

Kermit Gordon and Walter W. Heller Oral History Interview –JFK #2, 9/14/1972
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Gordon and Heller discuss wage-price guideposts, the steel crises in 1962 and 1963, John F. Kennedy's [JFK] relationship with the business community, and their efforts regarding tax reform and a tax cut bill, among other issues.

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Oral History Interview

Of

Kermit Gordon and Walter W. Heller

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Kermit Gordon and Walter W. Heller- JFK #2

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Second Oral History Interview

With

KERMIT GORDON and WALTER W. HELLER

September 14, 1972
Washington, D.C.

By Larry J. Hackman and Joseph A. Pechman

For the John F. Kennedy Library

GORDON: Their [the Treasury Department's] thrust was for tax reform with modest tax reductions to lubricate the reform into accepting the case for tax reduction. That went on for a long time and this ought to be a major theme in this discussion.

HELLER: Right.

GORDON: Not only accepting tax reduction as the primary objective of the bill, but then thinking they invented it.

HELLER: That's right.

GORDON: I remember so often, in the early stages, tax reform was to be limited amount and to be designed as lubrication. Reduction was to be designed as lubrication.

HELLER: I'm not sure this should be on the record, but you remember Joe Fowler's [Henry H. Fowler] rather colorful phrase, he says, "All that tax reduction is, is a bit of Vaseline to slip it in." [Laughter]

HELLER: I'd forgotten that.

PECHMAN: Why? It's considered part of the record.

HACKMAN: That'll be nice in the *New York Times*. [Laughter] To clarify the ground rules again as we get going, the transcript will be made and then any of you or whoever you designate will review it. And things like that, if you want to, can be taken off the record or can just be kept off the record for a lot longer than the more substantive stuff or whatever.

HELLER: I had actually thought, you know that with the others here that we wouldn't do guideposts this morning...

HACKMAN: Yeah.

HELLER: ...that we'd do taxation and balance of payments and that you and I possibly could, after the meeting tomorrow, get together for a while on guideposts. But if you want to clean up guideposts first then I'm at your disposal on that.

HACKMAN: I've really done very little preparation, or none at all really, on guideposts except a couple of memos from '63. So the tax would...

GORDON: One important point, Walter, that doesn't come out strong and clear in this transcript and that is your response to the question, what was the role of the Honorable Walt Rostow [Walt W. Rostow] in designing and implementing the guideposts? I think that ought to be on the record, Walter. Did you read the draft of the chapter of his book, forthcoming book?

HELLER: Well, he sent it to me and I was, frankly, so appalled at the, what shall I say, the minor implementing role that you and I had played that I just told Walt over the phone, I said, "This isn't the way I really read this thing and why don't you try it out on Kermit?" What did you do about it?

GORDON: I told him I was too busy to read it after glancing through it and deciding that nothing really could be done.

HELLER: No. You remember, as kind of an afterthought in the middle of this transcript, I said something about Walt Rostow's role. Now, that wasn't quite...

GORDON: I'd forgotten that.

HELLER: Oh, yes, I did.

GORDON: Yeah.

HACKMAN: The '61 memo.

HELLER: That wasn't quite fair to him because it is true that early in the game he had Kennedy talking about, you know, doing something on the wage-price front. I have a memo somewhere which indicates that. Let's see, just as an example, this is, "Notes on a meeting with President-elect Kennedy, January 5, 1961, Carlisle Hotel [New York City]." That's a day you'll remember, Kermit.

GORDON: Yeah. What's the date again?

HELLER: January 5, 1961.

GORDON: Right.

HELLER: And here's what I said in my note on this. I think you all know that I very seldom had time to make any notes but now and then I did dictate a few notes. My point here was, "On the matter of wage bargains and wage-price relationships, the president-elect mentioned the Galbraith [John Kenneth Galbraith] and Rostow articles and suggested that we get these and have a look at them. He was inclined to make hard requests of both business and labor. It is part of his philosophy of asking some sacrifices of the American people in the interests of growth, stability and a strong defense posture. Sorensen [Theodore C. Sorensen] and Galbraith have both promised to send me the Galbraith article if I don't yet have it. I believe that one of these, perhaps the Rostow article, is in the Harvard Business Review."

GORDON: That's right. That's right, Walter, yeah. It was. I remember reading it at the time, it must have been 1959 or '60. There was a very provocative piece on cost-push and exercise of oligopoly power, of checking expansions and the need for some form of government intervention. And it was in the Harvard Business Review.

HELLER: Yeah. And Walt did, I think. Did the three of us have lunch one time over at the White House staff mess or something? Maybe it was just Walt and myself. He was so anxious to talk about this and to do something about it and so forth. He did play some sort of a role between the president and Walter Reuther [Walter P. Reuther] that year, and that's hazy in my mind, but, of course, that's a story he not only tells but it's, as it were, the origin of the whole guidepost idea according to him. Well, the curious thing is, just to put the record as I see it, that that effort that Walt Rostow talked about in a sort of theoretical context--it didn't have the context of any immediate problem, just sort of a general idea that there ought to be some kind of restraint through presidential pressure or what have you on wages and prices--that kind of petered out. I can't say exactly what happened, whether it was the aborted Cuban mission or.... You know, it just fell by the wayside. And then we started all over again with Kermit's price-tracking effort and so forth. The story as we've told it in the earlier

transcript was the way we felt, say, and conceived of the whole wage-price guidepost effort.

PECHMAN: Well, for the record, I can attest to the fact that Walt Rostow was not in the room when the guideposts were finally...

HELLER: Oh, he had nothing to do...

PECHMAN: ...made.

HELLER: ...with those. When I say there was an omission here, I don't mean there was an omission in that Walt Rostow was in contact with us during that summer, fall or winter when these things were formulated. I think it is fair to say that he came to Washington with a conception--maybe it wasn't the guideposts, but it was related to this--and it's only fair to record that fact.

GORDON: His contribution probably consisted in making the president somewhat more receptive to the guidepost approach to the other question.

HELLER: Yes, I think that's fair enough.

PECHMAN: Well I'm interested.... Have we finished, it seems to me that we've almost finished the first steel crisis. Is anything...?

GORDON: One thing I remembered when I read over these notes--a few little things in here, not terribly important, but one thing I think is important. There was no discussion of the proposal of and consideration of a legislative response to the steel price increase. You remember there was lengthy discussion of going to Congress for a ninety-day rollback with a review board. Archie Cox [Archibald Cox] actually drafted legislation, this legislation was discussed with the president. And according to my notes--if my notes are correct--the idea initially came from Douglas Dillon [C. Douglas Dillon], who was then in Hobe Sound [Florida] and who over the telephone, recommended that the proper response ought to be a ninety-day rollback with a review board.

PECHMAN: Who finally scotched that?

GORDON: Well, my notes say that the attorney general [Robert F. Kennedy] and Archie Cox produced legislation, the legislation was discussed, some flaws were found in it, the president asked them to redraft the legislation but the atmosphere suggested that the president really wasn't very receptive to this approach. Senator Kerr [Robert S. Kerr], with whom he consulted on this, told him he thought he could pass it, but that there would be a bloody battle on the Hill if such an effort were made. And, of course, the whole thing became moot when the Bethlehem [Bethlehem Steel Corporation] rollback action occurred. Did you remember that, Walter?

HELLER: I don't remember that very vividly. I do remember lengthy discussion of the possibility of legislation. And also initially when we sparked that Senate debate in the summer of '61, the question was raised, well, shouldn't we be doing something by way of legislation, not just airing the issue on the floor of the Senate? Now obviously any historian who's going to go into this ought to look at that day's debate in the summer of '61 and that would answer itself. The issue did come up in that meeting in the president's office the Monday after the capitulation on the steel price increase. I think we did refer to that.

HACKMAN: I think so.

HELLER: And I have a.... I think I recall something of a write-up there, and it was just decided to drop everything: no legislation, no punitive action, and so forth. And that was that meeting with who did I say? It was the attorney general, the president; I think there was Goldberg [Arthur J. Goldberg]; Clark Clifford [Clark M. Clifford] was another; and myself. I think it was rather, the makeup of the group was a little, I remember being a little surprised. And it was at that point that it was decided not to have any legislation. Now, what was the timing of the Archie Cox thing, Kermit?

GORDON: It was that week. I'm looking for the place here.

HELLER: In other words, before the thing was resolved.

GORDON: Oh, yeah, yeah. Yeah, here. It's Friday, this was on Friday, 12:15, a meeting in the cabinet room, I presume: "President's mood subdued, cautious. Mood changed very sharply between Thursday, when he was still very, very angry, and Friday, when he seemed to be moving to a calmer, more conciliatory position. President opened the meeting saying that we must not appear vindictive or compound the damage already done to the economy, but we must also avoid conveying the notion of government powerlessness. Discussion of tactics, and then a discussion of the Justice Department draft bill. President negative. He said he talked earlier with Senator Kerr who said Congress would pass the bill but only after a bloody battle. President said he would fear an all-out mobilization by business and the press to defeat the bill. McNamara [Robert S. McNamara] argued against the bill on grounds it contained no standards for decision by the impartial board. It was fully possible the board might find in favor of the companies. Archie Cox argued strongly the consequences of inaction were worse than the dangers of transmitting the bill. President instructed Justice to produce a final version of the bill but made no commitment. Clearly disposed against the bill." Well, that was Friday morning and it was that afternoon that it was resolved, wasn't it?

HELLER: That's right.

GORDON: Remember the Milton Friedman business, Walter?

HELLER: No.

GORDON: Let me read my notes on that.

HACKMAN: Hopefully the notes will be going to the Kennedy Library.

PECHMAN: Can't these notes be produced as an appendix?

GORDON: Maybe they should. I'll get my wife to type them out. I can hardly read her writing. This was April 13. That was the day of the Bethlehem rollback, wasn't it, Walter?

HELLER: I don't remember.

GORDON: Friday, I think it was.

HELLER: Yeah, it was.

GORDON: My notes say: "Milton Friedman at the National Bureau [National Bureau of Economic Research] meeting in Pittsburgh at 5:30 p.m. on April 13. He was overcome with mirth at the president's plight. He said, 'This should teach the country that exhortation doesn't work.' Ten minutes later he was informed of developments, namely the Bethlehem rollback. Friedman said, 'The capitulation of the steel companies was a national tragedy because it will reinforce the false idea that exhortation works.'" [Laughter] Do you remember that?

HACKMAN: That's good.

HELLER: I do, yeah, but I'm delighted you had that in your notes because I wouldn't have.

HACKMAN: Well, we've got people who can read John Kennedy's writing and Robert Kennedy's writing up there. I think we could probably read you wife's if you wanted to send it up.

GORDON: Well, I'd be glad to give you this.

HELLER: I think that's what you should do. Why don't you have them transcribe it and let Molly go over it.

GORDON: No. It is entirely different.

HACKMAN: You were right. Yeah, I think the only one you didn't mention [who was at

the meeting] was Sorensen.

HELLER: Oh, yeah. That's really great that you have those. I must say this is off the, you know, this shouldn't be transcribed here. But do you have any record of a memo in the month of May '62 on the tax cut? I did a lengthy memo which I thought was to the president on the idea of a big tax cut in May, but I can't find anything until early June.

HACKMAN: Really.

HELLER: We began to discuss it in the Council [Council of Economic Advisers] in April.

HACKMAN: Was it that early?

HELLER: April, May, somewhere in there was the first time the ten billion dollar tax cut...

HACKMAN: There's a pretty good discussion of that in that Fort Ritchie discussion, because then you really tried to focus on when the big numbers came up and this whole thing.

HELLER: Yes, we tried to. And I'm sure that the big numbers were kicking around my office by, at the latest, May and I think probably April because we began to be doubtful about our 570 GNP [Gross National Product] portrait. Well, I didn't mean to get off on that, I thought since you had....

HACKMAN: I don't think there's anything there because I think I would have noted it here. The first one I pick up is probably the one you're talking about which is June 2.

PECHMAN: Look, let's try to, it seems to me that...

HELLER: Keep on the guideposts.

PECHMAN: Let's keep on the guideposts in order to hit the high spots between the steel...

HACKMAN: Steel crisis.

PECHMAN: ...crisis and the end of the Kennedy administration.

[Interruption]

PECHMAN: Well, my question is, after the steel episode there were a number of cases,

many of which were not publicly known, where the Council, with or without the president, exercised some influence on wage and price decisions in the remainder of the Kennedy Administration. Now, which ones do you recall to put in the record?

GORDON: I wish Gardner [Hugh Gardner Ackley] were here on that. My recollection is that we were still feeling the wounds of the steel uproar, and the inclination was to lay low a bit on specific interventions through most of 1962. Now, if there were any before I left the Council I can't remember them. Maybe Walter can.

HELLER: Well, that's correct, and you'll remember we wound up our previous discussion by reference to the aluminum industry, you remember, when Arthur Rogers leaned over and asked, "What's an example of a basic industry?" He said aluminum and aluminum stacks went like that next day on the New York Stock Exchange, and we wound up on that. I think that was a bit of a clue to the fact that it was sui generis. The steel case was just, and, of course, the steel industry, as Kermit can tell you much better that I, had been an object of governmental disaffection for many, many years, for decades. This was not widely understood. The tremors, the fears that ran through the US industry were real at that time. They thought that steel was the first of a whole slew of confrontations, both because of the particular characteristics of the steel industry and because of the lay-low attitude and the attempt to retrieve some of the damage that was done to the president's relations with the business community. Further confrontations were really not in the cards.

HACKMAN: But you don't remember the Council ever making the case for them and the president or Robert Kennedy or someone else pulling back away from any case that you would have urged?

HELLER: I must say I don't. I think we recorded earlier but I'm not sure that the president was quite careful to talk about the Council's guideposts. He never embraced the guideposts as Lyndon Johnson did.

GORDON: That's right.

HELLER: They were made to order for Lyndon Johnson, but they weren't quite President Kennedy's style.

GORDON: Remember the mood changed and the focus, preoccupations of the council changed under the president in economic matters. At the time of the initiative on steel and the guideposts, the expectation was for a sustained expansion which before long would begin to put pressure on prices and we were kind of gearing up for the problem. By April or May this was no longer the primary concern, we were worried about the state of the expansion.

HELLER: Good point. Good point.

GORDON: And I think it was this, really, that for the rest of that year tended to reduce attention and emphasis on price questions.

HELLER: It's worth saying, if we haven't before, that one of the things that made the wage-price guideposts work to the extent that they did.... And you know, there's controversy about it as we record here today, this afternoon we're going to hear Bob Gordon [Robert A. Gordon] deny that they had any impact.

GORDON: That's what his paper says?

HELLER: His analysis, I totally disagree with.

GORDON: Uh-huh.

HELLER: No amount of econometrics can convince me that the guideposts didn't have any significant effect in slowing down the resumption of cost-push inflation. But it was very lucky that we launched them at a time when the economy was slack and at a time when the rise in demand didn't overrun them. After all, the rise in demand didn't overrun the guideposts until '66.

GORDON: Sixty-six, that's right.

HELLER: And that's when their demise, in effect, as formal guideposts occurred because LBJ [Lyndon B. Johnson], knowingly or unknowingly, tried to substitute them for aggregate demand restraint.

PECHMAN: I have a question about that for Kermit. But first I'd like to point out that despite the fact that there was no activity, presidential activity or otherwise, with respect to particular price and wage decisions during the remainder of 1962, you did see fit to reaffirm the guideposts in Council's report of January '63.

GORDON: And weren't the numbers made a little more explicit?

PECHMAN: You had a chart.

HELLER: Joe, I don't think for a moment that it should be interpreted that we then were veering away from the guideposts. Not at all. It's just that we didn't have any big industry confrontations.

PECHMAN: That's right.

HELLER: But they were still part, very important part and parcel of our tool kit.

PECHMAN: Well, in that case....

HELLER: The president backed us up but he just didn't take them so deeply into his office after that one very sharp and painful experience with the steel crisis.

PECHMAN: Kermit, is Walter's recollection correct that the presidential action on the guideposts didn't begin again until, you know, the Vietnam thing, heated up? Is that your recollection? My recollection is that....

GORDON: Well, remember I was haring off after other quarry at that period. But my crude recollection is that the guideposts didn't really come back into the center of attention on economic policy matters till '64. Now, in '64, Walter--I forget whether it was the '64 report or it was the '65 report--didn't the Council come down a lot harder and a lot more explicitly on numbers?

HELLER: Yes. It was the '64.

GORDON: Yeah. I think this represented a kind of second stage in the enunciation of more emphatic, more specific guideposts.

PECHMAN: The 3.2 number didn't come in until January of '64?

GORDON: No, no. Oh, no, no. Well, you remember on the 3.2 number, Walter, in the '62 report when we first enunciated the guideposts, we decided as a matter of policy that we were not going to enunciate one number.

HELLER: Right.

GORDON: What we did, you know, in the climate of public education stimulating public discussion was to provide a table that offered several calculations for each of which there was a basis for arguing that this number was the proper number to guide wage settlements. And you may remember too in the press conference on the 1962 report, Bud Nossiter [Bernard D. Nossiter] of the Post [Washington Post] wasted about a half-hour of our time trying to worm a single number out of us. Do you remember that?

HELLER: Oh, he badgered us.

GORDON: He badgered us about it and we refused to provide a single number. We didn't at that stage want to go that far.

HELLER: But eventually there was that single number. And it's interesting, I was asked yesterday, "It's true,"--I was told--"isn't it that the president quite often called"--and he's thinking more, in this case, of Johnson--"that, you

know, there were contacts with industry. But were there similar phone contacts with labor?" I think that misses an important point about the guideposts, namely, that, you know, mental telepathy or something even more obvious, the 3.2 number, I mean, that was used to moderate labor demands. That was used by the employers. The president didn't have to call them up and tell them.

GORDON: For reasons, Walter, it takes two to tango. That's not true on prices.

HELLER: That is a part of the guidepost history where people say, "Yeah, but now look, that may not have been symmetrical if the White House was hitting industry and not hitting labor as hard." This is apart from the steel crisis per se. Labor views it quite differently, you know. They always thought the 3.2 percent figure was a dagger pointed at their heart. But the way you got it home to industry was for the president to call them up. But, now, I don't think that President Kennedy got on that telephone.

HACKMAN: In this chronology, on April 9, 1963, you sent--Heller to JFK--a memo: Information on Wheeling Steel [Corporation] company's price rise. It included a draft of a presidential statement saying a rise was unnecessary. He never gave it. You were going to forward more information on April 11.

HELLER: What date is that?

HACKMAN: That's April 9, but the memo goes over....

HELLER: Is that '63.

HACKMAN: '63. Do you remember any additional back-and-forth with the White House...

GORDON: I do remember now, a meeting, Walter, it must have been at that time, it must have been in '63, in the president's office that had to do with a second round of the steel price increases.

HELLER: Yes, that would have been....

GORDON: Would that have been in '63?

HELLER: That was '63.

GORDON: I remember the president was there, and I remember Bobby was there, and you were there.

HACKMAN: There was an April set of memos here and then again in October there are memos on "Steel Price Creeps" and "Steel Prices Today."

HELLER: Well, do you want to get into that '63 mini crisis?

GORDON: Yeah, I think that's right.

HELLER: Because we were kidding at that time about, you know, this was the second annual--this was the first anniversary and the second annual steal crisis. Because of the history of the '62 crisis, there was really quite an air of anticipation, almost--I should say apprehension--and crisis building up in '63. Kermit, I think I'm right about this, that in '62, the word "across-the-board," that was part of the sin or crime committed by the steel industry, namely, that it was an across-the-board cut.

GORDON: Right. Increase.

HELLER: Across-the-board increase.

GORDON: Otherwise you'll have to correct the record here.

HELLER: I'm thinking of tax cuts, excuse me. It was an across-the-board increase. That was a message that even the steel industry could get. So they started a series of nickeling and diming us to death in '63.

GORDON: That's right.

HELLER: We had meeting, which I'm sure there must be some record of.

HACKMAN: Why don't you check it [shows Heller White house Appointments Schedule]? Here's the one about that time, a couple of days before your memo goes over to the White House, the first one that I've seen in April. This may not be a steel meeting but the next two are labeled as steel meetings.

HELLER: Dillon, Gordon, Heller, Schultze [Charles L. Schultze], Ackley, Sorensen does not sound...

HACKMAN: No, that's April 5, '63.

HELLER: ...like a steel meeting.

HACKMAN: Then your memo goes over on the ninth, according to my record. And then on the.... No, that's not it. It's the next one. Here we go.

HELLER: I didn't know about that. No, that wouldn't be it, that looks like balance of payments for some reason. Oh, that was one of those....

HACKMAN: Okay. So April 10. There are two of these meetings on April 10.

HELLER: Yeah. This, Kermit, since you're not looking at this, this was, let's see: Heller, Ackley, Hodges [Luther M. Hodges], Holton [Richard H. Holton] of Commerce [Department of Commerce], Kennedy, Gilpatric [Roswell L. Gilpatric], Gordon and Wirtz [W. Willard Wirtz] and Rutenberg [Stanley C. Rutenberg]. That was about twenty minutes, late morning of April 10. Then again we had another ten minutes, you and I and Gardner and Ted Sorensen that afternoon. finally, at 6 to 7, again it was Heller, Ackley, Hodges, Holton, Kennedy, Gilpatric, Gordon, Wirtz, and Rutenberg. And that was in, again, a kind of a crisis atmosphere. There was the feeling that we were perhaps headed for a second round. We discussed the various ways and means that we could use to exert leverage on the steel industry. Everyone was agreed that we wanted to avoid a confrontation if we could and it was there that the sort of secret strategy was concocted of having a meeting, of sending Gilpatric and Heller as envoys to negotiate with the steel industry over in the Carlton Hotel [Carlton House] in the US Steel suite. Now, I'll tell you something about that meeting, but perhaps we should see whether there are any other recollections of what led up to that meeting. Kermit, does that....

GORDON: No, doesn't ring a bell with me, Walter. Maybe if you continue it'll trigger my memory.

HELLER: Well, now, Gilpatric and I went over and again Tyson [Robert C. Tyson] was...

GORDON: When was this again?

HELLER: This is now--I wish I had the exact date. I'll tell you somebody who remembers this experience is Charlie Bartlett [Charles L. Bartlett]. Charlie wanted to write it up in a column because he thought it was one of the great coups that had been achieved in this effort to keep prices down.

HACKMAN: How did he know about the meeting?

GORDON: Charlie knew everything.

HELLER: I think Charlie and Hal Korda were instrumental in some of the behind-the-scenes operations to get the two groups together. It was strictly hush-hush. I don't believe this has ever seen the light of day. But Charlie wanted to do a column on it because it's such a great story and wanted to cast me in the hero's role, et cetera, and I said, "Charlie, if this is an act of heroism, it's one the world better not know about at this stage of the game."

But we really had a very successful negotiation. It would be surprising to me if there weren't something in the record somewhere on the details of this, Kermit. Maybe this is where Gardner could help us. We went over the steel price increases item by item. Their selective price increases had added up to x percent across the board, average price

increase, and we negotiated that down to about, as I remember, one-third or about 40 percent of the price increase. And this was under the president's, obviously with his explicit blessing and, as I remember--but we ought to check Charlie Bartlett on this....

HACKMAN: You're sure it's in the spring though? It's around the time of....

HELLER: Oh, there's no question about it. I mean, this is what averted a new confrontation, this behind-the-scenes negotiation. And, as I say, it was kind of an item-by-item negotiation, took several hours. We were satisfied that it was moderate enough so it wouldn't have an overall impact. The president was delighted. He obviously did not want another confrontation, and yet he didn't want the steel industry to louse up price stability. So we came out of that, by our lights, very well. It'd be very interesting if one could get someone in the steel industry to come clean and say whether their first set of price increases was really a negotiating position, in other words, that they sort of had counted on negotiating and, you know, were they satisfied with what they came out with. It was pretty good from our point of view.

HACKMAN: I can come close to a date, because on the seventeenth you then send to the president a memo entitled, "A Summary of the Steel Situation." I found it difficult to understand this. Now I understand it. You say all of the top twelve except Kaiser [Kaiser Steel Corporation] have announced increases. Then you go on to say, and this is a direct quote, "We have come off well, but not unscathed," so what you're saying is that the rises are in terms of the compromise that you worked out in the meetings.

HELLER: Good. So obviously that had to be between....

GORDON: What was the date of that again?

HELLER: Tenth.

HACKMAN: That memo is the seventeenth.

GORDON: Seventeenth.

HELLER: Yeah, but between the tenth and the seventeenth we had that meeting at the Carlton.

PECHMAN: So here's an example of Council activity, not presidential activity necessarily, but Council activity. Now, were there any others? Wasn't there an automobile settlement during....

HELLER: The big attempt to work out a parlay on the automobile industry came in '64, because that's when the big wage bargain was coming out, was '64. There's a long story connected with that.

PECHMAN: But that didn't involve the Council?

HELLER: No, that was with LBJ. And it's just worth a footnote that we thought we had LBJ persuaded to intervene with General Motors and in effect say, look, we can get you a low wage increase from Reuther if you'll cut the prices on the cars. And up to a point, LBJ seemed to be going along with us. McNamara played a very active role and Hal Korda again played an active role in this. One day in June of '64, LBJ simply said, "I don't want to hear any more about it." It wasn't long after that Henry Ford declared for LBJ. Now, I'm not suggesting there's any causal relationship. [Laughter]

HACKMAN: We were talking a second ago about the wage side. I notice here, on May 21 [1963], about a month after these events we've been discussing, Heller to JFK, two memos on the same day, one entitled, "Expected Costs and Profits in the Steel Industry" and then the second one is entitled, "Issues in the Steel Wage Settlement." And I'm paraphrasing rather than quoting, but it says you recommended the union should be allowed to learn what terms the administration hopes for in a wage settlement. Does that...?

HELLER: What date was that?

HACKMAN: This is May 21 for these two memos, '63.

HELLER: No, I'd have to rely on the written record for that. I think it's important--and your reference to these memos does suggest that--to keep in mind that we kept at the guidepost undertaking. I know, from the memos both within the Council and to the president, that we were riding herd on this all the time, but it just didn't take the form of confrontations with particular industries, as it then did later when LBJ embraced the guideposts. But you will notice January 4, '62.... No, that's before the first steel crisis. Let my try to find some things after in this....

HACKMAN: There are some more memos on steel in October of '63, one in which you recommend the administration express responsible concern. You say that the jawboning is an unpleasant business but a reasonable cost.

HELLER: I notice that in the press briefing notes, which were often a reflection of things that were...

GORDON: Uppermost in your mind at the time.

HELLER: Yeah. On 8/29/62 "We briefed the president on steel Industry profits." Let's see, September '62, "Steel company's refusal to talk," so on. I don't know how much of this came up. That's all on the record, obviously, in

the press conferences. But I think it was part of a continuing, pressured effort in which we tried to get the president to say things from time to time. Anyone who is pursuing this would have to look and see what he said in those press conferences, because it kept coming up.

Nov. 5, 1962, "Impact of the steel price rollback, U.S. Steel dividend cut." In other words, there was something at that point. Didn't ignore, but it never had the same intensity or crisis atmosphere in '63.

HACKMAN: You don't remember in late '63, in the period just before Kennedy was assassinated, considering saying anything different along these lines in the '64 report that would have been coming up, do you?

HELLER: Well, I don't think so. No. I don't think what we said in the January '64 report was much affected by the assassination. In other words, we had planned to repeat--and I think we did, didn't we, in the January '64 report--reaffirm.

PECHMAN: I'm sure you did.

HELLER: And I doubt very much that that is very different from what.... Well, of course, we had a rundown on price-wage policy in '64. I don't suppose it is really worth it to spend the time on it because this is all on the record. But we had this Chapter 4 on price and wage policy for high unemployment and a section called "Private Decisions on the Price-Wage Guideposts." Let me just take a look at this to remind myself. Yeah. We repeat the two basic propositions of the guideposts and reaffirm them.

PECHMAN: Well, I think that probably ends it, unless you have further thoughts from your notes.

GORDON: No, I think I'll just have them transcribed and give them to Hackman [Lawrence J. Hackman]. Somewhere, there's a funny business about, do you remember the Luther Hodges trip to New York, right in the middle of the steel crisis, Walter?

PECHMAN: The second one.

GORDON: No, no. The first one.

HELLER: No, no. The first steel crisis. Luther Hodges had some kind of a press conference scheduled in New York and decided he would go ahead with it--this was on Thursday, I think--and reply to a speech that Roger Blough was giving on Thursday. Ted Sorensen called us in and said, "I'm awfully uneasy about this. One of you better go along and watch him." So I got tapped. I got tapped. We wrote his statement, we wrote Hodges statement. We went to New York with him. As I say in

my notes here, his foot approached his mouth but never quite got in. [Laughter] That's embargoed for twenty-one years.

HELLER: Well, this, I suppose, is my April 17, 1963 memo to the president, do you have that in your notes--a summary of the steel situation, 5 p.m. Wednesday? You can see it was....

HACKMAN: Yeah, right.

HELLER: And there....

[BEGIN SIDE II TAPE I]

GORDON: This now is the '63 negotiation.

HELLER: This is '63. "If the industry's price increase for each product settles at the lowest common denominator, i.e. the smallest increase announced by any company, the price rise will be 3.3 percent on the items affected or 1.4 percent on the total sales of the industry. If they all went to the highest increase announced, the figures would be 3.7 and 1.5." We say, "There's no doubt that big steel exercised restraint on its price increases in an attempt to stay within the boundaries of your statement last Thursday." I wonder if that was a press conference statement or whether the president issued a statement.

HACKMAN: I don't know that. I don't remember that.

HELLER: That's obviously worth checking. "They stress that the overall increase comes to about 1 percent of industry sales, thus merely offsetting the decline in BLS [Bureau of Labor Statistics] composite price index of steel products from 102.2 in '59 to 101.2 in March '63."

HACKMAN: Any involvement at all by Robert Kennedy in these later developments on steel?

HELLER: There's one meeting that Robert Kennedy and I had with industry representatives, business and financial people, that was again very much off the record, and I haven't been able to find anything except fleeting references to it in my records. But as part of the effort, after the '62 crisis, to allay fears in the business community, Robert Kennedy called a meeting, had me come over. We talked with this group, and both he and the president were just delighted with themselves because they had a chance to get some key figures--and I can't tell you anymore who they are. There must be a record over there.

HACKMAN: I'll see if I can find from his papers whether there is something on it or not.

HELLER: I think it is important because this was a direct expression of presidential policy of trying to make peace. And, yet, I do remember either writing this up or retelling that Bob Kennedy did not give ground on principle at all. I was very much impressed with the way he handled that group. He in turn liked what he got from me in terms of the economics and explaining the overall rationale of the president's program, that the president wasn't against profits--after all, they were rising nicely under the impact of rising business. That was one of the problems we had. And I don't recall whether our earlier...

I'm moving, Joe, from the wage-price guidepost thing into the more general question of the president's relationships with the business community, and I don't remember whether that was covered at Camp Ritchie. As I looked over your outline, I don't recall it very explicitly.

HACKMAN: There's not a lot, no.

HELLER: There's one part that bears. Shall we just free-associate for a while?

PECHMAN: Yeah, go ahead.

HELLER: There's one part that bears on the steel crisis, and that is my meetings with Roger Blough, again in the Carlton, in early '62. I recall that I got a call from Roger Blough--can't give you the exact date--and he asked me to come over and talk with him about the steel price problem. This is the basis for something I said in our earlier session, that Blough had been talking about price increases even when there should have been rather a cut, understanding that the low wage settlement meant no price increases. But he called me. I immediately called the president and said, "Look, should I respond to Blough's invitation and go over and see him?" And he said, "Yes, you might as well find out what's going on and what his thinking is."

So I touched base, I went over and saw him. I remember this sequence because I remember going from the president of the United States to the president of United States Steel in a span of about ten minutes, and then Blough taking out his crying towel about the steel industry problems, that the only way they could possibly be resolved would be by price increase. Now, Kermit, see if you can help me on this. When did we set up the committee, the liaison committee with the business community, because that also, I think that...

GORDON: It was The Business Council, wasn't it? Wasn't it a committee of...

HELLER: I was the Business Council, liaison committee. Did we go over all that at Camp Ritchie ...

PECHMAN: No. I don't think so.

GORDON: No.

HELLER: ...the explosion that was touched off by Luther Hodges when he said that.... Remember? This was a different episode, but it was a quite important thing. I always admired Luther Hodges for that. You remember for those many, many years in the Republican administrations, in the Eisenhower administration the Business Council [Business Advisory Council] had had special access to the Department of Commerce's secret stuff or, you know, what at least bordered on secret stuff. Bart Rowen [Hobart Rowen] did kind of an expose.

GORDON: That's right, he got some kind of a prize for it, didn't he? One of the journalistic prizes?

HACKMAN: His book, *The Free Enterprisers*, goes into some detail on that.

HELLER: That's right he has this. And it was after that that the president again felt, I think, that we'd gone a little bit too far. This had nothing to do now with the steel crisis, this is talking just about the Business Council, so I should put it in. I really have to.... You know, it's now ten years ago and one has to be awfully judicious about what you really remember. I am just really thinking aloud. I believe this call from Blough came in the Business Council crisis context--and it was kind of a, you know, mini-crisis--and that particular conversation--now I've got it straight--was for discussion of some kind of better liaison, that industry was concerned about losing its contacts with the administration. In the course of the conversation with Roger Blough, we decided that it'd be good to have a liaison committee. Although I had one with labor, I set one up with business as a result of that conversation with Roger Blough. That was a group we met with from time to time. But, then, I had some other separate conversations with Blough and with this Business Advisory Council, in which Blough had been poor-mouthing about the steel industry prices. But that was not the point of that meeting.

HACKMAN: Yeah, right.

GORDON: Well, on this relations with the business community, Walter, I notice in looking over briefing materials we sent the president in 1962 for press conferences, there were several occasions apparently in which we prepared suggested responses to the accusation that his administration was anti-business. You know that clearly was in the air in '62.

HELLER: Very much on his mind.

PECHMAN: Okay. I think that we ought to go to the tax cuts. It's already a few minutes before eleven.

GORDON: That's all right, but I don't think anything has ever been said, Walter, about the events of '62 about the ill-fated, unemployment-triggered public works program that we proposed in the Council's report and how that

became transformed into that abominable accelerated public works legislation. Remember all that?

HELLER: Yeah. I thought we did do that.

PECHMAN: Did we cover it?

HACKMAN: There's not a detailed discussion. There are a couple of passing references to it, but there's no detailed discussion that I remember of how it came in on way and then it wound up as that, what was it, nine million dollars spend-it-all-at-once accelerated public works thing from the earlier trigger thing. The people I've talked to--and it's been a long time since I've talked to them--say that the original idea, the original proposal came basically from the Council and that....

GORDON: Yeah, it was in the report, '62 report, wasn't it, Walter?

HELLER: Yeah. You remember, we had three separate threads: one was stand-by tax cut authority; two, I think we wanted stand-by public works authority.

GORDON: That's right. Remember we had this Rube Goldberg [Reuben L. Goldberg] automatic triggering device. We wanted legislation that would say that when unemployment figures met the test: in the legislation, this would automatically authorize the president to obligate up to two billion dollars for fast spending types of public works.

HELLER: Right. And then third was the temporary unemployment compensation extension. I recall in writing the draft of the president's report, it occurred to me to package those together and call it a program for sustained prosperity. When he saw it in this package, he liked it a good deal better than he had originally, than his original response had been. But there was, of course, a big role that Senator Clark [Joseph S. Clark] played in this whole thing. Remember, he spoke both to the president and to us, felt that this was an important thing to do. It kept getting lost in the shuffle. I think....

HACKMAN: There is discussion of how disappointed Clark was and then working out some details with Clark on how the final bill would go up.

HELLER: But he was pleased then finally with the president's commitment on this score. But instead of getting the stand-by authority, he did get this one-shot thing.

GORDON: Well, my recollection is that of the three items in that package, the Congress wound down to the triggered public works smelling perk and transformed it into an immediate--I think the first appropriation was six

hundred million but then it was supplemented later--so-called accelerated public works program. And with some reluctance, I think, Kennedy decided to support it. But wasn't the initiative taken by Congress on the immediate public works program?

PECHMAN: Yeah, that's right.

GORDON: Clearly this was kind of running off by itself up on the Hill. I remember talking with Sorensen about it. The president decided, I think, to give it his strong support. The reason I remember it is because when it got to the Senate, Kerr agreed to manage the bill on the floor. Kennedy asked me to go out and work with Kerr, to help him on the technical stuff in the week before it came to the Senate floor. Kerr was doing it reluctantly. He didn't think much of the legislation but he was doing it as an act of friendship for the president. One of the reasons I remember it is, he was on the floor one day in the Senate--he passed it by a comfortable margin--and that just happened to be the day of the big stock market collapse in, what, late May '62?

HACKMAN: May 29 or something like that?

GORDON: Yeah, that was the day. I was out in the lobby and he came off the floor at about 5 o'clock, having passed the bill, and asked for a copy of the Evening Star [Washington Evening Star] to look at the stock market page. He said to me kind of sourly, "You can go back to the White House, tell the president that while I was passing that public works bill of his I lost twenty million dollars." [Laughter]

PECHMAN: Who's this, Kerr?

GORDON: Yeah.

HELLER: I had one of my most uncomfortable congressional hearings experiences in connection with that bill, because I was asked to go up and testify on behalf of it. I don't know, what your investigations show, but I think we played a somewhat more active role in getting the stand-by converted into some....

GORDON: Immediate?

HELLER: Well, you know, we wanted some action, we wanted some action, we wanted some support. We couldn't see a tax cut down the pike. I was more of a believer than either of my colleagues or than justified by the events.

GORDON: Well, maybe. Maybe that's what I remember. My recollection is that we were being pushed by the White House on this and we were somewhat reluctant.

HELLER: You were somewhat reluctant. I was not so reluctant.

PECHMAN: That's right.

HELLER: I was trying to rescue something from this stand-by public works thing. We felt that it would have been much better to have our version of it but that this was at least a bone. And I think the president felt that way, I don't think he had any.... Oh, you're saying the president was pushing.

GORDON: Oh, yeah.

HELLER: Yeah. There's no question about that.

GORDON: My recollection is he had a sense it was going to move anyway, that Congress was smelling pork here.

HELLER: I don't think it was.... But remember, you yourself were saying that Kerr was reluctant. I think it still took some executive pushing to get it. I, at least, at that time felt that we ought to get it, that after all the situation wasn't turning out as well as we had forecast and we needed some kind of stimulus. Well, we couldn't get the tax cut stimulus, so we needed the public works. I do have a couple of files on this. I didn't think this would come up today so I didn't bring them along. I might be able to supply some more information on this because that was kind of my baby, I rode herd on that myself. So I'll try to get up there.

But, just to come back for a moment to that uncomfortable day, I was asked to go and testify before Kerr. Kerr was a little impatient with the whole thing. He was asking me a series of questions to which I was just supposed to say, "Yes, Senator. that's right, Senator," et cetera. Instead of doing that, you know, I was trying to get the record completely straight and I would say, "That's right, Senator, and one should add..... Well, he didn't want me to add anything. Finally Kerr got quite impatient with me and Dave Bell [David E. Bell] stepped up and said, "Well, Senator, he didn't mean to say" so and so; "What he really meant was," so and so. That's the only time that I ever had to have help in a congressional hearing, for somebody to tell the senator what I meant, but I just hadn't gotten the signals. Kerr knew what he wanted and he didn't need any help from me, thank you. We can supplement the record I think with materials from the files.

GORDON: Well, you better turn to the tax cut.

PECHMAN: Yeah, well, the tax cut. I think we ought to start with Kermit's question. When did the Treasury turn from the lubrication idea of a tax cut, namely a moderate tax cut to lubricate tax reform, to accept the Council's notion? I don't know whether they ever accepted the Council's notion of a very large tax increase with the exception of...

HELLER: Oh, yes, eventually they did.

PECHMAN: ...tax cut. Well, publicly they did. But my impression is that they were

fighting the large tax cut almost to the bitter end.

HELLER: As a rear guard action. Well, it eventually took the form, you know, down in that famous Florida, Palm Beach meeting, of the phasing.

PECHMAN: Phasing.

HELLER: That was sort of their rear guard action, because, by then, the total overall amount had been agreed on. But let me go back a little bit in the history of this thing. We have agreed, and we have it already in the record, that the Treasury and for some time the Budget Bureau, Dave Bell, too, were talking just about a two or three billion dollar tax cut.

GORDON: Three billion is the number I remember.

HELLER: And the critics, many of the Republican critics, were saying--like Steve Saulnier [Raymond J. Saulnier], for example, my predecessor as chairman of the Council.

HACKMAN: Right.

HELLER: That anything above two or three billion dollars would be not only unorthodox but bizarre. I don't know just when that classic statement was made, but there was a lot of support in that sense.

GORDON: Arthur Burns--full employment in eighteen months with no further stimulus.

HELLER: He said that in April of '61, that's right. At the same time we were--we have already had this in the record too--surprised that the US Chamber of Commerce came out in the middle of '62 for a net tax cut in the face of a deficit, which was quite surprising. And there were calls for tax cuts by Business Week and so forth. So it was by no means a united front in the business community. Nevertheless, we had a hard time even getting the Treasury to assent to the idea of a net tax cut. And as we covered at Camp Ritchie, it was only by the insertion of that one phrase, which Sorensen and I worked out in the president's statement of June 7, 1962, that we had him say, "I mean, a net tax reduction." We had quite some discussion at Camp Ritchie, and you alluded to it again this morning, about did the Treasury try to waffle on that and move back? Well, as I looked at notes, I see that Dillon was all through the summer very, very cautious about how much real net tax reduction there was going to be. The emphasis was continually on reform.

Now, again, our Camp Ritchie record already shows that the give-and-take on trying to make a decision on a first-installment, quickie tax cut in the summer of 1962--which was a parallel line with the big decision about should there be a big tax cut launched in '63.... You remember the president's August 13 speech to the country--and

we ought to say a little bit more about that because this is a presidential history we're talking about--in which he announced there would be no immediate tax cut legislation.

PECHMAN: Across the board.

HELLER: No, we're talking about '62. You remember the strange structure of that statement which gave, essentially, all the reasons why a tax cut was needed and then wound up by saying, we're not going to have a tax cut--that is now, '62--however, we're going to come up with one.

GORDON: Was that his unfortunate experiment with the blackboard, Walter?

HELLER: That's why I thought we really ought to talk a little bit about that if it isn't in the.... Do you have any record of the circumstances surrounding that speech, the reactions to it, the president's own reactions to it, and so forth?

HACKMAN: What, the August speech?

HELLER: Yeah.

HACKMAN: Not that I recall.

HELLER: It was an interesting thing and it says something about his personality I think. I do you want to tell something about the charts?

GORDON: No, I can't remember it all that well, Walter. All I do remember is that I was on vacation then, I was up in the Berkshires and I watched it on television. I remember my impulse when I turned the tube off was to go slit my wrists somewhere. I was very, very depressed by it.

HACKMAN: Oh, because he thought he did such a poor job.

GORDON: Yeah.

PECHMAN: Was he referring to charts?

HELLER: Well, what happened was this. First of all, the internal structure of the speech, as I say, was inconsistent, making arguments really for a tax cut and then saying, therefore we aren't going to have one now but we are going to have one early next year. Secondly, he felt that he ought to have a set of charts to sort of lecture the American people on the tax cut. After all, in our very first meeting at the Carlyle on January 5, '61 he made such a point of the fact that the White House is a pulpit for public education, and this was going to be a real public education in this field. Well, you know, instead of having some, what, accomplished public relations people do

the thing he had the Council of Economic Advisers do the thing. And I would regard that as not the best judgment in the world on his part, but we did everything possible to set up some charts that would make his point about what the economy was doing and so forth. This was down in his office. I was sitting in his office while it was filmed, just off camera, and I could see that he was uncomfortable. You must have seen it as you .

GORDON: Yeah.

HELLER: ...watched it in the Berkshires. Here he was, school teacher Kennedy, you know, going up to these charts, pointing out various things. The charts were strictly, what shall I say, prosaic stuff...

GORDON: They were the usual charts from the Council of Economic Advisers report.

HELLER: ...blown up, no pizzazz at all. He did the best possible. Was that the one with the last-minute intervention about.... Or was that the later tax cut speech? You remember, the president wanted to have some specific examples to indicate how badly certain families were doing: they were out of jobs, the tax cut would help them get jobs. That must have been the '63 one. One ought to go back to that. One or the other of these speeches--it belongs in this transcript--Goldberg had gotten a number of touching examples that the president wanted to have ...

GORDON: It must have been '63, Walter, I don't remember it in that other speech.

HELLER: ...to give it more, yeah, specific human content. In the good old Council tradition, I suggested that we ought to check out these examples and see whether this fellow was still unemployed and so forth. Literally, as he walked in to give that talk, and it probably was the '63 one, I had to tell him we just found out that one of the people he was going to publicly shed tears about had a new job and was doing just fine. [Laughter] But that must have been '63.

HACKMAN: I don't think I have that one. I've got the tax message of '63 and that's not the one we're talking about. We're talking about one of the summer of '63 speeches that he gave?

HELLER: Well, no, we're talking about the big national television pitch for the tax cut in the fall of '63.

GORDON: Walter, in the course of your account, you're in the summer of '62, you ought to expound a bit on the psychological significance and impact of the phrase, quickie tax cut. Remember, that was the key.

HELLER: Well, but you did that very well in the Camp-Ritchie transcripts.

GORDON: Did we? Yeah, I'd forgotten.

HACKMAN: Yeah, Mills [Wilbur D. Mills] disliked the term "quickie" and other people's reactions.

HELLER: One of the things we didn't get into that transcript, just to get back to this.... Not to jump around too much, but I did want to finish by saying that I believe it was agreed that the October '63--could have been September--I think October '63 tax cut speech by the president was as effective as the August 13, '62 was ineffective. Now, let me just wind up on that speech because I thought it was interesting. At the end of the speech, at the end of this TV message by the president, I gave just sort of a conventional thing, you know, said, "Gee, that was great." And the president said, "No, it wasn't." In the most winning way he said, "I just didn't do well on that." The attempt to buck him up a little on the performance was one quickly abandoned because, knowing Kennedy, you just know that....

GORDON: He knew he was uncomfortable, Walter, and he knew that he projected the image of an uncomfortable man.

HELLER: Yeah. So that's just a comment. on his personality in passing.

PECHMAN: I want to come back to...

HELLER: No, but now we're coming back to the numbers, because this was essential to it. The moment that was out of the way, I had a plan ready for the activation of our cabinet committee on growth. I had talked about the cabinet committee on growth with the president in a different context, namely, really, focusing it on growth, which eventually we did. But when the president, in effect, said what do we do now, you know, as a follow-up to his commitment to have a 1963 tax cut, I said we set up the cabinet committee on growth and we'll use as its first item on the agenda the size of the tax cut, because that has, after all, a great deal to do with economic growth. This raises another issue, namely--which I notice we did not cover fully in the Camp-Ritchie discussion--the role of the recession versus the role of growth, that is taking off the overburden of taxes in order to get the economy back to full employment as a kind of a trend thing as against a cycle emphasis. You know, this moved back and forth in the discussions all through '62 and into '63. There was a time, and we know this from the record, in June o '62 when the Council was betting a little bit more than 50-50 that there'd be a recession in the absence of stimulative activity. So there, for the immediate tax cut, we had a recession context. But our more fundamental context all the way through--and the previous record, it didn't seem to me, showed this clearly enough, Joe--was in terms of the full employment surplus, the fact that one we got away from the Cambridge-New Haven growth school idea that we wanted a big surplus of full employment in order to stimulate investment. That was an idea the president bought, it was embodied in his January '62 statement, and so forth. Well, once we saw that getting back to full employment under that kind of a tax burden, that kind of a full employment surplus, was unattainable, then really our fundamental economic philosophy on the tax

cut was to get rid of that full employment surplus. the president fully adopted that idea in June of 1962, speaking historically, just about ten years before Nixon [Richard M. Nixon]. That's I guess, about the usual lag between Democratic and Republican administrations.

GORDON: You can release that sentence immediately. [Laughter]

HELLER: But we did use the recession lever for what we really wanted by way of getting back to the full employment growth path. Later in the year, when it became clear that recession was not going to be the major problem, we kept pressing for the, you know, removal of the overburden idea. But the president felt that you couldn't get Congress to buy the tax cut unless they feared recession. So every now and then he'd rattle the skeleton of a recession in his press conference and so forth. And we, several times in '63, felt quite uncomfortable about that because we didn't think that was the argument.

All right, now, we were dead set for at least a ten billion dollar tax cut. The question was how could we sell it to the Treasury and how could we get the government as a whole to adopt it? The president was really fundamentally on our side, because as long as he was going to do it, he wanted to go whole hog. And so he and I plotted, in effect, to use the cabinet committee on growth, with myself serving as chairman, as the instrument to get consensus.

Now, I think, and particularly now that we've had the Nixon Administration to observe in terms of its economic policies, one ought to broaden the scope here just a little bit to talk about the role of cooperation and conflict in the Kennedy administration. You know, it was kind of constructive conflict. I don't want to gloss over the battles we used to have with the Treasury, but once you got a consensus in the Kennedy administration on something like this, everybody was on board. You didn't have the kind of-- particularly in the first, around the second and third years of the Nixon administration, you know how much backbiting and...

GORDON: Sniping.

HELLER: ...sniping and so forth there's been. There was some of that but not a great deal. And there was an attempt always of the president, you know, leading the way to try to reconcile differences and have some parties give on this point and others on that point and finally say, "Well, we've got an amalgamated position that we can go out and support." It's not a case, which I perceive so often in the Nixon Administration, where you have absolutely contending parties, direct conflict and the president having to make a clear cut choice that this guy's right and this guy's wrong and then the fellow who was wrong sort of grouching about it and somewhat undercutting the decision and so forth.

I think that it is fair to say, and I'd like to hear Joe and Kermit on this, there was very little of that kind of thing. The tax cut is a specific case in point. It is quite true that the Treasury didn't much like the idea of a big tax cut. It's also quite true that we were afraid that the tax reform would be an albatross that would perch there on the shoulder of

the tax cut and slow it down. But once we went through this cabinet committee on growth exercise and got agreement on essentially a ten to eleven billion dollar net tax cut, that was the party line. Now, we have to tell the story....

PECHMAN: How early?

HELLER: In the fall of '62. And let me be explicit, Joe. And my notes tell me this too. We did a little G-2 [Army intelligence] work, in a sense, by using Harvey Brazer [Harvey E. Brazer] and the others inside the Treasury who agreed with us on the economics of it. We had them help convince their bosses of the economics of it at the same time that we were working at them at cabinet level through the cabinet committee on growth.

PECHMAN: By Palm Beach, was Dillon ready to accept the notion of a large tax cut or was....

HELLER: Yes. Now, let me.... I've given this much of the background and I would very much like to get Kermit's reaction on that and also on this other question of whether I am giving a high-fidelity picture of how policy was made and so forth in contrast with what I....

GORDON: Well, let me interrupt, Walter, and say that you're recollection accords completely with mine on matters of high economic stabilization policy. If you restrict it to that, I agree. I agree the argumentation was vigorous, the disputes were numerous, but when an accommodation was reached, everybody was on board. I would just like to make an exception for kind of sectoral problems, problems involving the Department of Labor, Department of Agriculture, Department of Interior. There I think that generalization is not so true.

PECHMAN: And it is also not quite so true in the balance not of....

GORDON: There were cases not of, you know, outright sabotage, but reluctance to accept a decision and the use of devious devices to undermine the decision. But in high matters of economic stabilization policy, I think you're right--and in very sharp contrast to what happened in the Nixon administration.

HACKMAN: I'd like to hear more about the selection of Harvey Brazer to be the guy who did that. Was that completely logical or was that something that you really did some behind the scenes work on? And then how important is he or whoever carries the case to Dillon in really convincing Dillon, or does it just become obvious to Dillon that the decision is going that way or sort of coming to that?

PECHMAN: Now, let me add to those questions. I remember the Harvey Brazer memorandum. My recollection of the Harvey Brazer memorandum was that it was, if not repudiated by the Treasury, disregarded by the Treasury,

and that the decision to go for a large tax cut was imposed on the high officials of the Treasury Department rather late in the game. That's my recollection and I'd like to know whether....

GORDON: What do you mean by rather late in the game?

PECHMAN: Around Christmas time. Now, you're right that your cabinet committee probably endorsed the idea of a large tax cut, but I remember....

HACKMAN: Isn't Dillon's signature on the cabinet committee, I think?

GORDON: Sure it is.

HACKMAN: Yeah. Dillon's signature--the cover memoranda sending the report to the president, if I remember, and I don't have a copy here, is signed by Heller, Dillon, and....

HELLER: Remember the date of that memo, by the way? I don't recall it myself at the moment.

HACKMAN: I've got the date it went to the White House here, I believe. "December 1, Heller to JFK, Report of the cabinet committee on economic growth."

PECHMAN: Well, you see, that's pretty late.

HELLER: Well, that's fall. [Laughter] It's fall in Washington, winter in Minnesota.

PECHMAN: I see, okay. I was thinking it was about in December sometime. Now, my only remaining question is, was Dillon on board in Palm Beach?

HELLER: I don't.... May I enter a couple of things from my personal notes that might be of interest. "Reaction to tax cut speech"--this is on August 15, two days after the speech, "I mentioned the good secondary and common man reactions to his tax speech and he said, yes, he thought they were good considering the fact that he didn't think he's made such a good speech," which I thought was so characteristic. And the, "Economic growth committee: The president cleared the economic growth committee and the accompanying letter." That was just two days after his speech. And after all, we.... I have a memorandum here of December 14 which bears on a lot of these, on the president's period of great doubt. I did say something about this in the Godkin lectures, concerning the tax cut, in the middle of December. That is something that we ought to get.

PECHMAN: You were still trying to buttress him up there? He had a period...

HELLER: Yes, that's right.

HACKMAN: That is the same day as his speech to the Economic Club in New York.

HELLER: Yeah. Well, it was the next day, wasn't it, 5 December? Or was it.... No, it was that night. Should I give a quick summary of that or do you just want that perhaps entered for the record? I might just remind Joe and Kermit.

My memo says: "As of the moment the president is shaken on the question of the tax cut. Three factors, in order of their importance, are responsible: number one, the reactions of Mills and Kerr. During a conversation in the president's office, when I was there before he took off to New York to give the Economic Club speech, Kerr called and added one more argument against the tax cut, namely, that the economic outlook for '63 is better and better and better, and you don't need a tax cut. Number two, Long John Kenneth Galbraith [Laughter] has come back from England and again given the president the expenditure increase treatment." You know, he fought a rear guard action till well into '63 when the president finally told him to shut up. Ken came into the White House mess one day....

GORDON: Before we established the GEW line defense, remember that, Walter? The Galbraith Early Warning System? [Laughter]

HELLER: That's right.

GORDON: So we'd know when he left New Delhi. [Laughter]

HELLER: And he came into the White House mess one day and said, "Heller, you've won. The president told me to shut up about my opposition to tax cuts." Then, at the cabinet meeting....

GORDON: He was good enough, by the way, Walter, my recollection was, to send you copies of the memoranda he sent the president on these issues.

HELLER: Oh, yes. And you recall, early in the administration.... Of course, the Ambassador's Journal [A Personal Account of the Kennedy Years] always tells you what Galbraith said to you, it never says what you've said to Galbraith. I don't know that it recorded the fact that he came in and told me, he says, "Now, you know, I have a special relationship with the president and with Jackie [Jacqueline B. Kennedy] and I won't hesitate to use that in your field or anybody else's." He said, "If I disagree with you, I'll slit your throat. I won't hesitate to slit your throat from ear to ear, but I'll come over and tell you about it afterwards. [Laughter]

GORDON: While you're bleeding.

HELLER: That was, by the way, also the same time that he came over and told me-- which he records in the Ambassador's Journal--two things you know, in his marvelous patronizing way, that I should observe in dealing with the

president: number one, I should conduct all of the dealings with the president myself and not share it with my colleagues, because the president didn't want to be inundated with three guys, but also that's the way to operate. Because that's precisely the opposite of my concept of a coordinate council. Secondly, I should stay on the scene in Washington, not go traveling around the world, you know. I shouldn't go to Tokyo and Paris and so forth. And that again was exactly the wrong advice. Going to Tokyo and Paris and so forth (a) was good for the president, and (b) was good leverage for us on the president. So that's just by the by. Now, he did come back., he bought this rear guard action against the tax cut. Now, the third thing was something, I don't know to what extent we have it in the record but I think I'm going to quickly put it in because it has to do with the role of the cabinet. I had gotten reports.... This is just before the cabinet meeting in December where we discussed the tax cut. Do you have a record of that? Does this ring a bell in your studies of the record?

HACKMAN: No.

HELLER: Well, then, it's worth spending a moment on. "Three different members of the cabinet today were quite unhappy with the rather routine and reportorial nature of the cabinet meetings, and if I had an opportunity sometime to draw this to the president's attention they had asked me to do so. He had this cabinet meeting scheduled for Monday, December 10. I went in to talk with him about it and told him that there was this unhappiness and he then asked me whether it might be a good idea to go around the table about the wisdom of a tax cut. I thought this would be an excellent idea, particularly since a number of the cabinet members like Freeman [Orville L. Freeman] and Wirtz and others seemed to understand it pretty thoroughly and seemed to feel the need for it. But what I forgot was that parochial interest in the programs of the departments would generally prevail over the general interest in the stimulated impact of the tax cut. Also, the apparent short run seemed to weigh much more heavily than the more dimly perceived long run. Luther Hodges was an exception to this. He went down the line for the tax cut."

GORDON: That's because he doesn't have any programs in the Department of Commerce. [Laughter] So shortage of money couldn't hurt him.

HELLER: Then I noted: "In this meeting on the fourteenth, we talked a bit about the cabinet meeting and he admitted that one should have been able to predict the rather parochial reactions of the cabinet members. At the same time he expressed concern that the whole tax cut pressure was going to be to lower expenditures, and indeed that was why there was a fair amount of conservative support for it. Again I stressed the need for taking the long view and that we were just batting our heads against a brick wall if we tried to force expenditures through Congress. They wouldn't take them and we'd simply be condemned to a situation of continued slack in unemployment and slack revenues." And I went on and said, you know, the way to get to Galbraith's objective of higher expenditures was to cut taxes, stimulate the economy, get the revenues and eventually get to the higher expenditures.

Now, that all bears as background to the third point that I had summarized here as shaking the president on the question of a tax cut. At the cabinet meeting Monday the tenth...

PECHMAN: What month?

HELLER: ...December. "When called upon to comment on the president's dilemma concerning the tax cut deficit and expenditure increases, most cabinet members reacted in terms of the possible adverse effect of tax cuts on their budgets. This included Freeman, Wirtz, who proposed his one billion dollar full employment program, Celebrezze [Anthony J. Celebrezze], who said that business was actually going to be a lot better than the president's advisers were forecasting, Rusk [D. Dean Rusk] on foreign aid, and a bit in the case of Udall [Stewart L. Udall]. McNamara only emphasized the desirability of indicating economy and efficiency in government, Hodges and Fowler [Henry H. "Joe" Fowler] and, to some extent Udall, got in there and pitched. Adlai Stevenson [Adlai E. Stevenson] made, in some ways, the best statement to the effect that no one ever got defeated for deficits, but plenty of people got defeated for recessions." And I was so grateful, I remember, to Hodges and Stevenson because they were the two that came through in that way.

Now, I went on after these three points. "I have never seen the president so anguished and soul-searching and uncertain about the correctness of his course on a domestic matter in the two years that I've served with him." As I said at the beginning of this memo--I'm reading from my memo of the fifteenth of December '62--"He was shaken and so was I, not as to the basic wisdom of the tax cut decision, but as to his mood about it. I did what I could to reassure him. He made some reassuring comment that I was right, at least he hoped so, and that he would no doubt go ahead. But he obviously wondered whether it was really the wisest course under the circumstances."

BEGIN TAPE II SIDE I

HELLER: It's a tragedy that we didn't have time to do more of this, in terms of the historian's interest. "After his superbly successful Economic Club tax speech in New York for which he had," and I said of him, "as euphoric a reaction as I have yet heard, he moved steadily ahead on the tax cut course and on the educational job needed to put it across." Then I had a separate memo somewhere on the reactions to the New York speech, which, again, I don't think is in the record and probably this is something I should now enter in the record. Is this something you know about?

HACKMAN: I haven't seen this. No.

HELLER: He had had a great reception. "I called Evelyn Lincoln about fifteen minutes after the president returned from New York. And after telling me that they had applauded at great length and most enthusiastically, she put

me through to the president. I noted that the response had apparently been great and he....” I’m sorry, a moment ago when I was quoting the president that was my reaction to what the president said, and he was off in as euphoric a reaction as I have yet heard. That should be corrected, that was my comment about the president. He was just absolutely euphoric about that and it was such an enormous contrast with twenty-four hours before, when he had really, I just had never seen him, never before or after that time had I seen him so discouraged and doubtful about something. He said, “Yes, he’d had a great reception, that he’d really committed himself to a lot of Keynesian-Heller ideas, that his audience seemed enthusiastic about them, but then when they woke up to what they really meant, he said with a laugh, ‘They might have second thoughts.’ He went on to say that he thought the session had done a lot of good, mighty glad he’d done it, it was an audience consisting of extremely important people like the president of Bethlehem Steel, General Clay [Lucius D. Clay], many of the top business leaders in the country. I shot back that what we have to do now is mobilize these people to get their support translated into direct support in Congress for the tax cut. He agreed.

“In mentioning the kind of audience he had, he noted that as he came in he heard one man turn to another and say, ‘I hope to Christ they applaud when he comes in.’” [Laughter] He got, you know, that’s the kind of story he got such a kick out of telling on himself. It was one of those disarming things about him.

“We talked a little bit about the briefing for the TV program tomorrow night,” that is, for the two-hour taping sessions with the correspondents from the three networks, “and he felt that the material I’d supplied him yesterday did most of what he needed. But he suggested after a bit of conversation that I keep my date at noon, bringing over any additional material and being prepared to discuss any questions that seemed especially pertinent.” Pierre Salinger told me, Pierre kept saying, “Fantastic, fantastic” about this talk. Apparently the audience applauded after every one of his answers in the Q and A [question and answer] period. Then when they went upstairs to the hotel suite after....

GORDON: Yes, I remember that’s when he was really brilliant, in the Q and A, Walter. It was one of his best....

HELLER: Yeah. And we had helped brief him. So we were in turn kind of proud of what he’d done. “Roger Blough stated that this was the most important economic speech that any president had ever made and that it would have a highly beneficial effect on the whole economy.” And then when I got into the poverty thing.... “Later that evening Evelyn Lincoln called to say that President....” I think we went over, didn’t we go over the Kennedy role and the poverty?

HACKMAN: You mean in Fort Ritchie?

HELLER: Yeah.

HACKMAN: No.

HELLER: We didn’t get to that? Gee, that’s another thing we should do.

GORDON: Very important.

HACKMAN: Let me just butt in. What are your time schedules today? When do you have to get out of here?

GORDON: Well, we ought to quit about noon.

HELLER: Well, why don't we start the....

GORDON: 1:30.

HELLER: Well, we have till 12:30 then, don't we? Or do you have something that you have to do?

PECHMAN: What do you have?

GORDON: I can wait till 12:30.

HELLER: This has a number of things about the president, therefore I think it might be interesting note here that one extremely fundamental decision I was called upon to advise him on--this is Sunday noon in the White House, in the mansion, Sunday, the day he was going to do this three-network taping, on which you'll remember he was extremely effective. That was the best format for Kennedy, this give and take with guys like Sandy Vanocur [Sander Vanocur] and so on. But here was this extremely important decision: "Should the president be so informal as to smoke a little cigar during the TV taping? I answered that my instinct was against it and that settled the matter." [Laughter] I've always said that showed that he really consulted me on the important questions and that he took my advice. "We also covered the matter of first names versus last names of the correspondents, and the president declared against Rockefeller's [Nelson A. Rockefeller] clubby use of first names in similar circumstances."

GORDON: He's perfectly right.

HELLER: The president had.... I wonder if we made this distinction at Camp-Ritchie. You know, the trouble is with talking about specific subject matters that you sometimes leave out some things that bear directly on the president's conception of the presidency. One of them was this high respect for the office of the presidency. Do you remember the time he.... I don't know whether you were there, Kermit. I saw him just after he'd met with the Business Council and he was livid because it was in the East room of the White House and when he walked into the East Room, they didn't stand up.

GORDON: I remember hearing about that, Walter. Yeah.

HELLER: And he said to me, "That reflects a lack of respect for the office of the presidency that I simply can't go along with," and suggested in rather salty language what he thought of the Business Council for that lack of respect. But it was not, we know it wasn't Kennedy ego, it was Kennedy's concept of the presidency. And that came up.

"The next day at our budget and tax meeting the president began to get edgy at telecast time, namely, 6:30 p.m. It is Monday. He went out to see a sample and then soon terminated our meeting on tax questions with the proviso that we would continue the discussion in Palm Beach the following week." I watched him watch his own program and it was clear that he was very pleased.

"Since the tax meeting"--I mean to get back to your main theme now--"had ended inconclusively and since the material submitted to the president by the Treasury had not been through the troika nor submitted to us in any fashion beforehand, we were not well posted on what the Treasury proposals were. Dave Bell and I taxed Joe Fowler on this after the meeting; we got copies of the materials the next day. But I was unhappy about the prospect of having to stay within the 12.4 billion dollar Eisenhower deficit constraint. In fact, the Treasury program stayed a whole billion dollars below it." Now Kermit, I'm sure you remember that whole Eisenhower deficit constraint. I have just one other thing in this memo: "Therefore after...."

GORDON: Was the year of that record Eisenhower deficit Fiscal...

HELLER: Fiscal '58.

GORDON: ...Fiscal '58, yes. And it was part of the prevailing wisdom that it would be politically suicidal to exceed that dollar deficit, and all of the plans were argued within this limitation.

HELLER: Well, and still apropos to this question of total tax cuts, size of the tax cut, and then later on this question of phasing: "After the telecast was over I went back to see the president," together with Kermit, "to get a little leeway for alternative suggestions. When I told the president that the Treasury's proposals were the result of virtually a no-stimulus fiscal program for '63"--we'd agreed on the overall number but, of course, it was absolutely vital how that was scheduled over the '63-'64 period--"with two billion dollars of new payroll taxes effective January 1 being offset with perhaps two to two and a half billion dollars of reduction in tax liabilities in the second half of '63. When I told him this he said with a bit of irritation that I should have raised these points in the meeting. I told him that since we had not seen Dillon's program beforehand, we didn't have the basis for doing so." This somewhat contradicts the story of great harmony.

PECHMAN: Yeah, that's right, I'm glad that the record is being corrected to some extent.

HELLER: Well, but no, it is not inconsistent with the proposition that once the president came down with a final decision and took elements of each set of adviser's programs that we did coalesce. "Then I asked him for a hunting license to try out some programs that would push the deficit up to fourteen billion and he said that we should go ahead and do that and discuss it at Palm Beach, when the final decisions would be made on various programs including the tax program. In this connection, he had noted earlier that Pierre Salinger should hold down the number of press people to just one, namely Pierre, because the operation had gotten so expensive the preceding year that it involved fifteen thousand dollars of out-of-pocket costs for the president." That is the only time I ever heard him talk about personal expenses.

PECHMAN: Well, I think it's very interesting that here you are in, what is it, mid-December?

HELLER: Mid-December.

PECHMAN: Mid-December, that the Council had not seen the detailed tax reform proposals that the Treasury then submitted to the president. Now, the president didn't dwell on these tax reform proposals at all until Palm Beach as I recall, isn't that right?

HELLER: Well, even at Palm Beach there wasn't a lot. Stan Surrey [Stanley S. Surrey] was there, you were there....

PECHMAN: Well, he groused a lot about it, didn't he, at Palm Beach? He wasn't, was he ready to accept....

HELLER: I hope Kermit remembers this because I don't too well.

GORDON: Remember, I had just taken over the budget bureau about, oh, a couple of; two, three weeks earlier and I was so immersed ...

HELLER: You were so immersed...

GORDON: ...in trying to master the budget that my recollection on the details of the tax cut negotiations are very dim, but I don't remember much discussion of the technical tax cut questions in Palm Beach, Walter, at least not in my discussions with the president.

HELLER: You were...

GORDON: We were talking specific issues in the budget. There were some defense issues that were unsettled and there was a space issue I remember that was unsettled.

HELLER: What reminds me of this very vividly is the picture I have hanging on my wall in my study, where we're all clustered around the president--there's Surrey, Sorensen, you, Dillon, Fowler, and myself, I think that was the cast of characters, and Pierre, and Larry O'Brien [Lawrence F. O'Brien]. Because this after all was political economy, we were dealing with the question of what would go in congress, as well as the economics of it, obviously. And we were still fighting hard for a big chunk of the tax cut right away.

GORDON: The first year.

HELLER: And what came out was the presidential compromise. As against that little two or three billion dollar bit as the first installment, we came out with more than that, but still the phasing was not to our liking. And as far as the tax reform thing is concerned, Joe, Kermit is right, there was no lengthy discussion of the tax reform.

PECHMAN: Well, let me remind us what you said at Camp Ritchie, that you were in the dark and so on. Then, you, Walter Heller--I'm quoting from the Camp Ritchie statement--"But I want to finish this bombshell bit because I'm sure that the president was just amazed when he saw a 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?'" So you probably didn't go into detail on those tax reforms in Palm Beach.

GORDON: I'm sure we didn't, Joe.

HELLER: And there was a major misapprehension on the part of the Treasury, which they sold us, by the way. And we didn't really see it either, although we issued lots of warnings about the fact--on the basis of our long experience on tax reform--lots of warnings about how we'd get bogged down, how the special interests would be sniping at the tax reform and this would hold back the tax cut, and so forth. But what we failed to perceive, I think in retrospect, was that the Treasury's way of trying to avoid immobilization of the specific special interest pressure against the tax bill proved to be a total boomerang. And you remember the way that was done? Instead of picking out a whole lot of these things, we were going to have only expenditures above a 5 percent threshold...

PECHMAN: Deductions.

HELLER: ...deductions above a 5 percent threshold be deductible against income. Knocking off the first five percentage points of your deductions was worth...

PECHMAN: Oh, billions of dollars.

HELLER: ...billions of dollars. The argument that Joe Fowler and others made was, you see, this is the way to diffuse the opposition. Instead, it just enraged everybody. Everybody figured they were being, everybody's ox was gored. And we, I don't think, anticipated vast opposition either.

PECHMAN: There is a little sidelight on that one. That was the reason why I wrote an article in Max Ascoli's *The Reporter*.

HACKMAN: *The Reporter*, I've got a copy of it.

PECHMAN: Stanley Surrey called me up and said to me, "You're the only one in the country who's in favor of that 5 percent floor. How about writing an article defending it?" Which I did. [Laughter]

HELLER: And, of course, the barrage of criticism was very largely against the tax reforms. But let's not kid ourselves that the country understood the need for a tax cut in the face of a rising economy and a big deficit. We got lots of flack on that too. I think you recall the incident.... I don't know whether we mentioned this, had gotten this far at Camp-Ritchie, and I had forgotten about this until I saw an account of it I guess in Hugh Sidey's book [*John F. Kennedy, President*], that.... No, it was Ted Sorensen and I walked into the president's office one morning and he was so characteristically poised over his reading table. You know, he often read standing up because of his back, I guess. He was standing there looking at all these, just one headline after another about the criticism of the tax cut. That's when he swung around and he says, "Walter, I resent all these attacks on you." [Laughter] I'd almost forgotten it. And you remember also--I don't think we have this in the record yet, Kermit--our experience with the Puritan ethic comment. Do you....

HACKMAN: I've forgotten, it seems to me that...

GORDON: Oh, that was a good one.

HACKMAN: I think it wasn't in Fort Ritchie. I've certainly read about it other places but I don't think it's...

PECHMAN: No, it's not in this record.

HACKMAN: ...your view.

GORDON: That was late '62, wasn't it?

HELLER: No, this is early '63.

ALL: The testimony.

HELLER: The testimony, and this involved you and your first testimony...

GORDON: Yes, yes, quite a direct.

HELLER: ...when I had been asked by Martha Griffiths, who's a very sharp cross-examiner...

GORDON: The best.

HELLER: ...yeah, "Mr. Heller,"--this is again in the record--"why do you suppose it is that you're trying to hand this gift to the American people and they don't seem to want it?" And just without thinking, you know....

GORDON: I know where you got the idea, Walter. It came from me. We'd had a conversation a couple of weeks before and we talked about precisely that question and I remember using the phrase, "We are battling the Puritan ethic."

HELLER: Yeah.

GORDON: Two weeks later I could have torn my tongue out.

HELLER: Yeah, because that just popped into my mind and I said, "I suppose it's the Puritan ethic." And I didn't say it in a downgrading way, but it was immediately picked up, immediately picked up. And John E. Burns, that very afternoon, I guess it was, said, "I'd rather be a Puritan than a Heller." And then the next morning.... You should take it from here, you were there.

GORDON: Yeah, well, I was going to testify--was this Ways and Means [Committee on Ways and Means]--I guess I was going to testify before Ways and Means, my first testimony as budget director. And I wrote my testimony...

HELLER: Wasn't it also Joint Economic Committee?

GORDON: I forget which it was. I sent my testimony over to the president the day before and then I think I saw him in person before I testified, just asked him if he had any words of wisdom. He said, "No. That looks like a good testimony." He said, "But if you can, just try to avoid using colorful language, colorful phrases."

PECHMAN: Like the Puritan ethic?

GORDON: He didn't say clearly what he had in mind.

PECHMAN: Did he ever kid you about that, Walter?

HELLER: I've forgotten whether it was just through Kermit's brief encounter with him.

GORDON: He had a twinkle in his eye when he said it.

PECHMAN: Yeah, I see.

HELLER: But I'd be surprised if he did.

HACKMAN: I think you made a couple of references to it in a couple of memos just after the fact that you sent to the White House, it seems to. So maybe he said something, I don't know.

HELLER: Yeah, I'm sure I did. Well, I wonder if there's anything else we ought to say about that Palm Beach meeting.

PECHMAN: So that the Palm Beach meeting was devoted more or less exclusively to the fiscal policy aspect.

HELLER: Well, this particular meeting, yes.

PECHMAN: Yeah. How do you phase in the tax cut, whether you do it over a two or three year period or something like that as I recall. That was certainly discussed.

HELLER: Yes, and the Eisenhower [Dwight D. Eisenhower] budget constraint was very prominent, and it was the main tool that the Treasury used to hold down the size of the first phase of the tax cut. The president once said, by the way, at one of our breakfast briefing sessions, he said, "God, I wish I could get away with it the way Eisenhower did, always to convince the country that he just didn't believe in deficits and at the same time run the biggest deficits in history." He said, "But I can't do that, I've got to stay within that deficit."

PECHMAN: Well, Republican presidents have that naturally.

HELLER: Well, sure.

PECHMAN: Nixon has done the same thing.

HELLER: Then I remember talking with Larry O'Brien afterwards, afterwards unfortunately, and having Larry say, "I don't think that that twelve and a half billion dollar deficit constraint is all that important. Once you have a

deficit as big as ten billion dollars the public is lost as to the numbers anyway.” And I said, “Larry, why didn’t you say that during the meeting?” Well, he said, “I didn’t think it was really my place to say anything.”

PECHMAN: Well, can I... In February, apparently the president sort of groused about the fact that he was sold on popular tax reforms. There were a lot of news stories at the time that indicated he was unhappy about it. Did he ever, Walter, Kermit, give any indication that he was ready to scuttle the whole tax reform program, just go for tax cuts sometime during 1963?

HELLER: Kermit, why don’t you....

GORDON: I’m sorry, I was looking.... Let me just add this note to what Walter was saying about the Eisenhower deficit constraint. I see that in the briefing material, press conference briefing material we gave President Kennedy on June 26, 1962, one of the items is entitled, “Eisenhower’s Charge of Dishonesty.” Remember that? Question: “President Eisenhower, in criticizing your Yale speech, said last week that the federal budget should be balanced in all but emergency periods and that failure to pursue a balanced budget constitutes dishonesty.” Then there’s a proposed reply. But this describes kind of the climate in which the Eisenhower budget constraint limited discretion on the tax cut. What were you saying?

PECHMAN: Well, I was asking the question, based upon newspaper reports it became clear that the president was not very excited about tax reform after the adverse congressional and public reaction to the particular proposals that had been made. The dope stories indicated that something was put over on him. Did he ever suggest the possibility of just converting the tax reform-tax cut bill to a tax cut exclusively, or did he let the Treasury go along fighting the battle in 1963? You know, that was a long, long fight, which was not completed until after the assassination, incidentally.

HELLER: That’s right.

GORDON: That’s right.

HELLER: Well, some of that is very much on the public record, namely his session with, was it CED [Committee for Economic Development] or was this the American Bankers Association symposium? It was one of the two.

HACKMAN: I’ve forgotten which one. What’s the date?

HELLER: I think it was the ABA symposium which, I think was up in the Mayflower, and I remember I was sitting up on the stage...

GORDON: In the spring of ‘63.

HELLER: This is fairly early in '63, I'd say probably February.

HACKMAN: May 9, there's a speech to the Committee for Economic Development. I don't have the location of that.

HELLER: No, that.... No, this is a good deal earlier, I would say February.

HACKMAN: February 25, JFK speech to American Bankers Association symposium on economic growth.

HELLER: That's it. What they had was a....

HACKMAN: February 25.

HELLER: That's a critical date in this whole area of the role of tax reform vis-a-vis tax cuts. Because the president got up there and was asked point blank the question, what if you find--you know, it amounted to this--that tax reform is bogging down your tax cuts? And he, in effect, says, "I'll drop tax reform." And that again was a bombshell, at least as far as Wilbur Mills [Wilbur D. Mills] was concerned. And I saw him in his office afterwards and Wilbur had already raised Cain about this, because in spite of the fact that Wilbur is very much a political animal and responds to pressures against tax reform, he has a deep-seated belief in it. Is that fair, Joe? He'd like some painless way to get taxes reformed.

PECHMAN: That's a better statement. [Laughter]

HELLER: But both the Treasury and Mills felt that they'd been undercut by that statement very badly. And the fervor for tax reform, though there was some of it, was never the same after that. But that I think was the first time that the misgivings that he had expressed to us so often privately surfaced publicly. I think this is one case where a president was not quite aware of how startling his statement was to his audience. I may be quite wrong, but I think it had been discussed internally so often that he may not have been quite aware of what a small-sized bombshell it was.

PECHMAN: Well, I don't suppose there's any need to go through the record on how the bill went through, how tough it was to get the bill through Congress.

GORDON: Joe Fowler did a good job in mobilizing the businessmen, didn't he?

PECHMAN: Well, he had a committee. He had a citizens' committee in favor of the tax reform.

GORDON: Yeah. I think that supports Walter's thesis that once the basic decisions were made, everybody got on board. That was one of Joe Fowler's best

years.

PECHMAN: Yeah. Joe was just trying to sell the idea of a tax cut. You know, that committee did not endorse the tax reform parts of that.

GORDON: Is that right? I'd forgotten that.

PECHMAN: That's right. They were just trying to educate the public on the need for a tax cut and the acceptability of a large temporary deficit.

GORDON: And it was a good piece of work, wasn't it?

PECHMAN: I think so, but it's hard to evaluate these things.

HELLER: In talking a great deal as we do about this budget constraint and so forth, we don't want to overlook the fact that the president himself liked to spend money: that is to say, if it hadn't been for Nixon looking over his shoulder and the Eisenhower budget constraint and so forth.... And that came up in a quick meeting that Mike Feldman [Myer "Mike" Feldman] and I had with him on June 4, '63. By the way, Kermit, I think you'll remember this: "The next subject of interest specifically to me was the notorious interama matter." Mean anything to you? Claude Pepper [Claude D. Pepper] and the interama thing in Miami?

GORDON: Oh, God, some fraudulent operation?

HELLER: That's right. And they're still trying, you know, ten years later. Then it had talked about twenty million dollars. And we said the claims concerning all the Cuban employment and the help to the Dade County area were spurious. At this point the president said he was happy enough to spend money, especially since the deficit was somewhat less than anticipated, and he asked Mike what political good might come of it. There was a question of getting Holland [Spessard L. Holland] lined up for the foreign aid program and even the possibility that he might become a Kennedy man in the 1964 election. And the president said, "That's something I don't really expect to see." You remember Spessard Holland?

GORDON: Well, he paid high for Holland. The cross-Florida barge canal was the principal concession.

HELLER: Then we talked about Keyserling's [Leon H. Keyserling] report. The president asked me whether I'd seen Howard K. Smith's show [Howard K. Smith] the preceding Sunday night, the one with Keyserling and others criticizing the president's economic policies. I said I had. The president said he thought Smith was a blank, in fact, he thought almost on reflection that he was a blank of blanks. It was a four-letter word that....

GORDON: The president was always leaning on you to cozy up to Keyserling and try at least to neutralize him, remember that, Walter?

HELLER: Well, then, I was...

GORDON: He was always pestering Sorensen and the president. I remember there was continual pressure to be nice to Keyserling in the hope that somehow this would quiet him down.

HELLER: That was a two-way think, Kermit, because I, in turn, having some sympathy for the work Keyserling had done for him and some sympathy with the earlier work that Keyserling had done on behalf of liberal causes, I managed a couple of meetings between Keyserling and the president in an attempt both to give him a bit of an audience and to quiet him down. But it never did any good; he always thought that we, the Council, kept him from seeing the president more often. Keyserling, of course, was a very special problem.

PECHMAN: Well, I think that closes the tax cut...

[Interruption]

HELLER: The question came up a moment ago about the difficulty of getting a tax cut through Congress, and there was this renewed drive on the president's part in the fall, shortly before the assassination, to get the tax cut moving because it had bogged down so badly. It had gotten through the House and was now in the Senate, and the...

PECHMAN: Not totally, but this is not relevant to the Kennedy history?

HELLER: Yes it is.

PECHMAN: I take it that the hundred billion dollar, no below a hundred billion dollar budget, that has been written up, hasn't it, I mean, somewhere, for the record--President Johnson's role in getting the tax cut through.

HELLER: Oh, yes, that's written up. Yeah, I wrote it, so it's been written accurately. I have an internal memo on that famous meeting that we had, written immediately after....

GORDON: I suppose we've talked about this since, Walter, but there is I think still lingering the impression that somehow Johnson, by a great feat of will, succeeded against overwhelming odds in getting the budget below a hundred billion dollars, that's the common view. The fact is it was very easy to get that budget below a hundred billion dollars and it almost certainly would have been below a hundred billion if Kennedy had lived. Most of this was a dramatic performance put on for

the edification of the press and it worked very well. You know, Harry Byrd [Harry Flood Byrd] had said to Johnson, "I'm not going to report out the tax bill unless you come in...." He said, "I won't support it in any case," but he said, "If you come with a budget under a hundred billion, I'll report it up." I just looked at the memo I sent to Kennedy in August. The planning figure, which is always a very soft figure, was about 101.6. That's a very soft number. So that, I think, the chances are overwhelming that in the same circumstances Kennedy would have come in with a budget well under a hundred billion.

HELLER: Is it of any interest to what the.... Well, no, let me ask this question: Were there reports, verbatim or otherwise of the cabinet meetings?

HACKMAN: No.

HELLER: That's what I thought.

HACKMAN: No one sat and took verbatim notes really. So it's just what people like yourselves will....

GORDON: So what's lost, Walter? [Laughter]

HELLER: Well, what's lost is mainly, obviously, no action record but rather interesting sort of windows on what people were thinking and where things were. I wrote up the cabinet meeting of July 3, 1963 on the president's return from Europe. "Dillon reported on the tax bill that Mills would bring the Ways and Means Committee back together on July 15, '63 this is. "The bill probably wouldn't get to the floor of the House till August 5 or 12. Later on when the president asked Wirtz, Sorensen, et al, to work up something on the accelerated public works program in the light of the lower budget deficit and the need for more fiscal stimulus, particularly in the big cities, it was agreed that nothing on this score should be done until the tax bill was through the House." In other words, that nothing should be done publicly. "Dillon indicated some optimism about the overall tax action picture."

"At lunch on Friday, July 5, Dillon indicated that Mills had abandoned his plan to set the capital gains inclusion rate at 40 percent, so that the only chance now is either to get it into the Senate or drop the whole capital gains change out. Also he indicated that Mills' inclination was to get two-thirds of the tax cut on January 1 and the remaining one-third the following January 1, however, with the withholding rate dropping to 15 percent on January 1, '64. Also he indicated that the repeal of the dividend credit was now in doubt because Mills didn't want to alienate the Republicans too completely. He noted that John E. Burns is playing an extremely astute and cynical game, either to kill the tax cut as a whole or at least to make it politically unpalatable in every way possible. He said, 'It is perfectly clear that Burns wants a '64 recession.' The rate structure that's shaping up seems to be 15 to 70 percent, with the justification of not going higher on the rates being that they'll jump to 70 percent at a hundred thousand dollars."

Then, it finally got to the Senate and the president was trying to get, as I say, some more steam up for the tax cut. But let me just enter one other item. In July, this was

July 8, "my conversation with Ted Sorensen about the tax thing by phone brought out that Ted felt we were making reasonably good progress on the tax bill. He said he wasn't as frightened of my reported developments as I seemed to be. He admitted, however, after our conversation, that it was a pretty regressive package if the 30 percent capital gains rate, the 70 percent top rate, and the non-repeal of the dividend credit all became part of the Ways and Means package. At the same time, he didn't feel that liberals and labor will be particularly appalled by this since their big emphasis is going to be on the size of the tax cut rather than on the composition of the program. He agrees with us that the package is bad but isn't terribly exercised, however he promised to keep on thinking about."

PECHMAN: Just a footnote here, you know, why 30 percent or 40 percent inclusion was considered.

HELLER: Yeah, I wish you'd tell this part of it.

PECHMAN: That was associated with the proposal that included the original tax message to tax crude capital gains that were transferred by gift: or death as capital gains. It was a trade-off, the trade-off being that you get additional revenue from these crude capital gains that would escape from taxation. And for that you were going to reduce the capital gains rate on realized gains as well as those. Well, in the end, Kermit, remember--I think I'm right--think the House bill had something on constructive realization and a reduced percentage of inclusion. The Senate bill eliminated the constructive realization but kept the reduced percentage inclusion. The question was how would it come out in conference. And I remember I called both of you to alert you. That's the only time I talked to you about the tax bill after you became director of the budget, to alert you about this problem. You never told me how....

GORDON: It was taken out in conference, was it, Joe?

PECHMAN: No. They never accepted constructive realization in conference but they kept the 50 percent in conference.

GORDON: What do you mean, the 50 percent?

PECHMAN: Fifty percent inclusion.

GORDON: I thought they were going to reduce the....

PECHMAN: The Senate bill...

GORDON: Yeah, the Senate bill did.

PECHMAN: It's the House bill that did, I'm sorry, the House bill. In any case, it was as a result of administration pressure, I'm not sure whether it was presidential

pressure of pressure from the White House. I don't think the Treasury was very unhappy about reducing the capital gains bill. But you don't remember?

GORDON: No, I don't remember that.

PECHMAN: You don't remember either?

HELLER: Well, I do remember swinging into action the moment I got your call.

PECHMAN: Yes, you did. You did too, Kermit.

HELLER: And I got in touch with the Treasury, and I somehow or another got an okay, either through Ted Sorensen or a quick word with the president, that we should go after this thing.

PECHMAN: This, it should be said, is President Johnson now. This is after the assassination. This is early January, it's in January.

HELLER: January of sixty.... When did it come to the Senate floor, was it in January?

PECHMAN: Oh, yes, that's right.

HELLER: But this stuff in July of '63 was antecedent to it...

PECHMAN: That's correct.

HELLER: ...when we first expressed the concern about it. I think it's worth just a note or two about the president's tax cut speech. Let's see. The tax cut speech was September 18, right?

HACKMAN: September 18. Right.

HELLER: These are some notes that are very rough, coming back for a moment to the tax cut speech, "I did paragraphs not only on the idea that the tax cut would not be a cure-all but also on the impact of the tax cut on the typical American family and on the stability of the wholesale price index. Later on I did pieces on the public debt. We worked intermittently with the president on four or five occasions on the tax cut speech, including right until forty-five seconds before he went on the air. He made a comment about his eyes when Ted brought the 5" by 8" reading cards on which the speech was typed in regular rather than super big type. He says, 'I can't read these funny cards,'" or words to that effect. That just a couple of seconds before he was going on. [Laughter] I note also: "There was a fascinating telephone call to a Kennedy brother"--this was to Ted [Edward M. Kennedy]--"in the course of these proceedings, a

call dealing with one Madame Nhu [Ngo Dinh Nhu], including..... Remember, Ted Kennedy had had lunch with Madame Nhu?

GORDON: Oh, yeah.

HACKMAN: I didn't remember that.

HELLER: It just got Kennedy, you know, in a flash of anger. He was really sore. And he called....

GORDON: This was the dragon lady in Saigon.

HELLER: Yeah. And he said, as I say here, including some colorful phrases concerning a meeting with her so soon after she had kicked him in a rather vital spot. [Laughter] That was one of his favorite expressions, you know, "This woman kicks me in the nuts and the next day you have lunch with her." The conversation ended most amicably and with the usual sense of the Kennedy family solidarity.

After the tax cut speech, the president received several very interesting phone calls. He and I walked from the presidential office into the cabinet room. They were clearing out all the television gear. And that's when I talked with him about the Consumers Advisory Council, of all things. And then I heard his phone calls from various people. I stepped out for only one of them, he got a call from Jackie. But I was there while he was talking with several other people, including one from Senator Fulbright [J. William Fulbright] indicating that that was the way public education would be done, and Fulbright would go with the president on the tax cut all the way. Also there was a lengthy call from Mrs. Jackie Kennedy during which I stepped out of the cabinet room, where the president was temporarily headquartered because his office was full of electronic equipment. Then there was a touching little call--this is really not for the record at all--from the team of Phyllis [Phyllis Dillon] and Douglas Dillon. And that, the president said something to me afterwards, something about "dear Phyllis and dear Dougie calling about the tax cut speech." That's the kind of thing you don't even want in any off-the-record record. Then I asked him if it wasn't too much of an anticlimax could I discuss the Consumer Advisory Council. He said not at all, this is a good time, so we went on and discussed that. I don't know whether we, that's when I suggested...

GORDON: When he hung that albatross around our necks, Walter, at least we accomplished one good purpose. I think that was Fritz Mondale's [Walter F. Mondale] first appearance on the federal scene, was it not?

HELLER: Good point.

HACKMAN: The consumers' thing, you mean?

GORDON: Yeah.

HACKMAN: There's a comment in I think it is the Fort Ritchie thing, referring back either to the Carlisle meeting or a very early meeting that you had with President Kennedy, in which he asks you, what sorts of new things can the Council do? And you said: consumers, manpower, and resources, I think, was the way you described them. And then somebody said, "which we all later lived to regret."

HELLER: Right.

PECHMAN: And I want to remind you, when you told me about that consumer thing, I smoked.

HELLER: You started smoking. But again, you see, you have to.... This is now talking not about the president but about the president's Council of Economic Advisers. After all, he launched us with a great statement, which we helped draft, about he wanted the Council to return not just to the letter but to the spirit of the employment act and so forth. And then, that was at a time when the Council had fallen to low estates, you know, in under Saulnier--the Eisenhower Administration. We were somewhat concerned that we might not have enough to do. In retrospect, when you consider the seventy-hour, eighty-hour, ninety-hour weeks that were standard procedure, you know, it seems laughable, but at that time, I was concerned that... After all, there's nothing in the law, except for the requirement of an annual report, that requires the president to have anything to do with the Council of Economic Advisers. The train often whistled past in those early days without stopping at our place at all.

GORDON: I remember, looking over the Fort Ritchie transcript, that Jim Tobin said that when Kennedy offered him the job he was of two minds about it. He apparently made the point explicitly to Kennedy that he wasn't sure it was really much to do down there, that his understanding was that the two members of the Council regarded this as kind of a highly paid research fellowship.

GORDON: And you know where he got that, from Henry Wallich [Henry C. Wallich].

HELLER: From Wallich, yeah.

GORDON: Henry Wallich, having served in the Eisenhower Administration, quite appropriately said it was the highest paid fellowship in the profession.

HACKMAN: If you are going to have to leave at 12:30 maybe we ought to shut this off.

GORDON: Yeah.

[Interruption]

HELLER: As I said, at the outset, we really had some doubts that there was going to

be enough to do.

GORDON: We overcame those doubts very early though, Walter...

HELLER: Very early.

GORDON: ...and came to lament our having been charged with these consumer resources responsibilities, et cetera.

HELLER: Absolutely, and not only because of the time that it took, but because it was inappropriate for us to be an operating agency. It took the Consumer Advisory Council experience, really, to get that thoroughly across to me, because we had no business doing what we were doing. By the time we were explicitly asked by Mike Feldman to take on the Consumer Advisory Council we had already become very chary. We really didn't want to do it, but having stuck our necks out early in the game; and with the President, in effect, saying, "Gee, please, you know, won't you take on this dirty job," and since I had some predilection, you know, favorable to the consumer movement, I decided okay, let's take it on. Well, I lived to regret it. But I think we got out of it pretty well finally. We got it launched, we got Esther Peterson. She was finally appointed by LBJ, wasn't she?

[END OF INTERVIEW #2]

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