

INTERVIEW XXX

DATE: May 18, 1988

INTERVIEWEE: JOSEPH A. CALIFANO, JR.

INTERVIEWER: Michael L. Gillette

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

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- C: What I must have done is called Vickie [McCammon McHugh Murphy] at some point that morning to ask him that question so he must have made me sensitive in some way to the fact that he wanted to keep [Gardner] Ackley out front.
- G: When we concluded last time, you were talking, recounting what Ackley had said about the need for restraint.
- C: Yeah. And the psychological importance of the steel industry. At one point Ackley suggested that we put, that the steel industry put the increase on ice while we took a look at it. [Bethlehem Steel Company chairman Edmund] Martin would not withdraw the increase. He said he thought that would be wrong to hold up the ninety million program and he said his board had authorized it because they thought it was correct. That incidentally was common for these executives to say their boards had approved things, which the President regarded as just pure bullshit. Not that they hadn't done it, but that some of the boards do whatever they want. Brickfield [Assistant Vice President Edward Bickford] said that the buyer of the product on which they had raised the prices were

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happy; he didn't think that it was for the government to intrude if the buyers weren't objecting, the customers. Then he said if other steel companies don't follow, the increase would go out the window. And they kept repeating their argument that an increase in the cost of structural steel would ultimately lower the cost of construction with this new kind of steel. Then, we, this is the first of January. Let me just go back to the thirty-first [of December 1965] because when I look at the Presidential Diary.

G: Let's see.

C: I've got it right here.

G: It's clear to me that. . . . I thought the President had seen the price increase in the late afternoon, but what happened was he must have seen it early in the morning, because he calls me at 8:03 a.m. and I would bet that that call was related to the steel price increase because by ten in the morning, I've got--oh, my god, no by ten in the morning, I've got [Robert] McNamara, [George] Ball, [Henry] Fowler, Dryden [?], [Alexander] Trowbridge. No, this is 1966; I'm sorry. Oh no, I'm sorry. I've got them all in my office. Are we doing copper at this time? Have you got the calendar? It's in my attaché case. You want to go get it. Ask Carol to take it out of my attaché case. We'll come back.

On the first of January, after we met with the steel people, I had conversations with [Abe] Fortas and with the President. I guess at three-fifteen, and then later in the day. These led to a whole series of suggestions.

G: Why Fortas? Why wouldn't . . . ?

C: Well, I mean, you know, we must have been getting close to the time when. . . . We ultimately reached a point--and we'll come across it somewhere in these papers--where

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we had a meeting on the President's authority to impose wage and price controls and we used Fortas in those discussions as to what he thought.

G: On the question of constitutionality of the President's authority?

C: Yeah. When is the copper thing? Is that earlier? (Inaudible by other speaker) Okay. On the constitutionality and on whether he literally had the authority under the law. Fortas just as a general advisory on matters like this; I noticed I also talked to [Clark] Clifford that day and I talked to Doug Dillon. I'm sure they were all related to the steel thing.

G: Do your notes reflect their suggestions?

C: Well, I don't know whose suggestions these are and we were becoming more sophisticated in this. For example, well, my notes suggest (inaudible) and my hunch would be these are conversations with either the President, most likely the President, then precipitating my running down a lot of people, with these kinds of suggestions. One, that [Nicholas] Katzenbach, my notes show here, evidence some interest in the Bethlehem [Steel Corporation], in terms of antitrust concerns and a carefully guarded way, whatever that was. Secondly, that we, as far as building is concerned, we get GSA [General Services Administration] at this point to start substituting aluminum wherever possible for structural steel. We get the contracts for, review all the contracts for government billing, Defense, GSA and everywhere and try and fill out as much structural steel as we could that Fowler expressed to the steel people his concern about the balance of payments because if we raised the price of steel, we'll get more foreign steel in. This is also when the President had me call, get [Larry] O'Brien to get some congressmen to issue statements supporting the President's move on steel and then the President, I think, I guess partly suggested by [Arthur] Goldberg, I just can't remember, because I see his

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name here in my notes, urging that the President fire off a telegram to all the producers to head off, I have here to head off the [*New York Times*]; I don't know what that means, I think to head off, appeal to them not to follow the Bethlehem example.

I then had a conversation almost from the width of the pencil hitting this pad, obviously with the President in which he is telling me in his telegram he wants to say, "I make no threats. I don't possess price control powers nor do I want them. I appeal to reason. Government and industry interests are the same; we need price stability, anti-inflation, we believe in responsibility for both labor and business, urge you not to support this, not in your interest and not in the nation's to do this. I am determined to discharge my responsibility as chief executive to prevent inflation. I'll have no choice. I will have no chance to go to Congress. I am not announcing this wire so that you and your associates can consider the interests of your country, and you can act with complete freedom. The best economists of your government say Bethlehem's increase in light of its profits is not in the interest of your country nor in the long run of the Bethlehem Company. The president does not have any wage or price controls, but from where he sits looking at the interests of all people, the interests of those, he appeals to you to follow . . . you *not* to follow the Bethlehem increase, but to put the interests of your country first." That's all Johnson; that's Johnson dictating to me what he wants to put in his telegram, most of which, as you can see, got in the telegram.

I think it's important to remember that one of the reasons he reacted so vehemently to this was, we had brought in the steel people Labor Day and avoided a steel strike and forced a settlement that we thought was within the 3.2 per cent guidelines. It was our belief that management never would have gotten that without us so we felt we'd

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held labor, now to let these guys go off and do this was just, we couldn't do it. I think it was also with respect to the steel thing--and it may have been my call to Clifford--that he didn't want to get into the kind of stuff [John] Kennedy got into by calling them sons of bitches, and he clearly, he didn't want to get his fingers into the issues of things like the tax returns of the steel executives, their expense accounts and all that stuff and I think and you know--have you done Clifford yet or has he agreed to do anything?

G: Yes. We have done Clifford.

C: I have a recollection that we used Clifford to deliver that message, or Doug Dillon.

G: Somebody must have delivered it because the Chamber of Commerce charged the administration with blackmail and all kinds of . . .

C: Well, we denied that charge. I think, I can't, Dillon must have been on the board of one of the steel companies, but my recollection is that we did in some--what would the CIA say, deniable--way, move into the tax world on this one and I think we probably did it through Clark Clifford.

G: Was that an effective threat, do you think?

C: Well, Clifford always thought it would be very effective, that they would not want a meticulous examination of their expense accounts. Always thought it should be done in a way, you know, he sort of put his fingers one against the other and he'd talk about the way to do it would be to have him advise some steel executives that, not that anyone was suggesting this in the government, but that this was the kind of thing, this kind of attention, brought attention from all kinds of government agencies and was the kind of thing that would bring attention from the IRS to their expense accounts. So, in any case--

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G: What about just the blunt threat to buy from other manufacturers? How far did the administration take this? This must have been a sizeable economic leverage against them. Just because of the size of the government's purchases.

C: I'm sure it was a threat and it was also another way of signaling them. I mean, you know, I guess my recollection is that while it would have some economic impact, it would not have a lot of economic impact. The signal to Bethlehem that we just wouldn't buy any of their structural steel basically, but there were some things for which you had to use structural steel. It was, I notice here also at some point I must have talked to Walter Heller; the President must have told me to do that, and there, one of the things the President wanted to do was see whether we could [do] anything with accelerated depreciation to the extent these guys, or the investment tax credit. No, I'm sorry; that's wrong, that's wrong. These notes relate to independent of the steel thing in connection with the legislative program; this happened to be the same day. I was talking to Heller about the investment tax credit, which we wanted to change to slow down capital spending and accelerate a depreciation which we wanted to change. Heller thought we should have a lengthy study before we did it, but I think the President, we were determined to move much faster. Fowler didn't want us to move. It did not have anything to do with. It didn't have anything to do with steel. It's just there were other things I was doing. You have to remember this is the height of the legislative program preparation that this steel thing occurred.

G: Was this in order to slow down inflationary pressure?

C: Yes. To slow down capital spending. I'm sure you're talking to Fowler about that. He did not like the way we jerked it off and put it back on.

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G: The press speculated that the administration was taking a tough position on the steel increase now, early in January, in order to avert later increases.

C: Well. . . .

G: That it wasn't so much the size of the, or the range, of the increase but to just stop a small one now so that the industry would know how opposed . . .

C: Well, I think there was something to that. I think it was more; it was more that steel was a bellwether. We wanted the signal out that we'd fight any price increases, one. And two, there really was some annoyance that we had brought this wage settlement in within the 3.2 per cent guideposts and these guys had gone off and, in what the President clearly regarded as sheer greed, increased their prices so, now at some point the upshot of the January 1 meeting was that Martin put out a statement saying that he was going to continue on January 2, well, actually the January 1 meeting was, I guess . . . trying to get. . . . Oh, I'm sorry. Did you see this? (Laughter)

G: Let's see. (Laughter)

C: Well, if guys ever really pick over these papers, these historians, they'll have a field day, won't they? I mean there is so much candor in those memos. This is a lot more than we had the other day.

G: Yeah.

C: Okay, in any case, you know, we ended that meeting and they clearly weren't going to move so we were going to have to do a lot of other things. That's what precipitated all of this churning and I guess we'll finish with that. And the President said, you know you've got to, you and Ackley have got to hold a backgrounder, and so what we did, we sent the

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President's telegram on the second of January to everybody else. Martin issued a statement late in the afternoon that he wasn't going to. . . .

G: Cut back on the price?

C: Cut back on the price.

G: Everybody else, meaning U.S. Steel, Henry Kaiser.

C: Well, we sent it to Henry Kaiser, U.S. Steel, Joe Block, the other big steel companies, and I called every steel company. Well, the telegram went out on the second. We held a backgrounder on the second because he wanted the story in the paper about war profiteering and because he wanted us to get our message out, and he was very--I don't know whether we went over this yesterday or not. He was very clear on the backgrounder that he wanted it to be "high administration officials," "high administration sources," "well-informed administration sources." Cannot say, "White House sources."

G: Then did you--

C: And then he, it's really, these are his words to me. "It is hard to understand why the steel company itself cannot see that they are by this opening themselves up to charges of profiteering." Again, I see here, "not White House sources." In any case. Those were his instructions and then the words, I am curious now. That's his dictation to me. Page six. Here it is. That's the third [of January]. In my words when I finally get it out. "I think also that with what Chairman Ackley described yesterday as soaring profits and with the very difficult Vietnam situation might require additional military action, moving at this time the Bethlehem people to leave themselves open to charges of profiteering." Actually . . .

G: Almost verbatim . . .

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C: Yes.

G: But, how did you assure that that point would end up in the press?

C: Well, there is no way to assure it. It's a tough enough point, so it's clearly going to be in the headlines or in the stories.

G: When you gave the briefing, did you underscore that they could only attribute it to administration sources. Is that the . . .?

C: That's right. I guess, what did we say? "You see background basis [?] attributed to high administration sources or high administration officials or well-informed administration officials. Question: Can we say White House sources, Mr. Califano? [Answer:] No. No White House sources."

G: And the press generally respects that?

C: In those days they did. I don't know if they do today.

G: On the other hand, did you have any suspicion that they would tell the steel executives who had been--

C: No, I think we trusted, I mean they had their own sense of trust. Then after the story broke and after . . .

G: The story was actually what, [on] page one, wasn't it, in the [*Washington*] *Post* and the *New York Times*?

C: The story was page one. Well, it's New Year's weekend. There isn't a hell of a lot of other news.

G: What was the industry reaction?

C: The industry was, well, the industry was furious at the war-profiteering charge. That stung them and they didn't like that. I don't think they thought that was fair play.

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G: Did they call you or did they . . . ?

C: Well, when I called people, I called Block and Edgar Kaiser and Roger Blough [of U.S. Steel] on the third. We wanted the telegram to go out on the second. We also had--let me mention one other thing--we also had this memo to the President from Henry Wilson reflects. We had lined up a host of congressmen and senators to issue statements. House Majority Leader Carl Albert said for us prosperity would be endangered; Speaker [John] McCormack called the price rise dangerous and unnecessary. I must say when I look at this, the speaker, [Frank?] Thompson, Albert, [Paul] Krebs, [John?] Rooney. The President wanted me to make the calls after his telegram arrived and after they saw the news stories which ran. I guess we have those news stories, don't we here?

G: Oh, in these tabs, here.

C: Which ran on the morning of the third. In the wake of those calls, the President wanted me to make, in the wake of their having read newspaper stories, seen the congressional reaction, seen our backgrounder, to call them, which I did, and they indicated that there was no give in each of my calls and I notice I got to. . . . I did talk to Joe Block. I talked to Roger Blough. I talked to Martin, Bethlehem. While, incidentally, this was one, for what it's worth, in which while Jack Conner didn't like the tactics, he did, he shared the sense that other people did, that we had busted the, you know, we held the strike and we really shouldn't let these guys go. Then, what I'm struggling for now is I can't remember how, I guess, sometime, I mean, you know there were, I had a long meeting with the President at some point in here. Let me just see if I . . .

G: Well, the diary ought to reflect that, on the third?

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C: Maybe it was the third. Second or third. That's it; it was a couple of hours on the morning of the third. You're right. That's what that is. She's saying, "Out at 11:00 a.m., back at 11:02 a.m." Now I understand her note. Yes, from about ten-thirty until twelve-ten. On steel, with Ackley and the President, and basically leading to a decision that would get everybody over there and in effect pull out all the stops and we did have a meeting that afternoon at seven with McNamara, [Cyrus] Vance, Fowler, [Alan] Boyd, [Willard] Wirtz, Ackley, Katzenbach, myself, and John Douglas [?]. The object of that meeting was to see if there was anything else we could do to force them to roll back the price. What's interesting to me is that Fortas is all over my calendar, I mean talking to him three, four, five times a day.

G: Was that with regard to controls, do you think?

C: No, not at this point. I think it was [in] regard to what to do with steel. It's also, you know, we're so involved in the legislative season, I can't tell whether we got into that, but in any case, then, what I don't know is what if anything we did on the fourth . . . all over me. I sure as hell talked to a lot of business reporters. In any case, on the fourth, I'm sure we moved with all the stuff we talked about, the government doing. We continued calling; we continued trying to scare them and on the fifth, Roger Blough announces, U.S. Steel announces that they're going to modify the price increase, and Ackley says that a combination of increases and decreases of U.S. Steel are okay and if Bethlehem and Inland, which was Joe Block's company, follow those increases, we're at peace again. Block, incidentally, was the guy and Inland was the company that rolled back the price increase when Kennedy got in a fight with the steel industry and when I called Block, he

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was just bonkers about it. He clearly had been beaten up by his colleagues in the steel industry.

G: He followed Bethlehem, didn't he? He was the next to follow. . . . Well, on the other hand, it seems like Roger Blough was the most cooperative this time.

C: Yes, but what really puzzles me here is. . . . Oh, I guess it just gets all screwed up. "Has the White House been in touch with U.S. Steel?" Mr. Moyers: "No." "You're saying, 'No,' Bill?" Moyers: "Yes." Question: "I'm sorry, I'm confused. Ackley said he would not be in a position to comment on that question." Moyers: "He said he had not been in contact with U.S. Steel. I said the White House had not been in touch with U.S. Steel." Question: "To carry it one step further, since U.S. Steel's action is not only different in price from Bethlehem's but a price which the administration feels unacceptable, was there, through some (inaudible) third party, a working out of a compromise?" Moyers: "All I can say, Jim, is that the White House has not had communication. I did say to you the other day that there were administration officials talking to different steel companies. I will leave it at that." I know I talked to U.S. Steel. I don't know whether U.S. Steel notified us in advance of their price action. I would doubt it. After that conversation with Blough, I talked to the President. The President said, "Get him down here. Get him to Washington." And I talked to McNamara and asked him to come down and see McNamara. By the time he came down to see McNamara on the fourth, the next day, he had this proposed package in hand. McNamara called me and told me and I did report it to the President. What puzzles me is why Bill said that. I guess what Bill is saying is technically correct in the sense that Blough had not been in touch with the White House

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or with Gardner Ackley. He had been in touch with McNamara. They didn't like this stuff, I'll tell you.

G: But, Blough, you were saying, had not been categorical like Martin, or Block. He had been willing to discuss it and be more flexible on the pricing structure.

C: He just had indicated--Block had said nothing. I remember Block being just, "Absolutely not, no way," and I remember talking to the President about Block and we both concluded after what he had been through for rolling back on the Kennedy thing that his colleagues had probably kicked the shit out of him and he wasn't about to do anything. Blough had said that he was going to meet with his corporate staff, executive committee, whatever, the company, and look at it, and I guess Blough had been painted as such an SOB that [that] had an impact on him, and Johnson with the great sort of instinct for the jugular and the weak point, when I reported my conversation with Blough instantly said, "Get Blough to Washington." So I called Blough back, I mean I talked to Bob and then I called Blough and asked him to see McNamara. Then, at some point after this--we'll have to find it in the diaries or somewhere--the steel people came in. Blough may have been among them, maybe it was McNamara. I don't think Johnson leveled with McNamara on this. I think when they complained about being accused of war profiteering and Johnson said to them if he could find the person that had done that he'd be out, he'd throw them out of the administration.

G: Did he seem indignant that someone. . . .

C: Oh he was very indignant. He was just outraged that somebody would do that.

G: Persuasive.

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C: He was very persuasive. What I'm smiling about is I think McNamara was there when he said that, and you know McNamara and I left the room, McNamara just laughed, you know, he just has that high-toned laugh. But, you know, when you look back on it, it's obvious to me that he knew something like that would happen. He knew he had to be in a position to deny it. He wanted to get the charge out; he wanted those guys to feel bad.

G: Was Martin in this meeting?

C: I can't remember. It could have even been a meeting on another subject or it could have been a meeting when we called in all the corporate executives and asked them to postpone their capital spending, but somebody raised this about being called war profiteers that the steel industry business didn't appreciate it.

G: I'll get the date.

C: I mean I just, when we get through these meeting, I mean I can't even remember which meeting it was, I just. But, I think Bob was there because now I remember sort of walking down the hallway with him, and Bob just laughing at Johnson's ability to stare this guy down.

G: Apparently, in addition to U.S. Steel, there was a small [company], Colorado Fuel and Iron Corporation postponed a three-dollar-a-ton increase and this led some of the other steel manufacturers to follow. Do you recall?

C: I do remember a little company doing that. Yes. But I don't think we ever and to my knowledge I don't think we ever contacted them.

G: Okay, and there was also discussion of trying to get a mandatory advance notice or notification on any planned price increase. Do you recall discussion of that?

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- C: Well, we, the President, and I think Fortas to some degree, and maybe David Ginsburg. An analogy, well, we didn't have wage-and-price controls, thought maybe with respect to some basic price increases we should ask that the industries on some voluntary basis come to the CEA [Council of Economic Advisers] and advise them of the proposed price increase and present a justification for it. That just wasn't real in any formal basis. I think there were even some public statements. I notice in my notes this [is] Johnson saying they came to us without notice. We may have even made some public statements to that effect. But, I think, I mean I personally always thought that was just simply not real. There was no way without formal wage-and-price controls anybody was going to, in a free country with all the independence people feel in this country, that anybody was going to do anything.
- G: Did LBJ reflect on this episode later?
- C: No.
- G: This being a victory.
- C: No. No. I mean he considered it a victory, and Blough was smart in the sense that he got a little bit and he was willing to take a little bit this time instead of nothing. I think the alternative, if Blough hadn't done that, I think we would have driven and driven and driven until we rolled it back. I mean we would have gotten somebody on the Hill to investigate and Katzenbach would have moved with a real antitrust investigation. I think they, you know, people get outraged when you do things like this. I notice in here the complaining about the leaks, Connor to Cutler. I'm sure Jack Connor wanted Lloyd Cutler to be his undersecretary [of] commerce and Johnson rejected it because Connor came out of the pharmaceutical industry with Merck, and Cutler was counsel to the

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Pharmaceutical Manufacturers Association. But, I'm sure Connor talked to Cutler and that's how some of this stuff leaked. It's the Washington syndrome. I'm sure Connor felt Cutler was one friend--he'd been his lawyer--that he had who really understood Washington byways, but for Cutler to know some of that of what was going on was very valuable information for him and I'm sure he related to steel companies. He represented Kaiser Steel for example or others just to get--

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C: I have no sense of Johnson reflecting.

(Interruption)

You have to remember really there wasn't any time for reflection. I mean I don't know what we got here in the calendar, but we get this done, and that same day, Bobby Baker gets indicted, we're in the middle of a transit strike in New York in which we're worried about John Lindsay blowing the lid off the wage-price guidelines on the wage side, we've got the State of the Union a week away. It is not an environment in which you sit back and reflect on what you did right and wrong.

G: Specifically though, can you recall the conversation with LBJ declaring that if he could find out who in the administration had . . .

C: You know, I'm sure when we get to that meeting somebody complained to him at a meeting and I thought it was in the Cabinet Room, but I'm beginning to think it was over in the East Wing and that may mean it was . . . I can't. We periodically had businessmen in. You might find out when we had them in to ask them to forego capital expenditures, but we had them in for other things too. At one of these sessions, either in the Cabinet Room or the East Wing, some businessman said, and I think it was one of the steel guys,

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said, you know, they just didn't appreciate being called. He was on his love, "we love you all and we're all the same country," and they said, "Well you really can't, you shouldn't call us war profiteers," and somebody did that, and he said, "I never did that," or something. "Somebody in the administration did. If I find out who did it, I'll fire him. He'll be out." And I know I was there and I know now that as I recall I know McNamara was there because I remember Bob being just . . .

G: Did you have a . . . What was your reaction?

C: No. I just sat there. I mean I was. I didn't laugh, I'll tell you that. Not as shaken. It didn't even actually--by that time maybe I had gotten jaded--it didn't bother me as much as you know, we've been through the meeting with Pope [Paul II] haven't we, when the Pope said, "You're a great education president."

G: (indicates no)

C: When did we see the Pope? In October? We ought to cover that.

G: The Pope said, "You're a great education . . . "

C: Maybe we haven't. This is the cut off of funds. The attempt to cut off funds for civil rights in Chicago.

G: In Chicago. Yes, you did talk about that, and how LBJ was upset with [Francis] Keppel for . . .

C: Yes, and just full of it with the Pope. I must have told you this. The meeting starts, and the Pope says, "Mr. President, you're a great president, you're doing lots of things." I did this. "You're doing lots of things for poor people and you're a great education president." October fourth [1965]. Yes and we had just found out that that day we discovered that HEW, [John] Gardner was turning off the funds [at Chicago schools] and Johnson then

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unloads [on] the Pope and says he wants to be a good education president, he wants to educate poor children and there's a fine Catholic mayor in Chicago but he's got people who that are trying to stop it, stop him. And the Pope just kind of sat there, had no idea, but we'd come off the elevator and he [Johnson] was still just boiling at that, and we flew back that afternoon and met in the White House and I'm sure we have it. Have you got that?

G: Yes. You did talk about that.

C: We have gone through that. Okay.

End of interview XXX

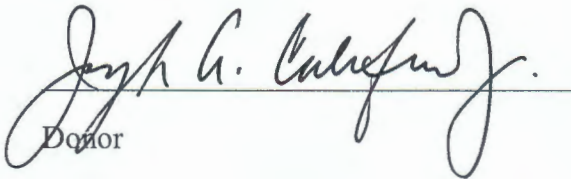
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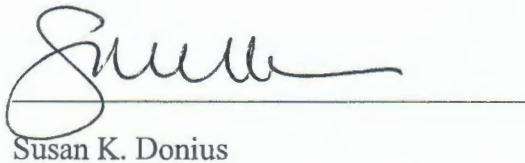
Joseph A. Califano

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

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