

INTERVIEW I

DATE: April 13, 1973
INTERVIEWEE: GARDNER ACKLEY
INTERVIEWER: JOE B. FRANTZ
PLACE: Dr. Ackley's office, University of Michigan,
Ann Arbor, Michigan

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F: Mr. Ackley, I suppose the thing to do is to ask you when you first became acquainted with Lyndon Johnson.

A: I first became acquainted with him only after the Kennedy assassination. I had seen him around the White House occasionally, and I guess we nodded, though I doubt that he was sure who I was.

F: But you never had any real contact?

A: I never had any real contact with him as vice president, no.

F: Did you feel that he had any impact at all on the sort of economic policy, or economic thinking, of President Kennedy and his advisers?

A: I was not aware of any such impact. I recall that he had some input into some problem--whether it was an oil problem or a steel price problem, I'm not sure; but I was not personally involved, and I was not aware of his involvement in other economic problems up to that time.

F: Where were you on assassination day?

A: Having lunch in the White House Staff Mess. Walter Heller and most of the members of the cabinet were on that plane over the Pacific, and the news came while we were at lunch.

F: How did it come, just by rumor more or less?

A: Some member of the White House staff, he or his office had got a

telephone call from Dallas; and he came downstairs, I think--or the message was brought down.

F: I don't suppose that was being televised in Washington, was it?

A: No. The report was not yet on the air, and he came around to each table and said, "Everybody get back to his office, the President has been shot."

F: You must have had some kind of an incredulous feeling.

A: It surely was. Then, of course, most of us found a radio somewhere and started listening to the news.

F: Where was your office?

A: In the Executive Office Building across the street.

F: Where?

A: Across West Executive Avenue, on the third floor, room 314. It's still the chairman's office, I think. At least it was a few weeks ago.

F: I suppose you suspended all work that afternoon, and just sat?

A: Yes, for awhile. On the other hand, we soon realized that the new President would be coming in with a very heavy burden and a lot of things in mid-stream, and we had some obligation to consider whether there were some things he ought to know about right away. We decided there were. I remember we worked most of the night. John Lewis, who was the other member of the council, and I worked I think until about 3 or 4 a.m. preparing a memorandum which summarized the state of the economy, and what were the big economic issues that he would be facing. And we had it in his hands the next morning, and received very shortly thereafter, not personally but indirectly, an expression of gratitude and appreciation for its quality.

F: He got right onto it?

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A: Oh yes, he was into it in no time.

F: When did you first get together with him? Did he call in the CEA as a group?

A: I think the first meeting--the first time I saw him--was a meeting he held, which I'm sure Walter Heller has described, at which Joe Fowler and Doug Dillon and Kermit Gordon and I and maybe one or two others were present; it was in his old vice presidential office in the Executive Office Building. It was either very late in the afternoon or in the evening when we went over there to talk about the tax bill, which was the biggest piece of unfinished business on the economic side, the biggest single piece.

F: Now that had been hanging fire really for a couple of years?

A: In a sense for a couple of years. Kennedy made the decision in July of '62 to ask for a tax cut. He explored briefly with his advisers, and with Chairman Mills and others, whether he should ask for a "quickie" tax cut right in the summer of '62, because it was clear then that the recovery from the recession had pretty well slowed down, and there was even some talk about the danger of a new recession right away.

And I remember a meeting in the Cabinet Room--in fact it was almost the first day I reported for work in the summer of '62--with Kennedy and Wilbur Mills, and I don't know whether Mahon was there, but one or two other people from the Congress were. However, Wilbur was obviously the crucial man. We talked about whether there should be a request for a tax cut, and whether it should be for a "quickie" one, right away. And Wilbur Mills really put the kibosh on the idea of a "quickie" tax cut.

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F: Did you have the feeling that Wilbur Mills understood economics, or do you think he's just a politician who had economics as part of his assignment? I'm allowing for difference of opinion.

A: Yes, I know. People have asked me that so many times, and I find it very hard really to answer. Wilbur knows a lot of things he doesn't say, and his verbal line on things often is very different from another one which may in fact be driving him. I think he came to have some understanding of what I would call modern economics. I think he has more today than he then had--I think he continues to learn, he has an awful lot of native intelligence.

F: You performed your teaching functions.

A: A lot of other people too, in the meantime. But he's certainly smart--

F: He's not an Arkansan on that sort of thing, he's a national politician on that?

A: He's a national politician. He brings along a lot of unsophisticated elements in his approach to these problems. But he's pretty savvy and obviously works very hard, and knows the tax system just inside and out, backwards and forwards, and can run circles around anybody in the country on the tax law and its problems.

F: Now when you had this first session with the new President Johnson, did you have the feeling that he grasped what you were talking about?

A: Yes, I think he grasped it very quickly. With Lyndon Johnson, you know, in contrast to John Kennedy, he didn't really want to understand the fine theoretical points. He came, I think, to grasp the general drift of modern fiscal policy economics fairly well; but, more than that, once he came to trust professionals in an area, if they said,

"This is the way it is," he was willing to assume that that's the way it was. And, once he'd pressed you with "Are you really sure?" and you told him "This is really what ought to be done," you could just see his wheels turning immediately to the questions of "Can that be done?" "How do we go about getting it done?" "What are the practical political problems?"

Kennedy used to really try to understand the basic theory on it.

F: Get at it intellectually?

A: Yes, intellectually.

F: Did you get the feeling from this first meeting that Johnson was now going to push for a tax cut?

A: Oh yes, there was no question about it. Whether it was because he understood all of the logic of it or was convinced by his understanding, whatever it may have been, he saw this as unfinished John F. Kennedy business that he had to take over. He was also impressed by the fact that everybody that he had talked to in the government, and apparently some people he'd talked to in the business community, told him that it really was the thing to do. It was just a question of how to go about doing it.

He frightened us all at that first meeting. He listened for, I suppose, most of an hour, asked a few questions, ending up by concluding that he thought that you could get the tax increase, but there was one absolutely essential requirement, and that was to reduce budgeted expenditures and hold the budget below I think it was a 100 billion dollars.

F: That is now an historic figure.

A: Yes, and I think the story about his exact expression as to what the chances were of getting the tax cut, if you didn't hold expenditures down, has gotten into print. It was one of his typically moderately profane expressions about "not being able to pee a drop if you didn't do that."

F: It's more quotable than some.

A: More quotable than quite a few. But as economists, we, of course, saw that if you cut expenditures by several billion dollars--we'd been expecting spending to be several billion above one hundred billion--that would offset part of the effect of the tax cut. But that didn't make any difference to him. He said that was what you had to do to get it, and I think he was undoubtedly right. Of course, in the meantime, we managed to make the tax cut several billion dollars bigger, so that we really got about the same stimulus out of the total package as we otherwise would have.

F: The tax cut, in other words, almost strictly an economic decision but the budget figure was then a political decision in this case?

A: Yes, I think he saw the tax cut also as a political problem, the problem of political engineering to get it through the Congress. But he recognized--or was willing to accept--the idea that it was crucial for the economy to get it passed.

F: Why would it work now and not in '62? Just a matter of slow education of Congress to the fact that you need it?

A: That was partly it. Of course, the initial introduction of the tax bill was all messed up because Kennedy had tried to combine tax reduction and tax reform in a single package. Not only tax reform in terms of detailed provisions, but also a restructuring of the whole

schedule of progression of the income tax. And this opened up all kinds of new questions that were unrelated to the need for a total reduction of a tax burden in order to stimulate the economy; and that bogged it down. And then there was still the old fashioned opposition that you just can't cut taxes when you've already got a deficit in the budget, and when you're not cutting expenditures but in fact increasing them. It just was wrong; it wasn't sensible.

F: Simplistic economics--

A: Yes, right. Now there was a lot of selling being done--I think more after Johnson than before. I know that Joe Fowler had organized a very large effort in the private communities to sell the tax cut. I think most of that happened after the assassination. Whether it was suggested by Johnson, I don't know.

F: Did the CEA ever get involved with buttonholing congressmen themselves or did you stay pretty much clear of that arena?

A: Very rarely, Oh, a few times President Johnson sent me up to talk to congressmen or senators about particular things. I remember one time we had convinced him that it would be an awfully good idea to repeal whatever that federal law is that reinforces state "fair trade" laws. The economics of "fair trade" was just bad, and here was a chance to really do something good, and I think we persuaded him that this was worth considering. So he said, "Before we make any decision, I want you to go up and talk to Patman." So I took Art Okun with me, and we went up and talked with Patman, and it was soon clear that it just wasn't going anywhere!

And there were occasions when we met with congressional people in LBJ's presence, in some kind of an orchestrated stage performance

that he participated in. But going off individually and talking to congressmen, on most economic matters, was assumed to be the job either of the Treasury, or the Budget Bureau, or the White House staff. Certainly, it was not the job of the council. In fact, the council, I think very wisely, practiced, with minor exceptions, a rule that it did not even give congressional testimony on individual pieces of legislation. The exceptions were the things like the major tax cut or, again, a major tax increase as in 1966, '67 and '68. But we tried to avoid being called before committees, and both Presidents supported our refusal to testify on, you know, farm legislation or almost any economic legislation that some committee member would say, "Well, we ought to get the advice of the Council of Economic Advisers." There were so many such areas that we could have been called on, including some where our private views differed from the official government position. So we pretty much avoided it.

F: You didn't have that terrific time erosion of spending all your time on the Hill?

A: No, we did very little of that. We testified, you know, fairly frequently for the Joint Economic Committee, and occasionally before Ways and Means on major tax legislation. I testified a few times on post-war reconversion--we were already talking about post-Vietnam back in those days. And things like that. But generally we stayed clear of getting involved in specific legislation.

F: As long as you've brought the name up, what did you think of Wright Patman's grasp of economics?

A: Oh, dear. Well, I think it's pretty elementary. He knows better than he often sounds, I'm sure; but in his one-man feud with the

Federal Reserve System and the bankers, he at least exhibits a complete absence of understanding of a lot of economic--or what economists think are economic--principles.

In some ways he's got a late 19th century stance that he's going-- Yes, you bet. I always enjoyed him and found him a most attractive guy, and he was always very pleasant. Actually, in a hearing he was a pushover because he never would follow through a line of questioning. He would ask some question that could be very embarrassing and very difficult. And you'd give an answer, a quite unsatisfactory answer from what you knew was his position, and he'd say "Thank you" and never come back at you, back, back, and hammer away. So that he really was not nasty in that way at all.

Do you think that was politeness or innocence?

I'm not sure. I think often the question had been prepared for him by somebody else, somebody on his staff, and he read it and then he really didn't know what he should do after that, after he got an answer. I have a hunch that's often the case.

Now six weeks after Johnson came in as president, he announced his War on Poverty that he was going to throw another billion dollars in the hopper and yet at the same time you're talking tax cut, does he consult the CEA on this sort of thing and see what the effect would be and whether he can pull it off economically?

Oh yes, of course the whole idea for the War on Poverty really did originate with Walter Heller. There's no question about that in my mind. Walter had sent a number of memoranda to Kennedy about it and talked with him about it. Walter always said that Kennedy had committed himself to a war on poverty before the assassination. I was

never really convinced that he had committed himself; but at least he was very interested in the idea. But Walter went to Lyndon Johnson and told him that Kennedy had already committed himself to the War on Poverty, and that it was important to go ahead with it. And Walter was very much involved in promoting the idea. It was finally accepted by LBJ--but it was not accepted with any great enthusiasm, I think. Johnson was aware of some of the real cans of worms in that thing. But once he did accept the concept, the planning of the program was taken over almost entirely outside of the council--at least, the council was not heavily involved. The Budget Bureau was much more involved than we were in working it out. I think Walter probably was one of those who pushed for Sarge Shriver to be appointed the director; it was not a natural Johnson appointment. Whether Johnson saw that this really could be a politically difficult thing, and wanted to get a Kennedy involved in a nasty job, I never was sure, but I wouldn't put it past him.

F: You were appointed in March of 1964 as chairman of a new committee on Economic Impact of Defense and Disarmament. How did this come about?

A: Actually this had been initiated before the assassination, I think. At that point it looked as though Vietnam was indeed likely to wind down, that light at the end of the tunnel, you know, was not too far off; and the first impact of the space and missile programs--the biggest push--seemed to be over, and there really was a lot of talk about problems of reconsevation. People were worrying about it, or seemed to be, at least, in the private economy. We thought it might be useful to sort of begin exploring and build a little understanding within the Administration, and maybe within the Congress and publicly, about what

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some of the economic problems might be in case of disarmament. It was not just the reduction of military activity, but the disarmament program which Kennedy had promoted, which made people begin to think about the problems that would be involved if we stopped. It was basically our view--in the council--that there was need to defuse some of the fears that were involved, on the part of the private community, particularly, and often in liberal congressional circles. Many people still feared that unemployment and stagnation were inevitable; you know the "structuralist" argument which was going around in those days.

And so we saw it as an opportunity both to do a little useful work in thinking through some of the government mechanisms that might be used, but mainly, I think, in the psychological preparation and education of people within and ultimately outside the government on that range of issues.

The thing got held up for a long time--you say it was announced in March?

F: March 26.

A: I am quite sure that it had been initiated under Kennedy, the first discussions about it. I'm not sure. Anyway, Mac Bundy had it on his desk for a long, long time. We'd almost forgotten about it when Mac called one day and said the President says it's okay to go ahead with this. Within a couple of days it was wrapped up and announced.

F: This didn't reduce your load any with the CEA, this is just a tack-on.

A: Oh, it was just one fairly minor component of my assignment; it never was a major activity. We got out a report, eventually; but, as I remember, by the time we got it out things had really heated up in

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Vietnam, and it all seemed fairly academic.

F: Did you in a sense, you know, economics is an occult language to a lot of people, did you talk down to Johnson? I don't mean this unkindly, but pragmatically.

A: I think the answer is no. When Johnson came into office it became clear in a fairly short time to the council--because we had a lot of written communication with him--that he liked messages to be short, clear-cut, well organized, easy to read; he really liked them if they were spaced out on the page with a lot of dots and dashes and indentations, and most of the paragraphs no more than one or two sentences, and most of the sentences no more than ten words, and no words more than ten or twelve letters, and so on.

And we became convinced that, really, this is the way all memos ought to be written; and we really worked very, very hard in developing a style which was clear, said everything that needed to be said but not another thing more than didn't need to be said, and that was easy to read and short, and you could digest it in a hurry. And as I said, we worked very, very hard on this; and I think it was the secret weapon of the Council of Economic Advisers, particularly in the Johnson Administration. Because no other agency learned this. Johnson would get memoranda from the Secretary of the Treasury: ten pages, single-spaced, with paragraphs a half a page long, sentences that you had to read three times to figure out what they were saying. LBJ would look at it, obviously at night, read a couple of paragraphs, and throw it aside. And very often those things would come over to the Council next morning with a little note, "Tell me what this says." And we'd have to rewrite Joe Fowler's damned memorandum for him so that the

President could understand what he was saying. And the same way with the Labor Department. There was just nobody who seemed to understand that he was an awfully busy man; that he just loved information, just ate it up, but he wanted information that he didn't have to work too hard to get. I don't think this was writing down, I think it was in a sense writing up to him, in the sense of giving him the kind of information he needed, in a form that he could get it quickly, understand it; and he really read that stuff.

Two or three weeks later he could quote you something out of a memorandum that you had written that you in the meantime had forgotten; but he'd remembered it. And often he would carry some of those memos around in his inside jacket pocket and pull them out several days or a week later and read them to a meeting. And oh, I tell my students this, about the importance of really being able to write clear and direct prose. I think a lot of the possibly undeserved influence that the council had on economic policy was the fact that we could write.

F: It takes terrific discipline.

A: It's hard work. He wasn't in office very long before he asked us to institute a practice of sending him a memo at least once a day, or certainly every time there was any news on the economic front, in the form of "news notes," "economic news notes." And it was about the last thing we did every night, sometimes it was 3 a.m., but we always got off our daily news note on the statistics of the day and what they meant. They were not designed really to advocate a policy--oh, we would often put in a little dig about some policy implication that we were trying to build up in his mind--but basically they were just

information, so that he would know what was going on. He wanted to know what was going on. He liked to show congressmen, businessmen, labor leaders, and so forth, that knew the numbers, the daily numbers on the economy. He was proud of it.

F: Where did you get your information?

A: Oh, we had all the resources of the government's statistical agencies. We got them automatically; we had the systems set up which existed long before our day, and will probably last forever, in which all the economic information funnels in very quickly. It's still a horse and buggy operation, it's not computerized. We had a couple of older ladies who got these numbers over the phone or by messenger, and wrote them down by hand in black notebooks; but they were the best set of numbers in the whole government. And other agencies would always call the council to check out their numbers because these gals were just sticklers for accuracy.

These data are always being revised. That's a problem with government data; they put them out in preliminary form, and then they revise them, and then they're revised again. And keeping track of the latest revisions and the up-to-date data is quite a job, and they had it down to an art. So, we had all the information almost the minute it was ready. We had informal ties to the statistical people in the agencies, so that we often got things really in advance--we often got labor statistics before the Secretary saw them. He didn't know it, but we did.

There were a lot of jealousies there. For example, Wirtz insisted that he be the first to give the news to the President about the unemployment rate each month; so we respected that.

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We always had our memo there at the same time, because ours, we thought, was more interpretive and significant than his. I think the boss thought so, too.

F: How did you function as a council? What was your mode of operation? Did you get together off and on during the day, or did you tend to go your own way and kind of gather--

A: Well, the first thing you've got to realize is it's a very small operation. There were the three council members and a professional staff of not more than eight or ten, sometimes a few more. We were all in a suite of inter-connecting offices, and we were in and out of each other's offices all the time. We generally knew what the other people were working on, and we didn't meet regularly as a council just to have a meeting. We met whenever there was something we needed to talk about. And there were certain kinds of matters that were typically assigned to one council member and maybe one staff member, and others to another; but we all tried to keep informed on everything that was going on. The council never met as a council; we were just in sort of continuous session.

F: Did the President show much interest in long-range economics as he did the short-run?

A: No, I guess I would have to say he really didn't show much interest in long-range economics. He was interested in today's problem; and you could get him interested in something that might have to be faced next year, but not any longer than that, and only if it was the sort of thing that he might be expected to have to do something about, or have some input into.

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F: Now you've got a record of thirty plus months of expansion by the time he becomes president and you eventually run it up to the eighties somewhere. Did he worry about a sort of a judgment day--did he have some kind of old-fashioned belief that what goes up has got to come down, or did he think that by proper management this sort of expansion could continue?

A: Well, we did our best to convince him that with proper day-to-day and month-to-month management recessions were not inevitable. In fact we got him to say exactly that in his economic report--I think far more clearly than it had ever been said before--that recessions are not inevitable, and they're not a matter of the calendar. They're a matter of economic mismanagement somewhere. That doesn't mean that we won't have them; but we don't have to have them. We could avoid them. I think he probably believed this. I don't know what he believed to start with, but I think he absorbed that.

F: On an immediate basis, the tax cut made him look good and made you look good too, and I presume that solidified the CEA's position with him.

A: I think so, yes. It didn't take him long to learn that we were people he could throw things to and get some practical or reasonably hardheaded and, most of all, straightforward and prompt response.. He was an awful suspicious guy, and maybe rightly so. People had axes to grind, and he had to be sure that you didn't have an axe to grind and you were really his guy and on his side and working for him and giving it to him straight the best you knew how. And, once you got over that hurdle, I think communication was really quite easy.

F: I'm sure when he came in you all gave pro forma resignations?

A: Yes.

F: There was never any question though that any were accepted?

A: No, no.

F: Did he ever kid you on being Kennedy men?

A: I think maybe a few times, not very hard.

F: Of course he could be an outrageous tease.

A: Yes, you bet. And he could also, if he wanted to, really take you down to nothing in a hurry. But I got really worked over by him only once or twice. I think I had one advantage that some other people didn't have. Before very long he learned that I had grown up in a small town and went to a state teacher's college like he did, and I didn't go to school in the East. I think he had a built-in suspicion of Ivy Leaguers. I don't like to be a dime store psychiatrist, but clearly he felt a mixed kind of inferiority and superiority relationship to these eastern well-educated intellectuals. It was hard to trust them; he respected them; he was a little bit afraid of them. I've always felt that he had far too much respect for expertise in any area, and that was his downfall in part. It was a respect for people that he really thought knew much more than he did.

F: Did he ever complain, as some Republicans did, at the lack of obvious agricultural economist on the CEA?

A: No.

F: The Republicans did bring that charge, didn't they?

A: Yes, I don't know if it was the Republicans or just farm people. Actually they never could make it stick because we always had an

agricultural economist on the staff, a first-rate agricultural economist on the staff. There was no justification for having an agricultural economist as a member of the council, even though that had been the tradition under Eisenhower and Truman, I guess.

F: Did the President ever voice the opinion that in one sense agriculture was receding in comparative importance?

A: Oh, I'm sure he had to know that. He clearly had very strong ties with the farm and ranching interests. I'm sure Walter Heller told you the story of the time he and Kermit Gordon went down to the Ranch and were having dinner. The President had invited a lot of his rancher friends for dinner, and during the dinner, in a very mean way, remarked to those present that these guys, Heller and Gordon, had made some outlandish proposal--it had something to do with beef, I can't remember now what it was. And how he let those present really rake them up and down and back and forth all during the dinner! And there was more than just good, clean fun involved, clearly.

We won some arguments on farm prices during his administration, particularly in non-election years. He hated to decide against the farmer, but he did sometimes. He was really in a sense, easier to deal with than Hubert Humphrey, who used to get himself involved in some farm matters as vice president.

F: Humphrey had, as vice president, no portfolio for agriculture, did he?

A: No, but he was a good friend of Orville Freeman. I don't know whether Freeman actually brought him in, but he got himself involved a few times.

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F: Did the fact that there was a campaign in '64 have any effect on the CEA or were you removed from that, insulated?

A: Well, no, we couldn't be insulated. We did a lot of work in putting together fact sheets and summaries of the record on this, that, and the other thing. Walter Heller got himself and us involved in preparing a series of "white papers" on economic issues in the campaign. He thought that he was on a different basis with Lyndon Johnson in preparing those white papers than he really was. That was the occasion on which he prepared a white paper which came out for revenue sharing, and Lyndon Johnson learned from the press that he was on the record in favor of the revenue sharing. I think he never forgave Walter for that. He was beside himself over that.

Walter did several things that really teed him off. I think that Walter got him much madder than I ever did subsequently.

F: Walter would just get out ahead of him.

A: Yes, Walter wasn't willing to wait sometimes. I think that was the main problem. And LBJ used to sometimes say some fairly nasty things about Walter, yet he did respect him and liked him, and when Walter came back to town he'd ask him to stay at the White House, and so on. And they kept up a very good relationship. But Johnson could make snide remarks about people that he liked.

F: And respected.

A: Yes. But also behind their back.

F: Why did Walter leave the CEA? Was it time for him to go? Was he really eager to get back to teaching?

A: I don't know whether, if Kennedy had lived and been reelected, Walter would have left after that first four years or not. I think he might very well have. There were a lot of reasons. One, the salary had not yet been raised, it was still \$20,500; and his wife was quite ill, and finally had to leave Washington and go back to Minnesota. And he-- Walter--of course, just absolutely worked himself to death. He would not spare himself in any way. And he was worn out and broke and--

F: What does an academic man do in that sort of situation? He's obviously got some fixed costs back where he came from--

A: Yes, he had two kids in school--three, I guess.

F: And Washington isn't cheap. You just hold on?

A: Well, yes, he held on. But I don't think he could have held on very much longer from a financial standpoint. Fortunately, soon after I became chairman the salary was raised first to \$35,000, or maybe \$27,500, and then later to \$42,500, I think ultimately, before I left.

F: How did you learn about being the new chairman? Was this a surprise or a natural development?

A: Well, it was Walter's recommendation, and Walter had talked with me and asked me whether I would want him to recommend it. I was reaching the time when I felt I was ready to go back to the University; but obviously, when Walter said he wanted to recommend me to LBJ as his successor, I didn't have to think very long before I decided sure, if it worked out, I'd stay.

It was decided sometime in the summer of 1964. LBJ agreed to it quite a while before the public announcement was to be made. And I

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remember that we were in mortal fear that it was going to leak, and the whole thing would explode. In fact it did leak! And I was sure it was all over. But somehow he never noticed it, or pretended he didn't.

F: How did it leak, do you know?

A: Yes. Once it became known that Walter was leaving, there was all kinds of speculation, particularly in the business press, about who was going to be the successor. Some smart press guy talked to John Lewis, who was the other council member for a while at that time, and said, "I hear you're going to be the successor to Walter Heller." "Oh, no," John said, "Oh, no, you've got it all wrong! In fact, the successor's already been chosen--Gardner Ackley." So they printed it, I think in Business Week.

F: Incidentally, before we leave the subject was there much difference as far as working conditions, working relationships outside of this memo business which we discussed, between being on the CEA under Kennedy and Johnson?

A: Oh, yes, in just a great many ways. I don't know how fundamental any of them were. But different in so many ways. Kennedy was in some ways more open in terms of contact--at the office level, at least--than Johnson. I remember that toward the end of the day, around 7:30, almost every day Walter would wander over to the White House. And at that time of day people could sort of drift into the President's Office if he wasn't in a meeting. Walter would often end up in the President's Office at 7:30 and chat for a while on an informal basis. But you never did that with LBJ. You might see him often, but it was always by some kind of prearrangement, with some business in hand. And I

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think there was a somewhat more informal relationship with Kennedy-- at least in the office.

On the other hand, as I recall, Walter was invited to one White House dinner in the entire Kennedy period; and he really felt that he had no social standing whatsoever. He was not on a familial basis at all with Kennedy. I think that he, and I, Art Okun, later, did feel a much more personal relationship with LBJ. You know, he was very good about seeing that we got invited to the White House affairs and invited down to the Ranch and to bring our wives, and to informal parties that he gave when people were leaving. And on that personal level there was I think a somewhat different relationship.

I have already referred to the fact that the Kennedy approach to the economic problems was often very intellectual one--he wanted to understand the economic theory. And Johnson's was very pragmatic--he wanted to know what to do.

Both of them obviously relied very heavily on their White House staff to protect them--particularly from their cabinets. And Ted Sorensen, Bill Moyers, and Joe Califano played roles the importance which I think is still not understood by most people.

F: Did you ever get the feeling that either or both the Presidents if they thought they could have managed it, would liked to have created the sort of arrangement that Nixon now has, in which the staff has almost excluded the cabinet?

A: I think they pretty much did, except for certain people. For example Bill Wirtz couldn't get in to see the President--even if he insisted on it, at least very rarely. Stew Udall had very little contact, and Orville Freeman, very little. The several secretaries of commerce

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rarely got in. The Secretary of the Treasury had a little easier access, and Dean Rusk got in any time he wanted to, and Bob McNamara got in any time he wanted to. And that was about it.

F: They were kind of the privileged three, though.

A: Yes. Nobody else really had much access.

F: Several months after you became chairman you ran into the steel crisis.

A: One of the steel crises, yes.

F: You ran into the beginning of the steel crises.

A: Well the first steel crisis had been under Kennedy.

F: But under Johnson there, with brand-new Califano having to find his way through it, what was your role in that?

A: Oh, the council was heavily involved in all those price battles. We usually were the first people to send word of the impending problem, almost always. We heard about it first and got word to the President and were certainly heavily involved in trying--in all stages of the operation--to head off and roll back price increases in steel, as well as other things. Now there were occasions when Johnson chose to work through some third party. Ros [Roswell] Gilpatric, I remember, was used several times in contacts with the steel industry. I think after he went back to New York, Doug Dillon once or twice did, a matter of sending messages. But the decisions about what we ought to try to achieve, and a good share of the public relations about such increases when they came to public attention--either on the record or off the record--was managed by us. We were involved wherever there were direct confrontations with the industry people, face to face, we were involved almost always.

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Joe Califano was usually the intermediary in most messages back and forth between us and LBJ; not always--sometimes there was direct contact. There were so many steel confrontations, and my memory is not that good, and I don't have the record at hand, and haven't looked at it in a long time. I can't tell which one involved which episode.

But I remember one episode when I saw the Johnson power really at its most awesome. I was the only one present. I don't think even Joe Califano was there, so I may be the only witness to this. This is one time when Roger Blough, who was the chairman of U.S. Steel, wanted to do something about steel prices, and we didn't think he ought to. And this was one of the few times when the President was willing, was persuaded--he usually didn't want to do this--to talk to industry people himself directly. He wanted us to talk to them. Or sometimes wanted to get the Secretary of Commerce to talk to them, or Doug Dillon or Joe Fowler or somebody. But we persuaded him that he ought to talk to Roger Blough. So I made the arrangements, and Roger came to my office and I took him over to the President's office. Roger started to explain what it was that they wanted to do and why it was a reasonable thing to do. And the President just started working him over and asking him questions and lecturing him. I have never seen a human being reduced to such a quivering lump of flesh. Roger was unable to speak at the end of that interview. LBJ just took him apart, spread him out on the rug; and when we left, Roger was just shaking his head. All that awesome power was really brought to bear! I'd just never seen anything like it.

F: Did he in effect threaten?

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- Well, you know, "What kind of a low form of human being stoop to that kind of behavior when we were at war, and dying in Vietnam, and the economy could be so great and if people would not be so selfish." But it wasn't really, it was the way he just leaned over and looked at him and--
- A: Not really. I was assuming.
- F: Almost correct.
- A: Yes, that was right. I had that treatment only once or twice and very briefly, but that was sort of the perfect occasion. However, other people, the President wanted to be one step away from these confrontations, usually, he wanted to know every move and approve it before it was done although he would report within minutes after we got through talking with the people, and what we thought ought to be done next, and so on.
- F: When you did he talk to give him bad news that was more or less incontrovertible?
- A: Well, it was not all right? It was never was easy to tell him things that he didn't want to hear.
- Yes, I think so. One of the few occasions that I really got sort of chewed out was, I guess it was in 1966 sometime--where we were trying to get LBJ to call for a tax increase. We'd been over this and over this, time after time after time. We all understood everyone's views about it. We were walking over from the office to the Mansion. I asked a couple of us to come in to have lunch with him. I think he was something--we were talking about the whole tax issue--and And I said explaining that there wasn't any real solution. I said that he was convinced that there were people were saying that if he, LBJ, would only exert real a lot of leadership on this issue, some of these things that he was convinced were important might be done. I said that there were still a lot of people who thought that; I got the treatment.

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Usually, though, he was really just awfully sweet to me.
Couldn't have been nicer.

F: Going back to your early days as chairman of the Council of Economic Advisers, we began to hear the term in the spring of 1965 that the "economy was over-heating." Was this an actual problem or just a latent fear?

A: In the spring of '65 it was not an actual problem at all. The economy was still well below what we considered full employment in the beginning of '65. We had a big hassle about the budget and about economic policy in the beginning of '65. We thought that the economy had responded very well to the tax cut of '64, and things were going very nicely but there were still a long ways to go. And our forecast suggested that the steam was likely to run out if we didn't get some more stimulus in. We convinced him, I think, without too much trouble, that he ought to advocate the repeal of all the Korean War excise taxes, another tax cut. And he agreed to do that. Announced it in the State of the Union Message, I think, and sent up the bill in May, and it was passed almost immediately. It was the right thing to do. But not knowing what was coming in terms of Vietnam, we also thought, most of us, that the budget ought to be a little bit bigger. And we were pushing him in December and early January of 1965 for a bigger budget. There were some things that could easily have been increased. I've forgotten whether there was a Social Security increase scheduled, which we thought could have been bigger, or whether we just thought it might be a good time for one. There was a lot more money that

could have gone into education programs, and we wanted a couple, two, three billion dollars more in the budget. "We" meaning, really, Charlie Schultze and I and the council and the Budget Bureau. I don't remember whether the Treasury shared this view or not, but it was our view.

And we kept writing him and talking to him on that, and I'll never forget when he said, "All right, let's try something. I'm going to call in the Executive Committee of the AFL-CIO and a couple of days later I'll call in the leading members of the Business Council for a talk about the economy before I send up the budget, before we make these final decisions. And I'll let you tell each of these groups that you think the budget ought to be bigger and see if you can convince them. If you can, fine, I'll go along with it."

So I attended both of these meetings and got my chance to say my piece. I'll never forget the meeting of the labor group. I never was as disgusted in my life as with that crowd. All they wanted, Meany and the rest of them, all they wanted to talk about was the President endorsing the repeal of section 14B of Taft-Hartley. I'm not sure I can tell you off-hand what 14B is any more--but to them it was the "Slave Labor Act." It was about as meaningless a thing as could be; but it was part of Labor's mythology that this had to go; without that it was slave labor. And I kept trying to tell these guys, "Look, the economy--there are still a lot of people unemployed, there are so many things that can be done in Social Security, so many useful things that can be done in education.

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Moreover, we need those expenditures to keep the economy moving up." And all they wanted to talk about was 14B. I was so disillusioned and disgusted! The economist for the AFL-CIO, who was reasonably close to George Meany, a fellow I got to know pretty well--I called him up and I said, "By God, the claim of the AFL-CIO, the labor movement to be leaders of the liberal community in this country just has no basis whatsoever! Here we give them a chance to get behind a move to have real full employment, and do something in health, education and Social Security, and all they want to talk about is repeal of 14B." He just about wept, as I did. LBJ didn't commit himself to endorse repeal of 14B, either--never did, I guess.

And then a couple of days later the Business Council came in, and after my pitch for a more stimulative budget, LBJ went around the table, and everyone had a chance to say what he thought about this. And there was just one guy who clearly said, "You know, I think we ought to forget about the deficit and think about the economy:" Tom Watson. All the rest of them, they hemmed and hawed, but in the end they didn't give me any support. And fortunately, as it turned out, we didn't get a bigger budget that year; we had enough trouble with Vietnam, but that's a whole other story.

F: They did tend to be hung on their own dogma, don't they?

A: Yes, yes. We'd made some progress with the business community. At that point, all these business leaders felt the tax cut of '64 was the greatest thing that had ever happened. Originally, most of them had been against it, but they saw what had happened.

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F: Did the old 3.2 guidelines just kind of ease out or did you consciously decide that they had to be abandoned?

A: That's a long involved story that I'd have to try to refresh my memory on some of the details of. But the 3.2 was sort of an accident anyway.

F: I always got it confused with the 3.2 beer.

A: Yes. The initial guideposts, when they were published in the Economic Report, never used the 3.2 figure at all. They said that wage increases ought to be generally held to the trend rate of increase in productivity in the economy. And then there was a table in the text, which gave a bunch of alternative measures for the trend rate of productivity in the economy.

In 1962 there certainly was no figure used for the wage guidepost, and that figure, 3.2 per cent, only appeared as one number in the table.

F: What is that, your Economic Report of the President?

A: Yes, this is the Economic Report.

Well, somewhere here, there is a table which shows alternative measures of the rate of growth of output per man hour, for different definitions of output, and different definitions of the sector of the economy involved, and for different time periods. There's one figure in the table which is 3.2 for one of those concepts. And, somehow, at the press conference before the release of the guideposts, the discussion turned to which one of these concepts is the correct one. If you say that wages ought to be held to productivity, what is the increase in productivity? You've got a lot of numbers here.

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There was some discussion of which concept is better, from which standpoint, and finally someone from the press said, "Well, the figure really ought to be 3.2 per cent." And I don't think Walter Heller said, "no:" so that's how 3.2 got its--

F: So there was no magic in 3.2?

A: There's no magic at all in 3.2. What 3.2 was, was the five-year average percentage rate of advance of productivity in the private sector, I think, between '56 and '61 or '57 and '62, whichever it was, and that's all. It surely wasn't a very scientific measure of the trend in productivity. But it caught on. That came to be "the" figure.

Well, a couple of years later the moving average--the five-year moving average of productivity--actually came out to be 3.6 per cent. The labor movement insisted that since 3.2 had been a five-year average of productivity, if the five-year average moved up to 3.6 per cent that ought to be the guidepost figure. That was the big policy argument in which the council insisted that 3.6 was not a proper representation of the real trend of productivity; and that we were going to stick--if you insist on having a figure--to 3.2 per cent. So that came to be the figure that we tried to insist on in '65 and '66. It was only in '67, when it was clearly ridiculous and out of date to insist on that figure, that in the report, and in speeches and public discussions generally, we gave up the idea that there could be no recognition of any increases in living cost. There were various formulations substituted for it, which suggested that yes, wage increases could

exceed the productivity advance, but should be less than productivity plus the increase in living costs.

F: Did the President show any desire to manipulate, or is there any way to manipulate, those cost of living indices that come out that greet people once a month?

A: No, no president could get away with it--they might very much like to manipulate a lot of these statistics, but there is no way they could do it. And charges that they are manipulated are, I'm sure, absolutely--

F: I've said a few times if they were, they didn't do it very well!

A: That's right. No, no, you can't get away with that. There were a lot of times when a President would very much like to change the numbers, but--

F: Did President Johnson show any great enchantment with the growth of the Gross National Product, or did he feel that that was just a sort of isolated figure?

A: Well, he liked these numbers going up all the time. And, whether or not he could have exactly defined Gross National Product, he knew that it was the broadest measure of the total output of the economy--and boy, he liked to see that going up, and liked to see unemployment going down, and the number of jobs going up. He liked to see everything going up. He forgot that some things going up were not good, like prices and unemployment.

F: I always rather gathered that he carried statistics around in a way that some star-struck kid that used to carry batting averages.

A: Yes, indeed, oh, yes. He just loved to hear these good numbers. And when he had a group in he'd like to have us either prepare something that he could read or have us come over and tell the story. He just loved this.

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F: Do you feel that the President ought to have the power to increase or reduce taxes without the consent of Congress so that he can guide the economy better?

A: Oh yes, I think some limited delegation of authority to the President with some kind of congressional veto would be highly desirable. I don't think it's the solution to all our problems by any means. I've often debated with myself whether, if Johnson had had that power in 1966, early 1966, he would have used it. I have no question that he was convinced that a tax increase was needed, badly needed, right at the beginning of 1966; and that if he didn't get it, the economy really was going to go to hell and all kinds of problems. He didn't like to be convinced of that but he was. And he was also convinced that he couldn't get a tax increase if he tried. I'm sure also, that he wasn't really very enthusiastic about trying, but I really think he was convinced that he couldn't get it, no matter how hard he tried, and that an attempt to get it would do more harm than good.

Now, [David] Halberstam, of course--I've had an exchange with Halberstam on that, I don't know whether you know it--

F: I think something was in the Atlantic.

A: That's right. He doesn't believe, and there are others who don't believe that Johnson really honestly consulted with the congressional leadership, and the business leadership and so forth of the country, on whether a tax increase could be secured, and was convinced by that consultation that it couldn't be. Halberstam said, "That's what LBJ told the CEA, but he really hadn't tried to sell it." I'm

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convinced that he really did consult widely on it. Now his method of consultation often was somewhat unusual. But what I'm convinced is, whether he consulted, hoping they'd tell him not to try, or really in the effort to see whether it was a worthwhile venture, I'm convinced that his judgment was correct, that the country was not ready to accept a tax increase in 1966. And if he'd had the power to impose it himself, I don't think he would have used it then, because there was not public support. I think he might have used it in 1967 when everybody could see how much damage had been done by not getting a tax increase, but he still couldn't get it passed. He might have used the power then, if he had it.

F: As far as you know, did he try to count noses on this as early as 1966 to see what he could do, or was he playing it intuitively?

A: No, I'm sure he talked to a lot of people. Now I was not, I think, present at any of his conversations in early 1966 with Wilbur Mills. Wilbur was the key man on this. But I know he had those conversations. I sat in with him with Wilbur Mills on several occasions, but I'm not sure it was at that time. He reported that Wilbur would have absolutely nothing to do with it, and a whole long list of other people that he'd talked to in the Congress told him not to try. I'm convinced that he believed in 1966 that it couldn't have been done if he gave it everything he had, and if we told our story the way we told him our story. I was not convinced at the time. But later on I concluded he was right, when I saw how hard it was to get approval of a tax hike even when the facts were no longer debatable as to what was happening to the economy.

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F: Is there a tendency on the part of congressmen, not singling out Mills, to act after the fact instead of in anticipation of the fact? Is it rather difficult to get something over beforehand?

A: It's awfully hard to get people to act on the basis of an economist's forecast--particularly when other economists were giving different forecasts. There were a lot of fairly respectable economists who said, you don't need a tax increase, that'd be overkill and so on. Even Paul Samuelson got off the tax-increase bandwagon for a while in early '67: "It would have been nice to have had it in '66, but it is too late now, and would do more harm than good." By the end of 1967 he was back in support of a tax increase.

But there are always some people who are going to give you another story. And you have to admit that questions like these aren't black and white, open and shut. And even if the policy-maker has confidence that his economist is telling him what he really believes, and confidence that the economist is somebody whose judgment is good, if there are other experts telling him something else, there is no reason he has to believe you. But on this one I think he did. I think he believed that this was what ought to be done.

F: When you've got recognized economic authorities, diverging in their beliefs, how do you sell the President on the fact that you may be the one who is right?

A: I don't know--

F: You don't have any measurable signs except to see whether it worked or didn't.

A: That's right. And you can't always be sure afterwards, whether it was that or something else. But as I said before, I think that when

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LBJ came to have confidence in you, and know you were giving it to him straight, and that the advice that you had given him before--and that he'd taken--had worked, he trusted you. He was always looking for reasons to distrust people's advice. What was the axe they were grinding? Were they really his men? Did they have only his interests in mind? He identified his with the country's interests, of course.

P: I've been with you about an hour and a half. I want to get into William McChesney Martin, and all that Federal Reserve Board thing, and I wonder whether we better set up for another time?

A: All right. Fine.

P: Good.

[End of Tape 1 of 1 and Interview I]

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