Seymour E. Harris Oral History Interview – JFK#1, 06/16-17/1964
Administrative Information

Creator: Seymour E. Harris
Interviewer: Arthur M. Schlesinger, Jr.
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Biographical Note

Harris was an economist and a professor at several different universities; a member of the U.S. Board of Economic Welfare, 1942; a member of the President's Council of Economic Advisers, 1950–1951; an economic adviser to Adlai E. Stevenson, 1954–1956, John F. Kennedy [JFK] in 1960, and Secretary of the Treasury C. Douglas Dillon in 1961; and a senior consultant to the Secretary of the Treasury from 1961 to 1968. In this interview he discusses his work as an economic adviser to JFK; his interactions with JFK both before and after he became President; JFK's evolving economic policies and how they were influenced over time; the interaction between the Council of Economic Advisers and the Department of the Treasury on various issues; and several different economic programs under President JFK, among other issues.

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By Seymour E. Harris

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Seymour E. Harris – JFK #1
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Oral History Interview

With

SEYMOUR E. HARRIS

June 16 and 17, 1964

By Arthur M. Schlesinger, Jr.

For the John F. Kennedy Library Oral History Program

SCHLESINGER: Seymour, what is your first recollection of John Kennedy [John F. Kennedy]?

HARRIS: Well, I did not know him when he was an undergraduate, but when he was a young congressman a number of us in Cambridge wanted a new Post Office built and we approached him. My wife wrote a letter to him and received a very nice reply. We saw him in Cambridge a few times while he was a congressman. I remember him vaguely as rather young, boyish looking, with a pleasant personality, but no other striking characteristics.

SCHLESINGER: What year was this?

HARRIS: This must have been about 1948, I would say. As you know, there was an old Post Office built right after World War I at Harvard Square which was inadequate. He did get us a new Post Office and at that time everybody was very much impressed. And at that time we had the impression that although he was very young and inexperienced, he was a chap who did get things done.

SCHLESINGER: When did you first begin working with him?

HARRIS: I first began working with him in any serious way when he ran for the

Senate in 1952. At that time, late in August or early September, when he was at Hyannis Port and we were at our house at the Cape, he called me up and asked if he could come over and talk to me about the New England economy. At that time, I was working with the New England Governors on these problems and had just written a book on the New England economy. And so he came over and spent a couple of hours with us. I remember that he was concerned about unemployment and what could be done about the economy. How could we stimulate the New England

economy? How could we save the textile industry, and other New England problems. I recall one episode which was rather interesting. He asked me about my book and he said he would buy a copy, and he apparently read it.

SCHLESINGER: What book was this?

HARRIS: This was the *Economics of New England*. He apparently was interested in this book and the next time I saw him he said to me, "Well you know, I made some comments about why public utilities were standing in the way of multipurpose river development," and he said that the public utility people had written a very nasty note and that they were going to work against him if he continued these attacks on private power. So I asked the congressman why he made this attack. He said, "Well, it's all in your book." I said, "Why don't you consult with Governor Dever [Paul A. Dever], who is very experienced in these matters, and he might be able to guide you on this particular issue." And he did consult with Governor Dever. I don't recall he ever again got into the public utility issue at that time. Apparently this is a very tough crowd to deal with.

SCHLESINGER: Was he much involved with the tariff?

HARRIS: Yes. He was, in a general way. He took the same general line that most New England congressmen had to take, because the textile industry was going downhill very fast. There was a good deal of feeling that it was going down fast because of Japanese competition, increased British competition and also because of tremendous competition from the South. And he therefore, in a general way, tended to operate in favor of special protection for the tariff. This, of course, was to be very embarrassing later on when he became President. In fact, I think

experience as a senator from Massachusetts or any state and as a congressman, can militate against ideals and national objectives when one becomes a President. This particularly hit Congressman and Senator Kennedy in a very serious way.

SCHLESINGER: Now, the tariff is one issue; could you spell that out?

HARRIS: Yes, and this thing plagued him for years. And even when he ran for the presidency in 1960, he dropped me a note, (or called me on the phone) and asked me if I wouldn't write something for him on the textile industry in such a way as to reconcile his position as a President with the protection of the textile industry, because he was very hopeful of winning South Carolina. The governor of South Carolina [Ernest Frederick "Fritz" Hollings] had made it quite clear that if the candidate would do enough for the textile industry, he would have the South Carolina vote. I wrote this memo and suggested how far he might go both concerning his interest in the textile industry and also his broad responsibilities as President. South Carolina did go for Kennedy. Now there were other issues that were involved. For example, he was a strong advocate of minimum wage legislation. One of the advantages of minimum wage legislation for a senator from Massachusetts was that it would tend to reduce the difference in wage rates between the South and the North. This was a position that was carried over to his presidency. In 1961, one of the first things he did was to come out strongly in support of an increase in the minimum wage. Of course, he couldn't be quite so strong for the position as he was as a senator. Nevertheless, in a general way,

he took the same position. The whole aspect of this problem is that John Kennedy as President, or senator, in a general way, favored policies that were not exactly the same kind of policies that the Keynesians or the President's Council of Economic Advisers, etc., favored. He was as congressman much more of what you might call a structuralist. That is, he was not so much in favor of increasing demand by decreasing taxes or by increasing public spending, as he was in favor of treating the general unsatisfactory market conditions which were bringing about unemployment: for example, having 3 or 4 million people who were unemployed at the same time that there were unfilled vacancies for a couple of million in certain skilled occupations.

SCHLESINGER: You are talking now about the congressional period?

HARRIS: I am talking now about the views held by a congressman or a senator which tend to emphasize such things as increased tariffs, minimum wage legislation, more contracts for Massachusetts, all that sort of thing, which might not be those advocated as President. Now these are what we call structural approaches to the problem. The other approach is, of course, to increase your public spending or to reduce taxes, which is the demand approach. This is the approach, of course, which the Kennedy Economic Council in general favored and most Keynesians favored, but in the early period, the Kennedy Administration had much more success with manpower development, the Area Redevelopment program, policies of that sort. In fact, as a senator, Kennedy was one of the main supporters of the Area Redevelopment program, and at one point, was the chairman of the committee that worked on this project. As a result of the education he received in Washington, he gradually deviated from the structural approach. He never gave it up and he certainly was more for it than, say, the Council of Economic Advisers was. In that sense he was with the Department of Labor, which also tended to take a structural approach, as against the general demand approach. If you compare 1963 to 1961, I would say the President had gone much further in the direction of the demand approach and wasn't emphasizing nearly so much the structural approach, but this can be discussed later on.

Another point, you may recall, he came out against a very important farm bill when he was a senator which later proved to be very embarrassing when he tried to get the farm vote and he had in a general way to try to appease the farmers as a candidate and also when he was President. He, in a sense, I think made the best reconciliation because what he really did was to support high incomes for farmers but demand that they pay for this by restricting output; but of course, he did not quite achieve this program, even up to his death. And as a matter of fact, President Johnson [Lyndon B. Johnson] has not achieved it either as of now.

Another interesting episode when he was a senator—here he took a really national and courageous view and lost a great many votes. Longshoremen were very much annoyed when he took a position in favor of the St. Lawrence Seaway, and this was a policy that had no appeal in New England because the view was that the St. Lawrence Seaway would simply take away a great deal of business from the greater Boston port.

[-5-]

Nevertheless, he felt that in the national interest this was a desirable program. Contrary to the political gains that he could have had by opposing the St. Lawrence Seaway, he supported it and lost a good many votes.

SCHLESINGER: Did he consult with other academic people at that time?

HARRIS: At that time, I think I was his main adviser on economic issues. There are a number of letters here that may be of interest. Might they be put in the record?

SCHLESINGER: Sure.

HARRIS: I insert (1) letter of February 24, 1956, in which the senator discusses the Boston hearing on the "depressed area" legislation. And letter (2) May 7, 1956 in which he talks about the difficult problems facing the textile industry and in which he suggests some hope that we are making some progress.

On April 8, 1957 (insert letter 3) he makes a rather interesting point on the relation of state and local government and the federal government and suggests how important it is to confront these people who say that the state and local government can do everything in these matters. At the very end he writes: "Unfortunately, everything you do has a stimulating effect on my curiosity and thus, I am always bothering you. Please excuse me."

Then on April 8, 1957, he wrote about his interest in welfare, health and pension funds which raised all kinds of issues, vis-à-vis the Taft [Robert A. Taft]-Hartley [Fred A. Hartley, Jr.] Act, etc., but this can go into the record. (Insert letter 4).

JOHN F. KENNEDY
MASSACHUSETTS

COMMITTEES:
LABOR AND PUBLIC WELFARE
GOVERNMENT OPERATIONS
SELECT COMMITTEE ON
SMALL BUSINESS

United States Senate
WASHINGTON, D. C.

February 24, 1956

C

Professor Seymour Harris
Harvard University
Cambridge, Massachusetts

Dear Professor:

I have just had an opportunity to go over the transcript of the Boston hearing on the "depressed area" legislation and I want to express to you my appreciation for your appearing and for the information you have provided on this important matter.

I am sure the hearing will be very useful to the Committee in its consideration of this legislation.

With every good wish, I am

Sincerely yours,

John F. Kennedy

John F. Kennedy

JFK:md

JOHN F. KENNEDY
MASSACHUSETTS

COMMITTEES:
LABOR AND PUBLIC WELFARE
GOVERNMENT OPERATIONS
SELECT COMMITTEE ON
SMALL BUSINESS

United States Senate
WASHINGTON, D. C.

May 7, 1956

2

Mr. Seymour E. Harris, Chairman
New England Governors' Textile Committee
234 Littauer Center
Cambridge 38, Massachusetts

Dear Seymour:

I appreciate your recent letter commenting on the difficult problems facing the textile industry, and in particular the statements which were attached to your letter.

We seem to be making progress on most of these problems and I agree with your observations that the New England Congressional delegation has generally been very much united in efforts to stop the downward trend of the textile industry, especially the New England segment of it.

Thanks for keeping me posted.

Sincerely yours,

John Kennedy

John F. Kennedy

JFK:md

JOHN F. KENNEDY
MASSACHUSETTS

COMMITTEES:
FOREIGN RELATIONS
LABOR AND PUBLIC WELFARE

United States Senate

WASHINGTON, D. C.

3

April 8, 1957

Professor Seymour E. Harris
Harvard University
Department of Economics
M-8 Littauer Center
Cambridge 38, Massachusetts

Dear Seymour:

I share your interest in this problem of the difficulties encountered by state and local governments in financing the services they are expected to provide.

It seems to me that quite a speech could be made at some appropriate time on the futility of repeatedly telling the Federal Government to turn many of its functions back to the states (schools et al) when the states, even in times of high income, are unable to finance those services except through unreasonable tax rates and expensive credit -- unless, of course, the Federal Government also turned certain sources of revenue back to the states. Would it be possible for you or one or more of your colleagues to give me an analysis of this problem and a documentation of the points mentioned, not only as applicable to Massachusetts but elsewhere?

As usual, I am grateful to you for your cooperation and interest.

With every good wish.

Sincerely,

Jack

John F. Kennedy

JFK:gl

Unfortunately everything you do has a stimulating effect on my curiosity, and thus I am always bothering you. Please excuse!

JOHN F. KENNEDY
MASSACHUSETTS

COMMITTEES:
LABOR AND PUBLIC WELFARE
GOVERNMENT OPERATIONS
SELECT COMMITTEE ON
SMALL BUSINESS

United States Senate

WASHINGTON, D.C.

April 8, 1957

4

Professor Seymour Harris
Harvard University
Cambridge, Massachusetts

Dear Professor Harris:

The Subcommittee on Labor of the Senate Labor and Public Welfare Committee, of which Subcommittee I am Chairman, is considering at this time proposed legislation governing welfare, health and pension funds, including S. 1122 and S. 1145, which are enclosed. It is expected that the scope of this legislation will be broadened somewhat as the result of the hearings conducted by the Select Senate Committee on Improper Activities in the Labor or Management Field, on which I also serve.

I would be most grateful for your expert counsel on this matter and your specific recommendations with respect to legislation you feel our Subcommittee should report. Such comment might include:

1. Your suggestions for improving or changing the two enclosed bills, or otherwise providing for registration, reports, disclosure, etc., with respect to these trust funds and the policing of this data, including the possibilities of requiring adequate reserves, independent audits, bans on collusion or discrimination, and similar safeguards.

2. Your suggestions for improving the apparently inadequate provisions of the Taft-Hartley Act for the reporting of regular union funds and financial transactions, and reports thereon to members, and the policing of those reports, including again the possibility of independent audits, so that abuses of the type recently disclosed might be more readily identified and corrected; and your views on suggestions that embezzlement of funds of unions operating across state lines be made a Federal offense.

3. Your suggestions with respect to the problems of conflict of interest in the handling of both types of funds (welfare plans and union treasuries), including the prohibition of transactions in which a union official has a personal or financial interest, etc.

4. Your suggestions on legislation to facilitate democratic control of unions by their members, to prevent the arbitrary exclusion of bona fide workers from membership in unions; to prevent the harassment of dissident members and to meet the special problems raised by the trusteeship device.

Any other suggestions you have along these lines would be welcome. It seems to me that all of the above items, particularly the first three, are closely inter-related and could be the subject of a single bill.

Although I recognize the burden of this request and the time required for a thorough and thoughtful reply, I am most anxious to have your suggestions at the earliest opportunity.

I am most grateful to you for your cooperation.

Sincerely yours,

John F. Kennedy

John F. Kennedy

JFK:ps

In a letter of April 29, 1957 (insert letter 5), he informed me that he was going to begin hearings on the regulation of trade union welfare and pension funds. This became one of his great interests when he was a senator and he raised all kinds of questions about conflict of interest, about trade union leaders who operated these funds and also tended to decide how they were invested and sometimes, of course, the investments were very bad. But this time I testified on this bill, as I did on a number of bills that interested the senator. I recall an episode with Senator Allott [Gordon L. Allott] of Colorado, who was a member of his committee and was most obstructive in dealing with this problem. He tended to be rather insulting to witnesses and he tried this particular approach with me, who by this time happened to be a pretty experienced witness, and he didn't get away with it. But he also tried the same tactics on other witnesses; I recall one, a young instructor at Columbia. This treatment very much annoyed Senator Kennedy and after the Hearings were over, Senator Kennedy asked this young economist and me to have a talk with him and he apologized for the senator's bad manners.

Then on January 23, 1958, the senator raised the issue of the disadvantage that New England was laboring under as a result of the high freight rates from the West to New England as compared from the West to New York. At this point, he was trying to work on the ICC [Interstate Commerce Commission] to have this changed (Insert letter 6). He also indicated that Senator Saltonstall [Leverett A. Saltonstall] was working on this too. I might say parenthetically that in all the years that I worked with New England Governors necessarily working with both Senator Kennedy and Senator Saltonstall,

JOHN F. KENNEDY
MASSACHUSETTS

COMMITTEES:
FOREIGN RELATIONS
LABOR AND PUBLIC WELFARE

United States Senate
WASHINGTON, D. C.

April 29, 1957

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Professor Seymour E. Harris
Department of Economics
Harvard University
M-8 Littauer Center
Cambridge 38, Massachusetts

Dear Professor:

I wish to acknowledge and thank you for your letter of recent date in response to the request for your views on pending legislation to regulate trade union welfare and pension funds and other areas of internal trade union activity in which Federal legislation may be indicated.

Your thoughts on these matters will be of great value to the Labor Subcommittee when it commences work on these important issues. I thought you would like to know that I am planning to begin hearings in this area probably within the next two weeks. I want you to know how grateful I am for your interest in this work.

With best personal regards,

Sincerely yours,

John Kennedy

John F. Kennedy

JFK:def

JOHN F. KENNEDY
MASSACHUSETTS

COMMITTEES:
FOREIGN RELATIONS
LABOR AND PUBLIC WELFARE

United States Senate
WASHINGTON, D.C.

C

January 23, 1958

Mr. Seymour Harris, Chairman
The New England Governors' Textile Committee
234 Littauer Center
Cambridge 38, Massachusetts

Dear Seymour:

I want to thank you for your letter of earlier this month calling to my attention proposed freight increases on raw cotton coming into New England and the legislative suggestions of Stanley Backer.

On the freight rate business, as you have probably noted in the press, I have already been in contact with ICC and hope that we will be able to get some favorable action from them. On the textile legislation, we are working with Senator Saltonstall and hope within a very short time to have legislation ready to introduce.

Again, I am indebted to you for your assistance in this and other matters and hope that you will drop into the office when you are in Washington for the National Committee meetings.

With every good wish,

Sincerely yours,

John Kennedy

John F. Kennedy

JFK/pf

one could not help being impressed by the fact that so often when Senator Saltonstall tried to do something for the Commonwealth he managed to make the situation worse. But Senator Kennedy was generally of great help on all these issues. He caught the point at once.

On July 6, 1959 (Insert letter 7), Senator Kennedy raised the question of the minimum wage law and the conflicts of testimony and asked me if I wouldn't try to straighten out some of the conflicts.

And that's all of the excerpts during the period that he was a senator. (Unfortunately, many letters were lost, but there may be copies in his files).

I might say, that during that period he came to the Cape a couple of times. He came to my home a number of times and to my office generally when he was in Cambridge. We would discuss all these economic issues and I was impressed by the fact that by 1959 he had developed tremendously compared to what he knew ten years earlier, or particularly in 1952. He was a very conscientious senator, but he was a loner. He never really worked very closely with other senators, and he never really, I think, became a member of the Senate Club for that reason. At the meetings of the New England Governors with the New England Congressional delegation, which of course the senator attended and which I as advisor of the New England Governors generally attended, the senator was very much interested and contributed much.

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United States Senate

COMMITTEE ON
LABOR AND PUBLIC WELFARE

7

July 6, 1959

Professor Seymour Harris
Harvard University
Cambridge, Massachusetts

Dear Professor Harris:

As you probably know, the Subcommittee on Labor of the Senate Committee on Labor and Public Welfare has been holding hearings on various bills to amend the Fair Labor Standards Act. S. 1046, one of the bills before us, would increase the minimum wage to $1.25 per hour and extend the protection of the Act to about 7 or 8 million additional workers.

We have had a great deal of testimony which is contained in the record of hearings which I am sending you under separate cover. In addition, the Department of Labor has assembled certain economic data for the use of the Committee. This data is contained in a Committee Print which I am also sending you.

Later this week the Subcommittee will begin executive sessions to consider all of the economic factors involved and to mark up a bill. In this connection your advice and counsel would be very much appreciated.

Certain questions on which we have received conflicting views have been raised during the hearings and in our own minds as we have studied the available data. These questions have been set down in the attached memorandum, and are offered for your comment. They are merely suggested questions and I do hope that you will feel free to raise any other points which you believe are pertinent to our deliberations.

I am sending a print showing the changes which S. 1046 would make in existing law as well as copies of S. 1967, the Administration bill, and some economic data which has been compiled by members of the staff.

Needless to say, any observations which you are able to make to the Committee on this matter would be valued highly and would be of great assistance to us. I must apologize for breaking into your summer vacation and imposing on your time. I hope that we may have your comments at an early date for as I indicated we will shortly embark on a mark-up of the bill in the Subcommittee.

With renewed expression of esteem and thanks, I remain

Sincerely,

John F. Kennedy

John F. Kennedy

JFK:ps

Enc.

SCHLESINGER: How would you sum up his economic views as of 1959 and 1960?

HARRIS: Well, I would say in a general way he held very strongly to what I call the structural approach and knew very little about what we call modern fiscal theory. He had been appointed, as you know, to the Joint Economic Committee [JEC], but unfortunately, during this period he was traveling a great deal to get the nomination, and so he very seldom attended meetings of the JEC. At that time, he might very well have learned a great deal about modern fiscal policy and he would not then have had to go through the painful process during the presidential years of getting to know something about modern fiscal theory. I might at this point mention the Hyannis Port day that we spent with him because I think that this was the first real education he had in modern fiscal policy.

SCHLESINGER: And that was when?

HARRIS: That was in the early part of August, 1960.

SCHLESINGER: Who was there?

HARRIS: Ken Galbraith [John Kenneth Galbraith] was there, Archie Cox [Archibald Cox], who you know was the main person responsible for getting this material for the senator, Dick Lester [Richard A. Lester] of Princeton, Paul Samuelson [Paul A. Samuelson], and I think that was all.

SCHLESINGER: What sort of day was it?

HARRIS: Well, it was a complete day devoted to a discussion of economic problems. I think, in general, we covered five or six subjects.

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SCHLESINGER: Where did you hold your discussion? In the house?

HARRIS: No. We had our discussion primarily on the boat, I believe the *Marlin*. I recall that the last hour we were just ready to disembark when I reminded the senator that we hadn't discussed the dollar problem, which was at that point a very important problem. And so just about a hundred yards from shore, we discussed the dollar problem, which was at that point a very important problem. And so just about a hundred yards from shore, we discussed the dollar problem for a whole hour.

And I also recall a rather amusing episode at that time. I was speaking fairly fast because I thought we had to hurry along and I am a fairly rapid speaker anyway, and Paul Samuelson stopped me and said, "Seymour, the senator isn't getting what you're saying because you are going too fast. I can hardly follow you." And I said, "Oh, the senator's an experienced economist." The senator had reminded us that he had had Economics A at Harvard with Russ Nixon and had received a C. We all smiled because *we* knew that Russ

Nixon was a very good Economics 1 instructor, but we also knew, though not at the time, that Nixon was reputed to be, at the very least, a fellow traveler. But apparently he hadn’t had very much influence on the senator. After I did slow up some, I was really quite surprised at how much the senator picked up inside of one hour on this really crucial, very highly technical problem.

SCHLESINGER: But up to his nomination he was concerned primarily with New England issues. He did not have a command of modern fiscal policy.

HARRIS: No.

[-10-]

SCHLESINGER: Nor was he particularly interested, outside of the textile industry, in international economic matters.

HARRIS: This is true. On the whole he was a restrictionist, because to be a successful Massachusetts senator, he had to be interested primarily in what could be done to keep unemployment down in New England and in what could be done to keep unemployment down in New England and in what could be done to save the textile industry, the shoe industry, and how could Massachusetts get more cash out of Washington. This particular problem of getting more of the Washington cash was something that the senator worked on for years and he had a pretty good idea what the issues were and how to go out and get these disbursements for New England. But on the whole, the New England economy continued to go downhill during most of this period and it was a very depressing experience for the senator.

SCHLESINGER: On the other hand, partly because of that, he had no doctrinaire notions about free competition solving everything.

HARRIS: That’s so true and I think he was willing to use the government if it would help the Massachusetts economy. He wasn’t against the government helping. I think in the early period of his presidency he was very much impressed by the general political disadvantage of large federal outlays. Even the large spending that he supported in 1961 and 1962 could be explained from a conservative standpoint by the need of a better defense establishment. The largest part of the spending could be explained this way and if it hadn’t been for that I don’t think the President would have had nearly as large a spending program. I would like to develop that a little further a little later on.

[-11-]

SCHLESINGER: Did he ever read any books in economics?

HARRIS: Well, of course, he took Economics A before the Samuelson book really came out and most of the Economics textbooks were not very good. He must have done some reading in Economics A. I know he read Harris' *The Economics of New England*. I wasn't aware that he knew very much about Keynes [John Maynard Keynes] or anything of that sort, so I would say that at first he didn't get into economic issues very much in the campaign.

SCHLESINGER: He talked a lot about economic growth?

HARRIS: That is true and that was also my assignment in Hyannis Port. I spoke a good deal about growth and the dollar problem. We spent at least an hour or an hour and a half on the growth problem and this became one of his major objectives in the campaign and also as President. In the early years, he was anxious to learn what could we do to increase growth? He was very much impressed by the fact that Eisenhower [Dwight D. Eisenhower] hadn't done too well on this issue with growth of 2 ½ to 3 percent, and he set an objective of 5 percent growth, and everybody thought he was extreme in thinking this could be accomplished. Actually, of course, we know now he actually achieved a *real* growth of 5.7 percent during his lifetime as President, which was really a tremendous achievement, and with stable prices, a development almost everybody considered impossible.

SCHLESINGER: Now in the beginning of the presidency, is there anything else you want to say about the campaign? Were there any other meetings like the Hyannis Port meeting?

HARRIS: So far as I know, the Hyannis Port meeting was the only meeting of that kind. This was very carefully planned and worked out with Archie Cox.

SCHLESINGER: Had the President known Paul Samuelson before?

HARRIS: Yes, you remember he had these meetings which I think you, Ken Galbraith, and Archie Cox had arranged. I think the President was present at some of these meetings. I didn't go to those meetings myself.

SCHLESINGER: But I don't think I was there. It was Earl Latham [Earl Ganson Latham] and Ted Sorensen [Theodore C. Sorensen].

HARRIS: That's right. Earl Latham, well, perhaps I shouldn't say this, was not a great success in organizing these things. Archie Cox then took over. He arranged some of these meetings. I discussed some of the issues at Faculty Club discussions with Archie and Ken, but I didn't see the President at these meetings.

SCHLESINGER: So that the campaign committed the President to doing something unspecified to bring about economic growth?

HARRIS: That's right.

SCHLESINGER: Protecting the dollar and preventing inflation?

HARRIS: That's right. I might say that the President was very much interested in getting some economists. He talked to me a number of times about trying to find somebody and I suggested one time, Jim Tobin [James Tobin], and also suggested Kermit Gordon. And both of them made it quite clear that they would be willing to help but they weren't going to support the Kennedy candidacy against Stevenson [Adlai E. Stevenson]. And you may recall that when these

people were recommended to the President as advisers, the President recalled their attitude toward his candidacy, but he was broadminded enough to take them on anyway.

You know, I talked with the President after Tobin quit and Kermit Gordon was returning to Williams College. Of course, I might say that I think it is generally recognized that Tobin is a better economist than Kermit Gordon, but I was impressed by the fact that the President seemed to be more concerned about Gordon leaving than he was about Tobin. I think the explanation in no small part was that Tobin is a very forthright sort of a chap who would say what he meant and what he thought was right, even if it might not go well with the President. Tobin wasn't ready to compromise on issues of principle as is sometimes necessary in political life and the result may well have been that as an operator Tobin was not as great a success as Kermit Gordon. I recall that the President expressed great regrets that Kermit Gordon was leaving. And I said, "Well, wasn't Tobin a great help?" He said, "Yes." But there wasn't as great enthusiasm as for Kermit Gordon.

SCHLESINGER: Walter Heller [Walter W. Heller] was not in the picture in 1960?

HARRIS: No. You know the story about how Walter Heller was appointed?

SCHLESINGER: Go ahead.

HARRIS: Well, the story goes that the President went to Minneapolis for a political meeting and Senator Humphrey [Hubert H. Humphrey] and also the governor [Orville Lothrop Freeman] called Walter and said, "Would you like to attend this political meeting?" And Walter said, "Oh, I'm damned tired, I don't think I want to go." But finally they persuaded him to come, and he had a talk with the candidate, Kennedy.

As you know, Walter is very articulate, and the candidate was very much impressed and when the question arose of a man to run the Council [Council of Economic Advisers], and

Paul Samuelson wouldn't do it, his name came up and I remember I was asked about him and I said I thought he would be a pretty good man and so did candidate Kennedy and he was finally picked. I suppose a number of other people were also asked. Senator Humphrey, I am sure, had a very high regard for Walter Heller at that time. I might say that some of the liberal senators, including Paul Douglas [Paul H. Douglas], have told me since that they were rather disappointed in Walter, that his policies were not liberal enough. But I might say, parenthetically, that I think on the whole Walter has done a very good job.

SCHLESINGER: You mentioned Paul Douglas. What was the attitude of liberals toward the President's policies?

HARRIS: As you probably know, I was critical of some articles critical of the President: of Gass [Oscar Gass] in a *Commentary* article, of Keyserling [Leon Keyserling] in the *New Republic*, and of Lippmann [Walter Lippmann] and others in the *Washington Post* and the *New York Times*. My general position was the liberals were expecting too much, were considering these problems as though they were to be determined exclusively on economic grounds and were not taking into account the political and institutional obstacles to pushing the faster. Would it be any use to put into the record some of these defenses of the President in various places?

SCHLESINGER: I think you might have an Appendix.

HARRIS: Oh, all right. There are probably about a dozen pieces that I did, but the liberals generally took a position that Kennedy was not going fast enough. For example, Lippmann said that the Kennedy policy, in 1961 was the Eisenhower policy ten years later. And Bob Solow [Robert M. Solow] of MIT and adviser of the Council, was responsible for the phrase the "Third Eisenhower Administration." And there was a widely held view that the President wasn't spending enough money, that he was frightened and wasn't courageous. That instead of trying to push Congress he was compromising even before his proposals were being sent to the Hill.

In a general way this suggests the attitude of the liberals at that time, and many of them were disappointed in 1961–1962. Yet, when one looks back and sees that the increase in expenditures was about $5 or $6 billion a year in the three Kennedy years, I think one will agree that Kennedy went very far. I think I ought to mention here, or I should at some point, that many of these problems should be tied to the evolution of Kennedy's thoughts and command of economics. This kind of material is to be found in much greater detail in my book, *The Economics in the Kennedy Years* (Harper and Row, 1964).

Now, on February 21, 1961 (Insert letter 8), the President sent me a note. He said, "I read your letter published in the *Washington Post* yesterday with pleasure."

Then on August 2, 1962, he sent me a not about all my books and how happy he was to have them (Insert letter 9).

THE WHITE HOUSE

WASHINGTON

8

February 21, 1961

Dear Seymour:

I read your letter published in the Washington Post yesterday with pleasure.

It reassures me to know that I am not wholly out of touch with economic realities or the wisdom of the "modern economists." Not too many people have accused me of being less liberal than Mr. Eisenhower, but I am certainly delighted to have such a well-reasoned rationale of the economic policies I am trying to pursue. Meanwhile, you have also given a large educational mission to your professional colleagues.

I look forward to seeing you when you are next in Washington.

With all good wishes,

Sincerely,

Jack

Professor Seymour Harris
Littauer Center
Harvard University
Cambridge 38, Massachusetts

THE WHITE HOUSE

WASHINGTON

9

August 2, 1962

Dear Seymour:

Once again I am in your debt for sending to me an inscribed copy of your latest book.

Before I leave office my shelves will be groaning from the weight of your scholarship. Since last year you have already furnished me with your works on the gold problem, the economics of the two political parties and now the financing of American higher education. For all of these I am most grateful, and I only hope that there is never an exhaustion of topics to engage your mind and pen.

With warmest best wishes,

Sincerely,

Kennedy

Professor Seymour Harris
Department of Economics
Littauer Center
Harvard University
Cambridge 38, Massachusetts

(Insert letter 10) The President was very sensitive of the criticisms of the liberals. We had a steady exchange on this matter.

But here is another letter of January 28, 1963: Said the President: “I think as a teacher you (SEH) must be discouraged that none of the obvious lessons of the last thirty years have been learned by those who have the most at stake in a growing prosperous America.” He was referring to the slow absorption of modern economics by the Congress and their constituents.

On February 19, 1963 (Insert letter 11):

“Dear Seymour,” etc.,….” It is rare to have so full-throated an endorsement from the economic community, but I can assure you that I am grateful, etc…..”

And then finally on May 6, 1963, he said (Insert letter 12), “You are about the only academic defender I have these days…”

And now I would like to say a word about the conservatives. He was also being criticized severely by the conservatives for spending too much and moving us towards bankruptcy.

You may remember, Arthur, I think you were on the plane trip to the Cape in the summer of 1961, when the President was looking for Ted Sorensen to write a reply to an editorial in the *Wall Street Journal* in which he was taken to task for his wasteful spending and inflationary policies. He was terribly upset over this. He couldn’t find Ted Sorensen. In fact, Ted was not on the plane. He saw me, and said, “Oh, Seymour, you can do this.” I told him I would be glad to do it.

THE WHITE HOUSE

WASHINGTON

PO

January 28, 1963

Dear Seymour:

Many thanks for your letter.

I think as a teacher you must be discouraged that none of the obvious lessons of the last thirty years have been learned by those who have the most at stake in a growing prosperous America. In any case, I am very grateful to you.

Sincerely,

Seymour E. Harris
Professor of Political Economy
Harvard University
234 Littauer Center
Cambridge 38, Massachusetts

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THE WHITE HOUSE

WASHINGTON

February 19, 1963

Dear Seymour:

It was good of you, as always, to send me your two recent memos on budget policy and on the politics of economic policy.

It is rare to have so full-throated an endorsement from the economic community, but I can assure you that I am grateful for your efforts, both in public advocacy and private advice.

With all best wishes,

Sincerely,

Kennedy

Mr. Seymour E. Harris
Graduate School of Public Administration
Harvard University
Cambridge 38, Massachusetts

THE WHITE HOUSE

WASHINGTON

12

May 6, 1963

Dear Seymour:

Many thanks for your recent letter.

You are about the only academic defender I have these days. I am most appreciative although I realize you have your work cut out for you.

With every good wish.

Sincerely,

Seymour E. Harris
Professor of Political Economy
Harvard University
234 Littauer Center
Cambridge 38, Massachusetts

And he said, “Here’s an editorial from the *Wall Street Journal*, will you write a reply for me?” This was about 25 minutes before we were due to arrive at Otis Air Base and I said, “Well, Mr. President, shall I do it early next week when I will be in Washington?” He said, “No, do it right now.” So I read the editorial and in about 15 minutes wrote a reply, and then his Military Aide, General Clifton [Chester V. Clifton, Jr.], said the President would like to see the reply and so about 5 minutes before we landed the President read the reply and made a few suggestions. I sent the reply in to the *Wall Street Journal*. I saw the President again a few weeks later and the President said, “How about that *Wall Street Journal* letter?” I said, “Well, they haven’t published it yet. They generally do publish my letters.” Another week passed and they did publish the letter, but with a long editorial attacking both the President and Harris: that we had extreme views on inflation and spending. I sent a copy of the letter to the President and I asked whether I should comment on their reply. I received a letter (Insert letter 13) in which he said, “No, I think we ought to let it go.” I think this particular original article in the *Wall Street Journal* and the letter, etc., might be put into the record. (See Appendix II). He was being attacked from both sides, which suggested perhaps his policies weren’t too far off from what they ought to be. So much for the attacks of the conservatives.

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THE WHITE HOUSE

WASHINGTON

September 29, 1961

Dear Professor Harris:

The President received your letter, together with the clipping from the Wall Street Journal. You asked if he thought you should comment on their reply. He asked me to write and tell you "No, I think we ought to let it go."

With kind regards.

Sincerely,

Evelyn Lincoln

Evelyn Lincoln
Personal Secretary to the President

Seymour E. Harris
Graduate School of Public Administration
Harvard University
234 Littauer Center
Cambridge 38, Massachusetts

I think perhaps we might now discuss our Newport Day, a meeting which raised a number of issues. The President sent me a letter dated August 16, 1962 (Insert letter 14), saying:

"I would like very much to have a chat with you sometime soon and since I will be spending every weekend in September at Newport, I was wondering if you might come over to see me on one of the Saturday mornings?" And he wrote in his handwriting: "I will contact you directly." And he arranged for Saturday, September 22, 1962. Then a few days before September 22, I received a telegram inviting my wife and me to Newport to watch the America's cup boat race with him and Mrs. Kennedy [Jacqueline Bouvier Kennedy Onassis] on September 22. Schedule and directions were telephoned later by his Naval Aide. We were to meet at Hammersmith Farm. We spent a very delightful day on the U.S. Destroyer, *Joseph P. Kennedy, Jr.*, watching the two sloops race, the American Wetherly, and the Australian Gretl, and in the course of this I spent about an hour and a half with him alone discussing all kinds of economic issues on deck. This was the longest discussion I had with him as President.

And now for a few of the issues discussed on the Destroyer. By the way, I have a copy of my summary of the conversation and a copy for you, Arthur, and also one for the Library. Here are the major issues that were discussed (See Appendix I):

Relations with business greatly concerned the President, who was fearful that his tussle with steel executives might have contributed to the

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THE WHITE HOUSE
WASHINGTON

August 16, 1962

Dear ~~Professor~~ Seymour Harris:

Many thanks for your recent letter.

I would like very much to have a chat with you sometime soon and since I will be spending every weekend in September at Newport I was wondering if you might come over to see me on one of the Saturday mornings.

With kind regards.

Sincerely,

John Kennedy

Seymour E. Harris
Senior Consultant to the Secretary
Treasury Department
Washington, D. C.

Will contact you directly.

stock market collapse in April 1962. I assured the President that several issues could explain the collapse, notably the emergence of the bears as the dominant force of the current high stock market values. Also, the increasing awareness of control of inflation, a view strengthened by the President's wage and price policy. I also said to the President, "Could a Democratic President ever be popular with businessmen?" Perhaps I was wrong, in view of what has been happening with President Johnson.

SCHLESINGER: How did he respond to that remark?

HARRIS: Well, he realized that businessmen were never going to be very enthusiastic about a Democratic President, and he was very sensitive on the issue and very much concerned about the attitude of businessmen. And as you know, the next year he spent very largely trying to improve his position with businessmen. I think he succeeded to a considerable degree, but he never, of course, attained that relationship that apparently President Johnson has achieved in the first six months of his Administration.

I once sent to Secretary Dillon [C. Douglas Dillon] a copy of a letter on relations with business that Keynes had written to President Roosevelt [Franklin D. Roosevelt] in 1938 when he felt the Administration was getting into great difficulties with business. The Secretary thought it a wonderful letter and that the President ought to see it and he sent it along to the President with a personal note, hoping that the President would see it. The main point of the letter was that Keynes, no special friend of businessmen, nevertheless felt that in a capitalist society one must not go out of his way to annoy them. I think in a general way this is probably a good

principle. But I did try, in a way to intimate that a Democratic President could not afford to worry too much about the attitude of businessmen toward a Democratic President.

Another name that President Kennedy brought up during our talk on the *Joseph P. Kennedy, Jr.* was Mr. William McC. Martin, Jr. [William McChesney Martin, Jr.], the Chairman of the Federal Reserve Board. I expressed the view that the country had had enough of Mr. Martin, who was so fearful of inflation that he was likely to abort the recovery. I also reminded the President that Martin was a symbol, and that if he did not reappoint him however, he would hear from the financial interests. The President reappointed Mr. Martin soon thereafter.

SCHLESINGER: Did he comment on your remarks about Martin?

HARRIS: No, I had the impression he wasn't too fond of Mr. Martin, but on the other hand, I think he was fearful of Mr. Martin. I recall both Paul Samuelson and I at the Hyannis Port meeting gave him a very good idea of the dangers of Martin's policies. In our talk about the Destroyer, I also pointed out that Martin was the symbol for the financial interests, not only in the United States, but everywhere and that he would have to proceed very cautiously with Martin.

As I said, the President then reappointed Mr. Martin. Unfortunately, Mr. George Mitchell [George W. Mitchell], the President's first appointment to the Board vigorously attacked the monetary policy of the Board soon after. This was held to be costly to the dollar position by Messrs. Dillon and Roosa [Robert V. Roosa], and therefore, they induced the President to reappoint Martin even before it

[-21-]

was necessary, in order to reassure the financial community. I might say it was a very clever move on the part of Secretary Roosa. Apparently, Mitchell's remarks frightened the President enough to decide then and there to reappoint Martin.

And at the Newport discussion, the President raised the issue of Mr. Martin's unwillingness to finance the tax cut, that is, he wanted to allow interest rates to rise enough so that savings would increase *pari passu* with the rise of new issues? I suggested to the President that Mr. Martin should not be allowed to do this unless a serious inflation threatened. I will come back a little later to the issue of monetary policy, but this is just a discussion of Mr. Martin.

What about the budgetary deficit? We discussed the budgetary situation at Newport and on there and on other occasions, the President was clearly unhappy over the developments in the 1963 budget.

SCHLESINGER: What developments?

HARRIS: Well, I reminded him that deficits may be helpful in periods of recession. But his point was that we should not have brought about a deficit in such a devious way. The Council, for example, assumed a very large recovery for calendar year 1962 upon which the 1963 budget was based. Estimates of the GNP [Gross National Product] are the source of estimates of revenue. Generous estimates of GNP are reflected in a large rise in revenue. But though revenue rose by $5 billion in fiscal year 1963, it was not enough to forestall a deficit of $6 billion following two deficits of $4 and $6 billion.

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The Treasury was not happy about the Council's estimate of a very large rise of GNP for 1962–1963 which would yield a large gain of revenue. But with assurances from the Council, of large advances in GNP, the Treasury went along with the Council's estimated GNP. The President, at this discussion in Newport, seemed to feel that some of his advisers had overestimated GNP with the objective of inducing a third deficit. At a more modest GNP estimate, revenue would have been estimated at a smaller figure, and to get a balanced budget it would have been essential to be more cautious in spending. On this issue, the President's views on public expenditures and deficits, you really should consult my *Economics in the Kennedy Years*. Here I show the evolution of JFK's thought.

SCHLESINGER: Why did he fear deficits, for economic or for political reasons?

HARRIS: I think largely for political reasons. I think he quite rightly sensed the political issues here. The country was not ready and Congress was not ready for very large deficits, and he felt that continued deficits of $5 or $6 billion a year would be disastrous from the political viewpoint. This was his position you will remember in August, 1962. And that, despite the fact that in his famous Yale speech he made a very good statement on behalf of large deficits and that they were not very dangerous as long as you have large unemployment and relatively stable prices. But he still realized that he hadn't sold this message to the country. And the economists certainly hadn't, and therefore, he was very much opposed to a continued large deficit. By 1963, however, as I shall show, he took an entirely different position.

[-23-]

In relation to the whole deficit issue I might say a word here about the Berlin crisis, which I think was in the middle of the summer of 1961. The President's views were expressed to me on the plane in mid-summer of 1961. At this time patriotic sacrifice was still on his mind, and he dwelled on the growing deficits associated with the need for more security expenditures. With as much tact as I could, I mustered up enough courage to suggest that a rise of taxes at the beginning of a recovery would be disastrous. It is my understanding that the next week Messrs. Walter Heller, James Tobin, and Paul Samuelson persuaded the President to accept an increased deficit, rather than a rise in taxes.

I think, on the whole, at that time, Secretary Dillon was on the President's side in his great fear of a very large deficit. I will say something about the evolution of the Secretary's views a little later.

Now, the next point in the President's conversation with me at Newport: We discussed the structural versus insufficiency of demand as causes of unemployment. In part because of his interest as a senator in the economic plight of Massachusetts, the President favored structural causes.

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SCHLESINGER: What would you say President Kennedy's attitude was on the question of how to treat unemployment?

HARRIS: Well, we discussed that issue to some extent at Newport in September 1962. In part, because of his interest as senator in the economic plight of Massachusetts, the President seemed to favor the structural attack, that is, retraining workers as dictated by changing market conditions, adapting educational programs to the need of the labor market, etc. As senator from Massachusetts, he became interested in such matters as minimum wages, tariffs and textiles, increased government contracts, etc. These are all structural approaches to unemployment. Although on the Congressional Joint Economic Committee to which he had been appointed in 1960, he was on the road during most of the period and therefore did not learn more about treating demand through the fiscal and monetary approach.

SCHLESINGER: Did he change his views at all after he became President?

HARRIS: Yes, I think he did. A number of us on several occasions discussed with him the main tenets of modern fiscal policy. But he also had discussions with the Council on these problems. And perhaps though the Council was predominately right in its stress on the demand approach, they might have underestimated the contribution of the other approach. The President was pleased to learn that the structural attack was much less costly per job added. And there are limits on the number of jobs that could thus be added, because the additional jobs are limited by

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the number of unfilled vacancies, and there weren't too many. I also reminded the President at Newport that the structuralists often tend to be those who want the government to do very little, e.g., the Chairman of the Federal Reserve Board, William Martin, Congressman Thomas Curtis [Thomas Bradford Curtis] and finance men generally.

By the way, one aspect of this problem of the structural vs. demand approach should be noted. As suggested above, the latter is more costly per job added than the former. Would it not be helpful to consider all expenditures on the basis of their impact on jobs. We might weigh tax cuts against increases of federal expenditures on the same basis. Since jobs are our scarce commodity, it would be helpful to weigh expenditures on the basis of their yield of jobs. This does not mean that expenditures yielding few jobs would be excluded; but this criterion would be weighed with others.

I suggested this type of analysis to the Director of the Budget. I received back an unusually quick reply from Kermit Gordon. The explanation of this speedy reaction was that this seemed like a good idea to the President. But this was not long before his assassination. I am not sure how far this analysis has been carried.

SCHLESINGER: Within the government, the Council on the whole took the demand approach. The Labor Department, I suppose, took the structural approach. What about the Treasury?

HARRIS: The Treasury specialists were fairly sympathetic with the structural approach, but gradually through education by the Council and others, the Treasury more and more abandoned the strong structural approach and became more interested in the demand approach.

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SCHLESINGER: Isn't the poverty program today really based on the structural approach?

HARRIS: The poverty program is very largely a structural approach. Though there are problems of financing and so far as it is financed by a deficit, it could be held to be both a structural and a demand approach, but the major emphasis is really structural.

SCHLESINGER: But the Kennedy pragmatic instinct on this matter was really sound, was it?

HARRIS: Yes, on the whole, I think it was and I might say that the Council gradually modified its position so that at present, much more than formerly, its position is that more emphasis should be given to the structural approach. Top economists like Paul Samuelson, who favored greatly the demand approach, of course, contended that those who were supporting the structural approach should not abandon effective therapy that could be had through stimulating demand. But we should not forget that many influential citizens who didn't want the government to do anything would generally favor the structural approach. I think the best example of this is the attitude of the Republic Policy committee. They were very strong for the structural approach, as was Dr. Arthur Burns [Arthur F. Burns], and though they took this position of favoring the structural approach, when it actually came to voting the necessary money they did not follow through. So, in a sense, it was an attempt really to kill effective treatment of the unemployment problem through public intervention.

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The President was very discouraged when I talked to him in September, 1962, that despite such large federal deficits, unemployment was still high. I explained why much larger rises of GNP were required to yield an additional million jobs than in the past. I think, as a matter of fact, that no one looking at the situation in 1961 would have believed it possible that by 1964 we would have a GNP, as we have, that rose more than $100 billion in four years, and yet have 5 or 6 percent unemployment—anybody who had made that prediction in 1961 of our 1964 economy, would certainly not have had very large support. But this is just exactly what happened. The difficulty is that with very large rises of productivity and large increased in the number seeking jobs, even if GNP rose as much as $25 or $30 billion a year, unemployment would rise.

Incidentally, Messrs. Archibald Cox, J. K. Galbraith, Richard Lester, Paul Samuelson and I spent a whole day with candidate Kennedy early in August, 1960, at Hyannis Port, giving the senator the ABCs of modern fiscal policy. We tried to tie this to the problem of growth which in time became the President's major economic objective. At that time we also impressed upon the senator the need of maximizing growth and minimizing inflation. We stressed the large gains for a Democratic President if he achieved these two objectives, for the Democrats were tagged by the opposition as the party of inflation. Little did we know how successful the President would be. Actually during his Administration the average increase in real terms of GNP was 5.7 percent per year and the amount of inflation of about 1 percent a year, a rise that could largely be written off if one allowed for the improved quality of commodities and also the greater choice available to the average consumer.

SCHLESINGER: How much of this record was due, do you think, to management by the federal government and the deliberate fiscal policy?

HARRIS: If you consider what happened before President Kennedy came into office and the three preceding recoveries (they lasted 45, 35, and 25 months), the inference would be trouble in less than two years. I remember at the beginning of the Kennedy Administration, when the Treasury had its first Consultants' Meeting, many of us said, it looks like a 15-month recovery, and then recession. Now here we are in the 40th month of recovery and it looks as though the recovery and advance will continue 6 months to 18 months longer.

What is the difference between this and earlier episodes? The main difference is the fact that in 1961–1963, the government was ready to intervene and did, despite the effect on the deficits and the balanced budget. To that extent, I would argue that the major difference between the Kennedy, i.e., current recovery and former ones is that it is a record recovery from the very low levels in the 1930s, and so I would therefore argue that what was crucial was governmental intervention.

SCHLESINGER: What were the major effective instruments of government intervention?

HARRIS: Well, of course the major item in the first, especially the first three years, of the Kennedy Administration, was the very large rise of expenditures—$5 or $6 billion a year, several times the average Eisenhower increase in expenditures per year. And, of course, there was the prospect and the actuality of the tax cut.

These were the two major items, and there were a number of others. For example, the Kennedy Administration saw to it that Martin helped with reasonably easy money. I'll say more about that later on. And then of course the structural approach is very important: the Area Redevelopment program, manpower training, minimum wage legislation, emergency unemployment compensation. The Administration moved quickly in 1961, with a considerable impression on the economy. This was by far the most significant activity in peacetime by any government.

SCHLESINGER: You will say something later on about inflation?

HARRIS: I will say something about inflation and the Fed, etc. I did say that the achievements were way beyond anything that anybody expected in 1961.

I might also say that the President always in fact, almost always, minimized the achievements. And I think the reason he did that was that he realized to get anything done, to get Congress to cooperate on important policies, he had to be pessimistic. Every once in a while though to businessmen, he would boast about the great achievements as President Johnson has been doing of late. It seems to me that his

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tactics were to look at the unemployment problem and say, “Now we have 6 percent unemployment. This is terrible.” But he wouldn’t say generally, for example, that we had stabilized the price level, that our GNP was rising 5 percent a year and ultimately more, and that in general we had improved to some extent the distribution of income. The point was that if he painted too rosy a picture he only increased the difficulty of getting Congress to do anything.

Now I have no real proof of this, but it seems to me this is the only possible explanation of his failure adequately to publicize the tremendous achievements of those three years.

SCHLESINGER: Also, I think he was deeply concerned over the persistence of unemployment.

HARRIS: There is no doubt about it. I remember having once talked to him about this problem of unemployment and he was at that time greatly worried about the deficit. I said that I realized that the deficit is a very serious political matter because votes are lost by having large deficits. But I added that the Democrats would lose many votes because of the high level of unemployment. And one therefore has to weigh one against the other. I am not at all sure but that ultimately more votes may be lost by having a large amount of unemployment for a number of years than by incurring increased deficits. The President was aware of this point.

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SCHLESINGER: What about the balance of payments?

HARRIS: Well, we discussed that problem also, but very briefly in Newport. At that time he was concerned over the problem of the dollar as he was throughout his Administration. You may recall that in October, 1960, candidate Nixon [Richard M. Nixon] during the campaign severely criticized candidate Kennedy and blamed him for the difficulties of the dollar, and so he was probably sensitive on the issue.

At Newport he inquired about devaluation. Was this a possible solution, he wanted to know? Before I had a chance to say anything he pointed out to me that devaluation is a two-way street. If we devalued, others would follow and therefore there would be no net gain. And I think this is a supportable position.

I believe I gave him his first serious instruction in the field of international economics, at Hyannis Port in August, 1960. Just as we were about to dock after returning from a lunch-cruise I reminded the senator that this problem was on the agenda. He postponed disembarkment a few hundred yards from shore, as hundreds were waiting to see him land, and in an hour’s time we went over the major issues of the dollar deficit, the relation of this to domestic policy and growth, the failings of Eisenhower in this area and suggested therapy. At that time he pointed out the possible incompatibility of expansive policy so long as large deficits prevail in the balance of payments. And there was also the criticism of those who view international deficits as a weapon

to curtail federal deficits and impose dear money. Because of his limited training in this, a difficult field, I was agreeably surprised at his ability to grasp the essentials.

SCHLESINGER: How would you define the issues within the government on the question of the balance of payments?

HARRIS: I think I could do this more effectively if we, for example, stated the conflicts between the Treasury and the Council. These, of course, were the major advisers to the President on economic issues.

SCHLESINGER: What were their differences in policy?

HARRIS: There were serious differences, especially on fiscal policy in the early part of the Kennedy Administration. I might say that by 1964, international deficits had been greatly reduced. I like to believe that a contributing factor was the meetings with Treasury consultants which I arranged with the Secretary. At these meetings, which covered about 20 full-day sessions in all over a period of almost four years, the Treasury and Council had opportunities to reconcile their differences. The Council became increasingly aware of the institutional restraints on the Treasury. The Treasury gradually understood the Council's economics.

By the way, I think at this point Arthur, it might be relevant to recall that episode in the summer of 1961 when the President, you and I were on his plane and the President turned to me and said, "Seymour, how do you like working with Secretary Dillon?" Before I had a chance to answer, you said, "You know how it is, Mr. President, you sent Seymour to the Treasury to make a liberal of the Secretary and the Secretary

invited Seymour to make a conservative out of Seymour, and as far as I can see, Secretary Dillon is winning." Perhaps, Arthur, you remember the incident and the President's laughter over your appraisal.

One major explanation of the differences between the Treasury and the Council was the relative emphasis on modern fiscal policy, that it, Keynesian economics. The Treasury, with its close relations with the financial groups and Congress, with its responsibility for collecting taxes, managing the dollar and the national debt, was bound to be more orthodox. For further sources of this conflict, refer to my book, *Economics in the Kennedy Years*, and also the transcript of meetings of the Treasury Consultants. The stenotypist record and summaries are now in the Library. Members of the Council always attended these meetings, as did the Budget Director and other high officials of the government.

SCHLESINGER: Were there serious differences on fiscal policy?

HARRIS: The answer is yes. The Council was much more disposed to entertain more spending, large deficits, and avoidance of large issues of long-term securities in periods of recovery.

On the last point it is important to remember that under Eisenhower, serious mistakes were made. As soon as the recovery started with rates of interest low, the government would issue large quantities of long-term government securities because the price was very

favorable, that is, rates were low. The Treasury under Kennedy didn't make this mistake, and to that extent, they did not interfere with the recovery by the issue of long-term government securities, thus absorbing the cash that was being manufactured by the banking system to bring about a recovery.

SCHLESINGER: Who had more influence, would you say, in this period?

HARRIS: I would say that the Treasury, up until very recently, had more influence with the President. First, I believe because Secretary Dillon's views coincided with the President's more than the Council's with the President's at that time. And secondly, there was a closer personal relationship between the President and Secretary Dillon. In fact, the Council and some of the White House staff regretted Dillon's influence on the President based in part on his ability and hence influence which they recognized and in part on his personal closeness to the President. One critic told me that Mr. Dillon alone could go in and see the President whenever he wished. Secretary Dillon, to some extent because of the influence of his able Undersecretary Roosa, tended to emphasize the need of disciplinary measures, e.g., containment of wage rises and restrictions of money. The President was very much influenced by such considerations.

SCHLESINGER: Wouldn't you add a third point and that is, that the Treasury program was more in accord with the political and Congressional possibilities than the Council program?

HARRIS: Yes, that is true. The Council, of course, didn't have the relation with Congress that the Treasury had. And this is partly because the Treasury is responsible for tax policy, for the dollar, and for debt management. These are pragmatic matters that are of great importance in assessing the relative influence of the two. I recall that in the Hearings on the Tax Program, which of course was one of the most important in the Kennedy years, Walter Heller asked the chairman, Wilbur Mills, if he, Walter, couldn't testify on behalf of the tax program. Chairman Mills never did invite him, the most important economic adviser, though he invited hundreds of lobbyists and other interested parties. This gives some indication of the attitude of influential congressmen and committees toward the Council.

We should speak of Robert Roosa, who played such an important part in managing the debt and the dollar. Bob Roosa is a man of great ability, and an unusually talented technician. He must have been, I would say, to some extent brainwashed by the bankers so that when he actually became the undersecretary, we were a little surprised at how he held on to the classical positions. He was much more conservative on most of these issues than was the Secretary. He is a man who evoked and deserved a great deal of admiration because I think he was completely honest but unfortunately had been exposed too long to the Central Bankers, who had very narrow and classical views on monetary and fiscal policy.

You may recall, Arthur, that it was Paul Samuelson who recommended Bob Roosa to the President. You remember the famous episode when

Paul Samuelson praised Bob Roosa so highly that the President said to him (and this was before Secretary Dillon was appointed), "Why don't we make him Secretary since he is so outstanding?" And Paul Samuelson thought for a moment and said, "No, you can't do that." The President said, "Well, why not?" Samuelson said, "Well, don't forget, Mr. President, he is only 42 or 43 years old." This to the new President-elect who was also 43.

SCHLESINGER: To what extent did the Treasury believe that if sober budgetary policy were carried out that this would revive confidence, and the private sector would therefore be more inclined to carry the ball? Was that part of their reasoning?

HARRIS: I think a great many people tried to impress this view on the President, inclusive at times in 1962, officials of the Treasury. I was never convinced that the President really had accepted this view. I think the main point with the President was the strong feeling that deficits were not approved of by the average voter. I think that's to be explained partly by the fact that the average American is terribly frightened of a deficit. About 50 percent of American families are in debt and roughly 20 to 25 percent of their income is mortgaged from day to day to repay their private debt and pay the financing charges. These debt burdens worry the Americans and I think they react to it partly by becoming highly Calvinistic in their approach toward governmental

deficits, and that to some extent makes them feel a little less unhappy about their own private deficits. This is intuitive, but I think there is something in that.

SCHLESINGER: What about monetary policy? To what extent did the Council and the Treasury disagree there?

HARRIS: They didn't disagree there too much. The Council took the lead in pressing the Fed for an easy money policy. The Treasury which had much more influence with the Fed than the Council contributed to an easing. I would say in general the Council was more worried than the Treasury about tight money, and this is partly due to the fact that Bob Roosa had been brought up on the general idea that you don't solve problems by manufacturing more money. He was concerned that manufacturing more money would keep managers of the economy from "taking the painful" measures required to correct structural maladjustments, e.g., improving of competitive position by reducing costs.

I might also say about monetary policy—the big issue has been for years—(we cautioned the President about this at Hyannis Port) should the Federal Reserve be independent? Independence in this respect has always seemed to me to be nonsense. It's absolutely imperative that the Federal Reserve operate to help achieve the objectives of the government. They should not move one way and the government another. We explained this all to the President that day while cruising off Hyannis Port. By the way, we also said to him that we have to be careful what

we say about independence, because independence of the Fed is a slogan that means much to the conservative financial interests.

The President, I thought, handled the situation very well over his years in office. He almost always would begin by saying: The question of how much money will be manufactured—that's a decision for the Federal Reserve. They are independent of political control. And then he would go on and say that Mr. Martin has agreed he is going to give us low long-term interest rates and we allow him to have high short-term interest rates in order to prevent short-term capital from going abroad. Exports of this capital in response to higher rates abroad make the position of the dollar more precarious. But he has given us low long-term interest rates. In other words, what the President was really saying was, we will agree that they be independent as long as they give us what we want.

Another aspect of the independence theory: when Mr. William Martin was in the Treasury he was a great fighter for cheap money under Snyder [John W. Snyder]. And when he operated under Eisenhower he persistently spouted the independence theory, that is interference with the Federal Reserve Board by politicians is not to be tolerated. Actually, what this meant was that President Eisenhower, who was a strong anti-inflationist, wanted little money, wanted restrictionism, wanted to be sure prices wouldn't rise, and so Mr. Martin gave him what he wanted, and then Mr. Martin would say that nobody could interfere with the Federal Reserve. Actually, what Martin was really doing was taking orders from Eisenhower. And then when President Kennedy came along Martin proclaimed independence. But this time he took orders from Mr. Kennedy, and these orders

were to expand money rather than to restrict, and he supported expansion. And right now (June, 1964), he is giving the economy large supplies of money under pressure from Mr. Johnson, because Mr. Johnson doesn't want interference with the creation of money before the election. It is quite clear, and Walter Heller has gold me more than once, that President Johnson is much more of a cheap money man than was President Kennedy. Kermit Gordon has said the same so that I think this is a fact. What it amounts to is the independence of the Fed is for public display and Mr. Martin actually takes his cue from the President.

I sent a letter to President Johnson after I decided to accept the University of California [University of California San Diego] appointment in La Jolla, and not to wait any longer for President Johnson to act on President Kennedy's appointment of me to the Federal Reserve Board. I also told him my opinion of Mr. Martin, and how in 1960 he had lost the election for Mr. Nixon, for which we can't be too sorry. Unemployment increased by 1 million from February to November, 1960, and restrictive monetary policy was one of the major causes of the rise of unemployment and Nixon's defeat. Because, if Nixon had won New Jersey and Illinois, where unemployment was high, he would have won the election. The increase of unemployment in those two states was several times as large as the plurality of the Democrats in those two states. Mr. Nixon apparently did put pressure on Mr. Martin to bring the rate of interest down and there was a slight easing of rates in 1960 but that decline was minimum compared to the tremendous increase of rates in 1958–1959, a rise that had not been paralleled in a hundred years of monetary history, according to Arthur Burns. By the way,

Mr. Johnson then wrote me a note after I had written him about the dangers of restrictive monetary policy, which perhaps I ought to put into the record (Insert Johnson letter).

SCHLESINGER: How was President Kennedy on monetary policy?

HARRIS: President Kennedy understood the issues well. At Hyannis Port I urged him to repudiate the independence theory. I made clear that the President and the Fed had to work together. The President avoided a break with Martin. Even in 1961, when Martin brazenly told a congressional committee that he would consider Kennedy's views on monetary policy along with others, the President was not pleased, according to one of his top aides, but refrained from reprimanding Mr. Martin.

That the Treasury was gradually moving toward an easy money policy was evident in a note Secretary Dillon sent me in May, 1964, in which he revealed some of the complaints of the financial press which was begging the Fed to introduce a dear money policy; and Mr. Dillon made clear to me that if this pressure on the Fed continued, the Fed would probably seek a dear money policy. The Fed did not welcome being criticized by financial interests on the grounds that their monetary policy was too easy. (And I therefore used my influence to get a number of top economists to write letters to papers, etc., urging the Fed to continue its easy money policy).

SCHLESINGER: What about the Treasury and the Council on the balance of payments?

THE WHITE HOUSE
WASHINGTON

January 23, 1964

Dear Mr. Harris:

I am grateful for your letter of January 16. I am also grateful for your crisply stated comments on monetary policies. Your opinion is of value to me.

The direction of fiscal policy in this country is a matter of importance to me because it is important to the country.

I am always happy to receive your views for I know they come from a long background of substantive experience. Don't hesitate to write me at any time when you believe there is something that I should know.

I am appreciative of your kind and encouraging words of support.

Sincerely,

Mr. Seymour E. Harris
Senior Consultant to the Secretary
of the Treasury
Washington, D. C.

HARRIS: Here their conflicts were serious, especially in the early part of the Kennedy Administration. And these largely are tied to the views of Bob Roosa. Mr. Dillon was an effective administrator, in part because he delegated authority to the undersecretaries. Large responsibilities were given to Fowler [Henry H. Fowler] in the tax field and to Roosa in the management of debt and the dollar. Roosa's general ideas were on the whole fairly restrictive in this area.

The Council had made the very serious mistake of inviting Robert Triffin, the able Yale professor, to be a consultant. This was a mistake only because Triffin pushed too hard for his advanced plan for increased international reserves, with the result that he antagonized the Treasury. This resulted in increasing difficulties in achieving conciliation. Triffin had a very good friend in Jim Tobin, a member of the Council, and a colleague at Yale, to push his views. Above all, Triffin wanted a revolutionary change in the manner of creating international reserves by setting up a supranational bank, and creating international reserves through the lending process in the manner that a domestic bank creates money. I should have added that through his determination and high intellect, Triffin contributed much to the advance of liquidity arrangements, but the relationship with the Council and the aggressive approach he introduced in trying to have the effect of slowing up progress in this area rather than the reverse. The Treasury was strongly supported by foreign financial officials.

SCHLESINGER: What were the reasons for the resistance of the Treasury? When I would talk to Dillon he would always put it in terms of unacceptability

on the Hill. Were there substantive reasons too?

HARRIS: Yes, I think so. I think there were substantive reasons because in a sense as I said, Roosa was a man who believed that you have to discipline the economy. You must not always try to solve your problems by creating more money. The Triffin program after all, was a program for a central world bank which would manufacture money and put it at the disposal of countries that were short of dollars and pounds and francs, etc. And Roosa's position was simply that to do this would result in a very substantial world-wide inflation. And we get exactly the same picture now in 1964 in the big fight that is being waged as to what we should do about increasing liquidity. The conservative central bankers tend to hold that our problem is not a serious shortage of reserves, but more likely, one of an excess of reserves, with great inflationary pressure rampart. And what Dillon and Roosa were saying to Triffin was that if we adopt your program we will try to solve our problems by manufacturing money instead of making the structural changes such as adjusting output to market demands, reducing costs, etc., measures which are necessary and therefore, if left undone, will get the economy into more trouble. It is a good deal like saying, for example, that we can solve the textile problem in this country by manufacturing money and incurring a federal deficit of $40 billion. You can't solve the textile problem though, even by incurring a super-deficit. This rise of money and deficits may contribute toward solving the textile problem, but a residue of unemployment in textiles remains that requires treatment through structural measures. Roosa and Dillon would translate this analysis to the international field. We have to make adjustments, we have to produce the goods

the market wants, we have to keep wages from rising too much, we have to restrict the decline in the price of money, we have to move the people who are producing goods that can't be sold. So, in a sense, the Treasury officials were taking clearly a classical position here and they didn't think the problem could be solved merely by the creation of money. On the other hand, my own view I might say is something in between those two views. I think there was a case for increasing liquidity, perhaps I'll say a bit more about this later on.

SCHLESINGER: You do not think Roosa was right in suggesting that the Triffin Plan would lead to world inflation?

HARRIS: Well, I think the Triffin Plan was over-generous in its reliance on the manufacture of money. And I think also that Triffin's Plan is a little difficult to define. One of the characteristics of Triffin was that when he was attacked and his Plan was criticized, he would retreat and modify the Plan, so that nobody ever really knew what the Triffin Plan was. Somebody said the other day (I don't remember who it was), that the trouble with Triffin was that he wasn't really interested in the Plan; he was interested in having a plan called the Triffin Plan put into operation and it didn't matter a great deal what the plan was as long as it was called the Triffin Plan. Now that's unfair; but there is something to this point.

SCHLESINGER: There has been a connection in all versions of the Plan, hasn't there? An international institution?

HARRIS: Yes, that's true, but you see the International Monetary Fund [IMF] is not really an institution for the creation of money. What the IMF does is

it collects cash (quotas) in the currencies of various countries and then makes these available to those countries that need these particular assets. But it isn't like a bank that creates money. The type of institution Triffin really wanted—the real Triffin Plan as it was first presented—was an agency that would manufacture large sums of money on behalf of the underdeveloped countries and others that needed it. And some began to wonder what's going to happen to dollars, deutsche marks, etc., that are stable in value. Are they gradually going to be converted into the currencies of the underdeveloped countries? Is a deterioration in the assets of this supranational bank to follow?

SCHLESINGER: Did this derive from Keynes' suggestions of 1944?

HARRIS: There was a good deal in the Triffin Plan that was very close to the Keynes' Plan. Although Triffin would generally try to point out that there were important differences—and there were some differences—in a general way what Keynes wanted was a sort of supranational bank which would create large sums of money and make these available to countries short of international reserves. Since what everybody wanted at that time in the 1940s were dollars, it was largely a plan for the United States making tremendous supplies of dollars available to the rest of the world. Such a credit creating agency would not then have appealed to Congress and the American people.

You asked about Dillon's attitude toward increased liquidity. Well, this was one of the tough problems because there have been not only the Triffin Plan but a half dozen other similar plans. Almost every one of these plans requires that there be a guarantee given so that if the dollar were devalued, the United States would compensate for dollars held by foreign interests or the new supranational bank. In other words, nobody is going to absorb more dollars if they

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so long as fears prevailed that the United States suddenly might cut the value of the dollar, say by 50 percent and not compensate for losses. And so those who hold onto additional dollars will be glad to do so if the Congress promises to compensate for any change in the value of the dollar through a devaluation. At the present time at least, it doesn't seem that the Congress would give that kind of guarantee. One reason is that they would argue that if there is any kind of depreciation of the dollar, why should we discriminate in favor of the foreigner against the American? Why shouldn't the American get compensation also? And even if there was a guarantee, nobody could be sure that it would be carried through. Most of these plans, in which the United States was interested, were plans largely to get an additional absorption of dollars and hence a stronger position for the dollar, so that dollars would not be thrown on the market n massive quantities to our embarrassment and then be converted into United States gold. It was hoped that we could devise some kind of system for increasing the hoards of dollars. But few would hold on to additional dollars unless they received some kind of guarantee and that's the point that was pushed very hard by both Dillon and Roosa, and it had some political strength to it. Roosa also argued that a guarantee would also mean some control of our monetary policy by foreign interests.

SCHLESINGER: Then the guarantee is indispensable to the Plan?

HARRIS: Well, it's pretty difficult to think that anyone is going to hold more dollars than they otherwise wanted to, unless they had some protection against a devaluation.

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SCHLESINGER: Do you want now or later to say something about Per Jacobsson's role in all this?

HARRIS: Yes, I will be glad at this point to say something about Jacobsson. One should have due respect for the dead, of course. And I was very much amused because just recently (June, 1964), Mr. Dillon delivered a speech in which he took a most advanced view on fiscal policy, and then the *St. Louis Post Dispatch* wrote this up in praise of what Mr. Dillon had said and then proceeded to say that in their discussions of these issues, two of the great contributors to this new approach to modern fiscal policy were Martin and Jacobsson. Now this is not my impression of Mr. Jacobsson's influence in these matters. I think Mr. Jacobsson on the whole was one who was rather distrustful of monetary expansion and modern fiscal policies. The Secretary told me though that he introduced Jacobsson to the President and the President seemed to approve of him. There is also some evidence that in 1962–1963 Jacobsson was becoming less concerned about inflation and hence less troubled by modern fiscal policies. Jacobsson was however, one of the most severe critics of the Triffin Plan for example, and largely on the same grounds as Roosa. So that Jacobsson in a general way took the line of the IMF, which was, don't create any competing organizations, don't create an organization that is going to manufacture too much international reserves, so that responsible authorities will not feel compelled to do what any economy has to do to adjust to a changing dynamic world. I would hold that the general position of Jacobsson was the Roosa position.

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SCHLESINGER: Did he now though at an early point take the position that inflation was no longer a threat?

HARRIS: Yes, I think in that respect he did move more rapidly than others, but I would say he certainly did not move in that direction faster than Dillon. This was the position that won the President and Dillon in 1962. I don't think that Jacobsson approached that position any sooner than say the Treasury did.

SCHLESINGER: How did the President react on the question of balance of payments controversy?

HARRIS: Well the problem is as difficult as any in economics. No President could have the time to understand the issue thoroughly. I doubt even if President Wilson [Woodrow Wilson] could have absorbed the technical issues though he was the trained academic type. Nevertheless, the President listened to both Roosa and Tobin, the main antagonists. The President complained to me, to Galbraith and to others about the disagreement between the Council and other experts.

In 1961 and 1962 the Treasury clearly had the ear of the President on these issues. But then George Ball [George W. Ball] of the State Department and Carl Kaysen joined the Tobin forces. I suspect even Schlesinger [Arthur M. Schlesinger, Jr.] may have been in this cabal. They tried without success to divert the responsibilities to the State Department. In a long, important, and very well written memorandum, apparently written by Tobin, they argued that the problem of the balance of payments and liquidity was really a political problem, and should be part of the international political negotiations. But the Treasury convinced the President that this transference of authority would be an unwise move. I asked the Secretary how all this came out and what was the President's final decision. The Secretary told me that the President said to him that the dollar was the Treasury's problem and he wasn't going to take it away from the Secretary.

SCHLESINGER: Who was on top in 1963?

HARRIS: In 1963 the unsatisfactory state of the dollar was relevant. There was a greater willingness by the President to listen to the Ball-Tobin and -Kaysen view. The Treasury now agreed that further exploration of the problem was necessary and especially if the U.S. balance improved, and the rest of the world could not then build dollar balances (reserves) as the U.S. accumulated deficits. But the strength of the anti-Treasury forces was limited. Roosa then became the chairman of the Committee of Ten and I understand that Roosa was an able operator, even when he was at the University of Michigan as an undergraduate, and he certainly showed unusual ability in turning this whole investigation in the direction sought by the Treasury. This Committee of Ten is to report in Tokyo in September 1964. The improvement in the balance after the second half of 1963 greatly strengthened the position of foreign central bankers who wanted no extreme measures, and also of Roosa.

SCHLESINGER: What was the program of Tobin and Kaysen?

HARRIS: It wasn't as extreme as Triffin's. Tobin was more flexible than Triffin, not to say that Triffin was inflexible at all, but Tobin had a way of dealing with the problem that didn't annoy opponents as much as Triffin did, which made Triffin seem less flexible.

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SCHLESINGER: What did Tobin envisage though? Did he, for example, want a new international institution with the guarantee and so on?

HARRIS: I don't think that Tobin would go as far as Triffin in the creation of a new institution, but he did feel that somehow or other something ought to be set up that would result in a much larger creation of international reserves than we could have under the various ad hoc arrangements that Roosa had produced in a very brilliant manner from 1961 to 1963. I think Tobin's program in general was a much more acceptable one than the Triffin program. On the other hand, Roosa was inclined to fight for the ad hoc arrangements like swapping currencies, greater contribution of the IMF, the Paris agreement under which each country would agree to help the other country in case of trouble, to the extent of $6 billion in all. All these were programs that Roosa thought adequate for the purpose. On the other hand, Tobin, like Triffin, was inclined to argue that we have to have a large increase in reserves, and partly because if the U.S. once balanced its accounts then foreign countries could not build up their reserves of dollars. Once the U.S. began to show smaller deficits, then of course some other means would have to be found to provide additional reserves. And what Tobin was trying to do was to find the means of providing these reserves, and I think on the whole Tobin's program, like Triffin's, also involved the guarantee issue.

SCHLESINGER: Was the President much influenced by voices on the Hill like Henry Reuss [Henry S. Reuss] and Paul Douglas?

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HARRIS: My guess would be no, but of course Henry Reuss is a brilliant chap who really absorbed this technical material in a remarkable way for a non-professional theorist. I might say at the very outset both Douglas and Reuss accepted Triffin's views without reservation. But the Treasury influence finally began to have an effect in the White House and I would say that the President was no patron of Reuss. I recall that some of us suggested Reuss as a possibility for the first Federal Reserve appointment. We gathered from that discussion that the President did not quite (100%) approve of Reuss. He was, I think just a little too bright for the politician.

SCHLESINGER: Did the CED [Committee for Economic Development] Report play any role?

HARRIS: As far as I know, the CED Report didn't play much of a role.

SCHLESINGER: The CED Report went further, I gather, than the Treasury?

HARRIS: Yes, than the Treasury. I don't think the CED Report carried any great weight.

No, I think the major factor in the ultimate decisions was Roosa. And that's probably because Roosa was held in high regard, especially by Dillon, and Dillon by the President. The trouble with Tobin, who certainly is as good an economist as Roosa, is that Roosa had the advantage because he could always raise technical issues which were completely foreign to Tobin, and which Roosa understood as no other theorist had. Tobin had never done any work in this field before he plunged into it in 1961. This is a very complex field and Roosa had the advantage because he could always raise valid obstacles such as this isn't practical, this isn't the way it really works, etc. He would really manage to win the argument with Tobin.

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SCHLESINGER: He dominates the Committee of Ten does he?

HARRIS: It looks that way now, as of June, 1964, and my guess is when the Report comes out in the first week in September in Tokyo its major recommendation is going to be an expansion of the IMF. It is odd that the heretical IMF of 1945 has become the orthodox of 1965. And of course we mustn't forget that Roosa has been helped very much by the fact that the balance of payments has improved greatly. But the improvement in the first quarter of 1964 was not sustained in the second quarter. Roosa's position was also helped by the substantial inflation in Western Europe, which of course improves our balance of payments.

SCHLESINGER: Would you say that the inflation in Western Europe was the main source of the improvement? To what extent do the special measures taken by our government—

HARRIS: No, actually the Interest Equalization Tax had a tremendous effect after the middle of 1963. This was clearly a Treasury program which was thought up by Roosa. This was a considerable advance for Roosa because you mustn't forget that this is an attempt to interfere with capital movements, and I might say that I was surprised that Roosa came up with this; but the situation was getting so precarious, the capital movements were becoming so serious and this was the one new element in the situation. In the first half of 1963 exports of long-term capital had run to an annual rate of $2 billion a year and something drastic had to be done. And I think Roosa's position was that if we don't do this, something more radical would

come, and so Roosa developed this theory of an interest equalization tax which would make it much more difficult for Americans to invest in long-term government securities. The proposal was a secret held by three only, the President, Dillon, and Roosa. Even the Council and State Department were not appraised until a day or two before the public announcement. An interesting aspect of the program is it would be expected that the financial interests in New York would approve, because this was perhaps the program least unacceptable to financial interests, for corrections were through the pricing process. But what did they do? They insisted the Treasury was wrong, that what the Treasury really ought to introduce was a capital issues program, which means rationing of capital. Why a free private enterprise group should want this rather than a program tied to the pricing mechanism which was what the Dillon-Roosa program really was, can probably only be explained this way: that what they were trying to do was to destroy the Treasury program by asking for something else. I think that was one of the major factors. By their proposal they would obtain even less than what they were getting.

An interesting theory evolved in Washington. Very largely, I believe, through the influence of Jim Tobin, which the President and Treasury later supported, the theory being that if a country's growth and productivity and income rise more relatively to other countries, its balance of payments will improve. This, according to classical theory is unacceptable, because that theory holds that if growth increases more rapidly than abroad, imports rise and exports fall—because as more is spent generally more is used to buy foreign goods. And it's rather unexpected that Tobin, a classicist by training, should develop this theory. I have had a number of discussions with the Secretary about the theory. In general, economists have held that when a country improves its position, relatively, it suffers from a deterioration in its balance of payments. But the classical theory is inadequate, because it does not take into account what happens to capital movements if the economy of the U.S. improves vis-à-vis Europe. If the economy of the United States improves, capital tends to move into the United States instead of going to Europe. When consideration is given to both these factors, i.e., trade and capital movements, then to that extent one can argue that the adverse effects on trade are offset by favorable effects on capital movements. We recently had a study by a young economist over a long period that showed that this is exactly what happens. Somehow we are confronted in Washington with a theory that is almost the exact opposite of what has been taught for generations, this new theory holding that as the economy improves with government spending and the like, the balance of payments will improve. One other support for this theory is found in the suggested rise of productivity and hence reduced prices as output expands.

SCHLESINGER: If this had been perceived in 1961—

HARRIS: We might have had a more expansionist policy. Mr. Dillon, himself, recognized the relevance of the classical position when our imports began to rise with improved conditions here. I think 1962 was a bad year in that imports responded. He expected this. Of course this is to be expected when incomes rise here, but gradually Secretary Dillon, who really has an

open, inquiring mind, would argue against the Council position. Many times he would be critical of the Council position, but he, unlike finance men generally, is open-minded and listens—and even would accept novel positions ultimately.

I think I told you the story about Mr. Dillon on the Hill. He is a very good witness because he always does his homework. But on one occasion he was attacked by Congressman T. Curtis, who apparently said something that annoyed him and he exploded for the first time at a hearing.

One of his assistants asked him: "Why did you get so angry at Congressman Curtis that does not help your position."

Mr. Dillon said: "Did you hear what Congressman Curtis called me? He called me a damned Keynesian." Well, the point is that by that time Dillon, perhaps unaware of the fact, had absorbed much Keynesian economics, with substantial effects on policy.

SCHLESINGER: Did Dillon have an analytical grasp of economic issues? Had he read Keynes, for example? Or Seymour Harris on Keynes?

HARRIS: Yes, from time to time. In 1963–1964 we increasingly discussed Keynes in his office and at lunch. We often get into the Keynesian problems—in Treasury problems who can avoid them—and discuss them with him. I have always been careful to bend backward *not* to force a conversion. Although it was a very difficult position because I was a Keynesian and my friends were all in the Council and I didn't want him to feel that I was an emissary from the Council in trying to put the Council position over on him. On the other hand, I thought it was my responsibility to help him

understand Keynes. For example, I gave him the piece I did on Keynes for the Schlesinger-White [Harry Dexter White] book and we had a discussion of it. Also, in the last year I gave him a copy of my book on Keynes. He was most pleased to have it and asked me to autograph it. I would often tell him about some of Keynes famous papers. With regard to the stock market problem, for example, he was very much worried in 1962. I sent him a pertinent three or four page summary of Keynes' views on why the stock market was acting irrationally. He was greatly impressed by this, and sent it along to the President, who was also very much interested in the particular explanation of the irrationalities of the stock market. I wouldn't say that Dillon is really an A+ analyst, but he has a good mind and he can understand Keynesian economics. I think if I gave him one of the very difficult chapters in the *General Theory* he would find it troublesome, as I am sure the average layman would. But my little book on Keynes, I am sure would not give him any great trouble.

SCHLESINGER: I should have asked you this before—but how do you account for your appointment as economic adviser to the Treasury?

HARRIS: As you know, I had been ill at the time that Mr. Kennedy was elected, so I was not available for a full-time job in Washington. Mr. Kennedy knew of my illness, and that I wasn't available for a full-time job.

When Mr. Dillon told the President one day that the economic staff of the Treasury had been decimated and that there was no able economist available, and that he was at a great disadvantage in dealing with the Council, President Kennedy suggested me to Mr. Dillon. As you know, Secretary Humphrey [George M. Humphrey] under Eisenhower had virtually disposed of the whole economic staff and the people who stayed were told they would have nothing to do with policy and they would be simple technicians. Secretary Humphrey was very critical of almost everybody in the preceding Administration. He even wanted the ten cent pieces not to bear President Roosevelt's [FDR] likeness, and one of the very first things he did when he came to the Treasury was to have every dollar of gold in the Mint and Fort Knox counted very carefully to make sure the Democrats hadn't run off with some of the gold. He soon was rid of all the Treasury's obnoxious New Dealers. By the time Mr. Dillon came in, and Mr. Dillon told me this, they had $2,000 per year available for all the consultants in the Treasury.

Mr. Dillon asked the President what he could do about the lack of economists. The President suggested that he ask Seymour Harris to come over. He told the Secretary that I was a good friend of his, that I could not work full-time but could help occasionally. Dillon telephoned me, told me all of this, and asked me if I would come as his senior consultant. I said I thought this sounded like a good arrangement all around and we agreed that I would come whenever I could, and would stay as long as I could and deal with the troublesome problems.

Since we had real difficulties in recruiting good young economists to come to the Treasury, I convinced the Secretary of the wisdom of a

consultant group, consisting of 25-30 of the top economists in the country whom I would gather. This group helped to educate Dillon a great deal. Instead of the usual one tutor with several students, we were many tutors with one student. Most of these economists, as were virtually all good economists in the field, were Keynesians. Most were Democrats, but not all. We agreed that we would not put anybody on who might not be sympathetic with the objectives of the Kennedy program. Some, including newspaper reporters, wanted to know why we excluded Arthur Burns. Our reason was that Arthur Burns, a good economist, wouldn’t be sympathetic and besides he is too high in the Republican Council. So that’s how I did get over there.

SCHLESINGER: And Dillon did attend the meetings?

HARRIS: Yes, he did. In fact, our agreement was that we would never arrange for a meeting unless Dillon was free, and I made it clear that these busy and prestigious economists would not come unless Dillon was there because if he wasn’t present they would feel they were not fulfilling their purpose. And I would say that during the whole 20 days of day-long conferences, Secretary Dillon probably lost about four of those 20 days because once in a while, in an emergency, the President would ask him to come over and of course this had high priority. He also would leave is Senator Byrd [Harry F. Byrd, Sr.] or Congressman Mills, head of the Committees most important to the Treasury, insisted on his coming over, but with these exceptions he would be present, as would any undersecretary or assistant when they were available. We always invited members of the President’s Economic Council, a member of the Federal Reserve Board, the Budget Director, and about 12 or 15 of the top staff people in the various agencies. Staff

members of the Treasury liked to come, and through these meetings we improved the morale.

SCHLESINGER: Dean Acheson [Dean G. Acheson] said to me shortly after President Kennedy’s death that he personally regarded that the great failure of the Administration was its failure to reconstruct the international monetary system. Would you agree with that?

HARRIS: Well, I would say that I would have liked to have seen the Administration go further than it did and quicker. I was talking to somebody recently about Dillon. I am trying to think who it was—some high name in this Administration. He made almost the same remark, and said the one mistake of the Treasury in the Kennedy Administration was that they didn't do enough on international liquidity. I think that's a fair charge. On the other hand, I think that Roosa managed, within the limits of what he was trying to do, in a remarkably imaginative way. He has tremendous prestige in financial circles which has helped in many ways to protect the dollar in really crucial crisis periods.

SCHLESINGER: Would you say that at any point between 1961 and 1964 there was an international liquidity crisis?

HARRIS: Yes, I think the first half of 1963 was a real crisis, and of course when Mr. Kennedy first came in there was a real crisis, but it was treated effectively by that famous Februrary, 1961 paper on the balance of payments—one of Kennedy's first moves. This was a really decisive document.

SCHLESINGER: Who wrote that, do you remember?

HARRIS: A great many people had their hands in it. I think that Dillon and Roosa had a good deal to do with it and Edward Bernstein [Edward M. Bernstein], a private consultant and one of the creators of the IMF. They had a very good group. I can't remember all the people who were involved.

SCHLESINGER: It was a Treasury document essentially?

HARRIS: The Council had something to do with it, but the Treasury much more than the Council. Bernstein, a very bright man in this field and next to Roosa, probably the most able man in the field, also contributed.

SCHLESINGER: What about the Trade Expansion Act?

HARRIS: The Trade Expansion Act was one of the President's great victories. I proposed to write a letter to the *Washington Post* criticizing one aspect of the President's paper on the Trade Expansion Act. The case for the Trade Expansion Act was not that it would increase employment as the President claimed in his message. In fact improved distribution of labor means increased productivity and less jobs. The case for increased trade rests on other grounds, and especially the reduced cost per item. I was fearful that by writing this letter I might hurt, in a very small way, getting the bill through. I therefore sent my proposed letter to the President and said that if this would make things more difficult for him I would not send the letter. He urged me to go ahead. But what did the *Washington Post* do but cut off the last paragraph which contained my major criticism. In this letter I also showed that JFK's compromises with textiles and other industries attracted more Senatorial support to make George Ball's goal a reality. Ball was too much a doctrinaire free trader. It was

President Kennedy's political acumen that put the bill over. Unfortunately, the unwillingness of the Common Market countries to accept the United Kingdom into the Common Market reduced the importance of this legislation and this was one of the great tragedies, I think of the Administration, because this was really one of Kennedy's really great achievements.

SCHLESINGER: There was great shock in 1962 about something called the grand design. In the minds of a lot of people like George Ball, the Common Market and the British entry into the Common Market was the indispensable development. Did you think this group overrated the importance of the Common Market? For example, Galbraith thought it was much exaggerated.

HARRIS: Well I think in general and of course Secretary Dillon, as you undoubtedly know—I talked with Dillon about it a number of times—feels that he was essentially the father of this Common Market because when he was Undersecretary of State he had a great deal to do with pushing that program. And many felt that the government, both under Eisenhower and under Kennedy, was so anxious to help Europe that they were taking measures that were contrary to the interests of the United States. I think that substantially was Galbraith's position. And all of us realized that there were many risks involved, because after all the Common Market in a sense is a form of discrimination on behalf of the Common Market countries which of course to this extent affects the United States adversely and also countries that are dependent on the United States, e.g., Latin America. Discrimination against Latin America by the Common

Market means we would be pressured to cover the increased deficits of these countries. On the other hand, should the Common Market be really successful, as one large economic unit emerges not only in trade but in monetary, and pricing policy, then a large increase of income and output would follow and this could mean these countries could buy more goods from the United States and other countries, and this would be an offset to the losses that would otherwise result. And the whole question was which of these two factors was going to carry more weight. I think on the basis of what has happened, up until the present time, there is much to be said for the general view that the Common Market is doing us more harm than good. I think if the British had come in and the French had been less restrictive and emphasized more the gains of income and the resulting effects on trade, that the reverse might have been true. My conclusion would be that the Common Market program, however helpful it may be for the countries that are directly involved, may well do the U.S. more harm than good.

SCHLESINGER: Do you want to comment on the proposed Reuss-Douglas Amendment to the Trade Expansion Act?

HARRIS: Yes, the Reuss-Douglas Amendment I think had a lot of sense to it. I don't really know why the Administration did not welcome it. The net effect of the Reuss-Douglas Amendment would be to make possible the complete elimination of tariffs which is made almost impossible by virtue of the fact that the United Kingdom was left out. (An elimination of the tariff is proposed by this Amendment when the contracting parties control 80 percent or more of the exports.) In other words, the effect of the

UK being left out meant that the really large reductions of tariff in commodities, the exports of which the Western countries largely monopolized, could not be achieved.

SCHLESINGER: Why was it—was it domestic political grounds for opposing this Reuss-Douglas Amendment?

HARRIS: I just don't know. I really don't know why this wasn't carried through. I don't think Ball was too enthusiastic but why he wasn't I just don't know. Maybe they didn't want to reopen the issues. That may have been one reason. This is a remarkable bit of legislation. In fact, Arthur, you may remember that I wrote a letter to the President when Ball's program was first presented and I said that he was not likely to get anything like this through. I had followed Congressional views on the tariff for years. I worked with the New England Governors on these issues for a good many years, as you know, and the Congress was getting more and more protectionist. This was to be a revolutionary program towards free trade and I said Secretary Ball, etc. are just expecting too much. I was absolutely wrong. Actually the Trade Expansion Act did go through and I think the explanation was largely concessions to crucial industries, such as textiles. These concessions assured the support of influential senators.

SCHLESINGER: What about the Council and the Treasury and tax policy?

HARRIS: Of course here the Council was ahead of the Treasury—no doubt about that. This program could revolutionize economic policy. The possibility of a tax cut was raised in the Report of the President's Task Force on the Economy, a committee of which I was a member. Even

earlier in the Joint Economic Committee pointed out the adverse effect of rising tax receipts on recovery. In 1961 and much of 1962 the President depended on expenditures and deficits to stimulate the economy, but by the middle of 1962 the emphasis was being shifted to a tax cut as a policy that could win support among economists, labor leaders, management and politicians. The major pressure came from the Council, especially Walter Heller, but he had some strong support from Jim Tobin, Kermit Gordon and Dave Bell [David E. Bell], the then Budget Director. This is a Keynesian technique scarcely known to Keynes because when Keynes wrote, taxes were not high, and hence a tax cut was not likely to be very effective.

SCHLESINGER: Though he did in 1933 in "The Means to Prosperity"—He mentioned it as a possibility.

HARRIS: Yes, that is true. I checked through all that I could find of Keynes and I found that on only two occasions had he discussed the tax cut. There may be others, but I don't think there are very many more. And I might mention that the tax cut is not a very important factor in policy unless taxes are very high as they were not in the thirties when Keynes did his most important writing.

SCHLESINGER: Did the President go along?

HARRIS: Yes, though the President hesitated; but in the latter part of 1962 he was largely committed to the 1963 tax cut. Even when I talked to him at Newport on September 22, 1962, he was still greatly concerned over deficits.

SCHLESINGER: I think you probably want to emphasize the point that his concern over deficits was political and not economic.

HARRIS: Yes, I think that's true. I don't consider myself an authority on the political aspects of the problem, but I believe that a large deficit is a political liability. I think President Johnson holds that view also. It was not until 1963 that President Kennedy was prepared to support a tax cut that would further increase deficits coming on top of large deficits. Of course the point about this tax cut was that though the government does not seek a rise in the deficit, actually this is what emerges. The Treasury officials and others did not stress the deficit, but rather the improvement of a tax cut on the economy. But actually what we are really trying to do is to increase the deficit, because it is a deficit at this point that will bring about an improvement in the economic situation.

SCHLESINGER: Why did the Galbraith-Keyserling position to create the deficit through public spending not get more consideration from the Council?

HARRIS: The Council did not fight hard for the spending approach. Perhaps the major reason is that Walter Heller felt that the President wouldn't support a large welfare spending program, partly because of the large increase of expenditures for defense and I think he also felt that the Congress would not go along, even if the President would. I think the major explanation of the decision for a tax cut is that this was acceptable by business. The economists would go for it first, because

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they were becoming more and more convinced that we would not get the optimum spending program; that we spend on unjustifiable farm policies or for unsupportable aid to veterans, etc., but not for education, health, housing, etc. now. Spending programs are not nearly so popular even with liberal economists, as they had been in earlier years. The second reason why the Galbraith-Keyserling position didn't get anywhere was simply that the other expenditures had gone up so rapidly, particularly for defense that the President wasn't ready to move further on the spending front.

I think it is also true that there was a strong desire to get something done quickly to improve the economic situation, especially by the middle of 1962 because in the third quarter of 1962, there was virtually no increase of GNP, which meant a substantial rise in unemployment. The general view was that we could move much more quickly with a tax cut than through spending. Of course the amount of time the tax cut took makes one think that perhaps this was an inaccurate assessment. It is quite clear now that it takes a long time to get a tax cut, especially when Wilbur Mills, chairman of the Ways and Means Committee, is so fearful of annoying anybody, and obviously any kind of tax program is going to hurt somebody.

SCHLESINGER: What was the Treasury's attitude toward the tax cut?

HARRIS: The Treasury delayed the tax cut much to the annoyance of the Council. Members of the Council more than once expressed their impatience to me. At one point in 1962 Tobin urged me to inform the Secretary that

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deficits were not to be feared because they would raise interest rates. He asked me to point out to the Secretary that this would increase income and hence savings and hence additional savings would provide the funds to purchase the additional securities issued. The Secretary listened patiently and presented this position later to those who were fearful of deficits.

This is a pure Keynesian position that Tobin took and the Treasury finally really understood the logic of it. Since then the Secretary has made this point any number of times.

SCHLESINGER: Did the Secretary reveal flexibility in this field?

HARRIS: Yes, I think the Secretary had remarkable flexibility, especially considering his background. I cannot think of a single man who came out of the finance field who has gone anywhere near as far as he has in accepting modern fiscal theories. Compare David Rockefeller [David Rockefeller, Sr.], a Chicago PhD, for example. With Anderson [Robert B. Anderson] or Humphrey, Ike's [Eisenhower] Secretaries, in office, there never would have been a tax cut in 1963. Dillon agreed, and successively I might say, to deficits in a recession, to a balancing of the budget over the cycle rather than each year, and finally to deficits even at the peak of the cycle so long as unemployment was high, and to tax cuts that would increase deficits, after years of deficits. No Secretary has ever gone nearly so far.

The views of Morgenthau [Henry Morgenthau, Jr.] and Snyder, the last important Democratic Secretaries and Humphrey and Anderson, the two Eisenhower Secretaries,

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belong to the 19th century. But in contrast to some sentiment at the Council, the Secretary still was concerned by deficits increased by *both* tax cuts and rising expenditures. He looked forward to a balanced budget with more enthusiasm than the Council. The President's delay in moving on the tax cut can be traced to some extent to a fear of the Treasury of large deficits.

SCHLESINGER: Do you want to say something about the tax reform issue?

HARRIS: Yes. I think on the whole the Treasury at first was serious about tax reform. And by the way, recently the Secretary pointed out that despite all the difficulty the Kennedy Administration had with tax reform, actually tax reforms increased revenue by close to $2 billion a year. And that's about three times as much as any tax reform measure had contributed toward revenue since the postwar period. So relative to what has happened before the tax reform program was significant. But it was nowhere near what had originally been intended, and what's more it is very difficult to achieve some of these tax reforms.

Just to give one example, Stanley Surrey [Stanley S. Surrey], the assistant secretary of the Treasury, had made the mistake, which nobody should make who goes into government, of writing about problems with which he was later to deal officially. Hence the Senate Finance Committee knew very well what Mr. Surrey's views were on such issues as oil depletion. There happened to be a senator on that committee of great authority and influence, who after all was very much interested in oil. And it has been widely known that the confirmation of Mr. Surrey could not be had unless there was a general agreement there would not be any serious inroads on the depletion allowance.

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And then, of course, one reason that reform was ditched was the great desire to get something done; activity on tax reform and tax cuts would have meant delays on the tax cut. Another aspect of tax reform is that even Mills, who really wanted reform—and that's one reason the President and Treasury pushed reform as much as they did—namely, because Mills was very anxious for reform—seemed so fearful of antagonizing any particular group that this attitude in itself slowed up any reform program.

SCHLESINGER: What did the Council think of Dillon? How did Heller and Dillon see each other?

HARRIS: I think there was disagreement, especially in the early period. I think that most of their differences were reconciled ultimately. The Council was unhappy that Dillon had access to the President. I think the Council also didn't seem to realize that they had a special position as an adviser to the President and they were not an operational agency in the same sense that the Treasury was.

I don't think that the Council in the early part of the Kennedy Administration allowed for the kind of difficulties that Dillon would be up against. Here is an official, a Republican, who had most of his training and connections with finance people, who had very strong anti-spending views, who at first thought that Keynes, like most finance people, was hostile to and the destroyer of capitalism instead of the deliverer of capitalism from ruin.

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In the early period Dillon agreed to go along with the necessary increase in expenditures to help get out of a recession, but by the end of 1961 there was a very serious difference between the Council and Dillon. And this resulted from the fact that there were questions as to what should be done about the 1963 budget, issued in January, 1962. Dillon and the President were both very much concerned that the budget might yield a large deficit following a preceding deficit. The Council on the other hand took the position that there was going to be a big increase in GNP (over $50 billion) and this would yield much additional revenue. With this large increase of revenue it would be feasible to increase expenditures moderately, even quite a bit, and yet not run into a deficit. The Secretary was very much worried about this particular presentation of the Council and a number of times the Secretary asked me to go over these estimates. I went over them and discussed them with some of our consultants, etc. Fortunately for the Council, Dillon was very flexible. He didn't support this estimate but he asked for assurance of the accuracy of the estimate of the GNP, and having received it, he went along. But of course, what the Council was really driving at was that they must be prepared for inadequate demand. If their optimistic projections were supported by history, there would be no problem. But if not, there would be deficits. That is what we would need. With a large GNP revenues would be large and there would not be a deficit. But with a less than expected GNP, a deficit would emerge.

I discussed this issue fully with the President in Newport. He was very much annoyed with the 1963 budget when we discussed it at Newport.

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He said, "I don't care so much about the deficit, but it was done in such a devious way." I tried to explain to him on what grounds the Council was operating. I said if the Council had had luck, if the stock market collapse had not occurred for example, if the struggle over steel prices had not occurred, and none of the other unfortunate developments like the continued difficulties with the dollar which resulted in less expansion, etc., then there might well have been a $50 billion increase in GNP and the Council's projections would have been confirmed. But the country had some bad breaks. So this was one important conflict between the Council and the Treasury and, of course, the Council was proved to have been wrong, although I don’t think the Council was quite so discouraged about their overoptimistic projection because it did get them the deficit which helped the country to some extent to get out of these difficulties.

Dillon, as you know, is very reserved. He is not one for small talk or anything of that sort—I think there might have been some feeling sometimes that Walter was trying to put something over on the Treasury. And as soon as Dillon felt that Walter was trying to put something over—trying to win a point with the President—Dillon would be over there and talk with the President saying you mustn’t do this, you mustn’t do that, and generally Dillon won, and this of course, annoyed Walter a great deal. When President Johnson took over, Walter’s influence vis-à-vis Dillon’s increased. Johnson said that Walter was the only economist he could understand. And it seemed that as soon as President Johnson came along, the influence of the Council rose greatly vis-à-vis the Treasury. And of course a great many newspapers were saying, well Dillon’s out.

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Joe Fowler [Henry H. Fowler], the Undersecretary of the Treasury, went to the President one day to tell him that he was going to resign. President Johnson said to Mr. Fowler: “I want you to give Secretary Dillon a message. You know the newspapers are saying that Dillon is out, that he doesn’t have any influence with me, etc. I want you to understand that I think Dillon is damn good. I also want to tell you that as long as I am in the White House, Dillon can be Secretary of the Treasury.” He said, “I want you to tell that to Mr. Dillon.” So Dillon’s position with the President relative to the position of influence of the Council against the Treasury hasn’t changed as much as is generally supposed. I think it’s also true that the general policy and viewpoints of the Treasury and the Council are much closer than they were in 1961. There isn’t too much difference between the two. Now [1964], Walter is moving on to a problem of increased federal aid to state and local governments, a spending program that I think the Secretary might very well not support. But I myself believe, and I said this in this memo that I just showed you that I sent to the Secretary, that there is a stronger case now for more welfare expenditures than there was before Johnson came in. President Johnson himself has changed that relationship of tax cuts to spending to a considerable degree. And while I realize the political difficulties of getting this type of spending program through I think that there ought to be some increase of welfare expenditures. If, for example, we have the expected rise of GNP, that will be $5 billion more of federal revenue each year. Now of this

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$5 billion half can be applied to a tax cut and half for welfare expenditures and that means that if we can get another billion dollars from the military we might have a $3-4 billion increase of welfare expenditures. This is the kind of a model I would suggest as appropriate at the present time. If one says let’s increase welfare outlays by $10 or $15 billion at this point, I think this is asking too much, this is politically out.

SCHLESINGER: Did the President have views on economic forecasting?

HARRIS: At the Newport discussion, the President was very much interested in economic projections. He understood the significance of the National Bureau of Economic Research Leading Indicators, which give early suggestions of how the economy is going. He was considerably concerned over the slowing down of the recovery. At this time he asked me about our Treasury Consultant Meeting of June, 1962, which had been relayed to him either by Secretary Dillon or Walter Heller. This summary of the June, 1962, meeting clearly contributed to his increased interest in the tax cut as a stimulus. I told him in Newport three months later that the pessimism had been overdone. Apparently the President had talked to Joe Alsop [Joseph W. Alsop] about this, for Alsop devoted a column to the general view that the Treasury Consultants had influenced the President with the result that we had a tax cut that the President really didn't want. I replied in a letter to the *Washington Post* to the effect that we had been overly pessimistic, but this pessimism was helpful, since it helped persuade the President to have an early tax

cut (See the *Washington Post* editorial and my letter "Constructive Pessimism"). Later Joe Alsop told me that he agreed with the general position in this letter.

SCHLESINGER: How about wage policy?

HARRIS: When I was at Newport the President was bearish about the wage guides which had been introduced by the Council. The steel episode had been a wearing experience and obviously could not be repeated many times. I raised some questions with him concerning the time that had been consumed in the steel negotiations and the difficulties of dealing with numerous episodes like this. Yet, I feel the President had no alternative but to take up the challenge of the steel industry. Given the cost of this episode inclusive of the worsening of relations with business, I believe the President would not have welcomed many such episodes. The following year steel again raised prices, and the President showed no tendency for another bout, nor did he intervene in a number of other instances when wages rose more than the amount suggested by the Guidelines.

SCHLESINGER: Was there any idea in his mind of a national wage policy?

HARRIS: No, I don't think so. I think the President was probing. It seems to me what really impressed him was the Eisenhower experience. He realized that Eisenhower had this large price rise in 1955–1958 and he realized that the price rise was a wage-push price rise, and one either had to accept the results of this inflation or to restrict the supply of money and bring about unemployment. This was the kind of fix he didn't want to get into. And that was the problem. He was probing for some solution short of controls that would to some extent contain wage increases in relation to the rise of productivity so that there would not be an excuse for businessmen raising their prices.

SCHLESINGER: What was your impression—How did the President feel about his intellectual advisers?

HARRIS: The President relied on them in making crucial appointments and his seeking advice was evidence of his high regard for the intellectual.

You may recall the statement in Sidey's [Hugh Sidey] book that the President leaned toward economists because they had the facts, and the politicians did not.

A few comments are worth making: At Newport it was evident that the Bay of Pigs episode still rankled him. I recall at one point he said, "You can't really depend upon intellectuals, look at the Cuban episode." On another occasion he expressed displeasure with economists who had failed to sell their views to the people and to the Congress and hence put a greater burden on him (See letter of January 28, 1963).

In 1962 I wrote an article in *The New York Times Magazine* in which I expressed disappointment with economists who failed to take account of political and institutional obstinacies but demanded policies based on pure economics. A little later I saw Ted Sorensen and he told me the President had brought this article to his attention and said, "This is exactly my view, but Seymour expressed it better than I could."

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SCHLESINGER: What about the Federal Reserve appointment?

HARRIS: Well, as you know, the President had to make an appointment early in his Administration and a number of us urged him to appoint an academic man, for example, Tobin or Warren Smith of the University of Michigan. We thought that the Board was excessively controlled by finance men or their stooges. But the President fearful of the dollar position, appointed a vice-president of the Chicago Federal Reserve Bank, George Mitchell. This was actually a good appointment.

SCHLESINGER: What about your own appointment?

HARRIS: Well in late spring of 1963 some of the President's advisers, inclusive of Messrs. Heller, Schlesinger, Galbraith, Kaysen, urged the President to appoint me to the Board, although I did not know it at the time. There were two vacancies: one due in November 1963, and one in January 1964. The arguments in my behalf were that I was interested in the Federal Reserve and had published a study in 1933 of Federal Reserve policy. The White House needed someone there who would urge support for the President's policies and who favored low money rates to offset top-heavy Fed bias in favor of dear money. In a very strong and pithy memo, Heller used these arguments and reassured the President that financial opposition would of course be experienced, but it would not be serious. I might say parenthetically that it probably would have been more serious than Walter Heller realized. I was generally known to be an easy money man and in the 1960s on at least a dozen occasions had attacked restrictionist

policies of Mr. Martin. I had also probably annoyed Mr. Martin, I might say, by helping the Senate Finance Committee to work up difficult questions for the Hearings on the Financial Condition of the United States in 1957–1958. Also, my appointment leaked and was published in the newspapers.

The President discussed the two appointments with Secretary Dillon and Chairman Martin. Kennedy apparently was prepared to risk the attacks of the financial men, now well organized. The President and those concerned agreed to an arrangement under which the general complexion of the Board would not be changed. Dewey Daane [Dewey J. Daane] was an executive of the Treasury, on the basis of past experience clearly a conservative who would follow the line of the finance people, would have one appointment and I the other. The complexion of the Board would not change. Thus, the President's appointment aide, Ralph Dungan [Ralph A. Dungan], in the fall of 1963 asked me if I would accept and I said, yes. He also asked did I want the first or the second appointment? I said it was immaterial. Ralph Dungan urged me to take the second. I agreed, much to the annoyance of Heller, who urged me to take the first. But from what Dillon told me, he and Martin wanted the first appointment for Daane as an assurance to financial men who otherwise might take my appointment as a threat to the dollar. Of course, the result was that Daane's appointment went through and soon after the President was assassinated. A number of people intervened on my behalf with President Johnson, although I never asked anyone to do so, inclusive of Adlai Stevenson, Ted Kennedy [Edward M. Kennedy], Galbraith and Sorensen. Mrs. John Kennedy

seemed disposed to intervene, but I discouraged her. One columnist (Taylor) wrote that she and Bobby [Robert F. Kennedy] and Ted Kennedy all worked on Johnson. He gave various reasons for not appointing me. To some he stated he would think further on it, to others that he would not be bound by Kennedy's promises. I have been told that when President Kennedy died, there were about 60 appointments on his desk of which President Johnson accepted very few. To others he stated that he wanted some of his own men in high posts, to others, Harris is too old, although at that time the newspapers, ironically, carried a story that President Johnson deplored the elimination of the aging from work because of age. But he nevertheless, did not definitely say no. At this time, on December 12, 1964, my Harvard colleagues and friends gave me a farewell party in honor of my retirement from Harvard, and I insert a copy of Johnson's telegram to me. I was, however, becoming impatient because of another attractive appointment. Harassed by newspaper reporters, I finally did the unorthodox, publicly stated Kennedy's intentions about my appointment. One reason for my statement was that since Johnson was not following through on JFK's wish, this should be known. My own guess, reinforced by what I learned later, was that after Kennedy's death, Martin began mobilizing financial friends of President Johnson against Harris. Martin thus took revenge after my almost ten years of needling him and, if my guess is correct, he conveniently forgot about his agreement with President Kennedy on the Daane-Harris double appointment. Later, after I accepted the other offer, I wrote Johnson and warned him once more that Martin's monetary restrictionism is dangerous in election years. I hope that his almost neurotic fear of

C O P Y

"I want to join with the friends and colleagues of Seymour E. Harris who are honoring him upon his retirement from Harvard University. Professor Harris has combined the roles of scholarship and public advocacy to the benefit both of the public interest and the advancement of economic studies. His influence and his personal generosity as a teacher and advisor have given him a unique place in American life."

"With all good wishes.

Lyndon B. Johnson
The White House, Washington, December 12, 1963"

inflation will not lead him to restrict monetary supplies and abort the recovery as he had done in 1960 and 1956.

I always thought my relations with Johnson reasonably amicable at this point. But Charles Bartlett in a syndicated column soon after, wrote that President Johnson in meeting with big businessmen would ask them if they were not pleased that he had kept Harris off the Board. It would seem unwise practice for a President to allow the business world to pass on his appointments to the Federal Reserve Board. Walter Heller informed me that at a meeting which he had attended in the White House that in reply to a question, Johnson had said that Harris would not be appointed. McCabe [Thomas B. McCabe, Jr.], a former chairman of the Board, said that was good.

SCHLESINGER: What about things like education and social welfare, medical care and so on?

HARRIS: I think in these matters President Kennedy's views remind me a good deal of President Roosevelt. There is no doubt about it, President Roosevelt himself was essentially a budget balancer, and he was fearful of deficits. Yet, Kennedy always said there were certain things you had to do irrespective of what they cost. He had a feeling for the impoverished, you have to take care of the unemployed, you have to provide medical aid, you have to do a better job in education. Kennedy was therefore, prepared to run deficits even though he disliked deficits and he thought the need for helping the disadvantaged was very important. For example, in education he felt very strongly not only that an adequate system of

education would solve a good many of the problems of the unemployed young; but also felt that adequate education would increase the GNP because there is an association between education and productivity.

The President was prepared to introduce a really comprehensive unemployment program which would provide adequate benefits, as much as two-thirds of the going wage, and he would also in many ways try to improve the position of the old with whom he was very sympathetic, not only by liberalizing the Old Age Annuity payments, but also by providing adequate medical care. Medical care after all is the most serious difficulty that the old are confronted with, and the President realized this and he put up a tremendous fight for this program.

As a matter of fact, many say that the President never really persuaded the Congress of the need for these programs. He didn't fight hard enough for them. Now I think it may well be true that Johnson does a better job here than President Kennedy, but my view still is that President Kennedy handled Congress well. There is no equal to President Johnson in matters of this kind. Many said the trouble with President Kennedy is that he makes his compromises before he presents his program to the Congress. Instead of asking for what he really wants, he asks for less in the thought that this is all he can get. But this is appropriate behavior. And as I have often said if you are a football player and you block, say 10 yards in front of the ball runner, you do a pretty good job. And if you are 40 yards ahead, you are probably no use. And if the President gets too far ahead of Congress he just jeopardizes his program.

[-80-]

The President made a strong attempt to put through the tax cut. I counted once the number of times that he mentioned or talked on the tax cut. It is an unbelievably large number. He made a tremendous effort on Medicare and lost by two or three votes. Now if President Johnson gets the Medicare program through that will be a great achievement. On the other hand, Mr. Kennedy really prepared the ground for the Medicare program. I believe that if Mr. Johnson can do what Mr. Kennedy couldn't do, that is, convince Mr. Mills of the worthwhile aspects of this program he deserves a great deal of credit; but this does not mean that Mr. Kennedy did not try very hard to get this program and other social welfare programs through.

One thing about the education program: President Kennedy once said that 40 percent of the growth of a nation is due to education. This particular statement always annoyed me and I was terribly tempted to write President Kennedy once and say that this gives the whole issue a degree of precision that cannot possibly be justified. I didn't write the President because I thought I might get the Council into trouble.

SCHLESINGER: I think what they meant was increases in productivity due to education.

HARRIS: Yes. That's absolutely true. To a considerable extent the increase in incomes and the high productivity of this economy are a result of education. But the advance also depends on housing and health and a great many other things. You cannot prove it's 40 percent and I think it's

[-81-]

wrong for Presidential advisers to give figures that can embarrass the President, for the President can't check.

SCHLESINGER: Speaking about high up advisers you have not mentioned anyone on the White House staff, except briefly Carl Kaysen. Did Kaysen, Sorensen, or Feldman [Myer Feldman] play much role in the economic issues as you saw them?

HARRIS: Yes. I think Sorensen probably more than anybody else. Kaysen, of course, got into the issues indirectly because of his work with McGeorge Bundy, whose interests were not primarily economic, although Mr. Bundy was interested somewhat in economic issues. Sorensen had a tremendous effect, not so much that he put across new ideas but the way he presented them; and he was the arbiter among advisers. When the Council and the Secretary of the Treasury couldn't agree on a paper, Sorensen would try to reconcile the differences. And only if there were still disagreement would the matter go to the President. Sorensen would of course save the President endless time because he would get at the crucial issues and of course he is very smart. He was particularly good on the political aspects. Carl Kaysen thinks he is one of the smartest men he has ever met. And that's high praise from a man like Carl Kaysen, because Carl has very high standards. I have known Ted for many years. As a matter of fact, I knew him when he first came with Kennedy when the latter was a young senator and he has grown tremendously.

SCHLESINGER: One question I wanted to ask about the tax program. How do you defend the tax program which really means more relief for the rich

thus following the Eisenhower tactics which also meant a lot of relief for the rich?

HARRIS: Well I don't really believe this is true and I have just written a review of Nossiter's [Bernard D. Nossiter] book in which I say that this is an excellent book, but the only thing that is wrong is the assessment of some aspects of Kennedy policy. The tax bill is not a giveaway for the rich. For example, if you have a man who has an income of $4,000 and he pays say, $300 or $400 of taxes, you can't cut his taxes more than $300 or $400. But then you take a man who has an income of over $50,000 and you give him a tax cut. You may cut his taxes by $2,000, which of course seems more generous, but is actually a smaller share of his balance. Relative speaking, the low income man would have a smaller share of his income to pay in taxes than a high income man. Now, one of the points that Nossiter makes: he says well these people with $50,000 incomes, they average a $5,000 gain and one with a $4,000 income gets a gain of only $200 or $300. You must expect that the man with the million dollar income is going to get a larger number of dollars of tax remission. The important thing is to see that he doesn't get a larger percentage than the poor and he does not.

SCHLESINGER: Couldn't the bill have been designed in such a way to have more of the benefits go to the lower income groups?

HARRIS: Well it could have I am sure, but actually if you look at the distribution, and even including what the Treasury did for the corporations in liberalizing depreciation allowances, etc., it is still true that much was done for the low income groups. I'll tell you Arthur that the thing that

impressed me about this whole tax cut matter—is that there were not great outcries though labor argued as you suggest here and the affluent took the reverse position, namely that too much relief was given to the low income groups.

[END OF INTERVIEW]

Seymour E. Harris Oral History Transcript – JFK #1
Name List

APPENDIX I

A SUMMARY OF DR. HARRIS' DISCUSSION WITH
PRESIDENT KENNEDY AT NEWPORT ON
SEPTEMBER 22, 1962.

CONFIDENTIAL

September 27, 1962

Dear Mrs. Lincoln:

I am passing along a summary of my discussion with the President at Newport on September 22 and also a memorandum which he expressed an interest in seeing.

I enjoyed the day in Newport very much.

With kind regards, I am,

Sincerely yours,

(Sgd.) Seymour E. Harris

Seymour E. Harris

Mrs. Evelyn N. Lincoln
Personal Secretary
to the President
The White House
Washington, D. C.

Enclosures

~~CONFIDENTIAL~~

September 27, 1962

MEMORANDUM FOR THE PRESIDENT

From: Seymour E. Harris

Subject: Economic Issues

I have tried to summarize our discussion at Newport on September 22nd. These are, of course, personal views and do not necessarily reflect the views of the Treasury though I suspect they would agree with much of this.

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Appendix

The Summary of the June 27 and 28, 1962 Meeting of the Treasury Consultants with Participation by Members of the Treasury and Other Governmental Agencies.

State, Treasury, CEA

DECLASSIFIED
E.O. 13526, SEC. 3.4
By NM NARA, Date 9/11

I. <u>The Current Business Situation</u>.

At Newport the President inquired about Loftus' article in the <u>Times</u> on the Leading Indicators. Since then I have looked at the September issue of <u>Business Cycle Developments</u>, by the Department of Commerce, and this suggests that twice as many of the indicators point to a decline as to a rise. By the Leading Indicators the National Bureau means those that seem to give an early indication of where the economy is going. Among those, for example, that suggest impending declines is the reduction in the average work-week, which generally comes when there are difficulties ahead. Also of significance is the decline in the index of industrial raw material prices. On the other hand, the rise of prices in relation to wage rates points to improved conditions as does the increase of corporate profits.

In general the increase of GNP at stable prices was, beginning in the second quarter of 1961, 11, 8 and 15 per cent and in 1962, 5 and 4 in successive quarters. This indicates that we are still moving ahead but at a reduced rate.

II. <u>The Late June, 1962 Meeting of the Treasury Consultants and Officials of the United States Government</u>.

The President inquired about the pessimism of economists at that time and I promised, with the approval of the Secretary, to send the President a brief summary of this two-day meeting of about twenty-five top economists in the country, with the Secretary and Under Secretaries of the Treasury, a Member of the Federal Reserve and Members of the President's Economic Council, as well as other officials present.

This gloomy anticipation was tied to the almost unanimous view of the economists that we should have a substantial and immediate tax cut. On the whole on the basis of the developments in the last three months it seems the economists were a little too pessimistic, though probably their inaccuracies in forecasting were not as great as was commonly made out in the press.

I understand the President's decision not to go for an immediate tax cut was related to non-economic considerations, which on the whole were rather neglected by the economists.

III. The 1963 Balanced (?) Budget.

My recollection is that the Council in late 1961 believed as did most economists, the economy needed a lift from the outside, and that meant through governmental operations. One approach was to budget openly for a deficit. This was not acceptable, I believe, to either the President or the Secretary of the Treasury. Another approach was to forecast GNP optimistically and therefore, with expected large revenues and no deficits. With good fortune, (e.g., no stock market collapse, optimism on future profits, not a profit squeeze), this may have been achieved. But if the expected GNP does not materialize, that is, a $570 billion GNP, and it does not appear that it will, a deficit would necessarily follow in part because of disappointing revenues.

The Treasury went along with the Council's projection, but with considerable reservation. The Treasury was opposed to a deficit in fiscal year 1963 following deficits in 1961, and 1962.

IV. The Steel Price Episode and the Stock Market Decline.

At Newport we discussed the relationship between the steel price episode and the stock market decline. I elaborate the discussion a little here. Your inquiry was directed to the point of the relationship between the steel price episode and the stock market decline. In my opinion there was not a very significant relationship between the two.

The fundamental factor was that the price of securities had become excessively inflated. There is no reason for expecting that securities would move only up year after year, and without limit. A point is reached where "bears", that is, those believing prices are too high overtake and conquer the "bulls". We have reached a crisis of confidence at that point, and we have had such crises of confidence in 1907, 1920-1921, 1929, 1937 and 1962. In fact, so far the relative decline in stock market prices has been only about one-third as large as that which followed the 1929 collapse.

But there are other explanations of this decline in stock market prices. A growing realization that inflation is not inevitable is certainly relevant. In four years we have had relative price stability. For example, the rise in consumer prices has only been 5 per cent for a period of four years, and for wholesale prices there has been virtually no change in the price level since 1958. Such price history is bound to have some effect on the anticipations of security holders because to some extent the continued rise in stock market prices is related to the continued inflation and anticipation of inflation.

In a small way, the steel episode, because it helped convince people of the stable price policies of the Administration, may have contributed in a small way to the decline in stock market prices. But the anti-inflationary policies of a Democratic Administration should be welcome and not a source of criticism.

Other factors contributing to a decline of the market were: increased competitive position of Europe and Japan; profit squeeze related to excess capacity; sluggish growth (a 10 per cent real rise of GNP from 1957 to 1961); some anticipations of a recession (the market frequently anticipates recessions); the rise of yield on bonds vis-a-vis the yields of stocks by 3 per cent in recent years, and, therefore, a propensity to invest more in bonds and less in stocks; and finally, all kinds of irrational factors.

V. Monetary Policy and Mr. Martin.

On the question raised by the President in re Mr. Martin's policies and especially Mr. Martin's proposal that the deficit should be financed by saving, I commented as follows:

Many have argued for an expansionist fiscal policy to lift the economy, and a restrictive monetary policy to restrain inflationary effects. That is in fact what Mr. Martin was saying as regards monetary policy. I think, however, Mr. Martin's statement was premature. Financing out of savings means that if the Treasury has to issue say \$5 - \$10 billion of additional securities, the Fed would not interfere even if rates go up drastically. Indeed, if this policy suggests inflation, the Fed might well curtail monetary expansion. But this is a decision for the future, not as Mr. Martin's statement might be interpreted, as a veto of a tax cut.

On Martin's general record, I think he was rather inflationary under Truman (as Assistant Secretary of the Treasury), too restrictive under President Eisenhower, and modestly expansionist under President Kennedy. I do believe his policies have been much better under the Kennedy Administration than under Eisenhower. Perhaps I would have liked a somewhat larger monetary expansion since 1960, but with the prodding of the Treasury and the Council, the Fed policy greatly improved. Interest rates with a \$55 billion recovery, were satisfactory, though in the last few months a greater easing might have been wise. Yet even in 1962, private rates have tended down, though not in the last two months.

In re Mr. Martin's reappointment, my preference is for another man. A ten-year incumbency is enough for anyone. Eccles was relieved after he had outlived his usefulness. I say this despite the fact that Mr. Martin is a man of ability.

But I add one reservation. Mr. Martin is a symbol, and in making a decision the President should consider the effects on relations with business.

VI. Wage Policy.

There is a need to discover new techniques for containing wage inflation. In the past we have been dependent upon collective bargaining and controls. We need to experiment with new approaches short of controls, and I think the Administration deserves a good deal of credit for beginning to plow this rather difficult field. Given the double-crossing of the steel industry leaders, the President had to check the industry's inflationary price policies. But unfortunately, this requires much time and effort by the President; and the difficulty is that where there are not a limited number of sellers, for example, in the construction or food industry, the possibilities of imposing a non-inflationary approach would be much reduced. If there should be inflationary pressures, as there are not now, the net result of measures taken in some industries would be a redistribution of the gains of inflation -- less profit from inflation to the industries pressured and more to others.

VII. International Issues.

I agree that devaluation does not seem to be on the agenda. As the President suggested, devaluation is a two-way street. Probably most countries would follow the United States, and hence there could be no or very little competitive gain. Moreover, with high levels of employment, any competitive gains that remain would quickly be absorbed by rising relative prices. Devaluation, either vis-a-vis gold or in relation to foreign currencies should be a last recourse, and only justifiable if all the other weapons now mobilized do not have the necessary effect. The most important of these weapons are a larger contribution by our allies to military efforts, and also for aid to underdeveloped countries, more purchases here, even if more costly, more of the therapy that Under Secretary Roosa has ingeniously used to improve our liquidity position, etc. etc.

The more extreme measures proposed by the State Department and the Council of Economic Advisers should be used only if we cannot get through with current policies. I mean get through without very serious effects upon employment and output. It is wise not to frighten the financial groups, and hence we should move ahead with new programs in an experimental way and at not too dizzy a pace. Since we have made substantial progress in the last two years, this seems to be the appropriate policy. The time may come for more extreme liquidity approaches; but not now.

Indeed, we should also encourage foreigners to hold more dollars for their reserves without a guarantee, and also to reduce the gyrations of their gold markets. Most of the advanced programs that are being suggested, for example, turning over the problem of reserves to a new international institution with transfer of dollars held by other countries to this institution -- these seem more than are now needed. This kind of approach would require a large guarantee by the United States Government. At the present time this is not likely to appeal to the Congress.

I have a personal penchant for broadening the gold points, that is, within a limit say, of 2 per cent, for this would cut down short-term capital movements greatly and therefore, remove a disturbing element. And this is consistent with the IMF Charter. I should also push for elimination of reserves against Federal Reserve liabilities. In this way we tie up $11 or $12 billion worth of gold in a very unfortunate manner.

CONFIDENTIAL

OUTLINE OF SHORT SUMMARY OF MEETINGS OF TREASURY CONSULTANTS (JUNE 27-28, 1962)

pp 1-4 especially interesting
5,7 rather technical S.E.H.

Staff, Treasury, CEA

DECLASSIFIED
E.O. 13526, SEC. 3.4
By MP NARA, Date 9/14

CONFIDENTIAL

SHORT SUMMARY OF MEETINGS OF TREASURY CONSULTANTS ON THE CURRENT ECONOMIC OUTLOOK (JUNE 27-28, 1962)

I. The outlook for G.N.P. over the next year.

Three quantitative Forecasts of G.N.P. were presented; in addition, Moore discussed the economic outlook in qualitative terms. The gist of these forecasts and the discussions of them is that the recovery is grinding to a halt and a recession may begin before the end of this calendar year.

Dan Suits forecast a G.N.P. of $560.6 Billion for fiscal year 1962, and an average level of unemployment over the period of 7.8 percent. This implies a downturn somewhere in the next four quarters and an unemployment rate of 9-10 percent in the middle of 1963.

The Harvard group (Duesenberry, Edstein, and Lintner) constructed two forecasts: the first or "restrained pessimism" forecast was their best guess for the coming four quarters, the second or "optimistic" forecast assumed a number of favorable developments. Duesenberry stated that they felt the probability of achieving or exceeding their optimistic forecast to be quite low. They also projected the effect of a 5 Billion dollar tax cut (4 Billion of which is a cut in the Personal Income tax, 1 Billion cut in the Corporate Income tax) upon G.N.P. under both sets of assumptions.

The results of these forecasts for the second quarter of 1963 are as follows:

(1) "Restrained Pessimism" - G.N.P. will fall to $551.3 Billion, unemployment will reach 7.1 percent.

(2) "Optimistic" - G.N.P. will reach $584.8 Billion, unemployment will decline slightly to 5.3 percent.

(3) The effect of a 5 Billion dollar tax cut under both sets of assumptions, G.N.P. would be increased by about $12 Billion, unemployment would be lowered by 0.6 percentage points.

Samuelson constructed what he calls "a typical pessimistic New York business economists forecast." This shows G.N.P. declining after the third quarter of this year. By the second quarter of 1963, G.N.P. has fallen to $548 Billion.

Moore reviewed the current outlook in some detail, discussing the behavior of several key indicators. His overall judgement is that while the evidence is not yet decisive, there is grave danger that the expansion will soon be over.

The consultants explained that their changed position (relative to 6 months ago) on the economic outlook was due to the weakness of the private economy in the current recovery. The contribution to recovery made by private investment has been particularly small. Several of the consultants attributed this failure of investment to respond in the current expansion to a growing secular weakness in the economy: Since the end of World War II, transient sources of strength (the backlogs of demand existing at the end of the war) have been wearing out.

II. Policy implications of the current outlook.

There was a general consensus that an immediate tax cut is desirable. While the majority believed that reduction in the personal income tax would be more effective than reductions in the corporate tax, they felt that reductions in both taxes should be made in order to reduce controversy.

The consultants felt that a tax cut of at least 5 Billion dollars is in order, and many of them argued in favor of a 10 Billion dollar tax cut. The Harvard group pointed out that even if their optimistic forecast turned out to be correct (which they deem unlikely), a 5 Billion tax cut would still leave unemployment at 4.7 percent one year from now. Consequently there is little danger that a tax cut would create inflationary pressures next year. Bator warned that a small tax reduction may prove to be dangerous, since it would be relatively ineffective and might discredit the use of fiscal policy.

There was general agreement that tax reductions should not be delayed until the tax reform measures are introduced. Musgrave argued that the tax reductions should be temporary, and should be reconsidered when the reform measures are presented; Lintner and others felt that the tax reductions should be permanent.

Several of the consultants stated that the administration did not have to publicly predict a recession in order to justify a tax cut. The administration could point out (a) that the economy is still operating below its potential and (b) that the present tax structure is an unduly heavy burden on the private economy. A tax cut will lighten this burden and stimulate a fuller realization of the potential growth of the economy.

Samuelson in particular stressed the serious harm which could result if no action is taken: "what is to be expected is not merely another short recession (late 1960) but a return to the sluggish economy that would sap American vitality and growth prospects."

Houthakker pointed out that the high levels of unemployment, implicit in the G.N.P. forecasts (7-10% by mid 1963) will have significant political effects. He argued that (in addition to fiscal policy) other policies, such as expansionary monetary policy and modification of foreignexchange rates, should be considered.

III. The balance of payments outlook.

Richard Cooper stated that the U.S. trade position is improving and is likely to continue to improve. Since 1959 the U.S. rdlative price position has improved. In the last twelve months, wages in the U.S. have risen much less than wages in Europe. Our policies of tied aid, limited procurement abroad, and export promotion are beginning to have some effect.

Cooper pointed out that the size and importance of the U. S. in world trade creates significant feedbacks from U. S. imports onto U. S. exports. If an expansion of G.N.P. resulted in an increace of imports of $2 Billion, Cooper estimates that the net export balance would only worsen by $400 - $500 million. Emile Despres went even further, arguing that a vigorous recovery without inflation may improve rather than worsen the balance of payments in the long run.

Phil Bell stated that if we adopt policies to achieve more income and employment, the short term capital flows may reverse themselves and offset the worsening of the basic accounts that may occur. Peter Kenenn stated that trade credits to foreigners and direct investment abroad would increase if we do <u>not</u> adopt expansionary policies.

Bernstein and Eckstein disagreed with these conclusions. Bernstein argued that the feedbacks onto U. S. exports were unimportant, and that the bulk of short term capital movements was not sensitive to interest rate differentials and consequently would not respond to an expansion of income in the U. S. Eckstein stated that the rate of progress in the export-import situation is not satisfactory.

Harris pointed out the need for more quantitative researches on this issue.

Despite these disagreements, there was a general consensus that the Balance of Payments should not be regarded as a constraint upon domestic economic policy. The government should adopt policies which will stimulate continued growth of the U.S. economy, and should deal with any Balance of Payments difficulties with other Policies. Many of the consultants suggested, for example, that a combination of an expansionary fiscal policy with a restrictive monetary policy would enable us to expand income and employment without worsening the Balance of Payments.

IV Wages and Prices

Over the past three years, wages have risen more slowly than in previous years. This provides little ground for optimism in the long run; however, since the slower rise can be explained by the high levels of unemployment, the low rate of increase in consumer prices, and low levels of profits. The relationship between wages and these determining variables does not appear to have shifted, which means that a high level of activity would lead to renewed wage pressure.

Dunlop pointed out that in the past the government has relied on two sets of policies: (a) direct controls and (b) general pro-competitive policy. At the present time the government is feeling its way into a third area of wage and price policy, an area in which the moral suasion of the government is used actively, in which specific sanctions may be used, but in which no explicit and direct controls over wages and prices are used.

Dunlop argued that the government should proceed by setting up specific task forces to study key areas and make recommendations with respect to wages, work rules, the introduction of technical changes, etc. He believes that much can be done by this method; for example, in shipping the government should strive to achieve one negotiating body for the workers, in construction, the government should attempt to increase the responsibility of national unions. The government should approach the wage-price problem trouble area by trouble area, rather than adopt a mechanical general approach which will not work.

Ulman pointed out that we have considerable short run freedom from wage inflation over the next year or so since the Key wage bargains are now behind us. Consequestly we can pursue expansionary policies without fear that wage-price pressure will harm the balance of payments.

Eckstein agreed in general with Dunlop's remarks, but argued that the general "wage guidelines" enunciated in the President's Economic Report have relevance for wage determination in durable manufacturing industries, which are important export sectors.

PARTICIPANTS - TREASURY CONSULTANTS' MEETING JUNE 27 and 28, 1962

Isaiah Frank
Deputy Assistant Secretary
of State

G. Griffith Johnson
Assistant Secretary of State

Governor Abbot L. Mills, Jr.
Federal Reserve Board

Robert C. Turner
Assistant Director, Bureau
of the Budget

CONSULTANTS

Dean G. L. Bach
Carnegie Institute of Technology

Professor Francis M. Bator
Massachusetts Institute
of Technology

Professor Philip Bell
Haverford College

Professor Richard E. Caves
University of California
Berkeley, California

Dr. Gerhard Colm
National Planning Association

Professor James S. Duesenberry
Harvard University

Professor Otto Eckstein
Harvard University

Professor Alvin Hansen
Yale University

Professor Hendrik S. Houthakker
Harvard University

Professor John H. Kareken
University of Minnesota

Professor Peter B. Kenen
Columbia University

Hal B. Lary
National Bureau of Economic
Research, Inc.

Professor John Lintner
Harvard Graduate School of
Business Administration

Dr. Geoffrey H. Moore
National Bureau of Economic
Research, Inc.

Professor Richard A. Musgrave
Princeton University

Dr. Joseph A. Pechman
The Brookings Institution

Dr. Walter S. Salant
The Brookings Institution

Professor Paul A. Samuelson
Massachusetts Institute
of Technology

Professor Charles L. Schultze
The University of Maryland

Professor Warren L. Smith
University of Michigan

Professor Daniel B. Suits
University of Michigan

Dr. Thomas A. Wilson
Harvard University

TREASURY

Secretary Dillon

Under Secretary Fowler

Under Secretary Roosa

Robert H. Knight
General Counsel

John M. Leddy
Assistant Secretary

TREASURY (Cont'd)

James A. Reed
Assistant Secretary

Stanley S. Surrey
Assistant Secretary

COUNCIL OF ECONOMIC ADVISERS

James Tobin
Member

APPENDIX II

S. E. HARRIS ON KENNEDY

Table of Contents

The Economy Inherited by Senator Kennedy

For the first time in a generation our domestic policies must take account of the effects on our gold. It is indeed unfortunate that a country which depends for 96 per cent of its income on its domestic economy now may have to sacrifice domestic goals to the requirements of the remaining 4 per cent.

It is embarrassing also that a country with a gross national product about 12 times that of Germany, an average per capita income about three times as large, and a country that has spent about $80 billion abroad since 1946, two-thirds for aid and one-third for defense, has to send its top men to beg the Germans to increase their contribution to defense by $600 million per year and be refused.

The current economic position, should it deteriorate, may require tax cuts and increased public expenditures. It is necessary to improve the economic situation as one means of stopping the outflow of gold, for capital moves not only in response to higher short-term interest rates, but also in response to more favorable economic conditions abroad.

What can the new Administration do? Obviously, it must attack on both the foreign and domestic fronts at the same time. In three years this country has lost more than $10 billion in reserves. The balance of payments must be improved sufficiently so that it can stand an unbalanced budget if necessary in the midst of a recession, easy money in such a period to stimulate investment, additional investments in and guarantees of housing by the Government, a rise of $1-2 billions in aid to underdeveloped countries, and the modest spending programs announced by Senator Kennedy.

It is not enough to say that a $500 billion economy can afford $5-10 billion of military and aid spending abroad. Unfortunately, we have to be sufficiently competitive to transfer the $5-10 billion through more exports or (and) reduced imports.

Here is what has to be done —and I present the items in my own preference scale, though attacks may and should be made on several fronts at once.

Improve the competitive position of the United States through rising productivity and restraints in wage and price policy and improved financing of exports. But this is a slow process.

Insist that countries with excess reserves carry a larger part of the defense outlays abroad.

Put a large share of aid to underdeveloped countries at least temporarily on Western Europe and Japan.

Insist that the International Monetary Fund lend currencies other than dollars, and require repayments of dollars already advanced. (These dollar loans increase our obligations abroad.)

Demand reduced trade restraints on American exports. And reassess the common and free market — demand that they not be used as a barrier to exports of the United States and other countries (e.g. Latin America), in turn dependent upon the United States to some extent.

Ask our allies to use other measures than high money rates to contain their booms.

Request that Western Europe remove any restraints on capital exports to the United States and on repatriation of profits of American corporations.

Cut down expenditures of troops and civilians abroad.

Increase international reserves—as suggested long ago by Keynes and more recently by Triffin.

Control exports of capital (inclusive of undistributed profits) from the United States.

Control expenditures of tourists abroad (inclusive of free imports of goods by tourists).

If all these are inadequate, temporary additional restraint on imports of the United States may be required.

Only if these all fail, would a devaluation, e.g. a rise in the dollar price of gold, be necessary. This would temporarily improve our competitive position, and provide increased international reserves.

SEYMOUR E. HARRIS,
(Littauer Professor of Political Economy, Harvard University, and former economic adviser to Senator Kennedy.)
Cambridge, Mass.

11/30/60

The Washington Post
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You may be interested in the enclosed clipping of your letter to the editor as it appeared in the 11/30/60 edition of The Washington Post.

We appreciate your interest in sending your letter to us, and we hope you will write us again.

Office of the Editor

qualified to administer the policies of the government in power and even to suggest practical improvements to make them work better, but not to question their fundamental presuppositions or ultimate purposes. This is useful work: I, too, have been a civil servant in my day. But this subordination of reason to the assumptions of the existing order seems to me in the long run wholly unacceptable. This is not how Acton thought of reason when he propounded his equation revolution = liberalism = the reign of ideas. Progress in human affairs, whether in science or in history or in society, has come mainly through the bold readiness of human beings not to confine themselves to seeking piecemeal improvements in the way things are done, but to present fundamental challenges in the name of reason to the current way of doing things and to the avowed or hidden assumptions on which it rests. I look forward to a time when the historians and sociologists and political thinkers of the English-speaking world will regain their courage for that task.

It is, however, not the waning faith in reason among the intellectuals and the political thinkers of the English-speaking world which perturbs me most, but the loss of the pervading sense of a world in perpetual motion. This seems at first sight paradoxical; for rarely has so much superficial talk been heard of changes going on around us. But the significant thing is that change is no longer thought of as achievment, as opportunity, as progress, but as an object of fear. When our political and economic pundits prescribe, they have nothing to offer us but the warning to mistrust radical and far-reaching ideas, to shun anything that savors of revolution, and to advance – if advance we must – as slowly and cautiously as we can. At a moment when the world is changing its shape more rapidly and more radically than at any time in the last 400 years, this seems to me a singular blindness, which gives ground for apprehension, not that the worldwide movement will be stayed, but that [Britain] – and perhaps other English-speaking countries – may lag behind the general advance, and relapse helplessly and uncomplainingly into some nostalgic backwater. For myself I remain an optimist; and when Sir Lewis Namier warns me to eschew programs and ideals, and Professor Oakeshott tells me that we are going nowhere in particular and that all that matters is to see that nobody rocks the boat, and Professor Popper wants to keep that dear old T model on the road by dint of a little piecemeal engineering, and Professor Trevor-Roper knocks screaming radicals on the nose, and Professor Morison pleads for history written in a sane conservative spirit, I shall look out on a world in tumult and a world in travail, and shall answer in the well-worn words of a great scientist: "And yet – it moves."

President Kennedy's Economics

by Seymour E. Harris

In his criticism ("JFK Economics," October 9) of my *New Republic* article, Mr. Leon Keyserling deals with three issues: (1) The kind of advice to be given to the President; (2) The disappointing economic policies of President Kennedy; (3) My overemphasis of specific therapy for treating unemployment. I shall discuss these in turn.

If they wish, economists may advise *qua* economists and restrict their analyses to the economics of the problem. This apparently is Mr. Keyserling's advice to the writer. I am surprised at this because I have never known Mr. Keyserling to restrict his proposals to the legal or economic aspects. Moreover, I recall that President Truman was anything but pleased when Mr. Keyserling's predecessor refused to suggest policy decisions for the President and insisted upon restricting himself to the economics of the problem. I have been at conferences with Presidential candidates and high officials where at first the assignment to the economist was to restrict the discussion to the economic issues and to leave the other aspects to the non-economists. But eventually the crucial question was put: What shall I do? And that often means a consideration not only of economics, but value judgments, politics, administration and so forth. Economics alone will not solve problems of policy. An economist who thinks it will overestimates the importance of his subject.

When I say that *qua* economist I would accept larger deficits but in view of other considerations I am not equally enthusiastic about large deficits in the present milieu, I do not seek an excuse for the President to do less, as Mr. Keyserling indicates, but I do say sound judgments cannot be made on economics alone.

Here is an example of the differences between Mr.

Keyserling and the writer. I believe most economists would agree that a rise of national debt of $12 billion per year in one bad year of a three-year cycle, and a roughly balanced budget in the other two years, would be sound economics. Why should it not? An average increase of federal debt of $4 billion a year surely does not spell bankruptcy, for the rise of interest costs would be less than one percent of the expected rise of the gross national product. I cannot understand why either Senator Byrd or the man in the street fails to see this. Nor can I see why the able Senator is so worried about a rising national debt and public expenditures when the cost of financing the debt has dropped by one-half since 1945; and when the federal government's take of resources (as opposed to take of income, which includes items like debt interest and insurance funds) was $52 billion in both 1952 and 1960 even though GNP had risen by $150 billion in the meanwhile.

But the fact is that many Congressmen and their constituencies *are* genuinely concerned and until we can convince them that they are wrong the President, in my opinion, would be unwise not to take into account their mistaken views. I may say I have tried many times to convince Senator Byrd and many other Congressmen, but not always with success.

In his criticism of my article, Mr Keyserling also gives the impression of disappointment at the advances in 1961. I disagree. The President can well be proud of what was achieved in 1961 and likely in 1962, both absolutely and relative to 1952-1960. More progress undoubtedly would have been made on the domestic front had the President not been under such serious pressure on the security front. I have every expectation that more gains will be made in 1962. This is aside from the restraints related to the external position of the dollar.

I agree that our advance on the unemployment front has not been satisfactory. Yet there are many first-rate economists who believe that there has been a significant improvement in 1961. But we must reduce unemployment further. The President is undoubtedly aware of this. He knows that the 1961 unemployment is an Eisenhower residual. But 1962 and 1963 are his responsibilities. Aggressive action will be necessary. The needling should not be against the President, but against those members of Congress who hold him back. A football player who blocks too far ahead of the ball carrier does not achieve much. Just as the education in modern fiscal theory now should be directed toward the laggards in Congress, it was appropriate from 1952 to 1960 to needle the Executive, for then it was the restraining force. Surely Mr. Keyserling does not believe that President Kennedy would allow his Administration to repeat the mistakes of Eisenhower in increasing interest rates at a pace unparalleled in 100 years, or encouraging a $20 billion reduction in federal contributions to the nation's buying power in a short period of time.

Mr. Keyserling seems concerned lest there be no one available "to help the President next year, against the forces which will improperly use increased defense spending to fight measures put forward to advance the general welfare." Indeed, in 1961 we could have had more outlays on welfare. (That we did not have them is largely Congress' responsibility.) But is it improper advice to question rising welfare expenditures when defense outlays are greatly on the rise?

Mr. Keyserling is critical of the President for not incurring adequate deficits and welfare expenditures. Yet in similar circumstances, Mr. Keyserling followed policies which he now finds unsupportable under Kennedy. Mr. Keyserling as Co-Chairman of the President's Council of Economic Advisers in 1950 and Chairman in 1951 and 1952 (for the Report of January), did not seem to support the policies he now advocates. In the Report of January, 1950, President Truman was at great pains to urge a balancing of the budget, despite the recession. He would not only balance the budget, but pay off the debt: ". . . an expanding economy, all reasonable reductions in expenditures and moderate increases in revenues is the wisest course toward a balanced budget." (p. 13). The Council would not recommend a rise in public spending in order to take up the slack in employment. In the Reports of January 1951 and January 1952 the stress was on cutting all expenditures not tied to defense.

On the issue of the relative importance of general measures (*e.g.* monetary and fiscal) as against specific measures (*e.g.* area redevelopment, vocational training) to treat unemployment, Mr. Keyserling again raises questions concerning my motivation. My position rests on 10 years' experience as an adviser to the New England Governors on the depressed areas that accompanied the decline of the textile industry in New England. I watched jobs disappear year after year, in periods of depression and of prosperity. Unemployment at 20 percent prevailed for years in one major textile town, and at very high rates in others. In coal, may I add, the loss of jobs in postwar was four percent in good years and 16 percent in bad years.

This does not mean that I deny the validity of the view that general measures are the first line of attack. I have always taken that position, and, unlike some adherents of the specific attack, I do not stress the importance of specific attacks to discourage general treatment of demand. I have shown that, beyond a certain point, general demand stimulation will help the textile, coal and railroad towns little. Even deficits of $20 billion per year will not wipe out the hard core of unemployment in some of these towns.

must not initiate hostilities; but we can counter force calculated to push us out. This is undoubtedly a war of nerves. A nuclear catastrophe is always a possible consequence of miscalculation.

But surely we are entitled to weigh the improbability of Khrushchev starting a war for the sake of Berlin in the face of the fervent hopes of the Russian people for peace and of the probable embarrassments with his satellites in the event of war. Surely a politician as shrewd as Khrushchev will exploit the advantages of a dictatorship over a democracy in brinkmanship as far as he can. The fact that he raises all the fuss even before the Party Congress may suggest that he must deal with the core of Stalinist intransigence. He is probably also under the necessity of proving to the Chinese that he is not "soft on capitalism." But meanwhile the progress of Communist economic and technical achievement in Russia and of its prestige in the non-European culture areas are bound to make him more cautious than his present words imply. If he is as shrewd as he seems to be, he can still exploit Communism's prestige in Asia and Africa; and quietly, though not openly, acknowledge that its prospects in Europe are dim and would not improve by a nuclear holocaust.

We can meanwhile produce some negotiable items which are not related to the safety of Berlin. Two years ago de Gaulle suggested that we ought to acknowledge the permanence of the Oder-Neisse line. Since it can not be changed without a war, and since its guarantee would make the Poles less dependent on Russia, we should have taken that suggestion more seriously. Even the Germans would not mind too much. They would mind more any tacit or explicit recognition of the East German regime, though that intransigent diplomat, John Foster Dulles, long ago suggested that we might recognize the East Germans as agents undermining the Russians. For such a tacit recognition would probably be regarded as undermining the inflexible dogma that Germany must be reunited.

In view of the fact that our European allies and even some West Germans are not certain whether reunification is either desirable or feasible, we might well risk defying a dogma to which the Germans, on their part, must pay lip service if for no other reason than to salve their uneasy conscience about the fate of their blood brothers under the Communist yoke.

The sacrifice of a dogma unrelated to political realities and possibilities would be a small price to pay for successful negotiations involving no loss of our prestige and giving Khrushchev a face-saving device. He must have such a device. That is a political necessity. Meanwhile we are entitled to speculate that the rigor with which he now seals off East Germany may in time abate as the Ulbricht regime faces the consequence of dealing with the rebellious spirits hitherto syphoned out via the Berlin escape route.

Kennedy's Economics

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by Seymour E. Harris

In his June television program, Mr. Walter Lippmann said of President Kennedy: What he has done in the first four or five months is "first of all to carry on in all its essentials the Eisenhower economic philosophy. . . . It's like the Eisenhower Administration 30 years younger." Criticism from labor leaders and others has been even stronger. For instance, the able economist Oscar Gass, writing in a recent issue of *Commentary*, declared that President Kennedy has "projected little and accomplished almost nothing." Gass is critical of his tax, spending and interest rate policy. Leon Keyserling, a former Chairman of the President's Council of Economic Advisers, who was so largely responsible for the acceptance of the "growth" thesis by the Democrats, found the President's goals far too low and stated that the "proposed programs fall far short even of compatibility with these excessively low goals. . . ."

I do not go along with these criticisms – though I am not critical of the economists, including members of the present Council, who have been urging larger deficits as a means of treating the unemployment problem. I share a view that a $10 billion deficit or thereabouts may be necessary to bring unemployment down to around four percent by next year. But this does not mean that the President should necessarily support a $10 billion deficit for Fiscal Year 1962.

Economics is one thing; politics is another. No one has criticized the President for lack of political acumen.

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I have seen no evidence that the Congress is prepared to go along with large deficits except for security reasons. In fact, on a number of vital issues, it is clear that the President is ahead of Congress, which was not even prepared to go along with the President when he proposed $2.5 billion for a four-year Urban Renewal Program. Congress clearly differentiates between budgetary expenditures and other commitments in the Housing Bill. Nor did the Congress accept the President's recommendations in full in other welfare programs: *e.g.* the liberalization of Old Age Insurance and the Manpower Training Bill.

Should the President move too far ahead of the Congress in his espousal of deficit financing, his program could be in jeopardy. Where the line is drawn is a matter of political judgment. In my opinion a $5 billion deficit in Fiscal Year 1962, largely explained by the Berlin crisis, is acceptable to Congress; a $7 billion deficit may be tolerated; a $10 billion one, substantially tied to welfare programs or (and) tax cuts would likely induce sabotage of the economic program of the President and the New Frontier.

The charge made against the President is that he appears excessively concerned with keeping spending and deficits down. But no Administration has advanced as far as the Kennedy Administration in accepting Keynesian economics. Whereas in his last Economic Report, President Eisenhower was silent on the recession and his aides, inclusive of Nixon, continued to deny it in the late months of 1960, Kennedy proclaimed its presence and expressed a determination to treat it with federal deficits. In his speech before the National Press Club of June 20 the Secretary of the Treasury supported deficit financing as a means of treating a deficit – and this is the first time, to my knowledge, that this position has been taken publicly by a Secretary of the Treasury. Anyone who doubts the advance of the New Frontier should compare the Keynesian thinking of Roosevelt, Morgenthau, Snyder, Humphrey and Anderson with that of Kennedy. It was Eisenhower and Humphrey, not Kennedy, who would cut taxes at the top of a boom just when the appropriate policy would be a rise of taxes to treat the exuberant economy.

Indeed, in the debates on economic policy, the President has been cautious in supporting large deficits. But economists, increasingly aware of the emergence of budgetary surpluses long before full employment would be reached, urged recourse to deficits through tax cuts or (and) increased public expenditures. Most economists agree that the solution of the unemployment problem depends especially on adequacy of demand, in turn related to appropriate fiscal and monetary policy. Deficits and low money rates are the facets of adequate demand policy.

The Council and economists generally stress the need of appropriate monetary and fiscal policy as a means not only of dealing with cyclical unemployment but also with the estimated 1-2 millions structurally unemployed. That the level of demand is of great significance is suggested by this fact: of eight industries that experienced a decline of jobs from 7.5 to 5 million in the postwar, the loss was but one percent average in prosperous years and eight percent in depressed years.

In Washington, nevertheless, there seems to be a disposition to over-stress the general against the specific attack. No general measures are going to solve the problems of the textile, coal, automobile, aircraft and similar towns though they contribute to a solution. The rise of unemployment at the top of a boom in successive cycles, the rise in numbers and persistence of depressed areas, the decline of demand for the unskilled, the large increase of young and older workers especially vulnerable to unemployment – all of these point to a residue of unemployment requiring special measures.

The President has been well aware of this problem of residual structural unemployment. His support of the Manpower Training Bill, the Area Redevelopment Act, a permanent revision of unemployment compensation – all of these point to his determination to solve the problem of structural unemployment by direct attacks as well as the deficit and monetary policy routes.

It is not clear that *beyond a certain point* the most economical way of treating structural unemployment is through general measures. The Secretary of Labor estimated that $700 million would finance the retraining of 800,000 unemployed in four years. Even if only one out of eight found jobs – say only for eight years – the cost per man-year would be less than $1,000. But the cost of an additional job per year through deficit financing can very roughly be put at about $4,000 – and this allows for the secondary effects on income of the deficit. In both instances, I do not deduct for gains in relief, unemployment compensation and taxes.

Hence the President's reluctance to incur large deficits may, in part, be explained by a somewhat greater reliance on the direct approach (*e.g.*, retraining, stimulation of new industries in depressed areas) than is favored by many economists.

Another point can be raised in support of the President's position, namely, that he has a responsibility to establish priorities in spending. He may not have foreseen the exact time of the Berlin crisis, but the possibility of an intensification of the Cold War was clear to all. Excessive commitments on welfare outlays, and a tax cut, if added to later security outlays, might have put an excessive burden on the budget. The deficit in Fiscal Year 1961 was $4 billion, and current estimates for Fiscal Year 1962 are $5 billion, though the ultimate figure may well be higher.

Whereas Congress has gone along willingly with the President's proposals to spend for space and security, it has been amenable to welfare commitments. Indeed, there may be differences of opinion on whether the President is seeking an adequate deficit to bring recovery and stimulate growth, but that anyone can describe Kennedy's economics as a carbon copy of Eisenhower's is almost beyond belief.

The major objective of Eisenhower's Administration was to reduce federal expenditures and deficits, with the incidental advantage of price stability. The budget was not an instrument of policy, but an objective. For Kennedy, the budget was also a means of stimulating the economy.

In his Special Message on the Defense Budget of March 28, President Kennedy said: "Our arms must be adequate to meet our commitments and ensure our security without being bound by arbitrary budget ceilings." In response to growing dangers he did not cut the military budget by $10 billion as Eisenhower did and impose on the nation the massive retaliation doctrine in large part to appease the economisers; nor did he give his Secretary of the Treasury virtually a veto power over military budgets as Sherman Adams reveals Eisenhower bestowed on Humphrey. Kennedy, in the face of danger, despite his concern for responsible spending policies, increased the military budget by at least $5 billion.

Nor has Kennedy followed Eisenhower in the latter's determination to balance the budget account rather than the budget. In order to give the budget a good appearance, Eisenhower rented post offices rather than built them (despite the increased costs), diverted Civil Service pension funds to the ordinary budget, sold FHA and CCC paper despite the adverse effects on the economy, disposed of $10 billion or more of relatively long-term securities in the midst of a recession in order to save interest and incidentally abort a recovery; and would finance a $100 billion road program out of a trust fund. At the outset of his Administration, Kennedy stopped the sale of long-term securities and the sale of FHA paper in a recession when these were obviously serving to raise interest rates while the objective was to reduce them.

In the midst of great perils, the government has to mobilize all weapons and that includes monetary policy. Yet Eisenhower refused to tell the Federal Reserve what was required of it and thus allowed the Fed to restrict monetary supplies and induce unemployment. At the outset Kennedy made it clear that he expected a policy of the Fed that was consistent with the objectives of the government. The Fed felt pressure from the Administration to provide more credit, reduce interest rates in the recession and in the recovery phase to keep rates from rising substantially. The President also understands that a reduction in rates would put a smaller burden on the budget: this is an alternative and additional way of bringing recovery.

Those who think that Kennedy's economics are a version of Eisenhower's should consider Kennedy's welfare proposals and accomplishments in the first six months of his Administration; and they should compare these with the Eisenhower economic achievements over eight years. Within six months the Congress had approved a depressed areas bill, a rise in minimum wages, temporary unemployment benefits, liberalization of social security, benefits for dependent children of unemployed parents, programs for water pollution, and the omnibus housing bill. In addition, the President asked for aid to education, college aid, hospital insurance and permanent revisions in unemployment compensation. Only in 1933 and 1935 can one find accomplishments of equal magnitude. Within three weeks of inauguration, the President had sent a temporary unemployment compensation bill to the Congress; and approval was obtained within two months of inauguration. Compare Eisenhower's timetable in 1958 for temporary help to the unemployed – a move made only under threat of permanent changes in unemployment compensation in a bill sponsored by Senator Kennedy.

Finally, Kennedy's objectives go way beyond fiscal responsibility. He was anxious to end the recession. In fact, a recovery of the second quarter of 1961 was a record achievement for the first quarter of a recovery and especially in relation to the percentage decline of GNP. His spirited attack on the recession contributed greatly to its early end and quick recovery. However, Kennedy was even more interested in growth. The record on anti-recessionary policy was good. But how to get the 4-5 percent of growth so necessary for our struggle with the Communists and an adequate welfare program without adding greatly to tax burdens?

Whereas Eisenhower and his aides either avoided discussion of growth – or when they did confront it, spoke only of the stimulation of private investment through tax favors – Kennedy has stressed education, housing, scientific research and medical care and research as the ingredients that would yield growth; though he was aware that the increased investment was a factor he has stressed that investment without adequate purchasing power and consumption would mean a waste of resources.

In short, Kennedy knows that the budget is a weapon to be used for economic improvement; that the objective of economic policy is not a balanced budget but a balanced economy; that the budget and the monetary machine are weapons to be used to treat cyclical indispositions, the disease of structural unemployment and to stimulate growth; that in order to achieve the larger gains, the President has a responsibility to prevent any creeping inflation from becoming a galloping inflation; that fiscal and monetary tools, however important, are not the exclusive weapons for achieving economic goals; and that economic therapy must be tethered to political realities.

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THE WALL STREET JOURNAL

Kennedy's "New" Economics

In his letter this morning, Professor Seymour Harris sets out to demolish Eisenhower economics and, incidentally, us. Among his epistle's values, we think, is the indirect lighting it casts on the Kennedy Administration's Keynesian economic notions.

These present policies, Mr. Harris forthrightly asserts, are non-inflationary, whereas the Eisenhower policies were both inflationary and restrictive. Well, we had occasion to criticize the Eisenhower economic policies from time to time, and neither then nor now have we felt called upon to defend them without qualification. Still, there are a few facts about the Eisenhower era that we believe most Americans, conceivably including the good professor, would have to consider beyond serious dispute.

By any standard, the period was the most prosperous in American history. That is a fact which can be statistically demonstrated in many ways, though who needs statistics for something like this? Millions upon millions of Americans recognize the unprecedented Eisenhower prosperity from their increased incomes and their consequent ability to improve their living conditions and expand their horizons.

But, protests our correspondent, the Eisenhower prosperity was badly blemished by a couple of mild recessions, brought on by its own wickedly restrictive monetary policies. You might conclude from this that the last President had a monopoly on recessions, but we are sure Professor Harris knows better.

President Truman, not exactly celebrated as a tight-money man, managed quite a beauty of a recession. We also had that little episode under President Roosevelt, when the Government vigorously applied Kennedy-type economic nostrums for eight or nine years without beginning to cure the Depression and its truly massive unemployment. It was some time ago, but we can hardly believe Mr. Harris has forgotten.

Then there is this matter of the "Eisenhower inflation." It is unfortunately true that the inflationary policies instituted by the Government nearly 30 years ago have never been wholly halted. But it is unquestionably true that the Eisenhower Administration did more to halt them than any other in that span. Thus, its inflation was but a fraction of Mr. Truman's. This again can be proved both statistically and by ordinary experience. Anyone old enough can readily confirm the price stability of the Eisenhower era.

So it would seem that, judged by the criteria of prosperity, mildness of intermittent recessions, and avoidance of inflationary excesses, the Eisenhower period compares very favorably with any predecessors for quite a while back; indeed, it rather noticeably excels them. This is the record the professor finds so obnoxious. What does he tell us about the "new" economic policy which is so gloriously replacing it?

The goals of the Kennedy Administration, we learn, are maximum growth and minimum inflation. Actually, we had heard more from the Administration about maximum growth than "minimum" inflation, but we are glad to hear from Mr. Harris that the latter is also an aim. How do we get maximum growth?

Quite simply, by stomping on the Federal spending accelerator, and we certainly agree with Mr. Harris that is one thing (about the only thing) the Kennedy Administration has been doing with enthusiasm, not to say abandon. To be sure, much of it so far is for defense boosts, but then what politician ever said defense spending couldn't be used to give the economy a hearty artificial stimulant? And we are sure Mr. Harris would not want the reader to get the impression that defense spending is the only big increase, present or proposed.

For, thanks to Senator Harry Byrd's careful scrutinies, we can report the following: Of 175 actions taken, recommended or promised in 25 Kennedy messages, 129 are for regular budget increases in domestic-civilian programs and activities, 16 are for trust-fund increases in the same category outside the regular budget, nine are for regular budget increases in foreign aid and such, and only 21 are for increases in military programs and activities.

Not that Professor Harris would object to all that non-military spending, we suppose; if spending is the route to maximum growth, it hardly matters what nonsense the spending is for. Of course, some of us old-fashioned folks doubt that Government growth is the same as economic growth. And we have every reason, from experience, to be certain that unlimited Federal deficit spending accompanied by artificially cheap money is the best possible way to get inflation and then a slump.

Or, as President Roosevelt used to put it in the days before he got swept up into the new economics: "Any Government, like any family, can for a year spend a little more than it earns...

But you and ... know that ... continuati... of that ha... means the poorhouse.

THE WALL STREET JOURNAL
SEP. 25 1961

Letters To The Editor

Kennedy's Economic Goals

Editor, The Wall Street Journal:

Your editorial "The Fount of Inflation" (Sept. 11) argues that inflation is not to be associated with steel wage-price spirals but with cheap money and reckless spending supported by the Kennedy Administration. The no-inflation of the Eisenhower Administration is probably the result, it is held, of "relatively non-inflationary policies of that Administration."

This seems to the writer to be a wholly unsupportable position. First, the Eisenhower Administration achieved almost the unachievable, an 8% inflation of consumer prices and 9% of prices of gross national product (G.N.P.) in three peacetime years (together with substantial unemployment), a price record surpassed only once in the Twentieth Century in peacetime.

Second, a study of the Congressional Joint Economic Committee showed that the major part of the inflation in wholesale prices other than farm and foodstuffs in these years was the result of inflation of steel prices. And the Eisenhower Administration was largely responsible for the major steel agreement that contributed to this inflation. Today, the Kennedy Administration has to live with the results of this agreement. Moreover, persistent rumors prevail that Mr. Nixon made a deal with the steel producers that they would withhold any rise of prices associated with the wage increase until after the election.

Perhaps the inflation was even greater than so far has been suggested. In the Eisenhower "peace" years the Administration experienced a 16% increase in prices of the G.N.P.

* * *

What about the policies of the Kennedy Administration? The Journal does not say that about two-thirds of the rise of expenditures for fiscal year 1962 over fiscal year 1961 is for defense; nor does it suggest that part of the rise in expenditures reflects under-estimates of expenditures for fiscal year 1961 and 1962 of the Eisenhower Administration. In the orgy of spending in fiscal year 1959 let us observe, with its $12 to $13 billion deficit, defense accounted only for 27% of the $9 billion rise of expenditures.

A point not mentioned by The Journal is that with the expected rise of G.N.P. of about $40 billion in the first year of recovery revenues should rise by $10 to $12 billion annually and thus assure a balanced budget for fiscal year 1963 without any change in the tax structure. There may even be a surplus—on the assumption that the international crisis does not deepen.

Finally, what is the evidence of a cheap money policy? Is it that the Kennedy Administration wants to provide the country with enough money so that interest rates do not rise so much as to abort the recovery through discouragement of investment? Is this the correct approach, or is it the Eisenhower one of starving the economy for money and thus contributing substantially to two recessions with large and increasing amounts of unemployment, probably costing the Nation substantially more than $100 billion, or at least twenty times the expected deficit for fiscal year 1962?

The genius of the Eisenhower Administration in giving the country rising unemployment, price inflation in peacetimes and shorter and shorter recovery periods—45, 35 and 25 months in successive rises—is not easily matched.

* * *

A restrictive monetary policy was an important contributory cause of our economic difficulties. In three Eisenhower years the expansion in monetary supplies was less than 1% per year, an amount clearly inadequate for an economy that should grow at least 4% per year. No eight-year period in generations has experienced such monetary restraints.

The goals of the Kennedy Administration are maximum growth and minimum inflation. An Eisenhower record of about 2½% growth per year and 2% rise of prices in the relevant G.N.P. deflator should not please the supporters of Eisenhower economics. A goal of 4% or more rise of output per year and inflation of less than 1% (largely neutralized by improved quality of products), is the goal of the Kennedy Administration. This is not an inflationary program, nor is it based on reckless spending; and should inflation threaten, the Administration is prepared to use all anti-inflationary weapons: Not monetary policy alone, the Eisenhower weapon, but fiscal policy also.

And lastly, let me say that unless labor and business are reasonable in their demands, monetary and fiscal policy will not prevent inflation—that is, unless the monetary authority through restrictive monetary policies should invalidate the rise of wages and prices and thus bring on more robust depression.

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The Fount of Inflation

At least one good thing can be said for the Administration's offensive against possible steel price rises this fall: It reflects a concern, however belated, over the dangers of inflation.

Unfortunately the worry is directed at the wrong targets. And some of the hinted-at remedies would be worse than useless.

In his letter to the major steel producers, President Kennedy recalls the sharply rising steel wages and prices in the earlier post-war years; that spiral, he says, "provided much of the impetus to a damaging inflation in the American economy." Since 1958, however, he notes there has been considerable price stability, in steel and generally in the economy.

[illegible] President warns, any [illegible] resulting from wage increases previously negotiated with the Steelworkers and effective October 1 could shatter this price stability, causing rises in other industries and worsening the nation's serious balance-of-payments problem.

Very well; but does the Administration really suppose that the steel union and steel management can create an inflationary new wage-price spiral in a vacuum? There is, to be sure, a current theory that steel producers can "administer" their prices, set them at any level they choose in disregard of the market. But it is not a valid theory, as recent price reductions on some steel products again demonstrate. Not even a union, with its monopoly power to shut down an entire industry, can forever extort wage boosts if the money is not there.

Once an inflationary situation exists, it may feed a spiral, and the spiral can aggravate the inflation. But first the inflation has to have been created elsewhere, and there is only one place where it can be created, namely in the Government itself. The Government is the fount of the money supply, and if the Government's policies permit an excessive money supply, then the Government has created an inflation in which a wage-price spiral can come about and grow.

The relative price stability the nation has been enjoying in recent years has been possible not because steel makers and other industrialists suddenly decided to be "statesmanlike." It is because basic economic conditions have been relatively noninflationary, and therefore provided little impetus for a wage-price spiral. And that is not happenstance. It is the result of a deliberate, though not wholly successful, Government effort to halt inflation in the Eisenhower years.

In contrast we have today a Government which has embarked on a course that, unchecked, can only be inflationary. It favors an artificially "cheap money" policy. In just a few short months it has added tremendously to Federal spending not only for defense but also for all kinds of domestic political handouts. It has converted previously-anticipated budget surpluses into heavy deficits, and no man can see the end. These are precisely the methods by which modern governments cause inflation.

So if the Government is indeed concerned about inflation, it must look first to its own policies and not to the pricing practices of the steel industry. Failing that, what does the Government propose to do about any new inflation?

The President says a new steel spiral might require the adoption of "restrictive monetary and fiscal measures." Now if he means reduction of the reckless Federal spending, balanced budgets and an abandonment of the "cheap money" bias, these would be healthy policies in any case, and the sooner they were adopted the sooner the nation could stop worrying about a new inflation.

But the President and others in his Administration have also hinted of a different type of "restrictive measure" to deal with inflation—direct economic controls. The present Administration effort to force the steel industry to hold the line looks in that direction, for it is what one lawmaker calls an attempt at "psychological price control." Actual controls, if it came to that, would be self-defeating since they would not deal with the root of the inflation; rather, they would be an acknowledgement of the Government's colossal failure to fulfill its obligation to provide honest money.

The pity of it is that it is all so unnecessary. Sensible policies in Washington can prevent inflation, avert a wage-price spiral, eliminate any "need" for controls. Let us be clear that the basic choice is not up to any union or any industry. It is simply and squarely up to Mr. Kennedy's Government.

The President's Liberal Critics

Even as President Eisenhower, Mr. Nixon, Senator Byrd, the *Wall Street Journal*, etc., etc., attack President Kennedy for fiscal irresponsibility, liberals increasingly criticise him for his extreme caution in spending Government money and incurring deficits.

These disenchanted and disillusioned liberals (see Mr. Drummond in *The Washington Post*) neglect the obstacles facing the President, not the least of which is the defection of Southern conservatives in the Congress and the rising opposition of Republicans to spending programs. But six Republicans in the House voted for a modest education bill—and this despite the large promises to advance education made in the Republican platform and even larger ones made by Mr. Nixon in the campaign.

Kennedy has made substantial progress. But we must not expect too much too soon. Consider the obstacles confronting the President. First, there is the dollar problem. This puts restraints on him in pushing too hard on the spending or easy money front. For he cannot, as Administrations have for a generation now, push on the domestic front without worrying about the effects on gold reserves.

Relative expansion at home, likely to be accompanied by some rise of prices, tends to result in more imports, less exports and withdrawal of short-term capital, all factors contributing to a loss of gold. Losses of reserves are still running at a rate of close to $2 billion a year, half the 1958-60 rate but still a serious problem.

Second, the President is confronted with another unfortunate break, the rising level of structural unemployment, that is unemployment due to the changing composition of the labor market, automation, rising competition abroad, decline of industries, etc.

This is not an easy disease to treat. It accounts for a substantial part of unemployment. Deficits will reduce this kind of unemployment but not so much as they will cut cyclical unemployment. Beyond a certain point deficit financing to correct structural unemployment is likely to be very expensive and ineffective. Specific attacks (e.g., retraining) on the other hand, though less costly, take much time.

Third, and perhaps most important, the greatest obstacle to further advances on the domestic front, is the increasing intensification of the cold war. The President has had to concentrate more and more on the Berlin crisis. This is relevant not only because of the diversion of attention from domestic issues, but also because the large outlays involved divert resources from welfare programs.

Liberals who are critical of the President for this reason might well look back to the Administrations of Roosevelt and Truman and recall that they discouraged welfare progress once military outlays began to assume large proportions.

Fourth, the disenchanted liberals seem to look too hard at 1600 Pennsylvania Avenue and fail to gaze toward the Hill where the major responsibilities lie for any failures. So long as the President can lose half or more of the votes of the South on major domestic issues, his program is in jeopardy.

It is wise for the President to push beyond where the Congress is likely to go, but it would be wrong to move too far ahead. Even in 1961, the President was far ahead of Congress. Some of the liberal critics of the Kennedy policies were urging in 1949-51 restrictions on nondefense spending.

The critics of 1961 offered different advice in 1949-51 than they are offering today.

My guess is that the President will make much more progress in 1962 and 1963. By then it will be evident, not only to the President (as it undoubtedly is already) but also to the Congress that continued unemployment at 5 to 7 per cent will be costly in votes. Either unemployment will come down to 5 per cent or less (and there is some evidence of improvement already) or the Democrats will pay the price that the Republicans did in 1960 for unwise economic policies.

If unemployment fails to drop below 5 per cent, the responsibility is likely to be not with the President but primarily with Republican Congressmen first and many Southern Democrats second.

Our disillusioned and disenchanted liberals should also assess the progress already made—far beyond what the Eisenhower Administration had achieved or likely that a Nixon Administration would have made. In the campaign Nixon made many specific promises; but his general ideology was largely of the Eisenhower, Humphrey, Hoover vintage.

The Area Redevelopment Program, liberalization of the Old Age insurance, emergency unemployment insurance, a manpower training bill (unfortunately stalled at the end), the foreign aid and the Latin-American aid program, among others, mark important advances.

Perhaps more important is the reassessment of the military program. At long last we have a President who weighs security above dollars. The domination of the exchequer over the military under Eisenhower is at an end.

Perhaps the liberals are right that the President is overly concerned with deficits. Yet I am equally sure that the President understands modern economics, e.g., the Government has responsibility to keep total spending at an adequate level. But until the economists have convinced the Congress and their constituencies on the lines of modern fiscal policy, the economists had better not assume that "economic" advice is all that is relevant.

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THE NEW FRONTIER

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Seymour E. Harris: In two COMMENTARY articles of last year, Oscar Gass, that able and persuasive New Dealer and former economic adviser to Secretary Morgenthau, has delivered a very critical but unjustifiable attack on President Kennedy and his administration, on which I should like to comment.

What especially disturbs Mr. Gass is the choice of co-workers by the President. There are too many businessmen, and especially too many affluent businessmen, too many lawyers, and above all, too many Republicans.

First, let me say I am not so sure of Mr. Gass's facts. In writing a book (to be published in May) on the *Economics of the Political Parties,* I compared roughly 200 early high-level appointments of Eisenhower vs. Kennedy (I omit smaller categories):

	% Kennedy	*% Eisenhower*
From Government	47	28
Academic and Non-Profit Organization	18	6
Business, Finance, and Insurance	6	36
Law	15	11

Obviously Kennedy has depended heavily on academicians and government, and has not depended heavily on businessmen, as Eisenhower did. Note the 3 to 1 ratio for academicians and 1 to 6 for businessmen for Kennedy as opposed to Eisenhower, and the 47 to 28 per cent respectively for government.

I do not yield to Gass in my criticism of Eisenhower for worshipping the big businessman and giving him excessive responsibilities in the running of the administration. Too many businessmen means running government *purely* on business principles, often disastrously inviting conflicts of interest, or using government as a means of getting rid of second-class executives. Moreover, the high business executive reveals an unwillingness to stay on long enough to learn the tricks of the trade. The academic communities, in contrast, yield their best men, the Schlesingers, Galbraiths, Bundys, Tobins, Hellers, Reischauers, Kaysens, Rostows, and they tend to stay on. The danger of conflict of interests is minimum.

But that is as far as I go along with Gass in his views of businessmen in government. We have had many distinguished businessmen in government, even under Eisenhower, who have performed remarkably well. Folsom, Dillon, Gates, Baird, Stans, Cutler, are just a few. What is more, the academicians are the idea men, but not primarily administrators. The President is right to appeal to businessmen for his A.I.D. (Aid Program) administrative posts. Academicians do not often make good administrators. Nor do I see any reason whatsoever for spurning men of quality who come from families of great wealth—the Rockefellers, Harrimans, etc.

I do not go along with Gass in his strictures against Republicans. I am sufficiently partisan to have wished for a somewhat smaller number of Republicans. Of 220 high Eisenhower officials, I estimated a few months ago that 58 stayed in government service under Kennedy—most of these are Republicans. My principle would be to appoint a Democrat unless the Republican is clearly superior, with reservations to be noted. But it is important in these strained times to exploit Republican brain power also.

Gass goes too far. We are in the midst of the greatest crisis ever confronting this country. Smaller doses of partisanship are required, and the use of talent wherever available in such a period. This (though it goes against my own strong partisanship), is the wise policy. Mr. Gass should recall the Roosevelt enlistment of Stimson and Knox. That President Eisenhower disposed of the Great Democratic talents bequeathed to him merely suggests that he acted unwisely. That Kennedy has the Congress and the country behind him 100 per cent on defense and foreign policy is to be explained in part by his willingness to use able Republicans. (I do not of course mean to imply that I approve of all the individual Republicans he has enlisted on behalf of the New Frontier.)

MR. GASS SEEMS especially critical of such appointments as Dillon and McNamara. But who are his candidates? Before Dillon's name was even mentioned, I recall a two-hour session with Messrs. Galbraith, Schlesinger, and Samuelson devoted to finding a likely prospect for the Treasury, a Democratic one whom we might suggest to President-elect Kennedy. We could find no one. Having worked with Secretary Dillon, I can assure Gass that he is entirely wrong when he says that Dillon is simply carrying through the Eisenhower policies. Nothing could be further from the truth. Dillon is the first Secretary of the Treasury to acclaim publicly the need of deficits to treat a recession. He also accepts a well-known Democratic party theory that rising expenditures are financed out of growth and certainly does not accept the Eisenhower-Humphrey thesis that taxes are to be reduced *only* in prosperous periods just when, if anything, they should be increased. I may add, parenthetically, that of the many high Washington authorities, including several Cabinet members whom I have worked with, Dillon strikes me as the most able. He reads, he discusses, he is receptive to new ideas and yet retains the degree of conservatism and flexibility that is to be expected and wished for, but not to be had usually in a Secretary of the Treasury. Dillon promises to become the Alexander Hamilton of the 20th century.

And where will Mr. Gass find the equal of Mr. McNamara? Or of McGeorge Bundy, who is one of the most brilliant men I have ever known, and who, though coming from a leading and distinguished Republican family, to the shame of the Eisenhower administration was never used in the 1950's. The case against Eisenhower is not only that he did not use able Democrats, but also that he spurned many of the best Republicans.

Mr. Gass's attack on lawyers is largely unjustified. Indeed, they tend to be overly conservative. But they are not a dominating element in the Kennedy administration (15 per cent). And the real question is, who are the lawyers selected? Would Gass repudiate Stimson, Stevenson, Goldberg, Benjamin Cohen, Frankfurter, Robert Kennedy, Black, Warren, Fowler, Minow, and Wirtz?

What of Gass's complaints on specific issues?

In his view, the Kennedy-Dillon concern over the balanced budget is excessive. But Gass would do well to compare the views of Mr. Morgenthau, the Democrat under whom he served, and Dillon, the Republican of the Kennedy administration. Anyone who will take the trouble to read Blum's *The Morgenthau Diary* will learn that Mr. Morgenthau, an able Cabinet officer in most respects, was as devoted to the balanced budget as was President Hoover; and he threatened to resign because Roosevelt, yielding to his humanitarian instincts, was determined to help the impoverished even if that would unhappily unbalance the budget.

Compare the views of Morgenthau, or in fact any Secretary of the Treasury before Dillon, with those of Kennedy and Dillon. The budget deficit in 1961 was $4 billion and in 1962, $7 billion (estimated). Defense outlays contributed about 60 per cent of the rise of outlays for 1962 over the original Eisenhower budget for 1961. For 1963, the

President, the Secretary of the Treasury, and the Budget Director are seeking a balanced budget. With an expected GNP of $570 billion in Calendar 1962, and some further growth in 1963, they look forward to a rise of receipts of $11 billion and expenditures of $3½ billion. Should the expected GNP not materialize or expenditures rise beyond the anticipated level, then a budgetary deficit is likely.

Some (and presumably Gass) would like to see a deficit in fiscal year 1963 as a means of reducing unemployment. Many economists are of the same general view. But economists for a generation have been urging statesmen to incur deficits in depressions and surpluses in years of prosperity. The administration's balanced budget in 1963 is simply accepting policies that economists have urged for a long time. Indeed, now they are beginning to whisper that unbalanced budgets are not to be feared even in years of prosperity and, in fact, might well be welcomed, because as full employment approaches, a rising surplus aborts the recovery. But they have not as yet really convinced the economic profession, no less the politician. A rise of debt in 1963 of $5 billion costing about $250 million a year in interest in an economy that gains $20–25 billion yearly (that is, about a cost of 1 per cent of the GNP rise) is surely nothing to concern us. In assessing financing costs, we need not worry. But the relationship to inflation and the balance of payments of continued deficits canot be disregarded.

THIS BRINGS ME to the dollar problem. On the balance of payments problem Mr. Gass concludes: "In all of this, there is no irretrievable damage done and no occasion for great concern—except one. The cause for concern is that the New Frontier has shown no spark of new thinking regarding the United States policy on trade and tariffs. . . ." Perhaps Mr. Gass would not go quite so far had he at the time he wrote been aware of the President's new trade policy.

At any rate, I am sure the New Frontier would welcome suggestions from Mr. Gass for solving these problems. Members of the administration, both right and left, are concerned over the balance of payments problem. They realize that they are not as free to pursue expansionist problems as they were before the days of dollar saturation and concern about the balance of payments. They have considered and tried almost every possible approach to easing the external pressures. And there has been a substantial improvement in 1961, though the problem is far from solved.

Some administration attacks have been orthodox—e.g. pressures to keep costs down; others, like differential policies for short- and long-term money and special rates for foreign balances and tax adjustments to discourage capital exports, have been unorthodox. In a book recently edited by me (*The Dollar in Crisis*) 13 outstanding experts could come up with no novelties that had not occurred to Kennedy and his advisers.

Our critic also pokes fun at the administration for its rate of interest policy. The implication is that higher rates for short-term money are wrong and lower rates for long-term have not been achieved. Gass is wrong on both counts. The policy of high short-term rates, a welcome novelty, contributed toward the practicability of monetary expansion in the long-term market. A rise of long-term rates of one-fifth of one per cent in a period of 9 months when GNP rose by $41 billion or 8 per cent, and consumer prices increased by only two-thirds of one per cent and wholesale prices declined, is a tremendous achievement. It was made possible not by a foolish theory of Independence for the Fed [Federal Reserve Bank] as held by Eisenhower, but by making clear to the Fed that their policy must be consistent with the over-all objectives of the administration.

Unemployment is a very troublesome problem which concerns all of us. The anti-cyclical policies of 1961 and the specific direct attacks, e.g. unemployment compensation liberalization, manpower training act, the Area Redevelopment Programs, are all facets of an anti-unemployment program. Actually unemployment (seasonally adjusted) from March to December declined from 6.9 to 6.1 per cent, and there is much evidence that a proper seasonal adjustment would have reduced the unemployment ratio further in 1961. Gass underestimates the progress made.

Mr. Gass is still not happy. The Council of Economic Advisers is in the wrong, according to Gass, because they set a target of 4 per cent unemployed when the average unemployment had been 4½ per cent. Gass forgets, however, that unemployment was 7–8 per cent early in 1961, and that the Council on several occasions made it clear that this was a temporary objective. In early 1961 and even late in 1961, a 4 per cent target seems much more realistic than a 2–3 per cent one. Moreover, the historical rate since 1900 estimated at 4½ per cent by Gass does not convince me. Questions of the accuracy of these figures arise, and what is more relevant is the significance of structural unemployment in recent years and an average rate of 6 per cent in 1958–60.

PERHAPS MY MAJOR disagreement with Mr. Gass lies in his persistent statements or implications to the effect that we might just as well have had Eisenhower. This is so wrong.

Compare the determination of the Eisenhower administration to reduce public spending in order to cut taxes and the Kennedy administration's objective of increasing growth so that we could have an adequate defense posture and improved welfare services.

Compare the delays in doing what was necessary to reduce the adverse balance of payments and the decisive actions taken by Kennedy early in 1961. Under Eisenhower off-shore purchasing was encouraged for years even while serious losses of dollar reserves continued.

Compare the concern for the unemployed evident in the temporary unemployment compensation bill pushed through in record time early in 1961, as against the serious delays in 1958; in the Area Redevelopment program and the proposals for manpower training, and strong proposals for a radical revision of the Unemployment Compensation—instead of Eisenhower's yearly message to the states to raise standards. Gass may complain, and rightly, that the Area Redevelopment Program is inadequate. But what a struggle to go even so far.

Compare the major advances of housing legislation in 1961 and the continued opposition to a reasonable housing program by Eisenhower.

Compare the stability of interest rates in 1961 with the record increase (over a century) under Eisenhower in 1959–60, and the radical change-over from a record deficit to a surplus in 1959–60.

Compare the corruption in the Eisenhower administration even in the first year with the absence of any scandals under the New Frontier in its first year.

Note especially the prejudice in favor of doing something as compared with the Republican ideology of not doing something.

Compare the Eisenhower impairment of defense because of an unjustifiable view that large military expenditures would bankrupt the nation with Kennedy's determination to spend what is necessary.

Rowland Evans of the *Herald Tribune,* writing in the *New Leader,* recently expressed the differences between Eisenhower and Kennedy well ". . . the Kennedy approach is to exploit and utilize—glory in, one is tempted to say—the powers available to the Federal Government, whereas the Eisenhower Government was more concerned by fear of *over-use* of power, of Federal encroachment on the states, of encouraging the 'let Washington do it' attitude."

I am at a loss to understand Gass's unhappiness at Kennedy's relations with the Congress. When, except in the early years of FDR, were relations really much better? Indeed, the emergence of the conservative coalition under Eisenhower has not helped. In a great domestic crisis, Roosevelt could win Congress over to revolutionary policies. But a fall of GNP of one-third (in stable dollars), of farm income of more than one-half, a rise of unemployment to 25 per cent and a decline of prices of 25 per cent—these bring radical legislation. President Kennedy was confronted with an unsatisfactory economic situation early in 1961; but not a great crisis at home. He was also confronted with a coalition of Southern conservatives and Republicans exploiting the fear of government spending. If he moved too far ahead of Congress, he would jeopardize his program. *Qua* economist, I would have liked to see him go further, but I doubt that it would have been politically wise. In education and health, Kennedy has not been highly successful so far, but to imply that Eisenhower did as well or tried as hard is nonsense.

And, incidentally, I do not understand

why Gass is so critical of my friends Galbraith and Schlesinger. They seem to me to be pushing in the general direction of all those who favor an adequate welfare program. Schlesinger's estimate of the magnitude of the advances to be made may not satisfy Gass; but from a political viewpoint they seem to me to be roughly appropriate.

Does not Gass really belong with the administration rather than against it?

Oscar Gass: I thank Professor Harris for the consideration implied by his closing sentence. No doubt it is kindly meant, though misaddressed. Otherwise, I shall follow the Hebrew injunction: respond to the first first and to the last last. And, to avoid wearisome self-quotation, I shall refer to thoughts expressed more fully in my COMMENTARY essays of April and December 1961, in most cases only by the relevant page number.

1. Professor Harris devotes the first ten of his substantive paragraphs to variations on a single unhappy theme: "What especially disturbs Mr. Gass is the choice of co-workers by the President. There are too many businessmen, and especially too many affluent businessmen . . ." etc., etc.

Two errors. Let me correct first the smaller. Regarding *especially* affluent businessmen, Professor Harris reports my thought to be exactly the opposite of what I stated it to be (p. 279). If men of property, then, in my view, on the whole *better* affluent ones: they are more likely to have independence and personal dignity.

2. But Professor Harris makes a far greater error. That is to attribute to me any primary concern with the persons chosen to be the President's "co-workers." It is the political music that disturbs, not the personal characters and qualities of the musicians. An older generation of Italians said it clearly: *"E cambiato si il maestro di capella,/Ma la musica è sempre quella."*

I am unable to characterize the Kennedy administration's political music adequately by a simple name. If I could have done that, I might not have written 24 pages. But, if forced to a name, I might call it an Immobilism. (Yet it is not quite immobile and not identical with the Immobilism of the second Eisenhower administration!) This Immobilism is not a matter of the qualities of particular co-workers; it has deep social and intellectual roots (461). Because it is an Immobilism, it does not feel the need to reach out, in an effort to create the popular support which would be required for fundamental innovations (286–7). Also because it is an Immobilism, it lacks the militant personnel and the drive to pull a working bloc of Congressional supporters into participation in the carrying out of a program (463–5). As an Immobilism, it understandably looks for support to established Republicans—as well as established Democrats—to conservative business figures, and to respected lawyers (462–3). As an Immobilism, it naturally finds intellectual sustenance in the politics and economics of Galbraith (286) and Schlesinger (465–6), who comfortingly portray a pluralist, pragmatic American society, in which power is appropriately balanced by countervailing power, and which has reached the happy state where, to quote Galbraith, ". . . no useful distinction can be made between luxuries and necessities." For this music, these players.

3. Presidents apart, Professor Harris cites, in praise, some twenty-five or thirty names —professors, Republicans, businessmen, and lawyers. I shall not comment on any of these. I am, in general, perhaps more appreciative of the character and intellect of Republicans and businessmen than Mr. Harris is, and may be less appreciative than he of professors and lawyers. But, with respect to a majority of the names he cites, I do not consider myself qualified even to begin to make a personal assessment. For a handful, I know the persons or their work well, and I think highly of them. For another handful, I also know enough to begin to form a judgment, and I think the persons concerned are probably mediocre or worse. But I will not be betrayed into personalism.

I would, however, warn Professor Harris, superstitiously, of the language he finds with which to praise Secretary Dillon. "Dillon promises to become the Alexander Hamilton of the 20th century." The kiss of death! Even Secretary Morgenthau, who had no aptitude for finance, could find some hack journalist to call him the greatest Secretary of the Treasury since Alexander Hamilton. The most recent Alexander Hamilton was George Humphrey. (Secretary Robert Anderson, being a more scholarly and sensitive person, had the good taste to avoid such rubbish.) To be called the most recent Alexander Hamilton is the sure, proven road, for American secretaries of the Treasury, to merited oblivion.

4. I am unable to find any meaning in the table comparing 200 careers (or is it 400?) supplied by Professor Harris. The meaning is doubtful, firstly, because there is no presumption of randomness in the importance of the various entries. In such a table, Mr. McNamara and Mr. Dillon—who are, I suppose, counted as Business—bear equal weight with the attorney who was promoted from the Justice Department to FTC and the state utilities commissioner who was appointed to the FPC. (Which of my readers knows their names?)

The table is of doubtful meaning, secondly, because its categories are not clean. "Government" is particularly ambivalent. It includes both electoral politics and career civil service. Does Robert Kennedy come from "Government" because he worked for the McClellan Committee? Are Ribicoff and Hodges from "Government" as elected Governors? Are these then merged with the counsel of TVA who became chairman of FPC or the career foreign service officer who became Assistant Secretary of the Treasury? I cannot find the meaning in such categories.

The weight of the lawyers in our national government is not *measured* by the 15 per cent shown in Professor Harris's table under Kennedy. The fact that the figure goes from 11 per cent under Eisenhower to 15 per cent under Kennedy does *not* signal an increased weight. Neither would the weight be less if Professor Harris's table showed 10 per cent, or greater if it showed 20 per cent.

I do not think the numbers supplied by Professor Harris, in this comparative table of careers, have value in statistics or in political studies.

5. When he is done with co-workers and careers, Professor Harris devotes three paragraphs (and some scattered sentences) to budgetary policy. He raises the ghost of Morgenthau, then gives us a handful of statistics. If these statistics are intended to prove—what Professor Harris asserts repeatedly, without proof—that the Kennedy budgetary policy is distinctly different from the Eisenhower policy, then they fail. If the magnitude of budgetary deficits is the test, the Eisenhower deficit of fiscal 1959 was larger (283) than the Kennedy deficit of fiscal 1962. If the test is freedom from the shibboleth "We can't afford the money"—especially when labor and factories are idle—then President Kennedy and Secretary Dillon were not free of that shibboleth in 1961, when they refused (467) to support an effort of liberal Democrats to enact a trifling $1 billion public works bill. True, in 1962, the President has recently endorsed an even smaller ($600 million) bill for the same purpose; immobilism is not quite complete!

Professor Harris does indeed say, triumphantly, "Compare the Eisenhower impairment of defense because of an unjustifiable view that large military expenditures would bankrupt the nation with Kennedy's determination to spend what is necessary." But there is no economic substance in this contrast. Eisenhower knew as well as Professor Harris that the nation had not gone "bankrupt" in World War II, when nearly half of the national output was used for war. If he took a more negative view of increasing military spending and of enlarging the military-industrial establishment than does President Kennedy, this was a difference of social outlook, defense strategy, and foreign policy. It was not a difference over the budgetary wisdom taught to economics sophomores. Where, in the Kennedy administration, large bombastic slogans combine with halfhearted convictions, as in the civilian shelter program, we find re-emerging the old shibboleth "We can't afford the money." *Plus ça change, plus c'est la même chose.*

6. What Professor Harris claims for the Kennedy administration, by way of an innovating role in balance of payments questions, has no historical basis. There the apparatus of the national government bureaucracy continued to grind, in 1961 and 1962, on what was already under way in 1960. This continuity is true for all but the smallest matters, such as the repatriation of military dependents. The Eisenhower-Anderson-Dillon policy of 1960 became—with small, continuing changes—the Kennedy-Dillon policy of 1961 and 1962.

7. In international trade policy, there *was* innovation under Kennedy; the President launched what I have called elsewhere the "Crusade for Trade." Rarely even in recent

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American history has a public policy been more wildly over-advertised. Both its domestic economic consequences and its foreign policy contribution were assigned a value beyond rational consideration. But I have dealt with this matter, at length, in the *New Republic* of March 19 and March 26. Readers for whom that is more convenient will also find the complete text in the *Congressional Record* of April 3—where it was placed by Senator Prescott Bush (Republican) of Connecticut.

8. On monetary policy, it is a pleasure to be able to shorten my own response by turning from Mr. Harris, the Democratic professor, to the Democratic Congressmen of the Joint Economic Committee. The latter stated recently: "Monetary and debt management policies are capable of making, and should make, substantial contributions to economic recovery . . . they have not done so in the recovery to date. . . . Monetary policy was—and continues to be—largely immobilized in a posture more suited to restraining overemployment than to stimulating recovery." I urge every serious student of monetary policy to read this learned and penetrating analysis (*Annual Report* of the Joint Economic Committee, March 6, 1962, especially pages 13–32). It is severely corrective of the conventionalities repeated by Professor Harris.

9. On unemployment policy, the national record is most shameful, and Professor Harris does not assist matters. Uniquely with respect to unemployment in the first three decades of the 20th century, Harris displays a statistical skepticism which might be more evenly spread. We are all of us dependent in this matter on a few studies (principally by Long and Lebergott). Professionals appreciate the uncertainties of their findings. But these findings do suffice for the broad historical outline. And that outline is in direct conflict with the literary-political doctrine of our time (279). With respect to the rate of unemployment, we, in the United States, do not live in a Brave New World. We live in the world of our fathers, as it was before the Great Recession of the 1930's. Unemployment has not been at a lower rate in the United States in the sixteen years since World War II than it was representatively in the days of Teddy Roosevelt, Taft, Wilson, Harding, and Coolidge.

With respect to the immediate unemployment position also, Professor Harris neglects the great, meaningful facts to concentrate on minor and specious points. First for the neglected, meaningful. *The expansion of employment in the Kennedy administration since the recession low of February 1961 has been less than in the comparable period of any other recession since World War II.* These are the facts:

Employment Changes in Non-Farm Occupations in 4 Post-World War II Business Cycles

	Decline to low month	12-month rise from low month
1948–50	– 2,289,000	+ 3,721,000
1953–55	– 1,711,000	+ 2,249,000
1957–59	– 2,176,000	+ 2,427,000
1960–62	– 1,099,000	+ 1,208,000

In our most recent recovery, through February 1962, the net expansion in non-farm employment is only 109,000 persons. And this is in a labor force 10 million larger than it was in 1948.

Instead of concentrating on such great, problem-posing facts, Professor Harris reports cheerfully, "Actually unemployment (seasonally adjusted) from March to December declined from 6.9 to 6.1 per cent, and there is much evidence that a proper seasonal adjustment would have reduced the unemployment ratio further in 1961." The point about "a proper seasonal adjustment" is just the kind that mystifies a lay reader—and it is an entirely specious point. Professor Harris is wrong; "a proper seasonal adjustment" makes no significant difference. The U.S. Bureau of Labor Statistics published this adjustment in its *Monthly Report On The Labor Force* for January 1962. There the Bureau stated, "The revisions did not affect the previously published rates for 1961 by more than 0.1 percentage point in any month." To whom does it matter if March, seasonally adjusted, now stands at 6.8 and December 6.0? Does Professor Harris perhaps owe his lay readers an apology?

10. I have not responded to all of what seem to me to be Professor Harris's misunderstandings or errors. By my count, as many remain unanswered as have been answered. But I have dealt with those I thought more important. Nevertheless, I enter a general warning: Silence is not to be construed as agreement. It merely reflects awareness that even a generous editor has space limits.