

INTERVIEWEE: HENRY H. FOWLER (TAPE #2)

INTERVIEWER: DAVID G. MC COMB

DATE: April 22, 1969

M: This is a second session with Mr. Henry H. Fowler, former Secretary of the Treasury. I am in his offices in New York City. The date is April 22, 1969, and my name is David McComb.

Last time you mentioned you had a great deal of contact with Lyndon Johnson when he was Vice President. Can you tell me about that?

F: Perhaps "a great deal" is something of an exaggeration. But I had had frequent contacts with the Vice President, because we had been friends. I had been a supporter and an admirer of Senator Johnson and well acquainted with him in both his role as Majority Leader and as a leading Democrat and as a member of the Virginia delegation in the convention. We had supported Senator Johnson for the Presidential nomination.

Also, it had been indicated to me, either by President Kennedy or Secretary Dillon--I've forgotten now which--that we in the Treasury Department should extend, make every effort to keep the Vice President informed as to significant developments and the work in the Treasury area and to work with him, so he would be not only fully abreast but we could have the benefit of his rich experience and advice and counsel in dealing with our problems. Also, it was not infrequent for me to see him at Cabinet meetings and meetings of the National Security Council, where I would be sitting in for Secretary Dillon; to be in touch with members of his office about various matters in which he was affirmatively interested and sought information. So we had, prior to his becoming President, a

continuingly pleasant and fruitful association in his capacity as Vice President and leader of the Administration and in my capacity as an Undersecretary.

M: I've heard that when he was Vice President that Johnson in Cabinet meetings would take a decidedly quiet role, rarely said anything, and played the role of Vice President, deferring to the President as it apparently should have been.

F: That's exactly right and squares completely with my own observations.

He always followed closely the course of discussion in Cabinet meetings--my seat used to be by him in National Security Council meetings or right behind him or beside him, depending on whether Secretary Dillon was there. He followed them very attentively. He came well prepared with the advance materials that had been circulated, but he preferred the role of the silent observer and only spoke when President Kennedy asked him to give his view.

However, it was my impression that frequently--indeed it was observable that after meetings of the National Security Council or the Cabinet--President Kennedy had a way of drawing off the Vice President into his own private office. I don't know, but I would rather conjecture that that was to provide some opportunity for him to give his own private views to the President in the intimacy of their own association.

M: It must have been difficult for a man of Lyndon Johnson's character to take such a role. After all he'd been Senator, Majority Leader--

F: I think it was and I must say that it was one of the features of his conduct during that period which enhanced him certainly in my own mind--the way he was quite willing to play the role of the Number Two man.

Since I was a Number Two man in my own department I had some understanding of what the feelings of a Number Two man are. I felt the Vice President conducted himself as a Number Two man ideally should in the meeting in which his chief was the presiding officer. I'm not at all sure that in similar circumstances in the Treasury I was as good a Number Two man in that respect as he was.

M: Well, we have spoken about the transition from Kennedy to Johnson upon the assassination of President Kennedy. Apparently in 1964 or so, you left the Treasury for about a year.

F: I did. I actually resigned the early part of April but stayed on for an additional thirty days to finish up a task force report on promoting foreign investment in U.S. corporate securities and foreign financing of U.S. direct investment abroad, a task I had undertaken at the request of President Kennedy but in which President Johnson was interested because of its important bearing on our balance of payments. So I actually left the federal service in May--early May or late April--although President Johnson accepted my resignation as Undersecretary, I believe, as of April 10.

M: Then did you have anything to do with the series of 1964 White House task forces that set the program for the Johnson Administration?

F: No, during the summer of 1964 and the fall of 1964, I was actively involved on nearly a full-time basis, at least many hours of most days, in organizing business support for the candidacy of the President in the forthcoming election. This took the form of working with various individuals to set up and organize something called the National Independent Committee for President Johnson and Senator Humphrey--an organization composed of a substantial number of the outstanding business and financial leaders in the country, which was not primarily a financing vehicle but but a means of letting the country know of the confidence and esteem

in which the personality and the policies of President Johnson were held by a number of outstanding factors in the business and financial community.

M: This is something that would not generally appear in written records or newspapers. I'm curious about the mechanics of such organization. How do you go about rallying support? How do you contact businessmen?

F: Just call them up and talk to them on the telephone and go and see them and find out their views and find out how they felt and determine whether or not their feelings of support were sufficiently strong or their personal positions permitted them to publically become affiliated with such an organization, and have their names appear in newspaper ads and with statements of endorsement.

M: In dealing with people of that caliber, did you find more success in talking to them personally, rather than say through a letter?

F: For the kind of men that became affiliated with the National Independent Committee for President Johnson and Senator Humphrey, letters are not the approved or effective way. This wasn't dealing on a large mass scale. I'm not saying that letters weren't eventually sent to individuals, because to a certain extent you have to function by correspondence. But I would say the initial organizing group of this National Independent Committee, the original fifty or the original seventy-five, was not intended to be a mass organization. I think perhaps the total membership was only a few hundred, but certainly the original fifty or seventy-five became members because of the personal exchanges not only with me, but with several others with whom I was associated. Then eventually from that circle it broadened to two or three hundred by reason of the interest of the original cadre of members, who spoke to their friends.

M: You would make initial contact with a man and if he was agreeable he would contact others?

F: In some cases, yes. In some cases he'd simply limit his participation as saying "Yes, I'll work with you on it."

M: How would you contact a man for example--

F: I don't want you to get the notion that this was a one-man thing. That would be contrary to the fact. Some of the, I would say, Most important work in this connection was done by Mr. Sidney Weinberg, a great deal of valuable work was done by John Loeb and John Conner, who subsequently agreed to act as co-chairman of the organization.

M: The initial contact with a business man would come through a friend, if you didn't know him. Or could you just pick up the phone and say what you were?

F: Oh no, you'd never do that. You'd talk to people you know and with whom you have a sufficiently firm basis of relationship that you can be effective in determining their views. If you didn't know the given individual you would turn to someone who did. This was the importance of having men of the stature by acquaintance and friendships of Mr. Weinberg and Mr. Conner and Mr. Loeb and others, who worked in the initial organizing frame.

M: So if you didn't know them perhaps Conner would, or Weinberg, and they would be the person they would contact.

F: That's correct.

M: Is there any way to measure the effectiveness of such organization? Do you have any idea of what kind of impact your work had?

F: No, I don't think there's any way of effectively measuring it, I think that the strong and continued support by the business community, or

substantial elements in the business and financial community, of the person and programs and policies of Lyndon Johnson as a candidate--and as a President--is the main evidence of this feeling.

This feeling was there. We didn't create it. It was simply given expression before the country. Now what the impact of that was on the country is a very intangible thing. It at least indicated that the Democratic candidate for the President was not uncongenial with business and financial community and fitted in, I think, to the philosophy and approach to President Johnson, who was very anxious to be the President of all the people--to have good excellent relationships with the business community and the labor community and the various segments of our society--feeling that good relationships with all these segments, enjoying their confidence, having a basis for an exchange of views on a frank basis was a fundamental element in the leadership role of the President.

M: Was there any difficulty deciding who should be contacted? Or did you pretty well know who the business leaders were?

F: Oh, there was no difficulty. I suppose a different group of individuals might well have approached some people we didn't think of, or might not have approached some that we did. There's no hard and fast roster of individuals that you could identify. Quite frankly, this was rather unusual because to have an organization of this sort, particularly for a Democratic candidate, because by-and-large business leaders and financial leaders don't take a public role in Presidential elections. And if they do at least the past the records have seemed to indicate they're much more likely to line up publicly affiliated with the Republican candidate than with the Democratic candidate.

- M: I would assume too that through this, in your work, you would have contact with the presidential candidate, Lyndon Johnson?
- F: Oh, the organization meeting of this group was held on a given day, and following the organization meeting he very courteously received the twenty-five to fifty men that were involved in his office at the White House for a frank exchange of views on the various issues in the campaign and a kind of a friendly get-together that seemed to be appropriate under those circumstances. Subsequently we had later meetings with him during the course of the campaign, one which became the subject of an election eve telecast.
- M: I've heard that Lyndon Johnson was very effective in meetings of that nature--smaller meetings where there's a great deal of personal contact. Is that true?
- F: No question about it. He was a master at what I would call the informal meeting and exchange of views. The warmth of his personality and attitudes toward other human beings was much more observable and felt in the smaller gatherings of anywhere from two to one hundred people than in the large mass speeches from a rostrum to thousands.
- M: What do you suppose happened to him when he had to go before television--that he lost that effectiveness?
- F: I don't say that he lost that effectiveness. I think the President, particularly in the course of campaigning, was a very effective campaigner. I just don't think that, what I said earlier, the warmth of his personality and the extremely effective way he had of persuading on a given point or the undertaking of a given task--that doesn't come through when you're talking in a public forum.

M: I have through other interviews discovered that Lyndon Johnson could be very persuasive in getting people to do things that they might not want to do, such as in accepting a government post.

F: You're talking to a fine example right here.

M: Let me ask you then, how did you become Secretary of the Treasury?

F: When I resigned as Undersecretary, I naturally talked to the President personally and assured him it was only personal financial obligations that prompted my leaving--which had been two years overdue--and that he would have my continued support and assistance as a private citizen. He assured me that he understood my personal situation which I had previously explained to him before submitting my resignation. He appreciated the fact that I had given a number of years of my active life to public service and said that he would leave me alone.

I had no desire to resume public service, not that I didn't enjoy it and wouldn't have preferred to do it, but I thought I had served my time. So my activities during the campaign were simply to discharge an obligation of private citizenship and esteem for the President.

I told various friends that approached me as to whether or not I would be interested in going back into the new administration that the answer was definitely no. I did not wish to resume public service. I heard a good deal of conjecture about various people succeeding Secretary Dillon and when various parties would ask me if I were interested I uniformly said, "Please, don't get me involved in that."

Therefore, when one day in March--perhaps let me go back. Indeed, I gave a dinner for Secretary Dillon, I think around the ninth of March 1965, to welcome him back to our company--not to a company, but to our

personal company in private life and with every expectation that soon he would join me in the role of private citizen. Therefore, I think it was around March 17, anyway it was the day my appointment was announced, I was called by Jack Valenti to come to the White House. I was attending at that time a board meeting of the First Citizens National Bank in Alexandria, Virginia, which is my home. On the way in to the White House, I was told to come into the Southwest gate so the interview would be private. It was my complete conviction that the President would ask me for my advice as to whom might be appropriate, in my judgment, to consider for Secretary of the Treasury. I thought we had a very clear meeting of the minds that this was not for me. Now he's told the story of this publicly, and I think you can find it in the public record at the time of my swearing in.

M: Let's get your point of view.

F: So there is--I'm not transgressing on an intimate conversation by elaborating a little bit--but true to my expectations he set me down in the chair of the Secretary of the Treasury, and he sat in the President's chair.

M: This is in the Cabinet Room?

F: In the Cabinet Room. He said, "Now, if you were sitting in my chair, who would you like to have in that chair as Secretary of the Treasury." I began to unwind my prepared speech about qualifications I would look for in a Secretary of the Treasury and what they would include--some four or five particulars I won't go into here--and was prepared to suggest one or two individuals I thought would possess those qualifications in a striking degree when he cut in, before I could get to the completion of my recital and said, "Well, that's enough of this" or words to this effect,

"We've had enough conversation, I want you to do the job. The question we have to decide now is how to break the news to your wife!" In other words, he completely bowled me over, accepting as a foregone conclusion that I was like the girl from Kansas City. I couldn't say no, and I think he realized that up to that point I did have a tradition of always responding to a demand or request of the President to serve my country. So I pleased feebly some other private engagements and commitments, but we didn't have any long debate about it.

M: Did he give you a chance to say yes.

F: He just gave me a chance to say yes. That was about the size of it.

M: Then immediately thereafter there was the press announcement.

F: Within a matter of about five or six hours. He was particularly anxious that I call my wife, meet her, take her to lunch, explain the situation to her, and told me that this wasn't a life sentence, that he was just asking me to help him out for a year or two. He knew it was a hardship and presented some personal difficulties but he hoped that she and I would accept that and carry on the job.

M: He must have had certain sensitivity to the feelings of the wives and other members of the families.

F: Oh, he not only had sensitivity to her feelings, but I think to my situation. Always, thereafter, in our conversations about the length of my tenure he was full of understanding and full of concern, personal, for my own personal future and that of my family. I felt he was very muchly concerned at what the consequences of this might be in terms of private career, etc. I knew that he was asking me to undertake this because he felt I could render a needed service to my country. In later conversations

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when--at least on one occasion--when I broached the prospect of leaving, of resigning, in order, purely, to accept a very attractive private offer, he again urged me to stay until it was determined whether or not he would continue in the Presidency for another term.

M: It would seem that he appealed to your sense of duty.

F: Precisely.

M: And for you this would be a key appeal.

F: He knew that I was not ambitious for the job, that I was not interested in the power and the influence that it would hold, but that I would respond out of a sense of duty. That was the basis of the appeal.

M: Let me ask you a few questions then about Lyndon Johnson as a chief executive and how he operated. You apparently had a great deal of contact with him as Secretary, if not daily, almost so.

F: Sometimes, many times during the day, either by telephone or in person, sometimes days would pass. He'd be away. I tried to follow a rule of bringing to his attention, keeping him informed either by calls or my memoranda on the key questions I thought he would wish to be informed about but not bothering him on every aspect of the office. In turn, he was very affirmative about calling me from time to time either by telephone for conversation. Sometimes this might happen three or four or five times a day, depending upon what was on the table and what the agenda was of activities at that particular time.

He was always readily accessible to me. He made me understand that all I had to do to either advise him or to get his help in performing my office--all I had to do was to pick up the phone and call and he was always very prompt--. Almost surprisingly so in returning the call.

Whenever there was any delay, I would know it was simply because he was involved in a meeting that he couldn't interrupt. Quite often when the call would go through he would be in a meeting, and he would interrupt to say to me, "I'm in a meeting, is this something that can wait a few minutes." One of the primary hallmarks of a good executive in my judgment is to be readily accessible and to stay in communication. Now others will have to speak for themselves on this, but my experience was that Lyndon Johnson was exemplary in his relationship with me, in his availability and accessibility not only to hear from me what I thought he would want to know--not only in connection with his activities, but to help me in connection with my problems that might be beyond my left hook.

M: Did you ever have any difficulty getting a decision from him?

F: He was a deliberative person. In many, many situations where you would call up, or submit in writing, a well-reasoned and positive recommendation of something that you wished to do, he was very unlikely to do anything more than ask some probing questions and then say, "Well, if that's your recommendation go ahead with it," or "I would suggest you consider this variation," something of that sort. So, as an executive in authorizing you to carry on with your job, I did not have difficulty in getting a prompt decision. I'm making a general statement now. You could find instances where various things had to be held up because they were not timely in connection with other things, or he wanted to have more opportunity to think about it, or he wanted a memorandum sent over that would describe it which would give him some opportunity to consult with other of his advisers where they might be involved. But to answer your question, I never chafed under the feeling that there were decisions and actions I

wished to take for which I needed his authority that I was being held up on.

Now I would feel that these were by no means pro forma operations. He was quite an inquisitive executive. He wanted to know your reasons why a given course of action was recommended, would be undertaken. He wanted to know the various alternatives were that confronted you. So it was not just, in many cases, just "yes, go ahead." It would be "Yes, okay, go ahead," following a colloquy or exchange.

Now, in carrying out action on his part, where you were asking him to do something, he was of course much more deliberative. And I think that is an understandable and appropriate attitude. It's one thing for an executive to say to one of his deputies or assistants, "Okay, if you recommend it; you seem to have the answers; you go ahead." It's another thing when he is being asked to make a statement, or intervene in a given situation, or to take a decision that is his only to take. Then you get involved in what I would call the decision-making processes of the President rather than the decision making processes of the Secretary of the Treasury. In the decision making process of the President, you had to fit into all the various devices that I'm sure will be muchly discussed by, not only by me, but by others in the course of these interviews.

M: I don't know whether you can answer this or not, but what kind of information or items of discussion did you pass on to the President, and what did you keep to yourself.

F: I can't generalize on that. There's a whole big file. The best way for anybody to get an answer on that is to go into the archives and see the big folder of memoranda that I sent to him. Now, in addition to this method of transmission there were, of course, many numerous informal

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exchanges of telephone calls and private meetings with him on which I did not keep notes or records. Therefore I'll just have to generalize on that. But it's a hard line to draw on the extent to which you ought to involve the President in the operations of your own office. I felt that he ought to be advised on operations being conducted by the Treasury or problems or situations or crises or matters that were of such material consequence that they would affect his administration and affect the welfare of the economy or our financial system of the country. But it's awfully hard for me to generalize except to say that at no time in my experience did Lyndon Johnson as an executive give me any impression, you know, "Don't bother me with this" type of attitude. I never found that in him. He was always actively interested and therefore it took some discipline on my part not to take advantage--and abuse his openness and his accessibility and his desire to be helpful to you in doing your job--and his desire to know everything about what you were doing or what your observations were that might affect his job.

M: Let me ask you a little bit about his personality. There's a great deal of talk in the books and newspaper articles about Lyndon Johnson having a quick hot temper. Now I don't know whether that's true or not. Do you have any insight into that?

F: Let me just say that all a man can do in answering a question like that is talk out of his own personal experience. I've always made it a rule to form my judgments on a question of this sort not out of what somebody told me or what experiences they had, but out of my own personal experiences. I don't know whether this is a special or unique type of relationship, whether its typical, or whether it was exceptional. All I can say,

truthfully and honestly in that I do not ever remember of being chewed out by Lyndon Johnson and being subjected to an outward manifestation of his anger. I certainly do recall times when he didn't agree with me on various things. He would frankly let me know what his doubts were about a given position, or a given proposition. And we had full and frank discussion.

M: You could disagree with him?

F: I could disagree with him as long as that disagreement was appropriate and given with the kind of politeness and deference that I think anyone in any office should show to the office of the President of the United States. As I followed those ground rules, and I always tried to follow them, I never got any reflection as what you referred to as these outbursts of temper. So, you'll just have to get evidence on that particular subject from somebody else.

M: He's also been critized by his detractors as being crude, or earthy in his language. Is there any truth to that?

F: I would not say crude. I would say earthy. I would say in private intimate conversations--with one, two or three men in the room--he could express himself, not in profane language--he was not a profane man--but in an earthy way designed to make a point. He loved to tell a story and he loved to tell a story that made a point. It wasn't a story for the sake of a story, but it was a story to drive home a given point or that was apropos of a situation. And he loved to laugh. He liked to tell amusing stories and I think I was one of the people that he let himself go with in telling stories. But to me they were relevant to a conversation. They underscored or emphasized a given point, or they brought out a

humorous facet of an analogous situation. He was not what I would call a vulgar man, because by-and-large, most of his speech was without any word or phrase that wouldn't be publicly uttered. He did like to make a point with a story.

M: You were not offended then?

F: No, I did the same thing myself to him! So we would occasionally swap stories.

M: Did Mrs. Johnson have much contact with you?

F: Yes. I should put it this way. My wife was very actively engaged with Mrs. Johnson, not only in the normal social activities that are part of the White House, but also in such things as the Lady Bird train trip in the course of the campaign. Mrs. Fowler played a fairly key role on that train. And in the beautification program in which Mrs. Johnson organized and carried through, Mrs. Fowler was a very active participant. Indeed, I think she was the chairman of the speakers bureau of the Beautification Program, working with the staff in the White House to provide speakers for the various occasions through the country when some outside speaker would be required.

M: Do you have any impressions about the effectiveness that Mrs. Johnson played the role of First Lady?

F: Here I'm apt to allow my enthusiasm to carry me away in terms of perspective. But in my judgment Mrs. Johnson's instincts and influence for what was good and right and appealing and appropriate, for her ability to galvanize and utilize the private persons and private organizations in activities that were important to the public interest such as the Beautification Program, were superb examples--which could be worthy examples, as I told the President, for him and members of his Administration, for any President

for that matter. I think she will go down in history as one of the really great First Ladies, not only in terms of being a personally gracious and hospitable and friendly perceptive human being but of understanding how that position can be put to good use on various causes involving not only beautification but many of the welfare interests of the White House.

M: Did it surprise you when Lyndon Johnson decided not to run again?

F: At the moment it did surprise me, but as I stop to analyze not only what he said but how it tied in with some of my previous conversations and impressions with him, it became much less of a surprise. I think within a few hours of just thinking back over the past it seemed to me to be natural and a logical act in light of all the circumstances.

M: Did you have any idea that he was going to announce that on March 31?

F: No, I did not have any advance notice. I had been, in the days, indeed most of the week, preceeding that announcement heavily involved in Stockholm, Sweden, in a meeting of the Group of Ten, concerned with trying to negotiate a final approval by the Group of Ten of the outstanding issues remaining in the Special Drawing Rights--creation of the Special Drawing Rights facility of the International Monetary Fund. I only returned from, I might say a successful achievement of that objective--I think it was on March 30--. I did have something to do with that portion of the speech of March 31 involving the economic situation--the tax bill and fiscal policy--and I was called during the course of the Sunday by some of those--I think it was Harry McPherson working on it in the White House--to review the current phrasing of that portion of the speech. But I had no advance--I hadn't really seen the President for some days, by reason of having been in Sweden. And there would have been no occasion for me to be informed.

I had, as I look back on it, at various times--one time in particular--you might say some kind of an advance warning from a year previous, that it was by no means a foregone conclusion that he would stand again for the presidency. Specifically, in the spring of 1967 when I had this offer--this attractive offer of a private post with a very fine future in it--I went to him, explained my increasingly difficult personal financial situation and asked how he would feel about my resigning in some reasonable period of a few months.

I won't go into that conversation in any great detail except to say, while he was an gracious and as understanding as a man can be, he did leave me under the impression that he wanted very much to have me defer any decisions of that sort, as he put it, "until the following fall or winter when I determine"--"I" meaning Lyndon Johnson--"Make up my mind what I'm going to do about another term." Now I didn't pay a great deal of attention to that when he uttered it because it seemed to me to be a natural, normal observation that a man would make under these circumstances. In asking me to defer my departure for a reasonable period of time, he was relating it to a meaningful datum point. But looking back on it, March 31, 1968, a year later, I could then more fully appreciate--I think even at that time he had an open mind, and had not determined to stand for another term.

M: For a man like Lyndon Johnson, was such a decision not to run an act of courage?

F: Let me give you my own analysis of his rationale, and others can make their own judgments about it. To some extent I think this is revealed in the address itself, but to some extent it may not be as sharply standing.

But I had the feeling, analysing the situation, that the President looked at his obligations which he had undertaken when he took the oath of office in January, 1965, for another term, to serve the people of the United States until January 20, 1969, with every ounce of effectiveness that he could summon to the job in that time span. In other words, he undertook a contract with the American people--or an obligation to the American people--with that oath, to discharge the duties of the office in that time period, with the maximum effectiveness.. And in the Spring of 1968 he analyzed whether he could discharge the duties of that office in the period between March 31, 1968 and January 20, 1969--a very crucial period more effectively as a candidate standing for renomination by his party and re-election by the people for another term, or as a non-candidate who had withdrawn from the contention. It seemed to me that in at least three situations--involving the search for peace in Viet Nam, involving the problem of the urban unrest in the ghettos, and in dealing with the very difficult economic problems in which I was heavily concerned, the imposition of a tax increase and a fiscal restraint on the activities of the programs of the administration--that in discharging his responsibilities in those three spheres of the highest level of economic policy, the highest level of domestic welfare and the national security, he came to the conclusion--although there were arguments on both sides--he came to the conclusion that in that given situation he could more effectively discharge the duties of his office from that date until January 20, 1969, by withdrawing from contention as a candidate. Therefore, I view this act as a performance of a duty. I think he felt a compelling sense of obligation to do the job he had undertaken to do to the very best of his ability in that period of time,

leaving the future to take care of itself. Therefore I view it, not necessarily as an act of courage or as an act of anything else, but living up to the oath to perform those duties in the most effective manner.

M: Are there any major faults as a chief executive in Lyndon Johnson that stand out in your mind? I've heard, for example, that he was vain and his vanity sometimes hampered appointments, for example.

F: Appointments of people to office?

M: Yes.

F: I never found that to be the case. I think Lyndon Johnson was a proud man, I think he placed a considerable store on his own position as Senator, as Majority Leader, as a Vice President and I think he had a very high regard for--almost veneration--for the office of the Presidency. He had manifested that in his attitudes and conduct in dealing with President Truman, with President Eisenhower and with President Kennedy. It was quite natural that he would in a sense demand the same kind of respect for the office when he held it that he had given to it when it was held by others. That was his standard of the way people should act towards the President--the way he had acted towards the Presidents--and I think he was disturbed and upset and concerned with words and comments and commentaries and examination of motives or attribution of motives to the President. All of those elements of personal criticism, he viewed as in effect attacking and undermining the office of the Presidency, as well as an attack on him personally. And for that reason he didn't take kindly to them.

Now there's a good deal in American history to support the proposition that we are unduly abusive of our Presidents, from the time of George Washington when he went home to Mount Vernon at the end of his eight years

of service. He didn't go home as the father of his country, he went home saying to himself and writing to his friends, of which there are one or two outstanding letters, as an example, that he was a scapegoat, that he had been bullyragged by the commentators of his day almost to a point beyond endurance. And he went home to Mount Vernon, as I say, not thinking of himself as the father of his country, but somewhat as an embittered president. This has been true of most of our Presidents that have taken, I think, more than their share of personal vilification and abuse. I think President Johnson was conscious of this fact in history and he resented it. Now if that's vanity, why that's vanity, but to me it was a pretty normal instinct.

Now as to whether his reacting to it was the best way of handling the situation is, of course, another matter. But it's awfully hard for you or me or anybody else to put ourselves in the position of the man in the office who is getting that kind of treatment. Now I've always felt psychologically that by ignoring them you tend to blunt attacks. I mean it's easy to give advice to others, that the way to handle attacks on you personally is to ignore them. But sometimes it's harder to accept that advice and to act according to it, particularly I think, where you think the effectiveness of your office is being undermined by unfair and distorted criticism.

M: That would, as you have explained it, not necessarily be a fault. Are there any faults in his performance as Chief Executive?

F: Undoubtedly there are. I'm sure that if I wanted to I could find various areas in the administration of Lyndon Johnson, in the field of some of my fellow Cabinet members that I would have done differently. Whether they did what they did because it was their doing or it was the President's doing or a combination of the two, but I would do [it] differently. I'm

sure they, in turn, can find many areas in the administration of the Treasury, and in economic and financial aspects of the Johnson Administration, that they would have done differently--such as, for example, I'm sure many felt that I gave undue emphasis on bringing our balance of payments into equilibrium; my undue emphasis on changing a terrible budget deficit into a more tolerable deficit or into a surplus. We can all--looking at the other fellow's area--decide we would have done it differently and our way of doing it differently would have been an improvement. In that sense, I could sit here and find fault with the Administration. But I was so busy, frankly, tending to my own problems, which were rather acute during this particular period, that I didn't set myself up as a self-appointed critic of other aspects of the Administration.

M: Let me ask you on the other side of the coin then, how about virtues of the Chief Executive. Now you've mentioned the accessibility, his decision making process--

F: I think he had almost inexhaustible energy and physical and mental endurance to cope with the problems, with the emergencies, with the crises. I think he was one of the strongest fellows that I ever knew in dealing with crises.

There were two things about him. Number one, he had a probing, intuitive mind that always searched for the various alternatives or options; he was very careful and deliberative in a crucial situation in coming down on any particular alternative. He wanted the pluses and the minuses fairly thoroughly staffed out. He didn't just want to hear all the pluses and none of the minuses. In my experience, he wanted to hear both sides of a given question. If you didn't develop both sides he would try to develop it for you, or ask somebody else to.

The other thing that I would like to mention is that I think in crises where time was an important factor, he had a capacity for keeping very cool and making decisions and making judgments rather than being a Hamlet about them. He was very deliberative and tended to not jump at decisions and conclusions where the time scale permitted that. But I can recall various instances in my own experience such as, for example, the decision on March 14th to ask other countries that were cooperating with us in the London gold pool to close the London gold market and undertake the discussions that led to the establishment of the two-tier system on the following weekend. That was a decision in dealing with the crisis that developed that particular week. Had we delayed another day the damage could have been incalculable. But when confronted with the crisis and given the recommendations and analysis that were made, he was quite ready to bite the bullet without any further deliberation. It was in experiences like that that I think his decisiveness was an executive asset. He had the capacity to identify those problems and alternative solutions in an deliberative and careful way where time permitted, and the capacity to keep cool and calm and not get excited and go along and take decisions in very major situations where time didn't permit of any procrastination. The ability to determine which category a given problem fitted in is the mark of a great executive.

M: As we move on through Treasury affairs, I'm sure some of this will come out. We will be talking about the two-tier system and so forth and some more of this may come out.

Apparently, you remained as a link between the Administration and the business community even after you were Secretary of the Treasury. Is this true?

F: Yes.

M: And served as sort of a liaison?

F: I'd say the business and financial community--and served along with the Secretary of Commerce and others. This was not in any sense an exclusive role, because the Secretary of the Treasury naturally is involved with all elements in the community. I also maintained fairly close relationships and at times acted for the Administration in dealing with some of the labor leadership--not always on questions involving the Treasury Department. But I did have, I think, a special relationship to the business and financial community that the President was anxious to utilize not only in areas that concerned the Treasury but also that concerned the President.

M: Did you get involved in guidelines and application of economic policy to the business community?

F: Oh, yes.

M: Was your job one of explaining this?

F: I got involved in several ways. I got involved in some of the individual situations in trying to explain the position of the government and the importance we attributed to a particular pricing decision. I was also a member of the Cabinet Committee on Price Stability, which was created early in 1968--which addressed itself to the overall problem of policies in this area--and served as a member of ad hoc groups along with the Chairman of the Council of Economic Advisers and Secretaries of Commerce and Labor, and Director of the Budget, in considering this area of voluntary restraint in wage and price decisions all the way back.

M: Were you involved at all in the aluminum price rise?

F: Yes.

M: What was your role there?

F: Gee, I'd have to refresh my recollection on the files. As I recall it, I sat in on all the meetings--that is the internal meetings in the Administration. I don't know that I had any meetings with the industry. I just can't recall. If I did in that situation they were probably-- Put it this way, I was not a major factor in the discussions between the Administration and the industry. My role was more that of a participant in the inner councils of the Administration on what our posture should be.

M: Does the same hold true for the steel?

F: No. In some of the other situations I would be actively in touch with leaders of certain of the steel companies and--

M: Did you ever talk to Mr. Blough, for example?

F: Yes, by telephone sometimes, and maybe once or twice in person.

M: When talking to business leaders of this nature, and trying to persuade them to hold down their prices, what kind of appeal do you use?

F: The national interest.

M: Does this work?

F: Surprisingly so--not surprisingly to me, but I think surprisingly so to a lot of people. These men are not at all unwilling. They have their own responsibilities to discharge but they want to discharge those responsibilities with an adequate appreciation of what the by-product consequences are as it might involve the national interest. And I think properly. This was not a case of table pounding or threats, real or veiled or anything of that sort, but simply the attempt, in a friendly and rational way, to explain our point of view on some of the consequences of a decision that

we thought would be beyond the bounds of good for the national interests. Now they had to reconcile that in terms with their own individual company interest. But I would always simply try to indicate the relationship of this to various elements of the national interest, such as the balance of payments, which would be a normal one for me to talk about. And I'd reflect also the impact of the decision as an example for other industries and the chain reaction that might ensue and what the consequences of that might be.

M: Was the threat of selling off a stockpile, such as in the aluminum price rise, was that really effective?

F: You have to ask those who were closer to it than I was--to that particular aspect. That was a matter that fell primarily between the Department of Defense and the General Services Administration and Mr. Califano, who was acting for the President in this area. Chairman Ackley might also have some judgments about it. I don't have a very clear judgment.

I think undoubtedly the disposition of the stockpiles materials did, since it added to the available supply and the supply-demand ratios were an important factor in whether a price increase was going to be tenable, or whether it would stick if announced, undoubtedly it was a material factor.

M: Well, was there any kind of threat of that nature in the steel price rise in '65?

F: I don't think so. I don't think there was any steel stockpile of any consequence.

M: About the only threat can be a shifting of contracts, I would suppose.

F: Well, I had nothing to do with any such--. Let me just put it this way.

Insofar as my contacts were concerned and, as far as I was actively concerned in discussions with officials of steel companies, let me state unqualifiedly that it was always on a basis of rational examination of how the national interest could and should be taken into account and never implied any threat of retaliatory action by the government of the sort we used to read about in the papers. Whether there were any or not, they didn't come from me.

M: Okay. I have also heard that you were instrumental in the workings of the Troika and also the Quadriad not only as one of the members and a participant at the highest level, but also again as sort of an arbitrator or a liaison between various factors in those operations?

F: I think to some degree in the beginning that was true. The special relationships, and I think I enjoyed the trust and confidence of most of those who were involved. But as time went on and we worked together, particularly in the Troika, I don't think this was ever a factor. In the Quadriad which included the Chairman of the Federal Reserve Board, it may have been a factor in the earlier days, but as we moved along the increasing closeness of relationships between Chairman Martin and Chairman Ackley and, subsequently, Chairman Okun and Mr. Schultze, and Mr. Zwick and members of our respective staffs, that any special role I might have had at the beginning pretty well became absorbed as a part of the normal operation.

M: Is it true that about the only major difficulty in the Quadriad was as a result of the disagreement in late 1965 in the credit crunch that followed?

F: Well, I would say the time when we were in sharp disagreement had to do

with the announcement by the Board in early December of an increase in the discount rate and also the Q Regulation--Q rate--two separate aspects of a policy move toward restraint. I have discussed this publicly, and I'll simply restate my own impressions that the dispute then was mainly one of timing rather than substance. We preferred--the Director of the Budget, the Chairman of the Council and I--wanted to have the fiscal and the monetary policy determined for the calendar year 1966 and the upcoming fiscal year--determined in the context of the President's budget message where the appropriate mix of tax spending and policies, and monetary policies could be joined together as a unified whole; and the various weighings and the various elements of activity worked out, in a sense, as a common program.

The majority of the Federal Reserve Board, I should say, felt that the decision on the monetary level couldn't wait until the final determinations of the spending level and what the tax and fiscal policies should be, and felt they had an obligation to proceed in early December without waiting. Whether history would have been different, whether we would have had a different mix of fiscal and monetary policy in 1966, in 1967 had it all been worked out together in December and early January, whether there would have been any different mix or different results no human being could possibly tell.

M: Apparently, however, as a result of that disagreement in December, '65, there was closer contact with the FRB in the years which followed.

F: I don't think there was any closer contact, We were very much working together in the fall of 1965. As a matter of fact, there was a joint staff study conducted, I think, in October and November which was concluded

just about the time the Board acted and which we all joined in feeling that there would have to be a shift from a policy of stimulus to a policy of restraint. What we hadn't worked out was the particulars of that policy as it might take fiscal form or a monetary form.

So there wasn't a lack of communication. There wasn't a lack of working together. It was just an honest disagreement as to timing. They felt they had to go ahead. They felt they had waited, if anything, too long to make a move in early December. We hoped that they would wait another three, four, five weeks so that we could take an effect an across the board, rather than simply take the fiscal action in the light of an already outstanding monetary policy.

M: Did the credit crunch of 1966 give you some difficult moments?

F: Oh, very difficult moments.

M: It was really as bad as the financial community seemed to think?

F: No one can tell, but certainly the movements of interest rates, the reports I got from private banking institutions, private corporate institutions, the atmosphere of near panic that developed in July and August was a most uncomfortable situation and made it clear to me that we just had to take some action. And that a program of fiscal relief was necessary. That led to what became the President's message in early September, which was a three-pronged program on the fiscal side.

M: Did you have people from the business community calling you up personally?

F: Oh yes, and the banking community, and expressing great fear that, in effect, a financial panic would be likely.

M: Let me throw in one short question. Did you have much contact with the White House staff, or was that generally below you in the realm of contact?

- F: No, I had very extensive contacts with particular members of the White House staff. I might say, for example, in the area of the balance of payments and the development of a balance of payments program as Chairman of the Cabinet Committee on Balance of Payments, and the development of a negotiating program for what led to the Special Drawing Rights, in the development of contingency plans for the various international situations that could and did develop such as those involving the threat to the British pound in 1965 and in '66 and in '67, and the Mark-Franc crisis. Taking that area for an example, we had the very closest working relationships, not only with me and Francis Bator, who was working for Mr. Bundy and Mr. Rostow in the economic and financial area, but with his successor Mr. Edward Fried, who succeeded Mr. Bator. We had the very closest working relationships. As I say, not only with me but with Secretary Deming, and other members of the Treasury staff. Sometimes the President would kid me a little bit about "are those fellows working for you or working for me?" because I think he realized that we did have an extraordinarily satisfactory coordination and working relationship. I think he felt confident that his staff was involved and therefore when a matter came to them, they didn't have to learn about it from the beginning. They were cognizant of it.
- M: Well then the staff was an efficient adjunct to the decision-making process?
- F: Very much so. I couldn't go too far in expressing my regard for their contributions on behalf of the President. They were not just agreeing with the Treasury, they were trying to see that the other elements in the executive branch were taken into account.

INTERVIEWEE: HENRY H. FOWLER (TAPE #3)

INTERVIEWER: DAVID MC COMB

M: I thought I might ask you a series of questions more or less about the nuts and bolts operation, the organization of the Treasury. Did the organization of the Department of Transportation and the transfer of the Coast Guard have any great difficulty, or create any great problem in Treasury?

F: No. It created something of a psychological jolt for the Coast Guard, which had been for some one hundred and eighty years in its previous forms an adjunct of the Treasury and a very congenial part of the family. It was like having, you know, one of your brothers move out of the home and move over to another place. But the various adjustments in the relationships between the Coast Guard and the Customs Service which were very close, between the Coast Guard and certain of the other adjuncts of the Department, those arrangements were re-adjusted except for the psychic wear and tear. The key element was that about seventy percent of operations of the Coast Guard had to do with transportation safety at sea. A much lesser percentage had to do with being an auxiliary to the Customs Service in connection with smuggling and that type of operation. So the role and function of the Coast Guard as it had evolved over the years had made it more of a transportation agency than a Treasury agency, so to speak.

M: Then you, as Secretary of the Treasury, had no great objection to its leaving?

F: No.

M: It made sense to you to have it in the Department of Transportation.

F: That's right.

M: The Narcotics Division also transferred out, did it not, to the Department of Justice?

F: Yes. That was a tougher and a much closer question.

M: Oh, it was? Why was that?

F: Because the Bureau of Narcotics--one of its main areas of activity was working in conjunction with the Customs Service. That's the way these drugs get in mainly. They're smuggled in. So, working there with the Customs Service was important. Secondly, the Bureau of Narcotics is a very hard-nosed--it's been a very relatively hard-nosed outfit, and it seemed to us that the real reason for conjoining them in the Department of Justice was because of the soft line that was being followed by a similar bureau in HEW. Having to do with another kind--there's a technical distinction between the kind of drugs over which the Bureau of Narcotics had responsibility and some of the new forms that were in the HEW. There were quite strong differences of view between the two organizations--and I'm oversimplifying this--with the Bureau of Narcotics following the hard line and the other one seemed to be less--It's not really fair for me to characterize it. Anyway by conjoining the two together, you were not conjoining people or organizations who had the same tradition and attitude and basic thrust, and I think there was some real concern on the part of the Bureau of Narcotics that the esprit de corps, the elan, the thrust of the organizations activity would be melded in and lost. There was, of course, a very special and unique operation of the T-Men, as they were called. It'd be kind of like joining the Marines with the Army.

M: Would you have preferred them to stay in the Treasury?

F: I did not myself go into a detailed examination of this. This came at a

time when I was very heavily involved with the economic and financial crises of the 1968, as I recall it I delegated the primary responsibility for decision making in this area for preparing the necessary papers, analyses and presentations to, as I recall it, Mr. Barr, the Undersecretary, and to James Hendrick, the Special Assistant for law enforcement coordination, to whom the Bureau of Narcotics reported. It was the view of Mr. Hendricks, primarily, but reviewed by Undersecretary Barr, and probably reflecting their objective judgment--that they would have preferred I think--as would the Bureau of Narcotics--for this to have continued as part of the Treasury Department.

M: This was not the kind of thing then that was carried to the White House for settlement, was it?

F: The White House was always involved in these things. You'll have to find out from Mr. Barr or somebody else, or Mr. Hendrick. This was something, as I say, I delegated primarily the decision-making in this area to those officers, and I was heavily involved in other things.

M: The Secret Service also went under some change. There's apparently a major reorganization after the assassination, and then with the additional duties of protecting presidential candidates and Kennedy's widow. Did the expansion of the Secret Service give you any great difficulty? It came all of a sudden I know, during the campaign--the recent campaign.

F: No, because I was, if I may say so, I was somewhat forehanded in this sense, that when I took over as Secretary in 1965, being a lawyer, knowing the problems of law enforcement coordination, knowing that you have only so many hours in the day, one of my first organization tasks was to create a new office which would be a special assistant to the Secretary for law

enforcement coordination with the notion that he would be the caliber of man to whom I could delegate to act on my behalf--subject to coming to me when he needed help and assistance--but could delegate a major responsibility for law enforcement coordination.

Now one of the aspects of this was to make sure that the recommendations of the Warren Commission, having to do with Presidential protection would be fully and faithfully and adequately executed. After some considerable examination I asked David Acheson, who was the District Attorney for the District of Columbia and had been an outstanding lawyer in the firm of Covington and Burling, with both administrative and executive experience as well as legal experience, to come in and take this responsibility. David Acheson did so and he initiated a lot of the early reorganization of the Secret Service and saw to it that the Warren Commission recommendations and whatnot were carried through and that the various changes and special advances in this area were taken into account. When David Acheson left to become the Vice President of the Communication Satellite Corporation, I turned to James Hendricks, who was a long-time outstanding career man in the Treasury Department, also an outstanding lawyer with excellent credentials, who had had the advantage, as a deputy assistant secretary of the Treasury, of having closely supervised the Customs Service and the Coast Guard and several of the agencies that had law enforcement responsibilities. I asked Mr. Hendricks to succeed Mr. Acheson. He did and both of them had very competent, able younger men seconding them so, when the situation developed as it did in the summer of 1968, requiring these special protective details for the candidates, I had not only a well-gearred and, I think, effective

Secret Service Organization, but between me and the organization very competent men acting for the Secretary and working with the Chief and Deputy Chief and other officials of the service. So we were able to field, I think, very quickly and very efficiently good teams to handle these new functions. While I was involved in it to some extent in the relationships with the President and the Advisory Committee that was set up composed of Speaker McCormack and Senator Dirksen, the Majority Leader and Minority leader of the House, Gerald Ford, Majority Leader of the Senate Mansfield-- while I was involved and kept fairly close scrutiny of what was going on, I didn't have to do it myself. I had some competent people.

M: Was there any legal problem in extending that Secret Service protection for candidates?

F: It took a law.

M: And the President, as I recall, put in the order before the law was passed.

F: Well, some emergency measures were taken, but the exact provisions of the law went through fairly quickly. It was like in any of these things. It had to be a carefully drafted measure and you had to think it through. You had to have some kind of device so that the Secret Service protection would be extended to bonafide meaningful candidates and not to every Tom, Dick and Harry that said, "I'm a candidate." It had to be limited to serious and substantial candidates. That's why we had the advisory committee to give me advice on applying the test and the criteria as to whom, under the law, in their view, would be entitled to protection.

M: Was there any difficulty in extending this protection to Mrs. Kennedy and her family after the death of President Kennedy? They had to have some laws for that, too?

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F: That was only during the period of the funeral in the kind of, you might say, the emergency period immediately thereafter. Then, subsequently, that detail was withdrawn.

M: I was speaking in reference to Mrs. John F. Kennedy.

F: Mrs. John F. Kennedy--oh no, that was a provision of law which expired at various times, and was always extended for specific periods of time. President Johnson always took the attitude that he wanted to extend the protection for the period of his term and responsibility. Then it would be someone else's judgment as to how long beyond that it would be taken care of.

M: There is also, apparently, a reorganization of the Customs Service during your period--I think in regard to streamlining, tourist accommodations--

F: No, there was a much more major reorganization of the Customs Service, which followed on the heels of a very detailed analysis and study, both outside and inside--that is groups outside the Customs Service, as well as some in. It was conducted subject to the general direction by the Secretary by the Assistant Secretary for Administration.

We had the benefit of outside reports, etc. A reorganization plan, pursuant to this study and report was pending before the Congress when I took office April 1, 1965, subject to the reorganization act--the then outstanding reorganization act, which provided that any Presidential reorganization plan approved by him would go into effect in a given period of time, unless it were voted down by either house of Congress. It was necessary to have hearings on this plan, to satisfy various members of Congress, who were properly concerned as to what the organization might mean in terms of their respective areas and interests and, finally,

following the hearings and following the consideration of the various points and objections that were raised by various cities, by personnel, by heaven knows who, then to meet those where they had merit, then go to the floor with the plan, which was ultimately approved and executed.

That was the first major reorganization of the Customs Bureau in a long period of time--I think almost from the beginning.

M: Was the reorganization successful from your point of view?

F: Yes, I think so. Only time will tell. One of the most fundamental changes, was to provide a regional setup for administrative purposes so that the span of administrative control, instead of going from the central office in Washington to seventy-five or eighty Collectors of Customs, who were political appointees appointed by the President and confirmed by the Senate, and therefore subject to change--we abandoned that system and provided a regional system, whereby there would be a series of regional offices who would administer and supervise the central policies of the Customs Service on a regional basis dealing with district directors of the Customs Service, who were career appointees, who were for all practical purposes the operating executives in the business.

M: It was also part of your duty as Secretary of Treasury to refinance the public debt in various ways. Now it would seem that during this period you were also--

F: Roughly to put it into complete perspective, it's the duty of the Secretary of the Treasury to obtain the funds to pay the government's bills when they come due. He can do that out of revenues provided pursuant to the tax laws, to the Customs laws and other incidental sources of income,

or he can do that by going into the money market and borrowing the money to pay the bills. In a time of deficit such as characterized my years--there was a period of diminishing deficits in fiscal 1965 and 1966 and then with the impact of the Vietnamese War increasing very greatly the demand for the government expenditures there was a period of increasing deficit. We finally achieved in 1968 something approaching a surplus in the budget, a balance or a surplus in the budget in fiscal '69. In '67 and '68, in addition to the normal re-financing which you referred to of the government's debt, as various securities matured and came due we had to borrow additional funds, in small quantities relatively in '65 and '66 when the deficit was quite small but in very, very major quantities, additional monies, in 1967-68.

M: Did the rising interest rates make this more difficult for you?

F: Oh yes. The rising interest rates were a reflection of the demand for money in the capital markets being in excess of the readily available supply. We also had on the books a four-and-one-fourth ceiling limitation. We couldn't pay for securities beyond a certain year, a certain maturity, more than four-and-one-fourth percent. Now that law was changed and modified. Originally it was five years. We had it moved up to seven years, so that we could borrow out to seven year maturities without regard to the ceiling, but we couldn't borrow beyond five years in the early part of my tenure, and beyond seven years in the latter part.

M: But through this period, although you had these difficulties, you were able to market government paper with some difficulty, perhaps, but not--

F: Oh the government is by-and-large a very special customer in the government securities markets. The government, in a sense, if you look at the analogy

of somebody being on a bench--everybody wanting to borrow money on the market,--when the government sits down on the bench, if there isn't room for everybody to be on it, somebody else gets pushed off.

M: A part of this, of course, is the tax policy. That's how you get part of your money to pay government bills at least. I might ask you then about various tax programs, which I assume you spent a great deal of time on.

F: Very great deal of time. The Excise Tax Repeal of 1965 came up for hearings shortly after I was sworn in. The message went up then the hearings were in June of 1965. The Tax Adjustment Act of 1966, which was passed in March 1966 to provide for additional revenues and the deferring of some of the excise tax repeals and reductions on automobiles and telephone service. There was the act to suspend the investment credit in September and October of 1966. There was the act to restore the investment credit in the spring of 1967. Then we went to Congress with the major tax increase proposal--the so-called Surtax proposal--in early August of 1967, and there I was involved almost without interruption trying to push that through with might and main and every resource I could summon until finally we say the Revenue and Expenditure Control Act became law in June 1968.

M: It would seem that through all of this tax work there runs not only the idea of providing revenue for the government, but also of adjusting the economy. Is that true?

F: Oh yes, oh yes. The questions of the adjustment of fiscal policy to stimulate or restrain the operations of the economy is a major policy consideration which always accompanys the question of raising revenue. In other words, when the President sends up the budget in January calling

for a certain amount of expenditures in the succeeding fiscal year, that involves some judgment as to whether or not the revenue measures on the books or amended should provide for a complete payout of those expenditures, or whether you should incur a deficit, and if you incur a deficit, how much and how that deficit is going to be financed. Now that whole area of the levels of spending and revenue raising and debt management includes what we normally refer to as fiscal policy. The impact of this on the entire economy, in view of the size and magnitude of the federal budget, is of course a major consideration.

M: Did you have trouble explaining to Congressmen when you come up one year and ask to suspend the investment credits and then turn around the next spring--

F: Quite a bit of difficulty.

M: and want it back.

F: Quite a bit of difficulty.

M: How did you go about getting this done. Wouldn't a Congressman just sit there and say, 'Well, this doesn't make sense?'

F: Of course he would. You try to explain to him why the conditions that existed in August and September of 1966 were different from the conditions that existed in March and April, 1967. And why the difference in those two conditions called for the selective adjustment--that particular measure at that particular time.

This was rather difficult for me because I had preferred not to suspend the investment credit. I would have preferred other fiscal alternatives. But when a decision was taken that this was the only practical and feasible recourse to bring to an end the so-called credit crunch crisis of 1967--to relieve

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the threat of panic at that particular time--and it was indicated from various quarters and in the Congress and elsewhere that a tax increase would not have a chance--that is an income tax increase wouldn't have a chance of success. And there were very definite limitations on the extent to which the federal budget could be cut although we did provide in the message for a substantial reduction of expenditures. I reluctantly felt that we had no responsible alternative under those conditions but, at that time, to temporarily suspend the investment credit.

At the time we asked for the temporary suspension, the President and the Secretary of the Treasury and the Administration assured the business community that as soon as the conditions which led to a call for the suspension changed and the interest rates began to move back down and the tightness of money which had characterized the summer months was relieved and the various other factors that were produced in the hearings and in the message in September, to support the suspension--when that situation changed and was modified the investment credit would be restored. Those conditions did change in the fall of 1966 and in the winter and early spring of 1967. In March, pursuant to our recommendations and his earlier statements, the President sent up the message calling for the lifting of the suspension. Then it became my duty to go up and support that removal of the suspension as a selective measure imposed for a special purpose under special circumstances.

I think that's typical. You asked me the question how does one do it. Well, you'd have to read the hearings and read the full text of the discussion and the colloquy that ensued. I've indicated to you it wasn't easy.

M: Did you spend much time before Wilbur Mills?

F: Oh, a great deal, a great deal of time before the Ways and Means Committee in both public hearings and executive sessions and in conferences with the Chairman and ranking Minority member, and with individual members of the committee who had individual points of view that called for discussion.

M: Wilbur Mills has been given credit for controlling the Ways and Means Committee and being the key man on that. Is that a correct analysis?

F: Well, Wilbur Mills is not only the Chairman of the committee and in that particular capacity the Chairman of any of the standing committees has a very outstanding position as one who reads Woodrow Wilson's Principles of Popular Governments, and who follows these matters down to the present day will readily understand. Moreover, in the person of Wilbur Mills you have one of the ablest and best informed Chairmen in the area of jurisdiction of his committee that I dare say has ever graced the halls of Congress, so the influence and position of Chairman Mills with his committee, is a very large and special--. He occupies a very large and special position.

However Mr. Mills, I think by temperament, is one of those who does not dictate or attempt to dictate to the members of the committee. He tries to find a course of legislative conduct that will engage the willing support on a rational basis. He likes a big majority of the committee. He prefers something--he's not necessarily I'd say wedded to a consensus-- but he'd like to have something that has the major support of the committee on both sides of the aisle. Now that's not always possible and I think this is a case of leadership in which the leader of the committee

doesn't choose to get out in front too far ahead of the troops and of his colleagues on the committee. Moreover, he's very sensitive to the attitudes of the members of the House outside the Ways and Means Committee and, naturally, coming out with a so-called closed rule, where the bill is not subject to amendment but usually to simple motions to send it back to committee or to vote it up or down. He likes to come out with proposals that have a reasonably good chance of getting the assent of the House. Now some of those proposals for example on the debt-limit, or on the tax increase, revenue and expenditure control act--these involve long, difficult and painful excursions in the legislative process.

M: He is the man given credit or blamed for, as the case may be, for holding up the surcharge that was asked for in '67. At least he has been given credit as being the key man in Congress on this and the man who demanded budget cuts to go with it. Are those reports correct?

F: I won't make any judgment about who was the key man. I think that the vote of the Ways and Means Committee in executive session in October 1967 which was, I think, seventeen to four, or something of that sort--the language of that resolution you could find in the record--but while I think Mr. Mills was the outstanding spokesman for the position, that the tax increase should be accompanied by substantial reductions in the projected spending, I don't think by any means he was a lone voice. I think he was speaking for the overwhelming majority of his committee and the House membership.

M: What was your position about the budget cut, to go along with the surcharge?

F: My position was that of the President. The President in his message in August had asserted very strongly that the tax increase should be accompanied

by drastic measures to reduce the level of expenditures. I think, in all frankness, there was less difference in the objectives of the President and Mr. Mills--that is, the substantive objectives. I think the primary problem was there didn't seem to be any ready machinery whereby the operations of the appropriations processes of the Congress, which would be reflected in the operations of the House Appropriations Committee and the Senate Appropriations Committee and the approval of appropriations measures of both bodies on the floor, there was no readily available machinery whereby those expenditure operations, which went up through one channel in the Congress could be related and tied with the tax increase.

So you had one segment of the Congress, so to speak, saying, "We don't want to impose additional taxes on the tax payer if all that's going to result is this is going to mean more money to be expended through the appropriations process. We want to be sure that this deficit, which is causing the difficulty"--and which all of the economic analysis fairly well agreed on--is proportionately reduced. The whole thrust of the President's message was that we ought to try to reduce the deficit from intolerable to tolerable proportions.

Well, the Ways and Means Committee was saying that they didn't want to push on a tax increase without adequate assurances and procedures that would make sure that the additional revenues went to reduce the deficit rather than to pay for additional expenditures. Now this was a very hard and difficult thing to work out procedurally, and I think that the procedure difficulty presented the major problem.

Now I don't want to say by that there was complete agreement on the amount of the expenditures to be reduced. I think there was a sizeable

difference between what the President would have preferred--that is the amount of the spending ceiling, so to speak, that the President would have preferred--and the amount that Mr. Mills would have--and also some of those in the Senate insisted upon. In those differences and where those differences existed, without trying to assess the merits of any particular position--which figure was the right figure--I tried to support the President's figures.

When it became clear to me that we were not going to get the Revenue and Expenditure Control Act or we weren't going to deal with the financial problem that the country simply had to face if it were going to avoid a financial disaster which was world-wide as well as national implications, it seemed to me that we had to go along to some extent with the Congressional opinion. I was caught pretty much in between those two points of view. I think they were both men of good will trying to arrive at the end results they thought in the best interests of the country. I think the President's figure I would have preferred and tried to get for him to the best of my ability, but when we couldn't get it on a so-called four billion cut basis, we went for the package on the six billion cut basis, which the President ultimately--I think reluctantly--but he's after all been through this legislation process, he knows the elements of give and take that are involved--he ultimately signed the bill.

M: Did you have any apprehension when you had to go back and tell the President he was going to have to cut more?

F: Well, you never enjoy carrying bad news, but that was the job to do.

It was for me to try to take a realistic view of what it would take to get the job done. The President has referred to me privately and publicly as being one of the most tenacious men he's ever seen, and I was as tenacious with Mr. Mills as I was with the President. I just had to be tenacious with one fundamental objective, and that was that we had to get a combination of holding down expenditures and increased tax rates that would change a perfectly intolerable and clearly unacceptable twenty-five billion dollar deficit to either a very minor deficit or something approaching a surplus.

M: Well, the surcharge came out successfully, but what were happened to the travel tax?

F: The travel tax just went the way of all flesh. The Congress in both houses, and on both sides of the aisle, having voted an income tax increase had no stomach for doing what in my judgment was necessary and desirable at the time, and that is to sharply reduce or prevent the so-called travel deficit from increasing at a time in a year when we were trying to bring our balance of payments from a devastating deficit of three-and-a-half billion dollars a year in 1967 to something that would approach equilibrium in 1968, which I felt was necessary if we were going to preserve the international monetary system and the soundness of the dollar. That travel tax is a long story but I have my views, and the Congress had its views.

M: Again, I'd like to know a little bit about the mechanics of how you operate. When you went to work on the surcharge, for example, I know it's obvious that you participated in Congressional hearings, formal hearings. Did you also have private sessions with various Congressmen?

F: I had so many private sessions from August to June and did so many things during that period to get that legislation through that would take me literally years and I couldn't tell you all the various things I had to do, and did do, to move that thing along to final passage. It was a backbreaking, bone breaking job which demanded and received every conceivable energy and tactic that I could think of that was fair and honest and upright, through all the forms and methods of advocacy, to get the job done.

M: You talked to these people. You'd have private conferences with them. You'd, I'd suppose, see them socially, and say a few words to them?

F: Most of my advocacy was in two places, in the public hearing room and in the offices of the members. I didn't run a social lobby, although I was on good personal relationships with a lot of the members of the committee. But I always felt that to go down and visit with them in their offices and get down and discuss the thing sometime for hours on end with a given member was the most direct, appropriate and proper way to carry my message.

M: And then I suppose you had a sort of a feed back with White House Staff and with the President about what was going on on the Hill?

F: And we had a lot of help from a lot of individuals and organizations outside the executive branch who believed strongly, as we did, that the passage of this bill was the difference between financial salvation and economic salvation of the country and a really fundamental disaster. And these men, some of them were industrialists, some of them were bankers, some of them were economists, some of them were--well they came from a great many walks of life. But I would say that fundamentally the business

and financial community, through many individuals and many organizations, acted quite responsibly in urging the Congress to increase their taxes, their individual taxes and their corporate taxes, because of the economic rationale of why that was necessary and desirable.

Now that economic rationale is set forth fully in the statements that were made to the House Ways and Means Committee on three different occasions--publicly. Once, in August, 1967, where appearing with me were Chairman Ackley, Director of the Budget Schultze, Chairman Martin of the Federal Reserve Board. Again in November after the British pound crisis and we brought in a legislative proposal to reduce the budget a total of four billion dollars. We had a further set of hearings and made the case again in a context of the intervening developments. [We] came back again in January in the light of the new budget projected for the revision for 1968 and the projected budget for fiscal 1969. And we had a further set of public hearings. You'll find the case set forth fundamentally the same case that was made in August but simply updated in the light of the intervening events--the crisis of the British pound and the gold crisis of December 1967--the balance of payments crisis, which became very clear and apparent in the first part of the year and gave rise to the President's New Years Day action program on the balance of payments--the further gold crises in February or March--. The international implications of a failure on the part of the United States to grasp the nettle firmly in this area became increasingly clear although we had called attention to this in August--to the relationship of all this to our balance of payments and our international situation. You might say events began to prove the case that we had made out on a forecast basis.

M: This brings up the developments in international affairs which is also a major facet of your job. Now through the 1960's--going back before then, the '50's--there was a balance of payments deficit which apparently became a major problem in the 1960's, or was recognized as such.

F: We began to have balance of payments deficits in the early 1950's. We had them consistently for seventeen years, except for 1957, when the Suez crisis caused some unusual oil movements in the international oil field, which produced a small surplus in that year.

It was viewed as a beneficent deficit because of the so-called dollar gap--that is the need of other countries for dollars in the early '50's. But in 1958, 1959, and 1960, three years which were around the period where the restoration of Western Europe and the currencies of those countries became readily convertible--so-called convertible currency period--the fact that the return in value and stability of these currencies was accompanied by a U. S. balance of payments deficit in the order of three-and-one-half billion dollars, going up to 3.9 in 1958, 1959 and 1960, led to major outflows of gold. In other words the Central Banks were unwilling to continue to hold the dollars they prized so highly in the early '50's, and wanted to convert those dollars which were an interest bearing asset--into gold, which was not an interest bearing asset in very substantial quantities. I think to the tune of about a billion-and-a-half dollars a year conversion, of dollars into gold each year for that three year period. This signalled the fact to the world that the U.S. balance of payments deficits which up to that time had been viewed as constructive and beneficial to the International Monetary System, were now, at least, not so deemed to be by the Central Banks of what had become the

leading financial powers. So this gave rise to a world wide concern with the international monetary situation and the U.S. balance of payments.

M: And, of course, it's in this early '60's period that Working Party Three forms, that the Group of Ten forms, that the London Gold Pool market comes into existence.

F: These organization adjuncts came into being in different context. The Working Party Three was a part of the Organization for Economic Development. The OECD, which was a constituted body of the so-called developed countries--not by a treaty but pursuant to a law by which we joined with these other countries I think in 1960 and 1961. Working Party Three was one of the bodies set up under the OECD to regularly review, on a multilateral basis, the various financial developments in the so-called balance of payments area as concerned the member countries.

The Group of Ten arose out of a different context because the funds available to the International Monetary Fund in the early 1960's were not adequate for, particularly, some of the currencies of the developed countries which are the ones usually called for by those who wish to draw from the fund. So it was decided that there should be this special fund created by which, under certain prescribed circumstances, the members of the Group of Ten would provide additional quantities of their currencies for use under prescribed conditions by the fund. This led to the work together of the so-called ten major financial powers in connection with monetary affairs. The availability of adequate credits for the funds led to a study in 1963 of the kind of fundamental question of how additional liquidity would be provided for the International Monetary System. Whether or not there was a need for an additional form of reserve asset along with gold

and the dollar and the pound to provide liquidity or to fertilize, if you will, the expanding trade and capital movements, which was going forward on a great scale. In other words, as the Central Banks watched their country's volume of trade and capital movements expand, the need for having an increasing quantity of reserves in order to back up this increasing volume of business is something that is familiar to every business man and every banker. This applies to countries as well.

So in 1963 there was this study undertaken by the deputies of the members of Group of Ten, the members of the Group of Ten being the Ministers of Finance of the member countries and the U. S. Secretary of the Treasury and the heads of the Central Banks, and in the case of the United States, the Chairman of the Federal Reserve Board. These deputies undertook, you might say, a thorough going intellectual, but official, examination of how this need for additional reserves might be met. They submitted a report in the summer of 1965 dealing with the question--they were not negotiating arrangements, it was multilateral intellectual examination of the problem.

There were other organizations of course. The International Monetary Fund is the pre-eminent organization in this field, and its executive directors and staff, which includes U.S. executive director, Mr. William Dale. They had been studying during this period the adequacies and the inadequacies of the international monetary system.

One, certainly, of the major problems that all of these groups felt needed attention and resolution was the question of how additional reserves might be provided. What was the best system of providing additional reserves because the quantities of gold that were being mined and

getting into the system at thirty-five dollars an ounce through the increasing industrial demands for gold, and some speculative demand for gold, were not adequate to provide for this additional liquidity.

The only other additional source of additional liquidity was deficits in U.S. balance of payments. It was recognized that a continued indulgence of these deficits with ever-increasing amounts of dollars outstanding in the hands of Central Banks throughout the world, or in private hands which could be turned over to the Central Banks would attenuate the strain on the diminishing gold reserves of the United States, that had steadily diminished beginning in 1958 until 1965.

So all these conditions and these examinations combined to prompt the United States to do two things. Number one, to try to arrest the balance of payments deficits, that had characterized the late '50's and the early '60's President Kennedy, when he took office in 1961, devoted his second message to the balance of payments problem. He sent another message in 1963. So we've been living with various efforts and attempts to deal with the problem. But the two major problems that we faced up to when President Johnson took over were how to bring our balance of payments into equilibrium and keep it there. Secondly, what should be done in the way of multi-lateral cooperation, or multi-lateral financial adjustments to provide a readily available source of additional reserves, to supply the liquidity needs of the International Monetary System. Those were the two issues facing us.

M: Well, in regard to the balance of payments, there were all sorts of things such as the travel tax--

F: Well, to get a thorough-going examination of what was being done during

the early '60's, you would have to read and examine a report which the Treasury Department issued on January 1, 1968, in announcing the President's new 1968 Action Program. In that report the Treasury Department analyzed the whole historical treatment of the balance of payments problem in the United States from the 1950's on. You will find that reflected in the activities of the government, reflecting the messages of President Kennedy in 1961 and again in 1963, the deliberations and recommendations of the Cabinet committee on balance of payments during those years, a very great many things had been done. Just to single out the question of a proposed travel tax, is just to pick on one of many, many features that are deserving of attention is to over-simplify the problem and the various elements of solution.

Perhaps the major consideration was to restore and maintain a healthy trade surplus, because our trade surplus had run down very considerably in the late '50's, which would give us the margin in so-called current account by which we could meet the very substantial government expenditures outside the United States for security and aid and a very greatly increasing quantities of capital that was being sent out of the United States for investment, either in direct form or in portfolio form, and the very increasingly large sums of money that American tourists were expending in their travels throughout the world. There's a long roster of elements that enter in to the balance of payments and many of them had been the subject of action prior to 1965, when President Johnson announced his first major balance of payments program.

M: Now, the answer to forming international reserves were Special Drawing Rights, is that right?

F: That's right. And two things happened in 1965. In February, President Johnson submitted a message to the Congress and the country setting forth his first program on additional measures to reduce the deficits--which

had been reduced from the three-and-one-half to four billion dollar level of the late '50's to about two-point-five, two-point-six level in '62, '63, and '64--and his message was designed to, particularly, in the field of capital movements, to have voluntary restraint in the utilization of U.S. capital in direct investment abroad, and the very rapid increases in the amounts of bank and non-bank financial credits, which were being extended outside the United States. His message in 1965, February, was his first effort in dealing with this problem.

In July, 1965, pursuant to a very thorough review of the situation with him and with his full authority, I announced in a speech on July 10 that the United States stood ready to open negotiations on the basis of the various studies that had been made to move from the study process to the negotiation process to try to arrive at some agreed multi-lateral method for the multi-lateral but deliberate creation of a new reserve asset.

M: Then out of this comes the Rio and Stockholm--

F: Following this speech, which was around July 10, in late August and September I took a tour around. I had visited in Washington with the Chancellor of the Exchequer of the United Kingdom and with some of our Japanese friends. I took a tour and visited with the Ministers of Finance of some of the other major European countries, including France, Italy, the Federal Republic of Germany, Belgium, Holland, the Netherlands and Sweden, and ultimately again, the United Kingdom. I obtained, in the course of those travels, their impressions of the problem and how we might best go about setting up the negotiatory process.

At the meeting of the International Monetary Fund and the World

Bank in Washington in September of 1965, following that series of conferences abroad, the Group of Ten agreed in a communique that was issued at that time that they would initiate negotiations looking to the proposal for the establishment of the new reserve asset as a supplement to gold and to dollars. Those negotiations took place mainly through the deputies of the Group of Ten during the fall of 1965 and 1966. They culminated with a meeting of the Group of Ten at the Hague in July 1966, where except for the dissent of the French Minister of Finance, the remainder of the Group of Ten agreed that there was such a sufficient area of agreement growing out of the negotiations of their deputies that it was timely to move these negotiations to a broader forum, i.e. the International Monetary Fund this step would provide, through the twenty executive directors of the International Monetary Fund and the staff of the Fund, a chance for all the hundred odd member nations of the International Monetary Fund to participate in the development of a concrete proposal for an amendment to the articles of the fund which would provide for this new facility.

Following--

M: Let me ask you one point here. Was Fred Deming the main Treasury man here?

F: Undersecretary of the Treasury for Monetary Affairs, Frederick Deming, and Governor Dewey Dane of the Federal Reserve Board were the U.S. representatives on the deputies group and carried the main laboring oar in this process.

At the time I made my opening proposal in July, 1965, the President-- I suggested and he readily agreed--did set up an Advisory Commission on International Monetary Arrangements, chaired by former Secretary of the Treasury Douglas Dillon, and including a very experienced, sophisticated and knowledgeable membership in this field of international monetary affairs.

M: This included--

F: This included Mr. Edward Bernstein, who was an outstanding authority, having been a former economic adviser to the International Monetary Fund in years past; Mr. Robert Rousa, who was Mr. Deming's predecessor as Undersecretary of the Treasury for Monetary Affairs; Mr. David Rockefeller, head of the Chase Bank; Mr. Andre Mayer, the investment banker who was head of Lazard Freres; former chairman Walter Heller of the Council of Economic Advisers; former Director of the Budget, Kermit Gordon, who's now president of Brookings Institution; Mr. Frazier Wilde who was chairman of the board for the Committee on Economic Development and the chairman of the Connecticut General Life Insurance Company at the time; and who have I missed? Mr. Francis Bator, after his retirement from the White House, served also as a member of that advisory commission.--I'm sorry I don't have my notes--

M: It was a high-level group.

F: It was a very high-level very experienced group. These men were not, in any sense, just window dressing. They came down very faithfully for meetings which would usually last from around nine-thirty to ten in the morning to four-thirty or five in the afternoon every month or every six weeks for the entire three year period of this operation I'm describing, and consulted with us over the phone and separately at other times. But we would present to them, in the early part of the day, through Mr. George Willis, who was the principal staff man in Treasury on this operation, a review of developments since the previous meetings and the specific questions and topics on which we wanted to have their advice. They would in turn, under the leadership of Chairman Dillon, exchange views together

in the course of the morning. Then around twelve o'clock they would be joined by the Treasury staff people concerned, Mr. Deming, Undersecretary Barr, others on the Treasury team, plus the Chairman of the Council of Economic Advisers, the Chairman of the Federal Reserve Board, Governor Daane, plus the Undersecretary of State for Economic Affairs, Mr. Eugene Rostow, plus Mr. Bator or Mr. Fried, the White House representative. We would all sit around the table and discuss what was the appropriate position for the United States negotiating team to take on these questions, what the strategy and tactics of negotiation should be.

In addition to this we had very excellent working relationships with a number of leading Senators and Congressmen who were actively, either officially or informally, interested in this subject. The outstanding committee of course was the Joint Economic Committee, who's membership and roster is a very distinguished one of those members of the House and Senate concerned with economic policy.

There was a subcommittee of the Joint Economic Committee chaired by Chairman Henry Reuss of Wisconsin, with the ranking minority member being then-Congressman Robert Ellsworth and subsequently Congressmen William Widnall. This subcommittee on International Monetary Affairs had provided in the fall of 1965 a very excellent blueprint of what in the judgment of the committee, after extensive hearings, should be the U. S. negotiating program. I might say this was a tremendous value to us because it did crystalize the position of the most informed group on Capitol Hill on this subject. The parallels between what we were actually able to achieve in the negotiatory process and what advisory committee had put forward in this report and in also several supplementary reports

are a striking example I think of the way in which, by working together as a cognizant body in the Executive Branch and in the Congress, the U. S. can work its way through a very difficult, complicated and technical negotiating process.

In addition to the interested members of these committees, we also stayed in contact with other interested members of Congress, such as Senator Fulbright, chairman of the Foreign Relations Committee; Senator John Sherman Cooper, who was a minority member of that committee; Senator Vance Hartke; a number of others; Senator Wallace Bennett, of the Banking and Currency Committee; a number of those who were very helpful not only in following this with interest but in making suggesting and asking the pertinent questions that we should have answers to in the course of our negotiations.

M: This would indicate that Congress or important significant Congressmen knew what was going on, were participating in it.

F: We tried to keep them as fully informed as humanly possible, both officially and unofficially, without unduly trespassing upon their time.

M: This would indicate also that when the SDR proposal was finally made it would be receptive to Congress.

F: Well, one could never be sure about those things, but in this particular case it worked out that way. The House approved the measure by a vote of two hundred and thirty-six to sixteen and the Senate approved it by a voice vote and I think both committees, the Senate Banking and Currency Committee and the House Banking and Currency Committee, which were the committees of cognizant jurisdiction overwhelmingly supported the law which authorized the U.S. governor to approve the amendment and in effect

represented the U.S. vote for an adoption of the amendment.

Picking up the chronology of this, having described the machinery a little bit, following the decision at the Hague, to take these negotiations to a broader forum, we presented these views in the fall of 1966 at the meeting of the Bank and Fund. There was a general consensus of view that there should be a series of meetings between the managing director and staff of the fund and the twenty executive directors of the Fund and the deputies of the Group of Ten and that the deputies of the Group of Ten should continue to have separate meetings to thrash out some of the knotty problems that still remained for negotiations between them.

Therefore, these two series of meetings continued in late 1966 and in 1967 and were finally culminated within two fairly intensive and dramatic meetings in London of the Group of Ten in July and August of 1967.

At the second meeting we were able to announce in a communique a resolution of the major outstanding issues which enabled the presentation of a concrete plan at the annual meeting in Rio--a concrete plan for Special Drawing Rights. I've forgotten the technical title of the report, but that was it. There, I think, most of the member countries that spoke on fund matters at the International meeting endorsed the proposal with varying degrees of strength, but it was a fairly unanimous proposition.

Unfortunately, the French delegate and the French delegation seemed to have some second thoughts between the agreement in London August 26 and the time of the Fund meeting and certain reservations were uttered. Those reservations were still subject to further negotiations and some of the still outstanding questions all finally culminated in a meeting

in Stockholm with the Group of Ten in late March 1968 at which time all outstanding questions were resolved. The questions were sufficiently resolved so that the form of the amendment--the plan could be translated into a formal document which was approved at the meeting for circulation to all of the governors of the Fund. It was circulated to all the governors of the Fund. They approved it for submission to governments and parliaments. The United States was the first country, I think, to approve it by action. This was done I think--submitted to governments for ratification--in May 1968 and in June 1968. The Congress, both Houses of Congress, acted and the President signed the legislation.

It now remains for sixty-seven countries possessing eighty percent of the weighted vote in the International Monetary Fund to ratify as the United States had done. At that point, the facility, the amendment is adopted and the facility is created. Then, to activate the fund and actually produce Special Drawing Rights the machinery operates in this way. The Managing Director of the Fund will make a recommendation that for a given period of years X amount of Special Drawing Rights be created and allocated to each participating country according to their position, their weighted vote, in the International Monetary Fund. The United States will get about twenty-four percent of an annual issue. If that recommendation of the managing director's approved by countries representing eighty-five percent of the weighted vote, it is carried through.

M: Did the British pound devaluation in the fall of '67 and the gold crises which followed, have an effect on these negotiations of the SDRS?

F: Oh yes. They had an effect but the devaluation of the pound presented a different kind of a problem. That was a currency crisis. While it's in

the International Monetary system, it represented another type of problem, and that is, in additional problem of liquidity, in order to have the reserves held by Central Banks serve the purpose for which they're held as reserves, the two reserve currencies--the holdings of dollars and pounds--the value of those currencies becomes a fairly important consideration, as does the value of the gold. Disparities between the value of the various types of reserves would, of course, create great difficulty. That's why the convertibility of gold into dollars, and dollars into gold, at thirty-five dollars an ounce is the real matrix of the international monetary system as we know it. I think, to come back to your question, it's a tribute to the spirit and force of the international financial cooperation that had been engendered by all of this process that despite the disturbances represented by the devaluation of the pound, the countries went ahead and concluded the agreement.

Now the gold crisis had another impact. The gold crisis, I think, underscored what this had been all about to some extent, namely that it was not wise saying for the International Monetary System to continue to depend upon increased supplies of gold at thirty-five dollars an ounce getting into the system as a source of additional liquidity. Indeed what was happening--of course of the gold crisis was draining away from, and reducing, the quantity of gold held in reserves in the reserves of Central Banks. So there was a source of diminishing liquidity. This underscored and, indeed, high-lighted the need for the Special Drawing Rights facility.

M: Did you play a role in the implementation of the two-tier gold system?

F: Oh yes. In all of these matters involving the currency crises and the

Special Drawing Rights and the two-tier system--fundamentally the Secretary of the Treasury is the Captain of the Team. He has to call the signals and working in close cooperation with the Federal Reserve Board and its chairman and with the Federal Reserve Bank of New York, which is the agent of the Treasury in the handling of our international currency arrangements. But, no, we had prepared in consultation with the Federal Reserve Board and its chairman, primarily Mr. Martin and Mr. Daane, but with vice-chairman Robertson also cognizant, and they in turn informing the other members of the Board, with the Council of Economic Advisers; with the White House team, Fried and Bator, and Walt Rostow on occasion; and Undersecretary of State Eugene Rostow. We had all met together under my call from time to time to consider these developments and to devise what we called contingency plans to meet any contingency.

By the same token Secretary Deming had a smaller group which included representatives from these various agencies which met very frequently, sometimes two and three days a week, to chew these things out. In turn, he would have side discussions on a contingency planning basis with other members of the deputies groups during their various meetings on SDRS or the meetings of Working Party Three, or the various occasions when these men came together. So the decision to set up the two-tier system was a decision which I took jointly with Chairman Martin after very careful governmentwide canvass of the situation in the terms I've described and with the President of the Federal Reserve Bank of New York, Mr. Alfred Hayes, and his vice president for international currency affairs, Mr. Charles Coombs. As I recall it the principal conferee with Chairman Martin of the Board, Governor Daane of the Board and the very

valuable man, Mr. Bob Soloman of the staff of the Federal Reserve Board and these other persons that I've mentioned--Chairman Okun, Chairman Ackley, whichever was available of the Council, participated.

We determined that in the course of the week before the meeting that it was intolerable to continue to feed this so-called gold pool and that we should no longer try to maintain the price of gold in the private industrial market, and speculative market, as distinct from the monetary area at thirty-five dollars an ounce. Therefore we decided, in a meeting with the President on March 14, which was one of the most hectic days of my life. I was on the Hill before two committees and had a separate meeting with all the leaders of the Senate because of the so-called gold clause was up for repeal on the Senate floor that day which would free-up our right to use our gold reserves in maintaining the convertibility of gold for thirty-five dollars an ounce in monetary transactions. We ---

INTERVIEWEE: HENRY H. FOWLER (TAPE #4)

INTERVIEWER: DAVID MC COMB

F: There was a meeting with the President in which we determined to close down, to ask our British colleagues in the Bank of England to take the steps to close down the gold pool as of Friday at which time it was agreed that the appropriate procedure for dealing with the problem at hand would be for Chairman Martin to call the Central Bank heads of the so-called Gold Pool countries since they had been the group that had been primarily concerned with feeding the gold pool since the heads of central Banks handled their reserves of their respective countries. The best course would be for him to call the Central Bank heads of the gold pool countries to come to Washington and meet on--this was on Thursday--to meet on Saturday morning to consider what might be done in connection with this crisis.

We had, of course, prepared for some time a contingency plan which was designed to deal with a situation of this sort should it develop. That plan was the basis--I don't want to imply that there was not a detailed and intensive negotiation and that there were not substantial changes, so the ultimate communique on the two-tier system didn't reflect just the views of the United States. It reflected all the other points of view involved, but we had prepared in the processes that I've described a proposal, which became the ancestor, you might say, of the two-tier gold system.

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By Henry H. Fowler

to the

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