

INTERVIEWEE: JOSEPH BARR (*Tape #1*)

INTERVIEWER: JOE B. FRANTZ

August 25, 1969, Washington, D.C.

F: This is an interview with Mr. Joseph Barr, formerly Secretary of the Treasury, in his office in Washington, D.C. The interviewer is Joe B. Frantz. August 25, 1969.

Mr. Barr, first of all, tell us just a little bit about what brought you from Indiana and DePauw University, and so forth, right on into a life in Washington.

B: Mr. Frantz, back in 1958 the Democratic party in Indiana faced a peculiar circumstance. As in many big city parties, they try to achieve balance in the ticket, but they found that nearly everyone on the ticket was a Catholic and they were looking for a Protestant to run. I had served the Democratic party in Marian County, Indiana, which is the county that houses Indianapolis, and also the state in a capacity as treasurer of the political party. I'd sign the checks for all the party workers and I got interested after the 1952 election when the party was bankrupt. And though I hadn't had much political experience, I did decide it was dreadful that a party like the Democratic party should be without funds. So I had served four years as treasurer of Marian County. I had assisted the state party and some gubernatorial campaigns and when it came time to look for a candidate for Congress, a Protestant especially, they looked around and decided, as I was at least known to the party, that maybe I'd be a good candidate. So the party bosses offered me the nomination, said it was all locked up. I discovered to my dismay that it was not, and I

had to campaign like mad and I won the nomination by--really the party nomination, the convention--by seventeen votes out of a thousand. So it was no landslide by any means.

F: A cliff-hanger?

B: It was a cliff-hanger. We moved into the 1958 election with one big advantage. There was a recession that had started in the fall of 1957 and an industrial town such as Indianapolis felt the brunt of the recession and, consequently, a Democrat had a better chance in what was traditionally a Republican stronghold. In addition, we had a very strong local ticket and I managed to get elected by about 51-52-percent of the votes--just barely squeaked through.

F: Do you have a situation in Indiana in which it's sort of Indianapolis against the remainder of the state politically, such as you have in Illinois and Chicago?

B: Yes, that's roughly true. That's about the way it works in Indiana as it does in the other states that you mentioned. I was running, as I say, however, only from the county that embraced Indianapolis. I ran quite strong in the cities. I did fairly well in the suburbs and managed to squeak through and defeat the incumbent. One of the chief factors, I think, in this election was the fact that the then-Majority Leader of the Senate, Mr. Johnson, came to town and campaigned for Senator [Vance] Hartke and for me for two days.

F: Had you known Senator Johnson previously?

B: I had not. This was my first opportunity to meet Senator Johnson. He came in, he had a rapport with the Midwest. He does quite well in a state like Indiana. They know him, they understand him, they liked him. And there's no doubt in my mind that he was a very crucial factor. He tells

one amusing story about the night that he was introducing me to a great rally and he was telling the audience what a great man I was. And he would lead up to saying, "This man has this and he has that, and he's just the man for the office." But he couldn't remember my name. So he'd back off and start in with a big flowery introduction again, but he got to the place and my name had slipped his mind completely. Finally--I was sitting in the back row of the platform--I yelled up. I couldn't stand it any more, and I yelled, "Barr, Joe Barr." This is the story he tells with great amusement. But there's no doubt that he was a crucial factor in electing me. The first person I called after I was elected was Senator Johnson, and he told me at that time, "All right now, you're elected. Now you--"

F: How do you think he got interested in you?

B: I don't know. The Senator, later the President, has this facility--at that time I was 39. We just seemed to like each other. He liked me, and he asked me some very tough questions about Indiana politics. I answered him honestly. I think he knew that I was answering him honestly, and I guess he just decided that I was the sort of man that he wanted to have in the Congress and to be a friend of his.

F: What did you do mostly? Go to rallies, or did you contact leaders of the party?

B: No, at that time we were running--. This was in the election, so we were working with the people and it was mostly Democratic rallies. He was for any kind of a rally that he could find that he was speaking to. He was extremely effective, as I said. I think, very possibly, [he] made the crucial difference. When you're elected by one point, you know, a factor such as the then-Majority Leader can make a big difference. He also was

a good friend of the newspaper publisher in the area, Mr. [Eugene] Pulliam, and it seemed to me that my press was better.

F: Frank McKinney is out of Indianapolis too?

B: That's Frank McKinney out of Indianapolis too, that's correct. When I called him, he said, "Now you're elected. Get in there, and the first thing you do is write a handwritten note to Speaker Rayburn and tell him how much you're going to enjoy the privilege of serving under him. And say that you want to talk to him about the committee that you want." I had been trained in finance and banking and had a business career, so the Banking and Currency Committee was the one I wanted. And I did precisely as he indicated. I did go call on the Speaker. The Speaker helped me out with the Ways and Means Committee, who determines the appointments. I got the committee I wanted, and that started a fairly close association with the Majority Leader that lasted all the time I was in the Congress.

F: You saw him or talked with him, either by telephone or in person, off and on during the remainder of his Senate career?

B: Yes, that's correct. I went out with him once or twice on speeches. George Reedy was then writing his speeches, and I assisted in very minor ways with some of the speeches that he made. And while I cannot say that I was a confidant at that time, we did know each other, we admired each other, and we had a very close relationship.

F: As I recall your Congressional career, you were active on the House Banking and Currency Committee.

B: It was peculiar. I was the first member of the House ever elected with a graduate degree in economic theory. I had a graduate degree in economic theory from Harvard. And at that time, the House was engaged in some very

perplexing economic matters. They were doubling the capitalization of the International Monetary Funds. They were doubling the capitalization of the World Bank. They were creating the International Development Association. They created the Inter-American Bank. They were just beginning to find out that back in 1959 there was such a problem as balance of payments. These were rather esoteric areas and my academic background stood me in very good stead. As a matter of fact, Speaker Rayburn and some of the leaders used me more as a staff man rather than a freshman Congressman.

F: Staff man who can vote.

B: That's right. Mr. Sam would run me around town to talk to this man or that man and Mr. Spence, the chairman of the committee, would use me to run around town, and, in effect, the country, to dig up information and come back and report to him in understandable language on some of the very complex economic problems with which they were confronted.

F: You helped write the bills for the Inter-American Bank and also for the International Development Association?

B: That's right. I did.

F: I'd like, if you don't mind, for you to elaborate a little bit on what your problems were since these became such great agencies throughout the '60's and have been so significant.

B: The problems were, in the case of the International Development Association, these: the World Bank under Mr. Eugene Black had done a magnificent job in really trying to rebuild the world. But they were rebuilding and making their loans on a hard currency basis. In other words, they'd loan a dollar. They'd loan it at the regular market rates, and they had to be repaid promptly almost on a commercial basis.

The problems they bumped into in 1959 were quite simple. Countries such as India, Taiwan, Korea, Pakistan, Latin American countries, found that they had more debt than they could service. In other words, they couldn't take out another commercial loan on commercial terms of, say, five to ten years at commercial rates. They just couldn't earn that much money. So the International Development Association was an organization in which all the developed countries of America and Europe joined to make loans at concessional rates--very, very low interest rates. Nothing for the first ten years, and then a half or one-and-a-half percent for the next twenty years. They were fifty-year loans. In other words, these were what were called "soft loans," to get capital into these countries without loading them with heavier interest payments. That was the idea. It got into difficulty--and it still has difficulty--because the Congress said, "Well, we don't mind helping out with commercial loan operations, but this is too much like foreign aid--like giving it away." That was the difficulty we ran into.

Now with the Inter-American Bank, the Latins had felt for many, many years that they needed a bank of their own. They said that they're different from the rest of the world, and they needed their own bank. Frankly, I was reluctant to split up the global approach we'd followed in the World Bank, but I was finally convinced the Latin Americans were such a special case that maybe they needed their own bank, so I helped write and defend that legislation.

F: Do you think this need for a bank for Latin America came out of sort of a nationalistic pride, or do you think--?

B: Yes. If you'll remember, Mr. Nixon had certain problems down there about that time. They were throwing rocks and eggs at him. It came out of a

certain feeling in Latin America that the United States was paying no attention to them--putting all its attention on Europe and Asia.

F: Did Congressmen ask you questions on these ten years of moratorium on collections and then half-percent, or one-and-a-half-percent interest rate. That doesn't keep up with the inflationary spiral, so in effect, why charge any interest at all?

B: I think we felt we had to charge some. We didn't want these grants. And the loans are repayable in hard currency. In other words, you make a loan of a dollar, you pay back a dollar. So we got it through, and I've been very proud of the achievements of both of these institutions. I think it's a very worthwhile operation.

F: Did you have any idea at all of how much Senator Johnson might be interested in this development?

B: Yes, I did, especially with the Inter-American Bank. The Senator has had very close ties with Latin America. He knew Mexico and had a strong feeling of sympathy for them and, especially with that one, he was very sympathetic and a great supporter.

'59 was an interesting year too, as I mentioned, because this was the first year that anybody ever realized that we had a balance of payments problem. This was something brand new to the United States, we'd never really ever encountered it. And we finally ran up against the place, and began to realize that as a nation we were spending more internationally than we were earning. As a result, more dollars would be out at the end of the year than were floating around at the beginning of the year. We found countries increasingly reluctant to hold more and more dollars in the reserves, so they were putting their reserves to us for gold. And at that time our gold reserve started running down, and running down quite

rapidly. Nobody knew what to make of it. This was a completely new era. I went out with Congressman Morehead in the fall of '59 to tour the financial centers and to find out just what this was all about. Because some Congressman--Jim Hailey of Florida--asked me at that time, the time we were doubling the resources of the International Monetary Fund, whether we could afford to give the fund the contribution that was called for--roughly four hundred million in gold. I said I didn't know--that was the answer I gave him on the floor--but I'd come back and report. And that got me into balance of payments, which I had not looked at since I was a graduate student at Harvard, and into this whole flow of international finance which has blown up into such an important subject in the last decade. That's the first of it, and I was in on the start of that, which I lived with all the rest of the time I was in the Treasury.

F: Did you have a problem in these early days of selling anyone on the fact that it was crucial?

B: Oh, yes. The government didn't even agree on it themselves. In 1959 I remember the State Department said that we probably didn't have any balance of payments problem. The Treasury was deeply concerned. They said, "We can't continue forever spending more overseas than we're earning." I think the Federal Reserve Board agreed with the Treasury. The financial end of the government agreed that there was a problem, that we had to meet it. The State Department was not so sure, and I don't think the Administration--they finally--.

Late in 1960, you'll remember Secretary Anderson went to Germany and tried to get the dependents, get some of the troops home, or get the dependents home. And there was a big political hurrah about it at that time. But that was his [Secretary of Treasury Anderson under Eisenhower]

first move in an attempt to hold down some of these foreign costs that we were incurring as a government.

F: You served on the Hoover Commission in there too.

B: I did some accounting work--I did some work in government accounting. I felt that government accounting--

F: You must have been busy.

B: There were a lot of things I enjoyed. There were a lot of these economic issues that were up that nobody else seemed to enjoy and I did enjoy. I felt that government accounting left a lot to be desired. And it was so confusing. It was just terribly confusing. Here I was--spent my life in business. I had a graduate degree in finance and banking and I couldn't understand what they were talking about. I simply couldn't understand the appropriations language. I couldn't understand the authorizing language--so enormously complex that only a few of the old timers, I felt, could understand it. I thought that this was disgraceful, and I started then trying to do something about it, trying to implement some of the recommendations of the Hoover Commission. We finally got that thing done in 1958 [1968] when I was Under Secretary of the Treasury.

F: '68.

B: 1968. It took us ten years, but I felt the time I spent on it was well worth it. We left the United States government with a budget now that can be understood.

F: Did you not have uniform accounting by departments?

B: It was all screwed up. Some departments were on an accrual basis; some were on a cash basis. You had these ridiculous things that you loan money--. This was an expenditure. When money was paid back, it was a negative expenditure. We still don't have depreciation. You don't depreciate

an asset when you build a building. Why, you're spending money, not investing money! It was really just a mare's nest.

F: You really had to learn a new language.

B: Completely. This was like nothing else at all. And what we finally got, as I said, in 1968, was an accounting system that's much closer to an accounting system that you or I know in business or in our private lives.

F: My own background specialty is American business history. One thing that always struck me is that the failure of most business is more due to improper accounting than any other one reason.

B: Precisely.

F: Not knowing where money flows.

B: That's right, precisely. And the same thing can be true of a government. This current fight to get control of the budget, you know--These enormous demands that we have on the budget are precisely a reflection of that.

F: Then you became the Assistant Secretary for Congressional Relations.

B: That's correct. I was defeated--

F: How'd that come about?

B: Well, I was defeated in my race for reelection.

F: On any particular issue?

B: Yes. It's a tough thing to say, but the truth of the matter is that it was race. I ran twenty to thirty thousand votes ahead of President Kennedy in the election, but that still was not enough. He went down by about fifty thousand, and that was the margin I lost by. I lost by twenty thousand. He lost by about fifty, and I think it was--. It's a terrible thing to say, and I don't have any bitterness for the people back there. It was an issue and that took us down. So I was defeated, and I'd packed

up and I'd gone home.

F: Did Mr. Johnson help you at all in this campaign?

B: He didn't, unfortunately. He came into town once, but he really didn't have much time to help in this campaign. After all, he was [running for] Vice President.

F: He was running on his own.

B: He was running his own and he really didn't have too much time to help. So I was defeated and I'd gone home. My brother and I had our own business back there, and we'd acquired another one. I was getting ready to move my family, and Secretary Dillon and President Kennedy thought they needed me back in the Treasury. It was difficult to find people with the business-academic background that I'd had, with the political expertise. And they knew they were going to have a lot of trouble with the Congress, so they asked me to come back and take over that.

F: Had you known Senator Kennedy?

B: Yes. I had known Senator Kennedy rather well. I knew him vaguely when I was in college at Harvard. He and I were also engaged in the United Negro College Fund. And when I was in the Congress, we used to go out and raise money on weekends for these little Negro colleges in the South. Yes, I'd known him quite well, and I'd known people like Larry O'Brien, who'd been around him, and Kenny O'Donnell and the rest. So I was known to them.

F: This was a Kennedy appointment, in effect, and not the Vice President exercising his options in this?

B: That's correct. He did help. I know he went to bat and recommended me, but I had thought at first that it would be fun to serve with President Kennedy. I wasn't going to hang around town, so I'd just gone home, and

I was establishing a new business when I came back to town on about the 15th of January and they asked me to stay.

F: You didn't have much notice, did you?

B: No, I had to unwind. But I got back here and started in with them on about the 21st or 22nd of January.

F: No confirmation problems?

B: No.

F: Then you, somewhere in there, became Chairman of the FDIC.

B: That's correct. In 1963 they had this opening as Chairman of the FDIC, and President Kennedy decided to--I told them I was bored with what I was doing, running Congressional affairs in the Treasury, and they said, "Well, why don't you think about doing this." And President Kennedy announced his intention to appoint me as Chairman of the FDIC after I had passed the big tax bill that we had in the house. This was 1963, we had a big tax reduction bill, and the understanding was that he would send my name forward when the tax bill was out of the road. In the interim, President Kennedy was assassinated. President Johnson called me on a Saturday. This was on a Friday, I believe. No, it was the first Saturday after the funeral, and I was up at the Army-Navy game with some of my friends in the Defense Department. He called me and then he told me to get in there on Monday morning.

And I did get in to see him Monday morning. I think I was--Maybe Tom Mann was his first appointment. I think I was his second. He told me he was proceeding with it and was sending my name forward. But the understanding again was that they weren't going to act on it until we'd passed the tax bill, but he did send my name forward and it was then under consideration. And I was very definitely a Johnson appointment at that time.

- F: Is the policy in the FDIC pretty well fixed? Is it mainly a top management job? What does the chairman do?
- B: There's ~~not~~ a lot of policy to do in the thing. You insure all the banks, and what you do is you regulate and examine the state banks that are not members of the Federal Deposit Insurance--not members of the Federal Reserve Board. These are mainly small banks that you're charged with. I enjoyed it. The President told me it was a great opportunity to learn the United States. And I was out two or three times a month, speaking all over the country. And I did get to know the country.
- F: Probably got to places you wouldn't have gone otherwise.
- B: Precisely. I got to know how it felt in Memphis and Butte and Sioux City, Iowa--from one coast to the other and from the Gulf to Canada.
- F: I would think that would give you excellent contact now for your correspondent banks.
- B: It does. It gave me a feel of the country that helped all the time that I was in the Treasury and right straight through.
- F: Then you became Under Secretary in April of '65.
- B: That's right.
- F: What occasioned that move?
- B: Secretary Dillon was leaving and when President Johnson decided to appoint Mr. Fowler--I think he had under consideration at that time--at least, he had talked to me obliquely about replacing Larry O'Brien, who was going over as Postmaster General in the White House. I made no bones of the fact that moving in the White House was not my idea of where I wanted to go. I wanted operating authority. I felt I'd been on staff authority long enough and that I would much prefer operating authority. So when he appointed Mr. Fowler, he asked me if I would--he and I had been associated

in the Treasury for a long time--if I'd be interested in Under Secretary. I said I most certainly would. And he persuaded the President to forego his ideas of taking me into the White House and letting me come over to work with Secretary Fowler as his Number Two man.

F: Again, no confirmation problems?

B: No confirmation problems at all.

F: We'll get on through the appointments, and then we'll come back on some of your career. Then you became the Secretary of Treasury when Mr. Fowler resigned?

B: That's correct.

F: Was this foregone, that you would succeed him?

B: Yes, I don't think the--. The President and I had had a very close relationship all the time I was in the FDIC and all the time I was in the Treasury. And we did a lot of yelling back and forth. He did most of the yelling, I must say. But when Secretary Fowler decided to move, he had informed me that I would succeed him. One rather amusing part of this whole episode was that he sent my name forward to the Senate and I did not need to be confirmed. This was an interim appointment after the Congress had recessed, but the chairman of the Finance Committee, Senator Long, and a senior Republican, decided that they wanted to confirm me.

F: For what reasons?

B: I don't know. I think Senator Long, out of personal fondness. We were very close.

F: He wanted--

B: He wanted the official stamp of approval. I think Senator Williams, who was also a very good friend--

F: Is that Delaware Williams?

B: This is Delaware Williams. I think Senator Williams felt that he didn't want anybody sitting down there as Secretary of the Treasury even for thirty days without the Senate's stamp of approval. So they did confirm me unanimously in the Senate without a hearing. They said they'd confirmed me so often they didn't need any more hearings.

F: They knew all you had to offer.

B: That's right.

F: Let's go back. When you handled Congressional relations for the Treasury Department, did you work both Houses?

B: Oh, yes, indeed. I worked the House as well as the Senate. And it required almost a knowledge of every member, Republican as well as Democrat, because Treasury legislation is inevitably very controversial. This is where the parties split. They usually split as clearly on economic policy as anything else. Consequently, you need every vote.

F: Is there just about as much emotionalism as there is hard economic sense in some of these economic issues?

B: No question about it. A lot of them--a lot of the arguments revolve around cliches or myths or what they think is right or wrong and quite often the hard economic reasoning is lost in this. You don't hear as much of it as you do "balance the budget," "don't get in debt," "deficit financing," "gimmicking the books." All these cliches fill up the debates, and sometimes the debates are not as good as they could be, for that reason.

F: How did you get on with Representative Mahon?

B: Very well. He's a great man and a very kindly gentleman, and I got along extremely well with him. Also, with Chairman Mills of Ways and Means.

F: I was going to ask about him.

- B: Yes. He's a very powerful man and his colleague Mr. Burns, the Republican, senior Republican. My relations--We disagreed quite frequently but I think they always knew it was an honest disagreement and I had a vast respect for their judgment.
- F: You could always talk to them with the idea that they would listen.
- B: Yes. They would listen. A good part of the time they wouldn't do what I was asking, but they knew--it was a very close relationship--they knew that I admired their judgment and that mine was a point of view. So we'd discuss these issues as men and really try and do the best--.
- F: Do you think it was a plus for you to have been a Congressman?
- B: To an extent. Nothing hugely important.
- F: Did they identify you in a wrong measure with the opposition party in Congress?
- B: Not specifically, I don't think. I never felt that. I had many friends on the Republican side and I still do. We were dealing with issues that were so controversial, so closely for the good of the country--to the future of the country--that I think that they all did their best.
- F: Did you find Carl Hayden fairly easy to work with?
- B: Yes. The old gentleman was a wonderful gentleman. He was amazingly astute.
- F: He had not lost his grasp?
- B: He had not. I found all of them--Senator Harry Byrd turned out to be one of the best friends I had. I did feel at the end that Senator Byrd was slipping a bit. I never did feel that about Senator Hayden. Oh, there were some wonderful people. The greatest people I've ever known. Senator Byrd and old Senator Kerr, who has since passed on; John Williams of Delaware--that's a great group of men. It was a real privilege to work with them. I don't mean that as a cliché, these were fellows--I had one

advantage as a Congressman--I knew that these fellows had to take these difficult economic issues and explain them to their people. And if I did anything well, I think it was the ability to translate these very difficult, esoteric economic issues into language that they could use when they went back for election.

F: You just practically wrote a layman's handbook.

B: I did my best to, because I felt that was crucial. You had to keep them with you there.

F: All right. Now then, the President was murdered down in Dallas and you have a new President. Did it ever occur to you to get out of the new Administration, or was the transition just automatic for you?

B: It never occurred to me in the slightest. As a matter of fact, I don't think it ever occurred to President Johnson. As I indicated to you I was the second man that he called in, and he just said, "Get over there to the FDIC and let's get going and pass that tax bill."

F: In one sense this transition came at an interesting time because you did have this tax cut problem. Would you go a little bit into the background of the tax cut idea, the origin, because as you know it was dynamite at the time?

B: The origin of it was a feeling that Walter Heller and Doug Dillon, Fowler, and I all shared. That the tax system we were living under was unduly oppressive. That it had been contrived, it had been designed during World War II. This was, in essence, a World War II tax, and it was designed to hold down consumption, to hold down spending, to hold down investments, so that we'd have enough left over to fight a war. We'd clearly moved away from any such environment. We were now in an environment where we were not using our labor, our plants, our equipment or our

savings as completely as we should. Our thesis was that if we brought the whole tax schedule back into a peacetime posture with less impact--with [a] much less burdensome tax system--that the private economy would surge ahead and we could well end up with more tax receipts than we would if we kept these very burdensome taxes on at the very, very high rates. This was not easy to sell. We did manage finally to get it sold in the House. Senator Byrd was ready for us in the Senate, and one of the first issues that confronted the President was how was he going to get this tax bill through the Senate. Because Senator Byrd really had his feet dug in.

F: Let's go back just a second before we get to that. Did you have to educate President Kennedy to this viewpoint?

B: Yes, but he grabbed it rather quickly. He admired Mr. Heller, and we really didn't have much difficulty.

F: What about Johnson?

B: Oh, no. President Johnson was sold with it all the way along. We all agreed.

F: There was no problem with convincing him then?

B: No, there was none at all.

F: He came in then, as far as he was concerned, with a clear-cut issue?

B: That's correct, and he thought it was the most important issue that confronted him at the time. I don't believe that's an exaggeration. I would say it was probably, if not the most important, one of the most important issues that he faced at that particular moment in time.

F: All right, now let's pick up what you were going to talk about, the problems in dealing with Congress.

B: All right. The problem with Senator Byrd in the Senate was that we were

coming in with a budget that looked like about 101 or 102 billion, and the President was convinced that if he could get it down under a 100 billion, then the Congress would see that we meant what we were saying; that we were going to cut taxes, we were going to keep a very, very tight lid on expenditures until the economic impact of the tax bill had rolled through the Congress. So he really shaved that budget, mostly in defense, he whacked off an awful lot in defense. Got it down to, as I remember, 97-1/2 billion, sent the budget up. This came as a big shock to everybody; Senator Byrd thought it was great. From that time though, Byrd's opposition weakened, or just disappeared, and the bill rolled right on through. We finally passed it in February. President Johnson's decision to get that budget down under a hundred billion was really crucial.

F: Had that been your stalling point previously?

B: Yes. It was developing into the stalling point in the Senate; that was where we were in trouble.

F: Yes. Now in February '64, which is pretty new in the new Administration, the Treasury got defeated on the matter of funding the IDA.

B: That's right. Was it February?

F: It was pretty early.

B: February or March? It was early in that time. I can remember that well. We'd just passed the tax bill after a lot of ruckus, and President Johnson thought that we had messed up on quite a few things as we went along, and he had to straighten them out.

F: Messed up how, may I ask?

B: Well, the day I was down being sworn in as Chairman of the FDIC they were just completing the action with the Senate Finance Committee. Secretary Fowler was over swearing me in. He was Under Secretary at that time, and

we were supposed to be running this bill. The Finance Committee got off the rails and practically repealed, in one morning, about half the revenue code. And I remember President Johnson was very irritated indeed and he said, "Now listen"--. He swore me in and got us into the room and said, "You get back up to the Senate and get that thing straightened out and don't come back until you do." So Fowler and I had to go up and get it straightened out. We did get it straightened out with the Finance Committee and reversed the early morning vote. And then we had two weeks on the floor, two or three weeks on the floor of the Senate which was awful bad. We got through a good bill, went to conference, got it done, were signing the legislation. By that time I was out of the Treasury, I was Chairman of the FDIC, and I came over to the big signing ceremony. I'd turned over my duties to Mr. Bowman, who was at that time in charge of Congressional Relations, and IDA was recommitted on the floor of the House. I can remember the President grabbed--I was over there getting my pad and he grabbed me and Larry O'Brien as we left and said, "What in the world did you fellows do today?" So although I was Chairman of the FDIC, I had to spend a lot of time getting the IDA put back together--helping the Treasury back on it.

F: What was that, just a matter of individual buttonholing and staying with it?

B: Yes, we had to go get a lot of Republican votes. This was, in essence, a Republican measure and we had to get a lot of Republican votes.

F: Were you involved in the various coinage problems that occurred between '63 and '65?

B: Very much so. We were running out of silver at that time and we knew we had to do something. We couldn't continue to mint the silver quarter, so

the Treasury had been looking into possible alternatives for several months. The alternative they came up with was this sandwich coin. It was cupra-nickel over a copper core, and it looked terribly ugly to me. But it did work in the vending machines. It had the same electrical resistance as the silver quarter. And it did work in the vending machines. Nothing else would. So I came to the conclusion this was all we could do. But I was truly reluctant to show this to President Johnson, because I thought it was such an ugly coin. We finally did screw up our courage, but the one way we sold him the whole idea was that this involved a profit in seigniorage, the difference between what it cost to make the coins and their face value of six or seven hundred million a year. He was a little easier to sell after we could show him and told him this..

F: What about the JFK half dollars?

B: The JFK half dollars--we had to convert them from pure silver to an alloy a little bit later, which we did. It's 40-60 alloy, but we just managed to get through the silver crisis before we really ran out. It got very close there for awhile.

F: Is this an Administrative decision, or do you have to play with Congress on this?

B: Oh, you had to get the law changed. Congress coins money and regulates the value thereof.

F: Was this a problem?

B: Yes, it was a problem because the Western states had traditionally been oriented toward silver.

F: In the early summer of 1965 you put through a new tax law in which you repealed the excise taxes on automobiles, telephones, and so forth, or lowered them.

B: Right.

F: What's behind this?

B: First of all, we wanted to get rid of these excises. We felt they bore very harshly on the lower segments of the income strata and we wanted to get rid of them. They were a messy tax and we wanted them out of the road, and it looked as though we could afford it. The economics were right. Unfortunately, I think history will indicate that this was a very, very bad mistake. We can be indicted for cutting excises and letting the second phase of the income tax reduction go through in a year where we're deploying 180,000 troops to Viet Nam.

F: Of course you didn't foresee the upsurge in the number of troops deployed. Do you think there were other inflationary factors at work that were overlooked?

B: No, the main one was the troop deployment. There's no question about that. Military spending is highly inflationary spending. You know, that's an interesting period in history. The President got sick that summer and I've always felt that we didn't get the right numbers. I thought that the real deep impact of how much we were going to spend just didn't show up. Nobody gave us the right numbers. So the President was sick and all through that fall, I went out--didn't get into Viet Nam--but I went into Thailand with Senators Cooper and Symington. And the military and intelligence people came over and were very candid in their description of what was involved. And I came back from the Far East in November of that year convinced that we really had a bear by the tail. I recommended to Secretary Fowler at that time that we consider getting our taxes up and do it quickly. That we were really confronted with a very, very serious situation. Strangely enough, I guess I was the only member of

the economic operation that ever got out in the Far East really, I didn't get to Viet Nam, who really talked with people on the ground. And my advice was not taken. In retrospect it looks as though it should have been.

F: Did you always find working with the Council of Economic Advisers a harmonious arrangement?

B: Yes, indeed.

F: No basic problem between the Council and the Treasury.

B: No, we relied on each other. We worked very, very closely indeed. I think the only blowup we ever had was in 1966, the fall of '66, when we started to work on our economic projection. And we all jumped on Charlie Schultze. He'd given us his projection for the military spending, and it had been 'way, 'way off in the fall of '65, and we all jumped on him and asked him if he was going to give us the right figures this time.

F: Now, President Johnson suspended the next year these tax cuts from '65.

B: Yes. We delayed the excise taxes, that's correct. And we also repealed the investment credit.

F: By then there was getting to be a feeling that maybe you were approaching a crucial situation.

B: No question about it. We'd gone through the credit crunch in 1966, which was a very, very dangerous situation. Obviously inflation was running very strong, and the Federal Reserve Board tightened up on the credit and we nearly ran out of credit that summer. There again, Bill Martin was sick--there's another interesting thing. He was sick that summer, and I think the Federal Reserve Board nearly went too far.

F: That's one reason for these interviews, of course; there's a human factor involved in all of this that can't be downgraded.

B: There's no question that there's a human factor.

F: At the time that you suspended your investment credits and so forth, did you get a fair amount of Congressional flak out of this?

B: Yes, got a lot of it.

F: What did you do about it?

B: Well, we rode it through because the credit crunch was so crucial. Everybody was so concerned about inflation and whether there was going to be any--. Home building had nearly ground to a stop. We got down to about a million starts. They decided something had to be done. So they did suspend the investment credit and they postponed the reduction in excises, and then things did turn around.

F: This credit crunch was at a time that the Federal Reserve raised the discount rate, wasn't it?

B: That's correct.

F: And did it without consultation with the economic advisers?

B: Not much, and we had a big fight at that time. That was one of the bitterest arguments that we had within the Administration.

F: Now your economy was beginning to heat then, wasn't it?

B: That's correct. It was more apparent to them than it was to us. I indicated I was in Asia at the time. We came back and I was coming back with a recommendation to get taxes up just at the time they were tightening on the credit side. So I was bound to agree with them, but I was about the only one who did. They had the right figures on military spending. We were wrong.

F: In general though, both the Council of Economic Advisers and the Treasury Department were somewhat irate over this raising the discount.

B: That's right.

F: Why would the Federal Reserve have seen this ahead of these other two agencies?

B: The explanation they give is that they were paying attention to what Senator Russell and Senator Stennis were saying in the area of military spending and weren't paying any attention to what the Defense Department was saying. And they turned out to be right and we were wrong. The Defense Department figures were off 12 to 15 billion dollars. They had to come in with a supplemental that large, while Senator Russell and Senator Stennis were saying every day that this was the amount we were going to be spending. So the Senate was right and the Defense Department was wrong. They chose the right experts. We chose the wrong ones.

F: I was going to say, would your Congressional leaders have a more realistic grasp on this?

B: Well, they did. Whatever the story is, I don't know. Somebody's going to have to--. That's one of the great mysteries--what happened to the figures at that time, but we had the wrong figures. There's no question about it. The figures were absolutely wrong. They were underestimated about 12 to 15 billion spending, and I hope that we were reasonable enough men that had we known the right figures, we would have taken a different course of action. Because the country paid rather heavily for this--paid a heavy price--which we're still paying today, because we let inflation get ahead of us in 1966.

F: You put on the tax surcharge in 1968--was this a matter of political timing? Would it have been better in '67?

B: Yes, we recommended it in '67. In the budget message it was recommended. We sent the message up along about May or June, and they started hearings. And the Congress was really very upset with this on-again off-again tax

policy. They had taken off the investment credit in '66, in the fall; they slapped it on again in '67. We'd come up with a tax bill in '67, and they said, "Well, this is just nonsense." And we got in a terrible donnybrook up there about whether or not we should raise taxes, or whether we should cut spending. It was impossible to cut spending in the midst of that war--really to cut very effectively--and that was what the argument went on [about], and it raged on through 1968. If we'd raised taxes in 1967, it would have been a much better situation. One of the big mysteries is that nobody has ever figured it out. We had a sick President. How we ever made such a mistake, I don't know.

F: Has our economy reached a sort of sophisticated and even delicate level, where you ought to yearly either impose or reduce taxes to keep it somewhat in balance, or is Congress right that maybe we ought to get a policy and stick with it for years?

B: I think the economy is so sophisticated that the President should have the right--very definitely should have the right--to vary taxes of about 5-percent on either side of a norm, and I think he should do it with his budget message every year.

F: You would defend the on-again off-again as a necessity.

B: Absolutely. Otherwise you're forced to rely completely on monetary policy by the Federal Reserve Board, and that has some very disturbing consequences. Whenever you tighten monetary policy, it kills home building right off the bat.

F: The Federal Reserve Board operates pretty independently. How does Treasury get its message to the Federal Reserve Board?

B: The Chairman of the Board eats lunch with the Secretary every Monday morning. This is an old, old procedure. Then they established, under President Kennedy

I think, an operation called the TROIKA. That's a three-man operation composed of the Treasury, Council of Economic Advisers, and Bureau of the Budget. Under President Johnson, it was expanded to a four-man operation called the quadriad, and they brought in the Chairman of the Federal Reserve Board to give to the President every two or three months their joint analysis of the economy and what should be happening. So we had a very close relationship with the Federal Reserve Board. As I say, the Chairman talked to us every Monday. Every Wednesday our staff people went over and ate with their staff people, so there was a very close relationship.

F: In this joint report that you give the President every several months, is there a minority report?

B: No, this is verbal. It's agreed on. There are places where someone will dissent, but it's a verbal report.

F: Back to taxes. You tried to impose the travel tax in the beginning of '68.

B: Yes.

F: Tell me a little bit of that story.

B: The British had devalued in the fall of 1967, and this immediately threw a very, very heavy burden on the exchanges. It also created an enormous speculation in gold. We were losing gold at a tremendous amount, and the troublesome old balance of payments problem that we'd lived with for ten years came back to haunt us and haunt us with real force. We were making a desperate attempt to show the world that we were going to try to cut our spending back to our income in international affairs; and travel, of course, was one area where we were spending a huge amount, more than we were taking in, and obviously one area where we were going to cut back. We also thought

it wasn't fair to cut back on bank lending, corporate spending, to hold the military back, unless we did something about travel. So that's the reason we threw in the travel. It didn't last very long. The American people were outraged.

F: Were the American people outraged, or was Congress outraged?

B: I think the American people were pretty outraged. It really hurt to put that tax in. I think a right to travel is sort of a basic right of an American. Right to speak, and write, and assemble, and the right to travel are basic rights of an American.

F: It was in a sense a desperation measure then?

B: It certainly was. After we passed the tax bill in--. We got into luck about that time. We passed the tax bill in '68 about June. Then the French had had great difficulty with their May riots. They lost a lot of reserves and that took off some of the worst pressure from us. Then the Russians very conveniently invaded Czechoslovakia, and that scared Europe to death, and all the money ran out of Europe and came to the United States so we ended up really in amazing statistical fashion.

F: Smelling a lot sweeter than you should have.

B: My goodness, we ended up--I closed the books as Secretary of the Treasury with a budget in surplus, projecting another surplus, with my payments in balance, on both accounting systems with the country fully employed. The only black mark we had was that prices were going up too rapidly, but it was statistically an amazing series of figures.

F: Incidentally, on that matter of surplus, President Johnson was always accused of manipulating the budget, and the figures, and so forth. Will that charge stand examination?

B: No more than any other President. I think all of us tried to. As a Democrat

I can remember screaming about Mr. Stans when he was Budget Director gimmicking the books. We thought he'd worked out every gimmick he could find, but we found a few of our own. But one great thing that President Johnson did was to create this new commission which now gives us a budget which you don't need to gimmick, which is pretty straightforward. For the first time in history.

F: Did you get a feeling from your association with President Johnson that he understood the budget problems?

B: Oh, my goodness, he understood it and he had it in his head. He could reel off figures as fast as anyone I knew. He either had them in his head or his coat pocket. He lived with those figures day and night. I've never seen anyone who was better with the budget process, who understood it more thoroughly than President Johnson.

F: Let's talk briefly in the little time you have left here about the circumstances around which you raised debt limitations. You went through several of those.

B: Oh, yes. That's just an issue of sort of frustration. The Congress feels that they use the debt limit as an attempt to hold down spending, and it's absurd. You hold down spending by reducing your appropriation, but this was just sort of an issue of frustration, and each time we'd pass it by two or three votes.

F: It was kind of like going back to the same old fight--like a fight with a nagging wife.

B: That precisely. Just nonsense, absolutely nonsense.

F: Okay. Well, thank you for now.

B: Fair enough.

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By Joseph Barr

to the

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