INTERVIEW IV

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Tape 1 of 1, Side 1

G: I want to ask you a few preliminary questions about the time of your appointment. One of the memos indicates that Senator Willis Robertson wanted you to go on to the FDIC rather than stay and help pass the tax bill. Do you recall that?

B: No, this is the first time that I was aware of that.

G: He felt that you were really needed on the corporation because apparently there was one lone Republican who was exercising a good deal of influence.

B: That's right. Exactly. No, that's news to me. I had not known that.

G: One question relates to your speechmaking function, and you evidently did travel around the country a good deal. To what extent were these speeches political in tone?

B: Not much. They were mainly to banking groups. And you couldn't get by with too much political. Of course you would put the administration in the very best light you could and explain what you were trying to do and everything else, but you couldn't get overtly political. That was not my mission. Johnson told me to get out and learn the country. He said, "This is a marvelous opportunity for you to learn the country. Go speak everyplace."

G: One thing I notice is that after you left the FDIC, your vacancy was not filled for months. Why was that, do you have any idea?

B: Yes, I can tell you. I went in to see Johnson and he said, "This fellow, K. [Kenneth] Randall"--who was my Republican counterpart--"he's a very able fellow. And Wallace Bennett"--he was a great friend of Senator Wallace Bennett's--"keeps telling me that this is an extremely able fellow and maybe we ought to think about putting him in." I said, "Mr. President, he's a Republican." He said, "So what, I've appointed all kinds of Republicans. Is he a good man?" I said, "He's an extraordinary fellow. He'll be loyal and he'll do a good job running the organization." He said, "Let's appoint him." [Inaudible] So he appointed him as chairman. Then he said, "Do I need to hurry up and make another appointment?" I said, "No, he can run it." The Comptroller of the Currency, Jimmy Saxon, was the other member, you see, so they had a quorum, they didn't really need anybody else. And I think Irv Sprague, who worked in his office, was the next appointment. And Irv just retired. I went to his retirement party the other day. That's right.

G: Well, was there a problem with there being only two, though, in terms not so much of a quorum, but breaking a tie vote?

B: No, we never had any tie votes or anything like that.

G: Really?

B: No.

G: One of your speeches indicated a proposal to enlarge the role of the FDIC, to get it involved in a broader mission of advancing the economy, helping the economy. And you mentioned several areas. One, in balance of payments, how the FDIC might help there.

Two, a poverty program, and three, international financial organizations. And the thrust of it was you had of all these, whatever it was--three billion dollars in revenue, or whatnot--

B: In assets.

G: And here was a chance to do something with that for the general good of the economy. Do you--?

B: Don't remember that. I must have that speech. I noticed when I was looking--one thing, you asked me about these, I started seeing what I did have. I have a whole shelf full of stuff. I was very methodical, every speech I ever made, I guess I kept. So I can look that up.

(Interruption)

G: Anything on that speech now that you've read over it?

B: Yes, I remember writing it. Those were my interests. I think my interests were much broader than merely just regulating banks, and at that time, the banking system was not faced with the horrendous problems it faces today. We didn't have the problem of all the bad loans and Mexico and Brazil and Argentina and around the world. We didn't have the problem of petroleum loans going bad and agricultural loans going bad.

The banking system was not very aggressive in those days. It was a much more conservative system and it had a lot less risk. As a result the possibility of bank failures was usually remote. I think it was the probability that I was going to be sitting there fiddling around with obscure and arcane bank regulatory matters that really got me a little upset, and I was attempting to strike out a way to get into some of the big, broader areas of public policy such as international finance and poverty and other areas that seemed more exciting to me.

G: Was there any practical way to involve the FDIC in these elements?

B: I don't think so, and as I look back on it I am surprised that somebody didn't pick up that speech and jump all over me, because some of the more conservative Republican senators could have said I was getting ready to waste the priceless assets of the FDIC in support of the President's political agenda.

G: Your rationale was that the FDIC could reasonably move into areas where there was a genuine threat to the economy.

B: Yes, that's true. That's stretching it a bit far. Well, I was younger and more energetic in those days.

G: Now, in February of 1964 American Banker Association President William Kelly made a speech in New York deploring the lack of cooperation and the overlapping of the three federal agencies involved in supervising banks: Comptroller of the Currency, the Federal Reserve, and FDIC. Do you recall this whole issue that Kelly brought out?

B: Oh, yes. It was not a new issue. It's been coming up since the early thirties. It was an issue that Mr. Marriner Eccles, who was chairman of the Federal Reserve System under Franklin Roosevelt, was constantly worrying about. He used to go to President Roosevelt and say, "Look, we should abolish the Office of the Comptroller of the Currency and we should get rid of the FDIC or bring it into the Fed and just have one agency regulate the banks." Because it's true, there were three agencies regulating the banks: the Comptroller of the Currency regulated national banks, the Federal Reserve System regulated state banks who were members of the Federal Reserve System, and the FDIC regulated state banks who were not members of the Federal Reserve System plus savings banks. Well, these people tended to look at banking regulations in different ways, so as a result there were different regulations from different agencies.

Now, in spite of the bankers saying that they disliked this hodgepodge of regulations, the thing they really did not want was to bring everything under one agency so they would have a complete czar over the banking industry. If they had three agencies regulating the banking system, they had a certain amount of movement. If they didn't like what the Fed did, they could leave the Fed and go into the FDIC system. If they didn't like that they could go into the national banking system. So, in spite of the fact that they yelled a lot about this, they really didn't mean it. When push came to shove, they did not want a strong, single regulator and they still do not.

G: There was legislation that year, the Multer bill, do you remember that?

B: Sure. Sure. Old Abe Multer. Absolutely. There has been legislation along that line, as I say, since the early thirties and there is probably some up there right now. But the same system still obtains, there are still three regulatory bodies.

G: The memoranda this year, in 1964, seemed to place a lot of the problem on James Saxon. It said that for years, although this had been a theoretical problem, that there was a degree of cooperation that minimized it, and for the last two years Saxon had been striking out on his own. Was this the case?

B: There is no question about it. Mr. Saxon was a very active fellow. The Office of the Comptroller of the Currency is unique in the United States in that it is a regulatory agency that is run by one man. No other regulatory agency in the whole country, or in our government, is run by one man.

The history is a bit interesting. It goes back to the Civil War days when Lincoln was trying to finance the Civil War. And to finance the war, he created the Office of Comptroller of the Currency and the national banking system. And the national banking system then was able to issue currency backed by the bonds that the Treasury issued. So the Treasury would issue the bonds, the bonds would go into the national banking system, the national banking system then would issue currency against these bonds. So that was the way that Lincoln financed the Civil War. Somebody had to run the commercial banking system, and this was the Office of the Comptroller of the Currency. The first comptroller came from the state of Indiana, my own state. His name was [Hugh] McCulloch, that was his name, and he was an enormously powerful fellow in that period of time. He really financed the Civil War.

The office sort of slid into obscurity after that and never really came to the fore until Mr. Saxon came back again. And Mr. Saxon, as I say, was very energetic. He had been in government before, he had been in the Treasury, he had been in the Comptroller's office, he had been in the banking business. And he came in and decided that he wanted to knock some of the regulations that he thought were burdensome from the banking system. So he got in as comptroller of the currency and immediately proceeded to do just that. He didn't pay much attention to the chairman of the Federal Reserve System or the chairman of the FDIC. He just went ahead to knock some of the regulations off the national banking system. As a result, a lot of the bankers thought this gave them an enormous advantage and there was a lot of discontent. And there was a lot of fighting among the regulators, which got up to the Secretary of the Treasury and then it finally got up to the President.

G: Did Saxon represent one political philosophy or another?

B: He would probably represent the Carter political philosophy today. Get rid of regulation. He thought regulation was terrible. He wanted to get rid of as much of it as he could.

G: Who had appointed him?

B: Kennedy. I've never been certain just why, who did push him. It may have been Dick Daley. Kennedy was very beholden to Dick Daley. Dick Daley was one of the men who elected him, the Mayor of Chicago. And Saxon was a banker in Chicago, at First [National] of Chicago, and that may well have been the influence. But at any rate, there he came. Believe me, some of those fights could get brutal.

G: I want to ask you about some of those. One of the controversies was underwriting the state and local government revenue bonds, and evidently Saxon had allowed certain types of these bonds to be okayed.

B: That's correct. He allowed the revenue bonds, not general obligations, not bonds that bore the general obligations of the states. I'm not sure, did he do it or did the Treasury do it? I'm not certain.

G: I think he approved it.

B: Could well be. I think you're right, I think he did allow it, and I think that nobody objected. I think that's true.

G: Did you become involved in this one?

B: Oh, boy, that one, you know, that was such a tough issue. It seems to me that that was not resolved until about 1967-68. By that time I was under secretary of the Treasury, and I remember we were fighting around about that when I was still in the Treasury, when I'd left the FDIC and had come back. My memory is a little vague on that one, that particular issue.

G: Okay, another one was purchases of convertible securities that could be convertible to stock. Do you recall this one?

B: No, that was just another one of those technical difficulties. Banks can purchase bonds, you know. Then the question arose as to whether they can purchase a convertible bond, a bond convertible into stock. Traditionally they'd said no, because banks couldn't hold--under the Glass-Steagall Act they were precluded from buying stock. So they'd said no, and I think Jimmy came along and stretched that one out, Jimmy Saxon, I think that was one that he stretched out.

G: Do you recall how this one was resolved?

B: No, I do not. I think they probably let the banks go ahead and purchase the convertible bonds.

G: Okay, another one was one of Saxon's rulings accepting savings accounts from corporate depositors.

B: Now, wait a minute--

G: National banks could accept savings accounts from business corporations.

B: You can see I didn't focus an awful lot on this stuff. I didn't think it was all that important, and you see that it is a lot of little stuff. I didn't focus on it. I can't remember.

G: Okay.

B: I don't think he was successful in that because you can't do it today. Banks can't accept savings deposits from corporate depositors.

G: Okay, another one dealt with control over foreign operations of U.S. banks.

B: I thought that he had that authority over national banks. Did it reside in the Fed?

G: Well, apparently it had to do with the Edge Act corporations--

B: Oh, yes.

G: --and he was siphoning off some authority from the Federal Reserve.

B: I see. The Federal Reserve controlled the Edge Act corporations, but he controlled--regulated--the foreign operations of the national banks overseas. So they probably got into conflict there. See what I mean? It was just this constant barrage of all these little things. You know, regulated industries, especially banks, are always looking around for a way to increase their turf. And they found all these little things. And it was just a barrage of it. It drove me crazy.

G: Okay, I'll run through some others.

B: Sure.

G: Federal mutual savings bank charters. Now here, apparently, he sent a letter to Congress supporting a view contrary to that of the administration and Treasury, by the way, regarding federal charters on these mutual savings banks. Do you recall that one?

B: No. They have traditionally been chartered by the states.

G: Another one: privately insured real estate loans. Here he authorized banks to ignore the present statutory limits on real estate loans.

B: If they had privately insured loans. I do sort of remember that vaguely. Yes, I do.

G: So many of these seem to be not so much a question of the issue, but rather Saxon taking an independent position, or taking--

B: That's correct.

G: --a position contrary to the administration.

B; He felt that the banks were vastly overregulated.

G: You're saying all of these--

B: All of these various regulations and proposals he had were designed to free up the banking system, especially the national banking system, and to give them an edge over the banks in the Federal Reserve System and the banks regulated by the FDIC, and he was very successful in doing it.

G: You were saying that the Justice Department was especially distressed with some of these policies.

B: His merger policy, Bob Kennedy nearly went through the roof, and he and Kennedy were fighting up and down and sideways on the thing. You know, the man could not--it's not easy to remove the Comptroller of the Currency. Until his term runs out--it's a five-year term--he can only be removed if the president of the United States goes up and says that he wants him removed for cause. That's not easy to do. Because he hadn't done anything that bad. He was just fighting for his national banks, and there was a strong point of view that he was right.

G: Tell me how these fights would take place. Would they take place in the meetings of the three of you?

B: Well, as a matter of fact, Bill [William McChesney] Martin, who is still alive, finally became so irritated with Jimmy Saxon [that] he wouldn't meet with him. So I was the one who had to act as the intermediary. We had to get our call reports out. They send out a call report, the banks, and they have to send in their statement of condition. Well, we tried to make them uniform, as nearly uniform as possible. Well, Jimmy just hated that. He said [there is] no reason [for them] to be uniform, what difference does it make?

I had to get together and reconcile his ideas and Bill Martin's ideas and then try to stick in a few of my own and get her all done. I was the peacemaker. It really got to be a chore; it was just an awful chore. And I remember once I thought I had everything worked out, and I'd gone out to California, and I had had a tough flight out there and I got into the hotel room and Saxon called up and said, "Well, all that stuff we agreed is out. I'm going to start all over again." I remember I was so mad I picked up an ash tray and threw it through the window.

(Laughter)

I was just livid. It just got me down completely.

I think where it may have broken down, though, is that there was a bank in San Francisco [that] failed. It was a bank up there in sort of [the] striptease joint [area] of San Francisco and the fellow who was running the bank had obviously taken all the deposits and lost them in Las Vegas. This was a national bank and it failed. Old Jimmy finally had to close it down. The last thing he wanted to do was close it down, but it was obviously going to blow up like a. . . . So they called me at a party one night and I got on the next plane and went out there to San Francisco and personally supervised the reopening of that bank and paying off the depositors. And this infuriated Saxon.

G: Is that right?

B: Just absolutely infuriated him. Because the press was out there and they would catch me doing my job and everything else. But before that happened--now you back up about two months before this bank failed--I was in San Francisco and the President of the Federal Reserve Bank of San Francisco, a fellow named Elliot Swan, a very good friend of mine, called me aside and said, "Joe, there is something wrong with this" whatever this San

Francisco national bank is [called]. He said that "you better be careful about this." Let's make a note here that the name has slipped my memory, but it was a national bank in San Francisco in the part of town where the striptease joints used to be. The last time I was there it was occupied by a bar which said, "Put your mouth where your money was." (Laughter)

Well, about three months before this bank failed, Mr. Swan, president of the Federal Reserve Bank of San Francisco, took me aside after a dinner we had together and said, "Joe, there is something seriously wrong with this bank. We have loaned them and loaned them and loaned them; we've just got to stop it. There are all kinds of rumors circulating about this bank. Somebody'd better do something about it." So I went back to Washington, because I was chairman of the FDIC at this time, and I called Jimmy to inform him of this conversation, Saxon. And he wasn't there but his deputy, Bill [Camp]--I could get these names--

G: I'll get them later.

B: Bill whoever-it-was was there; he's a very good friend of mine, and I told him all about it, about these terrible rumors. I said, "Now you bring Saxon up to speed on this and I'll be available to talk to him if he wants to." Well, the next thing I know Saxon calls me up and he said he was going to have the Attorney General sue me because I had violated a provision of the National Bank Act of 1932, which does make it a crime to spread rumors about a national bank. (Laughter) The guy is going to have to pay off the bank if it failed and I should tell him what the Federal Reserve System told me about the bank, and I was spreading a rumor.

Well, in spite of all this, the bank did blow up, and after it blew, then I went to the President. I went to [Douglas] Dillon first and I said, "Listen, this has gone too far. This man is a menace, and we've got to get rid of him. Something's got to go." So Dillon went to the President, and the President had him call a meeting of Dillon and myself, and I think [Joseph] Califano, and I don't know, a few others. The President didn't come. I laid out what had gone on, and I just said, "I just think this has gone far enough." They didn't fire him.

G: Was the President there?

B: No.

G: Who was there from the White House?

B: I don't remember. Dillon was there. I believe it was Califano. I believe it was Califano. But we had this meeting. And I laid it out, and said, "You've got to get rid of this fellow or the President is going to really get a black eye." They didn't fire him, but that was the end of the problem. They evidently collared him right then [?].

G: Did the White House seem completely sympathetic with you in the situation?

B: Yes.

G: Dillon had evidently proposed some formula for giving ten days' advance notice to the other concerns, the FDIC and the Fed before taking any of these actions. Was that in fact part of the resolution of this problem?

B: I think it was. And then after I left the FDIC, then I became chairman of this interagency group. The Treasury took charge of it itself. Originally it was a group made up of the chairman of the Fed, chairman of the FDIC, and the comptroller of the currency, those three. After the big blow-up, then the Treasury moved in, and the President directed the

Treasury to coordinate the activities of these three agencies and that was the end of the fighting. Never really blew up much since then.

G: Do you think that Saxon recognized that his control had been lessened?

B: I guess he did. Because I didn't have any more problems with him.

G: You know nothing about his conversation with LBJ, if it occurred, or--?

B: No. I do not.

G: Why was he mad at you for going out there to San Francisco?

B: Because I made him look--one of his banks failed, and he looked like a jerk, and he really did look like a jerk. People could say, "Look, you're supposed to be regulating this bank. How did you let this fellow run all these crooked deals?" He was doing everything under the sun. You can't believe the crooked things this fellow was doing. The newspapers knew about it; everybody knew about it. How did Saxon let this go on? And all of a sudden it got all through the press, and his marvelous image didn't look so marvelous. What the [inaudible] that guy was running is unbelievable. But then he was literally gambling the money away in Las Vegas.

G: There was another crisis with Saxon that apparently had to be settled by the White House as well, and that was with regard to application of SEC disclosure requirements to bank stock. Do you recall that?

B: No. That might well have been after I left.

G: Was there a genuine problem with regard to statistics and reporting differences among these three--?

B: As I say, most of these things are cosmetic. It's how you look. Yes, I'm going to get a little bit of your turf, or I'm going to get a little operation going that you can't get going, and it is really nothing of all that substance.

G: Did you at the time or would you now favor a single, strong regulatory agency?

B: I don't think so. I don't think so. I think that you should leave it open a little bit. I sort of agree with the Carter philosophy, that regulation--you can have too much of it.

G: But has the problem of overlapping been solved?

B: No. And I'm not sure it is a real problem. Maybe the bankers are right. Maybe the fact that there is a little competition in regulation gives them a way to go. If somebody gets too tough, if the comptroller gets too tough, they can jump into the Federal Reserve System. Or if they get too tough, they can jump back into the state bank FDI system. I don't think it is a terrible national policy problem.

G: You have gone into some detail on the imprint of Saxon's personality on this. How about William McChesney Martin? How did he put his own stamp on this?

B: Martin rarely got down into the regulatory fighting. He thought that was beneath him. He had a fellow named Louie [J. L.] Robertson who was the vice chairman of the system, who ran the regulatory operations. Now, there were times when Louie couldn't. On coordinating the call reports, Bill had to do it, but he absolutely refused to do it. He said he'd tried it two or three times and he wouldn't speak to Saxon, he wouldn't talk to him, he wouldn't have anything to do with him. Nothing.

Martin was a towering fellow in those days. He is one of the--I really mean this--wisest men I have ever known. He really was a wise old fellow, and he did a great job running the Federal Reserve System during the years in which [he served]. He ran it for a long time: from the Eisenhower years to the Kennedy years, the Johnson years, and the Nixon years. So he was a very wise fellow, but he was not about to get down into this street-corner brawling that was involved here. Unfortunately I enjoyed it a little bit at the time. I shouldn't have done it either, I suppose. But it got kind of old with me.

G: There was a piece of legislation the following year, the Robertson anti-trust bill where you or the FDIC, by this time you were back at Treasury--the FDIC and Saxon testified in favor of the bill and Justice testified against it. Apparently the unacceptable part was the provision which killed some pending litigation in six or so cases. Do you recall that?

B: I don't recall, but back in those days the Justice Department really had a stranglehold on all bank mergers. Banks had to notify the Justice Department thirty days in advance of all mergers, and they had to come up with a conclusion as to whether or not they are going to be anticompetitive. Well, in those days they were really enforcing the anti-trust laws. And as a result very few bank mergers got through.

G: There was a major amendment to the Federal Deposit Insurance Act in 1964, apparently because of some of the bank failures. This was a device for increasing the monitoring capabilities over banks that were being taken over and their resources were being included--

B: That's right. That was legislation that I devised and pushed and we got passed. And we found that one of the problems in a lot of these little banks was that some bunch of shysters would come in and get control of the bank and the regulators would never know about it. They would never know that control had changed. So we got legislation, an amendment into the FDIC act saying that when control of the bank changed, the regulators had to be notified.

G: Let me ask you to go into this in some detail. How did it first come to your attention that this procedure was taking place?

B: I think it was the first bank that failed when I was chairman of the FDIC. It was a bank down in Texas, some place down in Texas, I can't remember exactly where it was. Well, we got into it and we found out that this had been a perfectly good little country bank, and it was going along fine until all of a sudden, the owners for one reason or another sold out to a group of very shady characters who immediately went out and the standard procedure in those days was you had brokers to buy CDs all over the country, offer CDs for the bank at very high rates. And the money came flooding into this little bank. They put it out in very risky loans. The loans failed and the bank went kerblank. I think [to] any regulator [it] would have been a signal that you should start monitoring this bank a little closer if you'd known that control of the bank had changed. We did not know. And this happened in another instance, then in a third instance. At that time I said, well, this is enough, so I went up and said that the regulators should know at least who is running the bank, who owns the bank.

G: Apparently this entire legislation--it went through the whole process in two months or less.

B: Yes, it wasn't very controversial. Everybody said, "Sure, how come we didn't think of that before?" And at that time there were thirteen or fourteen little banks failed in the year that I was in that job. But they made big headlines, because no banks had been failing up to that time. And people who thought that bank stocks were an absolute sure thing started to change their minds about it. Lyndon kind of maneuvered around in little bank stocks of one kind or another, I think he had some interests in little banks, and he was convinced there were a lot of crooks operating in the business.

G: Is that right?

B: Yes, he told me to see what I could do to run those crooks out of the banking business.

G: Describe his conversation in detail if you will.

B: It was just about that. It was casual. I don't know, I was over visiting with him one day and he said, "Now, Joe, I know something about this. I have investments in little banks in Texas and around, and I think there are an awful lot of crooks in this business. I want you to get after them, I want to clean this thing up and see if you can't chase those crooks out of the business." Precisely what he said. Well, I did. I went after them pretty enthusiastically. Before, what had happened, when banks failed, they didn't shut them down and pay off the depositors, because when you do that the shareholders are wiped out clean. They get nothing. What they had attempted to do was to merge them--the failing bank with a strong bank--and that held down the publicity, there wasn't so much publicity and anguish and everything else. And also sometimes the shareholders would get a few nickels. I went in and every time they got in trouble, boom, I shut them down and paid off the depositors. I didn't merge one.

G: In the first instance, the FDIC would assist with a merger, is that--?

B: Yes.

G: Really?

B: And that has been the policy recently, too, they can't afford to shut them down and pay them off anymore. They haven't got that much money.

G: And some of them aren't so small either.

B: Oh, no. No, but the ones we shut down, I think the largest one was one hundred to one hundred and twenty-five million. We paid them off and didn't even make a dent, didn't even notice it.

G: Well, apparently some of the problem, too, was the new owners converting fraudulent assets to cash, and then depleting the bank's resources that way.

B: They were making loans to dummy corporations that they controlled. There are all sorts of ways that you can milk a bank, especially when you control it, and they controlled them lock, stock, and barrel. And it was so crucial for us to know who really was running these banks and when a change of control did occur.

G: Was there any pocket of opposition to this legislation on the Hill?

B: No, none. As I say, you must remember this was not a crisis, this was just thirteen little banks around the country failing, but it was unusual, and it attracted a lot of attention because banks had not failed.

G: So this gave you added ability to monitor when control of a bank changed hands.

B: Sure. Sure. Absolutely.

G: Was it effective in stopping--?

B: Oh, yes. It is still on the books.

G: Yes, but from there the FDIC would do the monitoring, is that right?

B: Yes, in our banks. Or whichever agency was involved. They would report to the comptroller if they were a national bank, the FDIC if they were a state member, or the FDIC if they were a state non-member. But even Jimmy [and] everybody agreed with this, nobody had any problem with that one.

G: Did it create more administrative problems for you just in terms of being able to keep up with the--?

B: No, not really.

G: All right, another piece of legislation was the disclosure legislation that extended disclosure protection to investors in securities issued by banks. Do you remember that?

B: No.

G: This was a way for investors to know what the banks were doing.

B: Was that in 1964?

G: I believe it was in 1964 or--well, it had to be 1964, yes.

B: Boy, that one just leaves me blank.

G: This was apparently a way for investors to learn more about the financial condition of the bank.

B: Condition of the bank? No, that one leaves me blank, I'd have to look back in my notes.

G: There was another issue during this period regarding the question of ceilings on rates for time certificates of deposit, and the difficulty that small banks had keeping up with the rates that the larger banks [paid]. How did you deal with this? Do you remember that?

B: You know, it seems to me that we didn't resolve that until after I was back in the Treasury. In 1965--

G: It was 1965.

B: In 1965 the S&Ls [savings and loans] came under very--the S&Ls in California had leveraged themselves out a very--there was a tremendous amount of hot money in California. In other words, they were advertising and paying much more for deposits than the banks could pay on the East Coast. And what we did was to put a ceiling--it was

Regulation Q. We put a ceiling on the rates that banks could charge, every bank could charge, and gave the S&Ls a tiny little differential off the top of it. That Regulation Q is just now coming off. It was on for years. In that instance I violated my own argument about over-regulation. I didn't really--I was terrified in 1965, I was under secretary of the treasury at the time. I thought these big S&Ls on the West Coast were going to fail, and I mean these were big ones, four- or five-billion dollar S&Ls. I thought they were going to go down the tube. I was prepared to move Treasury deposits into those S&Ls. Normally we only keep Treasury deposits in national banks or a member of the Federal Reserve System. I was prepared to move Treasury deposits, if necessary, into some of those banks in an attempt to keep them afloat. But John Horne, the chairman of the Federal Home Loan Bank Board, and I worked out this device with Bill Martin and the comptroller to put a limit on the amount of money that banks could pay on their [deposits]. In other words we stopped the competition.

G: Yes.

B: Put a cap on the competition. And it worked.

G: Was this something that the small banks or small lending institutions supported as well as--?

B: Yes, I would think so, because they did not want to get into a rate war. I think the big institutions would have taken on a rate war and wouldn't have minded, a small institution did not. But the real thrust here was to protect the S&Ls, to protect the S&Ls and to stop them from this crazy rate war that they were trying to start.

G: Did you have support from Congress on this one?

B: Yes. They started striking this down in the Carter [inaudible], and it was right; they should have struck it down. It was an anti-competitive device designed to protect a group of S&Ls that had got themselves out on a limb.

G: Was there a way to do it better without restricting the competition as much?

B: We may have exaggerated the danger to the S&Ls and the danger to the total system. Maybe we should have merged one or two of them out of business, I don't know.

Tape 1 of 1, Side 2

B: Just about in 1964 IBM had developed the 370 computer, you know, that first big computer. One thing I thought, here I was sitting here with all that money and all those people, not really a hell of a lot to do, thirteen banks failing and making speeches and running around, and interested in a lot more than some of these arcane regulations that Jimmy Saxon was always arguing about. So I thought, "Boy, this is a chance for us to--here we have all this money, we don't have to go to the Congress for an appropriation, we'll become a repository for just tons of statistical information and we'll massage it all right over here. We'll be the statisticians for the United States." The Fed was kind of dipping their toe into it. They'd bought one. But I thought, "Boy, we'll get in there and give the Fed a good run for their money in the statistical department." So I told the President that I would like to ask IBM to submit some bids and go to work on a 370 computer force, and he wrote this one back himself--maybe I've still got it--he said, "Joe, go a little slow on this. I think the Fed has a computer already." He knew it.

(Laughter)

Yes, "I think the Fed has a computer."

G: So you didn't get your 370?

B: We did later, right at the end. I waited until things kind of quieted down a little bit and then I did get it, go ahead and put an order for one.

G: In your first interview you indicated that while you were there at the FDIC that you and LBJ did a lot of yelling back and forth. He did most of the yelling.

(Laughter)

Tell me about that.

B: Not really at the FDIC. That wasn't where the yelling occurred. It was in the Treasury.

G: Later.

B: Yes. It was there. I wrote him a little memo once a week. No, he didn't pay any attention much to what I was doing over there. But in the Treasury, then I was right under him, and the things I was doing were very much a part of him, and we did a lot of yelling there.

G: Okay. I want to go into that in detail, but--

B: I'll tell you something in a little bit about him. We might as well do it right now while I'm thinking about it.

G: Okay.

B: There was a fellow named André Meyer who was a senior partner of Lazard Frères. And Andre had given Lyndon enormous sums in his campaigning, and he was a brilliant man, there is no question about it, but he was also a real pain in the ass as far as I was concerned. Lyndon was doing everything he could to keep the financial posture of the country in good shape while he was fighting a war and trying to step up his War on Poverty and do these other things. And we weren't doing a bad job of it, but there was always ways it could be improved. Meyer came down and he said, "Now listen, I'll tell you one way to help things out financially. There are too many of these agency bonds being sold. The Export-Import Bank sells bonds, the Federal Home Loan Bank sells bonds, the Fannie Mae sells bonds, the Agriculture Department sells bonds." There must have been ten or twelve agencies that sell the bonds. And we in the Treasury had to agree we would set a budget each year for what they were going to sell, and every time they went to the market we had to approve it. Meyer said, "Don't let those guys over there in the Treasury approve it. Before any of these guys go to the market and sell any bond, a hundred million, they've got to have your initials on that thing."

So Johnson said, "Boy, that's a tremendous idea." I told him, "This is never going to work. You don't have that much time. These things come two and three a week. How am I going to find you? We can't wait. These guys will go broke. Their credit will be ruined in the market. We can't"--[He said,] "Well, we're going to try it." So he told Califano, "Now we're going to do this thing." And so we'd do it. Sure enough, just as I said, I'd come up to the last minute and I couldn't find him. I got him out of a barber shop once. I got him here. I got him there. I finally said, "This has got to stop. You're going to ruin the credit of the United States with this kind of stuff." Because we had to get it. He said, "Joe, you can't talk to the president of the United States like this." I said, "Listen, it's my reputation as much as yours." So finally we gave it up, but that was the worst yelling that we really did. At the end of that conversation he said, "I wish to God I could send you to the Peace Corps."

(Laughter)

He said, "Then maybe I might have some peace and quiet around here. You're always complaining and arguing; you never do anything cheerfully."

G: But he did finally give up that--

B: Oh yes, oh yes.

G: --that sign-off.

B: Yes.

G: Did Meyer have any other involvement?

B: No, but every time I'd go over to hear--Meyer had this high, whiny voice--(imitates)--indistinguishable. And sometimes I'd be sitting outside the President's office waiting to see him or something and I hear that long, whiny thing going on--"Oh, my God, what's he telling him now?" And I told Johnson that two or three times, I said, "My Lord, he isn't selling you something now, is he?"

G: I wonder to what extent Meyer influenced LBJ on foreign financial matters, international financial questions.

B: I don't think Johnson intervened much in that. Sometime the thing you should do if you really want a great achievement, a fellow named Fred Deming who was under secretary for monetary affairs, he and [Henry] Fowler put together something called the special drawing rights, which is still around. That was probably one of the latest, greatest financial contributions that anybody has made for a long time, and someday it might be the key to the Mexican debt crisis, the Brazilian debt crisis, and some of the other things. Because there is a world central bank today and that's the IMF [International Monetary Fund] who can print money if they have to, just the way our Federal Reserve System can do. Well, they got that job done. Now, they did that. But to do it, they had to spend so much time in Europe that it meant I was here running the Treasury about 30 per cent of the time, maybe 40 per cent of the time.

G: Setting up special drawing rights for the IMF?

B: No, the negotiating that Deming and Fowler had to go through, the patient negotiations in Europe and Japan, kept them out of the country for enormous periods of time, so it meant I was running the Treasury and Johnson wouldn't talk to anybody else. He'd talk to me or he'd talk to Fowler, nobody else, he didn't want to talk to anybody else.

I did tell you he had the army follow me around when I was fox hunting, didn't I?

G: No.

B: Jesus, he was so hit on this idea of not letting anybody get away from him. I used to go fox hunting on Saturday afternoons and he had the army follow me around with a communications guy, and boy, if they didn't think that was a pain in the ass.

G: On horseback, or in a jeep, or--?

B: No, they had a truck going up and down the roads, getting as close to me as they could. (Laughter)

G: You indicated that you were around Johnson at the time the army barracks at Pleiku were attacked. Let me ask you to recount that episode in detail.

B: It is a little bit blurred in my mind; I think it's possibly because I was so horrified. The only thing that I can remember was that I have never seen a man so angry in my life; I have never seen a man so absolutely--and what happened I can't remember, but it left a memory on my mind. I went home and told my wife, "Listen, if he wants us to go through with the [Lawrence] O'Brien operation, we're leaving. I just couldn't live with this."

G: You were at the White House, is that right?

B: Yes.

G: This was February, 1965.

B: Sure was. And this was just about the time when O'Brien was--right after the election when they were considering all this stuff. Can't really remember what he did say, but, oh, I've never seen any thing like this in my life.

G: Did he express anger with you?

B: No, no, no.

G: Okay.

B: Isn't that funny; that's gone out of my mind. I suppose that was one of those things that's so damned bad you just forget it. And it was at that time that he put Fowler in as secretary of the treasury, and when Fowler said did I want to come back as under secretary, boom, I went. And you know after that Johnson and I got along fine. Sure we were yelling back and forth, but we were doing business. And I guess there weren't many people who would yell at him. I wasn't really yelling; I was just talking back to him, the way I'm talking to you. He didn't terrify me.

G: How did he accept this kind of criticism?

B: Not too well, not too well. Because I was pretty blunt. As I told you, one time he chastised me for the way I was addressing the President of the United States, but he took it. He knew that I was trying. He knew that I was sincere and that what I was proposing was probably in his best interests as well as mine.

G: Was Fowler able to disagree with him as easily?

B: Fowler was able to disagree with him better. Fowler is about seven or eight years older than I am; he was closer to Lyndon's age and he knew Fowler better. And he kept thinking, "Well, now, old Joe Barr, I elected him to the Congress and he is just a kid working around here. I started him off and everything." I was not on the same level as Fowler, but Fowler was better than I was at it.

G: And Fowler had no hesitancy to--?

B: No. Fowler, though, was also a southerner and he used that old southern guile on him and Fowler was also very good. He's been in government since the Roosevelt days. He started under Franklin Roosevelt. And he knew government.

G: While you were at the FDIC, the prohibition against federal agencies participating in segregated meetings came down, and you issued an order and implemented that, to the effect that you would not make a speech to a segregated group.

B: Yes.

G: Do you recall that and how it affected your own work there?

B: No. I remember it because I was really heartily in favor of it. When I was in the Congress I represented a district that was about 25 per cent black, maybe 30 per cent black: Indianapolis, Indiana. And they were the source of an awful lot of my support, my strength. And in 1959 I was one of Manny Celler's whips on the civil rights acts that we were trying to do back in those days, but we didn't have any presidential support. I was an early whip in the civil rights movement under Manny Celler in the Congress, so I was a complete supporter of it. Strangely enough, there was one place I did get in a big argument. I voted against aid to education, which was a big Democratic thing, but I said, "I'm not going to support aid to education until we get a civil rights act. I'm not going to throw federal money into a school system that's segregated." And I had a tough time explaining that [inaudible] people still threw that in my face. I do remember--who was the head of the Civil Service Commission?

G: [John] Macy?

B: Macy. Macy called me one day and he said, "Joe, you don't have any blacks over there in that organization. We are going to start off with you; I'm going to send you over a black secretary." Well, he did, and he sent over one of the prettiest, nicest black girls I've ever seen in my life. She was kind of the doll of the whole place there. Then we finally got some more [inaudible]. But I told John, "Listen, if this is the kind of integration we're going to do around here, I'm heartily in favor of it." She was a really nice girl.

G: Did you have difficulty in your speeches to southern banking groups which were segregated?

B: Not really. The only trouble I ever had, strangely enough, was in a church in Albany, New York. By this time I was in the Treasury. And the guy who was the rector of this Episcopal church in Albany had been rector of a church back in Indianapolis, and he invited me to come up and make a speech. So I made a speech on the Housing Act and I told them how somebody had tried to say that we didn't need to pass fair housing legislation, that we could do it through the FDIC legislation. Well, we looked at it, and looked at it carefully. Nick Katzenbach looked at the whole issue very carefully and came to the conclusion that it was just not fair. The guys who wrote the FDIC legislation, Carter Glass and [Henry] Steagall from Virginia and Mississippi, they weren't about to be writing any civil rights legislation. And I said the hell with it, we just can't do this. So we did go forward with the fair housing legislation. And it was tough going. And I was saying why I supported it. I just said that in this country the one thing that any of us are trying to do, as we struggle our way upwards, is the right to have a house where we would like to have it. And I said to deny anybody the right to buy a house wherever they wanted to is just unconscionable in a free country that calls itself a democracy and a capitalist country. Well, at that about a third of the church got up and walked out.

G: Is that right?

B: About 1966. Albany, New York. That's the toughest I ever had.

G: One of your initiatives in 1964, again when you were with the FDIC, was a proposal for a financial reserve corps. This was to meet the need of the shortage of highly skilled people coming into the government in financial areas. And you proposed to--

B: That's right, yes. I don't remember the precise speech, but I did get the idea, and I got the idea from the French. The French have a *cadre* of highly specialized people that are called *inspecteurs des finances*. And for instance, [Georges] Pompidou was an *inspecteur*. Most of the finance ministers and a lot of the presidents of France have gone through this course. It's a course where you finish your undergraduate study and then you lay out and then you go back and complete another highly technical course. And then you are qualified either to go into the banking business or into government. And they do. They move back and forth in finance, industry or government. And these have been a very, very--some of the ablest men I've ever known have been *inspecteurs des finances*. Pierre-Paul Schweitzer, who was head of the IMF, was an *inspecteur*. And Pompidou, as I said, was an *inspecteur*. Giscard d'Estaing was an *inspecteur*. Really, the top guys in France have all been that. It seemed to me that what we needed in this country was something where people could--it was accepted that they had been trained for work in government or industry and they could move back and forth between the two sectors without any shame or blemish or conflict of interest, the way the French did. So that was what I was proposing. But what did occur was not that, but the White House Fellows program developed from some of that talk.

G: Apparently you made a speech in New York in May 1964, the Loeb awards.

B: The Loeb awards, that's correct. And that's where I made that proposal.

G: And that was followed up by a conference in October.

B: I think so.

G: You did get broad-based support at the conference.

B: Yes. No, I don't. You know, that one is gone out of my head, too. But I do remember it, and I'd picked it up as we had the conference. But from that, somebody came along and picked up the idea for the White House Fellows, and that came in very shortly thereafter.

G: Well now, your design as stated in the documents was to support graduate students for about three years: three in graduate study and three in government internships, high-level internships, which again would correspond with the White House Fellows, but White House Fellows were--

B: One year.

G: --of shorter duration. And this would obligate them for four years of government service later at the president's request--

B: Was that it? Still a pretty good idea.

G: --as needed. What sort of compulsion would you have over these people, I wonder?

B: Compulsion? You mean say, "Come back," if they said, "Hell, no"? You wouldn't have a lot. You know, strangely enough, the concept, though, has worked.

The first White House Fellows program, they assigned a guy to me named David Mulford. And Mulford had graduated from Oxford, written his Ph.D. thesis on British colonialism in Africa, in Zambia, especially. He took his Ph.D. there in Oxford, came back, and wanted to be assigned to the State Department. They didn't assign him to State, so they sent him to Treasury, and David was kind of miffed because he thought he belonged in State; he was a diplomat, not a financial fellow. I just said, "Okay, you just tag along with me." And he became so fascinated with Treasury work that after his year was up, he went up to New York, got a job with White Weld, they sent him to Europe, he helped develop the whole Eurobond market in Europe. Then he came back, and then White Weld joined up with Credit Suisse, and they were advisers to the Saudis, and he went to Saudi Arabia for nine years to run the Saudi money. He finally broke out of that by getting back--by that time Merrill Lynch had bought this operation, Don Regan knew him--he was going to break out of there by going back to Harvard as a professor, and Regan instead sidetracked him and brought him into the Treasury as assistant secretary for international affairs. And that's where he is right now. And he is the guy who has engineered the big devaluation of the dollar. He is the one who has engineered all this business with the [James] Baker plan with Latin America; he's just an incredible kind of a guy. And here he is, he's moving back and forth between government and business. This is his second move.

I still think the idea has a lot of merit, because we have all these crazy things about conflict of interest, conflict of interest. Well, you can talk about conflict of interest, but boy, I'll tell you, if you're going to stand up and negotiate with the French or the Japanese, those fellows have spent a lifetime in their jobs going back and forth between them on a perfectly understandable, legitimate, honorable basis. I'm going to dig that speech out. I'm going to look at it again. I don't think he would have a hold on them. I don't think that's the point, though. I think they'd come back, if they really wanted to. What you want them to do is to come back without any big conflict of interest, without somebody saying you're going to be representing Merrill Lynch. It's very clear that you're in this class of civil servant, and that you're representing the United States. I don't know if you can do it or not but it's an idea.

G: Well, the other aspect of this is that you are upgrading the professionalism of these people in financial areas of government, and this sounds like something that would have interested LBJ. Did you ever talk to him about this?

B: I talked to Fowler about it. As I say, I don't know where the White House Fellows thing came from. It started under LBJ, you know.

G: Yes.

B: Maybe it was a variation of this.

B: I've jumped by something, and I'll tell you something else that I've talked about briefly that finally came to light in legislation. At the end of the Johnson Administration, Dave Kennedy, who succeeded me--we had been working so hard that I'd really not had a chance to sit down and brief him about anything that was going on--he asked me to stay on as a consultant for two weeks after the end of the Johnson Administration so I wouldn't lose my security clearance and I could help him if anything popped. I said fine. Well, I didn't really have much to do and I just took a room down at the bottom of the basement, and I wrote a paper called, "Improving the Financial Effectiveness of the Congress." I've still got copies of the paper around. Sent it up to the Speaker and the President *Pro Tem* of the Senate. They held hearings on it, the academics kicked it around, and I thought, "Well, this is a lot of fun." But I told them that they could never really match the executive in the money area until they reformed their approach, unless they went on the same approach in budgeting that the executive did. Nixon picked it up, sent it up in 1973, and it became the Budget Act of 1974. This resulted in the Congressional Budget Office. So these things do--you know, you write something out and sometimes it circulates around.

End of Tape 1 of 1 and Interview IV

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