

INTERVIEW XXIX

DATE: May 16, 1988

INTERVIEWEE: JOSEPH CALIFANO, JR.

INTERVIEWER: Michael L. Gillette

PLACE: Mr. Califano's office in Washington, D.C.

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- G: Press indicates that you'd received no advanced word from Bethlehem [Steel Corporation] regarding their five-dollar-a-ton increase in the price of steel.
- C: That's correct. I cannot remember whether--well, the first word of the increase in the price of steel came over the wire service and it was, if my recollection is correct, late in the afternoon of December 31, 1965. What I can't remember is whether the President called me first or whether Gardner Ackley called me first. Anyway, it was late in the afternoon. My day starts with, the first call I've got recorded here is the President at 8:45 in the morning and it may well have been--my recollection is that he called me to tell me about the price increase before I saw it on the ticker and before Ackley saw it. He asked me to have Ackley look at it. Ackley did, and thought it was inflationary beyond the wage-price guidepost. We very early in the day and very quickly decided that the President would issue a statement. Well, two things I guess. Ackley issued some kind of a statement. The President called me. I talked to Ackley. Ackley told me it was unjustified. The President was angry when he called me, having read it on the ticker.

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Ackley looked at it, told me he didn't know of any justification for it, that what information they put out did not provide a justification. The President told me to have Ackley issue a statement asking--we'll just have to get Ackley's statement--asking either for rescission or justification or both. Bethlehem basically said they were going to stick with the price increase and didn't offer any additional justification and that led to the issue of whether the President should himself put out a statement. And once the President issued a statement in a situation like this it was our belief that we had to win whatever it took.

G: The press suggests that this was the first time that Johnson personally got involved in a--

C: Well, the first time he issued an on-the-record statement. It wasn't the first time. The first time he got involved in an on-the-record way. It was not, obviously as we've discussed, the first time he got involved in a price fight; he got involved and he was deeply involved in aluminum and copper. In terms of--

G: But why did he go public here and not in the other two?

C: I'm trying to think. You know, we were all really annoyed. This was clearly--they were clearly doing something on New Year's Eve, Friday, December 31--I think it was a Friday--that they thought they could get away with. And it was like surreptitious action, number one. Number two, there was a strong feeling that they were, in fact, taking advantage of the increased defense requirements for structural steel. If my recollection is right, this is the kind of steel that we would use in Vietnam for building, for building airstrips, for--so there was the sense that they were profiteers, and I'm sure, also they'd had their prior battle with President Kennedy. We did want to avoid the sort of "sons of bitches" stuff that Kennedy had gotten into.

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G: What did LBJ say about that 1962 confrontation?

C: Well, he wanted to keep himself on the high road, okay? And he did pretty much, with his statements. On the other hand, there was no question that once--I can, I do remember saying, and talking, and I notice here I did talk to [Robert] McNamara. Or did I? McNamara was usually away. Yes, I called McNamara. I wanted to be sure we would win, and so did he, because, and we didn't have a stockpile to sell, we didn't have the ability to break the price, but for some reason, because he thought it would be so--[Henry] Fowler thought it was the cutting edge. You can't let steel go.

G: Because it affected prices in other industries?

C: Well, it was an example. It's such a big, basic industry. It's like autos. And I think when we get to 1968 you'll find out that even in the waning days of the administration, August of 1968 or something, we took on steel again.

G: Yes.

C: We did? It's just such a bellwether industry. Fowler thought it was important. He was worried about balance of payments as well as steel but he was worried about setting off a round of inflation. [The] President was pissed because of the problem of--it was the combination--New Year's Eve, Vietnam, everything. I'm sure I was annoyed. Ackley was; [he] said there was just no justification for it. [Otto] Eckstein, who was also an expert in this industry, though there was just no justification for it.

G: Bethlehem's explanation was that there had been an increased demand for lightweight, economical steel that required more mill time and so that their cost per ton in producing it had gone up.

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C: Whether that, well, one, I guess we didn't accept that at face value, and two, to the extent there was increased demand we were very conscious, not only of the increased demand that was already on the table for Vietnam, but the increased demands that were coming from Vietnam. And that explanation did not satisfy Ackley. In any case, Ackley issued a statement. We really should try and get the AP [Associated Press] and UPI [United Press International] wires on all this because it's the only way you can follow all those statements. Bethlehem rejected his [Ackley's] thing and then the President, we decided the President should issue a statement at that moment, whatever time that was, late afternoon, that was the decision that we were going to roll them back. There was no--whatever it took we were going to roll them back.

G: Now describe the meeting with the Bethlehem executives.

C: Well, that came and let me just--at the same time that we did that, the President, on that afternoon, told me, and I don't know whether I did it directly or I had Ackley do it. Ackley may have done it because I don't see [Bethlehem Steel Company chairman Edmund] Martin on my phone list here. Ackley, we called Martin and got him to come to Washington on New Year's Day. The day after. That was part of the drama, the urgency. But here Johnson talks to me about the arguments to make to Bethlehem: high profits, imports, what we've already done for the steel industry in the government. Christmas Eve and New Year's Eve. They just--pissed at them for moving at that time. Vietnam, boys are dying, profiteering. That all his advisers say it's wrong: Treasury, Commerce, Labor, Defense, and economic advisers, and the impact on the total economic situation. Then, I believe these notes and that's why I'd like to get the tickers; I think these notes reflect, this is Johnson telling me what Ackley should say. Give you a sense of the detail he was

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involved in. The chairman of the Council of Economic Advisers said, "In this hour of our national history this one steel company should present all of its facts to the President or the Council of Economic Advisers." Then Johnson talking to me saying they ought to be in our office the next morning. Pretty serious thing they were doing to over 220,000 fine men in Vietnam. They should stop, look and listen. That's all Johnson talked to me that Friday. They ought to be in the CEA office the next morning.

Then he's telling me where he's going to be so I can reach him at the Mountain Chalet, which you tell me is in Fredericksburg, from ten to eleven, at the Copper Kettle from eleven to one a.m.. That's one Johnson, okay. That's the high road. Then he's also--then he's saying, "Look at everything Bethlehem has to buy. Let them--we buy from Bethlehem. Let them have it in purchases." And he's complaining about McNamara being in Aspen skiing. This is all just stream of consciousness coming out. Then he just goes on a general discussion of copper, talking about, "We've rolled back copper. We've rolled back aluminum. We've moved on residual fuel. We've got to watch wheat, soybean, eggs," all Defense purchases generally. We ultimately--incidentally, in terms of the Defense Department, I vividly remember when the price of eggs started to move, we did two things. We moved them from buying large eggs to either medium size or small eggs, and two, we started publicizing the dangers of cholesterol. Get people to stop eating eggs. I can remember calling [John] Gardner and HEW [Health, Education, and Welfare] to get the Surgeon General to talk about cholesterol.

G: That must have lowered the price of eggs.

C: All right now--

G: Let me just ask you--

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C: This comes later. See this is Johnson later in this three-day saga when he's saying, he wants me to clobber them for profiteering and hold the [press] background, which is the [reason they quote] "high administration officials", "high administration sources", "well-informed administration sources." [They] cannot say "White House sources," which gave him the ability to deny, to say he didn't know where it was coming from.

In any case, it resulted in his statement going out late that afternoon, and saying, "This is a critical hour in our history and it is highly important for responsible representatives of this one steel company to meet with the President's Council of Economic Advisers right away. This is certainly no time for unwarranted price increases which can lead to inflation. It's time to consider the larger national interest, weigh the impact of unnecessary price action, hence the sacrifices of our men in Vietnam, and to act accordingly." You can just see this statement really being reflected in what he was telling me over the phone. And Martin came down the next day and met with Ackley and his people and me, and I guess if my book is right, at 12:30 that day.

G: What was the meeting like? Do you recall . . . Martin's attitude?

C: I don't know. They were going to stand firm. I can--as best as I can from this--reconstruct that meeting if you want that kind of detail. I mean I don't--I should mention something else. While we're not just sitting there waiting for the meeting, Johnson says to me, "Get [Larry] O'Brien. Rev up O'Brien, and [Mike] Manatos, and [Henry] Wilson. Get them calling congressmen. Get congressmen to make statements attacking the increase." You've got to remember this is New Year's Eve. These guys are on the horn running congressmen down at New Year's Eve parties but the object was to get--have these guys feel pressure from all sources.

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G: [Everett] Dirksen issued a statement in support of the industry, more or less, and you have a note that you called Dirksen or someone called Dirksen.

C: I called Dirksen.

G: In Florida.

C: And asked them to cool it.

G: Did you?

C: Yes.

G: He was on vacation in Florida? Is that--

C: I can't remember where he was, but I did ask him to cool it, and I think he did cool it.

Then I called other people like Birch Bayh with all the steel mills in Indiana to get him to get all our liberal Democratic senators to issue statements. With Martin and his people, Gardner, and you might look in the CEA files and see if there are any records they have, but Gardner Ackley started the meeting by saying the increase was a matter of concern throughout the whole government. Talked about Vietnam and the size of the build up there, [the] need for price stability. And said we didn't even get--and he talked about the nature of price inflation--the danger of it, steel's leadership role. Martin said that the increase was exactly the opposite of anything inflationary, that this was very improved structural steel and therefore they were, in effect, getting more value for them, and he said the price was in effect less than it was five years before and that they were intended to say the following week that they would be spending ninety million dollars more to make this steel better than it was. Bethlehem issued this (inaudible) and he had with him a fellow named [Edward] Bickford, I guess, who supported his argument. Gardner said he didn't see why they couldn't sell it all at the same price and Bickford said if they did that it

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would be deflationary, whatever he meant by that, but they kept saying over the long period of time that, even at the high price it would lower the cost of building. Then Ackley said, "If you're talking about this one kind of structural steel the increase doesn't have to cover all structural steel," which, as he read the increase, it did. They never answered Ackley on that point. Martin kept coming back to the fact that they're putting ninety million dollars into that.

G: Is this "Mr. X" Ackley?

C: No. Mr. X is another steel company executive whose name I just didn't get in the course of the meeting. Martin kept saying, "We're as concerned as you are about inflation," and Ackley said, "We're interested in the long term health of the steel industry and you can't deal with the import problem over the long term if you guys keep raising the prices." Bickford said there's just more demand than supply in structural steel, and Martin said that there was no import competition for structural steel, and Ackley said that that was nonsense because imports were rising. What neither of these guys, none of the three of them, understood was that every time they said "more demand than supply," all we kept thinking was Vietnam. Was that we were increasing that demand, both for what we needed to do in this country, installations, build up, and what we were doing in Vietnam. On the imports he said Ackley was behind the times. He said we were losing the battle then in the Kennedy era. We were winning the battle now. They argued that there were some increases in one of the components, that Union Carbide had increased the price of vanadium. They couldn't tell us by how much. And Ackley pressed him hard that Bickford admitted that it wasn't too big. Ackley said they'd had an increase in structural steel prices--they had it in 1963--of three dollars. We talked about their labor supply;

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they said their labor situation was okay. Ackley pointed out that they didn't have pressure on the labor supply, that the cost of construction was going up, that this would add to increasing that cost. Martin said they were operating at full capacity because of the demand. Then Ackley made a general appeal along the lines the President suggested that Vietnam put this in a special context. That we would be remiss in our responsibility if we didn't ask the steel people to look at this in terms of the overall economy and the situation in the world--the impact this would have in terms of inflation psychology. The need for restraint.

(Interruption)

End of Tape 1 of 1 and Interview XXIX

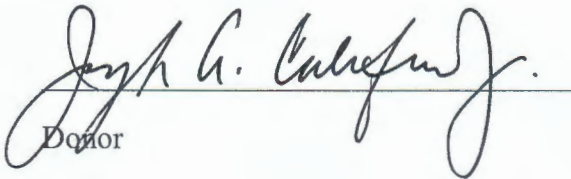
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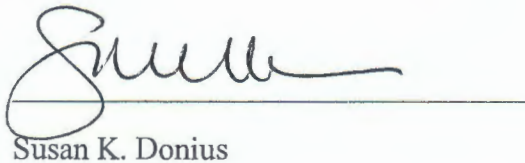
Joseph A. Califano

Interviewed by: Paige Mulhollan, Joe B. Frantz and Michael L. Gillette

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