

INTERVIEW II

DATE: March 7, 1974
INTERVIEWEE: GARDNER ACKLEY
INTERVIEWEE: JOE B. FRANTZ
PLACE: Dr. Ackley's office at the University of Michigan,
Ann Arbor, Michigan

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- F: Let's talk about that charge that there was an overheated economy. Isn't that valid?
- A: Well, it certainly began to be valid in a significant sense toward the very end of 1965; and 1966 was certainly a year in which things were heating up considerably. In the absence of any significant change in fiscal policy, the Federal Reserve tried to step into the breach with tight money and really slowed the economy down considerably; so much so that 1967 became the year of the famous "mini-recession." By that time, we had persuaded the President to propose a tax increase. But the mini-recession of 1967 really got in the way of that, and delayed it further. So there was overheating in 1966, returning with a vengeance in 1968.
- F: Well now, you had set a record for a number of months of expanding economy without any turndown. Knowing Johnson, I feel sure that he loved records of that sort.
- A: Oh, absolutely.
- F: Did you have any trouble convincing him that it might be good to let a record go and slow the thing down?
- A: Well, we weren't proposing at any time to create a recession. We

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were trying to keep the boom going on a healthy basis that would make it sustainable. I don't know whether or when we ever reached the point of feeling that things had gone so far that it was going to be necessary to slow it down so abruptly as to cause a recession. I don't think we ever really contemplated that that would happen. But, of course, he liked to set those records, and we did too. I don't remember whether we got at all into the discussions with the President involving the tax increase last time, did we?

F: We didn't talk about the tax increase, merely the fact that we intimated that its problem is going to come.

A: Yes. Well, it certainly came all right. The acceleration of the Vietnam military activities announced in the summer of 1965 was beginning to have effects on the economy by the fall of that year. This was partly the direct effect of the increased expenditures that were being made, but, even more important, at first, was the impact of the expectation of further increases in military spending on private investment in plant and equipment and on inventory building. Just about every part of the economy was really beginning to boom. The increase in production and employment was accelerating in late 1965, I think probably more than we had first realized. We talked last time about the question of whether the council really had all the facts about the extent of the Vietnam buildup. I'm sure we didn't at first, but I think increasingly as 1965 wore on, we were becoming pretty clear about what was going on. I don't know when we began to talk with the President about the possible need for a

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tax increase, but certainly it was some time in the latter part of 1965.

The tax increase discussion was given a new urgency in December, when the Federal Reserve suddenly raised the discount, precipitating that very celebrated fight between the administration and the Fed, which I think we also talked about last time, with us publicly calling them names. And then the meeting down at the [LBJ] Ranch in late December or early January, when Bill Martin was there, along with Fowler, Schultze, and myself. At that meeting, there was a reconciliation of sorts, on a personal basis, at least, between the Administration and Bill Martin. But the discussion really didn't center on the Federal Reserve backing down, or changing its policy. I think that we already saw that, if nothing was done on the tax side, the Federal Reserve was going to take further steps, well beyond that first one; and money and bond markets were really going to tighten up.

F: Did Johnson look on Bill Martin as a factor, sort of an X variable that he couldn't control? And did he look on that as part of Martin's job, or as reflecting Martin's own personal characteristics?

A: That's a real good question. I'm not sure I can tell you; but my guess is that he found Martin one who--quite surprisingly--was pretty much immune to "The [Johnson] Treatment." He had worked him over on more than one occasion without appreciable results, and he certainly had expected people in his administration--the Secretary of the Treasury, the members of the Council, and so on--to work on Martin

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and his Federal Reserve colleagues. I guess he came to see that Martin was just there in the way, and that there wasn't any way to push him aside, so that he had to try to work around him.

F: Had to stop in the middle of the furrow, and he may as well stick with it.

A: The members of the council were not entirely unsympathetic with Martin's position. We agreed that some kind of restraint was necessary. We would have much preferred to see a tax increase rather than tighter money. But if there wasn't going to be any tax increase, we not only clearly predicted to the President that monetary policy would tighten considerably farther, but I suppose in a sense we also had a certain amount of sympathy with what the Fed was doing, although we didn't always express that sympathy very strongly or clearly in the President's presence. At least, he had no doubt about our position. We were on record clearly, first, that if there was not a tax increase, money was going to get very, very tight--as just a straight-out forecast. And second, that there was something to be said for it on economic grounds.

F: You've got a problem. Back under Kennedy, you plugged for a cut in taxes to stimulate the economy. Now then you are starting to plug for a tax increase to slow down the economy.

A: Right.

F: In both cases you are delayed because of the political necessities of Congress. Wouldn't it be advisable to give the President more

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discretionary power in this, or do you need Congress's brake to keep the President from moving too swiftly?

A: I have always been in favor of giving the president authority to vary tax rates within limits. I still think it's a good idea. But I'm not sure how much difference it would have made in this case. I think economists are prone to exaggerate the difference that it would have made, because they tend to brush aside all political considerations. The fact is that if Johnson had had the power to vary tax rates, I don't think he would have used it then, or even in 1966. It was his sense, surely, that the country and the people, not just the Congress but the business and the labor establishments, as well, weren't ready for it; and that it would therefore be a mistake, and not just in narrow political terms. I think he had a sense that you have to achieve important things by consensus; you have to have people with you for anything to succeed. He didn't think the public was ready for a tax increase. I have often asked myself when, if at all, he would have used discretionary tax increase power if he had had it. I certainly think that he would not have used it at the end of 1965, nor even during most of 1966.

F: Was Martin a good economist?

A: No, Martin was absolutely zero as an economist. He had no real understanding of economics. It's incredible that after all the years that he was a member first of the Treasury team, then of the Federal Reserve System, and its chairman for so many years, and associated so much with economists, and had a very good economics staff, he

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freely admitted--and frequently--that he was no economist. In fact, he usually used to start every discussion by saying, "Now I'm no economist, but"

But this was one time that his economists were telling him the same kind of thing that his instincts were telling him, namely that things were heating up, and there was trouble ahead, and monetary policy ought to be becoming restrictive.

F: Let me ask you one more political question and I'll let you get back to your narrative. Should the Federal Reserve chairman's term be more or less coterminous with the President's?

A: Oh, I definitely think so. As a matter of fact, I'm a real iconoclast on this matter. I don't believe that the Federal Reserve System ought to have any real independence. The Federal Reserve System is part of the government, and should be responsible to the administration. Not very many economists agree with me on this; but I would do everything I could to reduce or even eliminate the independence of the Federal Reserve.

F: Well now, you had four main groups. You had the Department of Treasury, you had the Bureau of the Budget, you had the Federal Reserve, and you had the CEA. What besides just good sense and checking would prevent you from going off in four different directions?

A: Well, there were usually at least three directions: the Treasury on one, the Budget Bureau and the council usually on the same wave length, and the Fed on a third one. We found it, of course, very much easier to reconcile our views with the Treasury than we did with the Federal Reserve, because we were both part of the President's team

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and we both recognized that it wasn't fair to the President to keep throwing up to him questions that were really of economic analysis in which there were two different views, and asking him to decide between them. It wasn't good for any of us. So there was a real effort always made to try to get an understanding and a reconciliation where we could between the Treasury on the one side and the Budget Bureau and the council on the other. Sometimes it required some compromising of our views as to what was the state of the economy and what good economic policy called for. But I think usually we were able to do that without any of us feeling we had sacrificed too much. The Treasury, institutionally, is a more conservative outfit, always has been, always will be. It has a great tradition, a powerful bureaucracy with a lot of continuity and a point of view which is sort of built in. It's like any ministry of finance anywhere in the world.

F: It's kind of a guardianship.

A: Yes. It tends to be sort of half a generation behind the frontier of thinking in economics or anything else.

Reconciling views with the Federal Reserve was far more difficult. In one way it should have been easier, because the Federal Reserve had a highly competent economic staff, which was highly placed in the agency directly, under the board. And second, it had a board at that time which included three or four economists, with whom our communication was very easy. On the other hand, the tradition of independence which Martin cultivated very strongly

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meant that discussion of policy--as opposed to discussion of the state of the economy or what economic theory might have called for under these circumstances--was much more difficult. Although we had weekly or biweekly luncheon meetings with the members of the Federal Reserve Board of Governors, at which we sparred around the edges of what policy was and would be and ought to be, communication just didn't exist in terms of really hard talk about questions like these: what are you going to do; what ought you to do; and why, when, and how much. In spite of the fact that we were in almost daily communication with the economists at the Federal Reserve and even some of the members of the Board of Governors, we didn't know that the Federal Reserve was going to raise the discount rate when it did. There may have been some signals sent over a few days before; I think probably there were. I had the sense, even that Bill Martin would suggest to his staff from time to time that they give some kind of informal hints of future moves to the administration, usually through the CEA. But he would never give formal notice. Particularly by that time, he was aware that the rage of the President when things happened that he didn't know about was pretty formidable, something to have to--

F: He didn't want [the President] to read it in the paper, did he

A: He surely didn't. And I don't remember now how much advance hint we had; but, in any case, the actual decision was a surprise in that we thought that we could delay them or hold them off or make them

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rethink or make them come over and talk about it to the President.

But we didn't, and they went ahead.

F: Did Wright Patman ever express himself to you on Bill Martin? You know he called for his resignation one year.

A: Yes; he expressed his views about Martin to me personally, as well as in his frequent public pronouncements on the subject. Yes, there's no question about his views regarding Martin.

F: I hear Patman is basically just kind of an intuitive country banker or merchant, no pretention to economics, but a strong feeling of what is right and wrong.

A: Oh, yes indeed. Yes. Being as critical of the Fed as I was in those days, and as I am still, I have a certain amount of sympathy with Patman. And yet, professionally, both when I was in the government and subsequently, I have many times found myself in the position of wanting to defend the Fed against Patman. Because he really goes way out on a limb; some of the things he says about the Fed are pretty stupid. But his point of view was not very far from the President's instinctive point of view. I think that coming from the same sort of background they shared a lot of these same ideas, or at least sentiments. I don't know that we ever really entirely educated Lyndon Johnson to the fact that monetary policy had an appropriate role, and that sometimes that role might require higher interest rates and tighter credit.

F: Does the CEA affect monetary policy, or are you pretty well held to fiscal?

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- A: Well, the Treasury had its channel to the Fed, we had our channel to the Fed, and they didn't always overlap. But certainly both the Treasury and the council tried very hard to influence monetary policy. And indeed, later in the Johnson Administration, after the blowup, our communications actually improved a good deal. For the first time, beginning in I suppose 1967, we even got the Fed to participate almost officially in our joint policy exercises. These exercises consisted of regular quantitative assessments of where the economy stood and what policy ought to be. In earlier days, the Fed was at most a sort of distant observer; and maybe a participant at the technical level three layers down, in the economic analysis and the forecasting. But during 1967, or perhaps not until 1968, we got them almost officially into the exercise. Although I don't think we ever got a joint memorandum to the President on economic policy, signed by the Secretary of the Treasury, the Budget director, the council chairman, and the chairman of the Federal Reserve, on several occasions we got Martin to send a separate communication to the President, along with ours, saying that he had participated in the discussion, and that in general the Fed concurred with the point of view expressed, or something of that sort. Which was a general accomplishment. To the extent that that really can be done, I suppose it reduces what I see as the need for eliminating the independence of the Federal Reserve.
- F: One last thing before we leave Martin as a person. Leaving out Patman and a few others, he had a tremendous reputation for integrity with Congress.

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A: Oh, no question about it. And he deserved it.

F: Now, how do you diminish that when basically you're expansionist and he's conservative, which I suppose is part of his appeal? Do you do that through working around the edges as you have been describing, or do you do that by trying to get congressmen to see your own views a little more clearly? Or do you just take it as a fact of life and go on from there.

A: You're now talking in general terms--

F: Yes.

A: --or just specifically about that instance. I don't think we'll ever have a chairman of the Federal Reserve who is so completely out of the mainstream of economics. In spite of my many disagreements with him, Arthur Burns is a first-rate, intelligent economist. He talks about things much in the same terms that I do; and even though we often disagree, at least there is communication at a professional level. But with Martin, there was far less communication on an intellectual level. I love the guy; and there is no question about his integrity--that just sticks out all over him. But that situation is, I hope and I really think, a thing of the past. Even the Nixon Administration has appointed a couple of economists to the board. The two most recent Nixon appointments to the Board have been first rate: Henry Wallich of Yale, who is very conservative, but a good professional economist; and Bob Holland, who was the chief of the economic staff within the Board, the first person ever brought up

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through the system from the professional staff to the Board. Those are first-rate appointments.

F: Did the President ever try to understand macro-economics or anything really in the technical side of economics, or did he pretty well just say to you, "Tell me what the facts are and let it go at that."

A: We tried very hard to give him a sense of the kind of reasoning economists use, and how economists approach problems. In fact, we considered this one of our main responsibilities: to try to teach him some basic economics. He was essentially a very good student, and a very interested student. He loved to hear from us, and he always kept begging us, "Keep sending me stuff." While we tried our best to make it palatable in terms of what he would read and understand, we kept trying to sneak some basic education into it, mostly macro-economics, which in its basic ideas is really not that complicated. In fact, it's in some ways closer to the man-in-the-street's conception of things than it is to the old-fashioned economics which preceded it. That older economics really seemed to be talking nonsense, saying in the 1930s, when millions of people were out of work and clearly factories were running at half speed or were closed, that the government couldn't do anything about it; and that if it tried to increase the demand for goods and services, that was going to do more harm than good. Modern macro-economics says that jobs and output come when there are buyers for what can be produced; and government can do a lot about the demand for goods and services. It wasn't too hard for Johnson to get an intuitive grasp of basic

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macro-economic ideas. It's true that he wasn't really interested in learning the finer details of analysis, in some contrast with Kennedy, who really had an intellectual interest in economics. Kennedy came to it with no more initial understanding, I think, than Johnson; but he really was interested in it as an intellectual exercise as well as a public policy discussion.

F: You're nearly a decade younger than the President, which means that you came to the Great Depression at a little different angle. Did you through your own experience feel that the Depression had pretty well influenced Johnson in his view of general national economics?

A: I'm sure that must have had an important role, particularly growing up where he did.

F: Well, it would have hit just about the time he came onto the job market.

A: Oh yes, and obviously he was very conscious of the fact that it had cramped his economic opportunities. He used to tell us long stories about how he went off to California or somewhere because he couldn't find a job, and how his mother finally persuaded him to go to college, and all that. Yes, that was clearly a part of his--as I guess everybody's--background who came through and grew up in that era.

F: Was there wholesale mis-guessing on what Vietnam was going to cost?

A: Oh yes, I'm sure there was wholesale mis-guessing. The Halberstam view that McNamara and Johnson really knew all along precisely what it was going to cost and they just weren't telling seems to me to be ridiculous. It's true that maybe the generals had a clearer idea

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than anybody else of what it was going to cost; but, if so, I don't think they conveyed it fully to McNamara, nor McNamara to Johnson, nor Johnson to us. But I don't regard that as a plot to deceive people. It was wide open what was going to happen over there. There was certainly a school of thought among at least some of the military, that we could easily handle the problems over there: just untie our hands and give us the tools and freedom to use them, and we'll end this thing. I think Johnson, as well as McNamara and all the rest of us were misled by that. Whether we were deliberately misled by the military, I don't know.

I had worked in Washington during the Korean War, and I very, very well knew that the estimates by the military and by the Defense people of what wars are going to cost can be off by a factor of fifty per cent or more. In the Korean War the estimates were enormously inaccurate--but in the opposite direction. They kept overestimating what they were going to spend and finding out they couldn't get organized fast enough to spend it. I didn't know which way their estimates were going to be off this time, but I didn't trust them at all. I don't think that anybody else believed that anybody knew in detail what Vietnam was going to cost. We just knew that it was costing more and probably was going to cost still more. We didn't have to figure out what it was going to cost for the next three years or even the next year and a half. What it was doing to the economy now was really about all we needed to know, and it was clear that what it was doing to the economy at the end of 1965 already spelled trouble,

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and that it was time for policies to adjust to it.

F: You are on record in the fall of 1965 as saying that defense cuts would help the economy. Are you personally endorsing this at this time, because that's not the way they're going.

A: When, the fall of 1965?

F: You made a statement that got into the New York Times.

A: That must be a holdover from a much earlier period. In 1964 and early 1965, many people were worrying about the effect of the defense cuts which followed the Berlin buildup. There was a lot of worry about how defense cutback, and the end of the missile and space build-ups would create unemployment and so on. This goes back to the late days of the Kennedy Administration, when we began an effort to get some thinking going about what should be done to adjust to defense cuts. However, as I recall, it was not until after Johnson became President that we got formal approval to set up an interagency committee chaired by the council on adjustments to declining defense and space expenditures. As these bureaucratic things often go, getting that committee report--which included practically every agency in the government--cleared by everybody and compromised out and so forth--took forever. Thus, it may have been sometime in 1965 that the report was released; it may even have been after July. Although it had been written and sitting around for months, it didn't come out until that time and looked kind of silly. Particularly in retrospect it looked silly.

F: Sometimes writing ought to self-destruct.

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Johnson then, beginning in 1966, is calling for speeding up the War on Poverty. Was this window dressing? Was he sincere? Did he think, to use the cliché, that he could have guns and butter? Did you talk to him on this?

A: I don't think he was under any real delusions about that. Clearly he wanted to have both; and he felt that it was wrong, not only in 1966, but also in 1967 and early 1968, to say that simply because you were having to spend more for guns that it would have to come out of programs for the poor, and out of education, and all the Great Society programs. This just really hurt. This was one of the reasons, I guess, why he eventually came around to the idea of a tax increase, so he could have them both. But he was having to cut the budget well below what he wanted to do; there had to be a certain amount of window-dressing in the budget about preserving the Great Society programs and keeping them expanding at least on paper. And, you know, a lot of brave words about how our economy is strong and big, and how we can do what we need to do. When we helped to write those words, we always had in mind, "Yes, but it may take a tax increase, probably will." In which case it's absolutely correct: you can have both guns and butter if you are willing to pay for both of them. I guess he knew that.

F: Did he ever hear of Pierre Renfret, who was beginning to make waves about this time forecasting a recession in 1967?

A: I don't remember all the turns and twists of Pierre, who is an absolute nut. There was at least one occasion I remember in which

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Pierre said something that seemed to be supportive of the President's hopes or wishes on some aspect of policy, and he referred to it in a speech or a press conference or something, which irritated us considerably. Because, after that, Pierre claimed to have been an economic adviser to LBJ. I don't think he took Pierre seriously. I think he really believed that we were giving him the straight dope, and that we knew a hell of a lot more about it than these outsiders. He didn't reject our analysis; he just found it very hard politically to do what we told him, and what I think he believed was the right thing to do. We had no real problem of his not accepting our analysis. He wished it weren't so, and often was tempted by an outside opinion which didn't agree with ours. And, of course, at that time, a lot of outside opinion didn't agree with ours. Even in the economics profession there were still some economists who were saying that a tax increase would not be necessary. And indeed, although Paul Samuelson, who is sort of the dean of our kind of economists, had initially supported the idea of the tax increase, in 1967 he turned around, and said that it was now too late, and no longer necessary. So you could always find some economist, some good economist who perhaps didn't have as much knowledge of the facts as we did or who hadn't done his arithmetic on the details of what could and couldn't be done, who would support any point of view. And certainly the business community, and public opinion, and editorials in the press and so forth gave very little support to the idea that we needed to restrain the economy. At least the influential Eastern

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press, the Times and the Washington Post, were against a tax increase all the way.

F: Brisk change seems to work beautifully when you want to put a little juice into an economy. Now without looking at it as economics but as politics, is change politically reversible when you do want to slow it down? You know the criticism that the tax hike came too late.

A: It surely did.

F: Would it always come too late when you have that sort of a situation?

A: Yes, I think so. However, there is a process of education that goes on; people learn. I think that the discussion of economic policy gets a little better every year. It's a lot more intelligent today than it was ten years ago, and just infinitely better than it was twenty years ago.

F: And of course managing an economy at a political level is still a fairly new game to all of us.

A: Yes, of course it is. But it's bound to be harder to cut back than to expand. It was hard enough to expand. Look at the difficulty Kennedy and Johnson had in getting the tax cut approved. It's not just politics, it's understanding and analysis and willingness to accept the economist's technical analysis, as well as dealing with the old shibboleths and ideologies that still hang on.

F: In the early fall of 1966 now, you've got a full-scale war going. Johnson signs a 1.6 billion dollar anti-poverty bill. Was there any attempt by the CEA to slow him down on this?

A: I don't think so really. Obviously the Budget Bureau, with our strong

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support, was having to fight against the big spending ideas and having to cut them back severely. A lot less was spent than would have been without the war. But on the question of going ahead with the Great Society programs, our view was that of course, these have to go ahead; but it means that we need a tax increase. And we thought we were going to get it. By the end of 1966 we had the President sold on a tax increase; and we were naive enough to think that once he came out and recommended it, the Congress would pass it.

F: Well, he got about everything else he wanted up to that time.

A: Yes.

F: In late 1966 LBJ had that polyp operation, and you and Joe Califano came down to the Ranch while he was recuperating. Do you have any clear memory of that? You issued a report that the economy was healthy and that there would be no recession. I was wondering if that was good politics or good economics? Or both?

A: Well, remember that a lot of people were beginning to worry about a recession at the end of 1966 and into early 1967; in fact, we had what is often referred to as a mini-recession. It had a lot of the characteristics of a genuine recession, except it was superimposed on a very rapidly rising trend of defense and investment expenditures. But it slowed things down a good bit. There was a lot of worry in the late fall of 1966 that there might be a full-scale recession. We never believed it, but a lot of other people did.

F: Milton Friedman was saying you were going to have one.

A: That wouldn't be a surprise. We did sell Johnson on recommending a

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tax increase in January, 1967. But we were worried enough about recession to want him to say, "Pass it to become effective after midyear. We don't want it effective right away." This mini-recession was entirely the result of the very stringent monetary policy, which practically paralyzed housing construction, and really created a considerable slowdown.

F: And entirely outside your field of operations.

A: Yes, although I think we said in our economic report of January, 1967 that the tight money had had a very beneficial effect in terms of slowing down the overheating of the economy and of reducing price pressures, but that it had some pretty terrible side effects on housing and other things, that made its impact inequitable. And that tight money should be replaced by a tax increase, the slowing-down effects of which would be much more even and equitable.

F: You were essentially very close to the Bureau of the Budget. What precisely was the technique? You have all your gatherings of information and your conclusions and predictions. They've got their own particular set of budget problems. How did the two of you communicate and interact?

A: Continuously and closely--on these questions almost as though we were one agency.

F: Was someone from the CEA assigned as a kind of liaison, or did you just call regularly and meet regularly?

A: Well, we were just down the hall from each other, and we were in constant communication at every level. In terms of the formal machinery,

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we had this so-called "Troika" machinery which involved the Budget Bureau, council, and Treasury. Each agency had special responsibilities; but all three got involved in all parts of it. In principle, the council was supposed to forecast the economy, the Budget Bureau was supposed to forecast and administer expenditures, and the Treasury was supposed to forecast and administer taxes. But it didn't mean that the Treasury and the Budget would stay out of forecasting the economy, or that we would stay out of forecasting tax revenues or expenditures. So it was a very intimate, closely-knit operation.

F: You never had a real quadriad, did you?

A: No, the quadriad was a Walter Heller invention. I think he hoped-- everyone hoped--that the Fed could really be brought into the team as a fourth on an equal basis. But certainly we didn't have anything like a quadriad until late 1966 and 1967, when we really began to work together other than through an occasional high-level meeting. You don't really get anything done by just having a meeting once every two months with the President and Bill Martin there without an agreed agenda, and an organized discussion. Those so-called quadriad meetings of 1962 through 1965 were a joke.

F: From what you know of Johnson--or was this ever discussed--would he have bought the Nixon plan for cooling down the economy that would have meant increased unemployment? Or was he too strongly, too politically committed to the idea that you need as near full employment as possible?

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A: Oh, I doubt very much that Nixon ever bought the idea that his policies would create a recession. I am convinced that, in 1969, his economists were telling Nixon that "You don't need a recession to stop inflation. All you need is to maintain restrictive monetary and fiscal policies for a little while, and then restrain the expansion and the inflation will go away." Of course it didn't go away; so they held the restraints on longer, and maybe pinched the economy a little tighter, and he did get a recession. But I don't think anyone planned it. I don't think they expected it. I generally agreed with what they did. I would have let up somewhat sooner; but I think you can say that I agreed with what they did that caused the recession, though I didn't expect it to end up in a recession either, I must say, until it happened.

F: The President is acting--and I presume you are at his elbow on this-- for a tax surcharge and also for reinstatement of seven per cent tax credit. It seems to me that these collide with each other as to policy.

A: Yes, in a sense they do: a tax cut and a tax increase at the same time. You are referring to spring 1967, when the President recommended, and Congress acted, to restore the investment tax credit, the suspension of which the President had recommended and Congress had acted on in fall 1966. At the same time, in 1967, he was seeking a big surcharge on personal and corporate income taxes. The tax cut part, the restoration of the seven per cent investment tax credit,

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was not really designed to have a major overall effect on the economy, but rather to twist spending in favor of investment. I don't find any serious problem with that. I have never believed that an on-off investment tax credit should be used as a macro-economic tool. I was opposed to the repeal of it by the Nixon Administration in 1969. I thought that was a mistake. I disagree with Arthur Burns and other people who say that we ought to use an on-off investment tax credit as a regular stabilization tool. I disagree because, first, we probably need more investment at all times, and second, the credit is just too awkward a device to turn on and off, and creates too many administrative and political difficulties. First, the anticipatory effects often require you to do things that are just the opposite of what you want to do. And second, with every change in the investment tax credit there are many people for whom really hundreds of millions of dollars ride on the question of whether an investment decision was or was not made in advance of (or after) a particular date. The room for shenanigans on that are just--unavoidably--very, very large. There can be just plain outright cheating; and there are ambiguous circumstances which make it very hard to prove that someone really cheated; moreover, pressures develop for amendments which take care of the problem of a particular industry which is caught by the accident of the selection of a date. They typically place their orders for new equipment in January, and the law later says that orders placed after the first of the year don't get the credit. Why discriminate against these people in favor of

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someone who by chance or habit made the decision in December? So you start doctoring it up. It's just too messy a tool to use as a regulator.

F: That brings up a question for which I guess there is no clear answer. Johnson avoided major scandals or threats of scandal, such as you have now with the milk producers. And yet you've got a lot of people throughout the federal government understandably ambitious and shrewd and adroit. Was Johnson just lucky, or do you think there was a feeling that pervaded his administration that he was too all-seeing and you couldn't go too far, or what happened? Do you have any sort of rationale on that? Or have they not surfaced yet, so we don't know?

A: I think there was a different atmosphere. I don't know what the atmosphere was in the Nixon Administration because I wasn't in it; but from everything I read I get the view of an attitude that anything is right that advances the political interests of the man at the top. I don't think that existed in the Johnson Administration. Certainly I don't think the people were any better, or any more moral, or anything of that sort. I think that they were better politicians, and simply knew that you can't get away with that kind of thing for very long, and that you had to be awfully careful about what you did or didn't do.

F: In the middle of this surging economy in 1967, you had a big Ford strike. Now that in itself slows down the economy. Do you welcome that sort of thing where independently of the government some large

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employer or mass of employees stops the input of capital for a while?

A: I never have felt that the net effect of any major strike has more than very temporary restraining or inflationary effects on the economy.

F: It's just an aspirin.

A: Well, a strike cuts down incomes and therefore demand; but it also cuts down output and therefore supply. In the case of an auto strike in particular, at least in most years, it mainly changes the timing of when production takes place. They're not working around the clock all the time all year round. So the net loss of total output is pretty small. Or of incomes, either; it's just a rearrangement of it in time. To be sure, a steel strike, or the threat of a steel strike, can cause many difficulties relating to inventories--which could even lead to a recession--because of bunching up and then dropping off of production, and so forth. Auto strikes are not as serious in that respect because you don't have the same inventory problems. In an inflationary period, you may also want employers to stiffen their backs against big wage increases, and at least involve themselves in a certain amount of brinkmanship in an effort to avoid big increases. I'm not at all clear that strikes usually end up with lower wage increases than you would have had if you would have avoided the strikes; but you certainly like to strengthen the backs of the employers at such times in terms of resisting wage pressures; and that may involve more strikes.

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F: Incidentally, whatever happened to 3.2? Did you just quit talking about it?

A: That's a very complicated story, and I would have to refresh my memory to report all aspects of it. Clearly after the inflation really began to take hold, 3.2 per cent became no longer appropriate as a wage-increase standard. We may have waited too long in recognizing that it was no longer appropriate. There was a big flap about the precise number of 3.2 with the labor movement somewhere along there. I now think that we probably were wrong, at least politically, in holding to the 3.2 per cent standard as long as we did. Basically 3.2 became obsolete once inflation really got going; and it was stupid to say that you should continue to take no account of a rising cost of living in setting wages. You had to take some account of it.

F: As early as May before you resigned to become ambassador to Italy, May of 1967, there were rumors out that you were going to resign. Was this somebody's guessing, or were you leaning away about that time?

A: Oh gosh, I had tried to resign in 1966. I think it was some time around the middle of 1966 that I told the President I wanted to get out once the economic report was finished in February, 1967. He twisted my arm, and promised finally to let me go in February, 1968. I don't remember that there was that leak, but there may have been. Very few people knew about this. And, given LBJ's dislike for news about his administration that he didn't release, one was very careful to keep secrets.

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- F: Well, let's talk about your resigning. What did you want to do? Did you want to get back to teaching? Did you just want to get out of the Washington maelstrom? Or did you have ambassadorial ideas?
- A: No, I didn't at all. In 1966 and during most of 1967 I assumed that I was going back to the University.
- F: What did you have, indefinite leave?
- A: Yes, in effect. I had told the University after the first couple of years in Washington that I didn't expect them to extend my leave. I thought they had treated me very well and offered to resign. They kept saying, "No, we'll extend the leave," and did so each year. But I thought it was time to get back. You see, when I went to Washington in the summer of 1962, I had already been on leave for the year 1961-1962 in Italy. So if I was going to remain an academic economist, it was time to get back and get at it.
- F: Well now, you're working very hard with practical economics. Are you falling behind from the standpoint of a research economist? I don't mean from the standpoint of publication, which naturally you are going to have to forego when you are making other kinds of reports. But do you feel in a sense that you had lost ground in what you've got to give your students, or did you gain so much ground through the activities in which you were involved?
- A: Well, clearly I felt that what I was doing was useful to me as an economist and as a teacher of economics. But it did mean that, for what ultimately became eight years, I was really out of touch with the mainstream of academic economics. I wasn't reading the journals,

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I didn't know what was being written. And my part of economics, particularly, is changing just incredibly fast. I was really way, way behind when I did ultimately come back in September 1969. I had been away eight years and had really not read the journals, nor any number of important new books.

F: That's a whole generation.

A: That's a whole generation--which I have tried to catch up with, but I'll never really make it up. I don't regret that, because I think I learned a tremendous amount, and the experiences were worthwhile. But now that I am back in the University, I'm not up with these youngsters. I wouldn't have been anyway, but I'm much further behind, and it's a gap which can't be made up.

F: Of course you've got offsetting factors.

A: Sure. It doesn't bother me, but I'm very conscious of it.

F: How did Italy come up?

A: Italy had been my professional as well as my personal hobby for a number of years. I spent the academic year 1956-57 over there, and again the year 1961-62. I think that in 1962 I probably knew more about the Italian economy than almost any foreign economist, and more than ninety per cent of the Italian economists.

F: Did you have fluency in Italian?

A: Fluency I'll never have, but I lectured at universities in Italian in 1961-62.

F: You can make yourself understood.

A: Oh yes, and had no problem with living there, getting along and so forth.

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My wife did all the shopping, and we had Italian friends who spoke little or no English. I don't think it's very important how the ambassadorship came up; but if you want to get this on record we can. I don't think that it's on record anywhere.

I had the President's agreement that I could leave on February 1, 1968. In September, 1967, I was in Rio, at the Annual Meeting of the International Monetary Fund and World Bank, as a member of the American delegation. Another member of that delegation was Tony Solomon, who was then Assistant Secretary of State for Economic Affairs, and a fairly good friend of mine. You know those meetings: there are lots of sessions, but you don't have to go to them all; and if you're not mainly responsible for it, you don't really work very hard. And Treasury is really responsible for IMF affairs. So we were goofing off to a certain extent. We went off to the country one day with our wives to a restaurant in the mountains behind Rio. We were having a very leisurely lunch and talking about our futures. Tony told me that his great ambition was to become Director of the Budget. He suspected that Charlie Schultze would be leaving soon and hoped to succeed him. Indeed, I knew he was leaving; I also knew that his successor had been pretty well agreed upon. Anyway, we were talking about our futures, and Tony was obviously trying to get me to see what I could do to help get him appointed director of the Budget when Charlie Schultze left. I guess I confided that, well, I was leaving too. (This was a great secret, as all such changes were that involved LBJ's associates.) We talked about what I would do, and I said that

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I was going back to the University. At that point Tony said:
"Look, you ought to think about becoming an ambassador somewhere."
Sort of half in fun we talked about it for a while. But when we
finished he said, "I want to talk to Dean Rusk about it, and see
where there might be an interesting vacancy for you." I said, "Well,
if it's really interesting I'd be willing to think about it," but I
didn't take it at all seriously.

Apparently Tony did talk to Dean Rusk about it; but that was
early September, and I never heard any more about it for quite a
while. I think Tony once told me that he had talked to Rusk, and
that there might be some interesting opportunities; but then I didn't
hear anything more. By this time I guess that it was mid-November.
I either called Dean or wrote him a little note. I think I wrote
him a little note, saying that Tony had raised this with me and the
time was fast approaching when I had to tell the University of Michigan
whether or not I was coming back; and that if he had anything inter-
esting in mind, I would like to hear about it.

Apparently he got that note on maybe a Monday morning, and was
meeting with the President for lunch on Monday or during the day, and
he apparently raised this with the President. Which was the first
the President heard about it. The next morning, which would have
been a Tuesday if that was a Monday, there was a cabinet meeting.
At the beginning of the cabinet meeting, before the business started,
the President said that he wanted to see me after the cabinet meeting.
So I went into his office. He was in what I think was partly mock

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rage; but I wasn't sure how mock it was.

F: At you?

A: At me for having talked with Dean Rusk about this. He said, "My God, if you wanted to be an ambassador you should have come and talked to me about it. You know that I would do anything I could for you, and want you to have anything I can give you. I didn't know you weren't going back to be a professor." He really gave me quite a lecture about how disloyal I was going behind his back. I told him I really didn't mean to do that and it wasn't my idea in the first place. He said, "Well, do you want to be an ambassador or not?" I said, "Well, if there were an interesting job then I'd like to think about it." He said, "Where would you want to go?" I said, "Mr. President, I'm really not very well equipped to be an ambassador. The only language I know is Italian, and the only country I know well is Italy." I think he interrupted me and said, "Well, how about ambassador to Italy? I've got a guy over there I have been trying to get rid of for a long time. He was one of Kennedy's men, not mine." I said, "Gee, that would be great, Mr. President, but I really didn't have that in mind." He said, "Well, do you want it or don't you?" I said, "I really ought to think about it, and talk with my wife." He said, "Okay, you go talk to your wife and tomorrow you tell me whether you want it."

Well, I talked to my wife and she wasn't sure whether it was a good idea. I wasn't so sure, either. Perhaps that was when he had his gall bladder operation; or at least he went off to the Ranch soon after that.

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F: He went over to the Ranch.

A: Anyway, I didn't get back to him tomorrow or the next day or the next week. And then he went off on a trip around the world just before Christmas, and incidentally ended up in Rome where he had a real flap with the ambassador. It wasn't till he got back from that and was down at the Ranch . . . after Christmas I guess; yes . . . I finally sent down a little note. Incidentally, I was under strict orders not to mention this to anybody. Nobody was supposed to know a thing about it, and nobody did know a thing about it. I sent him a little note in which I said that we had talked earlier about a job, and I didn't know whether it was still open, but if it still was and he was still interested, I would like to go ahead with it. Since this note would go through several hands I didn't even indicate what the job was. I think he called me up then and said, "Of course it's still open. Don't say a word about it, but I'll get right on it and let you know what happens."

Then on New Year's Day 1968 he was having a press conference from Texas to announce, among other things, the big new balance of payments program which all of us had been working on for months. On New Year's Day, there was a meeting of the entire Cabinet Balance of Payments Committee in the Cabinet Room to listen to and watch the press conference on television. The President announced the program and described it in some detail. Then, at the end, he said, "I have an additional announcement. Today I am sending the nomination of Gardner Ackley to the Senate to become ambassador to Italy." That was the

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first that anyone in Washington--other than Dean Rusk and I--knew about it. It really was a complete surprise to everyone.

F: How much time did you have to get over there?

A: Oh, I had more than I wanted, actually. In the first place, we had to get the Economic Report out. I think my resignation became official on February 1. But my confirmation got tied up in a fight between the President and Fulbright. Fulbright just wasn't holding any meetings of the committee; and I didn't think I was ever going to get confirmed.

F: This wasn't anti-Ackley, it was anti-Johnson.

A: Yes. It was that, and the State Department didn't want to get involved in the fight, and they weren't putting any pressure on the committee. So finally, one day when Fulbright was out of town, and John Sparkman was acting chairman, I called John and told him I thought it was really an imposition on me, as well as very poor policy, to just let this thing drag along and get caught up in this fight about Vietnam (or whatever it was), and that I would very much appreciate it if he could find some way to work in a hearing that would consider this. He said he would try. The State Department just about went through the roof about my going to him directly. It wasn't any of my business to go meddling around behind their backs. But the committee did confirm me, and I finally got off.

F: Did Sparkman handle it?

A: Yes, very nicely.

F: And it was perfunctory.

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A: Oh yes.

F: When did you finally get there?

A: First of May I guess, or end of April.

F: Did Vietnam give you trouble in Rome?

A: Vietnam wasn't very popular over there. There were frequent demonstrations in front of the Embassy, which were a nuisance but nothing more. Our Vietnam involvement was a real sore point with the left, and with the public generally. Actually, although the official government position was less than completely supportive, I think the government leadership was pretty understanding of our problems there. They just did not find it possible to be very supportive of the U.S. position in public. But it was no serious problem.

F: Did you continue to work with the council until you went over, or did you have a lacuna in there?

A: I spent most of my time, practically full time, polishing on my Italian. I spent half of each day over at the Foreign Service Institute. I did some work at the council, but not very much. I think they put me on their payroll as a consultant or something for a while. No, I was mainly trying to get ready, especially to improve my Italian.

F: After you got there did you ever get any insights into the Johnson trip and the laugh over the Pope and so on?

A: Yes, I got some; in fact, a great deal. LBJ's notion that he could come into Rome announced, and call on the Pope but not on the government, was one that just horrified the Embassy, and I think properly so.

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The government really would have been exceedingly resentful of that. I gather that there was a great deal of unpleasantness between the Embassy and the President about that. It's always a real production when the President travels; but when he travels sort of unexpectedly and secretly--

F: And you'd better be ready or else you will know it.

A: Yes, it apparently was a real flap. When I got to Rome there were all kinds of tales in the Italian press that I was appointed because the President was sore at Ambassador Reinhardt because of the way he had handled the visit; or that I was being fired because I was a Kennedy man and LBJ wanted to get rid of me; or I was being put there because I was a Johnson man and he wanted to get rid of a Kennedy man. All kinds of silly rumors, none of which were true. In fact, Ambassador Reinhardt had submitted his resignation long before the President's Christmas visit, and had been urging the appointment of a new ambassador, because he was planning to leave the Foreign Service to take a business job at which he could make a little money. He was not a rich man.

F: Is there a tendency on the part of embassy staffs when a new ambassador comes in to really start running to him with everything that was wrong with the past administrations. In other words, do you sort of incite a little gossip?

A: I don't think so. On the other hand, I expected a little trouble because I was a political appointee, and the previous ambassador was a career man. I had expected that there would have been a certain

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amount of resentment among the professionals in the embassy. Reinhardt was an exceedingly able career officer and had been a very good ambassador, I think. And for him to be succeeded by a political appointee! I am sure there were a lot of people in the embassy who believed that Reinhardt was being fired because of what happened at Christmas in Rome. In fact, the job had been offered to me before the trip around the world had even been thought of--even though I hadn't accepted it yet. But I must say I had absolutely no complaint about the behavior of the career Foreign Service people; they were absolutely loyal and supportive in every way. They're a strange group in some ways; and I'm sure that there had to be some resentment; but it never showed.

F: Well now, that's a major post. What did that do to your personal economics?

A: It was pretty rough. However, it wasn't as bad as most people assumed. This was one of the things I had to look into, and why it took me a while before I told LBJ I would accept. I found that Kennedy had made some arrangements early in his administration, in order to permit him to appoint either career people without means, or outsiders without means, to important diplomatic posts. I assume these arrangements still exist. They take the form of a certain amount of flexibility in the extent to which the government picks up the expenses of running the ambassador's residence. I used up whatever savings I had, but I didn't go appreciably into debt. Fortunately my textbook royalties were at their peak at that point. It

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was feasible. After the first year, the salary went up by \$10,000 or something, which helped.

F: Did you run into any particular problems?

A: No, it was a very pleasant experience. We kept very busy, worked very hard at it, but it was a job almost without pressure. Nothing like the White House. There were deadlines, yes; but you didn't feel that the fate of the world depended on what you did or said. Indeed, the policy involvement was pretty insignificant. It was basically an administrative and protocol kind of job. I think that is not unimportant. And I think I did reasonably well at it. In fact, I think I did quite well at it; and I'm very proud of what was accomplished. And it certainly was a nice change from the White House.

F: Did the Italians show a lot of interest in the successor to Johnson, in the elections, in other words?

A: Yes.

F: I'm sure you had some.

A: Yes. I don't know that there was any predominant preference as between Nixon and Humphrey. There always is nervousness about what a new administration is going to do, and probably somewhat more nervousness about what's going to happen if there is a change of party. But I don't recall any major expression of worry about it; and I think that Nixon, once he got in, was accepted pretty well.

Nixon visited Rome during his big European tour in the summer of 1969, while I was still ambassador. He came to Rome first to see the government; then went to Paris; and then returned to see the Pope.

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That was quite a production, too. He handled himself well in Rome, said all the right things. His Secretary of State was not very distinguished, but Nixon himself did pretty well.

F: From your standpoint was there any real change of policy between the outgoing and the new administrations?

A: Only one: that was on China. I think that we in Rome knew almost before anybody else that the Nixon Administration was going to change U.S. policy on China. That was purely by accident. It was probably in January of 1969, or early February, that I got a call from the Foreign Minister; he wanted to talk to me. He reported that the new coalition government that had just come into office had decided that it was going to recognize Red China. They weren't asking our opinion, they were just giving us the courtesy of letting us know well in advance. At this point, although a couple of NATO countries had done it, for any other country to do it we knew would cause real alarm in Washington. So I went back and wrote a cable reporting the Foreign Minister's message. I expressed my view that the Italians would recognize Red China whatever the United States said; and that I doubted that much would be gained by arguing with them about it. But I really expected I would be instructed within twenty-four hours to make myself and the Italian Foreign Office miserable for the next three months trying to turn them around on it. Instead, there was no explosion at all. Nothing happened for about a week. Then, we got a mild cable saying that we should tell the government that the President appreciated knowing about this in advance; that we hoped

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they would do their best to try to keep their ties alive with Taiwan, too, and so on. But no instructions to go in and battle with them over it; really an acceptance of it. That was a big surprise not only to me but to the Rome professionals who knew the department, and knew the policy, and who had shared my expectations. So I claim we were among the very first to know that the Nixon Administration would have a new policy toward mainland China.

F: Before you went to Rome did Johnson personally give you any instructions of what he wanted out of them?

A: Not really, no.

F: "Bon voyage and God love you" sort of thing.

A: Yes. Italy is an important post in some ways, but an exceedingly unimportant post in most ways. At that time, there just weren't many significant bilateral problems between Italy and the United States. The problems with which Italy was involved were all parts of larger problems. We had problems with Italy about Vietnam policy--but that wasn't a bilateral problem; there were NATO problems, there were Common Market problems. But Italy's views or situations with respect to any of these were relatively unimportant. Policy was made in Washington about such matters as China, UN issues, NATO issues, and Common Market issues; any special input from Italy was a pretty small part of the total input into the decision-making process. So nothing very critical depended on what the Italians thought or what we could persuade them to do. If the United States decided it was going to take a particular line in NATO it was up to us to convey this line

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and try to bring the Italians around if necessary. But we didn't really participate in the policy decision; that was made on a broader basis. So the job was administrative and one of communication, and sometimes persuasion.

F: Geographically you were close now to the SALT talks. Did you get involved in any way?

A: No, I don't think any embassies did.

F: Nixon took his time replacing you. Was this a tribute to the university or to you? Or was he just taking his time?

A: Yes, it took a long time. All ambassadors submit their resignations automatically when there is a change in the presidency; and it's usually assumed that sooner or later there will be a change in personnel. They never let you know. You just send in your resignation and nothing happens. However, the Foreign Service is a strange and wonderful institution, in which more gossip goes on than you can possibly imagine. Everyone in the State Department is in communication with everyone else, on the telephone all the time, and everyone knows what's going on. So I had almost a day-by-day report on what was happening about my successor. What was happening was that there were about four or five different candidates, each with strong support, and each was canceling out each other. Nobody was willing to make up his mind. I think I might have been there another year after I was, if I hadn't at some point said, "Look, clearly they're not thinking of reappointing me. I want to make some plans, and the time when I need to leave is the first of September." So I suppose around the

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first of May, I wrote a letter to the Secretary and said, "I don't know what your plans are for this post, and maybe you've got somebody ready to appoint next week, but I want you to know that I'm planning to leave on the first of September. I hope that it will be possible, and I don't want anybody to say that I'm running off and quitting my job, but I would like to be able to plan on that." I got back a letter saying, "Sure, you can plan on it." But they didn't make an appointment until just before I left.

F: Was there much difference, I mean, could you feel it even in your relatively short tenure, between Rusk and his successor as far as clout was concerned with respect to the administration?

A: I don't know whether my perspective is very significant on this. Yes, I think that Rogers was sort of a bust from the beginning. On the visit to Rome, Kissinger was along and Kissinger sat next to the President

F: Rogers was just part of the entourage.

A: Yes. We divided up in various meetings. I sat in with Rogers in a meeting with the Foreign Minister, while the President (with Kissinger) was having a meeting with the Prime Minister. These were the private meetings. The other meetings were these big affairs, with ten or fifteen on a side, where everyone sits around a big table, and formal speeches are made, and nothing happens. But I must say Rogers just didn't seem to know what was going on. He seemed really beyond his depth. I had the impression from the gossip that the professionals in the department knew this, too.

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F: I'm sure that shows pretty quickly.

A: Yes.

F: Let's go back a moment and let me ask you a couple of questions.
One, did the President feel that McNamara had a grasp of economics?

A: Yes, I think he did. The President was a great admirer of McNamara in all kinds of ways, and often used him as a sort of sounding board on important economic policy questions. After he had pretty much decided what he wanted to do, or what the options were, he liked to get Bob over and try it out on him, and frequently did.

F: Would McNamara take an adversary role sometimes in this?

A: Yes, he entered in actively. We usually were happy to have him brought in because, on most things, he turned up on our side. He was against the tax increase, however, strongly against it, not on economic grounds at all but on political grounds. I think he realized--perhaps more than anybody else and perhaps sooner than anybody else--that the Vietnam War was going to be an awfully unpopular thing and that a tax increase would just make it all the more unpopular. He didn't relish that. The President used other people this way, too. He liked to bring in outsiders, even. Clark Clifford was called in on many occasions on an important decision. He listened to the opposing points of view, reflected on it, and then made some comments. Sometimes, after a while, he even wrote a note to the President. David Ginsburg was often brought in, too.

F: Did the President talk with you about shifting McNamara over to the [World] Bank?

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A: No. No, it was a surprise. I don't really know what went on there. Obviously there was some disillusionment and some difference of opinion that developed; although as far as I could tell, their relations were at least superficially very warm right up to the end. I saw no evidence otherwise.

We saw quite a lot of Bob. He was sometimes brought in for general discussion about economic affairs, as well as in the decision process. He was also brought in sometimes in the important showdowns of attempted jawboning of prices. I suppose that was because he was a business executive, who should have some insights into how we can put pressure on the offending businesses. Bob was always very supportive of the council and helpful. He often had ideas about how to approach business executives roundabout, through third parties, in order to persuade or put pressure on them--questions of strategy.

F: Talking about competitors, this is the way to get at Gardner Ackley, for instance--that sort of thing.

A: Yes. The President won't necessarily win by telephoning directly to the head of U.S. Steel, and telling him what to do; but perhaps he can have someone else talk to him who will advise him to try to be more cooperative. There were various intermediaries used, some of whose names still are not known and I don't know that I'm going to be the one to reveal them, particularly since I don't recall clearly all the details. There were some people whom you might be surprised to learn were used on some of these errands. That whole activity of

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jawboning is a fascinating one, in some ways it was the most interesting part of the job.

The President got very much involved and was intimately interested in every price increase. It was a personal blow to him as well as to the economy. He wanted to know what was being done, and he often gave instructions about what ought to be done. As a result of which I sometimes said some things I later wished I hadn't said. Yes, he was pretty heavily involved in it, not only with business but with labor, too, trying to get moderate wage settlements. There were a couple of occasions where he got the bargainers into the White House, locked them up, and said, "You don't get out of here until you come out with a noninflationary settlement." Those were some very interesting times A lot of tales to tell about that, but I expect Jim Cochrane will want to know more about that.

F: Where were you on March 31 when he announced he wasn't going to run again? Did you have any intimations of this?

A: I was in Rome; but I had no advance intimation. Well, no, I'll put it this way. Once the announcement was made, I could remember lots of times in which he had said he wasn't going to run again, or said

F: He talked on both sides of everything at one time or another.

A: But I must say I hadn't expected it to come down this way.

F: You hadn't expected to be active, though, in his 1968 campaign.

A: No, I was out of the country.

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F: Did he take an active role in trying to handle the balance of payments problem, or did he pretty much leave it up to the

A: Well, he had to get involved because a lot of the things that needed to be done or that some people thought ought to be done were very controversial. For example, there was a strong drive in the Treasury and elsewhere in the government to try to stop American tourists from going abroad, or to tax them, or that kind of thing. This is pretty sensitive stuff, and he wasn't going to stay out of that.

F: Did you get involved in that?

A: Oh, of course. The Council didn't have the central role in the balance of payments program; but we were pretty heavily involved. The Treasury has the principal action role in balance of payments matters. But there was a Cabinet Balance of Payments Committee, with a steering committee which consisted of Council, and Treasury, Budget Bureau, Commerce, maybe, and perhaps the Fed. And then a big committee which included State, Defense, Agriculture, the President's Trade Representative, and all kinds of special interests: for example, the Export-Import Bank. There were numerous successive crises and programs; they all kind of merge together in my mind at this point, without some time and effort to sort them out. But it was a constant, nagging problem. Runs against the pound, runs on the dollar, devaluations. The pound was a big problem all the time; it was always weak and threatening to cause trouble for the rest of us. And then we had the interest equalization tax, the capital restraint program, the efforts to cut down military and other spending

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abroad, what to do about the aid program, and all the rest.

F: Did the President ever talk to you about the ingratitude or whatever you might want to call it of Charles de Gaulle?

A: Not personally. However, on several occasions I heard him squelch people who wanted to take off after de Gaulle. He was very clear that wasn't good tactics, wasn't useful. He was always counseling moderation on that. I don't think he liked de Gaulle, and he hated Harold Wilson. Oh, did he hate Harold Wilson!

F: Did he just think he was inept or unscrupulous? He was, in fact.

A: He didn't trust him. He didn't trust him. I don't know why. A lot of these things came to be colored by Vietnam, again; and anyone who was outspokenly critical on Vietnam was a traitor, and so on. But he thought Wilson was devious. And he may have been, somewhat.

F: Well, you know there was a popular feeling in this country that de Gaulle was trying to push the dollar to the wall, don't buy French wine, et cetera. But the President in a way, for a rather strong and raw figure, could be enormously moderate or contained on occasions.

A: Yes, indeed. There was an anti-de Gaulle feeling in the administration, too. There were many people who really wanted to fight back in all kinds of ways.

F: But he was cooling you all the time.

A: On that particular thing, yes, and indeed on almost anything drastic that was proposed on the balance of payments.

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F: Did he worry or did he take pride in the fact that we had reared ourselves a pretty strong bunch of competitors now that in some ways could outcompete us?

A: I don't recall his ever talking about that. His understanding of balance of payments problems was pretty rudimentary; indeed, almost every politician's understanding of that was and is rudimentary. I guess he liked having us tell him--as we did perhaps more than anybody else--"Look, this isn't as bad as they keep telling you. It's not the end of the world if we someday have to devalue. We don't propose doing it, but . . . "

F: There never was a confederation, really, except shop talk?

A: No. Not significantly, no. I remember that, fairly soon after he became President, finding that he knew absolutely nothing about the balance of payments. We really worked very hard on a series of memoranda trying to lay out the balance of payments problem for him in the simplest, the clearest possible, the most fundamental way. It was too much to do in a single memo; so I think we gave him a series of three or five. He loved them. He just loved our memoranda because we were willing to try to make things clear and understandable. I've probably talked about this before, haven't I?

F: Yes, and the fact that he'd pull them out days later and tell you a paragraph from them.

Can you think of anything else we ought to get into?

[End of Tape 1 of 1 and Interview II]

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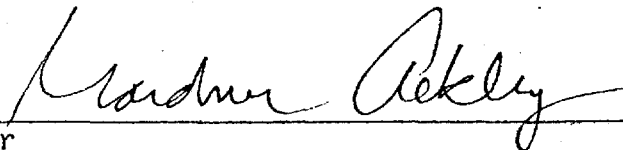
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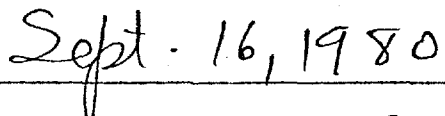
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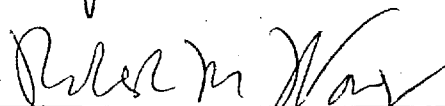
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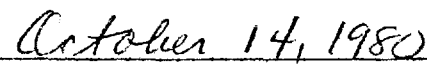
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