INTERVIEW V

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INTERVIEWEE: JOSEPH W. BARR

INTERVIEWER: Michael L. Gillette

PLACE: Ramada Renaissance Hotel, Washington, D.C.

Tape 1 of 1, Side 1

G: You moved over from FDIC [Federal Deposit Insurance Corporation] to Treasury in, I believe, April 1965.

B: Yes, that's true.

G: And got right in the middle of it right away. One of the first issues that emerged was a customs reorganization and this was evidently a controversial issue on the hill.

B: And you know, I can't remember what that was about. I keep mentioning it in here, but that thing is gone out of my head.

G: Well, apparently the reorganization was done on a regional basis as well at various [inaudible].

B: It seems to have been. Yes. They were putting customs on a regional basis and I--but, you know, for the life of me that escapes me. I can't remember.

B: Your memo indicates that the Stover Report was really helpful to you because everyone was attacking it rather than what you were actually trying to do. Do you remember that?

B: No. That customs thing it--you know, a lot of these things--life was going so fast at that time, and I had so many balls in the air that some of these things are kind of tough to remember. Next time I'll go back in here and take a look at some of this stuff. Go ahead.

G: Okay.

B: I don't think customs reorganization is going to be very fruitful.

G: Okay.

B: Did O'Brien or Fowler or any of them have any idea what it was about?

G: Haven't talked to Fowler about that, but. . . .

B: Have you talked to Fowler?

G: We have some early interviews--

B: Do you?

G: --that I have done.

B: Yes. Okay.

G: How about excise tax reduction? Do you remember that?

B: That's a funny one too. I just vaguely remember it. We evidently cut the automobile excise tax. It was 8 or 9 per cent and we cut it down to--I think we cut it down so that finally there was just 1 per cent left on it and the question was what were we going to do with that 1 per cent. And I think that maybe, possibly that 1 per cent went to the beautification program. Did it?

G: Yes.

B: That's where it went.

G: And you did some active lobbying on it.

B: Oh yes. That was my field. I had to work that one and work it hard. And I guess the idea in cutting those excise taxes, it was--well, we were in pretty good shape. [Stanley] Surrey didn't like excises, and a lot of people did not like excise taxes because they felt they were regressive, in other words, that they hit the poor people hardest. And so that one was underway when I came on board. They had already been up there to propose it, but I jumped in and we got it through. We did get it done.

G: There was also a--

B: You know in retrospect I sometimes wish we hadn't knocked out all those excises. I've just about come to the conclusion that that's what we need now, are some excises. Something like a value added tax.

They went back to World War--they collected a lot of money and they collected it very easily and very cheaply. I'm not so sure the regressive argument is all that powerful anymore. I think we're rich enough that everybody--that we can afford a consumption tax. Well, be that as it may, that was not true then.

G: Do you recall Mrs. Johnson's role in supporting that allocation for, I believe, disposal of junk cars or something of that nature?

B: Well, that didn't pass. That was thrown out, I think, wasn't it? I think we just kept the 1 per cent in there. And what she did--no I don't. Boy, I'm not being very helpful to you today, Mike. This is one of those days. How was O'Brien? Is his memory pretty good?

[Interruption?]

Do you want to pick this up here or. . .

G: Yes, let's do.

B: Well, you will see that, in December, I went out to Vietnam on the Asian Bank, and I reported what some of the congressmen and senators were saying and then I gave them my own ideas that we--the country--was running flat out, and we didn't have room--didn't have enough economic slack to fight a war. I was just beginning to realize that, but Bill Martin and the Federal Reserve Board has come to that conclusion about a month before, and they raised the discount rate. This was when Johnson went through the roof. He really went through roof. You know that--what I was telling you about the money changers and the economic whatever it was, well, the banker just wanted--that was attributed to him. Then he said he didn't say it. Well, that was the big fight. He just went through the roof when they raised that discount rate. But Martin--the funny thing was that, actually, employment was picking up and things were picking up, but you couldn't find the expenditures, not through the government expenditures. What was happening was old [Robert] McNamara was putting out--he'd go to a factory and give them a letter of intent saying, "I want so many tanks, I want so much ammo." He'd go to this one: "I want so many airplanes, I want so much of this, I want so much of that"--all the things he needed to fight a war. He was getting these letters of intent out. He wasn't spending any money yet. He was just saying, "These are letters of intent; be prepared. We're going to enter into a contract to do this" and so. And he [inaudible], the fast way to get geared up and get going. Well, these guys would take the letter of intent to the bank and borrow the money from the banks and Martin saw the pressure on the banking system.

G: I see.

B: And the pressure on the banking system for lending capacity was picking up very, very sizably, and he correctly decided that somebody wasn't telling the truth about these defense expenditures. They were concealing them. So he raised the discount rate and at this time [Henry] Fowler was running around the country saying that--there was some indication that the defense figure was wrong and people were quoting him. And Fowler was going around the country making speeches saying, "If these figures are wrong and the higher estimates are true I'd be the first one back there arguing for a tax increase." Well, of course, the higher figures *were* true. They came in for a supplemental appropriation about February or March, and at that time, all the chickens were out. But this was the difference, and this was one reason I don't think a seminar on how Johnson would have attacked the deficit would be all that good.

G: How precisely could Martin gauge the pressure on the--

B: You can't. All he knew was that there was pressure, and it was not coming through the official government figures. He just knew there was pressure out there and he had his own source of information. Old Senator Russell up there in the Senate was telling him that these figures were going to come in a lot higher than anybody ever thought, that these figures, these current figures they were using were just as phony as a nine-dollar bill, and Martin believed him. And then when he saw the pressures on the banking system, he just determined the time had come to raise the discount rate, stop inflationary tendencies. He was right.

G: Do you think that McNamara was cooking these figure at LBJ's request or was this his own way to get these expenditures without getting the--

B: I don't know. I swear to God I don't know. I can't tell you. It was probably--I would assume that it was at the President's request because Charlie Schultze was cooking them too.

G: But--

B: A year later in October of [1966] we sat down to start planning for the next fiscal year, and I remember Gardner Ackley turning to Charlie and saying, "Look Charlie, are you going to give us the straight figures this year or are you going to give us that bullshit you gave us last year?" (Laughter)

G: What was Schultze's reply?

B: He kind of mumbled, "Uh…."

G: But in one of your memos here, you did indicate that Schultze was concerned about the numbers.

B: That's right, that's right. But he was giving us the--he was not giving us the right--he expressed his concern. I read that memo. He was expressing his concern, but he still was not giving us for planning purposes the correct or the best information, and maybe he didn't have it himself. That's the other thing; he might not have had it himself. McNamara, you see, didn't run his operations through the Bureau of the Budget. He cleared his stuff directly with the President.

G: Was that the only department that--

B: Absolutely. And I think that was McNamara's deal with Kennedy. That that was the way he would come on board, that he didn't have to be responsible to any Bureau of the Budget. McNamara was no fool, you know. He knew that the Budget Bureau could really hold him up. He wanted to deal directly with the President, and he did on the matters of expenditures.

G: On this Vietnam trip, you went out with [John Sherman] Cooper and several congressmen. Let me ask you to describe that--

B: Stuart Symington was along on that trip too. I think Stuart was along. Go ahead.

G: Let me ask you to describe that trip in some detail.

B: It was--the President was looking around for something he could do that would be popular and have great appeal in the Far East, and a guy at the UN called U[inaudible] who was a Burmese, said that the one thing the Asians really wanted, and they wanted badly, was their own bank, a development bank. Well, the president took this pretty seriously, and he decided that wasn't a bad idea and he got Gene Black out of retirement to put this bank together. He gave Gene a little office over there in the Executive Office Building and a staff to put this thing together, and he assigned the coordination with the United States to me. So Gene and I were working to put this bank together and I think this was an early meeting that we all went out to Bangkok to sit down and discuss out there some of the issues that we were going to be facing and they just went along with me. And it was at that meeting that these guys, Cooper--and Symington--Symington was on the CIA committee in the Senate, and I think Cooper was too. They were getting all kind of briefings about what was going on in Vietnam, and they would come back and tell me, and they said, "My God, this thing is a thousand times bigger than we ever realized!" And they said, "You can just see them pouring concrete, and you know that this is going to be a huge operation." Well, then the other fellows--that was the information they gave me, that this was really much bigger than we'd ever been led to believe, and we were making preparation for a serious, serious operation there. Then the other fellows were saying, "Well, why were we doing this when the Europeans were doing nothing to help us?" As a matter of fact, all the Europeans were doing was criticizing us, while we were maintaining six divisions of troops in Europe at tremendous cost to us. We were trying to do them both, and why didn't we do one or the other? So that was part of it. It was on that trip, and then coming back from that trip it was--that was when I was thinking about how we could reconcile a war--how we could get a war into an economy that was running full blast. We didn't have that problem, you know, in World War II. World War II, we were lucky. The country was running at about 50 per cent of capacity, or 60 per cent. We had 25 per cent unemployed. We had a huge, big economic slack to move against. We didn't this time, we were running full blast.

G: Well, what was Fowler's reaction to your memorandum? Do you recall?

B: He was skeptical. He and the President were very, very close friends and he didn't really like to have anybody questioning the president. He and Schultze were, too. I don't think he--until the figures came out in February or March, as I remember, he was skeptical of my approach. I was the first one, I think, to get the wind up in the Treasury, to get excited. Then after it came out, he never quit. He just bugged the president day and night about a tax increase for the next three years. Getting no place but--till finally we got it in 1968.

G: Well, do you think the biggest problem was just public opinion, or was it the President himself or was it Congress?

B: No, I think the biggest problem was the President's--the Vietnam thing was something he felt he *had* to do; it wasn't something God-almighty, he wanted to do. What he wanted to do was push a social agenda through the Congress. Now that's what he really wanted to do. He wanted to get his Medicare, Medicaid operation through. He wanted to get his education bills through. He wanted to get his Head Start, his poverty program through. These were the things that were his interests. Beautification and all that stuff--that was his agenda. And he was concerned that if he asked for a tax increase, that would torpedo these things. Now that's my interpretation.

I'm astonished though that we did as well as we could. Jesus Christ, here we are in peacetime, Mike, and we're spending on defense like it's going out of style. And we're running these enormous deficits. We never had any big deficits, very few. And we ended up, you know, in our last year we were in surplus! Last year the United States had been in surplus. When I went out of office--when I handed over, after we got that little tax increase passed we had a surplus. We had a surplus in our domestic accounts, and we had a surplus in our international accounts. Today we're floundering around with a two or three hundred billion deficit in our national accounts and almost the same amount in our international accounts. So, on balance, we did a pretty good job, better than I would have thought.

G: Let's talk some more about the Asian Development Bank.

B: Yes.

G: The Europeans didn't seem to be willing to subscribe to the [inaudible].

B: No, they thought it was just a front we were doing because we were in Vietnam. (Laughter) They didn't think much of it. See, the Europeans had never joined the Inter-American Bank either. They thought that was our baby; this was something we did in the Western Hemisphere, and they never joined it, and they didn't really want any part of loaning to all those South American countries anyway. They were going to do what they wanted to do through the World Bank, and that was their approach. They felt pretty much the same way about the Asian Development Bank, but we broke them down, and we finally did get quite a few of them to join us.

G: The British were a particular problem I gather.

B: Yes. (Laughter) The British. That's correct. The britty old Brits were--they had other fish to fry, and they had big deficits themselves, terribly big deficits. We were always telling them they were spending too much money, and then we'd come along and ask them to subscribe to the Asian Bank, and it just seemed like a completely contradictory approach to them. But we finally did get a good representative number of people together and got that bank started, and it's been a marvelous bank. It's been well run right from the start.

The tragedy occurred a little bit later. I think this was about 1966 or 1967. When we finally got the bank organized, we got all the legislation, we got the money in, and everything else, were all ready to go, then the question arose as to where they were going to locate the bank. And everybody just assumed we were going to put it in Tokyo, of course. That's where the money was. That's where you could get all the people. That's where the communications were. Well, they were meeting there in Manila, the Asians were, and here again this time, we stayed in Bangkok--the United States stayed in Bangkok with our delegation to stay out of the fight. We weren't going to get in the fight as to where we were going to locate the bank. We would have preferred Tokyo to any place else. Well, what the old Filipinos did, they hired a big old boat, a big old kind of a cruise ship, and got all of those Asian delegates--they had a big dinner for them. And they took the Philippine Ballet Company out on the boat, and by the time these little gals got through with those delegates, the bank was located in Manila.

(Laughter)

We had an old Japanese guy, marvelous old fellow, great banker, a government guy we all knew, picked out to be president of the bank, a fellow named Takeshi Watanabe, and Mr. Watanabe said, "Well, I'm not going to move to the Philippines." At that time they were--you think back to the early 1960s, the Filipinos still hated the Japanese. There weren't any there. There weren't any Japanese businesses, no nothing. And he thought about it a little bit and his government, I think, finally persuaded him that he had to go [inaudible]. But he thought he was risking his life going to the Philippines. But they put together a pretty good little bank there, and it's been a great success, it's been a fine bank. One of Johnson's more successful initiatives.

G: Its importance, I gather, was tied to the significance of Vietnam as Vietnam assumed greater significance at that--

B: Yes. What we said, of course, was--what we wanted to do was, after the war was done we wanted to rebuild Vietnam, to get it into a viable, strong economy, the way we had done Europe with the Marshall Plan. That was fun; that was a great meeting. I enjoyed that bank. I take great pride in it.

G: There was a question of whether the Soviet Union would join that bank or not.

B: They were tempted to. They came to all the early meetings except the last one and they kicked out on the last one. That's correct. Where did you get all this, Mike?

G: This is from your files here at [inaudible]. Why did they decide not to join?

B: Nobody knows, who knows what the Soviet--joining a bank is just too tough for them. That's just a little bit too capitalistic for them. Although they run in London one of the best commercial banks in the world, the Narodni Bank--their own bank there. It's a hell of a bank. You know, that was an interesting experience.

G: Eugene Black proposed that the U.S. pick up the hundred-million dollar shortfall on--they wanted to get subscriptions of one billion dollars to start it off with, and you opposed that, saying that it should be an Asian bank and that we also had doubts.

B: Is that is these memos here?

G: No, well this was in something else. That we also had balance payment problems that would be [inaudible] by this. Do you recall this debate here and [inaudible]?

B: Yes I do. I do recall. How did it come out? Did we pick up the hundred million or didn't we?

G: I don't know.

B: I don't either. I can't remember. Where did you get that bill?

G: This was in your stuff in Bloomington.

B: Oh, in Bloomington. Damn, I ought to go look at that stuff. Did you make copies of any of that?

G: It's good. Now, the Philippines were also reluctant to participate in the Vietnam effort and this was another source of concern to some of these senators like John Sherman Cooper, that the SEATO [Southeast Asia Treaty Organization] countries, Japan and the Philippines, were not really being involved. Did any of your work deal with this aspect at all?

B: No, we stayed out of that. We were just--we were there just trying to promote economic development. We could all agree on that. That was one thing we could all agree on. And we did get good support on that. It was the military involvement that they wanted no part of.

G: Anything else on the trip to Vietnam that. . . .

B: I didn't go to Vietnam; I was in Bangkok. Can't think of anything, Mike. Can't think of anything more than that.

G: Let's talk about the coinage issue.

B: All right. That was one of the first things that I encountered when I came into the Treasury. First of all, the Treasury was in a big debate within itself, had a huge debate going on. And secondly, there was a debate going on in the country. The issue of course was that we were running out of silver. We simply did not have enough silver left in our--to mint the silver half-dollar, the silver quarter, and the silver dollar. There had been no demand for the silver dollar for a long time, but the demand for the silver quarter and the dimes was incredible. It was very obvious we were going to have to stop it, the demand for silver in--silver's main use is in photographic equipment, in film stuff. Well, with the huge increase in photography, we were just eating up a lot more silver than we were producing, and the price of silver was held down artificially to that dollar-an-ounce level, or $1.39, I guess it figured out to that was the coinage value. Strangely enough, you know, when I was a young man in graduate school in Harvard I remember they used to teach us--and this was back in the 1930s--they used to teach us that one of the best examples of a vicious, money-grabbing senator, what they will do to keep getting elected, was old Senator [Pat] McCarran from Nevada. He was the one who forced the United States through his machinations--he'd been in the Congress so long--he forced the United States to buy all the silver that was produced and use it for coins. Well, of course, we couldn't use it for coins; we had this enormous silver stockpile that got bigger and bigger and bigger. And that was in the early days. Then all of a sudden with the demand with photography and the other demands, the demand for silver just outstripped all our production. We ate up into the stockpile and then we ran through the stockpile. What happened then was that--we had to keep some stockpile back for defense purposes, but then what happened was that it was very obvious that we were going to have to quit using silver in the coinage. So McCarran who it looked like had forced us to buy all this silver--a lot of it much cheaper than the $1.39--had really made a pretty good deal for the United States. We made a lot of money from the old senator.

Well, when it became obvious that we [were?] going to have to do something about the coinage, the big question was the quarter. That was the one that was heavily used--the quarters were used in all the vending machines. The argument in the Treasury was whether or not we were going to use a cupronickel alloy quarter or whether we were going to use a clad quarter that was a cupronickel on the outside and had a copper center. And the argument for using the latter was that it had the proper electrical properties to activate all the vending machines, and if you used the straight cupronickel it wouldn't. They would have to change all the gadgets they use on all the vending machines around the United States. Well, this got so fierce that we finally--I was very, very dubious about using that clad quarter because it was ugly, I thought. Compared to the silver quarter, it was the ugliest thing I'd ever seen, but it soon became obvious that without tearing up the vending machine industry, that we were going to have to go to the clad operation which we did decide to do. And one way we got the--we finally got the bill through the Banking and Currency Committee, we got it all signed up. And one way we did it was to appoint a commission on silver and put Wright Patman and a bunch of the congressional people on that thing to help us make the transition from the silver coins into the new clad coins.

I'll never forget the day I had to take that coin over to show it to Lyndon Johnson. Did I tell you--is that in your notes?

G: No.

B: I had to take--when we finally had decided that this is what we were going to do, I had to take this coin over to show it to Johnson. I thought, "God almighty, he's going to go through the roof." He'll say, "You're going to get rid of those beautiful coins, and I'm going to be remembered all my life for this ugly monstrosity?" Well, there was one bit of accounting thing that I thought would cheer him up, and that was the fact that we were going to make about four or five hundred million dollars in the shift. That's in seigniorage. Seigniorage goes back to the old term that "*le droit de seigneur*," the right of the lord of the manor, you know. He had two rights in feudal days. One was to lay the help before they got married, that was one of his rights, and the other was to clip the coins. And so the term seigniorage is the difference between what it costs to produce a coin and the nominal face value of that coin. That's the term seigniorage. Well, it didn't cost us much to make these copper clad quarters and we were going to make about a half billion a year on that thing.

G: Because of the metal component--

B: The metal component. When you compared the metal component--I don't know, with maybe a nickel or so--and here was something with a face value of a quarter. Maybe it was a dime, I don't know, but it was enormous. The production cost of making the coin and the face value of the coin--the difference was seigniorage, and it was about a half billion a year. I went over and told that to Johnson, and he said, "Joe, that sounds crooked. I just don't believe that. I can't believe that anybody would have such a rule." I said, "Mr. President, this thing goes back to feudal times. [Inaudible] It may be crooked, but people have been doing it," and I said, "We have to account for this. We're going to be making these coins and we've got a cost of production of labor and materials and building the plants--we got a cost of production, and then there is the face value [inaudible]"--I said, "There's a difference. There's some place we're going to have to account for it, and the accounting is--it says that this is a receipt to the United States." He said, "Joe, that sounds crooked to me. I want you to take all those documents and put a big secret stamp on every damn thing you've got and hold them until I check this out with a few people I trust. I'm not saying that I don't trust you, but this is too hard for me!"

(Laughter)

And he did. I locked it all up. I don't know who he talked to--he had some people he talked to, like--oh, who was the Supreme--the guy he appointed to the Supreme Court?

G: Fortas.

B: Yes, old Abe. He probably talked to some one like Fortas, you know.

G: Ultimately, did he….

B: Ultimately, yes. He said "Fine." And you know, strangely enough, we were never criticized for the appearance of those coins. The thing that we had dreaded worst never came to pass. The coins worked just fine. If they worked in all the vending machines everybody could get their cigarettes or their bubble gum or whatever. So we made the transition in great shape.

G: There was some question initially that the cost of fabrication might be greater than anticipated, wasn't there? Did you….

B: Could have been, back in the early days. We didn't know. We brought in a fellow named Decker, from Corning Glass, who was an old pal of Fowler's. He had retired from Corning, and he got that whole production operation under way. He did a marvelous job.

G: You mentioned the commission that you established I guess part of that was Senator [Wallace] Bennett of Utah.

B: Bennett?

G: He did swing around to support you on that.

B: He did. That's correct.

G: He's from--I guess Utah is a silver-producing state.

B: That's right, a silver-producing state.

G: How'd you do that?

B: There really wasn't any choice. You couldn't get that much silver out of Utah or the rest of it. And I think he saw that if we got out of the silver business, that very possibly the price of silver would go up; if we got out of the coinage business, then there would be no reason for us to sell out of the stockpile. You see, we'd sell out of the stockpile every time the price of silver got too high and we were running out. And he knew that if we stopped, the stockpile would go up, so…. He was a fine old gentlemen, incidentally. General Motors had plants on both sides of the border and I think they were for it. I think Ford was, too. I can't remember who it was, but the guy who was really opposed to it, bitterly opposed to it, was Vance Hartke. We made a lot of auto parts, I remember that, in Indiana and he was afraid it was going to hurt Indiana. So, he wrote--finally to get him shut up we wrote into the bill a protection that if the imports got up to a certain level that--and they could prove damage to any of his plants--we'd give him some kind of compensation.

G: Some of the criticism on this was that the measure was really inconsistent with the general trade and tariff agreement.

B: Really?

G: Yes.

B: I'd forgotten that. Might have been. It was a big preference for one country, for Canada.

G: Did you have a fear that the automakers would move more of their production into Canada because of the cheap labor there?

B: Mike, I cannot remember. I guess that was it. This came over--this was something that wasn't really our baby. This came over from the trade representative. And it was just in Ways and Means, and that was not something we were doing with it.

G: [Abraham] Ribicoff was opposed to it also. Do you recall…?

B: I think probably the same reason, he was concerned about employment.

Do we get into education here? I think we do. I think it started--I think I read in there someplace about the start of the student loan program. Oh, it was the [Douglass] Cater, the Cater memos. Abe Ribicoff had an amendment to the tax code that he was pushing very hard. What it would do--it would enable people to take a tax credit of up to $1000, I think, a child, to pay for their college education and this thing was really picking up steam. It was an enormous amount of support. Well, Stan Surrey--this just drove him up the wall because Stan said what we were doing would be--a credit works best the higher your income bracket, the higher your tax bracket. So Stanley says what this was was a reverse scholarship. What we were going to be doing would be rewarding--giving tax assistance to the families that needed it least, the wealthy families, and less assistance to the poorer families. And Stanley--he was just fighting it up one side and down the other. We spent half our time trying to beat the Ribicoff Amendment, but it was very difficult to explain that. You talked to the average fellow with a child in college, and he said, "Boy, that makes great sense. I'm all for that Ribicoff Amendment." So Stanley said, "We've got to develop an alternative. We just can't beat the Ribicoff Amendment. We have to develop an alternative." And he came up with the idea of a guaranteed student loan. He and Doug Cater--I don't know whose idea it was, but the two of them came up with this idea of a--that the United States would step in and guarantee the loans that students would take out from--would borrow from the banks or any kind of financial institutions or the universities themselves. We'd put our guarantee on that, and the idea--the idea of a guarantee was that this wasn't going to cost us any money. Everybody would pay it off, you know, and we might--I think there was even some subsidy involved, a slight amount of subsidy involved on the interest rate. So we--the bankers were really fairly enthusiastic about this thing. They may have been cautious at the start, but they got to be quite enthusiastic and the fellow who was really pushing it was Charlie Walker. Charlie Walker was the executive head of the American Bankers Association at that time, and he was really pushing that. He thought that was a great idea, and he pushed it hard through the American Bankers Association. And we finally--it was a while before we got it passed, I don't think we passed that thing until 1966 or 1967. It was sometime along about in there before we ever finally got the legislation through. We finally did get the thing through but this was the start of it. It was just getting cranked up there in 1965.

G: Well, were the bankers initially concerned that they might lose control over the interest rates that they would charge?

B: Don't remember what--bankers are normally pretty reluctant to see the United States get into credit brokerage of any type, but the longer they thought about it, they finally came around. And Charlie really pushed it pretty hard. So they came into it.

G: This went through the House Education and Labor Committee--

B: That's correct.

G: Did you--

B: I was working hard on it, yes indeed. And I worked hard on the legislation to--when we were putting the legislation together when we were devising it, I represented the Treasury in all this stuff and then I worked hard on Education and Labor to get the thing through. And after it was over, you know, it was so successful. The legislation was so successful--incidentally in some memo I predicted it was going to be an enormous success and it was going to take up a huge amount of money. And it did. It took up tremendous chunks of dough. So much that the Nixon administration decided they had to find some way to get the money back in the banks. So they created Student Loan Marketing Association. They got that legislation passed and old Nixon put the arm on me to help get it started, and I reluctantly did, and today that is one of two Triple-A financial institutions left in the United States. Morgan Guaranty and Student Loan Marketing are the two Triple-A operations.

G: Now this was actually part of the Higher Education Act of 1965 [inaudible].

B: I think so. Was it?

G: I think so.

B: That's when we got it through? That quickly? Hmm.

G: There was--I think a question of whether the restrictions on construction of undergraduate facilities should be removed. You know they had a limitation on science facilities and math and engineering.

B: I didn't get into the construction.

G: That aspect of it.

B: No, I was just involved in the student loans themselves.

We had just had a constant series of battles with the control of that currency on the banking system. Jimmy Saxon, as I probably indicated to you in our earlier [interview], had a very--he knew the job. He had been in the Treasury before. He had a very strong opinion that he was going to free up the banking system from what he considered to be excess regulation. Jimmy was probably ahead of himself, and he proceeded to do that but he would brook no opposition from anyone. The Comptroller of the Currency is a one-man operation--no board, no nothing--he's it, and he serves at the pleasure of the president a five-year term. The president can remove him, I think, for cause, but there is a very good question whether he even has to report to the secretary of the treasury. That's a gray area. Well, Saxon knew this, and he fought with everybody. He started off fighting with Bobby Kennedy. He and Bob Kennedy used to fight, and then he fought with Dillon, and he fought with me and he and Bill Martin just fought like two strange bulldogs. They really could not stand each other. One of my first jobs in coming over in May was to sort of try to act as an arbiter between Martin on the one side and Saxon on the other, and this 17th Street National Bank--some of these banks that Jimmy was creating were getting in trouble. They were just getting too aggressive, and they were starting to go down. Then Martin was calling his attention to the fact that this bank was in bad trouble, and I had to get in it because Martin would complain either to me or to the secretary. He wouldn't talk to Saxon himself and I had to go do the mediating with Saxon--which I didn't do all that well, either.

G: The bank was apparently borrowing from the Federal Reserve Bank in Denver and this is the way it came to Martin's attention. Is that--

B: That's correct. Bank had serious liquidity problems--couldn't meet its obligations. They had to borrow heavily from the Federal Reserve Bank in Denver, and that is the way, as you say, that Martin got wind of it. We had some dandies, I'll tell you.

G: What was the outcome of that? Do you recall?

B: I think a Texas bank--I don't know….

G: A Dallas bank did get involved at some point.

B: Yes. Couldn't have bought it, though--it was illegal. A Dallas bank couldn't have bought into Colorado at that time. I don't know. I can't remember whether we got the bank straightened out or closed it down.

G: Another problem that you had to deal with was the problem of excessive copper speculation.

B: I noticed that in there.

G: It seems like you met with the Commodities Exchange, and there was an announcement that we were going to sell off some of the stockpile there and take actions that would try to discourage this and here was a material that was needed in defense and the war effort. Do you recall your work here?

B: Yes. They were furious. You see we had these--I don't know if we still have them or not--we had these huge big stockpiles that were left over from World War II, and technically they were designed as a defense effort, so that if we were ever attacked we'd have in stockpile the things that we needed to fight a war with. They turned out to be a big old boondoggle for the copper producers, and the tin producers, and the rubber producers, and everybody else all that stuff that we were stockpiling. The Congress got very tough on you whenever you sold off; whenever you got into that stockpile, you really had to justify it, because it would cut somebody's business. Well, they started to--here again this is an example of Vietnam. Copper is the one thing that gets into short supply when you start fighting a war--you're using bullets. And copper, they were evidently just running that thing through the roof, and we--there was a lot of speculation there was--copper was getting in short supply but the speculators were adding to it. I'm not sure the president got into it, but the Council of Economic Advisers got all upset about how the copper was going to go through the roof, and that was going to affect wiring and construction and the defense effort and everything else. So we met with these people trying to keep it down and warned them that if this thing got out of hand we would not hesitate to go in and release it from the stockpiles. That seemed to dampen it down to some extent--not much.

G: Let's talk about this.

B: Okay. Fowler along in about July announced that the United States would be willing to enter into a conference designed to improve the workings of the international monetary system. Joe came to the conclusion, rightly so, that there wasn't enough gold in the world to support a trading system that was getting as large as ours was. There just wasn't enough gold there and as a result trade and commerce between nations couldn't grow because the money wasn't there, and the only international money we had was gold. They used the dollar to some extent. Well his idea was that we would create an international currency, called the Special Drawing Rights, through the International Monetary Fund. And in effect it would be--the International Monetary Fund would become sort of a world central bank with the power to issue these Special Drawing Rights, and he started out to get that thing negotiated. Well, boy, that took him three years to get that job done, but he stayed with it and finally in 1968 he got it done. He got the Special Drawing Right thing accomplished. But he started this in the fall of 1965, and as a result, you will see that there are quite a few memos that I write to the president and secretary, and for the next--1965, 1966, 1967, and a good part of 1968--Fowler was gone a lot of the time travelling on this idea.

Tape 1, Side 2

B: The Europeans--when he first brought this idea up they nearly went through the roof. They couldn't believe it. They knew that we were--we were the only ones supporting the gold standard; we had the gold. And they wanted to get it away from us, the French especially, and here we were coming out with a new kind of paper money, and this time instead of a domestic paper money it was going to be international paper money. Well, he did get the SDRs, he finally got it done, as I say, in 1968, and he was right; he was absolutely right. You know, the odd thing is that today we are off the gold standard--he was right. There wasn't enough gold in the world to support the burgeoning commerce and trade so that there wasn't enough money to go around. John Connally took us off the gold standard in 1971. He got us off. Now, since that time, we've been running these enormous big trade deficits and pumping dollars out into the world--another hundred, two hundred billion dollars, in dollars, every year into the world--which does support all this increased trade. So Fowler was--and they have never used the SDR very extensively, because the dollar has been pumped out, and the dollar is the reserve currency. It's the currency that all the countries trade in and save their money in and invest in and bill each other in and that's the reserve currency of the world, and it's the one we get by with. If we were still on a gold standard, as I see it today, we could no more run that enormous big trade deficit than fly to the moon. Never. But that's what he was doing--he was starting--a very farsighted fellow, a very farsighted approach, and an enormously complex negotiation. He and Fred Deming did that--an enormously complex thing that he got done. It is still there on the books, and they use it somewhat. For instance, we've got an account in the IMF, and our account is measured in our right to borrow from the IMF and also our Special Drawing Right account. Every country in the world has got it; it's still there, and it could be used if for some reason the United States--the world decided it didn't want dollars any more. The only thing they could do then would be was go to the Special Drawing Right.

G: How did you persuade the Europeans to go along with it?

B: I think they finally saw--he was very persuasive, he stayed after this for three years. He worked at it for three years. I think he finally persuaded them that gold eventually was going to lose its place in the system, and they had to have something to replace it and the something was either going to be a vast expansion of the dollar holdings, which didn't really intrigue them very much, or going to the SDR. Well, what they got was both. They didn't want the world to be running on a dollar standard, which is where we are running these days. So they did finally go along on the Special Drawing Rights. But then when we got it on the books a lot of people thought this was going to be a device to transfer funds to the less developed countries instead of really giving them our own currency; we'd just create some Special Drawing Rights in the International Monetary Fund and transfer those to the LDCs and let them--in fact, in the developing countries they thought--we had their complete support. Brazil, all the countries in South America, in Africa, and in Asia, we had their complete support. It was the developed countries, the ones with the hard currencies, that we really had the trouble selling. But he finally persuaded them, he and Fred Deming.

G: You, in one of these--

B: But that started in 1965.

G: In one of these memos you pointed out the irony of the situation in Vietnam where so much of the money that went to Vietnam was transferred to French banks who then--

B: Put it back up for gold!

G: Yes.

B: That's exactly right. The French had that old bank out there that was still operating--the *Banque de l'Indochine*, the Bank of Indochina, and they controlled that, and an awful lot of the money we pumped into Vietnam, to pay, those dollars in there went into the Bank of Indochina. They weren't going to be putting it in an American branch.

G: Was there any way to correct this situation other than--

B: I was trying to think. I think we finally went to scrip. We had a special currency printed there that they couldn't get out of. I think that's what we did. I'm pretty sure that's what we did. But I remember that was a real novelty that--we didn't do anything for a long time and, of course, the French were just soaking it up, putting it right back to us. It used to just kill me. Every Friday afternoon I had to sign off on the French gold order, and they'd be buying, I don't know, so many tons a week. They wouldn't keep a nickel in this country when de Gaulle was in power.

G: Another issue that year had to do with the OCD [Organized Crime Division of the Internal Revenue Service?] and the investigations of organized crime, and Treasury was involved, I guess because of counterfeiting and things of this nature.

B: When I came into Treasury, we had--this strike group that Bobby Kennedy had put together had just gone crazy. They were doing--they were violating every constitutional guarantee anybody had ever thought of. Talk about drugs and what the Congress is doing up there today. This crowd of people--they had just gone completely haywire, and we got word of it, and we started in and started moving on it and checking up on what they were doing, and we just told them to knock off all these extra constitutional .... In their enthusiasm for their jobs they had violated, as I said, all kind of privacy provisions and everything else. So we pulled them back into the law. We made them live up to the law.

G: Well, this was a particular source of concern to LBJ.

B: It sure was.

G: The whole question of eavesdropping and--

B: That's correct. He hated it. He said, "I think they might be eavesdropping on me." No, he hated that, so we finally stopped all that stuff.

G: But there did seem to be a reluctance to stop it once it was in place.

B: Oh sure. Oh, absolutely. These guys thought--they thought, "Man, this is the greatest thing since sliced bread." They--you can get zealots like this, you know, who are going to clean up everything. Like the Congress, yesterday, was a perfect example of that. Congress is going to put in the death penalty for pushing drugs, and then you can get evidence illegally and they're still going to admit it, and all that stuff. Well hell, it's completely unconstitutional. God knows drugs are tough enough, but so is our constitution--tough enough issue, but preserving the Constitution is, too. You can get these zealots who love to enforce the law. They really go at it--like Gordon Liddy and some of these other fellows--they use anything they can.

G: You had a run-in with Senator Long too on that.

B: Did I?

G: Edward Long, I think.

B: Oh yes.

G: Do you recall that?

B: He's dead. No, I don't but I think….

(Interruption)

B: Well, this was all part of our--in the constraints of the gold standard. We were trying to reduce the amount of money that returning tourists could bring back into the United States. It was fairly substantial, something like a thousand as I remember in those days.

We wanted to bring it back down to around a hundred. Stop them buying everything overseas. It was difficult. We had a lot of objection from the Bahamas. The Bahamas really screamed and yelled, and a lot of senators and congressmen said, "This is just an invasion of our privacy. Why can't we bring back stuff like that?" We had a lot of trouble, but I think we did. We got it reduced, finally got it reduced.

G: Smathers--

B: George Smathers. Yes. He was representing the Bahama trade. (Laughter) That was his problem. Old George, he's….

G: You seem to feel that Mills was erratic on this, that he changed his mind first.

B: He didn't like the idea. He thought it was peanuts. He thought it was just "You're beating up on the American people for nickels and dimes," and he didn't like the idea.

G: Russell Long supported you, however. The whole question of schoolteachers who were--

B: Oh, those schoolteachers. That's right, I'd forgotten about them.

G: Did a lot of travelling.

B: Yes. They all traveled in the summertime, and they wanted to bring back stuff.

G: Anything else on that battle?

B: You know, in retrospect we weren't very smart at that time; that thing would cost more money to enforce than it did to--than the revenue you'd get. We had an unceasing--that was just the first blow in our unceasing efforts to crack down on the amount of money that tourists were spending overseas. It was a huge amount.

G: Okay, another item in 1965 was the gun bill, and you had a lot of opposition from the NRA [National Rifle Association of America] on that. Do you remember that?

B: I do, but I can't--it's kind of gone from my mind. I can't even remember if we got it passed or not. Do you know?

G: I think it was--well, it was later. It wasn't 1965.

B: I don't think we got it passed. I don't remember that--the details of it.

G: Okay. We're talking about housing discrimination and how to address this problem.

B: That's right. Somebody came up with the theory that you did not need legislation to attack this problem of housing discrimination because, strictly construed, the Federal Deposit Insurance Act and the Federal Saving and Loan Act--some way they were going to interpret that legislation to say that this precluded discrimination, that you couldn't be a bank and get insured by the Federal Government. There was some kind of a theory that the Federal Deposit Insurance Corporation legislation and the FSLIC legislation, the legislation controlling savings and loans, federal savings and loans, could be construed as making segregation--in segregated loans--it could be construed as saying that this violated those two pieces of legislation and that banks had to make certain they were making non-segregated loans, or they would be in violation of the statutes. Well, there may have been some legal theory to this, but anybody with an ounce of sense would have known that those two pieces of legislation were passed by old man Senator Carter Glass from Virginia and Mr. Steagall from Alabama back in the early 1930s, and that those gentlemen were not about to be writing in any anti-segregation portions in their bill. Not knowingly. So we just came to the conclusion that this wouldn't work. Then the question came up, "What were you going to do about segregated housing?" It took a long time to get that thing done.

G: Did you talk with LBJ about this matter?

B: I think the debate was mostly with Nick Katzenbach over in the Justice Department. Some of his underlings had come up with this legal theory, and I went over to talk with Nick, and we both came to the conclusion that theory was theory. It couldn't have been--these two guys weren't about to write that into their legislation.

G: Yes, you'd have a hard time with the congressional intent on that.

B: I should think so.

G: Okay.

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