INTERVIEWEE: JOSEPH BARR (Tape #2)

INTERVIEWER: JOE B. FRANTZ

January 16, 1970

F: This is the second interview with Mr. Joseph Barr in his office at American Security and Trust in Washington, D.C., on January 16, 1970.

We were talking last time, Mr. Barr, about the problems of the raising of the debt limitations. I thought we might elaborate just a little bit on that--on how that could be handled, how you think it should be.

B: The Congress, because it has a sort of fragmented approach to the whole question of spending money, occasionally gets frustrated. The President really looks at his budget in pretty much an orderly whole. He starts in in the fall, and he'll get his preliminary estimates. The Council of Economic Advisers will go to work on what the economy is going to be. The Treasury takes the Council's projects and says, "This is what our revenue's going to be." In light of all these estimates that are coming into him, the President can make a determination as to how he wants to proceed, what priorities he wants to put on different parts of our federal program.

The Congress, however, is the one that has to say yes or no to the President's request. When they get the President's messages and requests for expenditures and taxes and everything else, they slice it up into packages and go to work on it in packages. This fragmented approach that they pursue gets them all mixed up. Occasionally they get excited and spend more money in areas than the President wants to, or maybe they would realize were prudent, if they were looking at the whole picture.

This frustration is most evident I think in the debt limit exercises.

At that time they add up all the bills and they see, "Well, the Treasury is going to have to go out and borrow more money than they had anticipated in the beginning of the year to pay the bills the Congress itself has voted." Then the Congress, in a fit of self-righteousness, says, "Well, we just won't let the Treasury go out and borrow."

Of course this is a bunch of nonsense, because actually what they should have done in the first place is refuse to vote these big bills that they're running up. But they don't do it, so in a fit of frustration, they try to control what the President has done and what they themselves have done by putting a limit on the amount the Treasury can borrow. This is just sheer nonsense.

This game is played much more effectively when you have Democratic President. Democrats don't get all upset about raising the debt limit. Southern Democrats do, but the majority of them don't get too upset. The people who make a big play out of this have been Republicans in the Congress.

I don't know if President Nixon will have this much trouble or not, but my goodness, we certainly had--

F: To a certain extent is this Congressional reluctance to raise debt limits--or to impose debt limits--is this because this is explicable to your constituency? Or do the Congressmen themselves not understand the fact that as my business expands my credit needs also grow?

B: I'm sure that you put your finger on it. It's easier to explain to a constituent that you're really all for economy because you refuse to let the Treasury borrow the money that it has to borrow to meet the public demands. I can't believe that any Congressman in his right mind can believe that refusing to vote for an increase in the debt limit to let the Treasury pay its bills makes any kind of sense.

There have been some who do argue that the President can hold down the rate of spending. In other words, the Congress can vote the appropriations, but the President doesn't have to spend the money. Now these people argue that holding down the debt limit will put a strain on the President. [There's] not much evidence that this is so. Really, it's sort of ridiculous exercise. It's one that the Republicans in the Congress seem to play with much more relish than the Democrats.

F: You've got several vantage points, which makes you close to being unique. One is being trained in economics and one is being a former Congressman, one is having been in the Treasury. Is Congress educable on this, or is this just something that we're probably going to fight the remainder of the foreseeable future?

B: I think exercise is becoming increasingly ludicrous, and when anything becomes sufficiently ludicrous the Congress backs off. I think it has about run its string. I don't think President Nixon's going to have too much trouble with it. I would doubt that it would be a matter of serious contention in the future. It's pretty close to demagoguery, you know.

What the Congress might well do, however, is what they did in 1968 in the tax bill--just to put a flat expenditure limitation on the government of the United States. In effect, what they do in that case is to give the President item veto. They tell the President, "Now, you can't pay any attention to the fact that maybe we voted 200 billion dollars in expenditures. We're telling you that in spite of the fact we voted to incur these bills, don't you spend more than 195 billion." And leave it up to the President to economize on the programs that they themselves have enacted. Now there may well be something to this. As I say, it does tend to give to the President what the Congress has never done, the item veto.

F: In other words, you've got a certain amount of money and here's what you can spend and no more.

B: That's right.

F: Regardless of needs.

B: That's right.

F: You have no way to anticipate crises which can be quite expensive. How do you guard for that?

B: We always crank in a certain contingency into the debt limit request. A real crisis you cannot anticipate. You must go to the Congress and get the permission to act. If it came at a time when the debt limit was very tight I would assume, especially if it were a military crisis, the Congress would act and act quickly. They can do it in a couple of days if they have to.

F: In March '68 in your last year in office, you had the problem arise of the removal of the gold limit for Federal Reserve Notes. There was some reaction against that. Would you like to give your assay of it?

B: This is one of the most hair-raising experiences I ever went through. You'll have to relate this, of course, to the whole question of our balance of payments issue.

The country became aware for the first time that it had a balance of payments problem along about 1959, when I was in the Congress. We became dimly aware that this was a problem for the country, that we were spending much more overseas than we were earning because of several reasons--because of our imports, in large measure because of our heavy military deployments over the world, and because of the foreign aid program. So we began to make an attack on this problem that was only dimly viewed in 1959. We began to make a serious attack on it in 1961. We had a little gold crisis as Jack Kennedy came into office.

When you spend more in the world than you earn, then you end up at the end of the year with more dollars floating around the world than there were at the beginning of the year. Foreign governments and central banks were becoming increasingly reluctant to hold more and more and more of these dollars. So what they were doing with these dollars was taking the dollars and turning them back into the United States Treasury and asking for gold--which was their right to do. Individuals can't get gold from the government, but central banks and foreign governments can. So starting in '59 literally huge amounts of dollars were being put back to the Treasury with requests for gold. The dollar gap, which everybody had talked about all during the '40's and the '50's--the shortage of dollars in the world--disappeared almost overnight, and a dollar glut developed.

We began, back in those days, trying to do something to economize on our overseas expenditures. First of all we put in under Jack Kennedy, a so-called gold budget, to try to isolate in our own federal expenditures just how much was being spent in foreign exchange. We really didn't have those figures. We knew we had a federal budget at that time of close to a hundred billion, but we didn't know how much of that was being spent overseas.

So we began to isolate it back in '61. At the same time we began to do all sorts of tricks and gimmicks to try to hold down the costs of our military deployment. One thing we did was enter into an arrangement with the Germans that because of the large costs of the Seventh Army in Germany, that the Germans would offset that cost by buying their military hardware in the United States. This worked quite well for a time and held down our foreign exchange costs. In foreign aid, what we did was to say, "We'll no longer give you dollars. What we'll do [is], we'll give you tractors or locomotives. We'll give you goods and services but not dollars." All these efforts did bear fruit, combined with a vigorous export expansion program.

F: In this sort of changeover, you involve the Departments well beyond Treasury. You get into State and Defense and so forth. Within Treasury you've got your own international section.

B: That's right. It's very, very small, but it's there.

F: It is, I presume, working in very close communication with the other involved Departments.

B: That's correct. It has to be done, not only on those lower levels but it has to be done on top. We did get excellent cooperation from Secretary of State Rusk and Secretary McNamara, who understood the problem and knew that it had to be cured. They knew that it had to be cured, because if it were not cured, we'd be forced to redeploy our troops--to pull them back to the United States--and practically eliminate all our foreign aid programs. That we just simply couldn't afford.

Well, we did quite well, and the best year we had was about 1964. At that time it did look as though our overseas payments were coming into balance with our overseas earnings. Then the Viet Nam war started up, and the cost of that deployment jumped our foreign payments very, very substantially, around 2 billion a year, a billion-and-a-half to 2 billion a year.

Added to that was the perennial crisis in the United Kingdon. The United Kingdom had been doing quite well up to the election of '64. Then in that election they, the government--I guess in an attempt to hold onto the election seats, embarked on a massive expansion program in the British economy. This put them under heavy strain and when the Wilson government came into office, they were faced with a very heavy crisis. We had to get up several billion dollars ourselves with our partners to make available to the British to buy up the excess sterling that was laying around the world. They did manage to ride through '65, but in '66 it was increasingly difficult. By 1967 they were in such terrible difficulties that it was pretty apparent that they couldn't hold the value of the pound. They were going to have to cut the value or devalue.

We had an arrangement that we started back in 1961 called the Gold Pool. We had six European partners. We all combined. We said, "All right, we'll feed gold into the pool when the price goes up over $35 an ounce. We will buy gold back from the pool in London when the price is weak." We wouldn't hold to $35 an ounce. This worked fairly well and, as a matter of fact, most of us got money back from the Gold Pool up until about 1967. We took a little gold off the market.

In '67 everybody became terrified that--anybody who held paper money in the world became terrified that if the sterling was devalued then other currencies might have to cut their value and it might even wash back on the dollars.

F: One question. Does the supply of available gold pretty well stay abreast of both population and financial expansion?

B: It has in the past because we've economized on the use of gold. We don't use it in normal commercial transactions or let people use it. What we use it [for] is as a reserve on which we build a big pyramid of paper money. So it's paper money that's staying up with transactions, not the supply of gold.

In '67 when the British got in all this difficulty, everybody all over the world said, "I don't want to hold paper money, I want to hold gold." Consequently, an enormous demand converged on London--on the London gold market--on our pools. We were forced to supply an enormous amount of gold which we had to fly from Fort Knox in C-141's--in the Star Lifters--to London to sell to the people who were speculating.

F: Can you do this? Who gives the order for this?

B: Treasury.

F: Treasury recommends and does.

B: It does. Yes, it's a commitment. So we had to meet these commitments, and we were losing gold at an enormous rate. So were all our partners. The British did devalue in 1967--about November of that year. Everybody was terrified and the markets were just convulsed all through late '67 and early '68. We couldn't pass a tax bill in the United States. The British had devalued. Everybody was just petrified.

There are several factors: the pound, its possible impact on other currencies. Everybody in the world was scared to death because we were screaming at the Congress that we had to get taxes up to pay for this Viet Nam war, or we were going to have a terrible inflation in this country. The Congress didn't seem to be paying any attention to us.

So, all in all, it was a hair-raising period in which we literally had to watch the gold markets day by day and hour by hour. The first thing we'd check in the Treasury every morning at 8 o'clock was how much gold had been sold in London and how much more did we have to get up.

F: Did you get a feeling in a sense there was a desire to humble the United States, shake--?

B: Of course, that was a factor in it too. President de Gaulle was--. I think there was no question about the fact that he was running a very hard game, trying to knock off the preeminent position of the United States in finance in the world. If he could have put us in trouble why I don't think it would have hurt his feelings at all. I think it would have been probably in line with his objectives.

But one factor that did become a concern to us was the fact that we did relate the amount of currency that we had outstanding in the United States to the gold that we possessed. Originally, when the Federal Reserve Act was enacted back in 1913, they put currency and bank deposits--you had to keep a certain gold reserve behind the bank deposits in the United States and behind currency. Over the years this reserve was reduced and reduced and reduced until they got it down to 25-percent. Then, I think it was 1963 or '64, we got the reserve off bank deposits, and it only applied to notes. But by 1968 we were getting very close to the place where the reserve that we had to maintain behind the paper money in circulation--we were just about down to that level.

F: In a crisis like this, are you coordinating fairly closely with the Federal Reserve Board, or--?

B: Very. Extremely. So we went to the Congress early that year. The House was very realistic. They just said, "Well, this is a lot of nonsense. We'll just get rid of that reserve requirement on gold."

Then we went to the Senate, and the crisis was getting worse and worse and worse. The day that the Senate vote was scheduled, we went in thinking we had the votes, [that] it wasn't difficult.

F: You do your own head-counting at Treasury on this?

B: Precisely. We were all counting. This was Chairman Martin, Joe Fowler and

I--all of us--Fred Deming. We were all working. Not just legislative liaison, it was all of us working on this thing.

The day of the vote, Mike Mansfield called me and said he wasn't sure he had the votes. So Fowler and I and Bill Martin went up and sat down with the leadership on both sides of the Senate. [We] explained to them that the crisis was getting worse and worse, and that if we did not pass that bill that day, we might be forced to renege the next day on our promise to deliver gold.

F: It was that close, or was that just a threat?

B: No, we/ were just out of gold! In other words, foreigners who were saying they didn't want to hold dollars, they wanted gold--we wouldn't have been able to meet their promise because it was locked up behind the dollar bills--the currency in circulation.

We'd come to the conclusion that if we could get this bill passed--I think this was on a Wednesday--if we could get this bill passed, we were going to get all our partners on the Gold Pool in--call them all in over the weekend and shut that Gold Pool down, because we just couldn't stand the strain.

F: Where's the President in all this?

B: The President was fully aware of everything that was going on--giving us his complete support. This was just something we had to do ourselves.

F: Do you think he grasped the problem?

B: He knew it very well. The President has an excellent grasp--President Johnson has an excellent grasp of financial affairs, you don't need to draw him any pictures. He's very, very good at it. He was fully aware of what we were up against.

We finally got to the vote, and along about 7 o'clock that night

Senator Dirksen ran out on us. We thought we had him set, but he ran out and was going to vote against us. The man who saved our bacon on the Republican side was Senator Wallace Bennett of Utah. He stuck with us. He said that we had to meet our obligations. The vote was passed. I think we carried it by a one or two vote margin about 7:30 on a Wednesday night.

Thursday we put out the call to our Gold Pool partners to come to Washington. We sat down with them starting Saturday morning and by Sunday afternoon, we'd agreed. We'd agreed that we were going to shut down the London Gold Pool, and we were going to establish a two-price system on gold. In other words that governments and central banks would hold the gold that they had, but they wouldn't go on the markets to buy any more. In other words, we'd treat gold like any other commodity. We'd hold what we had, but we as governments wouldn't buy any more. We wouldn't be in there stimulating the market.

None of us thought the darned thing would work. But it worked amazingly well! We thought there'd be a huge jump the next day. There was not. Then, as you know, we went ahead and we finally got that tax bill passed in June. Then the French had their troubles in May. You remember that--with all the student riots. We got the tax bill passed in June. The French had their riots in May that scared everybody to death. There was a run out of the franc, which had been very, very strong. They ran out of the franc into the dollar. Then, very conveniently, that summer the Russians invaded Czechoslovakia and terrified the Continent. All these things--

F: Quit playing games.

B: Yes. All these things combined to make the dollar very, very strong in the exchange market. Passing the tax bill, the French riots, and the Russian invasion--all these things combined in positive and negative factors to make the dollar just as strong as a bull, and money poured into the United States.

F: Was there any supplication on the part of the French to get their franc saved, or did--?

B: Absolutely, and we made funds available at once to them. When they got into difficulty--

F: There wasn't any sort of a recrimination for past behavior?

B: President Johnson said that we are not going to recriminate. The French have been our old friends for years and years and years. They will be in the future and we're not going to--. In all that difficult time the President never once criticized the French publicly. He would allow none of us to do so. So when the French got--.

F: It must have taken a little restraint at times.

B: It must have taken a lot of restraint, but I think he was absolutely right. In all those troubles, the President very wisely, in my opinion, kept his mouth shut and made all of us keep our mouths shut. When the French got in trouble we made it very plain to them that if they wanted help, we were available to help them. And we did, promptly.

F: The French financial people understood what you were up to.

B: 600 million to a billion. Oh yes, the French financial people are extremely intelligent. They were up against a political situation with the General.

F: So they were really just playing politics with the French economy.

B: As a result we ended up in 1968 in one of the strongest positions that I've seen the United States in/[for] years and years and years. Our budget was in balance. We got our taxes up so our federal budget was in balance, and slightly in the surplus. We had surplus coming up the next year and it has been a surplus for this first year of the Nixon Administration. Our balance of payments were in balance and slightly in surplus because money was pouring into the United States. The dollar was strong as a bull on the exchange market. The only fly in the ointment was the terrible inflation that we're living through.

F: Before we leave this subject entirely, did Treasury take an active part at all in trying to promote the Common Market in Europe?

B: No, that was mainly a State Department thrust.

F: This was outside your purview?

B: That's right.

F: Did people in Treasury have a kind of unofficial stance in this? A common thinking?

B: There were many of us who thought the development of the Common Market was not going to--. While it might help Europe and make Europe stronger, it might not be the greatest thing in the world for the economy of the United States. I shared that viewpoint, so--

F: As a competitive measure.

B: Right, as a competitive factor. I shared that viewpoint and while we certainly didn't interfere with the State Department as they tried to make the Common Market stronger, they didn't get much help from us.

F: I see. Let's talk briefly about your last month there in office, when you took over Secretary of Treasury and at that stage in the game, how you operated.

B: The biggest problem we had was the fact that the surcharge that we had so painstakingly got on the books was due to run off in June 30, 1969. Our problem, the last problem we had, was to persuade President Johnson and President Nixon to go ahead with this--to recommend that the surcharge be extended.

President Johnson argued, with a lot of logic, that the election was over. That Mr. Nixon had won, and that one of his campaign promises was that he was going to let the surcharge expire. He had said that very, very definitely. He was just going to let it run off the books. And why should he, an outgoing President, recommend this extension? We pointed out to him that, and all of us--the people who were the holdovers, myself, Mr. Okun, Mr. Zwick, and the newcomers coming in, Mr. Kennedy, Mr. Bob Mayo, Mr. McCracken--pointed out that, in spite of the fact President Nixon had made this statement, that it was impossible to balance that budget or keep a surplus unless the surcharge were extended. He finally agreed that he'd recommend the extension, if Nixon would support him, in his State of the Union Message.

Then we got into one of the most amusing situations I've ever been in. We'd write up a statement for President Johnson to okay, extending the surcharge, and he'd say, "That's all right, that's fine." And we'd send it up to Mr. Nixon and Mr. Nixon would change it. Then we'd come back to Mr. Johnson and he'd say, "I will have no part of that." Nixon was in a bind. He'd made a campaign promise to let it run off and while his advisers were saying it must be extended--

F: The advisers very early in the game saw the problem.

B: Oh sure, the Secretary of the Treasury and Mr. Mayo--

F: Arthur Burns?

B: Yes, the whole bunch of them saw that you absolutely had to extend it. There was no question about it. So they were trying to get Nixon off a political hot seat. This must have gone on ten times--ten or fifteen times. It was just a question of words, you know. And Johnson would send it back. We'd send it back, and Johnson would get mad at Art Okun. Then he'd get mad at Charlie Zwick. Then he'd get mad at me, but I just painstakingly stayed with the President and told him that I was not going to let him go out of office on an irresponsible note--that we had to do this, and we had to get this done. And the people just kept badgering President Nixon--his advisers kept badgering him--until we finally got down to a couple of words. And at that point President Johnson said to me, "Joe, you never could get anything done right. I have to do everything myself."

At that point he picked up the phone and called Nixon himself. I don't know what he said, but I can imagine what he said. I've always reconstructed the conversation to go something like this: "Dick, I've got as stupid a bunch of Treasury and economic advisers as you do. They say we've got to do this, but they can't work it out. Now there are a couple of words that I'd like for you to put in here. Do you object?" Nixon saying, "Why, of course, that's fine."

F: They could have saved you a lot of trouble, couldn't they?

B: Yes. So, at the end, the President did recommend the surcharge be extended. It was extended and that was really the most substantial thing I did in those thirty days.

F: There was no problem in selling Nixon on the need. It was just the mere fact he was on record--

B: That's right, he had a campaign promise. He was breaking a campaign promise just as he came into office which is not easy to do. You sympathize with him as a politician. But that was the most agonizing thing I have ever gone through. It was really terrible.

F: It's difficult to write somebody else's script.

B: But we all felt as if--all of us--. The funny part about it was that Mr. Kennedy, Mr. Mayo, and Mr. McCracken--we were all good friends. I'd known all of them for ten or fifteen years. We were good friends. We knew the problems. We knew what we had to do for the country.

F: There wasn't any contest?

B: No, we were all very good friends. The problem we had was trying to get these two political giants to agree on the precise wording, how everybody could get off the hook. And that was a real lesson for all of us.

F: You have a problem in Treasury, at least I perceive it as a problem, in the fact that you not only have the Treasury Department, but you do have the Federal Reserve Board. You do have all these agencies. You have the Council of Economic Advisers. You've got the President's economists themselves--the Bureau of the Budget, ad infinitum. Do you feel sometimes that your authority is splintered considerably or that there are elements over which you don't have sufficient control?

B: Not really. The Treasury does seem to me as one Department that you can run. Could I go ahead a little bit with the last month in office? It really was fairly exciting.

F: Yes.

B: The other thing we had on the books was that in 1968 when we passed the tax increase the Congress instructed the President to send up a tax reform proposal. That was in the bill. That was to get the votes of the liberals who said we weren't going to put on the surtax unless there was some tax reform included. We finally persuaded them we didn't have time to get that done. It'd take too long. So they wrote into the legislation a directive to the President to submit a tax reform proposal.

First of all, this irritated President Johnson. He doesn't think that anybody in the Congress can tell him what he has to do. He's President of the United States and he doesn't have to pay any attention to them. Secondly, he got in his mind that he didn't want any part of tax reform. He said it was just too controversial. He just didn't want any part of it. So we had a great tax reform proposal all prepared, but he wouldn't let us--He just said, "Joe, you're not going to submit that proposal." So, on one of the last days in office I was up testifying with Okun and Zwick before the Joint Economic Committee and I made a crack about a taxpayers' revolt. I said, "There are a hundred and fifty-five people in the United States with incomes of over $200,000 who didn't pay any taxes at all. I don't think the American people are going to stand for this much longer." This was a great cause celebre, and it ran in the press and it ran all over the place--just ran and ran and ran.

F: You've been quoted ever since.

B: That's right, I've been quoted ever since. So, before I left office, Wilbur Mills decided something had to be done about this. And the Congress--all sorts of Senators and Congressmen--knew that we had a tax reform proposal there ready to go and they started demanding copies of it. Mr. Proxmire, chairman of the Joint Economic Committee, demanded to have that tax reform thing before we left office. And I went to Mills and I said, "Look, we're in a terrible bind here. You're the Tax Writing Committee. You're the one in charge of taxes. But on the other hand, it's very difficult for me to turn down the request of a chairman of a committee of the Congress when they want information that we have and they know we have it!" I said, "What are we going to do about it?"

Well, he convened a meeting of the Joint Committee on Internal Revenue Taxation. That's the House and the Senate. He asked Kennedy and me to come down. They--he and the Republicans and the Democrats that are represented on this committee of Senators and Congressmen--

F: You're talking about David Kennedy now?

B: Yes, Secretary-designate Kennedy and me to come down--. And we agreed that Mr. Mills would send in a request for this tax reform proposal; Mr. Long would send a request in too; and that Secretary Kennedy agreed that he would transmit this package to the Congress. So we cleaned that one up and that was the end of that.

So the last thirty days I had in office, I can assure you, were really turbulent. But it worked out well. We sent up a good tight budget to the Congress. It was a realistic budget. Our recommendations were largely enacted. They did keep on the surtax, and we're going to end up the year in pretty good shape.

F: Did you have--?

B: And they got a huge tax reform proposal, I think to everybody's amazement!

F: Did you have a real transitional experience here with the Nixon people?

B: Very much so. You see, we had to get a budget up to the Congress. We had to get an economic report. All these things come right in the transition, in December and January. And these things can't stop because they have to go up. So we were working very closely with them. We had to work so darned hard that I never really had any time in that last twenty days to sit down and tell Secretary Kennedy just what he was up against, how the Department worked or the whole normal transition period that you go through. So he asked me to stay on for ten days after the--

F: You really didn't phase out, you just worked!

B: We just worked, and we worked together. He moved right into the Treasury. He had an office down on the first floor of the Treasury, which he maintained until--

F: Did he bring in a team?

B: Yes, his main team was his Director of the Bureau of the Budget, and his Chairman of the Council of Economic Advisers. These were the people we were really working with very closely. The rest of the Treasury team didn't show up until we left.

Then when they were ready and waiting in the wings on January 20 when he took over officially, I moved from the Secretary's office down to the office he'd been occupying on the first floor and stayed for ten days as a consultant for two reasons. Number one, we'd been working and we didn't have any chance to go through the transition exercise. So we went through the transition exercise in the next ten days. Secondly, we still had a lot of international problems that could be dangerous. And if I went off the payroll I lost my security clearance and they couldn't talk to me about the international problems, so I stayed on for ten days to do the transition work, to keep the security clearance so that if anything popped on the international front they could talk to me. And we wound it out. It was a very, very pleasant experience.

F: Other than just the kind of natural movement of people with the same professional interest, have you been consulted by the Nixon people since?

B: Yes. Back in March, I think either Mr. Kennedy or President Nixon called President Johnson and said, "Look, we need some help with the Democrats in getting that surtax passed--extended to June." And President Johnson called me and told me to get up there to the Congress, up there to the House, and get that thing passed. We were able to get it done--able to get the Democrats whipped into line.

F: Did you get the feeling during that period, during the period of your Under Secretaryship and your Secretaryship, that the Congressional leaders that dealt with taxation tended to be a little old-fashioned in their views? I'm not asking you to criticize Chairman Mills, or anything like that, but at the same time I wonder if Congress is a little bit behind the general economic and taxation thinking.

B: They got sore at us in 1967. We recommended that the Investment Credit be repealed. They did repeal it, and then we came back up in February and asked that it be restored. They thought that we were wrong, that we couldn't figure things out and Mr. Mills and Mr. Long got really very upset with us. They thought our economic forecasting was lousy because it was on-again off-again within six months. So when we came up with our proposal in the fall of '67 for a big heavy increase in the surtax, they were very skeptical as to whether or not our forecasts were correct or not. That was the biggest problem.

F: Was your forecasting lousy?

B: In '67 it was.

F: Why?

B: We didn't realize--. It was a lousy proposal. We said the Investment Credit should be suspended for a period of about a year, I think. Well, everybody just quit ordering, saying, well, "We'll wait for a year until we can get that Investment Credit again." It just wrecked the railroad, building railroads, and everybody else--everybody that was supplying equipment, they just laid off. If it had been a complete removal they would have just gone right ahead and said, "Sure, taxes are going to go up. We need this stuff, and there won't be any change in the future." They just decided to take a vacation for a few months.

F: Is it generally Administration thinking that a mild inflationary spiral is good for the economy? A controlled one?

B: No, it was not the Johnson Administration's. It was no one's in my opinion. Inflation got to be a very dirty word in nearly all economists and all government circles. No one who was advising President Johnson was--. All of us were screaming about inflation and what it was going to do to this country.

F: Keep it tight, in other words.

B: That's right.

F: In our international field we also had the problem of the high price of the German mark, which was a different side of the coin in this case. Would you like to elaborate on that?

B: In the fall of '68 the German mark--. It was very apparent that the mark was undervalued, that it was too cheap, that they should have raised the value and that the French franc was overvalued. It was too high. You had an enormous movement of currencies from everybody trying to get into the deutschmark because if they raised the value, they'd take a speculative profit out of the franc. So they came under terrible pressure. Fowler and Deming were off in Europe making a sort of goodbye-farewell trip to see all their friends in Europe when this thing got to be almost a crisis proportion. So Fowler called a meeting of the Group of Ten in Germany. Everybody came flying in, rushing in to meet--.

F: Let's identify the Group of Ten.

B: The Group of Ten is the group of ten countries who were established under the OECD, the Organization for Economic Cooperation and Development. Really they're the large countries in Europe, plus Japan and Canada and the United States. They established a very close working relationship. The junior fellows meet once a month. This started in '61 under Kennedy. The senior fellows will get together--the finance ministers--on crises and they all exchange information back and forth between each other and get to be very good friends. They all poured into Germany--into Bonn.

We set up a command post over in the White House. Bill Martin and I were here, and Fowler and Deming were over there. It looked to us as though the French were going to be forced to devalue. I can remember at one time Prime Minister Wilson called President Johnson and said he had it on strict information the French were going to devalue. We were trying to find Fowler and Deming to get them the word and to have Chancellor Kiesinger appeal directly to de Gaulle to hold steady until we could work it out. Nobody could find Fowler and Deming because they were flying some place, and the driver got lost taking them from the airport into Bonn. So old Couve de Murville came on with a big broadcast and we all thought he was going to devalue. He didn't, and it all worked out.

After all these negotiations I met Fowler and Deming and I came back. They thought they'd worked out an agreement where the French were going to devalue and the Germans were going to raise their border taxes. The Germans did raise their border taxes but the French didn't devalue.

F: Did de Gaulle catch you by surprise on that?

B: Yes. We thought he was going to devalue. We thought he would have to. I know his advisers agreed to it in Bonn, but he just said, "We're not going to do it."

F: He went against his own advisers in this.

B: That's right, precisely.

F: As far as you know, did he ever contact President Johnson directly during this crisis?

B: No, I don't think so. I can't speak with certainty, but I don't think that he and President Johnson had--

F: He became a one-man Banque of France.

B: That's right, that's correct. And, of course, later after he was defeated, they had to devalue this year. So everybody was right.

F: When he didn't devalue, did it make any particular change in your mode of operations?

B: Not particularly, because the dollar was still very, very strong at that time. The French were weak and we just had to put up more money. We had to give them some more money to help them wrestle through, and we did.

F: Do you in all this take much count of the Iron Curtain economy in determining your own? The French, Japanese, British, German, and so on all influence the American policy considerably. To some extent your policy is made in Bonn, or in London. Is it made in Moscow too? Or can you pretty well isolate that?

B: The only time we could see much interference from Moscow was perhaps in the gold operations. It did look to us as though they were playing the gold markets. But after we separated the two markets--the gold market into two markets--a private and an official market, this reduced their ability to operate. Actually, no, I can't say that we did take into account much what the bloc countries were doing.

F: I think, Mr. Secretary, we've just about completed the questions I had on this except for one, and that is, you had a long acquaintance with Mr. Johnson from several angles. I'd be interested in your estimate of him.

B: First of all, Mr. Johnson--I owe him a deep personal debt. He was very

very kind to me. He helped elect me to the Congress. He got me started right with Speaker Rayburn, he got me on the committees I wanted. When he was Vice President and I was in the Treasury, he helped me any time I needed help on legislation. It was a very warm relationship with him and with Mrs. Johnson.

F: Mr. Johnson never, in those Senate days, never was sort of caste conscious--a you're junior he's senior sort of proposition?

B: On the contrary, he spent a lot of time with the young men that he thought showed any promise. I know he spent a lot of time with me. He was always available, always ready to help. The only thing I ever helped him do was write a speech for Indiana a couple of times, something like that. It was all he ever asked. He established a great claim on my relationship.

After President Kennedy was assassinated, I was in this position. I was an assistant to the Secretary of the Treasury, but Kennedy had announced his intention to send my name forward as the new Chairman of the Federal Deposit Insurance Corporation. He had not sent my name forward because it was agreed that we'd wait until I got the big tax bill--the tax reduction bill--through the Senate. This is one of the first calls that President Johnson made, I think. He called me in and he said, "Joe, we've been very close to each other all these years. I want you to get over there in the FDIC, and I'm going to send your name up." I think I was either his first or second appointment.

F: This was his first day after he was back from Dallas, wasn't it?

B: It wasn't the first day, it was about three or four days later. It was very close. He said, "When you're in the FDIC, keep reporting to me directly," and I did. I reported in a little weekly memorandum directly to him as to what I was doing, who I was seeing, things that might interest him. So we were in a very close relationship.

When he was going to move Larry over to be Postmaster General, he thought for a long time about--. I think it was his idea to move me into the White House, to take Larry's job. I must say this did not intrigue me. I didn't like the White House existence. I preferred a more independent existence that you have in the Departments and agencies. When he made Fowler Secretary of the Treasury, Fowler asked him if I could come to work with him as Under Secretary, and Johnson was funny about it. He said, "Well, you're stealing away my guy, but you can have him."

F: Where had you known Fowler, through the FDIC?

B: No, Fowler was Under Secretary of the Treasury when I was an assistant to the Secretary of the Treasury, so we'd worked together very closely for three years. So I went over as Under Secretary of the Treasury.

President Johnson was truly a professional President. He knew how government worked. There has been no one who knew how government worked better than he did. He was widely acquainted all over the world. He knew everybody in the world. He knew how foreign affairs worked. He loved finance and he loved figures. He had strong opinions and he was talking to everybody all the time. Occasionally, I felt you really had to stand up to him. You really had to hit him, and you really had to hit him right between the eyes if you were going to be honest with the man. He was a big man. He worked like a fiend. He knew everything. He had vast experience, and he could just pulverize you in an argument. Just literally pulverize you.

F: You'd better have your facts!

B: Oh, you had to have your facts because he could literally just pulverize you from his experience, mainly his experience in his work. So you really had to be ready for the man when he came at you. You had to stand up to him and you had to tell him, and you had to tell him honestly, even at the risk of him saying that you--as he has told me sometimes--that I was insubordinate, that I was not treating him with the deference that the President of the United States had--. I could always come back to him because I felt the relationship was so affectionate and so warm that unless I was that candid he had no reason to keep me around.

F: You never did go through one of those periods when he was cool toward you?

B: Oh, I'm sure, but I never recognized--not recognizeable. One time he threatened me. He said all I ever did was say "no," and he was tired of me, and all I did was cause him trouble and he was going to get a Peace Corps fellow in there. He needed some peace! But he was truly a wonderful man and I think--. As I say, what we really--most of us--had to face up to, was the fact that you had to go after him hard and stay with him. And you had to give him the truth as you saw it and stay with it, and patiently, patiently keep coming back. Even at the risk that he'd throw you out of the office.

F: You got, I presume, a certain exhilaration out of knowing you're working with a man who knew what you were doing and what he was doing.

B: And of course, one of the people I've always admired most is Mrs. Johnson. That woman never made a mistake. She was a warm-hearted and gracious lady. I just never saw her put her foot wrong. She was truly a wonderful person, and my relationship with both of them is something that I'll treasure forever. He had the unfortunate responsibility of the Viet Nam war. But when you set that aside, he faced up to the things that were perplexing this country and were 'way, 'way, 'way overdue. The internal problems of this country, he faced up to them. He opened it up, and I don't look at the '60's as a sick '60's. I look at them as a time when the country finally realized that we could no longer tolerate letting large numbers of our population exist in ignorance and misery, that we had to bring them into the economy, that we couldn't tolerate the despoiling of our atmosphere and environment, we couldn't throw our old people on the dump heap, that we couldn't neglect our education, we couldn't continue to neglect the wonderful country that we had here. These are the things that he did. This is the legacy he left the country.

F: Thank you.

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By Joseph Barr

to the

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