. We did not respond immediately. What was that date?

TOBIN: February 24.

HELLER: Oh, I'm wrong. We were with the president February 23 from 4:30 to 5:10 P.M. I guess we responded quickly to this one. I know some things we tended to slow down by sabotage.

PECHMAN: Well, gentleman, the tape is at an end and I think it's late enough in the evening.

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ACKLEY: Is there enough for a prosaic question as to how the Council was....

BEING TAPE III, SIDE I

PECHMAN: Walter, let's pick up the story with the preparation of the Council's statement before the Joint Economic Committee on March 6. You began preparing that statement probably in mid-February or late February.

HELLER: As a matter of fact, I think we started on that very shortly after we wound up the February 2 message and so to speak recovered for a day or two. Pretty early in the game, we had a session with the president on not only a little bit of the content, and we had after all indicated a good part of its lines when we talked about recession and slack and slow growth, but also about our stance before the Joint Economic Committee as against the earlier Burns-Saulnier approach which was, if you recall, to testify in executive session and then just, what, issue an edited transcript?

PECHMAN: That's correct.

HELLER: Yeah, and the president was all for our testifying openly. And also, when the question came up about the fact that we hadn't yet set very definite lines on policy in many areas, we had to find out from President Kennedy what was the approach we were to take:

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whether we were just to stay within the limits of what had already become doctrine or whether we were to go out ahead; how far ahead could we go. He laid down the general lines that we could, and I think the implication was should, push out somewhat beyond what had been done and test out ideas and do part of this job of education. You remember he had stressed at the Carlyle on January 4 that we should do the job of education, part of which was to I guess educate the public on the fact that the sins had been committed in 1960, that this recession wasn't of our making; but much more important, to get across the positive things that we ought to do about it. I remember, Jim, that you drew up a draft, a couple of pages on what the Council's approach should be to the Congress, and he explicitly went over that and cleared it.

PECHMAN: Jim, could you summarize that little memo that the president presumably approved briefly?

TOBIN: Yes.

HELLER: Not presumably. Explicitly.

PECHMAN: Explicitly.

TOBIN: Well, it started with a memo that I found here February 13 that I sent to Walter and Kermit, about what our stance should be before congressional committees, and it ended with a statement of this stance which is in

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the beginning of the testimony, sort of ground rules for how the Council will behave with respect to Congress, which was pretty much the same as what was originally suggested in my memo.

HELLER: Although the president went over it closely enough, so that we made one or two little modifications in response to his suggestions.

TOBIN: Yes. Now, should we go into the history of this and the reasons for having something like this?

PECHMAN: Yes, I think it's terribly important from the standpoint of the making of economic policy to go into the history of this; you know, the controversy about whether the Council should forecast, project GNP numbers explicitly, which Burns refused to do.

HELLER: Yes, and as part of this, I think we should talk about the explicit undertaking early in 1961 to revive the Employment Act of 1946, because that is one of the things that we worked at, both then and in the January 1962 annual economic report, and that involved some conditioning of the president.

PECHMAN: That's good.

TOBIN: Well, these particular things had to do with the role of the Council in testimony before Congress and what one might call the combination of political and scientific responsibilities of the Council. The

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history of this I think goes back to the original days of the Council in 1946 and so on when there was a conflict over what the Council was to be; a conflict of opinion as to whether the

Council would try to be a neutral, nonpartisan, detached group which would stay very close to the president and send up the sorts of advice that any economist might send to the president and then just see what happened to it, and if the advice didn't get taken, oh, well, that's too bad, and send advice that seems good for next week up next week. This is perhaps a caricature but it is meant to be a description of the point of view of Mr. Nourse [Edwin G. Nourse], the first chairman, and I believe in his view, the same Council, the same personnel could have served any administration no matter what its political coloration. To the contrary, there was the view of his vice chairman and the succeeding chairman, Keyserling. He thought the Council should have a very active policy orientation of its own and should try to be selling that in the Congress and in the public, even if it diverged quite considerably from the official program of the administration.

Then there came the question, which is connected with this, of what the Council should do in testimony before Congress. The activist view of Keyserling would suggest, of course, that the Council would always be

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ready to testify on behalf of its own ideas as well as the president's program. The line taken in the Eisenhower administration by the Burns Council and the Saulnier Council was more modest in that they took the view that they were executive servants of the president who should not be testifying before Congress on the economic situation because this would impair their advisory function to the president. They would not testify publicly about their recommendations or their beliefs about the state of the economy and so on. Well, we had to face, this Council had to face, how we were going to play this game with respect to the president, as Walter Heller just said. I wonder if my description of the background has been reasonably fair and correct?

PECHMAN: Yes. You might indicate that at the beginning of 1953 the Council almost passed out of existence and was reborn, although the Employment Act of 1946 was not repealed or explicitly changed. I'm not sure whether Chairman Burns regarded himself as bound by the same ground rules as those previous Councils had been.

TOBIN: I'm sure he didn't. The Joint Economic Committee had been quite unhappy under the Eisenhower administration because the Council had not been willing to testify.

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PECHMAN: You mean the Democratic majority?

TOBIN: The Democratic majority and the Democratic majority staff. The Council had not been willing to testify in open sessions, and they had contrasted this to the inevitable willingness of the Eisenhower Council to express their views about the economic situation and about economic policy before the

Appropriations Committee [Senate Appropriations Committee], which had control of the appropriations for the Council. So there apparently wasn't complete consistency in following this policy of avoiding public testimony.

HELLER: Well, not only that, but there were a good many public speeches – not as many as in the Kennedy and Johnson administrations, but a good many public speeches by both Burns and Saulnier, where they weren't entirely unwilling to discuss economic policy.

SAMUELSON: There was however at least one document to President Eisenhower which was explicitly disavowed as coming from his Council.

HELLER: What was that?

SAMUELSON: I can't remember whether that was in the mid-year of one of the early years...

PECHMAN: Oh, yes, that was the mid-year report of '55, was it, or '54 – painting a very...

SAMUELSON: Yeah. '54 probably.

PECHMAN: Or '55 perhaps, yeah. Painting a very rosy view of the

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economic situation, that President Eisenhower released.

SAMUELSON: Also if I remember correctly, in the '56 campaign, the chairman of the Council of Economic Advisers, Arthur Burns, did talk before the Detroit Economic Club.

PECHMAN: Not only that, he wrote an article, a signed article in the Herald Tribune about President Eisenhower and how wonderful a student of economics he was. Remember that article?

SAMUELSON: I didn't remember that, but I remembered wondering whether participation in the political campaign explicitly was consistent with the view of the Council that was then trying to prevail.

TOBIN: I wouldn't think it's fair to say that the Burns-Saulnier Council attempted to return to the Nourse view of a neutral, politically neutral Council.

HELLER: No, far from it.

TOBIN: I don't think they ever claimed to do that at all.

HELLER: They did claim though to be sort of a confidential arm of the president.

TOBIN: They claimed to be a confidential arm of the president and were concerned to protect their confidential advisory relationship.

SAMUELSON: I think of at least one point, Arthur Burns was trying to distinguish between himself as chairman of the Council and himself as an adviser to President Eisenhower.

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HELLER: It's also worth noting that there were White House economists at that time; that Hauge [Gabriel Hauge] and then Allen Wallis served to do some of the more vocal public presentation of the views of the Eisenhower administration.

PECHMAN: Kermit, you had a point about expediency.

GORDON: Well, I meant only that I had always interpreted the decision of the Eisenhower Councils not to testify in public session as simply reflecting the fact that the Congress was in the control of the other party and they regarded it as too dangerous to take this on. That's oversimple.

SAMUELSON: In 1956 the tenth anniversary of the Employment Act was celebrated by the National Planning Association and there was a dinner and a monograph, which can go into the record published, in which quite a number of people, I included, and I think Jim, had chapters. Was that held at Brookings? I don't remember where the dinner was held, but it was a National Planning Association – sponsored thing, and Arthur Burns has the last chapter in that. As I remember it – and this is relevant, because it shows his view of the Employment Act and how it should be carried out – he said that he'd looked over the pages of the book that had been prepared and the page he liked best was the last page. He showed that he was

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not sympathetic with the earlier view of the Council explicitly, and particularly any forecasts. I'm not sure, Walter, perhaps you'll remember whether you were given advice by various people when you took office as to whether you ought to engage in target forecasts. I know that people like Gerhard Colm gave private advice that the Council should do more of that.

PECHMAN: I did, too. On that point, I think I'd like to ask Walter about this. Make this part of the record. We do know that Burns regarded the making of the public forecasts as not necessarily required by the terms of the Employment Act.

HELLER: Well, stress the word "public", Joe. I don't think we hit that sufficiently. Every Council has made forecasts.

PECHMAN: Oh, no question about that.

GORDON: The real issue was the extent to which they were made public and they were used for the base of internal planning.

SAMUELSON: Also, the forecasts were to be targets. They were also the difference between forecasts of just what's going to happen and forecasts which are targets and which are to be brought about by particular policy.

TOBIN: On these principles, I just could summarize what we decided to do and to state on this occasion. We acknowledged our responsibility to explain to Congress

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and the public the general strategy of the administration, the president's economic program, especially relating to the Employment Act; but that we wouldn't think it was our job to go into the details of legislative proposals or administrative actions that fall within the domain of other executive departments, but rather concentrate on overall economic policy. We called to the committee's attention and everybody's attention that the president's program is the outcome of a process in which there are many sources and kinds of advice, of which professional economic advice from the Council is only one element. We said we must protect our advisory relationship to the president, so that we could not be expected to indicate in what respect the president has or has not taken our advice or to what extent particular proposals or omissions of proposals reflected our advice, either individually or collectively. We asked the committee if they would respect this limitation in our testimony, and as I remember the first thing that Representative Patman [Wright Patman] said after we finished was that of course the committee would do that. Then we said subject to that limitation we were glad to discuss the economic situation and the problems of the country with the committee in general. And then we said that we were professional

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economists, a council of professional economists, and naturally it was necessary and inevitable and important that the Council be in harmony with the general aims of the president and his administration. We said explicitly, I believe, that general harmony is of course consistent with the divergences of views on specific issues. That was what we said to

begin, what the chairman said on behalf of the Council in beginning our relationships with the Joint Economic Committee that day.

PECHMAN: Would you fill us in, Walter, on the advice you got? Paul mentioned that he knows that you got advice from Gerhard Colm about the making of projections and I remember you talked with me about it. I know that Gerhard and I felt very strongly that the Employment Act required that the Council give some quantitative notion as to the different prospects of the economic situation. There was no question that you turned to making public projections.

SAMUELSON: Did you get any warnings against doing that?

HELLER: Yes, don't you remember last night, I said Roy Blough had suggested that we not stick our necks out on what...

SAMUELSON: Yeah. He had been a member of Keyserling's Council at one time.

HELLER: Yes, he was in Keyserling's Council in 1951-52, I believe. Roy thought that we ought not to get out

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publicly with explicit forecasts. I think the economic profession is somewhat divided on this. I remember Jake Viner [Jacob Viner] criticizing me after the fact about the 1962 forecasts. He said, "Well, it isn't too bad that you made them but you needn't have been so damn proud of them." And after you saw the economy slowing down, in January, February 1962, I think that was more a case of our having been wrong and not recognizing it for three months. We should have recognized it in one or two.

ACKLEY: That's a story we ought to return to, that forecast and its relationship to the budget projection of this.

PECHMAN: Yeah. I'd like you to discuss this. May I put into the record the important sentence from the January 1962 economic report, in which, I think – I forgot the way the Council worded it.

HELLER: Yes. I don't forget this, because this was very consciously put in there.

PECHMAN: Well, the wording is, in the budget message, "GNP for 1962 is projected at \$570 billion in current prices, a rise of nearly \$50 billion and almost 9.5 percent over 1961. A somewhat higher figure is likely if the Congress acts promptly to the administration's proposed tax credit for investment." Now, do you notice how this was couched? It was not couched as a Council forecast.

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SAMUELSON: No, but there was some precedence for that because in January of 1960, I believe for the first time, the Eisenhower administration indicated the calendar GNP figure which underlay their budget estimates, their revenue estimates.

HELLER: I don't think it was for the first time. They'd done it before.

TOBIN: Well, I believe the situation is that this was not included in the budget message. It was given in the budget briefing session to the press by the Eisenhower administration and we were able to find that in the most recent budget briefing it not only had been given orally but it had been in a written press release, which gave the GNP forecasts on which the basis for the budget was made. This certainly seemed to me decisive in my view of the question of whether we should make public forecasts or not. It was inevitable that the forecast underlying the budget projection was going to be either announced or deduced by clever people from the budget figures themselves, and so there was really no point in pretending that you could be making budgetary and economic policy without having a forecast on which they were based.

HELLER: Well, I think we spoke explicitly to this point, you know, and our initial report said that we thought that these things – this could be entered in the record sometime – that we thought that these forecasts ought to be

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shared with the public, not only because of the requirements of the Employment Act of 1946 that they had to be made....Not only that they obviously had to be made in order to form policy but because the forecast, made with presumably the most complete resources available to anyone, ought to be shared with other people in the field.

SAMUELSON: Yes, but I think that an enthusiast like Gerhard Colm really wanted you to go farther than that and do something like what either the Dutch or the Swedes perhaps do, namely, give your best forecast; if it then fell short of some target, indicate the explicit measures which were to be taken and then would make the target be fulfilled.

HELLER: And the nation's economic budget? Isn't that...

SAMUELSON: Yes, and you never did displace that, did you?

HELLER: Well, that's a separate chapter too.

SAMUELSON: Oh, that's a separate chapter, yeah.

TOBIN: I think that a significant thing about this March 6 first congressional testimony that we ought to speak to is that it did set targets for employment and unemployment and for GNP, and publicly set them. We were not exactly in a position to point out how the president's budgetary and other programs were going to eliminate the gap between the target and the actual forecast because there weren't sufficient programs to eliminate that gap so we couldn't carry out Colm's recommendation. It required more than

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the Council to do that. It required that the Congress and the president and the whole administration be so enamored of the Employment Act as the single objective of economic policy that you're able to point to a whole program which does eliminate any deficiency.

PECHMAN: Let me point out to you, gentlemen, that your thinking, or at least the way you presented it to the public, underwent some change from the first economic report that you wrote. As you recall, we already said that you relied on the statement of what the budget message projection was in the January 1962 report. Now, let me read the '63 and '64 statements. In neither place do you worry about what the budget message said, you simply make an outright projection. In the January 1963 report, you say the Employment Act requires estimates of current and foreseeable trends in the levels of employment, production, and purchasing power. This is a wise and constructive mandate. You go on to say, for budgetary purposes to make fairly exact projections of federal revenues requires relatively precise kinds of forecasts, namely, that GNP will amount to \$578 billion, plus or minus \$5 billion – oh, I'm sorry – contained in this year's budget message. Then in January '64, you...

SAMUELSON: Notice there's a range already in that report as against the point estimate in the first report.

PECHMAN: Then you have, in January '64 you say, administration

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forecasts are always in some degree projections because they rest on assumptions about the enactment of the president's program: The dependence of this year's forecast and assumptions made about the nature and timing of the tax cuts is particularly heavy: The date of enactment and the initial withholding rate applied to wages and salaries are both critical. The assumptions underlying the present projection are, first, that reduction of tax liabilities, as recommended in the president's budget message, will be enacted by February 1; second, that the withholding rate will be reduced from 18 percent to 14 percent by this legislation, to take effect as soon as possible thereafter. Under these assumptions, it is estimated that GNP for calendar year 1964 will fall within a \$10 billion range centering on \$623 billion.

Now, my own view is that the Employment Act does require this kind of quantitative statement of the economic assumptions underlying governmental policy, and I think this is the view of the group here. Isn't that right, Walter?

HELLER: Yes, it is. Now, we passed this out in the president's economic report for 1962. And he explicitly okayed the draft that I had done on this, because what we did was to note, you see, as the Employment Act prescribes: "I shall

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in this report review economic conditions in the United States in 1961 and current and foreseeable economic trends in the levels of employment, production, and purchasing power." Now let me stop right there to say that since the Employment Act does direct the president to review current and foreseeable economic trends, and this is a report that's open to the public, I do think, and we so interpreted the act – this may be a little bit of a modification of what you were saying, Jim – as what I said earlier, as really requiring us or at least the president to make something like a forecast public. Because how can you review foreseeable economic trends and levels of employment, production, and purchasing power in a public report to the Congress without putting your forecasts on the line? Then the rest, reading again from page 4 of the 1962 economic report, the president's part set forth "the levels of employment, production, and purchasing power obtaining in the United States and such levels needed to carry out the policy." Now that's what supported Gerhard Colm in his assertion that we needed to set forth not just the actual but the potential GNP and indicate the gap, and we think that our gap analysis is a direct outgrowth of what was required by the Employment Act of 1946.

PECHMAN: Walter, let me ask you this. So far we have three forecasts, two of which we can test, you know, to find out how well

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you did. The first one clearly was wrong. The \$570 forecast...

SAMUELSON: By the way, that's a story all by itself.

HELLER: Yes.

SAMUELSON: Don't slight it when the time comes.

HELLER: Also, Joe, I don't think I'd call that our first forecast. After our initial readings were taken and so forth, our forecasts of what would happen in the rest of 1961 were superbly good.

SAMUELSON: He means your first public forecast.

PECHMAN: The January 1962 forecast, for the year 1962, was \$570 billion. You supported, publicly you supported the \$570 billion forecast in the budget message.

HELLER: Yes, but the point is here, presumably this set of interviews is about the views of the president and how they were influenced. All I'm trying to get at is that the president knew of our forecast during '62, '61 rather, and he knew that after initially talking about a \$530 billion level of GNP for the fourth quarter, we revised it to \$542 in July of '61 and it came out \$542.1, at least in the initial figures, where were later revised downward a bit. In terms of the president feeling that the science of economics had something to contribute and that it was pretty good on forecasting, he was very much impressed by that early forecast. And I think while we're at it, because this is the kind of

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thing that escapes you later, it's also worth saying that at a cabinet meeting in 1962 when I was describing the obvious shortfall of the economic performance below our forecast for the year and talking about the \$570 billion forecast, the president very graciously and magnanimously said to the cabinet, "Part of this is my fault." He said, "I want to take part of the responsibility for their going all the way up to \$570." Now I'm not sure I wanted him to, because we were, you know, up to -- \$568 was what the machines cranked out, so to speak, and our forecasters. But the president felt that he had pushed us a little bit to get that balanced budget. Now, that's just a fact.

SAMUELSON: I think it's also important, since we're now talking about the internal forecasts: it's first my impression, in the early days of the Kennedy administration, almost all of the numerical forecasts in fact came out of the Council; that the Treasury really wasn't set up to do as much forecasting. In fact, I was involved in trying to help the Treasury recruit good people who could help them, as I put it to them, so they could check up on the Council.

HELLER: You're the fellow.

SAMUELSON: Yeah. And there was a great deal of talking though, in those days, as to whether the Council was too optimistic or

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too pessimistic. At times, I believe, Secretary Dillon would pursue the line that the Council was too optimistic, and at other times that it was too pessimistic. I know I myself was keeping a running score with other groups outside the government, comparing the Council with the business advisory group, you know, which made forecasts. And at the time when the Council was considered to be pessimistic, it seemed to me that their estimates

were always higher than the business economists all around the country who were alleged to be more optimistic.

GORDON: In my experience, this has always been the case. I can't remember any time in the last four years in which the business council, and business projections generally, were not below the Council's.

HELLER: The only time they were right was the beginning of '62.

TOBIN: Except for Fortune magazine...

GORDON: Which was way too high.

TOBIN: ...which was too high.

PECHMAN: Walter, you mentioned that your internal forecasts were around the \$568 level and that for budget reasons, the budget projection finally settled on \$570 billion. Would you bring the record up to date on how that occurred? Who were the people involved and how did the president get in this act?

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HELLER: There were many meetings at the turn of the year 1961-1962. Remember the background was the pledge of a balanced budget after the...[Interruption]...of forgetting and that is that we moved to \$570 after Doug Dillon said, "Well, let's go to our optimistic realistic forecast." He said that was the \$570.

PECHMAN: Okay. Let's return to the March 6 statement.

HELLER: Jim, maybe you want to talk a little bit about the formulation of the 4 percent goal and so forth and then I can report on that forty minute meeting that I had with the president on March 4, which I remember quite vividly going over our draft.

TOBIN: Well, I just call attention to the fact that the March 6 statement was I guess the first public statement by the administration – by the Council; it was not a presidential document – adapting 4 percent unemployment as "a reasonable target for full utilization of resources consistent with reasonable price stability."

HELLER: By the way, I'm not sure but what the president had embraced the 4 percent unemployment goal before that in a press conference. We would have to look up the record on that. He did explicitly use our 4 percent rather early in the game, but whether it was before or after this, I don't know.

GORDON: Now, wasn't 4 percent unemployment regarded in the previous

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administration as the lowest rate of unemployment compatible with price stability?

HELLER: Well, there was a good deal of analysis by economists about the terms of trade between unemployment and price stability and the fulcrum seemed to be 4 percent.

SAMUELSON: I don't remember in the previous administration a discussion of...

GORDON: It seems to me I can remember Henry Wallich saying that they always regarded 4 percent – whether they did publicly or privately, I'm not sure – as being about the ceiling apparently...

SAMUELSON: All I'll say is that on April 27, 1961 when Arthur Burns in Chicago gave the speech which we'll perhaps refer to later, in which he said there would be a return to full employment within fifteen to eighteen months, he clarified on that same day, in an interview with U.S. News and World Report, what you mean by full employment and he said that, well, he thought that 4 percent was a reasonable definition in the present politics.

PECHMAN: I don't know where the 4 percent first appeared in print, but it certainly appeared in, one of the earliest public documents was in CED [Committee for Economic Development] statement of – which one was it?

TOBIN: It's the Committee for Economic Development.

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PECHMAN: Yeah, Committee for Economic Development statement in either '47 or '48, isn't that right, Paul?

HELLER: That far back?

PECHMAN: Oh, yes, they were going to balance the budget at 96 percent employment.

SAMUELSON: The only thing is that you can't trust figures like that because figures change very much. Economists in the immediate postwar period, and very respectable ones, often said that, well, seven million unemployed

is what's needed for reasonable flexibility, and Fortune magazine had something like that. I can remember Alvin Hansen of Harvard saying to Albert Gallord Hart of Columbia, "Al, do you still think we need 7 percent unemployment or seven million unemployment?" And Al Hart said, "When did I ever say that?" Hansen said, "Well, look at the first edition of your textbook, Money, Credit, and Prices," or whatever it is.

GORDON: Didn't President Truman say at one stage that he wouldn't be bothered unduly by 5 percent unemployment?

SAMUELSON: What happened, though, is that in 1953, using the yardstick we had then, we got unemployment down to about 2 percent. It began to be felt, at least I always understood that the Council took the 4 percent figure as an approximate goal in view of the failure in the earlier years to do

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better, with the thought in the back of their minds, at least, that once you got to 4 percent you might then, by structural reforms, be able to work it down to a lower level. Now, the Council was criticized by various more liberal groups in the country for settling 4 percent, in particular, the House committee on automation [Education and Labor Committee] that I testified before. It's Clayton Powell's [Adam Clayton Powell, Jr.] commission but I can't remember who the Pennsylvania congressman was.

HELLER: Holland [Elmer J. Holland], I think, wasn't that his name?

SAMUELSON: From around Pittsburgh?

HELLER: I think so.

SAMUELSON: I was invited to criticize, so to speak, the 4 percent goal of the Council, and I tried to defend it merely as approximate goal and after you get to that you can begin getting it down.

PECHMAN: Paul, just another footnote. I don't know whether you or the others are aware that the last projection, long-term projection made by the Keyserling Council which appeared in the January 1953 report was based on 4 percent unemployment. I was surprised when I looked this up. Because Leon later...

SAMUELSON: Are you sure, though, that wasn't the average amount of unemployment rather than on the assumption that you'd been successful?

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PECHMAN: No, no. I agree that he didn't ? on gold.

SAMUELSON: Because most business economists, Standard Oil [Standard Oil Company] of New Jersey, if they make a forecast, say, for eight years ahead, they don't make their forecasts on the assumption that you'll have the lowest rate of unemployment that they think is desirable, but they feel that there would be some shortfall. This might have been that kind of a forecast.

TOBIN: The reasons that I think we adopted 4 percent are very simple. I don't think there was even a great deal of internal discussion about it at this particular time.

HELLER: There was in December of 1961.

TOBIN: There was later, in December. But the motivation I think was this, that we encountered in Washington – at least I did, and it was a new and shocking experience for me – the theory, very widespread, that we had shifted to a new stage of the economy in which it was necessary to operate at higher levels of unemployment, considerably higher than we'd operated with in the past, and there wasn't anything abnormal or disturbing about unemployment rates between 5 and 6 percent, and this was because of structural changes in the economy and so on. One evidence that was given for this was the fact that at the peak of the previous boom, unemployment had been 5 percent, so that showed that even

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in "good times" you didn't get unemployment very far down. We were concerned, I think, first of all to make the point that the peak of the previous boom hadn't been high enough...

HELLER: It was a submerged peak.

TOBIN: ...and that what people were calling prosperity wasn't really prosperity as judged by the potential of the economy, either in production or employment.

At the same time, we didn't want to seem entirely out of the ball park with respect to the current situation. We didn't want to put up a target that would seem so far away from recent experience that everyone would dismiss it as just impractical academic utopianism or something like that. Also, we had the experience of the '55, '56, '57 boom in which, with the economy operating at 4 percent unemployment, there had been a considerable price increase which was thought to have damaged the U.S. competitive position and contributed to the balance of payments difficulty. So it seemed a bit irresponsible in the wake of that experience to set a target unemployment rate that was lower than 4 percent when 4 percent itself had already been associated with some unacceptable degree of inflation.

So all those things taken together led us to adopt 4 percent, at least, as you say, as the interim target that could be obtained by expansion of demand.

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PECHMAN: Did President Kennedy's temperament enter into this at all, the fact that it would have been alien to his nature to have been utopian and to have set up a 3 percent rate, or was this primarily from a technician's in the Council coming upon that and then having him agree with it?

GORDON: To what extent did the president review this 4 percent, Walter?

HELLER: Well, you recall last night or yesterday sometime we talked about this scorecard, you know, that 93 percent employment was A and 96 percent as A.

PECHMAN: That's Sorensen.

HELLER: There was a little bit of that kind of thinking reflected or echoed in some of the president's statements from time to time.

ACKLEY: Private statements.

PECHMAN: Private statements.

TOBIN: Yes, and I testified that even at Hyannis Port he was a little perplexed as to just what you accomplished if you got 7 percent unemployment down to 6 percent: Did that sound like little? – which is sort of a typical layman's way at looking at those figures.

HELLER: And I might say that we did our best to condition the president on this score, not only in terms of the kinds of analysis that Jim is referring to, but trying to point out to him that it would look pretty bad if the

Kennedy

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administration couldn't improve on the employment record of the Eisenhower administration. We did stress constantly the idea that the 1960 recovery was an anemic one – that was your term, Paul, in the Samuelson report – and that it was a submerged peak and that the recovery aborted and so forth, trying to drive home that that 5 percent unemployment was really not as low as the American system was capable of. We did have the structural versus aggregate demand argument very early in the game and that meeting with the president a day or two after our testimony, that is, two days after our March 6 testimony, one day after Martin's testimony before the Joint Economic Committee. We did go into this argument and I think we rather strongly pressed the fact that if we only had enough aggregate demand, that we didn't have to settle for 6 percent or 5 percent. But there were echoes from time to time.

Maybe Kermit and Jim will remember the president expressing doubts that we were ever going to get to this 4 percent target we'd adopted.

TOBIN: My personal opinion is that all non-professional economists, all laymen in economic matters are instinctively attracted by the idea of structural unemployment, by the idea that people are just displaced from work by machines and then they don't move and are permanently out of work.

HELLER: You know, we found an example here at Fort Ritchie this

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weekend: the bugle calls are a recording, so that they've dispensed with at least two buglers – obvious case of structural unemployment.

TOBIN: I think the president had those same instincts which came out from time to time. He would say, "How are you ever going to get those people back to work?"

SAMUELSON: I would like to revert back to your saying that you assured the president that there wouldn't be inflation. I want to ask Jim whether he happens to remember, a number of us wrote down a Phillips curve of what we thought would be the pattern of price behavior with employment. I know mine was dismally wrong. I was a pessimist and thought that prices would start to march up. I have a feeling that's a later date than our period here, say, April 1961.

TOBIN: It was about that time.

SAMUELSON: It was about that time?

TOBIN: Yes, but I can't remember what the various entries were.

SAMUELSON: Well, I can remember pretty well. It turned out that as things picked up there would be a risk of price increase and I remember Jim did not think there would be that same risk. We each plotted the profile of our...

PECHMAN: Three. Remember, three of us.

SAMUELSON: At least three, and three might have been four or five people who wrote that down. Do you know when that was, though?

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PECHMAN: Yes.

SAMUELSON: When was it?

PECHMAN: I remember very, very vividly when that was. It was in January 1961, before the inauguration.

SAMUELSON: As early as that?

PECHMAN: Yes.

SAMUELSON: I'm astonished.

PECHMAN: Wait a minute. No, I'm sorry, it couldn't have been before the inauguration because we were sitting in Walter's office. It was very, very shortly thereafter. It was very early in the game. And you were the most pessimistic, Paul, about price developments, as I recall it.

SAMUELSON: Yes.

PECHMAN: You expected prices to go up as soon as you started peaking towards 5 percent unemployment and so on.

GORDON: You might say a word, Walter, about the 4 percent question from the vantage point of the Labor Department.

HELLER: I think you should.

GORDON: Well, I think the main points can be put pretty simply. On the one hand, there was a strong strain of technological unemployment thinking in the Labor Department, which is I think understandable in view of their responsibilities.

PECHMAN: And still do.

HELLER: Still there. New era thinking, fear that automation was making it impossible ever to conquer the unemployment problem

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by the expanded demand. At the same time, however, certainly Wirtz [W. Willard Wirtz] and to a certain extent, possibly Goldberg to a considerable extent regarded the 4 percent target as a kind of affront to the labor movement, as unduly conservative, as in effect reflecting callousness toward unemployment. Bill Wirtz, I think, to this day feels that this is the case.

HELLER: Well, so strongly so that he has I think successfully prevented Lyndon Johnson from ever mentioning a specific employment target. The 4 percent target is attributed to the administration mainly because of our history on it but Johnson has said unemployment is too great if there is one man unemployed who's able and seeking a job.

SAMUELSON: It was even thought that there shouldn't be a figure of seasonally corrected unemployment, because any unemployment is bad and the notion of a normal change...

HELLER: Who thought this?

SAMUELSON: Early on the problem came of having a BLS [Bureau of Labor Statistics] seasonally corrected unemployment that was, it raised ideological issues as to whether there could be such a thing as a normal change in unemployment, since all unemployment by definition was abnormal and bad.

PECHMAN: Walter, I'd like to go back...

HELLER: On this point, wasn't it Arthur Goldberg who said he didn't like the concept of seasonally corrected people?

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PECHMAN: That's right. I'd like to go back to President Kennedy's views about the employment target. I recall a cute remark by Art Okun, when you and perhaps one or more of the other Council members was present, who mentioned that the president sort of plaintively asked – or was it Sorensen? – wouldn't he ever have a balanced budget? And Art said, "Well, you should have replied, 'Wouldn't you ever have 4 percent unemployment?'" You see, that that's the more appropriate target. Now, was this the president or Sorensen?

HELLER: Well, the question of whether there ever would be a balanced budget came up in so many different contexts. You know, Pierre Salinger asking me whether he should bet a reporter a box of cigars that we'd have a balanced budget during the Kennedy administration. I told him to take him up on that. And also my friend from Denver...

SAMUELSON: I would say that in my discussions with the president, or the senator, again and again the question came up as to whether one could have, hold out hopes of, over the decade, a balanced budget. We tried to get across the idea that you couldn't have it at once. A deficit, that was inevitable; you had inherited that. But the question would be whether you could not, through activism, get the economy moving again and then end up with it, perhaps have a lower public debt, lower

accumulative deficit over some period of time. One of the things that I have always felt was necessary to point

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out to him was that there was really no guarantee. It was a hope that the right policy from the standpoint of getting towards 4 percent unemployment, say, would also in the end be consistent with the balanced budget or even a period of surplus at some time.

HELLER: Even though we may come back to it later, I think it's important to record now that the president early in the game used to quote Bob Nathan [Robert Roy Nathan] on the fact that a \$5 billion dollar deficit every year, year in and year out, wouldn't really hurt the economy. And then later on, as both Jim and Paul know, he had raised the ante to \$10 billion on his own; he, the president, had said, that it really wouldn't hurt us to have a \$10 billion dollar deficit every year, as long as there wasn't inflation.

SAMUELSON: Yeah. But do you remember also in discussion with the president, Walter, that one always said, let's look at the whole four-year term...

HELLER: Yes.

SAMUELSON: ...and think of what this means? I even remember using those terms with Sorensen, that just don't think that by avoiding an addition to the deficit in this first year, you're out of the woods. You'll pay for it.

PECHMAN: But, Walter and Paul, did the president view the employment target in the same way? Did he want to get back to 4 percent unemployment or some other successful level as

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much as he did a balanced budget during the decade?

SAMUELSON: I don't recall his ever thinking that he had to choose between one or the other. My impression was that he was hopeful to get some progress, to get the unemployment down.

HELLER: I think there is a press conference statement that will help us on that, in which he rather explicitly makes the choice, or at least implicitly makes the choice, that if you had all these unemployed people and you needed to get to 4 percent and this involved deficit financing, it was much more important to employ people than it was to worry about a deficit in the budget.

GORDON: I think one point we made to him frequently, Walter, both in writing and I think probably orally as well, that, as I remember, used to register pretty strongly with him, was the point that considering where he started from in the unemployment situation, unless he was able to make real progress in lowering the unemployment rate and holding it down, he faced the prospect in the '64 campaign of meeting the charge that he had the highest unemployment rate of any president since the war.

HELLER: Yes, that's what I was referring to before when I said we kept pressing the fact of the relationship between the two administrations.

SAMUELSON: Moreover, on the conservative advice which he was getting from outside, from business groups and so forth, I can

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remember on more than one occasion saying to him, "Well, if you don't succeed in getting the country moving but do succeed in doing what they tell you to do, they're going to turn on you. You're going to have one of the worst reputations in history. You won't buy their good will by seeming to go through the motions they want you to go through, if pragmatically the result is harmful to the country."

PECHMAN: Well, it's clear that when he went to the extent of recommending an \$11 billion tax cut, that certainly by that time the employment target was much more important than the existence or perpetuation of a temporary deficit. It seems to me that the record is clear on that score.

SAMUELSON: To my mind, there isn't any doubt that what set the limits on his activism was his preoccupation with what he could get from Congress.

TOBIN: Yes, I think that's true. But I think that in the beginning at least, he felt that unbalanced budget was more of a political and public opinion threat to him than unemployment was, because the political impact of unemployment on Congress, on the country, was surprisingly little in 1960, '61, even 1962. It's become great as time has gone on and evidenced itself in indirect ways, as in these special...

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SAMUELSON: And didn't somebody like Kenny O'Donnell say, "I've been back in Massachusetts" – this is perhaps a later date – "in Springfield and people have problems but I can't see that the unemployment issue is the issue that's hurting." You remember some...

GORDON: Yes. Worcester.

SAMUELSON: Yeah, he said you talk to the first fifty people you meet and you hardly have that problem mentioned.

GORDON: Well, I think we ought to move on, Walter.

SAMUELSON: I'd like to go to the structural unemployment, the content of this message, and to Martin's testimony.

HELLER: I want to get also to the presidential relationship to the message. I think it's quite important. One of the problems...

SAMUELSON: Will you also get to this, that the Council was attacked for this testimony. To what degree did the president pay attention to that attack? To what degree did he rally around the Council on the gap? I think Burns at a slightly later stage, in fact, criticized the Council for its gap – the stagnationist speech.

HELLER: It wasn't very much later.

SAMUELSON: That was the April 27 speech, wasn't it, in which he gave the forecast?

TOBIN: Representative Curtis said there was no gap;

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it was a figment of our imagination.

PECHMAN: At the hearings?

TOBIN: At the hearings.

SAMUELSON: And gap was a dirty word.

TOBIN: Gap was a dirty word.

SAMUELSON: There was criticism of your method of recking the gap and then there was an exchange in the Morgan Guaranty [Morgan Guaranty Trust Company] monthly letter of Burns's original speech and then your answer and then a rejoinder by him; then a later piece by him many months after.

HELLER: Well, it led to so much complaint about the gap that so distinguished an authority as Joseph Pechman recommended that we ease up on the use of the term, "gap." I remember this very strongly. You said, "Gee, you ought to stop talking so much about the gap because it just isn't doing any good."

SAMUELSON: I think, by the way, that on at least one occasion, but I think this is later, that the president evidenced some being tired of hearing about the gap all the time.

HELLER: Yes, he did, although thank heavens he got past that. And let's recognize when we talk about the fact that, as Jim just did a moment ago, that he found that the unbalanced budget didn't cause as much furor as he had feared. At the same time, his learning and his understanding of what

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underlay this whole program was growing constantly and what was a battle, not absolutely even battle but at least ebbing and flowing battle, between the fiscal responsibility and, you know, narrow margin of victory kind of thinking – which made him very, very cautious, quite apart from what he could or could not get through Congress. That was battling with his obvious increasing understanding of the fact that deficits weren't evil. That five billion dollar Nathan figure was mentioned in a cabinet meeting by the president very early in the game. He said to me, "Do you agree with Bob Nathan that we could have a five billion deficit without much trouble?" And I stated the conditions under which we could. Then gradually his full understanding of the modern fiscal policy and economics won out.

SAMUELSON: Evidence on this was the fact that in one of the articles that I wrote, either for the Japanese financial newspaper, [?], or for the Financial Times, I gave an appraisal of, let's say, the first year of the Kennedy administration and I probably poked just a little bit of fun at that formula of balancing the budget, if not in and of itself, unbalancing the budget. It was not an unsympathetic account and I didn't feel free to be as critical as I might have. I received a reaction indirectly, both of the president and the secretary of Treasury about that. Walter, you commu-

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nicated the reaction to me. One was that, well, Paul doesn't give us credit for Machiavellianism.

HELLER: That's right.

SAMUELSON: And he was in a position to know that on many an occasion we had to use and choose to use Machiavellianism. So I definitely have the impression that it wasn't just Congress, but it was the people. But he wanted the semblance of virtue. If he thought that the people would go along with the bigger deficit, more activism, he'd have been ready to go along with it. Or if you could have had a formula whereby, without changing the deficit, you could have gotten the same thing, he would have, even though he wasn't fully cognizant at that time in his bones of the mechanics of fiscal policy.

HELLER: That's right, but he did have the feeling that we were right about the expansionary fiscal policy.

Now, I think we ought to very quickly say, how did we go about our relationship with the president on such a thing as these statements? This is worth a word or two, because it wasn't always clear whether Ted Sorensen was going to take over our relationships with the president or whether we were going to maintain a direct line to the president. I don't want that misunderstood, that is, we always maintained our privilege of being in direct contact with him. But as far as policy questions were concerned or

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particular program questions were concerned, for a time it looked as though we were going to deal almost exclusively through Ted. And I think Ted might not have been unhappy with that arrangement. Now, with respect to this statement that we filed...

SAMUELSON: Jimmy, do you remember, though, one of our big questions in the first part of the administration was, when Ted Sorensen seemed to be conservative about fiscal expansion or dragging his heels, the question on our mind was, is he simply translating what he knows to be the president's view or is this also his own view and he is helping to form that view?

HELLER: We often asked that question, and I might just say right here that certainly by the third year of the administration Ted's thinking on fiscal and economic policy matters generally seemed to us much more liberal than it had been at the beginning, much more consistently liberal. He often identified himself as an ally of the liberal forces, both here and in the balance of payments.

GORDON: On a matter that fundamental, Paul, I would think that it was always a safe assumption to say that Sorensen was trying accurately and conscientiously to reflect what he understood to be the views of the president on the fundamentals of this kind of thing.

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HELLER: Yes. But there were particular battles. When there was an unresolved position on the part of the president's advisers, by and large Ted, I thought, cast his lot on the liberal side.

SAMUELSON: It might be said, by the way, that in those first days, the alignment as I saw it was that Goldberg was on the side of expansion generally with the Council; Treasury for moderation; and Ribicoff people didn't count for anything. It was that setup.

HELLER: Well, now just to get back to this March 6 statement that was sent simultaneously to Sorensen and the president. The president had done obviously a fair amount of homework. I think this statement, which you must remember is a fifty-six page statement, double-spaced pages, was probably one of the milestones in the education of the president on economic matters. I say this with the pretty certain knowledge that he had done his homework on it because on Saturday, March 4, I spent a little over half an hour with him going over the statement, and he had some marks on it in his own handwriting from having done his homework. By and large he liked it very much. Now, the kinds of questions that came up, that I think are of some importance in interpreting the president as an economist, were again the question of how

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far out should we step ahead of him? After all we were pretty uneasy because we had never tested this in explicit terms before, and there are quite a few things in this statement that went well beyond anything the president would be willing to say. For example, we said if a new reading of the economic and fiscal situation indicates that additional measures are needed, a temporary income tax reduction offers one of the most important methods for further economic stimulus. Well, this is after the president and Dillon had pretty clearly signed off with the door left open maybe one centimeter on an income tax cut. We said it offers a method of stimulating the economy quickly and effectively and so forth. The president explicitly looked at that and said, "That's fine. You go ahead and test that. You get out a little bit beyond the frontier."

Secondly, he dictated at least one paragraph of the report, and I don't remember...

GORDON: Of the statement.

HELLER: Excuse me, of our statement; that is, redictated it. And I do know at least two paragraphs that he directly weighed in on, and I don't remember which one it was that he dictated but I'm going to guess. Perhaps we can go back to the files sometime and find this out for sure. Here's one that he wanted us to be sure and get straight into the record:

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"In this section we shall discuss major governmental policies to reverse the recession, etc. By focusing on governmental policies, we do not intend to suggest that recovering growth depends exclusively or even primarily on government. The prosperity and progress of a free society depend principally on the enterprise and skill of private citizens. The government seeks to strengthen the forces of recovery and growth of the private economy." He did want that note sounded. But interestingly enough, and this is the paragraph I think he actually dictated, and I remember it, I hope, from the reference to the black or the red: "The success of fiscal and budget policies cannot be measured only by whether the budget is in the black or in the red. The true test is whether the economy is in balance." As a matter of fact, now that I read this, this was the paragraph that Kennedy virtually dictated. I took it down as fast

as I could in my own version of shorthand. “Only an economy which is realizing its potential can produce the goods and create the jobs the country needs. If at the end of this year the unemployment ratio is still near 7 percent, our fiscal policies will have to be viewed with great concern, even if there is little or no deficit in the budget. On the other hand, if we have succeeded in reducing the unemployment ration and expanding output significantly by year’s end, we will be on our way to the goals of a stronger economy

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and the restoration of budgetary strength.” Now it’s true, we had some of that in there beforehand, but he changed the cast of it in the course of that.

GORDON: And restoration of budgetary strength raised the good one.

HELLER: Yes. Now, this says something both about the extent to which he went into such matters and says something about this more or less balanced view that he took; one that we had to say something about the private economy, but that he was understanding.

SAMUELSON: May I underline an analytical view about the fiscal policy that’s implicit in that? Years later, before the American Bankers Association, Kennedy gave a speech, and George Stigler, who was not a Democrat or an admirer of the Democratic administration particularly, paraphrased that in effect what the president had been saying was that you ought to run a, increase the deficit in order to avoid a bigger deficit.

HELLER: That is correct. Of course, he went on to say that...

SAMUELSON: And what he’s saying here, now, is that if by the end of the year we stay at 7 percent and still have even a small deficit, we’ll still be in a very bad way, whereas if we’re on the way with unemployment down, the future outlook I think is... There are liberal economists who objected to this view too, liberal economists who disagree with this analytical statement that you can... Well, I mean, I myself in my advising always kept the definite possibility

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that it might take more dollars of deficits to get more and wouldn’t actually reduce the overall deficit by activism. That would depend upon...

PECHMAN: Let me ask Walter, did the president understand this, that it might be that you’d have to run increasing deficits to keep unemployment down, or was he just...

SAMUELSON: I think he hoped that would not be necessary. His advisers tried to always give him reason to hope that that wouldn't be the case.

GORDON: I think that's a fair statement.

HELLER: I think it is too, but my...

GORDON: But this was a possibility, a possible direction which history might unfold, I think, within his mind.

HELLER: Well, it was so clearly reflected in this citation of Nathan's \$5 billion dollar deficit average, year in, year out.

Well, the other thing to say about the statement is that we so clearly foreshadowed the fiscal drag theory or principle in the statement. I recall – this isn't presidentially important, but in terms of the Council I recall we had some discussion even at that early date of whether we were going to be able to get to full employment with the heavy burden of the tax system as it stood. That is reflected in some of the statements in this original testimony before Congress. For example, we said welcome as the built-in stabilizers are

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when the economy contracts, they are a mixed blessing when it expands. As soon as business conditions take a turn for the better we can expect the federal tax system automatically to cut into the growth and private incomes. When the economy again reaches the boom phase this drain on private incomes will serve as a desirable restraint on inflation, but up to that point it tends to slow down the recovery process.

SAMUELSON: And Walter, do you remember, in a Machiavellian way we used to say in the first year that we wanted to in effect get rid of the built-in stabilizer on the up side?

HELLER: That's right.

SAMUELSON: That we were going to buy expenditure expansion – be sure that you didn't get that drag, because we all had very much in mind the fiscal drag in the 1958-60 expansion.

HELLER: Yes, we did. Well, the other comment is simply the later reactions of the president to our sending him things to go over, whether it was his own report or what have you. I think it's worth recording that when I took his part of the economic report, that is, his economic message to him in January of 1962, first of all I had cleared an outline of it with him down in Palm Beach with no problem whatsoever. Then I took the draft to him I think in two different sections and he still did his homework pretty closely. He

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went over it and he made some suggestions. He by the way also looked over big chunks, as marked for him – not in as great detail as Ted did, but as marked for him – of the Economic Report of the President. And there, by the way, apropos of the 4 percent, he made us soften the dates, for example, or our projections as to when we'd come heading into that halcyon 4 percent unemployment period. He said, you know, the opposition can hit us over the head with some of these statements that you're making because you're putting the targets too firmly and dating them too sharply.

ACKLEY: And as I remember, he didn't do it sufficiently.

HELLER: He didn't do it sufficiently, no, that's right. I came back and we did go through it.

Now, 1963 was fascinating, because I gave him a draft of his whole economic report and he thumbed through it in my presence in no more than, I'd say, six or seven minutes. And then I said, "Well, now Mr. President, on page so and so, there's something that I really am a little uneasy about and I wish you'd take a look at that." And he said, "Oh, I saw that." I said, "Well, but read it carefully." And then he finally said, "Well, maybe you had better back off of this just a little bit, change it a bit." Literally within five or six minutes, he tossed the draft back to me and said, "Fine, go ahead." And I said, "Are you sure

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you don't want to take this over to the mansion tonight and go over it further?" He said, "No, why?" I said, "Well, you surely" – this was unpremeditated – I said, "That's certainly expressing a lot of confidence in me." He said, "Yes, why not?" Well, I'm trying to get the sequence from the days when he felt he had to look very carefully at even our testimony to the days when things we were writing for him, he would clear very quickly. Now there's one final incident.

GORDON: It ought to be recorded, Walter, for the pages of history, that in the first economic report, the '62 report, he not only, as you said, went over it with great care, much of the content in the report between the covers, but he went over the covers. He chose the colors on the '62 economic report.

HELLER: And '63.

GORDON: And '63?

HELLER: Oh, yes, '63. We had a pale blue and he said this... I went in to Evelyn Lincoln and I said to Evelyn, "He won't want to be bothered with this." "Oh, yes, he will," she said. So we took the pale blue cover and

he said, "This isn't a strong enough blue. Let's have something like a royal or navy blue." Isn't that what this report is?

GORDON: Royal blue, isn't it?

HELLER: He wanted a good strong color, so he did go into it on that detail.

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TOBIN: So the covers of both economic reports written under Kennedy were chose by him.

HELLER: Yes. There's also a story in connection with the Texas brown cover of the 1964 report, but we won't go into that now. We originally had wanted to do purple and I found out that purple was one of Johnson's most unfavorite colors, so we changed to Texas brown.

On this front, I should say, this doesn't mean that the president lost interest in the things we were saying. When we – somewhat contrary, Jim, to that original statement of principles – testified on the tax cut before the Senate Finance Committee on November 12, 1963, I don't think it was entirely contrary, because this was of such broad economic significance that it was not inappropriate for us to testify. But we had gotten the invitation and I had assumed the president would say, "No, don't bother." On the contrary, he said, "No, go ahead and testify. We want to take every chance we can to put our case before the public." November 11 being a holiday, I thought this was a good time to send him our draft testimony and indeed got a phone call from the president about 5:30. It had been a rainy day, as I recall, and as a result he had apparently read it in great detail and he gave me rather detailed comments, not because he felt he had to clear it but just because he was interested enough to read it and to give us

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advice on how to handle Harry Byrd on the expenditure question. But this relationship, I think, is of some importance.

PECHMAN: Shall we record for historical purposes the president's close attention to details in some cases? I remember the famous story of Art Okun on Labor Day weekend. Jim, do you remember this? You had asked Art to prepare a summary of...

TOBIN: Art Okun was a staff member of the Council.

PECHMAN: Yes. You had asked Art to prepare a quick summary of the budgetary developments and Art put this on your desk Labor Day weekend.

HELLER: Well, do you know why I needed this?

PECHMAN: Well, fill us in, go ahead, Walter.

HELLER: Well, Larry Spivak had asked me to go on “Meet the Press.” He thought that Labor Day was a good time to put an economist on “Meet the Press” and I suppose also he figured nobody was listening. But for that purpose I was getting briefed from various people. And so by Sunday afternoon, when this call occurred, I was on my way to the studios. The president tried to reach me and couldn’t reach me. Then you pick it up from there.

PECHMAN: Well, Art was at home and one of the youngsters...

TOBIN: It’s a rare day of leisure.

PECHMAN: ...one of the youngsters picked up the phone – I think

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the president was in Hyannis Port that weekend – Hyannis Port calling and a moment later the president got on the phone and said, “Mr. Okun?” And Mr. Okun said, “Yes, sir?” He said, “I have a memorandum that you wrote yesterday to Walter Heller.”

HELLER: That’s right. I transmitted Art’s actual memo.

PECHMAN: He said, “I have a few questions if you don’t mind.” And he said, “Yes, sir?” He immediately proceeded to read this memorandum line by line and said, “Now, this figure, are you sure of this figure? Dave Bell just told me it’s only \$200 million and you got \$300 million.” Art allowed as how he hadn’t checked it with Dave and he thought it was right and so on and so forth. The president spent a full twenty minutes of what we later learned was a very busy Sunday afternoon in between an afternoon of motoring, and then we know that ten minutes later he was listening to your broadcast. Isn’t that right, Walter?

HELLER: That’s right. That’s true. Both times that I was on “Meet the Press,” I got a detailed critique, so to speak: once immediately afterwards by phone and the other time the next morning, and then the president commenting on the various questions and answers. That was even more vivid the second time, particularly, when I had murderers’ row interviewing me.

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PECHMAN: He had the ability to focus on difficult substantive problems in the midst of a social, sporty weekend apparently.

SAMUELSON: And he had an incredible memory for details of what congressional decisions had been; what the number of hundreds of millions of dollars were; what the variants were. And he was a very rapid reader. An example of that, in our task force when we went in the Carlyle, he had not seen the actual report before that. He paged through it, but he paged through it and actually did find out what it was, because at one point, you remember, he said this is well put and then read a couple of sentences out of a paragraph.

GORDON: I remember two or three occasions, Paul, when he cited to me facts relevant to the subject we were discussing; facts which I had given to him months previously and that I had forgotten.

HELLER: Yes, as a matter of fact, sometimes we would not learn whether he read our memos or not. By the way, that's an interesting thing. We ought to count the memos we sent to him. They go into the hundreds. He would rarely respond, you know, either by word or by note. Now and then he'd have Evelyn Lincoln say something to me about it. I might say Lyndon Johnson, we can keep tabs much more closely on what he reads and what he doesn't read; not on every memo but we get more responses. But as Kermit just said, sometimes months later

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he would bring into a discussion or into a press conference a fact or an angle on something that could only have come from that memorandum. Evelyn Lincoln keeps telling me, "Mr. Heller," she says, "President Kennedy read every memorandum you ever sent him from cover to cover."

SAMUELSON: Not only that, but you used to send him those blue dittoed pieces of my Financial Times pieces and so forth.

HELLER: Yes, that's right.

PECHMAN: Did you get any direct reactions from him?

SAMUELSON: Well, Walter would give me a reaction and so forth. Most of the time he wouldn't bother to say he'd read it but then it would turn out later in some discussion that he had read them.

GORDON: He was a regular reader of Samuelson.

PECHMAN: Do you think that he did this with respect to everything that was sent to him?

TOBIN: One incident that's illuminating is that, an example, many times the president had read things in the public press and in rather esoteric journals, British or foreign journals, before we had had a chance to read them, if indeed we ever would have, and then ask us about them. Then we would need to look them up right away and reply. On one occasion he greeted us by pointing out to me that I was a growth man who was included with a whole list of growth men in an exam

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question that was being set by D.H. Robertson: Consider the growth theories of the following economists; which one of them is the least nonsense and why? So he had great fun...

PECHMAN: This came from the London Economist?

TOBIN: This came from the London Economist. He had great fun in having seen and read this article and twitting me about it before even I had had it called to my attention.

PECHMAN: I know another incident, do you remember, Walter, when in the very, very early days when you were still living with us – you hadn't as yet gotten an apartment – and you were awakened by the president. He had read the morning newspapers – I think it involved Soviet Union growth rates, around '59.

HELLER: No, no, you've got your dates wrong. I was staying with you but it was in June. I stayed with you, with the Pechman family, both at the very outset in January and then again in June between the Ruggles's apartment and our house. I know this very exactly. But go ahead with the incident.

PECHMAN: Good. I don't know, I just remember that he called this article in the morning newspaper to your attention. You hadn't yet awakened.

HELLER: No, I was staying at your home. He was out at, what was the place they had at first out in the country in Virginia? They rented that home.

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GORDON: Glenora.

HELLER: He was out at Glenora. And Kermit remembers this very vividly because thank heaven he was at the office. But the president called and said that there was a discussion of Soviet growth rate. I wasn't quite sure, had that come out of a newspaper article, or had it come out of his trip to Europe? I think you're probably right. The origin doesn't matter too much. Anyway, it showed that

they would face us down, so to speak, in economic growth within so and so many years, they were going to overtake us by 1970. I think this was a Khrushchev [Nikita Khrushchev]...

TOBIN: This was a Khrushchev announcement of the economic plans.

HELLER: Was that the CBS [Columbia Broadcasting System, Inc.] broadcast on Khrushchev's...

TOBIN: No, it was a large document, report of the Supreme Soviet...

HELLER: That's right.

PECHMAN: Wasn't that the day of the Adzhubei [Aleksey I. Adzhubei] meeting?

HELLER: He was going to see Adzhubei and he wanted to be able....Actually I believe it was...

PECHMAN: The same day.

HELLER: ...even sooner, but this we can check up.

GORDON: No, he saw Adzhubei at Hyannis Port and he was at Glenora. So it must have been that weekend.

HELLER: No, no, he also saw him in his office, didn't he? Yes,

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I think so. Well, we'll have to get this straightened out. But the point is that by 10 o'clock – he was calling at 9; as I remember when the telephone conversation was over we had fifty minutes to do this – by 10 o'clock or perhaps it was 10:30 he wanted to have an answer to Khrushchev. Remember, I called you, Kermit and you were down there at the office and you got something started. I rushed right down, not quite in my pajamas but without shaving and so forth. And by gum, by 10:30 in my handwriting we had in his office some rough projections of what we thought the U.S. economy would do.

SAMUELSON: Did you call Bergson [Abram Bergson] or people like that?

GORDON: Oh, no. Wasn't time to call anyone.

HELLER: Then he was so pleased with this and....Now my recollection is that he met with Adzhubei right then and there and that he gave him the lie, so to speak, on Khrushchev's claim. He was so delighted with this that we had to expand it and I remember we had to correct it. And this led – this is another reason

why it stands out in my mind – to my first meeting with the breakfast club, that is to say, the Kennedy briefing breakfasts which were still then just taking shape, because he thought it would come up in his news conference. And Kenny O'Donnell said, "Well, why don't you come to breakfast

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then, tomorrow morning because we're going to have a briefing session before the press conference." When I got there it turned out – Gardner, this experience will not be unfamiliar to you in terms of last week – there was no chair for me because Kenny O'Donnell had forgotten to transmit this to the authorities over in the White House, but from then on I was a regular member of that breakfast, as I say, the breakfast club.

SAMUELSON: In connection with the way you worked with him, I've heard it said, after the assassination when you began to work with Johnson that Johnson was going to wear you out because at least Kennedy went every night to dinner. And the joke was that maybe Jackie couldn't keep the chef if he didn't appear; whereas Johnson worked right through, started early and also worked through the night. I only bring this up to show how he could tuck in a business and then go right on to something different and social.

HELLER: I think, Paul, you've said something which I'm sure others in this interview series are going to speak to, but I think we should too; particularly because Luther Hodges said something to the effect that Johnson worked harder and longer than Kennedy. Now, I think that's a misinterpretation. I think what happened was perfectly clear and I think everybody knows this, that Kennedy was able to shut off his presi-

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dency and become John F. Kennedy, the friend of his old, Lemoyne Billings [Kirk Lemoyne Billings] and whoever else it was, just like that. And I remember this so vividly the last time I saw him. He could also shut off the office completely when he was with his family. The last time I saw him on November 19 he and I had been talking, as we moved out of his office, about the poverty program and we signed off on that; I really had another question I wanted to ask him. At that point he said, "Come on, John-John, let's go swimming." In other words, just going through the door of that office and already Kennedy the father had taken over. And as I wrote in my notes on that occasion, fifteen minutes later I took a powder. I just realized there was no point in my trying to pursue anything further. Well, this was characteristic of him. He could turn this on and off. But the point is, he turned it back on after dinner.

SAMUELSON: That's part of the story, namely, that you could be sure of an evening interlude to charge your battery as you couldn't be with Johnson.

HELLER: Lyndon Johnson, first of all, you never know when he's going to leave the office, it's simply a continuation, projection into his private life, so to speak, of the subject matter that he's been taking up all day in his public life. This is a very sharp difference between the two men. I, just to record a bit on this, the first time that I was ever asked

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to get specific about our poverty program – the \$500 million; Kermit was there – was at dinner at the ranch in Texas. All of a sudden President Johnson sitting at the other end of the table fires a question to me. There were thirteen people at the table, I believe, and he says, “Walter, now tell me how we're going to spend that \$500 million that we put in Kermit's budget for the poverty program?” And he wasn't kidding. He expected me to lay out a program across a dinner table. This would never have happened with Kennedy. That's an excursion that I think is of some interest.

PECHMAN: Shall we go into structural unemployment?

GORDON: Yes, let's go into that little debate.

HELLER: Yes, this has a bearing of course on the March 6 statement, because there we pretty unequivocally said, and had an appendix which backed us up, that structural unemployment had not worsened; that of course, there were more people structurally unemployed because total employment was larger, but that if we got back to 4 percent unemployment there was no reason to feel, well, that structural unemployment was no greater barrier to getting back to 4 percent unemployment than it had been before; that 4 percent unemployment seemed reasonably compatible with price stability. And we cut the evidence every way we could – I think that was Bob

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Solow's [Robert M. Solow] analysis – and we couldn't find that as far as... Well, I don't know, did we do it geographically at that time? Other people did.

GORDON: No, it was not done geographically.

HELLER: But no matter how you slice it by occupational categories, so forth, education categories...

SAMUELSON: I thought the actual form of your proposition was something like this: that unemployment since 1957 when it had been 4 percent had increased but that only a small part, maybe not as much as a third, could be attributed to genuine intensification of structural factors. (The third figure is rough.)

TOBIN: The bases of comparison were both '53 and '57. What was done was to look at the labor force by every classification that we could get hold of and examine the changes that had occurred and would occur in the composition by age, by sex, by occupation, by industry.

HELLER: I should note that Jim is reading the headings of the table at this point. But I think really at this point, in order to avoid confusing any future readers of these notes, one should make very clear this didn't make a whole of a lot of difference in the policy recommendations that came out of the administration in this sense, that we were for all of the expansionary measures we could get as far as aggregate demand was concerned. But we were also for all of the struc-

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tural measures we could get in the sense of training and retraining and relocation and helping the employment exchanges; in other words, all the measures we could get to improve the skill structure and the mobility of the labor force. So as a practical matter, while there was a difference in emphasis between the Labor Department and CEA, I would say, that difference did not reflect itself in what we were pressing for by way of policy.

SAMUELSON: No, except this was very important to justify your pressing for an expansionist fiscal and monetary policy.

HELLER: Oh, absolutely, but I was just, in terms of, let's say, the contending forces so to speak bearing on the presidency, and the president's decision-making on policy matters, it wasn't so important internally, if we call here the Federal Reserve a little bit external.

GORDON: My impression, Walter, is that the Federal Reserve was kind of the forefront of the structural unemployment forces before the change of administration, '59 and '60. And I have the impression that in 1961 and '62 they were in a process of backing off from this position.

SAMUELSON: Well, except that I think you gave them a shove. Part of the shove...

GORDON: Yeah, oh, I'm sure of that, Paul.

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HELLER: The newspapers in March were full of the fight between Martin and the Council, structural versus...

SAMUELSON: I can by memory I think pick up what happened. You presented your testimony before the Joint Economic Committee. Martin, as I think is just a custom, gave his testimony almost the next day, and he played

up structural unemployment in his testimony. He was asked probably by Paul Douglas – I’m not absolutely sure about that – “How come your story is different from that of the Council?” I believe he said, “Well, I actually haven’t seen their testimony,” and he was asked by the Joint Economic Committee to look into it and reconcile the differences. This is where the president came into the picture. So it was sort of a confrontation and a tilt between two views.

PECHMAN: Did you clear the March, that is, did you ask for comments of the Federal Reserve Board of the March 6 statement, do you recall?

HELLER: I don’t think they cleared theirs with us nor ours with them.

PECHMAN: It wouldn’t have been customary for you in testifying to have advance releases.

SAMUELSON: Well, subsequently you did.

ACKLEY: I suspect we cleared the monetary parts of it, or let them see it, but I’m not sure.

HELLER: I think we probably did in view of, that is to say, at

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least we discussed it with Jack Noyes [Guy E. Noyes] or [?] or somebody.

SAMUELSON: I want to emphasize though that this was an important span of thinking in the Federal Reserve Board itself. And I’ll illustrate that by the fact that probably when I was on the National Task Force for Economic Education, Lee Bach [George Leland Bach], who was chairman of that, told me that he had just been made a member of the advisory council to the Pittsburgh branch of the Philadelphia Federal Reserve Board. He and about forty to sixty people who were newly appointed were brought into Washington for a briefing from the Federal Reserve. He was one of the few professional economists there. One of the things he particularly wanted to find out was the merits of this case, of the structural unemployment, which the Council denied, versus the Federal Reserve view. And so in the interrogation period he directed a question to Martin. And he said in some disappointment, and the only answer I could get on this was anecdotes about Martin’s knowing a mining town in Pennsylvania where there was structural unemployment.

TOBIN: I’d like to make clear that the reason that this research was undertaken at the Council, and was begun almost as soon as we arrived in Washington and carried out by Bob Solow to conclusion, was precisely because we encountered, mainly in the Federal Reserve, this structural view and we

wanted to nail it. I should also say that subsequent research on

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more refined data and more recent data of course has confirmed this analysis of the March 6 testimony as no other proposition in empirical economics has been confirmed. I think there's no question among the people who have done research on this.

SAMUELSON: This is Noyes and Kaliski [Stephan F. Kaliski]...

HELLER: And Robert Gordon of the University of California.

SAMUELSON: ...and Rees [Albert Rees], Otto Eckstein...

HELLER: Al Rees of the University of Chicago and Otto Eckstein of Harvard.

SAMUELSON: Now, on the opposing view, Killingsworth [Charles C. Killingsworth] of Michigan State, perhaps Clarence Long has some material that has some bearing on this.

PECHMAN: It's interesting to note that Arthur Burns has never been a structuralist.

SAMUELSON: No, except that I predicted on his incorrect forecast that the way he would wriggle out of it would be by denying 4 percent unemployment. And as I've mentioned here, I think the primary way he's explained the way was lack of confidence in the president. But in that second Morgan Guaranty paper which was probably his speech before DePauw University in Greencastle, Indiana, he indicated some second thoughts about, there will always be unintelligent people who will aspire to jobs higher than what people can afford to pay them. So

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there are some elements of structural thinking in, but he didn't at the time.

Well, according to my recollection, Martin and you and the president met and then a very conciliatory papering over of the differences of opinion...[Interruption]

BEGIN SIDE II, TAPE III

PECHMAN: Walter, what about that meeting with the president about structural unemployment, the president and Martin?

HELLER: That meeting was held on March 8 and we had, as I see here from the notes, more than an hour: Dillon, Roosa, Martin, Bell, Heller, Gordon, Tobin. I think we all have the general recollection that at that meeting we discussed the structural versus aggregate demand interpretation of unemployment and

had, I think Paul said, a very conciliatory meeting, as you recall it was reported to you.

SAMUELSON: The announcement that came out, I think this was a public announcement which I found disappointing because I wanted the analytical issue threshed out and suspected that maybe the Council was right but it was so conciliatory it was bland.

HELLER: Well, I think that's right. I do think, by the way, apropos...

PECHMAN: What was the announcement? I don't recall this.

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SAMUELSON: I'm sure I've commented on this in some of my financial journalism.

PECHMAN: Walter, wasn't there a public announcement about that meeting?

SAMUELSON: Either there was a public announcement or a report back to the Joint Economic Committee, according to instructions in which it was said that there was only a difference in emphasis.

PECHMAN: I don't remember.

HELLER: That may well be. My recollection is hazy. Jim, do you remember anything of that meeting?

TOBIN: Well, that was a very small part of the meeting as I remember. I think this is the meeting in which the main thrust was the president quizzing Martin about the bankers and their profits and their high prime loan rate, and trying to...

HELLER: We had a conditioning memo or two that we ought to be able to cite for the record. You go ahead, now.

TOBIN: Well, Kennedy was saying how come the bankers don't behave more reasonably and more cooperatively, so on. It was also the first meeting after Martin had gotten his committee to abandon bills only explicitly as a matter of policy. He made a public announcement. And so I'm sure that part of it was that the president thanked him or expressed our appreciation on the part of the administration for this cooperative action.

HELLER: It's worth recording at this point that there had been two

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previous meetings of this group, possibly not explicitly as the Quadriad but on Wednesday, February 1, we had met for a little over half an hour: Dillon, Martin, Bell, Heller, Tobin, Roosa, Sorensen, and Gordon. Sorensen, by the way, attended those Quadriad meetings a couple of times and then said it was clear that his presence was not needed. I think that February 1 meeting must have been the one where we finally cleared the language and so forth, if not with the president, at least among ourselves for the February 2 statement on monetary policy. It must have had some bearing on that. Then again there was one on February 17 that went on for just a very few minutes according to the record: Dillon, Heller, Bell, Martin, Roosa, Tobin, Rostow. Now are you rather sure, Jim, that it was at this March meeting that the abandonment of bills only, was that really the first meeting of the group after?

TOBIN: Yes, the abandonment of bills only was on February 26, that means...

HELLER: February 26, okay. Well, that was...

TOBIN: I think the first meeting with Martin was preceded by a conference in which Dillon introduced Martin to the president before he came into the cabinet room and the president had a talk with Martin by himself before they came into the cabinet room.

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HELLER: Yes, I remember that because I was a little bit hurt that I wasn't in the president's office on that since I had been the spur to the meeting, but Dillon and Martin did have that time with the president alone.

PECHMAN: Walter, just for the record, we've used the terms Troika and Quadriad several times in the last day and a half. Would you briefly tell us what the origins of the terms were and what they meant?

HELLER: Well, during the Eisenhower administration it was at least advertised in the economic reports of the president that four principals met with the president from time to time. This hasn't stood up too well in closer questioning of people like Dave Lusher and others as to how frequently that really happened, but the four principals were the secretary of the Treasury, the chairman of the Federal Reserve Board, the director of the Budget, and the chairman of the Council. Pretty early on, I suggested to the president that this would be a good idea to continue and he agreed that it would. Then later on, that's what we then eventually called the Quadriad.

PECHMAN: For four.

HELLER: For four. We had the Troika. What I want to get clear here is that this wasn't named until after the Troika was established, even though it was meeting for some time.

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- TOBIN: It was originally called the “Financial Summit Meeting.”
- HELLER: The Financial Summit Meeting, that’s right.
- GORDON: The reason you called it the Quadriad was because you didn’t know the Russian word for a team of four persons.
- HELLER: That is true, and that’s relevant to the Troika because the Troika was established in June. We realized that it was important to keep the Treasury, the Budget Bureau, and the Council pretty much in tandem on the revenue estimates, the budget estimates, and the economic estimates. And I believe it was our suggestion, wasn’t it, that we have regular reports to the president, preferably orally.
- TOBIN: Confidential.
- HELLER: Confidential reports, once a month it started out. And it also started out as an oral report. Later on, often it was a written report of what the outlook was for the company, the budget, and revenues. We then called that the Troika. I couldn’t find a corresponding word for the foursome, so I looked up in the dictionary under Q – quad and so forth – and I finally came across quadriad and this said a group of four, rare. I thought that this fitted Dillon, Martin, Bell, and Heller pretty well.
- PECHMAN: Who coined the term Troika? Did you, Walter?
- HELLER: Did I?
- GORDON: Yes, Walter did.
- SAMUELSON: Of course, Troika was an essentially lower-echelon technical

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group, wasn’t it?

- HELLER: No, no. The Troika had three levels. There was the purely technical level and then there was the Tobin – who were your two counterparts, Turner [Robert C. Turner]?
- TOBIN: Turner and Wallace.

HELLER: Oh, Tobin, Turner, and Wallace; Bob Turner of the Budget Bureau; Bob Wallace of the Treasury, and Jim. And then Dillon and Bell and I, later on, Kermit Gordon, of course, were the ones that put the final imprint on what went to the president in writing.

PECHMAN: So that there then would be quarter by quarter projections, quantitative figures, which would bear the Troika seal.

HELLER: That's right, the seal. And these were not only of course projections of GNP but projections of unemployment.

TOBIN: And revenue.

HELLER: And revenue and budget, they played a very important role.

PECHMAN: May I ask another question for the record? I take it that the Troika report is a sort of negotiated report among the three agencies or the three principals. Most of the time there are very few differences but sometimes there are differences.

HELLER: I can remember a few occasions quite early when the differences were fairly sharp.

PECHMAN: Now, are these differences muted when the report is sent to

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the president? Or how does one of the members of the Troika communicate his unhappiness, if he wishes to, about these estimates to the president?

GORDON: There have been at least two occasions I think when there were dissenting footnotes in the Troika report.

TOBIN: Or parallel sets of figures to which one agency adhered to one set and the other two agencies probably to the other set.

PECHMAN: So it's not assumed that the Troika report will necessarily be unanimous?

TOBIN: Well, it was anticipated that it would all be worked out but sometimes it proved impossible to work it out. The notion was that the Council was mainly responsible for the economic projections, the Budget Bureau for the projections of budget expenditure and expenditures on national income account and so on, which the Council would use in its economic forecast; and that the

Treasury was responsible for the revenue estimates. But the Treasury in its responsibility for revenue estimates did not interpret this as meaning that they were merely responsible for translating the economic forecast of the Council into revenue estimate, but that they must also be responsible for the whole chain of reasoning which led to the revenue estimates and therefore if they didn't believe the corporate profits figure in the Council's projection they would not predict corporate taxes

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on the basis of the Council figure but would instead use their own.

PECHMAN: So you could get their implicit economic forecast.

HELLER: Explicit.

TOBIN: Explicitly, and then we would have to argue about it. Similarly, I must say that the Council did not altogether trust the accuracy of the Treasury's revenue forecast so that we had our own revenue equations. If, given our projections, their revenues looked very different from what we thought they should, then we would argue with them about the revenues. So on both sides there was coverage of the whole forecast and the original division of labor couldn't be very well carried out.

PECHMAN: Walter?

HELLER: Well, lest this convey the impression that there were really sharp differences and big fights and so forth at least among the principals: I think one of the remarkable things, and I believe this is pretty generally known, about the interrelationships of both this threesome and foursome was the essential harmony of the personal relationship; and secondly the large amount of the time which we were able to reach consensus, much more so I think than our predecessors. I don't know whether this is something for which the president set the tone, whether he was more persuasive with Bill

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Martin. It was pretty clear that gradually the Treasury captured – maybe it wasn't so gradually – control of monetary policy to a very considerable extent by the relationships between Dillon and Roosa on one hand and Martin on the other.

PECHMAN: Walter, let me...

HELLER: Now, I just want to finish up on the Quadriad. That was set up, as I say, and the pressure for using it came from us. In fact, it was a group which met, with one exception, I believe, only when it met with the

president.

PECHMAN: That's the point I wanted you to make.

HELLER: And secondly, it met, with one exception again, always at my call, that is to say, at my taking up with the president the proposition that this group ought to meet again.

PECHMAN: You mean there was no scheduled Monday?

HELLER: No scheduled Monday. After all, there's another thing that we learned early on about the president, and these are the kinds of things you kind of forget because they don't come up in a specific substantive context.

I guess this is again pretty clear, but he was not a scheduled man in the sense of having scheduled meetings with us. I understand that Eisenhower had scheduled meetings with Saulnier every couple of weeks and there was tremendous scrambling just before these meetings to find something or another to take up even if there

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wasn't much of anything. Well, Kennedy wasn't built this way. He had a meeting when there was a point to having the meeting, and sometimes you'd have fairly long dry spells and then again you'd have...

SAMUELSON: Walter, wasn't your personal friendship with Kenny O'Donnell extremely valuable, at least at the beginning, in getting in on the...I know when you got me into meetings it was always through goodwill of Kenny O'Donnell saying we can tuck you in here.

HELLER: Yes. It was extremely important all the way through, and a good part of it traced back to the Kermit Gordon incident.

PECHMAN: What is that, Walter?

HELLER: To the incident in the Carlyle, because we made common cause there on Kermit against the opposition forces. Let's not kid ourselves. Ted Sorensen, you see?

SAMUELSON: Also, O'Donnell was sort of on the liberal side, wasn't he?

HELLER: Kenny was I think a gut liberal. And then this relationship with Ken O'Donnell was solidified in the Berlin tax fight because it was the Council and Kenny against the field.

PECHMAN: Was the Irish Mafia generally consisting of gut liberals except...

GORDON: Gut liberal isn't the right word. Meat and potatoes liberal maybe.

PECHMAN: Maybe that's better.

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SAMUELSON: Well, I remember it being said that they were a lot more liberal than the name suggested or the people thought.

HELLER: Ralph Dungan I think is a liberal.

TOBIN: Larry O'Brien [Lawrence F. O'Brien]?

GORDON: Kenny O'Donnell thought that no president ever lost an election because he spent too much money, that was kind of his basic prejudice.

HELLER: And he said once you've gone into a deficit of three or 4 billion, hell, you might as well go to thirteen or fourteen. He didn't hold with this ceiling. By the way, neither did Larry O'Brien. In terms of those congressional relations, when we finished the meeting in Palm Beach and the president decided not to pierce the Eisenhower deficit ceiling – which was, you know, a tactical victory for Dillon, which Dillon won very largely on the basis of saying Mr. President, I cannot take the debt ceiling fight through Congress and especially through the Republicans with something that pierces the ceiling. Afterwards, Larry O'Brien in effect said, ah, crap, that wouldn't have made a bit of difference. But be that as it may.

Should we get back to this meeting of the Quadriad, before it was called the Quadriad, with the president? Jim Tobin's memory was that we discussed this matter of bankers'

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profits and indeed we did and we had given the president some background on that just a day or two before.

PECHMAN: Why was he interested in that, was that just Martin or...

HELLER: But this goes back to an earlier comment I made that he didn't have much use for bankers. In this respect, he told us how his father had to make his way without the bankers. He was from the wrong side of the tracks and he got short-shrifted from the bankers. I don't know how many times in the course of our relationships Kennedy indicated sort of a curled lip and contempt for the banking fraternity; not certain individuals like Henry Alexander, whom he seemed to have a lot of respect for, but the fraternity as a whole. I wonder whether Jim and Kermit remember

any of that or whether this was just in some of those little hit and run meetings?

TOBIN: I think he had a very personal view of the determination of interest rates, at least in the beginning. Interest rates were what bankers were charging, and why aren't the bankers charging less? Why couldn't Martin get his friends in New York to cooperate?

PECHMAN: Was there ever any thought of using Robert Kennedy to, anti-trust or anything they could try him on?

HELLER: On the banks?

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TOBIN: I think this was mentioned, though not considered a practical thing.

SAMUELSON: I was say this, that on many an occasion Secretary Dillon would say, "I've been to New York and I've talked to people and they would be very upset by this or they are very keen on that." Do you remember that sort of...

HELLER: Sure.

GORDON: Remember the president had plenty of provocation in that first year for being less than friendly to the bankers. These stories would filter into him very frequently, particularly in the spring when all the bankers go to Europe, about the damage they were doing to European confidence in the dollar. This was a constant goad throughout the first six months.

HELLER: That's true.

SAMUELSON: In fact, one of the things he was most bitter about business was he said that on the one thing where they could have helped him, which was the tax – the balance of payments problem and trying to equalize the tax rates, you know – that they hadn't rallied to his support at all. Do you remember?

HELLER: Yes. I note that one little preparatory memorandum for that March 8 meeting. It's so short, I'll read it in full: Memo for the president from me: "With respect to our meeting with Chairman Martin tomorrow morning, may I follow up what

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I said Saturday by suggesting that you might want to question him on the sabotage effects of statements by the banking community as well as the almost surely inspired news stories in

financial columns. The net effect of these is to suggest that interest rates will only go down slightly and temporarily and that bondholders should sell and get out when they have made a little profit, because of the temporary drop in interest rates. If this attitude and advice prevail, it could seriously undermine the effectiveness of our current monetary policy efforts.” In other words, this is a little different angle of the sabotage. One was the European side of the sabotage. Then on the bank profits I notice we had a little memo to the president on the eighth. I don’t know whether this was before or after the meeting.

TOBIN: That’s the reason – after the reason. He wanted to have a report on bank profits right after the meeting.

HELLER: My note there said, “Here are some figures on the Chase Manhattan Bank earnings which back up your impression virtually on the nose. Please note that we are following this up with non-bank earnings.” And these showed the banks to be doing very well.

PECHMAN: Jim, you said that he twitted Martin with these figures. Did Martin reply?

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TOBIN: I can’t remember specific replies on these points. Martin usually replied in a rather fuzzy way about things of this kind, and he would indicate a certain amount of agreement. At the same time he would not really promise anything or give any indication that he could do much.

SAMUELSON: I can remember, by the way, some examples retold to me of shockingly bad economics from a professional economist’s viewpoint, I think some of this means, of what perhaps my old pal Bob Roosa had said would be the effect of this or that – and/or Dillon. Do you remember any of those in particular?

PECHMAN: Well, let me try to jog your memory, Jim. Is it true, as I have heard, that Bob Roosa said to the president of the United States that a deficit is deflationary?

TOBIN: I don’t know that it’s true that he said it to the president of the United States. He very well may have.

HELLER: Oh, yes, Jim. He didn’t use those words, but when we had the budget discussions in December 1961, January ’62, he voiced one time that general proposition about the financing of the deficit would draw funds out of the market, wasn’t that the...

SAMUELSON: Yes, in fact, he gave a speech before the American Economic Association at the joint meeting with the Finance Committee in which I thought he was duplicating the errors that John

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Williams used to have of what was the effect of Mellon's [Andrew W. Mellon] paying off the debt, that that was inflationary because deflation didn't.

GORDON: Bob Roosa said in our presence – and I remember it with a high degree of precision, at the Budget Bureau – that \$2 billion used to retire the federal debt would be more expansionary than using the same \$2 billion for increased federal expenditures.

TOBIN: Yeah. That was said in a meeting in the Budget Bureau of the Troika, without the president.

HELLER: Oh, I remember that vividly. It was in the budget director's office.

PECHMAN: But didn't he buy the argument before the American Economic Association that the deficit reduces private savings?

TOBIN: Yes, he did. That's right.

SAMUELSON: Or somebody was using up the savings?

HELLER: Yes, one time it did come up in one of those give and take meetings with the president.

GORDON: I'm sure he did. I mean this view permeated all the thinking in this period.

SAMUELSON: He said he just wanted to quote particular views. But I think this was prior to our meeting with the president, the same

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day of our meeting with the president: that the stock market decline of May 27 and 28 was a good thing; the drop of \$100 billion plus assets could have cleared the air. Everybody in New York who we knew had been concerned in February, I mean in December previously, about how high the market was. Now that the market was down, it was a good thing. People were incredulous that that could be the case and I said, "Well, if it's a good thing, why, in January of 1960 when the market went down, didn't that clear the air and make everything good?" Then he said – this was very interesting – "Well, to tell the truth, we at the Fed made a mistake in that 1960 period. We were too restrictive in '59 and

'60 and part of the blame should go on us for the recession that followed.”

PECHMAN: Let's finish up on March 6.

SAMUELSON: I tell you what I'd like to do just to fill in the time because it had some bearing on how the president reposed confidence in you and how he used outside criticism: I want to make reference to Arthur Burns's criticism of the Council's testimony before the Joint Economic Committee and his attempts to influence the president directly or indirectly. I may be confusing two speeches of Burns's, but my recollection is that on April 27, in Chicago, when Arthur Burns made the prediction that there would be full employment within fifteen to eighteen months and that the danger was that Washington would do too much in

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the way of fiscal expansion...

HELLER: This was before the second stage program too.

SAMUELSON: Yes, that's right.

HELLER: He said any additional expansion would be dangerous.

SAMUELSON: I think that that was the same speech in which he criticized the whole notion of the gap: the way it was computed by the Council; a mixture...He criticized it in principal – the ideology of the Council as stagnationists – and also he went into details about different ways that one could have computed the gap and suggested that if one were computing a gap this was too high a gap. It may be of interest, by the way, that after that speech was made, according to a story I heard, Henry Wallich asked him, “Arthur, what GNP figures did you have in mind in making your fifteen to eighteen months 4 percent unemployment figure?” And Burns is supposed to have replied, “Henry, I don't think in those terms, GNP terms.” Well, the Council had been instrumental in getting Burns on the Labor-Management Committee [Labor-Management Advisory Committee]. Burns was willing to put at the president's disposal his thinking with respect to Saulnier and Eisenhower. You might tell the story about what might happen to his letters, if that's appropriate for the record.

PECHMAN: I think he should.

HELLER: Well, I'm sure that Burns himself thought that he was making quite

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an impact on the president, and I will say that on a couple of occasions with the meeting of the president with the Labor-Management

Advisory Committee, Burns did make very cogent and measured and I thought basically impressive statements. I think the first time or two, the president was impressed. And as a result Arthur Burns was emboldened to send the president his finest products with little covering notes that we always thought were most carefully put together and kind of trying to capture the president. I really, I think that's fair to say. For a long time we covered up for the fact, just by way of kindness to Burns, that the president simply bucked these things over to us and we wrote letters which the president signed, rather noncommittal acknowledgments.

SAMUELSON: Including, it seems to me, in some of Burns's communications, a little intimation of undercutting of the Council.

HELLER: Absolutely.

SAMUELSON: And you were answering those letters.

HELLER: We were answering those letters. I have some records that will show, later on, specific things the president said about Burns which indicated that, shall we say, he was never...

SAMUELSON: Yeah. I was going to give one example of his memory because it was told to me, probably by you. Burns, at one of those labor-management meetings at a later date, must have been expressing a little pessimism about the outlook and the president

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I think leaned over to you and said, "Isn't this the fellow who said that in fifteen to eighteen months we'd have 4 percent full employment?"

HELLER: Exactly. He remembered that, and there is a later history of this which can be brought in some other time, but it amounted to the president saying, "Look at Burns kicking us in the shins," or words to this effect, "and what about his forecast? Didn't he say we'd have full employment?"

By the way, here's another little item I want to record, that is of some interest in this connection. I decided it would be a good idea to get all the living chairmen of the Council together as a group because all of them were still living: Nourse, Keyserling, Burns, Saulnier, and Heller. At one time I had just faintly mentioned this to the president and suggested that he might want to meet with the group and possibly have a picture taken with the whole group. At that time he was fairly receptive, but by the time I brought it off, it was perhaps a year later. I mentioned it to him one time at the end of a cabinet meeting and said do you want to be seen with this group and in effect his answer was, no, why should I give a guy like Burns a guy like Keyserling, both of whom are kicking me in the nuts, the platform to do it even more successfully? By contrast, when I asked Presi-

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dent Johnson the other day whether he would want to meet with this group, he said he'd be happy to.

SAMUELSON: Is it worth just putting in the record as an example of the president's personal flair, how he got Seymour Harris in the Treasury?

HELLER: Well, Seymour Harris had been ill and for that reason, in my judgement, didn't go over to help HEW, where he probably would have gone. I think he's very lucky in a way that he didn't. But then he got better so he was at loose ends and ready to be of help, and I'm sure that at this point, Arthur Schlesinger and Ken Galbraith become very important in putting some pressure on the president to find something for him. Perhaps Seymour indicated a desire to go into the Treasury. The next thing I heard was that that appointment had been made. I know that Bob Roosa was upset by the appointment. For one thing, Seymour Harris has a habit of writing letters to newspapers, which is sort of contrary to the whole instinct of any central banker or treasurer, and sometimes people are more scared when he's defending you than when he's attacking you. But now the question is what Dillon's attitude was. I heard this from secondhand. I think Arthur Schlesinger was present when Dillon

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was informed by the president that it might be a good idea to have Seymour Harris in the Treasury. Dillon actually smiled and said, "Do you think he'd be available?" The president allowed as how he thought he might be, and the big puzzle for me was: 1) Did Dillon not know who he was?; or 2) Did he know who he was and really not care much for the idea, but was such an instantaneously agreeable reactor? We'll never know, I guess.

PECHMAN: Can you shed any light on this, Walter?

HELLER: Well, I think that Dillon probably had some idea but Dillon was very accommodating about taking care of people that the president wanted placed somewhere. He took Jim Reed [James A. Reed] into the Treasury as assistant secretary; Joe Barr, Bob Wallace.

SAMUELSON: Those people were sort of given to him in the charter group.

HELLER: Jim Reed came along later and there's at least one other instance that occurs to me...

SAMUELSON: I don't think that Seymour Harris ended up embarrassing the president.

HELLER: Not at all. He did a superb job.

SAMUELSON: On the contrary he gave them the feeling that they were maintaining contact with academic liberal types and he defended them in many ways.

HELLER: And let it also be said that Dillon more than any other secre-

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tary of the Treasury we've ever had, and I can speak from experience with about three or four of them – three of them, prior to Dillon – listened to economists, came to the consultants' meetings, and reported their findings to the president.

SAMUELSON: Not only that but he was bright enough to find the errors in tables.

GORDON: [?], remember that?

HELLER: Oh, yes. That was very important. You should record this.

GORDON: This was at a point when I think we had some concerns about whether Arthur Burns was making any headway with the president.

HELLER: We did. We did in '61, middle of '61.

GORDON: In August, Walter wrote a letter to Arthur Burns raising a question about a paper that Burns had written. Was this a speech of a special – it was a special paper he wrote. I know, it was the rejoinder in that Morgan Guaranty survey in which he made reference to, you quote here, "At a time such as this when the possibility of a devaluation of the dollar is widely discussed in business and financial circles." He used that phrase, Burns did, in his Morgan Guaranty piece. This chides him a bit, points out some of the dangers of a former chairman of the Council talking about a possible devaluation. But I think the real reason the letter was written was to serve as a basis for a memorandum to the president on the subject: Arthur Burns's unfortunate statement. The message is: "I drafted an even sharper letter to Burns taking him to task

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for his irresponsible statement about devaluation of the dollar but decided to send instead the attached milder version lest he claim we were trying to silence him. But the fact remains that his giving aid and comfort to devaluation gossip is inexcusable."

SAMUELSON: The president remembered that.

PECHMAN: He did remember that?

HELLER: Yes, he did indeed. It came up.

SAMUELSON: I remember it came up in later conversation.

PECHMAN: Look, since we have only a few minutes till lunch, let's finish on a few personal things. Can we finish on Seymour Harris? It seems to me that it will take just a few minutes.

SAMUELSON: Just one: now, Seymour remained the president's friend. He was at the yacht races, Ruth [Ruth B. Harris] and Seymour in Newport, when the Weatherly, was it, raced; and had influence.... Well, of course, you know about the appointment, I suppose this will come out later about the Federal Reserve?

PECHMAN: That's the one I want to finish up on. It seems to me that we can take that out of chrono.

SAMUELSON: I see. The first crisis, I would say, was it Joe Barr who was considered very seriously? In fact it was thought to be a fete accompli by me at one time, the job that Mitchell got – wasn't it the one which George Mitchell got? – was going to go to Joe Barr who was in the Treasury who was, I believe, the Dillon-Roosa candidate.

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PECHMAN: Walter, would you pick up the story?

SAMUELSON: But Seymour has a role in the Berlin thing, an accidental role, when we come to talk about Berlin.

TOBIN: I would like to say that Seymour was a loyal Treasury supporter during his tenure as senior economic consultant to the Treasury. He adopted the Treasury as a hobby and an institution to which he was greatly attached just as he had adopted Harvard and the Review of Economics and Statistics and the New England governors. This led to some disagreements with his erstwhile friends, still friends, in the Council and elsewhere. I have a letter that I wrote to him November 11, '61, that refers to an article he wrote in the New Republic and a letter he wrote to the Washington Post and I say, "Since you know that I have the greatest respect for you as a friend, teacher, economist, and liberal, let me say in all candor that I do not believe that your present position is doing any good to the cause of rational economic policy..."

SAMUELSON: Including his criticizing Keyserling for criticizing the Kennedy administration, there was something disloyal; wasn't that the...

TOBIN: "...the cause of rational economic policy toward the objectives of the Employment Act." Then I say, "Without doubt, the greatest obstacle to good policy right now is the unqualified version of the president's balanced budget pledge given by

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Secretary Dillon and Bill Cullum."

PECHMAN: Did Seymour reply to that letter?

TOBIN: I don't have a reply. We had lunch together and talked about it.

SAMUELSON: Seymour not infrequently did some complaining about the Council to me on particular positions and it was a fair comment: Walter is too optimistic or Walter is too pessimistic or is pushing too hard, or that sort of thing.

TOBIN: Then this refers back to our earlier discussion about the Roosa fallacy about the relation of deficits and economic activity. In the letter to Seymour, it says, "Treasury spokesmen persist in using the following argument for budget balance in fiscal '63: The Treasury must stay out of the capital market in order that funds will be plentiful for private capital investments. You know and I know that this is nonsense in a period of unemployment and underutilization but you are the economic adviser to the secretary and maybe he and Roosa, et al. will believe you." Then it goes on into detailed argument.

PECHMAN: I would say, you might have told him why it's wrong.

TOBIN: There are some papers of why it's wrong. [Laughter]

PECHMAN: Well, Walter, do you want to pick up...Let's not pick up the Seymour Harris role in the Berlin crisis but let's pick up the relationship of the Council to Seymour Harris's appointment to the Fed.

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HELLER: Well, of course, there were two rounds of that: one where he wasn't seriously considered, although his name was brought up early in the administration as a logical next man for an opening on the Fed. But by then he had taken over – when I say "by then," I mean when he resigned a bit ahead of his retirement, wasn't it?

GORDON: Just a bit. He had served, I think, twenty-six years of a fourteen year term.

HELLER: That's right. I know that in our files, we have some rather extensive notes to Ralph Dungan and similar people in the White House concerning possible candidates for this opening on the Fed. Now I don't believe that by that time they included Seymour Harris. We'll have to come back to that. But I think it is worth saying that, as has already been indicated, the Treasury wanted Joe Barr. We didn't have a really effective counter-candidate. We actually considered a number of academic people but it didn't seem to be time for one of those, and finally I came up with George Mitchell as a possibility and, I believe it's fair to say, had him in the president's office before the Treasury was really very clearly aware of what was happening. We felt it was important to give him...

SAMUELSON: Oh, his was a logical name as I remember because hadn't he done some advising to find Stephenson [Harold M. Stephenson].

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HELLER: This is George W. Mitchell who was...

SAMUELSON: There also was some concern as to what were his conservative influences on Stephenson with respect to the Finletter group.

HELLER: Yes. There wasn't unequivocal agreement that he'd be just the right man for the Federal Reserve post. I think, didn't Paul Douglas have some doubts about this? But I know we did clear it with Paul and we did clear it with Daly [Charles U. Daly] beforehand and it was cleared with Martin and Dillon at a very late stage of the game when it was virtually a fete accompli. We brought Mitchell in to see the president. As a matter of fact, I guess it was just Mitchell, the president, and I, sometime probably in June...

PECHMAN: '61.

HELLER: ...of '61 and then the president appointed him. It was one of these clearcut cases of the president going along with the Council.

SAMUELSON: Let it be said for the record, my opinion is that Joe Barr is a nice fellow but that his economic training at Littauer amounts to practically nothing. He was a Democratic congressman, he was in charge of congressional relationships in the Treasury, and I neither thought that he had the qualifications of a good economist nor that he would be a liberal expansionary influence for the Federal Reserve. So I personally was very upset at the thought that

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it was almost a sure thing that he was going to be appointed. He would have been a faithful

transmitter for some period of time of the Treasury view, I think.

PECHMAN: Paul, for the record, did the president ask you anything about the Mitchell appointment?

SAMUELSON: I think probably I might even have written a note or even said something to the president under some prompting about the Joe Barr appointment and could even have telephoned, although I doubt that I would have undertaken to do that.

HELLER: I want to correct the record on this meeting with the president. It was Heller, Tobin, and Mitchell. We met for fifteen minutes with the president and it was really, I remember, a most compatible meeting. Do you remember that, Jim?

TOBIN: With Mitchell?

HELLER: Yes. There was a good exchange about their views and didn't Mitchell say, "I'm not an all-out liberal Democrat," and the president said, "Well, I'm not either?" This aura comes back to me.

TOBIN: I believe the president was very skillfully diplomatic and at the same time effective in getting across: 1) the idea that he quite understood that Mitchell had a mind of his own and was going to be acting for himself as a member of the board of governors; and 2) getting across the idea that after all a president doesn't get very many appointments to boards of

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this kind and he has a right to have a feeling that the persons he appoints are in general sympathy with his objectives and his programs.

HELLER: In fact, that brings to mind a specific statement by the president. He said, "You know, about the only power I have over the Federal Reserve is the power of appointment and I want to use it in terms of getting quality."

SAMUELSON: It might also be noted that it was very hard to think of people who would be suitable, who would take the job...

GORDON: There was the geographical limitation of course.

SAMUELSON: ...and who would be suitable and who would be acceptable, I mean, who would do the job well and then would be acceptable.

HELLER: That's right.

ACKLEY: The Mitchell appointment has turned out to be a great success, one must say.

PECHMAN: Yes indeed.

HELLER: It has, and not only has he been good substantively but the staff was delighted with him. He helped revivify the Federal Reserve staff.

PECHMAN: Wasn't he the inventor of the interest equalization tax?

HELLER: Not in detail.

PECHMAN: He did speak of controlling capital. May I ask this? Was there any...

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GORDON: My impression is that he's the first person who put forward this particular method of dealing with capital.

HELLER: Of a penalty tax. But he's a 100 percent honest man. He told me afterwards, "I didn't have this kind of a detailed measure in mind." He said, "In detail it differs, but the concept of using taxes as a penalty to stop the outflow" – well, he testified openly on this.

SAMUELSON: Was there any thought at the time of his appointment that he might be a logical successor to Martin as the chairman?

HELLER: Didn't the thought cross our minds?

SAMUELSON: It crossed mine in thinking about anybody who'd be suitable for that. But there was no pledge or indication to him that he would be.

GORDON: Or to the president.

PECHMAN: Did you discuss this possibility with the president...

GORDON: Oh, absolutely.

PECHMAN: ...that he might be the successor?

TOBIN: But the president didn't mention it to him.

PECHMAN: No, and I take it the president was noncommittal. Well, he didn't have to react I suppose? Do you recall any reaction on his part?

TOBIN: No, I don't recall any reaction, just a possibility.

PECHMAN: What was the nature of Treasury displeasure or opposition, or did you never know?

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HELLER: Really by the time they learned of it, it was so far down the road.

SAMUELSON: I think there was a day when Joe Barr thought he had it. People were congratulating him on his new appointment to be in the Treasury.

HELLER: Really? But then, let it be said that both Bill Martin, or expressly Bill Martin said, "This is a fine appointment. It comes from inside the system. This man is respected and we're glad to have you on board," in effect, and if he had any misgivings about it they certainly weren't voiced anywhere that I know about. I think Dillon also came through and said this was an appointment one had to respect.

PECHMAN: What about your recommendation of Seymour Harris as appointee to the board of governors of the Federal Reserve system?

HELLER: That's at a later date.

PECHMAN: Later date, yes.

HELLER: Well, this came in the context of two openings: 1) Mitchell kept telling us that King [G.H. King, Jr.] was unhappy and indeed had psychiatric problems and so forth and was going to leave the board.

PECHMAN: When was that?

HELLER: This must have been, when, Gardner? Spring of '63.

ACKLEY: Yes, I think so.

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HELLER: That's when it first developed. Mitchell was telling us something that there was no public intimation of whatsoever, that King was going to leave. He was persuaded he was going to leave long before he finally did. But in the context of the King resignation which eventually did take place....And by the

way, I have written this all up somewhere because there was a good deal of fast footwork that went on about this in terms of when it finally took place and the fact that Dillon and Martin went directly to the president to tell him about it before we, I guess, actually knew the fact that it had happened. Isn't that correct? In spite of the fact that we learned about it months earlier than it happened, in fact, we didn't know that particular day.

ACKLEY: It was on and off, and at one point Martin told the president and I guess you that it definitely was not going to occur and then very shortly thereafter, he and Dillon were in with their candidate.

HELLER: That's right, with the fact of the resignation and their candidate Dewey Daane [J. Dewey Daane].

PECHMAN: That was definitely an end run around the Council, wasn't it?

ACKLEY: Yes, just as the earlier one had run around.

HELLER: And the Mitchell thing had been somewhat of an end run, shall we say, around the [?].

SAMUELSON: Dewey Daane was an assistant secretary?

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ACKLEY: Deputy to Roosa. Deputy under secretary.

PECHMAN: Who had been inherited, let it be noted, from the Eisenhower administration.

SAMUELSON: And who was on leave at that time from the Minnesota...

HELLER: The Federal Reserve Bank.

SAMUELSON: No, which he had hardly even been at or perhaps had never been at or barely been at, but originally was from Richmond.

HELLER: He was in the process of transferring in 1960 to the Federal Reserve Bank in Minneapolis, which I remember vividly because I was on the plane with him arguing that Federal Reserve policy was too tight in February of 1960. We thought that this was the point to move with Seymour Harris. Paul?

SAMUELSON: Hadn't you pressure from Ken Galbraith on the Seymour Harris thing? I know you phoned me many times before the opening came up with some misgivings as to whether this was the best appointment that could be made.

HELLER: That's right. We had a long canvas. Ralph Dungan kept asking us, "Can't you find some other candidates? Can't we prove somehow or another that all of these taken into account, Seymour Harris is the best, if that's what you feel?" I think at this point Gardner ought to pick up because he was here throughout this period and may observe this a little more...

SAMUELSON: Who suggested Seymour hardest and was pushing Seymour hardest?

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HELLER: Ken Galbraith was, pretty clearly.

ACKLEY: Carl also, wasn't he?

HELLER: Carl Kaysen after a certain point.

PECHMAN: The Council didn't have to be pushed very hard on Seymour for this appointment, did it?

SAMUELSON: No, well, Walter had some misgivings.

HELLER: Well, yeah, early on, and then after we canvassed the field we settled on Seymour as our definite candidate.

SAMUELSON: Let it be said that the misgivings that a person like myself, an old student of Seymour's and friend, would have would be that his is indiscreet; that he's known to be a very great liberal so that he would antagonize lots of people in his appointment. On the other hand, he's so loyal to any organization of which he's a member that after he's in the Federal Reserve for a couple weeks, it would seem to be a boarding house to him and it would be his home and castle and he might be defending it the way he was defending the Treasury.

HELLER: Yes. The main counter-argument was that along with Mitchell, the president would really have his man on the Council, a man who had a personal relationship to him and who would therefore...

SAMUELSON: And this is an argument that I know from Seymour's end had great weight with him: that it would be one thing at this

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stage of his life to be a member of the Federal Reserve Board, which might be worth doing (he had other options as you know); but it would be quite a different thing to be Kennedy's man there, thinking alike with him and able to help him in his fight to

help the country.

HELLER: Exactly.

PECHMAN: Go ahead. Let's finish before we stop for lunch. Then you communicated your recommendation to the president.

HELLER: As a matter of fact, Ken Galbraith and I were with him together one time and Ralph Dungan was there and gosh, we got the impression that Seymour was in. Now there was a bitter battle. I mean, there was a great fight for Daane and a great fight against Harris. Very severe things were said about Harris.

PECHMAN: Was Martin brought into this?

HELLER: Well, only that time, as I recall, that he and Dillon went in...

PECHMAN: No, I meant about asking about Harris. Because I was told – was it by you, where I was asked, “Do you remember the incident about Seymour's being refused entry to the Federal Reserve?”

HELLER: Because he had misused the records of the Federal Reserve allegedly.

PECHMAN: In wartime, was it? When he was writing his book on the Federal Reserve he was alleged to have used confidential memoranda which he was not supposed to have used.

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PECHMAN: That would go back then to the early 1930's. It was a bitter battle. Who were the opposing sides?

HELLER: Well, that's pretty clear, isn't it? Dillon and Martin and the banking fraternity generally on one side, the side of Dewey Daane...

PECHMAN: And Bob Roosa.

HELLER: And Bob Roosa very much so and maybe not so much on the side of Dewey Daane but certainly against Seymour Harris.

GORDON: That's pretty serious, Walter, when you consider that Seymour had worked for Dillon for two years; had, as you said, been extremely loyal. There's certainly nothing in Seymour's behavior in the Treasury which could have incurred anything but Dillon's friendliness and support.

PECHMAN: Support was wished from the Treasury.

HELLER: Yes, but now we have to open another chapter in this and that is the second opening. Robertson [J.L. Robertson] was resigning or, excuse me, his term was coming to an end in January of '64 and he was eligible for reappointment because he hadn't had a full fourteen year appointment. So pretty soon you got the question of two out of three. It narrowed down to Harris, Daane, and Robertson. Dillon, in his defense, it must be, said, "Oh, I'm not against Seymour Harris. I want him to come in second in February in place of Robertson because if we put Harris in now" – this is the argument he made with the

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president – that it will be interpreted as a loosening and liberalizing and, perhaps by implication, undermining of the soundness of the Federal Reserve Board, but if we put him in later for Robertson, that's an exchange of one liberal for another.

SAMUELSON: This is irony, of course, that the man who seemed to be about to be not reappointed was one of the expansionary in a board which wasn't very expansionary.

HELLER: Well, this is an irony. Now the president asked...

PECHMAN: It gave you pause, as I recall.

ACKLEY: It did indeed.

HELLER: Oh, sure, we were hard put to it to make a choice between Robertson and Harris. Then Ted Sorensen was asked by the president to check out Robertson and he got a very adverse reading from two people. Later on I had one of them reverse his adverse reading. One was Walter Loucheim who said that Robertson, he was all for Harris, that Loucheim...

PECHMAN: Who is he?

HELLER: Walter Loucheim? Do you know Katie Loucheim [Kathleen Loucheim], who was Democratic National Committeewoman, and Walter Loucheim was formerly with the SEC [Securities and Exchange Commission] and is an investment man here in Washington. He said, "Well, this Robertson is just a bills only man and I think he's just shifting around this way and that," and gave Ted a pretty

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adverse reading which was transmitted to the president. Likewise, he checked with one man

from the Federal Reserve staff. By and large the Federal Reserve staff thinks the world of Robertson but he happened to find the one guy who doesn't, and so he gave him an adverse reading on Robertson whereupon – this was more or less unbeknownst to us – Sorensen told the president this was the situation. Then the president said, "Then we have two openings," and he got Dewey Daane in for sort of a super Ph.D. exam without us present and without knowing anything about it. So Dewey gave what were the right answers to the questions as determined by Sorensen and the president who by now were, as I must admit, good practicing economists. This gave Daane a sort of favorable image in the view of the president and up to that point at least it was decided, well, all right, Robertson is out and the other two are in.

Now there was still the question of which way, and in that conference that Galbraith and I had with the president, and as I say, Ralph Dungan was there too, we made the strongest kind of plea for a liberalized board; that this was important, especially after he had reappointed both Martin and Balderston [C. Canby Balderston] as chairman and vice chairman. We thought that it would be interpreted as a very conservative move to put in Dewey Daane. He was on the verge of calling,

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as a matter of fact if he'd had time I think he would have called Seymour Harris right then and there and said, "Seymour, you're it." But it's an interesting fact that other forces got to work in the meanwhile. There was this, I've forgotten whether this Ph.D. oral was held after that date, I think it was, and he persuaded that he ought to appoint Dewey Daane first.

PECHMAN: Would there have been any confirmation problem for Seymour?

HELLER: They would have given him trouble.

ACKLEY: There would have been awfully strong opposition from the banking fraternity. I've heard people like Henry Alexander just say what a tragedy it would have been if Harris had been appointed to the board. However, he was saved from that.

SAMUELSON: But the president before he was assassinated still assumed he was going to appoint him to the Robertson post.

HELLER: That's absolutely unquestionable in my mind and I so reported to the new president. Now there was one other thing that I think interfered here. We thought that one of the arguments for appointing Harris first was that he after all had a commitment to [?] and if he was going to make this shift in his career, it was only proper to let him know now and get him started on this path.

GORDON: He was a good deal older than Daane too.

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HELLER: Oh, yes.

ACKLEY: Also we thought that if we got Harris appointed to the first one, we could maybe get Robertson for the second one and eliminate Daane altogether.

HELLER: Yes, I'm sure Gardner's right about this.

PECHMAN: Bird in the hand is worth two in the bush.

HELLER: Absolutely. But then Dungan called Harris and had a most unfortunate conversation from our standpoint because Harris said, well, any way the president wanted it, first, second, it didn't matter and so forth, and was much too...

ACKLEY: Cooperative.

HELLER: ...cooperative and as a result Dungan had to report to the president that Seymour would take it first, second, third, and always. Then the thing finally flopped over to Dewey Daane. Then of course when the new president came in, he just said, "I'm not committed to President Kennedy's commitments." He said, "It's funny; you know, if all the people that President Kennedy apparently made commitments to were to come into the government, there wouldn't be room for them all, all that I hear about. Every second person tells me that I'm committed to this man or that."

PECHMAN: Were there any that were actually hanging fire as definite as the Harris thing?

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HELLER: I think that Harris was one of the most definite ones. It was after all part of a package deal. There's no question about it.

SAMUELSON: I heard a story from Dan Smith that the new president checked with certain quarters, I wish he had revealed to me who.

PECHMAN: Oh, he didn't reveal to you who.

SAMUELSON: He didn't reveal to me who. I could have been Henry Alexander.

HELLER: Oh, no, Bob Anderson.

PECHMAN: Would Bob Anderson tell Dan Smith? Is Bob Anderson in with...

HELLER: Kermit's got some...

GORDON: No, I just know that Bob Anderson felt very, very strongly, at least as strong as Henry Alexander is reported to have felt, about catastrophic consequences of what he was sure...

HELLER: Wasn't the run on the dollar the consequence that Anderson predicted?

GORDON: Yes.

PECHMAN: Did he intervene himself or did the president?

GORDON: I don't know, but they were very close.

SAMUELSON: You know that Baird had this thing in the Minneapolis papers that Seymour foolishly replied to, that Harvard was glad to get rid of Seymour.

HELLER: Baird finally ungraciously recanted.

ACKLEY: Harris didn't help his changes any by the interview he gave. What was it?

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SAMUELSON: Oh, but that was over though.

GORDON: No.

SAMUELSON: Are you sure it wasn't over then?

GORDON: Pretty sure.

SAMUELSON: As I'd been told the story Teddy Kennedy or somebody, or Bobby Kennedy, came to Seymour and told him, "It's all off, Seymour. It isn't going to come to pass." And then Seymour was mad and gave that interview.

GORDON: That just provided a pretext. I think he was dead by then.

SAMUELSON: And he'd been notified. Anyway I thought that he'd let Johnson off the hook when he said, "Johnson doesn't have to appoint me but Kennedy would have."

ACKLEY: I think the record ought not to end without my expressing the view that Dewey Daane so far has been a pretty good member of the board and probably will be.

HELLER: As a matter of fact, this is reported by George Mitchell, this is also reported by members of the staff. They feel that Dewey has made common cause in restoring economic research to its proper place in the scheme of things at the Fed. They think that they had something to do with the setting up of the Lee Bach group which has had a leavening influence.

SAMUELSON: By the way, when I went to one of those meetings Dewey Daane was marshalling the evidence against Roy Reierson's inflation around the corner view and Arthur Burns very much defending Roy Reierson, almost to the point that I got the impression

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that Arthur might have helped Reierson write that view.

GORDON: That's interesting.

TOBIN: Does that mean that Daane is not just a voice of Roosa?

ACKLEY: I think at this particular period Roosa and we have been on the same side and Roosa does have a lot of influence on Dewey Daane.

SAMUELSON: The question is what happens when the going gets tough, when there's an issue.

HELLER: Now it's not part of the Kennedy history but let's round this incident off by noting how Robertson happened to get appointed. After making a decision against Harris, President Johnson really narrowed it down to Fred Deming of the Minneapolis Fed – who is a very good personal friend of mine, a guy I think the world of in his operations out in Minnesota – and Robertson. He put me on the spot one Saturday when I was out in Minnesota and said, "Now you come down on one side or the other of these two fellows. You've been telling me they're both great. Whom do you want?" I said, "Well, Mr. President, all things considered, I think the reappointment of Robertson, given the services that he's performed and the fact that Fred Deming will be available for other appointments later, the reappointment of Robertson would be the best thing you could do." So he said, "All right, call Robertson, tell him you've been talking with the president and that in the course of

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thinking about this appointment, the president said, "Now I want to be rather sure that I'm

getting a man who, when the president is quarterbacked, calls the signals, doesn't run to the opposite goal. Do you think you'd be running for the same goal as the president?"

So I phoned from Minnesota, I called Robertson, and he thought he could run for the same goal. I called the president back and he announced it that afternoon before he ever told Bill Martin about it. Bill Martin heard about it over the wires. And then just one final crowning irony, I called – this was a press conference late Saturday. The wonderful reporting in the Sunday Minneapolis Tribune was such that this item which so directly impinged on Fred Deming and the Minneapolis Fed did not get covered by the Minneapolis Tribune. Fred Deming had not seen the telecast of the news conference. I was scheduled to go to the Demings' that night for a dinner for Monnet [Jean Monnet] who was in town. I couldn't because I had to go back to Washington, so I called Fred Deming to tell him I couldn't come to dinner and made some reference to the announcement the day before. He hadn't heard it and it fell to my lot to tell Fred Deming that it was Joe Robertson and not Deming.

SAMUELSON: By the way, I was a little scared. President Johnson made some reference to how a consumer-minded woman might be a good member of the Federal Reserve. Do you remember that, at one

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of the press conferences that he had? It seemed to me that in the first place one of the big issues will always be whether there will be undue concern over inflation. Women are very estimable but the Federal Reserve is not necessarily the best place for them and a consumer-minded woman would not be what the economists would generally...

HELLER: Well, now just a minute, let me just say that I don't know whether this last part belongs here in the Kennedy history and furthermore it's a story that, God knows, I don't want either Fred Deming or Bill Martin to know. This is just one of these things that has to be embargoed for a long time to come. Joe, you don't want to take another five minutes to get this damn second stage program out of the way?

PECHMAN: Can you do it in five minutes?

HELLER: Yes, sure. Well, that's a rash promise. But I think I should say, and here Kermit and Jim should certainly chime in, that we were working hard to get a consideration of very substantially expansionary measures in this promised second stage review. The president kept being asked about it in his press conferences and he kept saying, "We're going to take a second stage look; if further measures are needed, we're going to take them." In the large what happened was that the economy turned up pretty visibly. I notice, by the way, Luther Hodges has a

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fair claim to fame. He explicitly said in mid-March, "I've got a feeling that the economy is turning up." He was the first one in the administration, and I have the clipping here to prove what he's been telling me. We were interpreted in our March 6 testimony as saying that recovery was on the way and by the end of March and early April we were already saying the upturn is here. So that meliorated against us. Secondly, the rather shocking state that McNamara thought and I believe he – well, thought; I don't want to cast any doubt about it – shocking state that McNamara found our defenses in plus the president's commitment to the moonshot led to a very substantial commitment for increased expenditures on those two things. And that again diminished the possibility of our getting an expansionary civilian program of any kind. We've already discussed what tended to knock the tax cut out earlier: the sacrifice posture and the fiscal responsibility.

SAMUELSON: Of course the McNamara finding was in the direction of getting the fiscal stimulus through tax reform.

HELLER: Oh, no question about it. But we didn't think it was enough. That was what it amounted to.

PECHMAN: It must have surprised David Bell, didn't it? Because as I remember he was not holding forth the prospect of very much increase in defense expenditure in the very first days of the

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Kennedy administration.

GORDON: There are two things, as I remember it. It was both McNamara's discovery of a very unbalanced defense posture and a poor readiness position in a lot of areas plus the additional step up in defense preparations following the Berlin crisis, these two things together.

ACKLEY: But that's later.

HELLER: That came later, that's correct. We then – and this is interesting also in terms of subsequent fiscal history – pressed upon the president....And this was about that period when Ted Sorensen made his crack about the Council contemplating the dangers of an upturn. We then pressed upon the president that an upturn wasn't going to resolve our problem and on March 17 we sent him a detailed memo which I summarized as follows: "The April review will show that we are still in serious economic trouble even if an upturn is in the making. Surely it will not show that we have narrowed the production gap that has only recently been open to public view (which bears on something else we were saying). In fact, the initiative and tentative estimate of GNP for the first quarter of '61 just received from Commerce shows a drop from \$503.5 billion in the last quarter of '60 to \$498 billion in the current quarter." That was later revised up by \$2 billion. That was a drop of \$10 billion in constant dollars from that submerged

peak

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in 1960. Then we said, “Second, even if all of your programs are enacted, GNP at the end of ’61 would still be about where it is today, subject to the usual hazards of economic forecasting. Third, to illustrate what an aggressive...”

PECHMAN: Are you reading that as an aside?

HELLER: We put this in, this was in [?] clause to the president at the time. “Third, to illustrate what an aggressive fiscal policy can accomplish, suppose we were to increase government expenditures and temporarily cut taxes to produce a \$10 billion dollar deficit in fiscal ’62?” This is the deficit that Jim referred to. “The production gap would be nearly \$20 billion smaller by the end of the year and by this time next year unemployment would be down to 5 percent or less as against well over 6 percent if we simply carried through the existing program. Four, we do not link the problem of public understanding and acceptance of this bold program. The only chance of solving this problem would be by some massive educational efforts of the fireside chat type, but the bold program if adopted and successful would speak for itself, and if rejected, the onus would lie outside the White House.” Now there was a lot of discussion with the president at that time, and this had some relationship to the blue ribbon committees too, as to what was the better

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political strategy: to go all out for something that would have created full employment and get slapped down by Congress – and this came up again in the summer of ’62 very vividly – or to get a program that would in and of itself be thought to be fiscally prudent and within bounds that the public would accept. And this pressure on him to do the fireside chat type of thing of course was coming not only from us but from Walter Lippmann, Joe Alsop [Joseph W. Alsop], and others.

GORDON: I think the point we just made in that memorandum, Walter, of shifting the onus to Congress if they rejected the program somewhat reflects our political naivete at that period. I mean, I don’t believe now and I don’t think you do that there’s really anything a president can do to shift the onus for the failure of economic policy off his shoulders. Do you think so?

HELLER: Well...

SAMUELSON: I think what you’re talking about now it seems to me for two years was what we thought about and argued about all this time, whether by leadership....And I think as expansionists we were trying to put an influence upon him to take greater leadership and he was always using his political

judgment that would be a mistake. At one point he said, "Suppose that I ask for something, bold program and don't get it? I'm turned down?" Then he was

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told, "Then you've fought the good fight." He said, "Yes, but if that jeopardizes other programs, that's pure vanity." I decided from then on maybe he really had something. Every time he made a little tentative move towards education, he wasn't rewarded. It wasn't as if when he would give a little chat on TV a little bit later he'd get a resonant response, that he was putting pressure upon Congress, so I decided that maybe he was a better political strategist than some...

GORDON: I think that he thought, Walter, and I think he was more right than we were, that when things go well, the president gets the credit. When things go badly, the president gets the blame and there's no way that he can shift the onus for the failure of policy to the Congress.

TOBIN: I think that's probably right. There were several other things involved. One was a rather, to me, strange fear of what was called by the president explicitly and certainly by other members of the White House, overexposure of the president to the people. The whole fireside chat idea was usually opposed either by the president or by his staff on the ground that you just can't overexpose the president. You only have so much ammunition to spend and you've got to conserve it and if you're interfering with prime time television programs, there may be some resentment of the

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president getting on television. So that was part of it. Part of it was this box score complex by which you rate your success during a session of Congress by the percentage of items that you've requested that get passed. Usually it's an unweighted index and it doesn't mean a thing, except it has apparently a great deal of symbolism.¹⁷

PECHMAN: Did you subtract those that you don't get from the score? Because otherwise, you might ask for more and more.

HELLER: Percentages.

ACKLEY: Kennedy didn't want to get beat. I remember very vividly he said, "We got up there with that and they'll piss all over us."

SAMUELSON: That's the game again and again.

TOBIN: Set us back on our ass.

¹⁷ See Appendix A, note 7g.

HELLER: Well, now another aspect of this second stage program is that we thought we might get into standby public works legislation. I had some discussions with Senator Clark [Joseph S. Clark]. He had a bill which said in effect that anytime unemployment is over 4 percent, the president would have the right to release \$500 million to the states (we'll have to check the number) and then if that didn't work, another \$500 million. We took that into our shop and added two things. One was the concept of having this also apply to federal public works. Orville Freeman told us, for example, all you have to do is give me the money for forest service and I'll have those people working

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in three days. And I guess that in some ways has been the quickest and most successful part of accelerated public works.

GORDON: Well, not necessarily the most successful; quickest. Well, I mean "most successful" implies that you've gotten the most value for your money. I think we got the most value out of the state and local construction, but certainly the direct federal moves fastest without any question.

HELLER: Well, the second thing was the putting in of a trigger. It seemed to us peculiar to give the president this kind of authority when the unemployment rate was substantially above 4 percent as it stood. In other words, we couldn't use 4 percent as the trigger, and we had a very complex trigger which would have enabled him to use the funds, as I say, for both state, local, and federal public works.

SAMUELSON: Does it have something to do with the rate of change of the unemployment base?

HELLER: Rate of change of the unemployment as I remember it.

GORDON: Precisely.

HELLER: It isn't essential for this part of the story; it is essential, however, to note that our chief opponent, our most vocal opponent, our most bitter opponent on this was Joe Fowler. Joe by then had already taken on, shall we say, the Treasury coloration and was convinced that this would be a very bad thing to do, and this view did prevail. Now it's true that later in the summer we got the president to write a note --

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because we felt that Clark had been rather shabbily treated -- to write a letter to Clark

committing himself to embed in his 1962 program some form of standby public works, which was quite a little, not amazing, but...

SAMUELSON: Clark was bitter. I testified before his subcommittee. Did he have some reason to think he'd been let down?

HELLER: Oh, yes, I think so. He had the feeling that this had lots of support in Congress and he was kind of held back on the whole thing, even on hearings and so forth, so that he did feel badly. We did get this commitment which was a letter we drafted to Clark which the president signed and that led to one part of what we later called the "Program for Sustained Prosperity," the three standbys: standby tax cut, standby public works, standby unemployment compensation extension. But we were beaten down by that combination of circumstances I mentioned earlier: better economy, bigger spending, and opposition of the Treasury to us big spenders, I guess.

TOBIN: When did the president go to Vienna?

HELLER: That must have been right after...Didn't he give this second stage program finally in May and go to Vienna right afterwards?

TOBIN: Before, I think.

PECHMAN: You mean there was a second stage program sent to Congress?

HELLER: Oh, there was a second stage message. That was mainly a defense and space message.

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TOBIN: I believe that the final review of the second stage was after he returned from his initial confrontation with Khrushchev, was it not?

HELLER: Well, I see here we then had a follow-up memo on April 27 on the second stage economic review and we say, "Attached is the economic review you referred to in your news conference last Friday. It's being used as economic underpinning for the Sorensen-led second stage roundup. It makes three main points: the economy has turned up; the coming year will bring a considerable yet inadequate recovery; we thought that unemployment would still be over 6 percent the following winter, perhaps spring at that rate; and we indicated the operating rate in manufacturing at 77 percent."

ACKLEY: Three main points and he gives four.

HELLER: Yes, that's right. We added the fourth because we felt that we hadn't paid enough attention to the structural problem so we added a fourth one saying, side by side with flabby markets and idle men and machines which call for stronger overall demand is the problem of hard core unemployment which requires retreading, retraining, and relocating of the structurally unemployed.

Then let's just quickly look at the May memos because that will probably tell us something about the gap. I have something in the 5 percent growth rate, May 4: "Another meeting

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on monetary policy." We called more.

ACKLEY: There were no meetings apparently between April 7 and May 8.

TOBIN: He was away a month? He wasn't away a month.

HELLER: When was the Bay of Pigs? That led to quite an interregnum... Did you also look to see whether there was a gap in June or the end of May and June?

TOBIN: I think it was before that because, after all, that's getting into the Berlin crisis. I have the feeling – all this is retrospective and I hope my chronology isn't wrong – that the president felt from his meeting with Khrushchev that something was going to happen which would require increased defense expenditures and that his resolution to oppose other fiscally expansionary measures was reinforced by his feeling that it was going to be necessary in any case to spend more for defense. And in this he was right as the events showed.

HELLER: You must be right about that. I tell you, we have a basis for determining this fairly quickly and that is the cabinet meetings. There was a cabinet meeting in which the president gave us the report on his trip. [Interruption.]

PECHMAN: Read that again, Walter.

HELLER: The cabinet agenda of June 15, 1961 has as the first item the president's comments on the recent European trip. And then secondly, the second item is interesting: inflation, unemployment, and the general economic course immediately

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ahead. That was when Dillon and I shared the discussion on the matter of inflation and the economic outlook. That by the way is also the point at which the president at our insistence

requested a review of the Clark community facilities bill and applied projects. This was at that cabinet meeting that he asked us to look into this.

SAMUELSON: You'll be interested in that very recent letter. [Interruption.]

PECHMAN: Walter, will you begin the story of the tax policy of the Kennedy administration? I think we talked about the early views of Kennedy and his entourage regarding tax increases. Things changed in the early summer – well, in late spring of 1961 as a result of the Berlin crisis. Will you pick up the story from there?

HELLER: Well, the Berlin crisis involved something between \$3 and \$4 billion of additional government expenditures. Of course we didn't know that at the very outset, and the Council was brought in in the most intensive way into figuring out the economic implications of all kinds of contingencies with respect to the size of the program. There is just an enormous amount of back and forth; I think programs all the way from, what, \$2 billion to \$12 billion were discussed? It was something in this order of magnitude. The final settlement was on a program of between \$3 and \$4 billion. The inclination – I'm oversimplifying now, there was a good bit of give and take

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on this – but inclination was to have a tax increase to finance this from two main points of view: one, that some people thought you needed to finance it to avoid inflationary consequences and so forth; secondly there were people that felt – I think Arthur Goldberg's feeling for example was based on this – that you needed to have a sacrifice to go along with the actual deployment of troops and additional material and so forth in Europe in connection with the Berlin crisis. The third strain, of course, was just the concession to the balanced budget forces. But I think it fair to say that as of the week before the actual decision was made and the actual message was delivered, and this is fairly well along in July, there was almost complete consensus with the exception of the Council on having a tax increase.

Now there was some bad reporting in the newspapers at that time. I have read Ned Flash? [Edward S. Flash] – you know, the Cornell public administration man who's doing a study – I read his story of this and he has one story in which he reported Dillon, Bell, and Heller as wanting to have a tax increase. This was never the case in terms of the Council. We argued strongly that if the program was in economic terms so piddling as to be under \$5 billion, that the economy could take it very easily without any inflationary strain and that therefore there ought to be no tax increase accompanying it. There was a meeting, I would say, on – we ought to try and

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get the dates. Jim, do you remember the date that I was in Dallas? That was a Friday, in July. I'm sure we can pin that down. Just before that, on Thursday...

SAMUELSON: I can provide perhaps some...

HELLER: Can you provide the date? All right.

SAMUELSON: I can't tell you what date in July but I'll have some information about the day by day changes in policy that were involved in that date.

HELLER: Didn't you get involved a little later than they...

SAMUELSON: Yes I did. I was in Washington on Thursday and Friday.

HELLER: Oh, you were in Washington that Thursday and Friday. I'd forgotten that.

SAMUELSON: For the Treasury. Once you establish the week, it's my impression that you called me up in the middle of the week or early in the week and said that there was a strong move to raise taxes. As the week developed, the strongest strain I would say was actually the sacrifice: that this was an indication of the sacrifice that the country was making, it would be an indication to our allies and to the rest of the world, the seriousness of our intentions, to have a tax increase. My recollection is that the Council was opposed to this and that was why you called me for help.

HELLER: That is correct.

SAMUELSON: My recollection also is that in the first instance Dillon was

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with you. There was a meeting perhaps after you got back from Dallas around Friday and he folded immediately under the barrage of Bobby Kennedy, Goldberg, who for once was not with the Council, and Ribicoff. This was one time when Ribicoff seemed to have a large role. You were very disappointed because although Dillon had gone into the meeting ostensibly on your side, the minute it looked as if the wind was blowing in the direction of sacrifice, he capitulated right away.

HELLER: My recollection confirms Paul's. As I remember this episode, Dillon changed his position twice.

SAMUELSON: Yes. I'll go into that. Then the thing was so fixed up that Ted Sorensen was going off by himself to write the speech and the president, as was typical in the summer, was going back to Hyannisport.

HELLER: Now, let me interrupt you there if I may because I now have the date and I can also correct one thing that was off base in your recollection. The date of that climactic meeting that we're coming to was Monday, July 24.

TOBIN: Yes. And I flew down to the president's after...

HELLER: Since I have the July 24 date, that means it was the twenty-first that I was in Dallas – Jim and I will want to give you a little of the back and forth there.

SAMUELSON: Was the twenty-first a Friday?

HELLER: The twenty-first was a Friday. The twentieth was the meeting

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date at which Dillon capitulated to the forces for a tax cut. Now, let me also say just for the record here that I find this is one of the many meetings which is not properly recorded in the presidential meeting book which we borrowed from Evelyn Lincoln. As we've discussed this, I can pinpoint at least four or five meetings now which I attended which are not – at least I haven't checked the book back, but at least where I have not been recorded as having been there. So I just want to note that those records aren't perfect. It was with a fairly heart that I went down to Dallas. I flew down that morning, Friday morning, and later flew back that day. I thought we were licked.

SAMUELSON: Yes, in fact you were licked at that point.

HELLER: I think Jim should move in with what he then started.

TOBIN: What I can't remember is what the stage of things was on the evening of Friday the twenty-first.

SAMUELSON: I'll give you a little bit of background.

TOBIN: The stage of things was that you had had a meeting...

HELLER: This was the evening of Thursday and it was Friday that these phone calls took place.

TOBIN: I had the impression it was Saturday.

HELLER: No, Saturday, I remember this because I was coming into the office from my home on Saturday morning when the president called from Hyannisport. I was ordered on the car radio to get to a phone as fast as

I could.

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TOBIN: Friday the telephone call took place.

HELLER: Yes, that's right. You were apparently sitting in Washington steaming and stewing about this.

TOBIN: Art Okun and I were steaming and stewing about it. We were looking at the figures for the economy, the budget and everything. The momentum seemed to have gathered so fast for recommending the tax increase that I think it appeared that it was going to be put in a message that the president was going to give the first of the week.

SAMUELSON: That's right. And do you remember that Sorensen went off by himself to write the speech?

TOBIN: And Sorensen went off by himself to write the speech. I think we tried to get hold of Sorensen but he was off by himself, and the president was in Hyannisport. So we decided to do something and I telephoned Ken O'Donnell.

HELLER: Oh, let it be said at that point that Ken O'Donnell and we had discussed this before and that Ken and I figured that it was the Council and Ken O'Donnell against the field after that meeting on Thursday. He thought it was a bum decision. He promised, by the way, to tell...

SAMUELSON: He also thought this was a decision which was being made in terms of politics as against economics. Ken O'Donnell was one who thought it was bad politics as well as being bad economics.

HELLER: That's why this action was so strong.

SAMUELSON: He was ignoring it.

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TOBIN: Well, I spoke to Ken O'Donnell and I said that the more we looked at this the more insane it seemed, worse both economically and politically – there just was no economic logic in it whatsoever – and sort of put it up to him as to what we should do. We must have another consideration of the matter with the president before it was too late. He said, "Well, by all means have Walter call the president right away. Tell him just what you've told me." So I called Walter in Dallas and I told him what...

SAMUELSON: This is still Friday and not Saturday?

TOBIN: Still Friday. O'Donnell and I had talked it out – and urged him to call the president.

SAMUELSON: Now if I may chime in my two cents worth; I must have been in the Treasury probably for one of those academic meetings on Wednesday or Thursday and the next morning which was either Thursday morning or Friday morning – quite probably Friday morning. I was invited to meet with Secretary Dillon in his office: Seymour Harris and I and Secretary Dillon and possibly Bob Roosa and maybe Joe Fowler, I can't remember. At that time, having been briefed probably by talking to Art, who might have been at the Treasury meeting, and maybe with Jim and you have called me earlier, I expressed opposition to the decision that was taken or about to be taken. I quoted some statistics. I can't remember the statistics I quoted but it was quite a different array of statistics.

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Important to this is that on Friday, late afternoon, Seymour Harris got a ride back to the Cape in the president's plane. It was a purely commuting arrangement as was common; people who were going to the Cape in the president's official family often got rides. Seymour went there really just as a rider but he had the opportunity to talk to the president on that plane. One of the newspapers tried to make something of the fact that the president had taken Seymour Harris with him on that plane. Well, on that occasion, Seymour quoted some of the statistics that I had been quoting that morning and attributed those to me. At this point the president showed a great interest in the whole matter and in my views on this and maybe in rethinking the decision. I believe one of the things you did on Saturday was to call me to say to stand by and be ready for a call from the president.

HELLER: That's correct because I talked to him then in the morning and urged him to get in touch with Paul.

SAMUELSON: Which he did.

HELLER: Meanwhile – is this getting ahead of your story? I'll hold if you don't want...

SAMUELSON: No, this is the same part. So on Saturday or Sunday after we'd talked, he did get in touch with me and said, could I come down with him on his plane Monday morning and talk to him and got to a meeting?

PECHMAN: Did you talk any substance at all in that conversation?

SAMUELSON: Yes, I expressed my views that, I said I can't judge the politics of this but the economics...

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HELLER: Is this on Monday?

SAMUELSON: No, this is Saturday on the phone.

HELLER: Saturday on the phone, because – just to be sure we have the sequence right – I talked with the president at some length Saturday morning. Then I talked with you at some length about the material we had that showed specifically how easily this expenditure increase could be absorbed. I think you had that at hand when you...

SAMUELSON: I was primed with ammunition from you, namely that the increase in the tax would simply cost that much of GNP, it would delay by that length of time a reattainment of low unemployment and so forth. So it was arranged that I go down for a meeting on Monday. And then on Monday I drove to Otis air field...[Interruption]

BEGIN TAPE IV SIDE I

SAMUELSON: Well, I resume the story of my going to Otis Air Force Base, getting on the president's plane; the usual delegation of commuters – Jerry Wiesner was on the plane, I think Arthur Schlesinger; other people who were at the Cape or the Vineyard [Martha's Vineyard]. There were some members of the president's family there. Then I was called in to talk to the president for most of that plane trip. We went over the wisdom of the decision which had been made and which Ted Sorensen was writing up. I reinforced the arguments of the Council that in my judgment the straight economics of the situation did not call for a

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tax increase; that it would be costly in terms of employment, production, income, and so forth. The president, I think, was already pretty much persuaded and I was the finishing nail in his persuasion. I ought to mention that we talked about quite a lot of things on that occasion including the fact that he said, "I'm for" – he didn't use the word frugality, but he said, "I'm for economy and expenditure. After all, I'm a taxpayer myself. I don't believe in big expenditure for its own sake. In fact, one of the things that I've tried hardest to do is to spend less on the White House staff than Eisenhower. Up until now I've succeeded in doing so but it's a hard battle and they tell me I need a new airplane, for example, and I suppose they're right. But I'm for economy." I discussed with him the difference between efficient government expenditure and the scope of the programs for expenditure.

HELLER: Don't you think that we ought to interrupt there to say that several times he complained about the size of the gardening staff at the White House. He said his old gardener up in Hyannis Port could do this for, I don't know, could cut the thing down to one-eighth, wasn't it?

GORDON: He brought the gardener down from Hyannis Port to look over the situation and tell him how many men they really needed.

HELLER: And then side by side with that, this record would be terribly lopsided if we didn't note that there were many occasions later on when he said, "I like to spend money. You

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know that." When it came to such a doubtful thing as the Florida project...

PECHMAN: Interama?

GORDON: Interama. I had a meeting with him – this was much later, of course; this is '63 – he said, "You know I don't object to spending money." One of my last conversations with him in November also indicated that he had no objections to the program expenditures, though he was strong on economy and keeping down the size of the staff.

SAMUELSON: Now I would like to emphasize that the primary point being discussed was a tax rate increase but that was in the background of also a cutback on civilian expenditure. When we come to the White House meeting which took place on Monday and hour or two after our arrival, the lineup there will show what I'm referring to. So I arrived having talked to him most of the trip there, the decision looking almost certainly as if he was going to reverse the previous decision but I couldn't be sure. I informed you of that.

HELLER: That's right.

SAMUELSON: You were talking to Ken O'Donnell and I remember, not knowing how to interpret it, he said, "I think the issue is moot." He used those words, in lawyer's terms.

HELLER: Ken O'Donnell.

SAMUELSON: Yes. Or was that at a later stage of the tax...

HELLER: No, I thought he said on this one that it's pretty well in the bag. I thought he meant for our position.

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SAMUELSON: Yes, that's what I was trying to remember, just what the word "moot" meant.

PECHMAN: Tell me one thing, though. It was your impression that during your conversation with the president on the plane, he had just about made up his mind to go in the Council's direction on this point. Now what happened between Saturday morning, when Walter called you for assistance, and Monday morning?

SAMUELSON: No, I think from the time that Seymour talked to him Friday evening to Walter's new barrage – and Ken O'Donnell was undoubtedly doing something there.

PECHMAN: Is that right, Walter?

HELLER: He was, unquestionably.

SAMUELSON: The president on Monday wanted all the arguments marshaled; that he was already changing his mind but he wanted to be sure that an outside person would tell the same story about the economic wisdom of it.

HELLER: But he played a cagey game later on in that meeting. He certainly didn't let on which way he was going.

SAMUELSON: That's right.

HELLER: Now let me ask this question, Paul. Where did Wilbur Mills come into this? Somewhere along the line I think he took some soundings with Wilbur Mills that went our way. That was alleged. I've never been able to verify that. Does anybody here know that?

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SAMUELSON: I just wonder whether...First, it's possible that this is being confused with the later, almost a year later, tax cut.

HELLER: No, this was that day.

SAMUELSON: That's right, there was some talk even over the weekend, I think; maybe Ken O'Donnell checking with Larry O'Brien and Mills or something.

PECHMAN: He had to check with Mills because I think one of the arguments that we had – remember I was on the periphery of this too – against this action was that coming in for a billion or a two billion dollar tax increase was simply silly. You wouldn't want to do that. How do you get a billion or two billion dollar increase?

HELLER: I think there was never talk of that level, was there?

PECHMAN: Oh, yes.

HELLER: Wasn't it always three billion?

PECHMAN: No.

SAMUELSON: But I think there was some uncertainty, once the president began to probe, as to whether if he merely asked for it, he'd get it.

PECHMAN: Precisely.

SAMUELSON: So he had to weigh that particular element in, plus...

HELLER: And early in the game let it be said that everybody assured him this would whip right through with the rest of the program with no trouble.

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SAMUELSON: That's right, and it would be politically popular.

TOBIN: I was just wondering what Walter did or what you did?

SAMUELSON: What I think is that when I arrived on the helicopter, I went immediately into consultation with you and we were waiting for about the hour before the meeting.

TOBIN: Meanwhile back at the ranch in Dallas or wherever he was.... We haven't got him to Washington yet, we haven't got Walter to Washington yet.

HELLER: Oh, yes, yes, yes.

SAMUELSON: When did you arrive, on Sunday?

HELLER: Well, maybe just to get this record up to date, I came back on Friday afternoon. Yes, I did.

SAMUELSON: When he called me – it was from Washington you were calling me.

HELLER: Sure.

SAMUELSON: And you were talking to O'Donnell.

HELLER: You and I conferred that night, Jim, in Washington – Friday night. So by the time I was driving in the next morning and the call came from the president...

TOBIN: Had you called the president?

HELLER: I'd put in a call to him and I guess had not gotten through to him because he was flying back at that point, and then it got late. I just have a feeling I had not talked to him on Friday and that it wasn't until Saturday morning that I talked to him. Am I wrong in that recollection?

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TOBIN: I think you're right.

SAMUELSON: That sounds right to me.

TOBIN: But you talked to him at Hyannis Port on Saturday morning?

HELLER: That's right. That, as I say, I remember that.

SAMUELSON: I'm not even sure that I didn't talk to either you, Jim, or Art, in preparation for the phone call from the president to get some solid figures.

HELLER: Oh, you certainly were.

TOBIN: To both of us.

SAMUELSON: Well, then I should have thought that about 11 o'clock – if we arrived at 9:00, maybe 10:30 or something...

HELLER: Oh, you mean as to when we got in to see the president?

SAMUELSON: Then we went to a big meeting. It wasn't a question of our getting in to see him unless we saw him a little bit before the meeting.

HELLER: The meeting with the president started at 12:15 that Monday and ended at 1:09 PM.

SAMUELSON: But you and I did not get a chance to talk to him before the meeting assembled itself.

HELLER: No, we didn't.

SAMUELSON: Right.

TOBIN: Who was there?

HELLER: Rusk, Heller, Dillon, Robert Kennedy, Ribicoff, Goldberg, Samuelson, Murrow [Edward R. Murrow], Battle [Lucius D. Battle], Sorensen, Bundy.

TOBIN: How did this meeting happen to be summoned, because it hadn't

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been scheduled at the previous Thursday.

HELLER: This was arranged through Ken O'Donnell as a result of our efforts over the weekend.

TOBIN: I just wanted to get that straight, that there hadn't been a scheduled meeting to review this thing; it was us, because of these second thoughts.

SAMUELSON: Yes. Now the principals who were there, who were involved and expected to be active were Robert Kennedy, who'd been very active in the Thursday decision; Ribicoff, who for the first time as far as I know was involved in a big way in important fiscal policy matters; and Goldberg, Dillon, and Heller. I leave out myself here.

HELLER: Though you shouldn't because you spoke.

SAMUELSON: No. I did speak. Now, the president started out and he did not acquaint the assembled group about what the change had been in his thinking. I remember that Robert Kennedy said a few words. It was the first time I'd seen him in an actual meeting and he said, "Mr. President." He didn't address his brother in any other way from that. Well, what happened was that Ribicoff and Goldberg talked and they literally had the rug pulled out from under them. When they talked they didn't realize that the wind was blowing the other way. They were temporarily allies but they were for quite opposite reasons. Ribicoff wanted to increase taxes, to increase sacrifice, and

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it turned out he wanted to cut down on civilian programs: this was an emergency; it would appeal to the American people. Goldberg differed from Ribicoff in this respect, that Goldberg was trying to save the civilian welfare programs and had convinced himself that the only way to save them would be by a tax increase; that if you didn't have the tax increase....He also thought a question of sacrifice was involved. I think Robert Kennedy was primarily – he didn't say very much at this meeting – impressed by the need for action and sacrifice. Even Murrow got in the act. He was sitting in the background and saying how – I can see it now almost – of how to sell it to the Europeans that the greatest country in the world is putting upon itself a sacrifice and not asking others for sacrifice. Well, the president listened to all this and then I think maybe was even a little impatient at the end and then sort of announced the decision that it was going the other way.

HELLER: No, Paul.

SAMUELSON: Didn't he? Well, he indicated it.

GORDON: This would've been very unusual for John F. Kennedy.

HELLER: No, he did not. But let's get the role of Dillon in this here.

SAMUELSON: But Goldberg felt very....My recollection is that when it turned out that Dillon saw that the wind was blowing the other way, he reverted, not in a strong way, to his original position of opposing the tax increase. This is the way that

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it was reported in the leak in the press and we were very happy to have it left this way; that this sort of a Dillon triumph because one didn't want it to seem to be a Council triumph. Now I'm quite sure that although the president did not announce exactly what his decision was, it was very much indicated what his decision was because Goldberg felt let down. Do you remember? There was some conversation between you and him that he'd gotten put into an exposed position.

HELLER: Yes, that's right. Arthur wasn't happy about that.

SAMUELSON: And he must have been sensitive to it. Now, was Ted Sorensen in there at the meeting?

HELLER: Yes, his name is on the list.

SAMUELSON: Now, my impression is that he was quite unhappy about it and it may have been he was unhappy for no other reason than that he had knocked himself out and had to now start all over again on a different tack.

HELLER: Well, although this wasn't so large a part of the speech but it was all right. It wasn't any great enormous change and indeed in the course of the afternoon Ted had two alternative versions depending upon what decision was going to be made.

TOBIN: I had spoken to Bundy about the whole matter.

SAMUELSON: That's right, and I had the impression that Carl had spoken to Bundy and that Bundy was on the whole on our side and said a few words in that way. Rusk really wasn't engaged in the economics of it but he...

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PECHMAN: Did he comment at all during the meeting?

SAMUELSON: Yes, Rusk was asked. He might have been asked to give his opinion first.

PECHMAN: And what did he say?

SAMUELSON: That these were troubled times and that this was a serious thing.

PECHMAN: He was in favor of a tax increase?

SAMUELSON: It was my impression that he didn't have a strong position one way or the other but that he was in favor of it.

PECHMAN: Let's go down the rest of the people, just a note on them. How about Dave Bell? What did he say if anything? Was he there? Yes he was, and Murrow.

SAMUELSON: Well, Murrow was definitely for the tax increase, and at least initially Robert Kennedy was for it; Ribicoff very strongly.

HELLER: Bob Kennedy we thought of over the weekend as one who really didn't have his heart in it.

SAMUELSON: No, except that I was afraid that he might be mad at you and me.

HELLER: Yes, that's true, but he wasn't.

SAMUELSON: He wasn't, yes, but I didn't know whether he was going to be.

HELLER: He wasn't that firmly committed to it, among other things.

SAMUELSON: Yes, but he's one of the people on Thursday, I think, who had been instrumental in the change.

PECHMAN: Did Dave Bell speak out?

SAMUELSON: I don't remember.

HELLER: I don't believe so. We were hoping that he would and as I recall he didn't.

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SAMUELSON: Very rarely did David Bell in my recollection come out and say, "Well, now, here's the economics of the situation as I see it as different from the economics of the situation as Walter Heller is describing it to you. These are matters of judgments." I didn't know him to do that. He would sometimes shut up if he thought, well, maybe Walter's economics was right but it wasn't politically going to go through. I don't mean on this occasion but he rarely arrived at an independent judgment in economics which differed sharply from the Council's.

TOBIN: Well, that's perfectly true but there were several occasions, of which I don't know whether this was one or not, on which we had counted on Dave Bell's active support...

HELLER: His vocal support.

TOBIN: His vocal support in the councils of the administration in the cabinet room, in which he remained silent.

SAMUELSON: That's right. Well, that was many of these.

HELLER: Now, there's a good bit more to the rest of that day which is just a personal note. I had been scheduled to go to Paris on Sunday morning to get there Sunday night for a dinner. I was going over as head of our economic policy committee delegation, [Organization for Economic Cooperation and Development] the OECD. I postponed it to Sunday night and clearly after it became evident that we were going to have this meeting on Monday, I postponed it to Monday night at the

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very last moment. The decision was not yet made. Now I'll tell you why I remember this – two incidents: 1) Sorensen was writing his speech with two alternative versions; one was still with the tax increase and the other one was without the tax increase but a very firm balanced budget commitment. He asked me what I thought about the balanced budget commitment although indicating pretty clearly that the president felt he had to make this comment. I would like to know, by the way, in retrospect whether both versions had a balanced budget commitment. I can't tell that at the moment. Ted Sorensen would know. I said, well, I thought that if the economy kept moving the way it was that the balanced budget commitment would not cause us a great deal of trouble in 1962. Then, and I remember this discussion, by the way, of how it was going to be put and the alternative that had no tax increase continued right until I went out to Friendship Airport. The moment I got out there, very late...

PECHMAN: What day was this?

HELLER: This was Monday night – I had a call from Ted Sorensen. We were still working on that version of it. Now, I went over to see the president in the mansion at 5:30. This was final base-touching before taking the plane from Friendship. He was with the vice president, and he and the vice president and I had a discussion of this. I notice here in the record that this is

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5:30 to 5:45 the night of July 24. We had a discussion of it in which the president did not tip his hand and on which he was still getting the opinion of the vice president and the opinion of the vice president seemed to be the other way, that is, for the tax increase. Now, as a result I had to go to Paris after all – the talk about economic policy – the very next morning, not knowing which way this decision was going. I had felt, perhaps a little too strongly, that this put me in a tough spot as far as holding forth in Paris was concerned, so I said to the president I hoped that there was some way that he could let me know which way the decision was going. He said, "Well, on your way back through the White House set it up with Kenny O'Donnell." So I set it up with Kenny O'Donnell that he was to send me a yes or no cable, which he did, which arrived the day after I left. But the decision must have been made that way.

SAMUELSON: We were hopeful though that the decision had gone our way, from what Kenny O'Donnell had said.

HELLER: You know, if anybody had asked odds, I would have given them 2 or 3 to 1 that it was going our way.

SAMUELSON: I think we met you, Kermit, and Jim; as we left the White House in that space between the Executive Building [Executive Office Building], we talked. I remember that because I thought, "My God, I'd stake anything that Kermit didn't tell the press." Because there was again a leak about

the meeting. It was a leak that

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had to be from somebody who'd been in the meeting, although it was a garbled account. It wasn't a correct account of what had happened. This was I think again Slevin [Joseph R. Slevin] including the fact that Dillon had been the one who had swung the thing toward no tax increase which was actually not the case, although he certainly had not opposed it.

GORDON: It would have been so unlike President Kennedy to have announced his decision in a meeting in which two different groups had been arguing adversary positions. He liked to let people down gently. He liked to do that even though he had made up his mind. He'd rarely say in the meeting how it was going.

SAMUELSON: Except I thought that both Goldberg and Ribicoff were...

HELLER: Got the message.

SAMUELSON: ...in a tight position, felt that the ground had been cut out from under them. I expected maybe they'd be mad at Walter. Because it had been pretty much a decision made earlier.

HELLER: There were no permanent scars for that one.

TOBIN: Well, I think the greater risk from that point of view that the Council took in reopening the matter at all was that it was going around Sorensen, who had already had to work out a message and who was probably also intellectually in favor of the tax increase.

SAMUELSON: I want to mention something about Ribicoff because I got the strong impression from his presentation, and it surprised me that he didn't care for the education bill. It wasn't going

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to pass anyway but he personally didn't think it was a very good bill and was just as glad to have this excuse as any other to have it go by the wayside, and maybe some of that other social welfare legislation. Do you remember that, Walter? I remember this was the first I'd ever seen him in action.

HELLER: I remember very clearly the economy theme but I don't recall that impression, but it could be.

GORDON: Just a couple of weeks ago, you remember, Arthur Goldberg told us that one of the greatest mistakes he made as secretary of labor was his position on the tax cut in the summer of 1963.

PECHMAN: Tax increase.

GORDON: Tax increase.

PECHMAN: Does he feel that weakened his position with the president?

HELLER: No, he just feels in retrospect that...

GORDON: He just concedes he made a terrible mistake. Yes. And defied by the test of events he feels that it was right not to have increased taxes.

SAMUELSON: It was one of the few times when he was not an ally in the cause of expansion of effective demand.

TOBIN: Now was the balanced budget commitment discussed in the meeting?

ACKLEY: Can I ask about that balanced budget commitment? This would relate to what, fiscal year '63?

GORDON: '63.

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ACKLEY: What was the bombshell about?

GORDON: That was fiscal '62.

ACKLEY: Fiscal '62 budget had been submitted by Ike.

HELLER: Oh, yes, but you see we were having a second budget message in early March as I recall and the whole question was would that budget be a deliberately unbalanced budget for fiscal '62 in the Kennedy version. This was where the seven escape hatches were built in so that we could say we were presenting a balanced budget.

TOBIN: And one of these escape hatches was being used in connection with the Berlin expenditure increase.

HELLER: That's a good point, Jim.

TOBIN: This is the reason why it was going to be clear that we were not going to make the balanced budget in '62 as soon as the Berlin increases in expenditure were announced without corresponding tax increases. So I can see how there was for that reason some pressure to say, "But we are going to balance the budget in fiscal '63." But what I'm asking is just who actually voiced that concern and that pressure?

SAMUELSON: At that meeting the whole discussion, and mostly in talking with the president, was the difference between what the politics called for in terms of sacrifice and solidarity and indication to the Russians and indication to our allies, and what the straight economics called for.

PECHMAN: Nobody at that meeting disagreed with the economics, if I

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understand what you're saying. Nobody at the meeting – Ribicoff, Goldberg, and so on; they didn't disagree with the economics.

TOBIN: Well, I don't know about that meeting but in the discussions the previous week there had been serious positions taken that the announcement of the program and the scare that it would generate would set off a kind of Korea-like wave of spending.

PECHMAN: Who was taking that position, the Treasury?

TOBIN: I don't think it was an agency position.

GORDON: Joe Fowler. Joe Fowler was talking direct controls.

PECHMAN: Oh, yes, that's right. I'd forgotten about that.

HELLER: Sure. I think we ought to have a little statement from Kermit Gordon on Joe Fowler.

GORDON: Well, Joe, largely based on his experience in the mobilization agencies in the Second World War and the Korean War, was very direct controls oriented. You could always depend on Joe, whenever the circumstances or prospective circumstances raised the prospect of pressure on supplies and commodities or inflation, to move first with a direct controls proposal. As I remember he did, and actually we did a good deal of work in considering the case for direct controls.

PECHMAN: Didn't he submit a fifty page memorandum to the president on that?

HELLER: Well, in our secret files we have a whole exercise that we

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went through on these different assumptions, as I say, from \$2 to \$15 billion dollar programs or something like that, taking into account all these possibilities. I'm glad you mentioned this, Jim, because it was in the context of a good many fears of inflation that probably the original decision was made and in a sense sort of a hangover from the consideration of much bigger programs.

PECHMAN: I think we ought not to linger too much on this.

HELLER: But at that meeting it's perfectly true that nobody tried to make the case that economically this was unsound. Isn't that true, Paul?

SAMUELSON: Yes.

HELLER: You and I made a case for it. I remember he called particularly on you, I think, because....And you know two or three times I had this feeling in meetings and I believe Jim and Kermit observed that too in some of the meetings where Martin was present, or the Treasury. He would call on you to present the case that he knew you and I were together on so that I wouldn't be...

SAMUELSON: Not Martin, because I wasn't at any of the Martin meetings.

HELLER: With Dillon.

SAMUELSON: Yes. He would not want them to lose a victory to you...

HELLER: Exactly.

SAMUELSON: ...or appear to be and it would be better that I be the one who was carrying the ball. I think there were also one or two meetings when Bob Solow and I were called in later.

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HELLER: The tax cut decision in the summer of '62, you said that.

PECHMAN: Well, I think one interesting point that I'd like you to comment on is what lessons do you read from this experience as to how the Council brings to bear on the presidency, the economic requirements of policies?

SAMUELSON: I thought frankly that this was almost a turning point showing Kennedy's confidence in the economics of his economic advisors, because there were many reasons for the decision to have gone the other way in terms of the pressures.

PECHMAN: In other words, unless the president does have this kind of confidence, the likelihood is that non-economic reasons could overwhelm them in any given instance. I suppose the lesson is that you just have to, as early as possible one has to gain the confidence of the president on the basis of performance.

SAMUELSON: But I think it would be a very rare occasion when you could, just by getting in your licks at the last moment, undo a decision that was made; it just happened to go that...

GORDON: That would be true with respect to any presidential decisions he had made.

HELLER: There's one other observation about this incident that we've talked about privately but I don't think on tape that sheds some light on the president's thinking with respect to relationships to the press, and that is the leaks that we've referred to: Joe Slevin. There were two very bad leaks and the president at that time was highly sensitive to leaks.

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You know he'd had an initial very open period with the press when we were always worried about this ship that leaked at the top. We felt he was much too open with the press, then gradually he pulled back some and began to be worried about leaks. On this one there was an inquisition afterwards; a very sharp inquisition which reached up to Cambridge, too.

GORDON: Yes, that's right.

HELLER: And there was the strong suspicion on the part of Kennedy and Ken O'Donnell that the leak came through our shop and I steadfastly denied it.

SAMUELSON: I always thought that Sorensen thought economists were leaky; I always thought it was the Treasury.

HELLER: I think actually when history is written it will turn out to have been both, not on the same thing but on different things. But I think it should be said here that the president's hunch was right. Much to my shocked surprise some months later I found out that my assistant had talked to Joe Slevin and had leaked like a sieve without realizing that he was leaking. Joe Slevin kind of in his little question and then long period of silence technique got Chuck Cooper [Richard C. Cooper] to

spill the beans. This was a very unfortunate thing: I'm sure it hurt the relations of the Council with the president even though the president never got the confession, so to speak. It was long after that I found out about it. I didn't think I'd run to the president then and say, "Oh, look here; it was us." But

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the truth of the matter was that it had been through our office that a good bit of this came. Now we think I also established the fact that Slevin must have gotten part of it from elsewhere because some things were reported in his columns that had not even been in my mind as I came back from the meeting. Nevertheless this was a very severe thing with the president for some months, this whole question of security, and I know that we were excluded from some deliberations because of the strong suspicion and correct suspicion that we had leaked.

SAMUELSON: It's interesting, by the way, that McNamara was not at that meeting.

PECHMAN: It is, isn't it?

SAMUELSON: He may have been too busy.

PECHMAN: May not have been in town. Well, I think it's significant that we come out of the Berlin tax crisis with a promise for a balanced budget for the fiscal 1963 budget which was yet to be transmitted six or seven months later. Shortly after the transmission of the budget in January of 1962, the atmosphere seems to have changed from the balanced budget philosophy to tax reduction as a method of stimulating growth.

TOBIN: By the way, on the balanced budget pledge, we don't have the president's words here in the Berlin mobilization message, but I believe that they were of the nature that the budget of '63 will be balanced if prosperity brings in the revenues that one would expect. So it wasn't an unqualified, ironclad commitment.

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HELLER: This by the way, Jim, was the subject of a conversation from Friendship Airport between Sorensen and me, this escape clause. I don't know whether he was also checking this with you at the same time back home, so to speak.

TOBIN: No, I think I went to Paris before you did.

HELLER: Oh, I forgot that.

TOBIN: While you were meeting or something, or almost.

PECHMAN: That's right. You didn't know anything about these.

TOBIN: After I did my weekend stint I had to go, especially since you weren't. But the other thing that I wanted to say was that in a speech that I believe Secretary Dillon gave to the IMF [International Monetary Fund] meetings in the fall, he greatly strengthened and made more rigid the balanced budget commitment.

HELLER: These were the Vienna meetings.

PECHMAN: And in fact he did submit a balanced budget.

HELLER: Now wait, he has an important point. Was this simply an ideological defeat in the balanced budget commitment or did it have real undesirable consequences? Offhand I can't think of any real undesirable consequences it had. It really was ideological. What else stemmed from it that would be unfortunate?

TOBIN: Well, what was unfortunate was that the whole planning for the calendar year '62 and fiscal year '63 was straitjacketed by this commitment; and the \$570 billion forecast mistake was related to it.

HELLER: There was at least a \$5 billion increase in expenditures, '62

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to '63, was there not?

SAMUELSON: But there was a putoff for a year. As I remember it there was a putoff for a year on certain parts of the structural tax change, due to Joe Fowler and Secretary Dillon saying that it couldn't be done in this time and they needed the time and they needed a lubricant and so forth. Certain things that we thought we might begin to do, think about at the end of 1961 for the following year, were put off definitely for twelve months.

HELLER: But not because of the balanced budget pledge. For one thing this tax reform thing was so intricate and so on that they truly didn't have their homework done.

SAMUELSON: And wasn't there a time when you hoped to get on with it a year earlier?

HELLER: Absolutely. As a matter of fact in April of '61 there was a firm commitment to come up with the tax reform program the following year.

SAMUELSON: Yes, that's what I remember.

HELLER: I don't think this was a victim of the balanced budget pledge. Nor do I think very much was the victim of that pledge. I'm inclined to agree with Kermit.

GORDON: There was a \$5 billion dollar increase in budget expenditures from '62 to '63. Now what else could have...

PECHMAN: But let's look at what budget he submitted. May I see that economic report? How much did you actually spend in fiscal '63?

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GORDON: Well, here's again, the increase was \$5 billion from fiscal '62 to fiscal '63 – the administrative budget.

PECHMAN: All right, and the budgeted increase was...

GORDON: Expenditures in fiscal '62. Administrative budget: \$87.8.

PECHMAN: \$89.1 actual – estimate; I'm sorry.

GORDON: Fiscal '63, expenditures were actually \$92.6 – almost \$5 billion.

SAMUELSON: Yes, but you see, the budget you submitted for fiscal '63...

PECHMAN: Let's see, in January 1962 you submitted a budget for fiscal '63. Well, that budget was \$92.5 billion.

GORDON: We hit it almost on the nose. Came out almost on the nose; I remember that. The actual was \$92.6. I think this is an important point. I think it's still a valid question to ask what...

SAMUELSON: Moreover, I never had a feeling that Kennedy, at least from this time on, if he did earlier, really cared about the balanced budget except to make it seem like a budget.

TOBIN: I tell you that we were fighting the rest of the year this kind of battle; that since we had this commitment, we were fighting all the time a battle with the Treasury about the size of expenditures because they

were able to say that we're not going to have the revenues for those expenditures and we have to balance the budget. Then this is where the whole forecasting problem came in. This is where the upside down economics comes in. The reality of it was that to the extent that the Treasury estimated revenues low they were

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keeping the budget down. And to the extent that we said, "Well, really revenues are going to be higher than that," we were paving the way for more expenditures. It wasn't just a technical difference or an intellectual difference; we were fighting about the size of the expenditure budget. That's what we had all these discussions about.

HELLER: But there's a difference here, you see, in interpretation between the two of you. What Kermit is saying, in the last analysis if you hadn't had that pledge, you wouldn't have come out with more than about \$92.5 billion.

GORDON: I'd be surprised if it came out much higher than that.

HELLER: And what you're saying, Jim, is that we had to fight every inch of the way. We had to fight a lot harder, and the size of expenditures did get involved in the revenue and income actually.

SAMUELSON: It seemed a little sacrifice of your professional reputation.

HELLER: Well, now, I think we should discuss this a little bit.

TOBIN: \$92.5 billion may seem like a sizeable increase but that was not the figures that were initially being discussed. The figures that Dave Bell was coming in with for the budget were in the neighborhood of \$94 to \$95 billion. We had to cut down to \$92.5 because of the balanced budget pledge; I think, largely because of the balanced budget pledge. The Treasury was probably hoping for something like \$90 or \$91.

HELLER: They talked \$91, Jim. And they were forced up by exigencies

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of the momentum of spending programs and so on to \$92.5.

PECHMAN: No, no, no. Now Jim, wait. Isn't it true that Dillon finally caved in in the last minute as a result of the Palm Beach – I don't know whether it was in Palm Beach or elsewhere, but as I recall it, he agreed to raise the revenue estimate to accommodate a \$92.5 billion dollar expenditure figure. Isn't that right?

HELLER: Now remember, in the background of that decision, the president more than once said, "I don't care if you paper over one or two or maybe even three billion dollars of deficit." He used that term "papering over" several times and that was in December-January period.

SAMUELSON: Shall we go to the forecast?

HELLER: I think we should go to the forecast itself. Now let me tell you my impression of it and then Jim, who was close to the forecasting team, can correct me if I'm wrong because there's a good deal of controversy about this; whether this was really a forced forecast and if so, how much was forced, and the extent to which it was just plain error. Now I will start out by saying...

SAMUELSON: By the way, I want to testify on this subject as a visitor.

HELLER: All right. I'd rather be wrong than rotten. I think this fits my formula. As far as I was concerned, and I know this is a strong contrast with what happened a year later, I took the forecast that was produced by the technicians and did not enter...

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SAMUELSON: I consider this Art Okun, I consider that forecast primarily the work of one man: Art Okun.

HELLER: And I consider it primarily under the influence of a sixteen billion dollar jump in the rate of GNP from the third to the fourth quarter of 1961. That influenced us tremendously. Up until then...

GORDON: Which it turned out the three billion overestimated, right?

HELLER: In retrospect, it's still awfully hard...

TOBIN: The last revisions reduced it some more.

HELLER: When you were working on this forecast, you were working on a four quarter 1961 GNP which had to be reduced by about three billion a few months later.

PECHMAN: Well, let me give you the facts here.

HELLER: That's true. That's true.

PECHMAN: Fourth quarter, \$503.3.

HELLER: These have been revised again.

TOBIN: These were revised again in the last few weeks.

PECHMAN: Sorry. Fourth quarter, \$538.6.

HELLER: Third quarter?

PECHMAN: Third quarter, \$522. That's in the January '63 budget.

HELLER: See, there were \$16.6 billion dollars.

PECHMAN: January '64 budget is \$16 billion, yes. Still \$16.

HELLER: Let me just wind up this impression as I have it. I had been dubious as of the March statement; and that's the point I was trying to make earlier about our being able to get back to full employment with that kind of a tax load. We had some little

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reflection of that in the statement but not very much.

The period of December-January 1961-62 was the period up until mid-January anyway, when I thought, well, maybe I'm wrong. Maybe we're going to make it after all under the present tax system. As far as I was concerned, the forecast that came to me was \$568; that was Okun's undiluted, technical, economic analysis. Then we, in the course of events, pulled it up to \$570 and then punched it a little, as I remember, by saying that when the investment credit and depreciation liberalization went through, it might even be more than \$570. If there was any fudging to get this optimistic, realistic forecast, as Dillon characterized it, it was between \$568 and \$570 plus this one qualitative modification. Now, that's my recollection.

SAMUELSON: That agrees with my recollection.

TOBIN: I just want, before you go on, the actual GNP in 1962.

PECHMAN: It was about \$554.

TOBIN: But that already reflected a three billion dollar revision down. So \$565 is the prediction that corresponds with the outcome of \$555 or \$554.

SAMUELSON: Right. As I appraised the situation later, I decided that the scientific forecast of the Council in terms of revised figures was for \$565. Its scientific figure at the time was \$568 but for expediency purposes, to

keep Dillon happy and to get the expenditure and so forth, it was rounded up to

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\$570. The last two billion was not theirs. But I'd write the \$568 down to \$565 because there was a revision of the figures. Isn't that right? Wasn't there a revision?

TOBIN: Yes, that's what we just said.

SAMUELSON: Okay, but now let's look at the \$565 figure. I thought the \$565 figure was unnecessarily high. But it was Art Okun's scientific forecast and I tried to find out from him exactly what. It wasn't a low forecast, a low defensible forecast which is what we often make, but it was a figure that he claimed he would be willing to be on either side of, if he had to bet his family's money. Now I think he was much influenced at that time by fortune and Sandy Parker that maybe these fellows were going to be right in comparison with others. Because I remember arguing him and I said to you, Walter, that I thought that even if he was right, it was too dangerous to do it. You didn't have to be that much ahead of the rest of the field because if we call his figure \$565 on a corrected basis most of the business economists at that time would have been eight or ten billion below.

HELLER: Not eight or ten, five or six.

SAMUELSON: Five or six, so you could have moved up two or three on them and you'd have been ahead. But now we come back to the fact that even in Art's figure, there was the Treasury's position that subconsciously it would help you to have a high figure. The danger in being a little too high seemed to be less than the

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danger of being a little too low. This is aside from the last two billion.

HELLER: The danger you're talking about...

SAMUELSON: Of having expenditures cut down.

TOBIN: That is all true but...

SAMUELSON: Art was a big swinger in that time too. He said so later.

TOBIN: I don't think you should put it all on Art because it reflects not only his numbers; it reflects the economic analysis of a lot of people.

HELLER: Sure, we were all...

TOBIN: I was responsible for that wing of the Council's work and I take responsibility for it.

HELLER: Absolutely.

TOBIN: And I think a good economic argument can be made for the validity of the forecast at the time. This would be it: namely that there was a good possibility that the inventory accumulation would proceed enough and long enough to raise GNP by mid-year to a point where it would really be some leverage on business investment spending which we hadn't had up to that point. That didn't happen. We didn't get up high enough in the first part of the year so that we ever eliminated enough excess capacity to get business investment spending going. But I can't say even now that it was a horrible error to have thought that that might happen. Some things happened in the economy that spring. We don't know how much effect the steel

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business had on the whole matter.

SAMUELSON: No, but we knew that the forecast was going sour, by what? February and March.

TOBIN: That's quite a different match.

HELLER: Didn't know how sour it was getting.

TOBIN: The revision of the forecast afterwards is quite a different matter from using it as the basis for the budget message and the economic message.

SAMUELSON: I know, but in terms of the president putting down a single figure for the first time, in a public way, in history and leaving out upside down economics, I think it would have been a safer loss function to have used a different loss function in which it wouldn't have hurt you to be a little lower.

HELLER: No, but you couldn't because of the expenditure thing.

SAMUELSON: Oh, that's the upside down economics. All right.

HELLER: But you see, we ought to keep the record straight. And I think Jim's point is absolutely right, that we were willing to stand, we would have been willing to stand then and there, in terms of the pre-revision of the base situation, on \$568. I want to make the point again that the following year I did not accept the technical experts and caused them to go back and raise it by five billion dollars on the basis of points that I thought did not show up in their numbers. In this case, I accepted it

and I would accept full responsibility for it just as Jim would and Art would and so forth. So what we're

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saying here is this figure had integrity even though it was wrong and maybe was not the smartest thing to do.

I want to make one other point about the background of this, and that is that we were convinced that stupid fiscal and monetary policy had nipped us in the bud in 1960 and perhaps also in 1957 and that that was why we didn't get to full employment, or a good part of it, and that if we weren't that stupid, this \$16 billion dollar surge in the fourth quarter seemed to portend that we could get up to full employment in the face of continued easy money and a reasonably expansionary budget policy.

SAMUELSON: Am I right, by the way, that you also put in a '63 target? Was that in that message?

HELLER: Mid-'63 we said we ought to be able...

SAMUELSON: Which was misunderstood?

HELLER: Yes, it was overinterpreted.

SAMUELSON: Again it seems to me that some people told you that it was in danger of being misinterpreted.

HELLER: The president himself.

SAMUELSON: Did he? Because I had thought that and communicated that, that people would think that to be like your forecast.

HELLER: Well, you and Ted and the president all warned us, we softened the language all the way through but not enough, obviously, in terms of public interpretation.

TOBIN: Some people think it wasn't soft enough but I think there

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were enough qualifications. If you're going to put in a figure, even if you put a standard error on it, attention is going to be on the figure. The discussion of the outlook for 1962 in the report contains plenty of reference to the possibilities that things may go differently from the central forecast and the way in which these things might happen. I would think to say that Secretary Dillon and the Treasury never leveled about the revenue effects of the investment tax credit and of the whole bill which

was...

HELLER: Oh, and of depreciation, more importantly.

TOBIN: And of depreciation, more importantly. In spite of repeated questions and inquiries in the Troika, they insisted on going almost down to the wire, in fact down to the wire of the preparation of the budget message without any estimate whatsoever of the revenue effect of their measures on accelerated depreciation and the investment credit. They insisted that the revenues in the Troika report to the president always be given as if there were no revenue loss from these changes. Now I think this was the real problem that we faced at the last minute. It may have taken two billion dollars, which is well within anybody's margins of error, to balance the revenues on the old basis to the expenditures projected in the budget, but I don't think it takes a great deal to swallow those two billion dollars. But what bothered us all along was that we knew that those revenues were still an overestimate because

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of depreciation and tax credit. Dillon and the Treasury had never even told the president that the revenues were not in fact going to be that large because of these other things.

HELLER: And that has, of course, a sequel which was that later on, in effect, the Treasury blamed us for the shortfall of revenue because of our overestimate of GNP. I thought that was sort of the unkindest cut of all.

TOBIN: Whereas only part of it could be so attributed to it.

HELLER: Only part of it could be attributed to it and they were sort of full partners in the forecast besides. I mean they insisted on being it except in the retrospective look at the situation. This came out in several different ways and as a matter of fact, I think that was what triggered at this cabinet meeting, the presidential statement that I referred to earlier saying, "I have to take part of the blame for this..."

PECHMAN: That is, President Kennedy saying.

HELLER: With President Kennedy saying, "I have to take part of the blame for this deficit and the shortfall of GNP because I was pushing these boys to give me a balanced budget." So if you asked him to tell this story, he would have thought that more of the \$570, I think, was an expedient to finance his expenditures than actually was. As a consequence, I must say again that he wasn't as harsh. As a matter of fact to my knowledge he never once – and I think this ought to be recorded – made me uncomfortable about that forecast. I don't recall his twitting me.

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I don't recall his making any cracks about it or criticizing us for it. Is this just a sanitized memory? Does anyone here remember any reproach?

SAMUELSON: I don't remember anything on that but I did have the impression that in order in part to persuade him to take expansionist moves at the margin, one had to often put the best light on things. And then time would go on and of course the best wouldn't always happen. He always had the feeling that he was always being just a little bit short-changed and the date at which the budget was being balanced was being pushed forward like through time; the horizon never came. As I thought about it, it was partly his own doing. He, so to speak, made you tell him these things because otherwise he wouldn't do this. You really did have to be a little beyond the truly most scientific point. Did you ever get that impression?

HELLER: I think that's fair.

TOBIN: The ultimate formula in the budget message and in here, the economic report, is that these special tax measures would have sufficient stimulus to raise GNP even further, enough to pay for themselves, to pay for their loss of revenue. If there was an skullduggery or pressure, that's where it was.

SAMUELSON: But now, Jim, there always was just a little bit, when we get to the whole problem of tax cutting, of a notion in your mind and in some other people's minds that we might set off some

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forces so that an actual dollar of expenditure or of deficit would bring in taxes more than itself with a little luck.

TOBIN: Yes.

SAMUELSON: But to go back to this forecast, I felt that there was a good deal of sport at the Council's expense around Washington, and particularly the Treasury. I would hear things like, poor Walter, he got overly optimistic and...

PECHMAN: But that was due partly to the fact that Walter later at a fairly late hour in 1962 very vigorously defended the formula.

HELLER: That's right. I did that in February before the Detroit Economic Club and even my wife reproached me.

SAMUELSON: You said, "I haven't thrown in the sponge yet." Isn't that what you said?

HELLER: That's what I said.

GORDON: What did she say?

HELLER: She felt I was still defending it too vigorously considering the fact that we were out on a limb as it was, and it's true that...

SAMUELSON: Well, that may have increased your vulnerability, but I do think that the Council was in a crossfire throughout those first two years of always being accused on the one hand of being either overly optimistic or overly pessimistic in the same breath.

HELLER: And not getting credit for the point at which we were very close to the mark all through '61.

SAMUELSON: Right. But this time they had you with a figure that they

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could point to and they did.

ACKLEY: Was the forecast discussed with outside economists? What did Dave Lusher feel about it?

TOBIN: Well, I really think Art Okun should be interviewed on this whole subject of \$570. My impression was that Dave thought it was too high. That's my impression.

SAMUELSON: My impression is that you always have to discount Dave's grumblings about people somewhat but on this occasion I think he thought it was a little on the enthusiastic side.

TOBIN: I must say that I've always found that Dave always thought the forecasts were too high so I don't think this indicates anything.

SAMUELSON: No, no. There were one or two recession periods when Dave was the one who was for...

TOBIN: I have never worked with him during a recession period.

SAMUELSON: No, no. I mean, during the hesitation period.

HELLER: '62 hesitation?

SAMUELSON: The '62 or something. When people were forecasting a dip around the corner, that was one time when he said he would stretch out.

TOBIN: But to answer Gardner's question; I'm positive that the projection was discussed with consultants to the Council.

SAMUELSON: And what about the Tuesday club?

TOBIN: Well, the Tuesday club had a much lesser role under the Kennedy administration than it had before.

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SAMUELSON: Can't we go back to, didn't Otto Eckstein and Duesenberry have a forecast which was a bit more temperate at the Treasury meeting?

TOBIN: My memory is that they did.

SAMUELSON: But that's not the same year?

TOBIN: It was the same year. They had one that was more temperate and Suits [Daniel B. Suits] had one that was even more...

PECHMAN: That's where Suits made his reputation.

TOBIN: Temperate and pessimistic.

SAMUELSON: Pessimistic. The only thing there was about the Suits thing was a cancellation. It came out of his totals but it wasn't at all the same.

TOBIN: Our forecast was generally supported by John Lintner; made the same general neighborhood of GNP figure and analysis, really expecting quite an increase in investment during 1962.

HELLER: It also must be emphasized that we were caught at the crest of the wave; that we were just at the crest; that that December-January period was just when we'd had this biggest increase in GNP in one quarter in
I don't know how long.

SAMUELSON: And there was never any discussion about giving a range forecast at that time as against the point.

HELLER: Not at this stage, no. We learned.

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PECHMAN: I think we ought to go to the summer of 1962 and the events that spring. I'll let you free associate from this point, the events that led up to the radio-TV talk of President Kennedy on August 13 in which he promised, what were the words he used, a substantial cut in individual and corporate tax rates? Something of that sort. He gave a qualitative statement...

SAMUELSON: To be retroactive...

HELLER: Till January 1...

PECHMAN: To be effective January 1, 1963.

SAMUELSON: I talked with Mills, and he more or less agreed with me.

PECHMAN: Would you start the ball rolling on the background for that?

HELLER: When we saw that our forecast for 1962 was too high and that the economy wasn't going to make it to full employment, and this we were persuaded by the end of March, even though we weren't saying it publicly, then we began in a pretty resolute way to think about a large tax cut and a net tax cut. I say that because up to that point, the Treasury was talking about its reform program. Dave Bell and Doug Dillon, I think, were thinking about two or three billion dollars of tax cut for lubrication of the tax reform. I remember asking Dave and he mentioned

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the figure \$2 billion. I'm now in March of 1962. I felt so strongly that we were in trouble and that the tax cut issue needed airing that I took the chance of doing so at a talk out at the Los Angeles Chamber of Commerce, on something like April 17. In it I specifically raised the question of a net tax cut for economic stimulus purposes, removal of drag and so forth. Then as the numbers kept coming in, in April and May, the discussion began to get a little hotter. Dillon made a speech in which he said he was for a top to bottom, across the board income tax reduction, and then went on to say offset, in part or whole, by base restoring measures, reform measures. The president, who up to this point had been saying, "We're going to take a look, we're going to take a look. Yes, it isn't so good at the moment but it will probably get better" – and mind you, the steel episode had intervened, and now the stock market crash intervened – in early June, 1962, he decided at a news conference to have an opening statement in which he committed himself to tax reform and a tax cut. The original form of that opening statement was not unequivocal about it being a net cut.

SAMUELSON: Is that where Dillon corrected him or asked that he correct himself?

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PECHMAN: He certainly went further than Dillon wanted him to go.

SAMUELSON: But there was one statement of the president's where Dillon felt that a clarifying correction was needed. Was that this occasion?

HELLER: No, I don't believe it was, Paul, because this was really so unequivocal on the part of the president. What happened was, as I say, the president was saying there needed to be a tax reform and a tax reduction and it wasn't unequivocal. I had Ted put in a little sentence that said, I mean a net tax cut. That stayed in and was, as I say, so overt that I don't think there was any question of the president's being corrected on this by Dillon. Well now, this was the period when the great recession fears were rampant. We had conferences with our academic advisers and we had conferences with business economists. This is now going into early June. We had a conference with my business council liaison committee which, for the record, was chaired by Donald David and included Roger Blough, Fred Kappel [Frederick R. Kappel], Joe Hall [Joseph B. Hall].

SAMUELSON: Is that the day when all those straw hats...

HELLER: Yes.

SAMUELSON: ...were on your table?

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HELLER: Yes. I wouldn't know of any other day. I must say that recession fears were almost universal on the part of all the groups that we spoke to.

SAMUELSON: The academic group that came down to advise the Treasury had the wind up of possibly a recession being just around the corner.

HELLER: Yes, but that possibly was sotto voce. The net impression from that meeting was a very bearish one. Now I wonder, am I overstating this in the opinion of Jim or Kermit, this strong recession feeling?

SAMUELSON: I sent in some statistics because I received a communication from Ned Bennion [Edward G. Bennion] at Stanford Business School, saying that Ashley Wright at Standard Oil of New Jersey had a way of interpreting the leading indicators in which from detail he predicted what would happen. He'd been very right in the past, and according to him maybe a recession had already started at the end of May. We already were in one.

GORDON: Shiskin was very, very bearish at that time, wasn't he, Walter? Don't you remember?

HELLER: Extremely bearish.

SAMUELSON: In fact Jeff Moore's and Shiskin's indicators were very bearish and they were wondering how far to go along on those indications.

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PECHMAN: We should identify Jeff Moore and Julius Shiskin.

SAMUELSON: Well, Jeff Moore is assistant director of research for the National Bureau of Economic Research who periodically would report to the Treasury's academic group called by Seymour Harris for the secretary to listen to. And Julius Shiskin is from the Department of Commerce or Census Bureau and he's the one who works with leading indicators.

HELLER: Let me just put into the record specifically that it was the president's June 7 news conference in which he led off with his statement of his thinking of his proposals. He stated there specifically that the existing tax structure exerted too heavy a drain on a prospering economy compared, for example, to the net drain in competing common market nations. If the U.S. were now working at full employment and full capacity this would produce a budget surplus at present taxation rates of about eight billion this year. This is a full acceptance of the full employment surplus analysis by the president. Then he said, "It indicates what a heavy structure we have and also indicated the effects this heavy structure has on an economy moving out of a recession period." Then he made this commitment, "A comprehensive tax reform bill which in no way overlaps the pending tax credit and loophole closing bill offered a year

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ago, will be offered for action by the next Congress making effective use as of January 1, of next year – now remember this is June 7 – of an across the board reduction in personal and corporate income tax rates which will not be wholly offset by other reforms – in other words, a net tax reduction."

PECHMAN: That was in June, you say.

HELLER: Yes. That's June 7.

SAMUELSON: I wonder by the way whether I wasn't called in as an ally by that time? I can't remember whether I met with the president three times, twice with Solow maybe or once with Solow.

HELLER: I think the sequence there, Paul, was early or mid-June, early July, and early August.

SAMUELSON: Yes, and this was the early June one, I think.

PECHMAN: But what prompted...

ACKLEY: Because I came in July and I know Paul had already had one meeting with the president. There was to be one a month later.

HELLER: Two.

ACKLEY: Well, I got in on the first of them. It was the day I arrived at the Council...

HELLER: That's right.

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ACKLEY: ...I went to the meeting with the president and Paul was there.

PECHMAN: Why did the president feel called upon to have a speech about this in August? Was it because the economic situation was deteriorating?

SAMUELSON: I tell you what. I think that the pause that took place then came so quickly after the stock market crash, which came so quickly after the steel price confrontation that for the first time he began to seriously contemplate the possibility that there would be a recession blamed on him and that he ought to do something about it. I know that I was called in earlier after the stock market crash – in early June...

HELLER: That's right. It was.

SAMUELSON: ...at meetings probably at the Treasury and also at private meetings at the White House with Sorensen and then with the president on what the effect of the stock market would be. It was quite interesting, I thought, the difference between the individuals and what their experience was. Ted Sorensen, at the private meeting, the one where Bob Roosa said, as I mentioned earlier, we were better off for the stock market decline; Ted Sorensen said, "Well, I don't see why it's going to make any

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difference at all. People still have jobs or don't have jobs, it's all the same." The president, later on in the same day in a meeting, said, "I would think it would make a big difference. I

know a fellow who calculates his net worth every week and it affects his attitude.” As we went out, we said, “Well, it’s obvious that Ted Sorensen’s never owned any stocks to speak of and the president comes from people who generally have done so.”

GORDON: But Ted Sorensen was right.

SAMUELSON: Well, I think he may have been. But I did try to interrogate Frank Modigliani [Franco Modigliani] as to what the putative effect of a decline of more than \$100 billion in net worth would be. Lintner thought it would be important with the delayed lag of a couple quarters and I saw Milton Friedman in August of that year and asked him. He said, “I don’t think it has any importance at all. It would only be so much percentage importance and that turned out to be a five billion importance, on an annual consumption rate.”

TOBIN: But it didn’t have that. It did not have that effect.

SAMUELSON: No, it did not have that effect but remember this, the stock market did not stay down for the figures that we’re now talking about. This is Lintner’s answer to me about why he’d be wrong that as

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independent variable, the stock market didn’t stay down.

TOBIN: I always thought you quoted those figures in the meetings in the White House because you really believed the stock market crash was a very bearish occurrence.

SAMUELSON: No, I quoted them because I thought there was a risk that it would have an effect upon consumption. I gathered them from the people who believed in net worth.

GORDON: If I remember, we thought so too. I think the common view around the Council was that the stock market crash was going to have a retarding effect on consumption and investment expenditures.

HELLER: This is of course something we can look up in the record because we made an assessment in terms of the impact on GNP by the fourth quarter of 1962. I think it was in the order of magnitude, by some heroic assumption and so forth, of three to four billion in the rate of GNP. Right, Jim?

TOBIN: It was small compared to anything like that. Well, that’s getting into economics rather than....Why did the president make that statement on June 7?

HELLER: The idea, I believe, -- and here I haven't done my homework --

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was that in terms of the stock market slump, he wanted to provide some confidence that there was going to be a tax reduction and that he was firmly committed to it. He thought that this would be a buoying factor.

TOBIN: Had there been any meetings to discuss that as a policy?

HELLER: Oh, yes.

SAMUELSON: Well, the meetings I'm referring to were...

TOBIN: No, they were subsequent.

SAMUELSON: Are you sure? Are you sure it wasn't that day? June 7 or something?

HELLER: We don't have our records on this, I'm afraid.

PECHMAN: So this new statement about tax cuts might have been as a result of the stock market crash?

HELLER: Oh, it was definitely against the background of the stock market crash. There is no doubt about that.

TOBIN: What I'm trying to get at is was there an explicit decision made about tax policy or was this a statement of what had long been in Dillon's mind and in everybody's mind that there was eventually going to be this great tax reform and the president decided that it would be a good idea to say that, which was already

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decided long ago at this particular time?

HELLER: I think you're putting it correctly, except that the emphasis was put much more strongly, as the excerpts I read from that statement indicate, on the tax reduction and the removal of drag feature of the tax action than on the tax reform. Up till then it had always been tax reform and...

SAMUELSON: In fact, I was amazed at how you suddenly got the ante up on the amount of tax reduction. I mean, just about that time people began to talk about big numbers.

HELLER: That's correct.

SAMUELSON: If Gardner had a couple of months earlier or two months earlier, I would have thought he must have done it.

PECHMAN: In the summer of 1962 there was talk about big numbers?

HELLER: Oh, absolutely. We were talking to Kennedy about a \$10 billion tax cut, by June, I'll bet. I'm sure the record will support this.

GORDON: There's no number in here, Jim.

SAMUELSON: I think already we were talking about the earlier it happened, the less would be the peak deficit.

HELLER: That is right.

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SAMUELSON: You know we were beginning to worry about that peak deficit.

ACKLEY: Yes, that's right.

GORDON: The Council of Economic Advisers said to the president...

SAMUELSON: But there must be background memos, beside the stock market crash, in the Council, because the Council would have been stampeded by that incident.

GORDON: The Council said to the president on June 16, 1962, and I quote, "The stimulus of tax reduction is needed this year, 1962. Next year may be too late. The economy may already be in recession before the tax reform is enacted." And then further, a couple of pages later, "There's a high probability that prior to the enactment of the administration's reduction and reform package, the onset of recession will make emergency tax reduction necessary." In June, that's pretty strong language.

PECHMAN: But there's no price tag.

GORDON: No, I can't find a price tag in here.

SAMUELSON: Remember the jitters were worst in June and July. It turned the other way in August.

TOBIN: Well, this memo is relevant to the reform reduction and delay, which we haven't come to, because it gives

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arguments for the immediate cut without reform rather than waiting in order to keep them linked together. There must be memos about amounts.

PECHMAN: Not until a little later that summer. I remember very vividly when we started talking about the big numbers later on and the deficits they implied. One time we were all sitting around the table. Walter had not yet arrived and then I mentioned to Walter that the numbers that were beginning to be thought about involved deficits well in excess of \$10 billion. Do you remember that series of numbers? I don't know whatever happened to that and that was in the summer.

ACKLEY: Can anyone date that period when you had Dick Musgrave and a bunch of consultants in and talked about the size of the tax cut? That was right about the time I came in.

PECHMAN: I would date it August of 1962.

ACKLEY: Oh, that late?

SAMUELSON: I think in our June meeting, in one of those meetings – maybe it was the first one you were there, Gardner – you were sort of optimistic the president was going to move.

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ACKLEY: Yes, I was.

SAMUELSON: Bob Solow and I were very pessimistic.

HELLER: Kermit was the optimist. We came back and we made a bet that I'd never collected.

SAMUELSON: Yes. Because David Bell told Carl Kaysen – Carl Kaysen asked later how did it go and David Bell said – “I think he's made up his mind for a tax cut, the president has made up his mind for a tax cut. In August he's going to ask for a tax cut.” This must have been a July meeting, the middle meeting. What floors me is that there already was an announcement to the press that he was going to have a tax cut.

ACKLEY: But that was the next year, and the question came up, “Let's have it now.”

PECHMAN: I think the answer is that the June statement was in respect to next year. By early August the Council was pressing very hard for a tax cut immediately.

HELLER: But I do think that the...Let me just sort of give an overview of this period and then let's move on from there. Essentially we became persuaded, I think, in that whole spring period that there needed to be a tax cut and a very large tax cut and there began

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to be talk of \$7, \$8, \$10 billion tax cuts surely as early as June, and maybe somewhat earlier in the internal memos of the Council. Now, there was some division within the Council, I think it's fair to say, between whether that should be a temporary tax cut or whether it should be a permanent tax cut. I think before we were through, at least now speaking for myself, I was by July thinking of the quicky tax cut, if we got one, simply as an installment on a permanent tax cut. In other words, that you'd ram through a very simple tax cut of three or four or five points on the income tax and then you'd take your good-natured time in getting the tax reform and restructuring of the tax rates and so forth through in 1963. Then the '62 tax cut would then be phased out. There's been a lot of confusion about that in public press but I think that that was our definite position.

Now, Joe, you asked before what was the point of the August 13 speech. Well, the series of meetings we had was focused on 1962 action. In the course of that series the president became committed to a big tax cut in 1963 and

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that was, as some observers have noted, the Council's big victory. But as far as the immediate quirky was concerned, the handwriting on the wall was mighty plain in the early July meeting, and indeed while we were still going through what turned out to be the fiction that if the indicators turned lousy in July we still might go ahead with a tax cut in August, I think the decision was essentially taken early in July. But the August 13 speech first and foremost was to announce, after all the furor – and it had all gotten into the press – that there was not going to be a tax cut in 1962. There had to be a talk or an announcement or something of that sort but at the same time, of course, the president made a very strong case for tax reduction and said there isn't going to be any now but there is going to be a tax reduction on January 1.

SAMUELSON: That word, quicky, got misunderstood too, particularly by Mr. Mills, who didn't like it at all, and who thought of its being advocated only in terms of preventing a

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recession, whereas the recession argument was used by the Council but it was the problem of the gap and how the gap would change that was permanent in the minds of the Council.

PECHMAN: Jim, do you have anything to add to this?

TOBIN: Well, first I think I should add that as the most fiscally sounds member of the Council at the time that...

SAMUELSON: For the wrong reasons though, for net capital formation reasons.

TOBIN: ...I was for a large temporary tax reduction all through this period, beginning at the beginning of the administration, always strongly for it. I did write Walter a memo on May 8, 1961, of which I have a copy, which says that I was concerned about the idea that the Council believes that a permanent income tax reduction next year is essential for full employment. I said events and arguments may change my mind, but personally I'm not yet convinced that permanent tax reduction is essential to full employment. The reasons given are that if we are serious about increasing the rate of

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growth we should not give away permanent tax revenue except in very selective ways by tax credits for investment and savings, research, education and other growth-producing uses of resources. I was also concerned about the increasing of government expenditures, civilian expenditures, and defense expenditures. In 1962 I think I was still for temporary tax reduction. Indeed, we revived many of the same ideas about how to have temporary tax reduction that we had had the year before, such as the retroactive rebate on previous year's taxes, but then the period went by.

SAMUELSON: But wasn't this a rear guard action in '62 on your part in the Council?

TOBIN: On the temporary versus permanent?

SAMUELSON: Yes. Wasn't it shifting toward permanent?

PECHMAN: But he didn't have a chance in the sense that at the same time Dillon was talking about tax reform and tax reduction.

TOBIN: Yes but the tax reform, tax reduction had always been talked about in terms of two to three billion lubrication for loss of net revenue. I believe that at the time

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of that June 7 statement, that was still the amount that was in people's minds because I notice

in our memorandum of June 16, the main thrust of the memorandum is that we should have a quick, immediate tax cut. It says in this memorandum that the temporary tax cut needed for economic stimulus may well be larger than the permanently desirable revenue loss. It contemplates at least the possibility that there might be a deeper, immediate cut of which some revenues would be recaptured by the reforms in the permanent bill. You would have a rate cut which might stand but that it would have an immediate stimulus much greater than it would after the reforms were enacted. So I think we were still uncertain at that time of the size of the permanent loss of revenue which the Council or anyone else would advocate. My own personal view of course was that if we're not going to have a temporary tax cut, I'd rather have permanent tax cut than nothing, and a large one.

GORDON: There's quite a consensus favoring a tax cut

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of \$7 to \$10 billion, as soon as possible and certainly early enough to go into effect October 1, '62.

PECHMAN: These are the business economists?

GORDON: Business economists.

PECHMAN: Consensus of...

GORDON: \$7 to \$10 billion tax cut.

PECHMAN: And what date was that?

GORDON: July 12.

SAMUELSON: They by the way were more expansionary than their bosses, with whom you met just before or after. Isn't that right?

HELLER: I think that's fair to say although we can look up the record on that. Now let me say, Paul, we must have had a meeting on June 6.

"Memorandum for the President. Subject: Expansionary Programs. You asked for advanced background material for a meeting tomorrow. We have prepared three memos. One, economic prospects: a new look; two, proposals for tax reduction; three, possible expenditure increases to be submitted Wednesday. These memos do not in themselves prejudge the question of whether and when we should move into action on the tax and

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budget front. These decisions will involve questions on how quickly we can change our

economic course without the appearance of self-contradiction.” In May publicly we were still talking don’t worry too much about that old bearish stock market. It took several bounces down before our big slump. Things still looked pretty good. Now I say these involve questions secondly of political feasibility of any bold actions; third, impacts of tax cuts on the 1962 tax bill for 1963 tax reform and the debt limit; and four, alternative ways, if any, of reassuring the country and stimulating the economy.” Now that, you see, is just two days beforehand. Now, we have a summary in which we say, “Although individual and corporate cuts must be the core of any tax reduction program, we should consider the postponement of the two billion dollar employment tax increase – you remember the discussion? – scheduled for January 1, ’63; and pass the word to Congress to let the Korean excises to the tune of \$900 million lapse on July 1,” but of course we couldn’t

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move that fast. The income tax package that was considered would cut the corporate income tax 3 points with \$1.5 billion of revenue loss. Just so we get some feel now of when we moved into large tax cuts: cut individual tax cuts 3 points across the board effective July 1 or September 1, such cut to terminate July 1, ’63. That would cost \$3.7 billion in the fiscal year ’63 but at an annual rate of \$6 billion.

PECHMAN: That’s \$7.5 billion.

HELLER: That’s \$7.5 billion. Then we said there were these other things that you could have brought it up essentially to \$10 billion if you’d done them all, so we were talking \$10 billion annual rate of tax cut as early as June 6.

SAMUELSON: My impression is that it was still the \$7 or \$8 at that time and then it got to be \$10 or \$11 just a few months later.

HELLER: Yes, \$7 or \$8 of individual cuts but then with these other things it would round it out to something like that.

TOBIN: But that was not permanent revenue loss.

ACKLEY: No.

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PECHMAN: That’s not clear.

ACKLEY: Explicitly temporary.

HELLER: It said temporary. We felt that nothing less than...

SAMUELSON: By the way this also explains Mills' attitude. He was at that first meeting with you, wasn't he?

HELLER: Yes, but he wasn't at that June 6 meeting.

SAMUELSON: No. But he was at the July one. He didn't like the temporary thing. He wanted a thorough-going reform, I mean change.

GORDON: Quicky was the word. He was against quicky.

HELLER: "It would be possible to advertise the current proposal as a first installment of long run tax reform." That idea was plugged in right away on June 5. "The cut in tax rates will be temporary so as not to jeopardize major tax reform," but then we said, "That could be folded into the program later." So we had that meeting and this statement on June 7 becomes more understandable now in that context.

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SAMUELSON: So the decision was actually arrived at, the president actually sort of bought the notion here although it was just adopted in those couple of days.

HELLER: Yes, but as was pointed out earlier, it would have been possible to have made that statement just with three billion of lubricating tax cuts. So he was safe either way, so to speak. This was not a commitment to a great big tax cut at that stage of the game but we thought of it, at least I did on June 7, as our first victory in the tax cut fight, that June 7 press conference statement.

TOBIN: Who was at that meeting?

HELLER: I don't have a roster here but Paul was there.

SAMUELSON: Well, I sort of think that Dillon was there and...

HELLER: We can put that in the record sometime. By the way, there's one other bit of background that isn't quite directly appropriate here but ought to be in the record. I made a note of a meeting with the president on the evening of March 13. Investment and deficit is the heading of

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my note. "The President raised the question of the 8 percent survey figure versus out 15 percent into our forecast. I suggested that both figures were an incorrect interpretation of the Council of Economic Advisers and the survey; that 8 percent was too low and 15 percent was

too high. No, he asked me that and I said, "No, 15 percent was a correct inference." He was saying that he thought we had not projected as much as a 15 percent increase. I said, "No, 15 percent was a correct inference and the outlook for making it didn't look favorable." Then I note here "his winning comeback" and I quote verbatim, "Don't let that worry you. It just means we'll run a small deficit and there's nothing wrong with that," unquote, March 13, 1962.

TOBIN: One sidelight or rather central point I think is that the president, so far as we know and I think this is true, was never informed of the contents of this black box of tax reforms which he had bought from the Treasury until after he had committed himself to it and to delaying

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the tax reduction proposal until 1963.

GORDON: That was many months later.

SAMUELSON: Not only was he not informed of it but I don't think anybody in the Treasury knew it. They hadn't done the work on it. At that time they were very...

HELLER: Stanley Surrey had a pretty good idea of the kinds of things it would be...

PECHMAN: But he hadn't made up his mind yet by any means.

HELLER: No, but he did buy a pig in the poke and it was as much of a bombshell to him as the balanced budget announcement was to us in early '61, when he found out what was in the damn thing.

SAMUELSON: Not only that but I kept asking you, Walter, what the Treasury had in mind and you said you didn't know. Then it dawned on us at one of the meetings that the president didn't know. It was just a suspicion that he didn't know.

HELLER: That's correct.

SAMUELSON: But it came out that he said to Doug, "What's going to be in that package?" and the secretary said, "We haven't got it worked out yet."

HELLER: This was in those summer meetings, now.

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By fall and winter we finally knew but the president still didn't. The president didn't have a full fill in on that until Palm Beach, between Christmas and New Year's in December...

PECHMAN: Of '62.

HELLER: That's right.

SAMUELSON: Including, by the way, some of the politically very difficult things such as base-broadening by getting after everybody's little charity, and your rental deduction and things like that. You got a better idea from Kiplinger's [Willard M. Kiplinger] blue tax letter, which would guess what someone like Surrey would come up with, than from anybody in the government.

HELLER: May I just add to that, that even in Palm Beach the president didn't get it all. That's late December 1962. Kermit was there, you remember that meeting, that famous meeting. It was between Christmas and New Year's '62 when we had the meeting with Dillon and Surrey and Fowler on the content of the tax cut.

PECHMAN: Where?

HELLER: In Palm Beach. We still did not have, I mean the president still was not registering a complete understanding by any means of what he was in for on the reforms that he

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was signing on the dotted line for.

GORDON: I remember it was the very, very last minute that we found out.

HELLER: Well, it was pretty late but we by then had been in on it and on the 5 percent deduction and so forth. We'd gone over all that.

TOBIN: Oh, we'd gone over specific proposals with Surrey's office but we didn't know which ones the secretary had bought and which he'd deleted, because not even Surrey knew that.

PECHMAN: To clear the record...

HELLER: But I want to finish this bombshell bit, and I'm sure the president was just amazed when he saw the barrage of criticism of the reform proposals that followed on the tax message in particular. That was when, in effect, he said, who in the hell sold me on all these reforms? I couldn't resist saying

– this is in February of '63 – “We’ve been trying to say all along that we should have a good tax cut unencumbered by the reforms and then have the reforms come along later with a piece of the tax cut left over.”

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SAMUELSON: And Joe, I thought that whole package was for Democrat’s political poison and blamed it somewhat on you, because somebody told me...

PECHMAN: No, no, because you remember at a Treasury consultants’ meeting I supported the Council’s position that this reform business was just too difficult to put through quickly. We needed a large tax reduction very quickly and urged Secretary Dillon and Surrey to split the two. They listened but they weren’t sympathetic at all on the practical ground that Mills insisted on providing tax reduction and tax reform. This is the way they carried the day with the president. They said that Mills wasn’t expecting a tax reduction.

TOBIN: I don’t believe that Mills’s insistence was independent of their wishes.

PECHMAN: I think you’re right.

SAMUELSON: Oh, that’s right. What’s his name? Fowler went down and talked to Mills in Arkansas...

TOBIN: To find out what he would do.

SAMUELSON: Walter, I’m not even sure there wasn’t a correction of the June 7 statement as being too sweeping because what I want to get in the record was all the academic economists at the Treasury were polled on

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the right side of something. Every one of them except Warren Smith came out in favor of a certain position and Warren Smith turned out to be even more for it. Dillon went out the next day or two and did exactly the opposite. At this point quite a lot of the academic people wanted to quit.

PECHMAN: Could I just ask one other question? You know in a letter to Paul of July 28, 1964, a few days ago, Douglas Dillon said that it was only after our experience with the Revenue Act of 1962 and the detail costing-out in the Treasury of politically acceptable across the board reductions in rates that it became clear that the net tax reduction would have to be very substantial, on the order of \$10 billion. By early summer of 1962 this was fully apparent. Now, is this your recollection, that the Treasury was on the \$10 billion band wagon as early as the summer of

1962? They were still only talking about \$3 billion.

SAMUELSON: In the conferences in the White House on getting action this year, the Treasury was the antagonist of Solow and me and Walter...

PECHMAN: On substantial tax reduction.

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They were talking of a lubricant tax reform and that the net reduction would be relatively small. I think this was on the balance of payments ground primarily. They were worried about the psychological effect.

HELLER: I think it's fair to say they were moving. I don't think they were still at the \$2 to \$3 billion level but the emergence of the \$10 billion in Treasury thinking did not come until the organized cabinet committee on growth and Harvey Brazier prepared a memorandum on behalf of the Treasury for that cabinet committee and made the case, in very largely the Council's terms and in close collaboration with Warren Smith, for a \$10 billion cut, and that wasn't until September or October.

SAMUELSON: Right, but they also didn't want the '62 action to jeopardize the '63.

HELLER: The '63.

TOBIN: The Treasury did not want action in '62. Secretary Dillon....

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APPENDIX A

NOTE 1

I had left the Council of Economic Advisors to return to Yale as of August 1, 1962. Later, in the fall, I was in Washington consulting for the Council. Walter Heller was kind enough to ask for an appointment for me to see JFK, and the president was kind enough to grant it. I guess it was only the second or third time I had an interview with the president by myself. This was a memorable one. The president was extremely cordial, informal, and friendly, calling me “Jim”, a practice he had acquired only late in my service on the CEA. After joshing me about the leisure and high income of the academic life to which I had returned, he wanted to talk about economics, economic theory indeed. He wanted to ask me some questions, but it turned out he wanted to give his own answers to them too and see if I agreed, almost as if he were showing how well he had learned his lessons. So he did most of the talking, and my own interventions were largely to confirm that his own answers to his questions were right. There were two subjects; the budget deficit and gold. On the first, he said, “Is there any economic limit to the deficit? I know of course about the political limits. People say you can’t increase the national debt too fast or too much. We’re always answering that the debt isn’t growing relative to national income. But is there any economic limit on the size of the debt in relation to national income? There isn’t, is there? That’s just a political answer, isn’t it? Well, what is the limit?” I said the only limit is really inflation. He grabbed at that. “That’s right, isn’t it? The deficit can be any size, the debt can be any size, provided they don’t cause inflation. Everything else is just talk.” We had a similar conversation about gold and the balance of payments: “Why do we worry about a deficit in the balance of payments? It’s only because we might lose gold, that so? And what do we care about gold? It isn’t worth anything, in itself, is it?” I assured him it was not, that its value derived wholly from the willingness of nations, especially the U.S., to transform gold into their currencies. “We could, if we wanted to, run the world without gold? And wouldn’t that be more sensible? Wasn’t it just the irrational prejudices of bankers that kept us tied to gold? We don’t have any real national, or international, interest in it, do we?”

I don’t claim these to be exact quotations, but this was the gist of the conversation. He spent more than half an hour from a busy day on this conversation, and he was obviously having a good time. Obviously too, he and I both recognized that the talk was an academic one, divorced from the day to day policy decisions where he realized so keenly that the political and ideological myths from which he was showing his intellectual liberation were so constraining and compelling. I was extremely gratified, of course, because there were points he had certainly not understood in 1961 and points I had tried persistently to make orally and in writing for almost two years. Maybe he was just showing that he understood my points, without indicating that he agreed with them. But that was definitely not the tone of the conversation. Rather it was that he understood them and accepted them but that he was, as I well knew, hemmed in. His next appointment was kept waiting, and when Ken O’Donnell finally made him break our interview off, he said good-bye in a most cordial and friendly way.

NOTE 2

About a week before Xmas 1960 JFK called me from Palm Beach. I took the call at the Yale faculty club where I was eating lunch with Hollis Chenery, later in AID, and Ruggles. He said, "I've just been talking with Walter Heller and he and I want you to be a member of CEA." I said, "I think you have the wrong guy, I'm pretty much an ivory tower economist. JFK: "That's the best kind. I'm an ivory tower president." JT: "That's the best kind." We discussed three other things, as I recall. (1) I asked for and received assurances that the whole council would be used and involved – I said I didn't want a fellowship in a Washington office, while the chairman ran the show by himself. JFK spoke for both Walter and himself. (2) I asked what minimum length of time would be worthwhile, and after checking with Walter he said a year, but hoped for more. (3) I told him about the Challenge article on the Fed and said that might embarrass him, but he just laughed that off. He said he wanted to put Martin in his place.

After consulting with Yale officials and my family, I called the number JFK had told me to call in Palm Beach – I called from St. Louis a couple of days after Xmas during the AEA convention, got him on the phone, and accepted.

NOTE 2a

I still hadn't met JFK, and this did not happen until a few days before inauguration when I went with Heller and Samuelson to New York to see him at the Hotel Carlyle. Samuelson's task force report was being released that day, and we also were to try to obtain JFK's consent to appointment of Kermit as third member. When I met JFK he joked about having succeeded in appointing one Yale man, and I had to disillusion him by pointing out that I was a Harvard man at bottom – I mentioned I was 1939 and had known his brother Joe. He was philosophical and amused.

NOTE 3 (no text reference)

In the fall of 1963 occurred another of the periodic confrontations about U.S. b/p and international monetary policy. There were two reasons. Things had gotten worse in the summer and it had been necessary for the president to give a special b/p message reaffirming his resolution and announcing a few new measures, none of deep import. J.K. Galbraith, returning from India, had decided the b/p problem must be solved for once and for all right away and he was urging drastic action, essentially exchange controls. Among other things, he favored tying not just aid but all dollars received by Ides. He was scornfully critical of the Council for having taken a soft view of the b/p and thinking there might be a monetary solution before it was solved, and also of the Treasury for always being too optimistic and doing too little. There was a meeting at the White House, to which I was invited at the initiative of Walter Heller and Carl Kaysen. Besides the three of us, there were present, I believe, Galbraith, Dillon, Roosa, Gordon, Bundy?, Ball?, Griffith Johnson, Sorensen?. The president greeted me cordially. He made a crack that it was easy to see who in the room were professors and leading an easy life in the sun (Kaysen had left the government the previous summer and both he and I were well tanned – but as the president’s smile indicated he was well aware, he had the best tan in the room) and who were working hard for the government.

This was one of the few White House b/p discussions that really got down to brass tacks, or gold tacks. Galbraith had said (rightly) that one of the reasons people like the Council (i.e., me) were not so excited about the b/p was that in the last analysis if worst came to worst we thought the U.S. could devalue. He said, and Dillon agreed, that this was not only unthinkable but technically impossible. It happened that I had written the president a memo in preparation for the meeting making the point that he did in the end have a way out if the Europeans were too beastly, and that taking the risk of using it was not as bad as doing all the things Ken wanted him to do. I referred not to formal devaluation but simply letting the dollar float free from gold, letting the Europeans decide whether to maintain its exchange value or let the dollar depreciate. Fortified by my memo, the president himself challenged Ken on this point, and in the ensuing discussion he never did get a satisfactory answer from either Ken or Dillon, though they did a lot of emphatic talking. The president was obviously unconvinced by them, and later said to Carl “Ken was wrong about that, wasn’t he?” He didn’t understand.

The alliance of Ken and Dillon on this point did not extend to Ken’s program, which the Treasury thought was unnecessary and dangerous (might destroy confidence). So there was no conclusion. I spoke against illiberal measures, as maintaining the shadow of the fixed exchange rate without the substance (both Ken and Dillon were hurt by my reference to “selective devaluations”, and Ken later said in the corridor it was a good example of my sly debating technique). I suggested that if such things must be done, an export tax remission seemed the least evil and the most practicable to me, and it was something the other countries all did. JFK seemed attracted to this idea and said it should be studied for possible inclusion, in case of need, in the coming year’s legislative program.

The president was in fine form. When the meeting broke up he thanked Carl and me for coming down and said he hoped we would come again. I did not see him again.

As a footnote: It happened that two of the opposing positions were published in a

symposium on the b/p in the May 1964 Review of Economics and Statistics, in articles by Galbraith and myself. Galbraith's article in fact drew heavily on his memo to the president for the meeting just discussed.

NOTE 4

The preparation of the Yale commencement “myth” speech was quite a gay affair. At the CEA we compiled quite a collection of economic myths and their factual antidotes. But I remember in particular a session in Sorensen’s office, with Ted, Lee White, Kermit or Walter or both, and myself. Serious work on the speech was interspersed with myths contributed by Sorensen and White: that Lyndon Johnson has absolutely no connection with Billie Sol Estes; that Day [J. Edward Day] is a dedicated efficient postmaster general, etc.

When the speech was delivered I noticed in the text a reference to the disagreement between those, like the BLS, who wanted the U.S. to have a tighter money, easy fiscal policy and those, like Yaleman Senator Proxmire [William W. Proxmire], who wanted the U.S. to have an easier money policy and a balanced budget. The point the president was making was that this was a complex technical matter, not to be solved by ideology and slogan. It was indeed a complex technical matter and I wondered who had put it in the speech. I knew the CEA had not, and I wondered what economist hiding in the White House was pre-empting our function. I asked Mac Bundy and he said the passage was added by JFK himself on the flight to New Haven.

NOTE 4a

So he had read a lot and learned a lot about economic policy. Once early in the game he had told us that he had a hard time keeping fiscal and monetary distinct until he remembered that monetary is M and Martin is M.

NOTE 5

When I accepted President-elect Kennedy's invitation to serve on the CEA I agreed with him to come for a year and a half, and I obtained leave from Yale for this period. As the end of this period approached, in the spring of 1962, various pressures were brought on me to stay on, at least for another year: by my colleagues Heller and Gordon, by Ted Sorensen and Mac Bundy, and others. These people asked the president to use his powers of persuasion also. Eventually he called me in to talk about it. It was a soft sell. JFK was an arm-twister. I believe he found that below the dignity of the presidency and below the dignity of the man he was talking to. He expressed very generously and fully, and I believe genuinely, his appreciation of my services and his hope that I might stay on. I said that I would consider his request seriously. I mentioned personal financial problems, the hardships my work in Washington imposed on my family given the ages of my children, the fact that although Yale would doubtless be understanding, a two and half year absence was quite a lot to ask them to absorb. He respected these points. He did say something like this: I don't quite see why a man who could be influencing policy directly here and now would prefer to be teaching rich men's sons in a university, where if he is lucky he may so influence them that he will directly improve policy twenty years from now. We didn't really have time to discuss this point. I thought it showed a rather revealing misunderstanding of: (a) a professor's work at a university; and (b) the nature of the student body of an Ivy League university. On the latter point it is probably a true description of those Harvard college undergraduates whom Kennedy knew when he was in college.

I decided to stick with my original plan, and I wrote a letter to JFK announcing this and explaining why. The reasons were essentially the ones I had given him (although my wife was game to stay another year if I wanted to). I also felt somewhat unhappy about the role of the Council in the administration. Too often we were not used as the president's staff in economic matters, but rather as another contending party to be mediated, mollified, or ignored by the White House staff proper. On many strategic matters of economic policy, which happened to include ones in my bailiwick, decisions were taken by the Treasury, or by the Treasury in consultation with the president, without reference to the Council or a chance for the Council to express its point of view.

One of my major

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concerns was international monetary reform, and here it was clear that I was beating my head against a stone wall.

I was also influenced by the feeling that intellectually and professionally – if one regarded his profession as primarily academic – I was just consuming capital. Bob Solow, whom I trusted to take a comprehensive view, advised me to return to Yale.

In my letter to the president I tried to strike a blow for the CEA by pointing out some of my misgivings regarding its role. I don't know whether this did any good.

The president sent me a very nice valedictory letter, drafted I believe by Kermit Gordon.

NOTE 5a

Some time after my departure had been made firm, Walter Heller arranged for the president to meet with the entire staff of the Council. We waited in the cabinet room for a long time, but JFK eventually came and was his urbane and witty best. He shook hands individually with everyone, and he remembered more than once that a staff member had provided him, directly or indirectly, with information, and he mentioned this. With reference to my departure, he joked: Maybe Jim Tobin knows something about the economy we don't know. He made a good general talk about the importance of wisely guided economic policy. The most noteworthy thing was that, with the delayed reaction against his handling of the steel crisis setting in, he was obviously having second thoughts about that and the whole matter of wage-price guideposts. With a knowing look at me, he said we may have bit off more than we can chew.

NOTE 6

Once, I think in June in early 1962, when Walter Heller was out of town and I was “minding the store”, the president called me in great excitement about the balance of payments. In particular, he said we must crack down on government spending abroad, and he wanted us to get together right away a tabulation of the foreign outlays of the various federal departments and agencies. The gold problem is really serious, he said, and we must know just how the federal government is contributing to it so we can cut down. He mentioned foreign aid, defense procurement, State Department expenses, etc. I said of course we could and would get the figures together for him, with the help of the Budget Bureau (this was not a new idea, and for some time the Bureau had been compiling a so-called gold budget for the federal government). But I also said, “Mr. President, I don’t think further cracking down on federal outlays abroad is a good approach to the problem.” He was quite taken aback and asked why. I said, “We’ve already gone a considerable distance in that direction, at some cost to the effectiveness of our foreign policy, especially foreign aid, and at extra dollar cost to the budget (eg. buying American). It seems to me the federal government has already borne more than its fair share of the belt-tightening for the balance of payments. Something is wrong when we have to cut back on important national programs and private citizens can travel, send money abroad, buy imports, etc. as they please. And anyway the b/p problem isn’t that serious, and there are other ways to deal with it.” He was very interested, and very nice. He said I should write him this point of view and then come in and talk about it. Meanwhile he said we could go ahead and get the numbers together, couldn’t we, and I said sure. I was impressed with the man, that he would stop to listen calmly to a dissent to something he was headlong bent upon when he picked up the phone. He didn’t bawl me out or even cut me off. Rather his attitude was why haven’t I heard this point of view before. Well, Walter and I had been trying to say this sort of thing to him in memos for a long time, but they hadn’t sunk in. This time we got his attention, and he studied the memo he had invited, and we had a good talk about it. Finally I think we got him to understand that the b/p was not just a problem of arithmetic, that a deficit didn’t have a one-to-one correspondence with a gold outflow, that every ounce of gold lost was the result of a deliberate and avoidable decision by a foreign government. This made him more receptive

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to monetary solutions to the gold problem. He also said that he agreed it made no sense for the government to hamstring important national programs while banks and business men and tourists do what they please. But he thought the government should have leaned over backward in making an effort so that its hands would be clean in case it became necessary to do anything about private transactions.

NOTE 7

In the early days of the administration, indeed before and after inauguration, I got the impression that the president – and consequently his White House staff – were (1) quite uncertain and scared, especially where conservative and financial opinion was concerned; and (2) still acting as if in a political campaign.

NOTE 7a

When we went to see JFK at the Carlyle before inauguration, we were preceded by Vermont Royster of the Wall Street Journal, who had a long background interview with the president-elect.

NOTE 7b

On the Samuelson pre-inauguration task force we were all assuming that a new Democratic administration would want to propose active measures to combat the recession which the Republicans had never admitted existed. We were considerably let down when Mike Feldman and ? arrived from Palm Beach with the word that no strong fiscal medicine could be used – the new administration must be very sound on the budget. Incidentally, one of the strongest voices for action on the task force was that of Joe Fowler, who later in office was one of the principal voices of orthodoxy and inaction in the administration.

NOTE 7c

One of the earliest and hardest blows we at CEA received was the news that the congressional leaders had exacted from the president the promise that the 1962 budget would be balanced. In the state of the union message this pledge ended up with seven hedges, but it was a constraint nonetheless. One of the hedges was that JFK could not be responsible for Ike's over-estimate of revenues due to his unrealism about economic prospects.

NOTE 7d

In our first interview with him after inauguration, the president showed himself very much scared of the financial conservatives in Congress and a good deal more conservative himself, and less sophisticated, than I had expected. When we spoke of the need for fiscal stimulus to reduce unemployment, he said, "They would kick us in the balls. They're just waiting for the chance. They'd kick us in the balls and we'd lose everything." Here "they" refers to Kerr, Mills, Byrd, etc. He also said he was mystified how two or four billions in the government budget could make a difference in a \$500 billion economy.

NOTE 7e

The president viewed unemployment as a problem he probably could do very little about, but one that would be a political embarrassment to him, especially because he was a

Democrat. In such cases JFK, like other politicians, was inclined to look for a way to decontaminate the issue, and a blue ribbon commission is one such way. He proposed this to us in the spring of '61 and asked us to think of people to serve on it. It would be a commission on unemployment and would either say nothing much could be done or would show respectable

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port for what everyone could agree needs to be done. I was most depressed by the session with JFK in which he broached the idea. Walter had told him we would think up names and send them in to him, but when we got back to the office I urged Walter, with Kermit's backing, that we should also say flatly that it is a bad idea. It was a threat to CEA, certainly. We knew the reason for unemployment, low total demand, and we also knew that no blue ribbon commission would say so, especially with structural unemployment ideas so prevalent. Anyway it was our job to tell the president what to do about unemployment, under the 1946 act. We did write and send such a memo to the president, and the commission idea was dropped.

NOTE 7f

Ted Sorensen in those days took the view that Keynesian fiscal policy etc. was a bit of traditional liberal dogma with which his man may have been saddled as a candidate but which was a definite political handicap to him as he tried to be a middle-of-the-road president. Ted didn't have much use for economists anyway and told us one day that one thing that was definitely expendable was our professional reputation. Ted thought 7 percent unemployment meant a grade of 93, and he couldn't see moving heaven and earth and offending political sensibilities by trying to improve the grade up to 96. He couldn't see where the political pay-off in this was either, because unemployment didn't seem much of an issue and the unemployed weren't very vocal. To what extent this reflected JFK I don't know, but I wouldn't be surprised if Ted often expressed more bluntly and impolitely doubts, misgivings, and dissents which the president shared.

NOTE 7g

The president and his staff were very much afraid of "over-exposure" of the president, and of the political dangers of seeming to go to the people over the heads of Congress. This was the reason given for the president's unwillingness to go on TV on behalf of an anti-unemployment policy.

These attitudes changed. Indeed they had changed quite a bit before the year 1961 was over. I believe that the most important thing in changing JFK's mind was that the Council said that expansion and budget deficits, both of which occurred, would not bring inflation (about which other people were always warning), and they did not, and he knew it and commented on it.

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I told Walter Heller I would at least consider it seriously; that I would want to be sure it was something the pres-elect wanted not just Walter; and that I would want to be sure the whole Council would be actively involved in policy not just the chairman, as I had the impression that the two other members in the previous administration weren't doing much except as they, like Henry Wallich, might have personal relations (Wallich with Anderson) that gave them independent influence. Walter gave me assurance on this point, and I would like to say that they were fully realized and the Council did function as a unit with the two members as well as the chairman involved in relations with the pres and White House.

NOTE 8

That evening I rode back to New Haven on the Federal. Paul Samuelson was on the same train and we talked for an hour. I asked him if he thought any good purpose would be served by my joining the Council. I didn't find him wildly enthusiastic, but he did say that my acceptance of such an offer would be good for the prestige of CEA and would help the recruitment of an able staff.

NOTE 9

(The following was told to me in confidence by W. McC. Martin and should be embargoed for 5 or 10 years unless his permission is obtained.)

In 1964 Martin and I left together a meeting at the board of governors and started talking of our admiration for Kennedy, for his quick grasp of economic matters, for being such a generally nice and considerate guy. Martin expressed great admiration for him, said he felt he had better communication and more interest and understanding, if not always agreement, from JFK than from any President under whom he had served. Then Martin told me the story of his reappointment by JFK in 1963. He said he was not personally particularly anxious to continue; he had excellent opportunities elsewhere, his wife thought he had had enough, but he decided he would keep an open mind and see what JFK had to say. So when JFK called him in and asked him to continue he said he did not want to accept a reappointment if JFK were offering it only because he felt it was a political necessity. Then JFK said it is quite true that it is politically valuable to my administration to have you in some measure on the team and that it would be from many points of view politically damaging to me if you were to leave. But that is not by any means the only reason I want you to stay. I know you don't always agree with what we're doing and that my people don't always like what you're doing. But I have found you to be a man of independent spirit who speaks his mind, and there are too few of such people, and they are what a president needs above all. So Martin accepted.

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