

Interviewee: William Chartener

Interviewer: Paige E. Mulhollan

Date: January 22, 1969

M: Let's begin by identifying you. You're William Chartener, and your title currently is Assistant Secretary of Commerce for Economic Affairs, a position which you've held since January 1968. Is that correct?

C: Well I was appointed in January of '68, and actually came into the office early in February of '68.

M: You came here, I believe, from private business with Goldman-Sachs of New York?

C: Yes, I had been an economist for Goldman-Sachs.

M: Did you have any occasion during your time either in that job, or previously in the various capacities you were in, to come into contact with Mr. Johnson, either before he was President or after?

C: No, I did not. The contacts that I've had have been of quite an indirect nature through the chain of command in the office here and through White House people. I guess the only personal contact was strictly social at a White House reception.

M: What were the circumstances of your appointment? Were there any unusual circumstances? Mr. Johnson is sometimes said to have a peculiar operating technique in making appointments.

C: There were some peculiarities about it. I believe the appointment was initiated because of my participation as a member of the Economic Advisory Board to the Secretary of Commerce. I was appointed when Connor was Secretary. This was the latter part of 1966.

Before the first meeting of the Advisory Board, Secretary Connor resigned and Trowbridge then became Acting Secretary. I attended the

three meetings of the board while Trowbridge was Acting Secretary and then after he was given the Secretarial title in the middle of 1967.

There were about twenty members, I think, of this advisory board, mostly business economists like myself. I suppose I distinguished myself by differing with most of the other members of the board and most of the professional staff of the Commerce Department, particularly on the matter of economic outlook. I had remarked during a speech about the middle of 1967, and this was while the Council of Economic Advisers was still bravely talking of a pick-up in the economy in the second half of 1967. This was Administration thinking, and there was a great deal of disbelief in this. I remarked that I thought that I was probably one of the few people in the country that believed not only the Warren Commission but the Council of Economic Advisers. But anyway, the rather lonesome point of view that I took at that time must have impressed Trowbridge. In any event, the latter part of 1967 I was approached on coming down here, and circumstances--

M: By Commerce people or by White House people?

C: This was by Commerce people, but the circumstances of this might be of some interest to you. The first I knew about it was a telephone call from a gentleman named Sidney Weinberg, who is a good friend of Johnson's and also of Trowbridge. Sidney Weinberg had just come from a meeting of the Business Council down in Hot Springs, Virginia; and he said that he had been approached by Secretary Trowbridge at that meeting to see if Goldman-Sachs, of which Sidney Weinberg is the senior partner, would let me come down to Washington to serve as Assistant Secretary of Commerce to replace Bill Shaw, who indicated a desire to retire in the early part of 1968. Sidney Weinberg was just calling to say that I would be hearing from Trowbridge, and then he

added a few words on his own behalf. He said, "I don't want to influence you one way or the other, but"--And then proceeded with one of his brief but very effective sermons on the value of public service, which Sidney Weinberg characterizes as the highest form of citizenship.

Anyway, I thought about it for awhile; told Sidney Weinberg at the time I could think of a half-dozen reasons for not coming down, but I would think about it. Then shortly thereafter I was called by Trowbridge and came down and had a talk with him; and then there was a second visit with John Macy who was, of course, representing the White House on this. In the visit with John Macy, maybe a few other footnotes would be of interest to you. I came into this position with a somewhat dubious background politically in that I had been active as a Republican. This was back in the days prior to the Eisenhower Administration. I was indeed on the research staff for Eisenhower in 1952 and had previously worked for Dewey on three of his campaigns, and also as research assistant for John Foster Dulles. So it was a pretty solidly Republican background. However, it did go back a good many years. I've retained my Republican registration and still consider myself a Republican--although at times I've jumped the reservation when I felt it was the proper thing to do. John Macy--when I volunteered this information--

M: Did you volunteer it, or did he ask you?

C: He asked me just some general question about political background, political affiliation, but I volunteered this information about ties in the past. He said that they were interested in only two questions. First of all, whether I was publicly identified or actively identified with any of the then-active or prospective Republican candidates. I had not been. I had not been really active in the Republican party

work for a number of years.

The second question was whether I could work in harmony with the economic program of the Johnson Administration. Again, I had no trouble at all. So this was all that there was of political content. John Macy and Sandy Trowbridge both indicated that they were interested in having professionally qualified people in this position. And I found this to be the case in a number of other positions, at and near my level, since I came into the government.

M: Were there ever during these conversations any direct instructions as to what they hoped that this particular office would accomplish in the coming year, or any charge that they gave you that they wanted you to accomplish?

C: This came primarily from Trowbridge, I would say--and other officials in the Commerce Department. There has been over a number of years a desire within the Department of Commerce and--say, also in the business community which the Commerce Department regards as its constituency--to try to increase the voice of the Commerce Department in the formation of economic policy in government. This office was set up back in 1963 in order to improve the economic competence--the analytical competence--of the Department by doing essentially two things: bringing the--well, the two agencies in the Commerce Department which provides I suppose the bulk of the general economic statistics we have in this country, the Census Bureau and the Office of Business Economics, under a policy director; and that is one of the principal functions of this office.

The other principal function is to serve as chief economist for the Department--that is, as economic advisers to the Secretary and as representative of the Department in liaison activities with the Council

of Economic Advisers and other economic agencies.

So Trowbridge and previous Secretaries had been interested in strengthening this office--getting people into it who could try to do something to improve the economic resources of the Department and, also, to advance its voice in dealings elsewhere in the government.

M: The existence of the economic triumvirate or triad, or whatever it's called, is fairly well known. When you talk of the Council of Economic Advisers and the Budget Bureau and Treasury. You say liaison with CEA. What exactly is the role of the Commerce Department in connection with that?

C: Well, the troika is primarily a group constituted for economic forecasting. It's legal position, I suppose, or legal justification is that the Budget Bureau and the Treasury and hence the President needs some economic forecast on which to base the budget estimates--particularly the revenue side of the government--and then also guidance on the prospects for the economy as a means of helping in the formulation of the economic policy.

The troika exercises are specifically focused on this budgetary purpose. The Commerce Department I think has probably wanted to be involved in this in an active way for a number of years. The principal reason why it has not been involved I think at a policy level is that the Council of Economic Advisers and the White House people generally have wanted to keep it a strictly professional government exercise, and have wanted to avoid having special interest voices in this particular professional forecast. The Commerce Department is involved quite directly in the provision of most of the basic data that the troika uses; that is, our whole gross national product accounts. The balance of payments figures are generated by the Office of Business Economics.

M: So the CEA uses your figures--

C: The CEA uses our figures although there has been a certain amount of annoyance expressed within the Commerce Department that here we are providing them with the basic information on which they operate and, also, the technical skill of some of our higher grade civil servants who do forecasting on particular items; and yet the Commerce Department is not represented on the body which formulates the overall forecast and recommends on how it should be implemented.

M: Are there frequent occasions of disagreement between you who provide the data and they who make the determination based on that data?

C: I don't know if they're frequent. I think during my time there have been fairly strong disagreement. As a matter of fact, I think probably last summer I was even disagreeing with the Council of Economic Advisers on the particular important point of how soon and how strong the tax surcharge would grab hold. As I interpreted public statements and also some private conversations I had with not only people on the Council of Economic Advisers but the Federal Reserve Board staff, even the professional staff within the Commerce Department, there was an expectation that the tax surcharge by cutting into the income the people had left to spend would very quickly act as a drag on the economy. Most of the forecasts that were being made last May and June when the tax debate was running quite hot suggested that if the tax surcharge was passed, say, during June and became effective the 1st of July, that the economy would virtually grind to a halt in terms of any real growth by the fourth quarter of 1968.

I simply didn't believe it, and I said so both in private discussions and, also, in as polite a way as I could in public statements. I felt that too much of the thinking about the effect of the tax

surcharge reflected a lack of appreciation of the strength that we had in the private economy. Personal income had been increasing at a rate of something like five billion dollars a month, and the whole impact of the tax increase could really be absorbed in something like six weeks growth in personal income. Then people could move right on up. Beyond this the American people had been saving at an unusually high rate over the preceding year or two--saving the early part of last year something in excess of 7-percent of their disposable personal income. Historically over most of the years since 1960, they had been saving 6-percent or less.

So there were two real cushions here: One, that they had been saving an unusually large proportion of their income, had been borrowing less than was normal for this generation; the other, that their incomes were continuing to expand at a very rapid rate. I felt that both of these elements had just been lost sight of in some of these dreary predictions that were being made of the performance of the economy.

M: By being in the Commerce Department and being out of the area where the analyses seem to be closely related to the White House, can you get your story told when you have disagreement like this?

C: I did it on a couple of occasions when I was making speeches or holding press conferences. I think one of the things that I've been most grateful for in the way that the Administration has treated me in my time in Washington has been the freedom I've had to express opinions even when they were at some variance with what was a basic line of the official advisers to the President. And I talked about this quite frankly with Art Okun. Of course, I always made sure that the way I put this was on a strictly professional analytical level.

M: Where there was room for disagreement.

C: I thought there was room for disagreement. I was certainly not at variance with the official policy objectives. I felt indeed that there was a danger in some of the reservations being expressed about the course of the economy--that this might tip the scales in Congress against the tax increase, which the Administration desperately needed and wanted. This was becoming a very serious danger. So I felt really that I was probably, and by disagreeing with the prevailing opinion, being closer to what the Administration really was trying to accomplish than the official economic position.

M: Did anybody on the White House staff over there ever get in touch with you to check with you on your reasons for your views and on what you thought ought to be done?

C: On forecasts, there was one occasion. I think probably the first time that I made a public forecast on, let's say, gross national product for the rest of the year--and this was before 1968, I believe this goes back to some time in May--I did check with Art Okun to see just what the Council view was at that time. There was a fair amount of disagreement within the council staff, and no one on the council had issued a forecast figure for GNP for the year in the preceding several weeks. So there wasn't any question of the Council being on record currently with a figure. As I recall, I was inclined to say at that time that GNP was going to be something over eight-hundred-fifty billion dollars for the year. The council, as I recall, was internally using the figure somewhere around eight-hundred-forty-seven. We weren't terribly far off. I was a bit above them. But because of the disagreement within the Council they did not have--maybe the council staff would be more appropriate here--they did not have an official public position. And I think Art Okun felt that I was perhaps a bit

more optimistic than the prevailing view there at the time, but there was certainly no basis for making an issue of it.

Then the second occasion, toward the end of September I did make a speech--this one was I believe before the National Industrial Conference Board--when I used an estimate of eight hundred sixty billion dollars for 1968. This was when we were beginning to get figures of the extent of the strength of the economy in the third quarter. Incidentally, meantime there had also been an upward revision of 1967 and earlier year figures which tended to raise the whole system by about five billion dollars. I say this just to relate the eighty hundred and fifty billion dollar figure that I was using earlier to this eight hundred and sixty--about five billion dollars of the jump just came through as a statistical revision; and the other half did reflect I would say an even stronger performance in the economy than I had expected.

But on that occasion I used a figure nine hundred twenty billion dollars as an estimate for 1969. Now this was quite a bit above what I think anybody else was using at the time. I sent a copy of the draft over to the Council as I usually tried to do when I was speaking on matters in which they had an interest, just to get their comments and suggestions. I did have a call from Warren Smith--this was following the forecast model for the Council at the time. He raised a number of quite doubting questions about how we would get to nine hundred twenty billion dollars on a quarterly pattern through the following year. But I decided I'd better just stick to my guns. Again, there didn't seem to be any real basis for raising an issue. It was strictly a question of a different professional estimate, and we had no problems on it whatever. Of course, I was very pleased as the year went on to see the

Council coming up to it.

M: I was going to say, now, aren't they saying--

C: Nine twenty nine is the figure. The current estimate on 1968 is eight hundred sixty-one billion dollars, so they each went up by one billion dollars. So on forecast issues, during the course of this year I've been fairly consistently somewhat above the prevailing view in the Council. But I think we've been able to keep this difference, as I say, strictly on a professional disagreement basis.

M: This difference hasn't resulted so far as you know in any different policy considerations by the White House staff in considering programs for example?

C: No. The place where we've had the real policy problem since, say, the middle of 1968 was really at the Federal Reserve Board in the structuring of monetary policy rather than in the fiscal policy of the government. Really, so far as anything that the Council directly could influence or anything that the President directly could influence, there has not been much latitude since the Tax and Expenditure Control Bill was passed toward the end of June. This did serve to eliminate, really, the federal budget deficit, and it did place some very severe constraints on the expenditure operations and employment commitments of the government. So there hasn't really been any question of, from the government and the Administration standpoint, trying to move the economy one way or the other. It has still been economy operating at a heated pace throughout the period. Any efforts of vocal nature or long-range policy planning nature I think have been pursued with this in mind.

The policy problem really was shifted at that point over to the Federal Reserve Board. Here I think there was a difference of opinion in the point of view taken by most of the professional economists in

government and my own inclinations. At the time that the tax bill was passed, as I indicated earlier, there was this belief that it would act very, very quickly to slow down the rise in spending by the private economy. The chain of reasoning which then seemed to prevail at the highest staff level, in both CEA and the Federal Reserve Board, seemed to be roughly this: That consumer spending was going to slow down; we wanted this slowing down to a degree, but had to be sure that it wasn't pushed too far with the risk of setting off a recession. Then, the next step in the analysis was that one portion of private demand that could come to the rescue in providing some strength in the economy later on in the year when they felt we would need it was residential construction. Then the next step in the chain was that in order for residential construction to come alive, there had to be adequate money available. Then the final point in the syllogism was, if there was to be adequate money for residential construction, it had to be adequate generally because residential construction in a tight money market in the past has usually been the first one to suffer and be frozen out. So I think that this line of reasoning was very important in the determination of Federal Reserve policy through the summer and early fall months.

The specific moves taken by the Federal Reserve Board, which had been interpreted as an easy monetary posture, I think, could be justified substantially on technical grounds. The Treasury still needed some fairly sizeable financings during the middle part of the summer, and the Federal Reserve Board typically has tried to prepare money markets so that Treasury issues would be successful. This is an obligation that they have felt, and I think a proper obligation. So this was one technical reason for keeping money available.

There was also an expectation in money markets that as soon as the tax increase was passed that the Fed would no longer have to dramatize things by putting a squeeze on money markets. There was an expectation that interest rates would fall, and hence they did fall in money markets. The Fed was being pushed toward the end of July and early August to confirm this expectation. This I think was the reason for the quarter-point drop in the discount rate which came in, I believe, in the early part of August. So these individual moves I think the Fed could justify entirely or largely on essentially technical or current market reasons. But underlying this throughout the period was, I think, a subtle disposition to keep money readily available.

M: Because they thought the tax was--

C: Because they thought the tax increase was going to slow down the economy. So money supply was increasing quite rapidly during the summer months. The Fed gradually began to change during the fall, but critics would say that the damage had already been done. But this was a policy disagreement--to summarize this particular discussion--which was really focused at the Federal Reserve Level rather than in anything that the Council of Economic Advisers or that the Administration was directly concerned with.

M: Did you get involved in the lobbying through of the tax bill in the spring?

C: I was in rather late for that. I didn't come in until early February. It was in Congress. I'd had a few discussions with Wilbur Mills before I came into the government and I guess one or two after I came in.

M: I notice he spoke favorable of you at the time of your hearing, and I

see the Arkansas Traveler is on your wall up here. Incidentally, I'm a constituent of Wilbur Mills.

C: Well, I hope this is a mutual admiration operation. It goes very strong in the direction of my admiration of Wilbur Mills. I guess I first became acquainted with him when I was working for McGraw-Hill in New York--this goes back in the 1950's--and I came down to him to interview him on, I think, it was a matter of tax reform, which is a subject that he has had a very keen interest in over the years. I developed quite an admiration for the man at that time. He has just immense technical knowledge of this field and, I don't know, attitude toward his national public responsibilities, and yet I've come to realize over the years that this doesn't diminish one bit his effectiveness as representative of the Second District of Arkansas.

But I started visiting him again when I was working for Goldman-Sachs. I made it a point when I was economist there to come to Washington at least four times a year before I did my own reports on the business outlook to see just what the current thinking in Washington was. On a couple of those occasions I did visit Wilbur Mills to talk with him about tax legislation and budget prospects, things that we were both interested in. I guess he must have found conversations with me useful, and he indicated a very positive interest in receiving the written reports that I prepared for Goldman-Sachs. So when I came down here, it just seemed to be a natural thing to do to try to continue the relationship.

M: And it was also useful I suppose in this legislative--

C: I felt though that really--oh from the day that the President submitted his tax bill in July or August of 1967--that Wilbur Mills thought that it was necessary and had to be enacted. But he gave me

the impression of not putting himself behind it whole hog for a number of very good reasons, the first of which was that he felt that it was the Administration's job to sell this tax bill, not his. Secondly, he had become quite concerned over the last few years in the very rapid growth of government expenditures--quite apart from defense--and over the way in which the expenditures had developed--programs being instituted without Congress paying close regard, maybe not even having information to pay close regard to what they would amount to over a long period of years. He felt that the appropriations process, I think, had really gotten out of control. He wanted to use his own weight--which could come about only in the case of a bill like this--to try to bring to the attention of other members of Congress the need for getting some hold on this growth of expenditures. Then the third point, certainly during the late summer and fall of 1967, he wasn't persuaded that there was an immediate strong economic case for a tax increase. We were at that time, as you will recall, coming out of a mini-recession. I used the phrase of "Japanese recession" where we just went into a period--we were in a period of no growth--it wasn't really a recession. There was some doubt really until we got into 1968 whether the economy was snapping out of the recession.

M: So Mills' doubts were not groundless.

C: They weren't groundless. I felt that we were well on the way to coming out of the recession and that the inflationary problems would appear very soon--as indeed happened. Of course, I felt that the hesitation of Wilbur Mills during August of '67 probably did serve to defer passage of the bill. My own amateur assessment of the situation at that time was that if the President and Mills had gotten together and given it a really strong push, that probably the tax bill could have been passed. But the Ways and Means Committee did hold its hearings in August, as

you may recall, and then went home for Labor Day recess. As I understood the calendar--this was just from outside knowledge--they were planning to reconvene about the middle of September, go into executive session--this was the Ways and Means Committee--draft the bill, and then come out with it.

But over the course of this Labor Day recess, opposition began to develop to the tax bill. When Congress came back to Washington in early September, I think it became quite clear to Mills and the other managers of the tax bill that the vote was just not there to put it over. And we began also to get about that time some rather soft economic news--the unemployment rate jumped very sharply in September of 1967. And there were some other statistical bits of evidence which suggested that the economy might not be as strong as had been promised. So it was then a rather long battle, and relations between Mills and the President seemed to get very sensitive.

I think there were some personal peeves that came into it. I recall when episode--I guess this must have been sometime in November of 1967--when the President had a discussion with Senator Dirksen, and Senator Long may have been involved in it. Anyway, the appearance given at the time was that the President had gotten a commitment to put through the tax bill. This was on the basis of, as I recall, an expenditure reduction of something like six billion dollars, and then you would have the tax bill providing approximately the same amount. This was done between the President and a couple of members of the Senate. I think Mills didn't receive this very kindly--thought the negotiation was going on at the wrong place. But there were a number of things that happened during the fall of '67 which indicated a very strained relationship between these two men. And it wasn't really until

sometime in the spring of '68 when--well, Mills was becoming fairly convinced that the economic grounds for the tax increase were solidly established, something had to be done about the deficit. He was clearly winning his point on the reduction of expenditures. When he decided, I think, that he had achieved his goal, then he did put himself wholeheartedly behind the effort. I believe that he was in there just as strongly as Joe Fowler in the final days in putting through the tax bill.

M: You would have been a perfect go-between between Mr. Johnson and Mr. Mills. Were you ever?

C: No. Well, my relationship with Mills was not that close, and I certainly wasn't highly enough placed in the Johnson Administration. No, about all I could do was just try on the levels on which I did operate, say, with our own Secretary and with members of the Council of Economic Advisers to encourage them in such ways as I could to keep up the fight.

M: It must have been a pretty close one. There are not too many New Yorkers with an Arkansas Traveler hanging on the wall--as I have occasion to know.

C: Maybe Brother Nelson has one.

M: You have served for the Commerce Department, have you not, on the Wage-Price Stabilization Committee--

C: Yes, the Price Stability Committee.

M: Has there been any Presidential interest in the activities of that in the year that you've been here that are significant?

C: The only time I'm aware of direct participation in which I had any involvement was on the occasion of the meetings of the President's Advisory Committee on Labor-Management Relations. This is a group which

was set up, I believe, initially by President Kennedy. He used it very actively. It consists of about a half-dozen leaders of labor unions, and about a half-dozen highly placed industrialists, and I think-- around three public members--somewhere between fifteen and twenty altogether. President Kennedy did make very extensive use of them. Johnson did not make quite so much use of them. I think his method of operation was really dealing much more with individual business and labor leaders that he knew and got along well with.

But during the early days of the Committee on Price Stability, the members considered it desirable, and indeed there was an instruction in the charter the President had given the committee, to confer with representatives of labor and management and other interested parties. At first, at the Deputy's level where my activity took place-- this was a group consisting of a council member--Joe Peck--and a number of other people at the Assistant Secretary level. The Deputy's level--where for most of the middle part of the year we were meeting once every week or once every two weeks just hammering out the program and policy positions of this committee. In the early days we thought that perhaps we ought to try to set up a large national conference. But there was a certain amount of resistance to this, partly a matter of just a question of how much you could accomplish bringing together a group of maybe sixty people for a day or two. We knew they would probably just go through rehearsed positions--preconceived positions-- on the issues involved.

Another point that came up was that if you were to take the kinds of leaders that would give you constructive ideas on both the labor and the industry side, you'd probably end up picking most of the same people who were on this Labor-Management Advisory Committee. So a

decision was made, and I think that probably Secretary Wirtz was the strongest advocate of this, that we ought to just bring in this Labor-Management Advisory Committee once again and get them working on the question. So there were two or three meetings of that group during the course of the fall, and the President personally did meet with that group and expressed some of his own views on the importance of the issues that we were facing.

M: Was he seeking some kind of voluntary compliance with established wage-price level on both sides? Was that what he saw trying to work out, or was he seeking some kind of programmatic approach?

C: I'm not sure just what his own position was on this. I think the President throughout the extended debate we've had on wage-price policy over the last several years has tended to rely a good bit on exhortation and discussions--some people put it arm-twisting--of key decision-makers. And in that room you certainly have a good many key decision-makers--people like George Meany and Walter Reuther and George Harrison, and the industry side, Henry Ford and Edgar Kaiser. I think that the President did have hopes that if you could get the consent and active participation of some of the people who had an important hand in making the big decisions in the private economy, that a good deal could be accomplished.

One of the really encouraging things to me, as essentially a private business economist over these years, has been the very strong resistance of everybody I've talked to in a position of responsibility in the Johnson Administration to the idea of direct controls on wages and prices. I've never heard a kind word for them in the whole time I've been down here.

M: Did they ever consider them? Was there some active consideration at

one point in the past for a program of price controls? You say they're opposed to them, but there was quite a bit of pressure at one time to consider them.

C: I've never encountered any either in, say, the year that I've been down here or, let's say, in the preceding three years when I was making very frequent visits to people like Art Okun. Most of the people who were in the top economic policy and advisory roles in the last few years had some direct acquaintance with wage and price controls either during the Korean War or World War II or both. In my case I worked for a bit over a year with the Wage Stabilization Board during the Korean War. I was on a staff level at the time. But one thing that almost everybody who had that kind of experience came away with was the impracticality, the burdens, the nuisance, the administrative costs, of running a controls program if you don't absolutely have to. It's something you want to avoid at all costs. I found that this attitude persisted and was really strong throughout the economic agencies that I had any contact with. The only time that the question was raised, I think, was when maybe somebody like Secretary Fowler was trying to impress on people the urgency of getting some fiscal action, namely a tax increase. Oh, I think at one time he did contend that if we didn't do something about this budget deficit that the alternative might be direct controls on wages and prices. This may have been just for dramatic effect, I don't really know. But it was certainly never anything that anybody expressed any affection for.

M: What about exhortation? Again, you're primarily a business economist. Does that type of exhortation work out in practical policy changes on the part of business leaders?

C: You can get all sorts of opinions on this. Many of the decisions that

we've had over the last few years which have stimulated an inflationary trend have been at a level that you could not reach through public exhortation. In the whole building trades field, where there has been a persistent increase in wage rates above the national average for several years, the decisions are made at a local level. The President himself I think has gotten involved in some of these disputes. There was one of--I think it was Operating Engineers of New Jersey where the President took notice of it in a press conference, and Secretary Wirtz was very actively involved in trying to work out an agreement. I guess they did come to some sort of agreement, but it was just an impossibility later on of delivering quid pro quos, and the agreement pretty soon eroded and fell apart.

In the industries where we have had the sharpest rises in wages in the last couple of years, you've had either situations like the construction unions where it's mostly local bargaining where maybe occasionally the spotlight is turned on, but usually it escapes national notice. Or, the other major category of cases would be unorganized workers where the employers just to get more people--say in laundries, hospitals, agricultural workers--have had to raise their wage rates substantially. This was really where we first began to see substantial increases in wage rates in this current inflationary period. The industrial wage contracts by and large have not been as big as some of the smaller, less publicized agreements or increases announced on a non-union basis. This is one side of it.

Now there have certainly been a few instances in the last several years--I would single out I think the steel wage agreement in 1965, when the existence of the guideline figure of 3.2-percent, the national publicity given by the White House I think did serve to hold down the

size of the agreement. But in that case you have a union in the United Steel Workers and an employer-bargaining group which was probably more sensitive to public pressure than would be the case in a good many other industries--both rather sophisticated groups, both aware of foreign competition as well as whatever the government might be able to bring to bear. In the course of discussions that we had with Labor-Management Advisory Committee, there was one of the corporate executives who did indicate that he felt that the existence of some kind of a guideline and public pronouncements which would back it up was helpful both to him and to the union officials in obtaining moderation in the settlement.

One of the great problems that we've had in labor-management relations over the last few years has been democracy in the unions. I mean this is a goal that just about everybody would subscribe to. These are voluntary associations. We want the members to take an active democratic role in the operation of the unions. And yet in a time of inflationary pressures, people trying to leap-frog wage settlements one after another, it has made it darned near impossible for union leaders to go into wage bargaining with any feeling of either public responsibility or of maybe even responsibility for the welfare of their own members. They know that the chances are pretty strong that unless they adhere to the demands of the most aggressive members of the union that the agreement just might be rejected in a referendum. This is one of the prices we've had to pay for union democracy. I say this to illustrate the point that in some instances the heads of large corporations and of large unions have felt that the existence of some kind of a standard which had a public stamp on it was helpful to them in obtaining a wage agreement that would not be inflationary.

M: Is this same thing true on prices, on holding the line to prices and exhortation?

C: On prices, I suppose this is another area where I've had some difference of opinion with some of my associates in government, where I felt that I had a responsibility to try to represent this business constituency. I've felt that at times the pressures brought by the White House, and this has been principally through Art Okun, reluctantly I should say. He hates having to do this, but felt that if he didn't do it there wouldn't be anyone else who would, and I guess the President has asked him to do it. I felt that the White House advisers have exaggerated the discretion that most industries have over the prices they charge. I felt this in the case of, say the steel price increase that was announced by Bethlehem Steel after the wage agreement was signed at the end of last July. It seemed to me at the time that the President had said at his press conference, "Very well, you increase your prices of steel; I'm building a silo down on my farm, and I'm going to use Japanese steel." Something of that sort would have gotten the message across. I think there was an over-reaction to the Bethlehem proposal.

I felt this also in '62 when Kennedy jumped on U.S. Steel for the price increase. On both occasions it seemed to me that the existence of foreign competition and the inter-product competition of things like aluminum and plastic, had put some rather severe restraints on the extent to which the steel industry could raise its own prices. In both instances, I think the price increases would have collapsed just through market pressures without this show of resentment at the highest public level.

M: The Johnson Administration has manipulated, or tried to manipulate, prices by what you might call informal coercion, the use of the

stockpiles, for example, and use of procurement policies--this type of thing. Is this an acceptable way to do it?

C: I think at times it is. Of course the idea of the stockpile, I suppose, goes back to the ever-normal granary that they used to talk about back in the 1930's. It's reasoning by analogy with agriculture--in fact you can trace it back to the Bible, the seven lean years and the seven fat years--that you know that certain types of production, particularly of agricultural products, are going to be stronger in certain periods than the market will sustain. At other times you're going to have deficiencies of production. If there's any way that you can try to even this out by stockpiling or storing materials during times of surplus and putting it on the market during times of weakness, it's going to serve both to smooth out the flow through the market and also to even out the variations in price. And anybody in a stockpiled industry, whether it's lead, zinc, aluminum, or rice or tobacco, is delighted to have the stockpile taking excess supplies off the market when prices are tumbling down the hill. But when you have a release from the stockpile when prices are going up, they scream about it. So I think that as a general practice, there's a good deal to be said about it. The caution that I would raise is--well, the kind of atmosphere that it's done in, whether it appears to have intensive political overtones, whether it's being done against a background where the industry people may have a pretty good case for raising prices.

Now in the case of aluminum, aluminum prices until just really the last few weeks have been no higher than they were ten years ago. We've gone through a period in the early '60's when there have been several reductions in aluminum prices. This was partly a matter of technological improvements in the industry, that they could produce the

stuff cheaper than before, but also partly a matter of market conditions-- a very high degree of competition, producers coming in and trying to undercut present producers, leading to a condition where some of them were making no profit. The big companies feeling they weren't making the kind of profit that they thought they were fairly entitled to. So when market conditions strengthened, the aluminum producers felt that they properly should try to raise their prices, improve their profit margins, and they defended themselves by saying they're still no higher than they were eight or ten years ago.

Now this is something that I think requires pretty thorough economic analysis before you can determine whether it's something that requires intervention by the government. I just don't know enough about the particular case. But certainly the atmosphere in which the resort to the aluminum stockpile was used--and this was late '66 I think was when it was--was one where the industry got a good deal put upon. It had the effect on certain people in the industry that they vowed that they would never again announce a price decrease; that they might in times of soft markets just chip away from book prices, but they wouldn't run this risk of announcing a price decrease and then getting spanked when they tried to restore prices as markets strengthened. So I don't know where this leaves you.

M: You weren't here at the time when that was used. That was an interesting insight and one that's valuable to get down, because that is one of the--not irregular necessarily, but techniques that the Johnson Administration used as being placed on the stockpiles.

C: We certainly would expect any Administration to use these stockpiles in times of national emergency where we absolutely needed the material to keep defense production going. I think that you might also make a

pretty strong case for it, let's say, if there's an interruption of supplies of one of these metals because of civil disturbance or even a long strike in a foreign country. When you get into a question of, let's say, using metal from a stockpile when supplies are short because of a strike here, then you up and up a political hornets' nest because--

M: As in copper.

C: As in copper, yes, because you're accused of strike-breaking.

M: This was also before your time--the copper.

C: It was just being wound up really as I came in. I was onboard only about six weeks when the agreement was reached.

M: You are not the representative on the Balance of Payments Committee, are you?

C: No, I'm not. Before I came into this office, it had had, as a major responsibility, the operation of a voluntary program on control of direct investments. Well, Andy Bremer was the Assistant Secretary who set that up; and then Bill Shaw, who came between Bremer and me, administered it. Bill Shaw also was the first acting head of the mandatory program which was set up at the end of 1957.

M: But you don't have the OFDI--

C: No, I do not. This brings to mind a telephone conversation I had with Secretary Trowbridge just a couple of days before Christmas of 1967. This was after arrangements had been made for my coming down here, but before the official announcement had been made. Trowbridge called and in somewhat apologetic tones said that there were going to be some major changes made in the balance of payments program, and one of the results would be that the Direct Investment Program would be moved out of the office I was coming into into another part of the Department. He said he hoped that this wouldn't make any difference

in my decision to come.

M: Did you weep a bitter tear at that?

C: So I just told him as far as I could see all it would mean would be that I'd have less use for Excedrin.

M: The OBE still makes the balance of payments projections, though?

C: I might just say a few words about the role I have had in the balance of payments area. The representation from the Department on the Cabinet Committee on Balance of Payments was moved, and this was Trowbridge's decision, from this office where it had been over to McQuade, who is the Assistant Secretary for Economic and International Business. The reasoning behind this was that while this office was running the investment program, it had an important operating responsibility in the balance of payments field. When that program was moved out of this office into an independent office within the Department, then we no longer had any operating responsibilities in the international field. McQuade, on the other hand, did have the Export Promotion Program which is a major activity of the Department, the Exports Control Program, a number of other lesser activities. Trowbridge felt that in this case, that the policy representation ought to come from the office that had the largest amount of operating responsibility.

People in this office have disagreed with this, and well, some people outside in other agencies have felt that representation should have remained in this office where we could look at it from a broad economic point of view rather than, let's say, as a salesman for a particular program for solving the balance of payments problem. But this office has retained a strong interest in the balance of payments problem and program for other reasons. We do originate some of the most important statistical information. The trade figures. Monthly

figures on exports and imports are compiled by the Census Bureau, and the balance of payments accounts themselves are racked up in the Office of Business Economics.

M: The point I was curious about is how Mr. Johnson came up with what seemed to me to be an incredibly optimistic figure in his last State of the Union speech regarding the last quarter and the projected next year.

C: This has been a rather interesting development. Balance of payments figures are produced in the Office of Business Economics from figures that are supplied by other agencies, and Treasury is one of the principal suppliers of those data. Now, over the past year or so, one of the elements that has tended to hold down our balance of payments deficit has been what are called special transactions by the Treasury. These consist mainly of certain types of government securities. These are non-negotiable, intermediate term Treasury securities which are sold to certain foreign central banks and official agencies. The West German government has been the principal purchaser of these issues, although at times we have sold them to Canada.

Now when these are purchased, through the accounting mechanics it makes what would otherwise go in as a liability of the United States to these countries disappear. It has stimulated a number of characterizing phrases like "window dressing," or "cosmetics." In the first two quarters of last year, the reported deficit probably would have been close to a billion dollars higher than it was if it had not been for these window dressing transactions.

M: They show up as a credit against the drain because of the incoming--

C: Yes, the incoming funds, yes. Now, Walter Lederer who heads the Balance of Payments division of our Office of Business Economics, has

always labeled these transactions--calling them "special transactions," and called attention to them in the writeups of the balance of payments. And in discussions of the balance of payments, he will separate these out and refer to perhaps a fundamental position which you would get if it weren't for these special transactions.

Well, the Treasury people make a defense for these transactions. Most of them, as I remarked, have been with Western Germany. We maintain a very sizeable military force in Germany which certainly is beneficial to the West Germany economy for what it puts into the economy, and of course just from the standpoint of political stability because it's kept there in order to insure the continued independence of West Germany. The Treasury people will defend these special security transactions as being a way of offsetting what is otherwise a payments drain by the United States. And it may cost us half-a-billion dollars a year to maintain this force in Germany. So I think as a regular matter of course, the Germans buy about a hundred and twenty-five million dollars of these securities every quarter.

In the case of the Canadians, we have helped out the Canadians in times when they have had foreign exchange crises. During the second quarter of 1968, the Canadians were running a very strong trade surplus, accumulating very substantial foreign reserves. Here the argument is that it's only fair for them to reciprocate by putting a substantial amount of their reserves into dollars. But, be this as it may, during the final quarter of the year there evidently were again some very substantial volumes of these special transactions. Without them probably there would have been about an even stance on the balance of payments for the quarter; but this would have meant we might have ended up the year with a deficit of half-to-three-quarters -of-a-billion dollars.

M: So the genuine position has improved over the last years substantially.

C: The genuine position has improved. You see, in 1967 we reported an overall balance of payments deficit of something over three-and-a-half billion dollars, I believe. If it hadn't been for special transactions then, it would probably would have run something over four billion dollars. This year, 1968, the reported balance of payments, will on the liquidity basis, will evidently come out with a surplus of about a hundred and fifty million dollars. Without the special transactions, it probably would have been in deficit a billion-and-a-half or two billion dollars. So there has been some improvement. But I guess we've felt that maybe the Treasury people were a little prouder than they should be about what did happen to the balance of payments toward the end of the year..

There were also some one-time or temporary transactions that took place in private capital markets toward the end of the year which concerned us somewhat. In response to high interest rates here, response to efforts by U.S. companies to make sure that they are in compliance with the balance of payments controls programs that we have. I mean, our feeling is that probably several hundred million dollars moved into the United States during the final few weeks of the year which are quite vulnerable to going out again. Some indeed we think have already gone out.

M: Which would have weighted the last quarter statistics then.

C: Yes.

M: You're apparently staying on, is that right?

C: I'm expecting to, yes.

M: Maybe you can give an objective comment then as a way of closing here on the nature of the transition as far as the Commerce Department is concerned.

C: Well, within the Department, and I think this was substantially true throughout the government, a very strenuous effort had been made to insure a smooth and effective transition. I think it must have been going back to September or August that we were given instructions on preparing material for the transition. I remember just putting through great reams of background memoranda and other material as preparation for the incoming Administration. This was well before anybody had any idea of what it would be. Nobody really cared so far as this particular exercise was concerned. Certainly the attitude was very strongly implanted that this was to be a constructive, cooperative transfer.

I have felt in the case of the Commerce Department that the opportunity that was offered has not been utilized as much as would have been desirable by the incoming group. I think to say on Secretary Stans' behalf that his own appointment--the appointments of the Cabinet officers--were announced a bit later than would have been desirable. It was well into December before these announcements were made. But the announcements at the sub-Cabinet level have been very late in coming, and there just has not been any opportunity to brief new people in advance.

M: So utilization has been the problem, not the preparation.

C: Utilization has not been very strong up to this point. Now, the material is still going to be useful. The written material doesn't lose in usefulness one bit, but what has been lost is the ability of the new people coming in to policy spots here to work side-by-side with the people they'll be replacing. Now Secretary Stans did have an extended bout with the flu at what should have been a pretty critical time--

M: Just at the wrong time--

- C: The wrong time for him to talk to people here and make appointments and get people started. So I think it's unfortunate this time has been lost. Of course, there are probably at least two points of view on how such matters should be handled. Some people in coming into a new Administration don't want to have very much contact until they have responsibility.
- M: They don't want to get tied to a policy they may not agree on.
- C: Right. Even on our part here, I hate to think what would have happened if people had started coming in to some of the key policy offices and expressed a real desire to get involved in some of the activities before they had security clearances, before anybody knew whether they were going to be confirmed by the Senate in those cases--in short, before they had any responsibility or authority.
- M: I don't want to cut you off, but are there other important subjects which you think should be included here? We're pretty well limited to what's published about you in preparing to come to see you, but I certainly don't have any intention to limit anything that you may think is important to say.
- C: Well, one of the activities that we've been involved in with other agencies [that] we haven't touched on is the post-Viet Nam efforts. This is another one of the Cabinet committees. As in the case of the Committee on Price Stability, I acted as the deputy and therefore the active member of the Department in the cabinet committee work on post-planning for the economic consequences of the end of hostilities in Viet Nam. This was an activity which has tended to ebb and flow as prospects for peace have ebbed and flowed. There was a good deal of activity, I understand, during the spring and early summer of 1967. Then it lay rather dormant until last spring after the President made

his announcement at the end of March, and prospects for peace seemed to improve for a time. Then the work of this committee stepped up again. Then it tended to drag through most of the summer, and then toward the end of the year we finally got to a point where there was some fairly feverish action in turning out a report.

I didn't feel it was a terribly satisfactory effort, at least from what I saw of it. There was a substantial amount of difference throughout the exercise--and I think it tended to narrow toward the end--in just what kind of problem peace in Viet Nam would pose for the U.S. economy. After you settle on the nature of the problem, then the decisions on what to do about it would seem to fall pretty easily into place.

But in the early days of discussion, and I found this to be true outside the government as well as in the work of this committee, it seemed to me that there was a greatly exaggerated notion of just how much saving would be possible in defense spending in the event of peace. The first approximations were that the entire amount of our expenditure in Viet Nam could be saved. I think when this discussion began, this was used as a basis for justifying all sorts of programs to sop up the extra money. The Budget Bureau found that the money was spent many times over by people who had special programs to push.

But as we looked at this more and more intensively, I think it became clear that the defense budget was going to grow, quite apart from Viet Nam, over a long period of years. President Nixon during the course of his campaign used a figure which was quite startling I think to most people in talking of defense spending I think of about eighty-seven billion dollars in 1972, and this was on the assumption that there would be peace in Viet Nam in the meantime. Then programs

either authorized or even started the Sentinel program, ABM program-- have the prospect of adding many billions of dollars to our yearly defense spending, and this quite regardless of what happens in Viet Nam. So this dividend I think began to shrink the more we looked at it.

But even up to the very late discussions, there was a fair amount of disagreement among the people participating in this activity about just what the extent of the savings would be. I think Secretary Smith was particularly leery of some of the early figures that were put in draft reports. The real clincher came at a meeting when Defense Secretary Clifford talked about the problems he was having holding back the Joint Chiefs of Staff on money that they'd like to spend right now. So this peace dividend just began to wither.

I had felt pretty strongly throughout the discussions that probably too much attention was being given to preventing fiscal drag in the economy, looking for ways to spend the money, and not anywhere near enough attention being given to problems that surely would arise at a local level or an industry level--and even if the total level of defense spending is kept up or held within a small range of what it is now, you're still going to have certain types of factories and certain areas of the country that are going to be very severely affected by cutbacks of particular military contracts. We in the Commerce Department, and have had a lot of assistance from the Labor Department people on this point, felt that a good deal more attention in that committee's work should be given to these problems of adjustment at the state and local level. In the final report that came out, I think that we still felt that this imbalance existed, that far too much attention was being given to the overall fiscal consequences and much too little to the sort of planning organization that we ought to be talking about--and maybe

even setting up--to deal with the problems that will be arising at state and local and industrial level.

M: Had the President actively participated in any of the meetings of this group?

C: Not during my time.

M: That's right. It was already constituted before you came in.

C: Oh, at one of the very late meetings--I guess it was the final meeting of the principals of both committees, Price Stability and Post-Viet Nam--Joe Califano did participate as the active arm of the President.

M: You've certainly been very cooperative. I certainly thank you for setting so patiently.

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By William H. Chartener

to the

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