

INTERVIEWEE: Edward Fried (Tape #1)

INTERVIEWER: Paige E. Mulhollan

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M: Let's begin by simply identifying you. You're Edward Fried. You're currently with the Brookings Institution, but your service in the government in the Johnson Administration was as Special Assistant for National Security Affairs from the fall of 1967 until when? When did you leave the White House?

F: Shortly after January 20.

M: So you did stay on until the end of the Administration as far as Johnson was concerned?

F: Yes.

M: Did you have any acquaintance with President Johnson or with Mr. Johnson prior to the time he was President at all?

F: No. I'd like to add that I was a career foreign service officer, and had been with the Department of State for twenty-some-odd years before going to the White House.

M: I guess that's really what I was driving toward. In none of that time did you have any contact with Senator Johnson or with the Johnson staff in any close way?

F: No, I did not. Walt Rostow.

M: Walt Rostow only?

F: Right.

M: And did you work for Walt Rostow when he was in the State Department?

F: I was on Walt Rostow's Policy Planning Council from 1962 to 1965.

M: So that would be during the period of Mr. Johnson's Vice Presidency and when he first became President?

F: The first two years of his Presidency.

M: Did you have any occasion to be in contact with him or with any of his staff?

F: With the President?

M: Yes, during that period.

F: No.

M: So, really your experience with the President dates from just about the time you came into the White House.

F: As a member of Walt Rostow's staff.

M: I wonder if you could just briefly describe the organization of the Rostow shop as you understood it when you went to work there in the fall of 1967.

F: I went to work there with responsibility, to the degree that the staff has responsibility, for Western European affairs and international economic affairs.

M: And the responsibilities were rather clearly defined in that shop as opposed to, say, the domestic staff where they seemed to be a little bit amorphous sometimes?

F: Clearly defined in the sense of area coverage. The specific things, what kind of problems you became involved in and the way of involvement varied all over the lot, depending on need. But I worked in that area and very rarely went out of it.

M: That sort of anticipates one of the questions I wanted to ask. Did this sort of assignment of specific areas eliminate rivalry, as it were, between members of the Rostow operation?

F: I never found any feelings of rivalry. There was just too much to do, and too few people. It just wasn't that kind of an operation. It wasn't an empire. You didn't have staff. You had one person working

with you--a junior person, so that it was really largely a matter of seeing what you could do in terms of much, much larger demands on your time.

M: You didn't have time to fight each other.

F: No. There just wasn't that kind of competition.

M: What about the relation that the people who were senior advisers, such as yourself on the Rostow staff, had to the President? What kind of personal contact and accessibility was there?

F: Generally, on the projects or problems that I followed very closely, particularly in the area of international financial policy and trade policy, as well as in some cases where Western European or NATO relations went to the National Security Council, I had direct contact with the President.

M: How did that occur? Did he call you in privately generally, or in groups?

F: It varied. It would be through meetings that were arranged in which relevant people were called in to deal with a specific problem [and] make a decision on specific problems. It was at NSC meetings--which were large meetings and quite different. Other areas of contact were more routine in accompanying official visitors.

M: That's an area, though, [in which] you had a chance perhaps to see Mr. Johnson operate as a kind of personal diplomat.

F: Yes.

M: I wonder if you might comment on his talents, or lack of talents, as a personal diplomat with national leaders of other countries or with high visiting officials.

F: That's a little hard, to say anything very meaningful. My uniform impression was that he conducted himself very ably in all of the visits

where I took people in--ably in the sense that he usually gave each visitor, I think, a feeling of respect--of listening to what he had to say with respect--and I think being generally acutely aware of what may have been the key issues.

M: He did master the detail of the--

F: Of the key issues. I can't go too far on that. I would say that the really important visits were the visits in which he would be alone with heads of government like Kiesinger or Wilson and a couple of the others. I do recall that even on those visits when he came out and the two heads of government talked to their advisers who were assembled in the Cabinet room, he emphasized the discussions they had very ably, with a grasp of material and focusing on the key issues. You must understand, on a number of the cases where he'd bring in the foreign minister, there weren't key negotiating problems. But he did spend a lot of time listening and I think created a clear impression--I sensed a clear impression--on the part of the visitor that he was being listened to and would bring up key issues when they were relevant.

M: I see what the qualification you're placing on it there is your own position of viewing what went on, and I'm not trying to get you to testify hearsay, so to speak, too far. What I really had in mind, I think, was American domestic critics have made a big point of Mr. Johnson's style problems. You didn't notice that this was a major handicap in his dealing with foreigners?

F: I feel fairly confident in saying that, as a general matter, in cases where I observed him firsthand that style wasn't in any sense a problem.

M: That's, I think, fairly important to establish to the extent that it can be since it did come up so frequently.

F: I think it was a different style, obviously, than his predecessor

than President Kennedy's. But I would clearly say definitely it was not a handicap--in some respects an asset.

M: This is a very subjective type thing. What kind of man was Mr. Johnson to work for personally? There are all sorts of stories from friends and foes alike as to his various customs and moods. How did you find him?

F: First, I was not so close to him that I would have that good or wide an impression. I'll say this. I was roughly, I think I told you, from about July or August on--about a year and a half--I was constantly surprised by the press stories and the kind of questions I'd get from people on working for Mr. Johnson, hard taskmaster, all kinds of strange personal extremes. I never encountered that. I had a great deal of respect for the President both as a person and as President.

M: He didn't yell at you?

F: I never saw any evidence of those kinds of characteristics.

M: Not only at you but for anybody else.

F: In my presence. I have no personal experience or knowledge of that ever occurring.

M: Did he have highs and lows on certain people? Did he go for awhile saying, you know, "Ed Fried's a nice guy, and I'm going to listen to his advice," and then go through a period where you were sort of out of favor, or anything like that?

F: I couldn't tell you that. I mean, my relations with him were fairly constant.

M: Not subject to the sort of moodiness that the press sometimes--

F: Definitely not. But, again, I hasten to add the qualification I was not an inner adviser to the President, but I did see him a fairly large number of times.

M: Did you travel with him extensively?

F: No.

M: You weren't involved in any of his foreign trips?

F: He didn't go to Europe during the time I was there. It was as simple as that.

M: Right. Your speciality was not the Number One topic during that last year, I suppose.

F: Well, that's not true, he just didn't get to Europe.

M: You don't think that he was distracted appreciably from problems of parts of the world outside of Southeast Asia, for example?

F: I would say "no" in the narrow sense. Obviously, he was, in the sense that the country's capabilities were concentrated to so large a degree on Viet Nam, but he saw a great number of official visitors from Europe. He was very intimately involved in NATO questions when they came up, even during the year and a half I was there. He obviously was during the period before that with the whole issue of the French withdrawal, and I'm sure others have told you that which I only know by hearsay--partly by hearsay; that is, the whole issue of the President's, in my view, primary role in avoiding any kind of spitting contest with de Gaulle. I think that this is one of the President's signal achievements in foreign affairs which nobody seems to realize or give the man credit for.

M: Hopefully, that's one of the things this project will do, because that seems to be the fairly unanimous testimony of people who were involved in that particular--

F: Well, unfortunately, there wouldn't have been too many. Francis Bator would know and, of course, Walt Rostow. I know of one perfect example which was the reaction after the crisis financial conference in Bonn

when we met with the President--it was on a Saturday afternoon--with Secretary Fowler and a number of other people, and described to him the results of the conference, where it was going to go.

M: This was the fall of 1968 you're talking about?

F: Right, November 1968. Was it October?

M: It was some time in the fall; I was just placing it for the benefit of the record here.

F: We described what had happened, and the word came in that de Gaulle had decided not to devalue the franc. That was a surprising development, but not ruled out in the briefing we had given him. We said we didn't know what action he would take. And it was a dramatic de Gaulle statement that he would not devalue. We discussed it; we had lunch; we had a further discussion. The President said, "Were there any other actions anyone would like to recommend, anything else that we should do." We finished. There were no further actions to be taken, and then he sent out a personal message to de Gaulle. That was the President's idea, his specific idea. There's just no question about it in my mind, and I think it was a remarkable performance. It was exactly what should have been done. I've always felt somewhat chagrined that I hadn't recommended it.

M: That it was his initiative and not yours?

F: Yes. And that no one around that whole group had raised this as an action to be taken. But I think it's important as another indication--to me it was testimony of the thesis that had always been advanced, that it was the President that had avoided making de Gaulle's divisive moves a cause for the kind of venomous bilateral relations which would have served no purpose.

M: Did you serve a speech writer's function among your other duties?

F: I worked on a number of speeches, yes.

M: What kind of process did the President go through in producing a foreign policy speech or a speech with a major foreign policy content in it?

F: The speeches that I worked on were primarily in the economic area, such things as statements on the Kennedy Round after its conclusion, on the messages to Congress, on the special drawing rights legislation, on the amendments to the fund, the rather dramatic New Year's Day balance of payments message--

M: January 1, 1968.

F: January 1968. His speech to the Bank and Fund Meeting in September 1968. Oh, a number of other messages to the Congress on particular bills which were different.

M: Mostly technical type things where you were writing the details of a program or policy?

F: Not exactly. In these I used to prepare primary drafts which then went through the speech writing process with many drafts going back and forth through Walt Rostow, Joe Califano, Harry McPherson.

M: Those people did work appreciably on foreign policy drafts, Harry McPherson, for example?

F: Not Joe, not Califano--Harry did, yes. When you got into areas such as the balance of payments program or trade matters, Califano was involved. None of the very large number of messages for the Congress on legislation went through on--they were on trade, which was foreign policy, but they also went through Califano's office on legislation.

M: Mr. Johnson delivered them pretty well as they were finally drafted?

F: No, not always. It would depend, of course, on the occasion, but he frequently, particularly on the more informal occasions, departed quite freely.

M: Is that when he sometimes got in trouble that he would depart from what he had been told to say?

F: No. The occasions I have in mind were not that serious.

M: I was thinking of things like the Nervous Nellie speech in Chicago.

F: Yes. The things I had in mind were not that serious. They were more informal departures, partly matters of style. He broke away from the constraints of something that perhaps he hadn't had enough time to edit on his own but which didn't sound right to him as he delivered them, but these were far more informal occasions--presentations, signing ceremonies--which were reported as important events in certain subjects, but which weren't the sort of things that would get him in trouble.

Now, on other occasions, State of the Union messages, like that, we had the chance to participate by seeing drafts at various times that Walt Rostow would ask for comments on. They went through the process of innumerable revisions. Have I answered your--?

M: Oh, yes, that's fine. There's not really anything very definite you can say, but the method of speeches being produced is what you're talking about. That's really what we're after. You know, if we can get a lot of different people's viewpoints on it and hopefully some day amalgamate them and make some sense out of the way things actually belong together.

F: If you have any more specific questions, I'll try--

M: I might have on some specific messages in a minute, but on the general subject I think that's very adequate. One thing you might be able to comment on very well, having been in the State Department and then on the NSC staff in the White House, is the whole business of the position of the White House NSC operation, whether it's Bundy's or whether it's

Rostow's or however. I wonder if you can comment in rather general terms on that.

F: I think it's an essential operation. I think that the President has to have a staff in this general area that does, I'd say, three things: first, to see that recommendations coming to him in this area have been properly staffed out; that is, have all the people or all the interested or relevant people that would have something to say on it, had a chance to say it. This is fairly important. In fact, I think it's rather critical.

Second, I think the staff has the responsibility to make sure that the issues have been properly brought out. I mean, where bodies are buried, or have they been exhumed? It's almost inevitable that recommendations, memoranda, going to the President from departments tend to be advocacy recommendations. They don't always have to be, but they very, very frequently are. I think this is almost in the nature of the beast. I think the President has to be protected against this. He must have a staff to make sure that the issues are brought out, that the memo is broken apart. He then has an opportunity to see what the possibilities are--I hate to use the hackneyed word "options."

M: That's what it has gotten down to, though. It's a good word.

F: But there it is. Is he given the best possible framework for making the decision that he has to make?

M: Full range or spectrum of all options.

F: And I think the third function of the staff, in general, in this area is to be able to follow developments going on in the government of this general field in the sense of seeing that emerging problems that eventually will get to the President get to the President before the issue

has been decided. I mean, this is another way of really closing off the decision. If it's brought too late, possible alternative avenues could have been closed off.

M: The events could have decided the issue.

F: Absolutely. So it's a need to know early enough that it's going to be brought up and to see that it does. Now, there's a fourth, I think, function that is not really discrete to the office of the Presidency as such, but I think White House staff frequently can help in settling and getting agreement within agencies where there are differences.

M: Between agencies.

F: Right, to help in that process. But that's sort of an extra dividend, but not in my view of the same nature as the first three functions which I think are critical to the security of the President in the decision-making process.

M: What's the typical reaction of the departments or agencies--of course, in the Kennedy years particularly there were a lot of circulated stories about how the State Department was irritated at the Bundy operation and so on. Did you find this sort of--maybe not anger, but this sort of suspicion by the departments of the NSC staff while you were there?

F: Well, partly, I guess, this is a matter of style; partly it's the degree to which the members of the staff keep to the holy vows. Their function is not, in a sense, to make policy, to substitute for a Secretary of State--if you take Mac Bundy or Walt Rostow--but really to assist in this decision-making process. As I say, partly it's style. I don't really think that there is any kind of inherent conflict of interests, so to speak, or any inherent confrontation assured. There may be some cases be a situation in which the State Department may

feel that the White House staff gets in its way in getting to the President. I really don't know. I don't have personal knowledge of this. I rarely found this kind of attitude prevailing. In most cases, you know, the people in the State Department, this is distinct from the Secretary of State, were looking for help in seeing how a decision could be presented rather than anything else.

M: I was going to ask about that. Is there a fairly clear--I suppose the word is too strong--kind of proprietary relationship which is clearly understood between, say, someone with your specialty and John Leddy in the State Department, for example, that he knows you're the one to call on the NSC staff, and that he doesn't go around you to somebody else?

F: Yes. In that case, John Leddy or Tony Solomon, indeed, would get in touch with me. There's no one to go around. You could go to Walt Rostow. You could. I would have no qualms. People just didn't do it most of the time. They did on some things. But it's not very efficient. You can't just keep getting to--there are too many things, and too frequent contact, too frequent need for contact. You couldn't get to Rostow or to Bundy.

M: I take it from what you're saying that they didn't generally feel that their opinions were being blocked out by the White House staff.

F: That I would be blocking out their--

M: You, or somebody on the staff.

F: No. I understand, but I'm relating it to my--no, blocked out from whom?

M: Their memo on some subject would never get to the President perhaps, or would never get considered because you would stop it or because Rostow would stop it or somebody.

F: But that was never done. You don't stop--I mean, to my knowledge,

memos weren't stopped. They might be stopped in the sense of getting back in touch with them and saying, "You'd better do this over to meet this and this and this problem." But memos from the Secretary of State went to the President, but they went with the attachments of the staff with their own detailing of issues, what was or was not, issues that they felt were or were not brought out in the memo and with a staff recommendation. Now sometimes this is completely routine. You know, "here's the memo." End of story.

M: Just transmittal.

F: Yes, essentially transmittal.

M: In that case.

F: Just that.

M: Your examples that you've been giving have been State Department, and that's of course one. You particularly, though, also dealt with the Treasury and with the Commerce Department, too, and perhaps others-- Defense, maybe, and Agriculture, and what have you.

F: Mine were mostly Treasury and State, sometimes Commerce.

M: And they, like State, understood the value of the operation over there and didn't try to circumvent it or--

F: No to the contrary, the Secretary of Treasury would send memos in the international financial field to me to send to the President through Rostow.

M: Right. A staff being people of generally similar backgrounds very frequently, and so on, how do you prevent too much unanimity developing? You're working closely together there, you're firends--

F: You mean, in the rest of the government?

M: In staff, particularly. You and Rostow and the people who are working in that general area, how do you prevent giving the President really a

unanimous kind of homogenized view of your own without really generating the kind of conflict which he can see behind the scenes?

F: Well, you can't. I mean, you can't guarantee--this can always happen. But I think the most important safeguard, if there is one--there are two, I'd say. First, the staff is not homogenized milk. There are all kinds of people. Some are now brought in from within the government; some from without the government, some are academic. It just varies all over the line. I think the most important safeguard is that almost as soon as you get to the White House, you get a different point of view. You sort of become imbued fairly soon with the need to look at a memo and look at a recommendation from the President's point of view. Does this have the kinds of things the President will need to come to his decision! It's quite remarkable to say the way you switch--at least it was in my case.

M: Particularly a career FSO.

F: Yes. I mean, looked at from the White House I saw memos that I might have written look completely inadequate. And I think this is probably the most important safeguard for what you're saying. That doesn't in any sense say that the danger doesn't exist. It always does, of course.

M: What sort of leniency or extent can you go to as a staff member, particularly in the Johnson Administration, in fighting a battle, disagreeing with a decision that is being made, talking back?

F: To the rest of the government?

M: No, to the President, particularly.

F: I don't know exactly what that means.

M: If you're advising strongly on a certain matter, and the decision looks like it's going the other way--

F: Well, you can argue.

M: You can argue as long as you have something to say?

F: You can argue, but when the meeting is over, the meeting is over.

M: Once you've lost, then--

F: Well, if you've lost, then you've lost. I mean, if you want to keep playing on the team, you've got to help carry out the decision of the decision-maker.

M: Your specialty being Western Europe and international monetary affairs, of course you were one step removed from topic number one, Viet Nam.

F: That's true.

M: But there has been a lot of comment by ex-aides. For example, I heard Bill Moyers on television saying that dissent, as he put it, was widespread in the government by some certain date. Does this get expressed?

F: You mean dissent on Viet Nam?

M: On Viet Nam in this case, or anything--but particularly, say, on Viet Nam. Was there a division on a subject that important that the President got from his staff, or did they say, "Well, the decision has been made; we're on the team; we've got to go on."

F: I really can't answer that. It's literally true that I had very little occasion--I had certainly no occasion to get involved in any Presidential meetings on Viet Nam. I don't know how the President discussed the Viet Nam situation--Tuesday lunches. I heard him sort of talk ex cathedra at the end of meetings or in meetings, but not at any kind of decision-making process. I remember one specific occasion in which he asked--I can go on indefinitely on things like this.

M: Yes, this is fine.

F: There's no problem in security or anything?

M: No, not at all

F: In which he asked our NATO Ambassador, Harlan Cleveland, when he came back to bring in the Secretary General of NATO, Brosio, on one of his visits. There was the whole question at that time of NATO troops, Mansfield, and then subsequently the Symington moves to cut very sharply our troops in NATO. The President was determined that this would not happen in his Administration, that he had held NATO together over the de Gaulle episode, that the unilateral troop reduction on the part of the U.S. would unravel NATO. He didn't see that it should be done or the need for it. After the Brosio visit, in which he again assured the Secretary General of NATO the U.S. resolved to meet its responsibilities of the Alliance, he asked them to go to see various members of the Congress, go around the Congress and discuss--

M: Asked Brosio--?

F: No. Asked Cleveland. My recollection is that Cleveland saw a large number of people in the Senate and in the House--Foreign Affairs [Comm.], Foreign Relations [Comm.] wrote up his notes in which there was a very, very large anti-Viet Nam segment. A large number of Senators were taking the position that, "We'll oppose anything as long as it somehow is a reflection of our discussion on Viet Nam." He sent it in to be sent to the President.

M: So the point being here that there was not a screening away of dissent. Sometimes, you know, you get the idea that no one was talking to anyone here, but as far as you know that was not the case.

F: I prefaced my remark that this is the only specific case I happened to know--my only specific experience really in this whole area, so I'm not a judge for your general proposition. All I'm saying is the one thing I happen to know of is in the opposite direction. It was a position, I'm sure, that the President read because he was, you know,

very interested in Congressional reactions--reactions on the Hill--and this was a very full statement, Cleavelands interviews with all these people, and I'm sure he read it. And I'm sure it went in. We sent it in. Rostow sent it in. I sent it in through Rostow.

M: Perhaps the best way to get the depth that you can give is to take these various issues with which you're closely connected and just let you describe what you know of the President's position, as you did then, the idea of a troop commitment to NATO here. Suppose we do that? Other subjects on NATO? You were there for the conclusion of the Harmel exercise. You were there for the Czechoslovakian crisis in the summer of 1968, and perhaps others.

F: I think that on NATO I'd make just three points, two of which I've already made. First, the de Gaulle point, which I'm sure you have full information on, over and above what I may have said; second, on troops.

This was a key issue and a constant one throughout the year and a half I was there. It was an issue that the President played, I think, very adeptly in his meeting with Kiesinger, in which he made very, very clear that--the background of that was that we had completed the trilateral negotiations between Germany and the U.S. and the UK, which were supposed to sort of maintain stability of forces for some time as the result of these financial arrangements. Then the stories came out of Germany that the Germans were going to cut their own troops by 60,000. There was a lot of feeling within the U.S. government that this should be the occasion for us to withdraw more troops from Germany.

M: We did withdraw some.

F: Yes, but that was part of the Trilateral Negotiation.

M: Right. That was the 30,000 or something.

F: Right. That was the one division, two-thirds of one division plus assorted pactical air units. That was the equivalent of one division.

M: Now, this was about May 1967?

F: Yes. Kiesinger came in August, I think. And as I said, the Trilateral Negotiations supposedly were to be the base for stable members. Then the stories were they were going to reduce by 60,000. Now there were people who felt that this would, in effect, be an abrogation and the answer to this should be that we withdraw more troops. The President, as far as I could see--I had just arrived then and it was a period of my overlap with Francis Bator when he was here. But I was very, very impressed because of the President's position, and it was a very complicated area of briefing that he'd received and he'd gone over it very carefully at a number of meetings which I did not attend, just before I had gotten there. But I was there when Kiesinger arrived and in the Cabinet room when the message he got across to Kiesinger was that in effect, "You're making the decision for both of us." And it was exactly right, because the net result was that the Germans did not reduce their force except a nominal few thousand.

M: To save face to their political constituency.

F: Yes. And the President stuck and was able thereby to maintain his position against Congressional critics on holding NATO firm. Now, his point was a basic one, but a simple one, essentially that if the Germans moved, he had no defenses in the U.S. against what would be an important step toward the unraveling of NATO.

The third instance that would be worth talking about was the reaction to Szechoslovakia, as far as NATO was concerned. The first cries that went up in the typical way these things develop in the government was that the essential thing was for the U.S. to act.

M: Undefined "act," but act!

F: Right. "We'll just have to do something because otherwise the Europeans would become frightened, and all would be lost." This was reflected in any number of proposals that kept coming up--we had a special meeting, an immediate meeting, it was a summit to show NATO's resolve. The President's position essentially was that there was no point in having a meeting if you don't know what's going to happen; and, second, that the U.S. in this instance, contrary to what had happened in 1961 in the previous Berlin crisis, was not going to act alone, and that if there was a need for a NATO response, and he thought there was, to show a strength in NATO defenses, we had to be sure that the Europeans would do something. It was they who had been doing the backsliding. It was their defense budgets that were going down. It was they who weren't meeting NATO commitments because they were convinced--there were a lot of people in Europe who were convinced, just as there were a lot of people in the U.S. who were convinced, that the threat had subsided and therefore everyone could do less. So throughout that period, which ultimately culminated in a NATO ministerial meeting, I guess of October--

M: Right, October 1968.

F: The President essentially kept back the government, kept back an almost innate tendency on the part of the government--and I'm using now bureaucracy, not in an invidious sense but just simply the organizational sense--from making a U.S. offer of what we were going to do so as to get out and put the burden on the Europeans to say first what they were going to do. I think in the end this was the right thing. I think the meeting that did take place in November was a good meeting, it had a useful result, they said they'd do something. It wasn't earth

shattering, but it was the right way to operate. He reminded people who came, and I was at a couple of those--Germans who came trouping in afterward to assure themselves that the U.S. had not lost interest in Europe--Strauss, Schroeder, Bierenbach, Helmut, Schmidt--he reminded them. Everyone was saying, "You must take the lead,"

He said, "We don't want to take the lead; we are now. We have the troops there, we're meeting our commitments. You're not." He reminded them that in 1961, in responding to Berlin, the U.S. had hastened to put an extra division or so into Berlin, that we'd looked around and there was nobody behind us, and that's the way it ended up. No one did come through and that if this was an Alliance in which there were collective responsibilities, he was most anxious to make sure that this would be the case.

M: This was enough encouragement to make the European countries perform as they did at the ultimate meeting?

F: Oh, I think so. I think this was pretty essential. Now, as I say, I don't think the results were that earth-shattering, but they did do things that I don't think they might have been so willing to do. And I think it was healthy, too, to stop the notion of an automatic U.S. response, the notion that Europeans could automatically look to the U.S., not simply to take the lead--that's perfectly right--but to do it all, that's wrong. And this is a central issue in our security relations with Europe and NATO, and one that it's going to take a long time to resolve. But it's a basic one, it's a central one.

M: What you're saying is not that the outcome of this was that the nature of the American commitment changed any, but that the proper understanding of it by the Europeans was brought home.

F: The nature of the American commitment was exactly the same. I mean,

there was no one who was more firm, as I said, in the troop thing that the U.S. would maintain its commitment to Europe. The President felt on that occasion, however, that in responding to the Czech crisis in terms of increasing NATO's military defense capabilities, the first step should be on the Europeans to show what they were prepared to do to increase their own defense budgets, to start pulling up their socks in the defense field.

M: That's pretty clear.

F: And I think tactically the President was right, and everyone else essentially was wrong, figuratively speaking, in pushing for that kind of action on our part.

M: Another issue that involves NATO very extensively, and I don't know whether this is clearly in your area in the White House or not--if not, perhaps you can say so very quickly--is the whole matter of disarmament. The NPT came to fruition during your time there. Were you involved with the President's opinions and actions on that issue?

F: Yes, but not very much.

M: Was Spurgeon Keene still in the White House when you came?

F: Yes, Spurge was there.

M: He was kind of the disarmament man.

F: Spurge was the technical disarmament man. I had the political. Francis Bator, more actively before me, I think. During the period that I was there, the NPT was an area that I followed closely, but there weren't that many problems that had to go to the President for decisions--first because he had made his own position clear.

M: Prior to the time you came.

F: Prior to the time I came. And as I understood it, to put the responsibility on Secretary Rusk. Secretary Rusk knew that the President wanted to get an NPT if possible, so that there was never in this case

the kind of situation in which it was frequently necessary to move in to spur action and movement on the NPT on the basis of knowing that the President was interested in it, because the key decisions on the npt went to the Secretary of State and most of them didn't get beyond him because he settled them. If not, and if there was a need to go to the President, he would have brought it. The main issue that arose that I was aware of were--that I was involved in, rather than aware of--was the whole issue of relations with the Germans, and the Italians to a lesser degree.

M: The German fears that their peaceful development would be inhibited by the treaty?

F: That was an excuse. The issue was very basic and very simple. The Germans didn't want to renounce manhood. They didn't like, and they don't like, and they haven't signed yet, the idea of saying that they will not some time in the future be able to have a nuclear capability of their own. And they well know that the rest of the world believes it's in the rest of the world's interest that they don't. So it's a pretty clear--

M: They see the treaty as aimed at them in this sense.

F: Yes, but there's no question about that--it is! It's aimed at the Germans and the Japanese, and to a far lesser degree, the Italians, as one area. It's also aimed at avoiding having third and fourth class powers get nuclear weapons and drive us all to destruction. It's aimed at both. But certainly one of the key elements in this is the Germans. After all, the Germans are the Germans, but they got us into two wars. They're such a tremendously able people, they're the one country that could most quickly develop a very potent, and credible nuclear capability. Unfortunately they might well have the most cause to use one

because they have a divided country. Now, those are the ingredients for the end of the world. So it's as basic as that.

M: Now what you're saying is that what all the expert observers of Western Europe always say, that perhaps the key problem in the future at least is the problem of Germany--its divided status and so on.

F: Of course.

M: Was there any movement or any Presidential interest on that basic a part of the problem? In other words, was there any encouragement of Western Germany to open up relations with the East or to settle the Eastern boundaries or any of the things that are generally considered as being necessities toward moving toward a final settlement of Germany's division?

F: I'm sorry, I thought you were going to say something else. On that question, I don't think people think in terms of anything being settled here for the next fifty years. It isn't going to be settled by the West German moves toward East Germany, it's going to be settled or not settled on the basis of arrangements that the Soviet Union can find that it can or cannot agree to.

I don't think that the issue of West Germany's moves toward the East as part of the grand coalition's policy, Willie Brandt's policy, were a matter of great Presidential interest or Presidential concern. Certainly during the Kiesinger visit--in the early part of the government's coming to power--apparently this was discussed with the President. He understood, posed no objections, and said, "Fine," you know, that kind of thing.

M: These were not part of the American design to form some sort of solution to the European problem?

F: No. I think the general posture was, and I'm not particularly identifying

this as a Presidential posture--I have to be very careful; I can't think of a particular thing of this sort--but the general posture was that if the Germans were prepared to move in these directions, it was fine with us. But we should not be pushing them in one direction or the other, and I think this was pretty consistently the U.S. policy under President Johnson, and I'm fairly confident that it will be exactly the same under President Nixon. But that's not the key issue.

M: You said you thought I started to say something else.

F: On the NPT and Germany. Now there the President did discuss the NPT with Chancellor Kiesinger in that visit, and ostensibly, supposedly, got assurances from him that in the end the Germans would sign. But I can only assume that in their private discussions Kiesinger went into Germany's concerns and the President raised with him the key importance that we attached, and that really all mankind had to attach, to the treaty.

Now throughout the negotiation of the treaty there were questions. First, questions you raised, the effect of the treaty on peaceful development and peaceful uses of atomic energy; whether the treaty--or not being a nuclear power would impair your competitive position. My own feeling is that these were essentially nonsense questions, and are nonsense questions in the sense that they're smokescreen questions. They're readily taken care of. They're favorite European paper germinants having arguments. I don't think they hold the slightest bit of water.

M: The real issue is the issue you mentioned awhile ago.

F: And it's a perfectly understandable issue. In a nuclear world it's very difficult for a country to renounce the use of nuclear weapons when other countries--five, to be exact--have them. That is, by treaty, relegating yourself to a second-class power.

M: Taking a permanent junior partnership.

F: Exactly. And that's not an easy thing to do politically. Now, it's very sensible. I mean, one could make some awfully good--

M: I hope so.

F: Right. I would go further and say that without any question you could pose very sensible and rational reasons from the point of view of the country concerned. Why not? What do you gain in terms of any country except the Soviet Union and the U.S., leaving Communist China out or something, separate! What have the French gained? What do the British gain by continuing a nuclear capacity? It's an expensive game, and the chips get more and more expensive and become less and less useful. What the treaty does is give you the opportunity as a medium power to not get in the game.

M: On principle.

F: Right. And to do it on the grounds that you have some assurance that some other medium power isn't going to do it. That makes it politically easier for you to do it. And this saves you a lot. Now, that's just in bread and butter terms. You can also argue as I would, that you could do it on the grounds that this does represent a contribution to the possibilities of preserving the human race. Now there are, as you know, people who argue that security is best served by a multiplicity of nuclear capabilities. It's an argument I find very, very difficult to follow. I'm not comfortable with it, but there it is. We're on the NPT, but I think we've gone afield.

Well, that's NATO, unless there are some other specific questions.

M: No. There are some related European things.

F: Now Berlin, that came up pretty frequently. And there again, I think that the President's role essentially was to try not to cheapen the coin of the U.S. commitment. And this came up pretty frequently, and

it's a very difficult kind of issue for people to understand. Almost inevitably requests, recommendations would come in from State, from Defense, for crashing Presidential statements on Berlin--you know, on the hour, every hour. And the President would generally knock them down, one after another.

M: Not on the grounds that we didn't have the commitment.

F: On the grounds that repetition weakened the commitment rather than strengthened it. And I think that, in retrospect, he was generally right. You can understand both sides, but it takes a Presidential point of view to sort of see it.

M: The other European issue too that's not exactly NATO, but one of the announced great accomplishments and policies of the Johnson Administration in Europe involved the Building Bridges Program for the East. Were the accomplishments real in this area, or was it mostly rhetorical, or did most of it not get through to fruition, or did Czechoslovakia undo them?

F: I think it's in two parts. I think the general program, the general policy, largely did not get through to fruition. We did, of course, come to a number of agreements with the Soviet Union. I think we were moving more and more toward larger and larger possibilities for businesslike negotiations and, hopefully, arrangements. Gee, that reminds me of something. The general posture on our bridge building toward Eastern Europe, as well as the Soviet Union, I think was largely frustrated by Viet Nam, probably because, for one thing, Viet Nam made it impossible for the President to get his East-West trade legislation, some of the other things, through.

The reason you made me pause, you had asked whether I had ever met the President--I had. I was the executive director of the Miller Committee--

M: The Miller thing on East-West trade?

F: Yes, I had quite forgotten that. I had met the President then. I'm sure he wouldn't have remembered me one way or the other.

M: That's sort of an interesting committee.

F: Yes.

M: Apparently a lot of people in the Executive Branch were not too sold on the idea on this whole process of opening up trade arrangements. Was the Miller Committee pretty much a stacked deck?

F: Oh, very, very much to the contrary.

M: Oh, really?

F: That was an incredible performance. Maybe that's of interest to you.

M: Yes, it is.

F: I can vouch for this at first-hand because I was present when the names of the committee were being considered. The first name, of course, was the decision on the chairman. I was called by MacBundy to see whether I would serve as the one government man to sort of lead the committee around and make sure they'd get everything-- executive director, executive secretary for the committee. I said, "I'm interested, that's fine." I'd go over for three months or whatever it would take. And I went to see Bundy, and he said that the fellow that he had in mind that "I hope we can get" is Erwin Miller. He said, "The reason I'd like to get Miller is that I know him personally, to some extent from Yale--trustee of the Ford Foundation," I think. So he didn't know him then.

M: No, it was too early for that.

F: "But he's the kind of person that is willing to take on a hard job, is fair-minded, and has a reputation for carrying these things through. He has no position at all on this." And he said that he would be

pretty sure that it was only because of this that he'd take on the assignment. Then he called and he said, 'Miller's coming in. He's interested, and we're going to talk. Come over.'

Miller said that he had thought about it. He was interested in the subject. He knew it was unpopular, that it would hurt his business if he did it. It did too.

M: Did it hurt his business?

F: Oh, a little bit, sure! Oh, yes, these things always get you bad fan mail. He knew that right from the beginning. But he said he thought it was an important enough subject to go to. He said, "I only have two conditions: First, that in selecting the committee that we get people who aren't committed, and that we have a full representation of views. And, second, I want to see that the report is written in the way that we fully present both sides."

M: So, as you said, quite to the contrary--

F: Exactly to the contrary. I'll tell you another interesting thing about the formation of that committee. I was in Miller's office and Bundy's office when their names were proposed, and all sorts of other people, and the list was of course going to go to the President--on a Presidential committee he has the final say. Then we were to go around and we did go around, and see each of the Cabinet heads who had a responsibility in the field of East-West trade. That included, beginning with Secretary Rusk--Rusk and Ball, at that time, and Harriman in State; and then McNamara, Connor, Freeman, Interior.

M: Udall.

F: Udall had a role. He was all hot and bothered about Orville. And, again, we made a preliminary survey, just Miller and I, and just with the principal--no one else. Miller had asked if he could. People were

very happy. He said, "Just want to talk in general about this; I'm taking this on." And he went through this thing. "I have no fixed position. Do you think we can be of any use? It's going to be a completely open committee." And everyone encouraged him very much to do this. And then he'd ask for names, you know. "Have you got any ideas of people who could contribute something?" And he collected all kinds of names.

M: From departmental people.

F: Yes, business types, in addition to the names that he had. And I prepared a list. At no time did I ever hear anyone asking party affiliation.

M: So it was open in all respects.

F: It was a completely open committee. They didn't want people who were committed one way or another--you know, obstructionists. And that's absolutely fair. There's no point in having people on the committee who can't be relied on to end up with the position of dissent, one way or the other. What Miller wanted was a group of people who would be given the best possible facts that anyone could muster within the government or without, and then hopefully have a very careful discussion to see whether they could come to an agreed position. And that's exactly what happened.

M: After that thing became a bill and was sent up, and then Mills decided not to hold hearings on it, did the President and his staff pretty well decide that this just wasn't worth fighting--he just couldn't get it through, he might as well drop it--or did you keep trying pretty hard to lobby it?

F: This is what I meant--on that part the issue was Viet Nam. Now, it did go up in 1965, I believe. I'm not sure now whether it was 1965 or 1966.

M: 1966.

F: Yes, the beginning of January 1966. It had to be 1966, the report was 1965.

M: That's right.

F: I think that in 1967 it was raised again as possible legislation; in 1968 it was hopeless.

M: Just would not have been worth the energy and the price it might have cost--

F: There was nothing to do. I mean, the reverse was the case because you do all you could to fight off more and more restrictions on bill after bill, the Export-Import Bank bill, the Foreign Aid bill were containing restrictions on credit, restrictions on shipping, restrictions on something else.

M: So it was an accomplishment just to hold your position.

F: Just to hold the position.

M: By that time.

F: Absolutely. It just was a hopeless proposition. I think the bill and the report, which the President endorsed, and the bill which he proposed, is right, and I'd go further. This isn't a revivalist meeting, but right in a different sense. I'm confident that essentially the Nixon Administration will, sooner or later, present essentially the same sort of bill.

M: Under different conditions, might even have a chance to get it through.

F: Oh, I think it will get through. I think it will. The whole thing was really kind of illogical in a sense, but it's typical of some of the situations you can get into in government. I think the President's position was a right one. Now this is hearsay, but it's more than that judged on actions in 1965 and 1966, in 1966 in particular--that

the bill was all the more useful because of Viet Nam rather than less; that giving the President authority to negotiate with individual Communists countries in the trade field under conditions and at a time of his own choosing would advance foreign policy, would give him an instrument, small it may be, but an instrument in shaping policy not only toward the Soviet Union, but in that sense toward all Communist countries, and with a marginal effect on Viet Nam. But to a Congressman facing an election at home would find this damned difficult to explain apparently, and I can understand it.

M: Right. On your activities in economics, international finance, and so on, I suppose the critical ones involved the military crises and the development of the SDR program. You served, didn't you, as the President's representative on the Deming group.

F: Right.

M: These are very technical details. Sometimes it's difficult to imagine that the President really masters much or knows much about or can follow very closely. Do you think he did make an effort to really master this great critical area of policy matters?

F: Let me go in a financial, and then go into trade afterwards. I think in the financial field it was my responsibility to keep the President informed on those memoranda when issues became key issues. Now, he, of course, gave the Secretary of the Treasury authority in 1965 to begin negotiations on a new international reserve which eventually led to the SDRs. When I say gave him authority, that means specifically. Secretary Fowler went to him--I'm describing presumably, but as Secretary Fowler told me, he went in and laid out the issues to the President and told him what he was going to do just as soon as he got his authority to begin. That was a basic decision because it would in the end result

in what we had never done before which would be to participate in creating an international money--

M: And would take Congressional approval somewhere.

F: And would take Congressional approval that could be construed as getting involved in something in which we accepted a huge contingent liability. Now, it could have that kind of thing. It was obviously in our interest, but you know these things start living a life of their own and they get described in rather crazy ways, and you get a parade of the imaginary horrors. And before you know it, you think that white had suddenly become double black. But this was the kind of thing that was terribly important, and he did get the President's specific authorization.

In each of the key critical points in the SDR negotiation, the President was informed of what the issues would be and what we proposed to do, not the general negotiating range. He didn't, I'm sure, attempt to understand a lot of the technical issues. Not many people do. But the key element, first, that we were in a battle with the French who were going to oppose us, and I think his seential position all along is that you keep the Germans and Italians and most of the rest with your point.

M: When you came on, I guess the RIO agreement was just in the process of getting made.

F: The RIO Agreement had just been completed. We had the critical conference in London, and then the meeting in Rio which approved it. I came in and was dropped in the middle of this because then we had the UK still in devaluation, the balance of payments program.

M: All these things are somewhat related, too.

F: They very muchly are.

M: Particularly our BOP problems with the French position on SDR's.

F: That's not that closely related, but they are in part. In effect we wanted a monetary system that was somewhat looser and, I would say, more sensible than the Europeans in general wanted. They viewed our balance of payments deficits as sinful, and we didn't think they were all that sinful. We didn't think the position of the dollar was that weak; but it was weak as long as they insisted it was weak, because the system was such that if they said it was weak and felt they couldn't accept more dollars, it was weak.

M: Saying it made it so.

F: Yes. It's a crazy kind of situation. You can demonstrate very simply that the U.S. balance of payments' deficit is almost semi-generous. You know, we have deficits at the same time that in almost every year we're building up our net asset position abroad. By that I mean that if you look each year at the sum total of U.S. claims on foreigners, subtracting from foreigners' claims on us, it grows.

M: Net Treasury position goes up.

F: Right, except it's long term. We're investing long and borrowing short. But it's hard to look seriously at that as a terrible problem. It is a problem if the system is such that it makes it a problem, and, unfortunately, the system is such that it makes it a problem. And it gets involved with all kinds of complicated or seemingly complicated political matters, and in the midst of the French who had their own fish to fry in this kind of thing, it's a frying and that's what it amounted to. But the SDR proposal in general was a U.S. invention essentially, a U.S. push to add international liquidity to the system. And it hopefully will end up as just that.

M: Which hasn't yet been instituted.

F: No, it hasn't been ratified. The process of ratification isn't completed, nor is the decision on how much is to be activated.

M: That's left to the president of the IMF, isn't it?

F: He's supposed to--no, he's supposed to make his recommendations, and he will hopefully very soon, but then it has to have the approval of 85-percent. So in effect everyone of the major countries, including the Europeans, but not necessarily including the French, have to agree.

M: But necessarily including at least some of the Common Market.

F: I'm saying the major countries, but not necessarily including the French. It has to have, in effect, the Germans and the Italians, the Dutch, and so forth. You go further and say that if it doesn't, it isn't useful anyway. People made a big fuss--I'm running ahead of the story--

M: You were going to say that the concession that we seemingly made on the voting formula--

F: At Stockholm.

M: Yes, you're saying that's generally not much of one, taken the fact that the Common Market countries are unanimous in their position in that--

F: If they didn't want to come in, we wouldn't have a facility. It wouldn't be of any use, so what's the difference! I had a personal role in it, and because I was at Stockholm with Secretary Fowler when we were presented with this package, and this sort of traumatic decision which the four came to us and said, "Well, the French have decided that they're not going to go along now if you can give us this, this, and this, we can support it even though they're not going along. In other words, we'll have a split in the Common Market." There were

some people who felt that, gee, this was giving them too much. And I said, "Look, fellows, you're crazy. Here is a political decision on the part of the Germans and the Italians and the Dutch and the Belgians of the first order. They're breaking with the French and risking a breakup of the Common Market because they know how important this is. We should easily be prepared to give them all the ammunition they think they need because what, in fact, are we giving them! You know, these voting rights are nonsense. If all of the major countries aren't in, there is no facility. So for all practical purposes this veto stuff isn't for real." Now, as I said, if the French alone aren't in, it doesn't matter--they don't have to be in. They will come in--

M: Because everybody else is in.

F: They will come in because they need it. The position is changed. But my point was you could work the system without the French without any problem. You couldn't work it if the French, the Germans, the Italians stayed out. Then you can forget about it.

Now maybe the best thing I can do--is this work--

M: Yes, go ahead.

F: Maybe the best thing I can do is go through the monetary crises in order. Now the first, after the RIO agreement and the beginnings of the process of moving on the SDR was the British devaluation. There a series of attempts were made to help the British to avoid devaluation. There were a lot of people here as well as elsewhere who felt that the British had to devalue, and this was really the best thing for them to do, but there were even more people who were concerned about the consequences of the monetary system and who weren't all that certain about containing the effects. So there were a whole series of credit operations at each point. There must have been two or three, maybe

four--two or three sounds more accurate to me--in which we went to the President for authority for the U.S. to participate in one or another of these. The issues were outlined to him. It usually was Secretary Fowler, Chairman Martin, Fred Deming, Art Okun or Gardner Ackley from the Council, and myself, and someone from State.

M: Budget Director? Somebody from the Budget?

F: Not usually. Not on the purely international financial ones. They really didn't require budgetary funds. It was a strange kind of relationship. What it amounted to, in fact, was that the U.S. would take a contingent credit risk. Now, it's a peculiar kind of risk. The risk is that the British government would go bankrupt, and governments don't usually go bankrupt. But it was something the President had to authorize, and it's troublesome when you stop to think about giving the British another five hundred million or seven hundred million in a credit package which means exchanging dollars for pounds. That's what it means.

M: Right. But it's not budgetary in--

F: No, the President knew this. It was budgetary, again, but nevertheless he also realized that we were going more and more into a situation where the British were very, very heavily mortgaged. But these issues were raised with him each time, and the briefings were raised, and he always supported them. I don't think it was the kind of thing where there was much choice, but the issues were presented to him and he did fully support each of these measures.

M: You're saying that at that time the people you're talking about as being the ones who came to him with these decisions were supporting the idea of trying to keep the British from devaluating still?

F: Right. And the issue was raised that alternatively we could let them devalue. There is a good economic case for devaluing, but that the

consequences could be very serious, and the consensus of the international community was to support it. The main point was that the British wanted to keep the pounds, so the issue we were presented was not to tell them--we could tell them to devalue by forcing them to devalue. That was an option, if you will. But I think doing so would have been to take the responsibility of devaluation on ourselves. So I think the President's position on these things was that we should participate as part of a multilateral operation. The President was willing to try this. He thought that we should participate.

M: And the Europeans were willing to participate?

F: That was always in the assumption, yes. Each of these packages were multilateral packages. The other thing that was important, during this process of attempting to save the pound, was the second thing that went on, which was to discuss this terribly, terribly sensitive area, "what would happen if"--the contingency planning. And we told this to the President, that if it failed, the fall-back position was to see that a British devaluation would be kept within bounds so that it wouldn't have a snowball effect on other rates which could bring down the sysytem and, in fact, require an increase in the price of gold and a lot of chaos.

M: Right.

F: And I think that in these terms the British devaluation in November was highly successful. We had a very extensive contingency plan that went into operation--this part of the government, a crew of secretive clandestine characters went into operation in an operations center in the State Department, sent messages to every country. The first step was Chancellor Wilson's message to the President saying he was going to do it, and the President had us prepare in reply saying he understood in

the public statement, saying the British had done this, we understand why, and we intend to support them.

M: It was done within the bounds that you had set.

F: Yes. Very much so. The limit was set and the feeling was that if they went beyond fifteen percent we couldn't contain the French and the rest of the Common Market might follow.

M: They ultimately devalued what--thirteen points.

F: Fourteen.

M: Fourteen-point--something.

F: Right. And then messages went out to all the countries to ask them to stand firm. The President was prepared to move in any cases where this was necessary. There was a message sent out to Holt in Australia. We were worried about the Japanese following the Australians. I can't recall now--it's a little far back. I think the President sent messages to a couple of others--key countries.

M: People that you felt you had to hold.

F: Who were waivering. On the whole, I think it was a pretty elegant operation. And the President was fully aware of it and kept informed.

M: The next one then--

F: The next crisis in this series was the balance of payments program. There, that one began some time in November of 1967. It became very clear--we had had toward the end of November, as a matter of fact, it must have been, because in the middle of November I had arranged a meeting with the President on the voluntary investment--

M: Which had been in operation for some time.

F: And we wanted to cut it back, to tighten it. And there was a controversy as always between Commerce and Treasury. Commerce wanted it looser, Treasury tighter. We had a meeting with the President with Trowbridge

and Fowler and myself, and the issues were presented and resolved. It wasn't hard they weren't that far apart. It gave us a chance to brief the President on the issues. Then the numbers deteriorated. It became very clear that two things were happening: first, that more and more uncertainty in the system--gold rushes, things like that. And then we began to get the first preliminary indication that the fourth quarter figures for the U.S. balance of payments were going to be very, very bad. And that instead of overall liquidity deficit of about a billion and a half, it was decided that we could end up with possibly as much as four billion.

M: Over doubled.

F: Well over doubled. And the inevitable consequences of this would be a tremendous loss of confidence, a tremendous speculation in gold, and all the rest. So, Secretary Fowler felt that he had to have a dramatic program to sort of show that it was a bad performance and we were going to get our house in order. He prepared a memo, almost on his own--the only copies he sent was one to me and one to the President. Then he arranged a meeting--it was really a very unorthodox procedure--in which he asked me to meet him, and I hadn't seen it. I had just about a half hour to look over the *memó*.

M: Study it thoroughly.

F: And we met in a small office with the President off the main office, and he outlined to him how bad the situation could be and that we had to have a greatly tightened up program. He was recommending a whole series of moves which he'd been thwarted from taking up to now, but he felt that the time had come where everything was going to fall in chaos around us unless we moved resolutely this time; that we had to get the tax bill; that he wanted to do something on travel; he wanted

to do something on investments; he wanted to do something in the trade area--a whole range of programs. The President was concerned. He recognized that it was a serious thing. He told me and the Secretary-- he said, "All right, step it up." Secretary Fowler got his agreement that everything would be looked at again. In other words, cases that he had previously rejected would be reexamined in light of the new situation, but that it would be on the basis of full staffing.

M: This is the beginning really of the January 1st message.

F: That was the beginning of the January message. And there, there was a whole series of meetings. It was one of the most amazing operations in terms of secrecy I've ever come across because there were a large number of people that eventually were involved, and it took place in well over a month; and yet the first leak occurred about ten minutes before the President was to make his statement. We were looking at the wires and suddenly someone had gotten it out, you know.

M: This tape is going to run off here.

INTERVIEWEE: Edward Fried (Tape #2)

INTERVIEWER: Paige E. Mulhollan

DATE : April 22, 1969

M: Now, continue. You said just before the speech, the leak finally occurred.

F: Yes. This was, in that sense, a very, very remarkable thing, because, as I said, although it started with a very small group, it gradually expanded because each person had to have staff work done in his own field. But the procedure that we agreed on after leaving the meeting, Secretary Fowler and I, was that obviously you had to staff his proposals to the government; that a lot of them were going to be changed; and that the best way to staff them was to run them through what was then known as the Deming group, with principals only--one person from the agencies, at State, Federal Reserve, the Treasury, and the Council--the White House. Secretary Fowler said this would be right, but instead he took personal charge so we'd be meeting at Treasury.

M: The Deming group became the Fowler group.

F: It became the Fowler group. And every once in awhile a Deming group would spin off to try to work out a separate set of proposals where we were running into trouble and weren't getting anywhere. But what happened then was that Secretary Fowler had a number of meetings, usually sort of separate circles with each of the people. On trade, we'd have Commerce and Bill Roth and perhaps others in. On travel, his tourism proposals, we had Transportation, and Commerce was in. Investment, of course, Commerce, the Federal Reserve on its bank program. But the central corp group was in all of them, and that was essentially the Deming Group throughout.

M: You mentioned earlier the Commerce position as being always in favor of less rigid controls, when you were talking about it in the first instance. Did they continue to fight to the last, or the facts of the balance of payments problem so overwhelming?

F: I think that the change in this--and this was essentially what Secretary Fowler was trying to get across--was that in this case everybody had to do something, that it wasn't going to be any good to talk about goring somebody else's ox. The problem was so big that you had to get, so to speak, "contributions" from others for two reasons: first, because of the substance, which in some cases was less important. In other words, the numbers wouldn't have been that big but more important politically to show that it didn't have disproportionate effects for some. Now, in part, this argument may not entirely hold water, but it does make some sense.

Now there were other ways of dealing with the problem. It could have been dealt with by a change in the price of gold. This wouldn't have dealt with the problem, but it would have been one way of approaching it. There were indeed, and there still are indeed, people proposing it as a way of dealing with it.

M: Did the President ever seriously consider that to your knowledge?

F: No, never. This problem came up a number of times. He, in effect, supported what always were the recommendations of his advisers against an increase in the price of gold on the grounds that this did not make economic sense; that it would be a politically disastrous policy to pursue; and, third, on more technical grounds that it really would thwart, and certainly postpone if not eliminate the chances of dealing with the problem of reserve creation in a more rational way.

M: And get relations back again to the problem that you started with.

F: Sure. But this would have been one way. Another way would have been to deal with exchange rates. This would have meant the U.S. moving on a course that, again, was politically questionable. If the U.S., for example, at that time had divorced the dollar from gold and had one or another version of a floating rate, I think--and this is contrary to what many academic economists would hold--that this would have had very, very serious political consequences on the U.S. relations with the rest of the world. It has some attractive elements in terms of solving the economic problem, but it would have been essentially the unilateral approach to what the President, certainly, and his advisers, as well, felt was a multilateral problem and should be dealt with in a multilateral framework.

Going back to the program itself, there were these constant meetings over the course of a month. I would say that most of the people who were intimately involved spent a half to three-quarters of their time, full time, on these sessions in which we did explore so many of the possibilities--and within each one had to come to some decision on how the program would go. It was very difficult because in some cases the data were inadequate, and they worked very, very hard to get them.

One example, of course, is the whole direct investment program where the first effort was made to continue with the voluntary program, and this held for a long, long time. But there the target we had in mind and which we felt was necessary, we being the overall group--the Deming group with Fowler--which we felt was necessary on overall balance of payments plan, Secretary Trowbridge finally said it could not be handled by a voluntary program. So he ended up saying, "Well, if that's what we need, it has got to be mandatory." Then we moved toward developing a mandatory program.

M: That could be done without Congress.

F: Without legislation. But we still wanted to do it on a voluntary basis if it could have been done. That was the first position, but it ended up as a mandatory program because you couldn't save, in Trowbridge's view, a billion dollars without mandatory controls.

He also felt, and I think rightly, that a mandatory program under those conditions, or with that kind of target, was far more equitable than a voluntary program.

M: A voluntary program helps the non-complier too much.

F: Right. After we got agreement on a large direct investment program, it was easier to get agreement on a large bank-lending program with the Fed that was easier, not technically but in policy terms. The banks are more disciplined. The Fed in effect doesn't have to be mandatory. It's pretty much the same, and the banks will cooperate. There, there were technical problems in working it out. What we ended up doing was, after a lot of palaver, we said, "All right, here's the goal. You work it out."

M: But get to the goal.

F: But you get to the goal, and they came back with a program that then began to make sense in terms of these requirements. The government savings were a matter really of gearing up a negotiated schedule for military offsets, and going through every possible way of looking at savings and cuts in personnel and all the rest. Lots of proposals were aired in this field, including possibilities for direct reductions and [of] expenditures of military personnel in Europe, and, in effect, giving them savings certificates with incentives; all kinds of things, as well as voluntary programs, by getting them to save more rather than spend through higher interest rates, but none of them really proved

practical though and were discarded.

But the outlines of that pilot program came through rather quickly. We got the Budget Bureau in, and personnel reductions and ways of doing that. Some fairly extensive ones were made in the end, as you know. Mainly that was part of the program, but they didn't amount to too much in dollar terms.

M: Again, like you said, political terms--

F: Yes, they were also useful in their own right. I think any attempt periodically to sort of stir up the mice is useful. The most controversial aspects of the program were the trade and tourism proposals. On trade, Secretary Fowler, who in the end, I think, proved to be more right than some of this opponents--possibly for wrong reasons, I'm not sure--felt that we were at a disadvantage because of border taxes imposed by European countries. Are you at all familiar with this?

M: Yes.

F: His version was a more or less crude one that the U.S. should look at all of the indirect taxes we have in our system, and then impose a border tax of its own that would improve our competitive position, improve our trade surplus, and that this would be a key element in the balance of payments.

M: Basically limiting imports rather than trying to do something with exports.

F: No, both. But a border tax, [there] would be an export subsidy and import rebate--work on both sides. The trade people, Bill Roth and some lesser degree, State, recognized the need to do it, but were fearful of two things: retaliation by the Europeans and the dismantling of GATT. There was a group of us in the middle who looked at this as useful as an adjustment device, divorce it from a trade measure, divorced

from any phony or any tenuous justification on the basis of our own tax system, but which we would justify as necessary on balance of payments cram. The U.S. was in balance of payments difficulty; therefore, let's impose a modest border tax--that's called trade adjustment tax--of three, two, four percent, export rebate; four percent import surcharge; make it temporary; get agreement in effect from our trading partners in the GATT [General Agreement on Trade and Tariffs] beforehand, and then get legislation from the Congress. These were sort of the general minds. This was debated endlessly.

The other on tourism--there were many, many different proposals. There were danger signals. The Vice President and others were concerned about the effects of any tourist proposal. But the Cabinet committee meetings, balance of payments--McNamara, many of us all felt very, very strongly that he had to move across the border. The tourist proposals as such were really in two parts: one, to take all possible measures to stimulate tourism to the U.S. There was a committee that had been in the works under former Ambassador McKinney which this group said we would now raise and have them work on a crash basis. And the others were various types of taxes to impose on tourism.

Now, there, there were an endless array of proposals and a tremendous amount of statistical work by a separate task force that was done on this. Some of the proposals were rather outlandish, less in terms of substance, which I never thought was so silly, but in terms of being so complicated. My feeling had been that if we had to have a tourist tax, I saw nothing wrong in, in effect, having a sort of temporary but very modest evaluation of the tourist dollar for awhile, just as you did with trade, where you just make it a little more expensive for an American to travel abroad, and a little cheaper for a foreigner to travel here, but it would be very modest, and see whether it has any effect.

Well, in the end, I would say the President's contacts with this program were just about as full as they could be. Throughout, as the program itself was developed, he was kept informed. At one point he was kept informed through a whole series of communications with Air Force One while he was on his way to Australia on an around the world flight. We were getting constant communications back and forth telling him back about the program. By this time Califano was in it. When he came back--it was on Christmas day, I remember, and it was a hell of a weekend--on Christmas day we came back and his reactions were, "I will do anything that we can do without legislation. I don't like the trade proposals, and I don't like the tourism proposals."

M: Both of which required legislation.

F: Both of which required legislation, and both of which he didn't like on their own.

M: I need to ask you to interrupt here a little bit. This is getting close to the time in which he finally made his surprise announcement that he wasn't going to run. Did he make any comments about the potential political effect which led you to believe that he might still have been planning to run at that time?

F: No. I think that this was four months before March 31. Interestingly enough, I don't think that his reactions to both of those were on those political grounds. That probably was true for the tourism one. I think essentially he thought that was silly--the tourist proposals--that they wouldn't have a ghost of a chance. You couldn't possibly get anything like this through the Congress. He never wanted any part of it. He, of course, was right, and his reaction was in fact the reaction of the American people to the proposals. They thought that a tax on tourism in whatever form was sort of an invasion of an inalienable right. I

think partly the reaction was a result of bad presentation. That's my feeling. I think Secretary Fowler was just too hipped on this, and he was just too steadfast in it. It was awfully hard to change too much these lengthy, lengthy presentations--this damnable tourist thing. My feeling, as I said, was "Let's see if we can work out something real simple, and then try it out." But I never felt any great sense of shock at it. I never could see, and I still don't see, what this has to do with the right to travel. You're affecting the price of travel, not the right to travel. But, I mean, that's it. It was made a great big issue, and so individual freedom somehow was being abridged.

M: How did you ever get him to put it into the message if he was so opposed to--?

F: The President?

M: Yes.

F: I'll tell you about that. I'm sort of giving you the background as it went in. I think this thing on travel was just as I explained it. On trade it was very, very different. I haven't gotten to this. But one thing I'm clear of, I think that President Johnson was probably the strongest advocate of free trade that we ever had in the White House. And I think he was just suspicious--

M: It sounded protectionist to him.

F: It sounded protectionist. And second, even though there were a number of times that we explained that it wasn't really--he was temporarily working on both sides--there was a danger of retaliation, which was real, so that would hold--his view. I think his other feeling, apart from being worried about retaliation, was being suspicious of the whole move in the trade field. He just didn't like to play around in the

trade area this way. I think his other move was you'd never contain it in Congress. As soon as a bill like this went to the Congress, every protectionist around would get his hands on it, and that would be the end. So, in effect, we'd be giving the protectionists in Congress [a chance] to come through and give you ten times more than what you wanted; and in the end, you would dismantle the whole trade policy. This was very real.

M: It's true based on historical tradition, too.

F: The answer to that was that what was being proposed throughout--let me not anticipate. But these were the way the things were going. Secretary Fowler was dogged in his determination that if we didn't move on these two fronts--after he came back from his trip, Rostow called me. I stayed late and it was about 7 o'clock Christmas morning. I got to the White House and I called Rostow. He had just gotten in. He said, "Ed, the President wants you to rewrite the program, leaving out those two items, rewrite the whole program, and then we'll have a meeting on that basis." I said, "Fine." I remember I worked with Fred Deming and Rostow, and Secretary Fowler was away on that Christmas, the one he'd taken off.

M: Dangerous habit, taking off.

F: The one day he'd taken off to be with his family in New Jersey. And we prepared a new program at a meeting the next day, leaving out the two items--or saying that the reasons why we weren't going to move in these two directions. And the unkindest cut of all was because it happened that we were working in the Treasury Department on Treasury stationery. We had a meeting that Joe Califano and Walt were at, and then the President came into. It went around. Fowler reserved comment. And it went around until it came back to him, and he said, "I want to say, first, I disown this."

M: Treasury stationery and all.

F: Treasury stationery and all. So back we were with the controversy unresolved and with more work to be done. The President, in effect, told Secretary Fowler, "All right. You feel so strongly about this, you go and see what assurances you can get from the Congress, from Mills and some of the others, that if we put something through in the trade bill that it will be contained." So we were back again with more work done, a couple more meetings of the same, more staff work, more refinement of the program. And then finally the resolution came with a meeting held at the ranch on, I guess, it was the 30th or something. I was not at that meeting.

M: That's cutting it pretty fine.

F: This was to resolve the final key issues. I was working here on the message, and we got the word back. Joe Califano called me and said, "Work with this particular language on the message on the two key issues." In effect, the compromise was that on trade we would go and consult with the Europeans immediately; and then on the basis of those consultations see whether we would propose legislation and similarly, a voluntary appeal on tourism, and then consult with the Congress on legislation. But the rest of the program went pretty much as it had been worked out, and the message went through a number of versions, and finally with rather dramatic effects on January 1.

Now. The program, I think, had its impact. I think that had this not been done--I think Secretary Fowler was absolutely right--we would have left the system vulnerable to the announcement of the huge American deficit. This way we announced the deficit in advance at the same time as we were announcing what the Europeans viewed as a very, very drastic American program.

M: And this was prior to the Stockholm meeting too?

F: No, this was January. Stockholm was at the end of March.

M: So we were answering some objections in advance that probably would have come up there, too.

F: Oh, we would have been all the way on the defensive with the Europeans! I come back to the basic question. There would be those who would argue that, so what! They're wrong in substance, and what are you worried about! And that's right. As an economist, you know, I agree, in effect. But unfortunately the answer is declare war. And I don't think this makes sense. I think that in these cases, as in so many others, the practical policy problem is how can you work toward change and to get the kind of changes that would improve the system while keeping the engine running and things moving--and to anticipate, I would say that in the face, that as it turned out, and we used each monetary crisis to get one thing or another done--that did have some improvement; and that despite each crisis we managed to insulate trade and capital from the effects of these crises. They didn't result in breakdowns at all. All that resulted was sleepless nights and meetings of officials. But everything went on. So in this sense, this is one mark of a way to judge it. And it can't say, and I wouldn't be competent to say, that had we moved the other way and had the U.S. employed the obvious force that it has at its disposal, no one can predict what the outcome would have been.

Now, it's quite conceivable that we could have with one blow brought some sense into the whole system. That's quite possible. But there was also a very, very serious risk that that wouldn't have been the outcome, that we'd have broken up into separate monetary blocs, that this would have had unfortunate political connotations, and that

in the process because of one stupidity or another we would have ended up with a good deal of chaos, uncertainty, severe disruption of trade; and to a considerable degree and as a result of largely irrational forces, serious effects on our domestic economies, and most notably that of the U.S.

Okay, that's the balance of payments program. If you have anything further--

M: No, I think you handled it beautifully that way. That's exactly the kind of thing we like.

F: The outcome you know. We didn't get anything on tourism.

M: The President was right.

F: The President was absolutely right. On trade, my own feeling in retrospect is that we made a mistake. I think we should have moved. I think we could have. I think it would have been useful in terms of improving the system. I'm apparently one of the few people around that say this. We did everything "right" in getting our missions off. We sent Katzenbach off, that means going around Europe. In effect, the Europeans told us, "We don't like it. It's a terrible, terrible thing you're doing. But if it's modest and sort of temporary, we'll stand still."

Now, there all that would have then been required would have been to go to Congress and say, "Okay, we're going to put in a special tax. It's a balance of payments measure on trade, say three percent." And go to Mills and say, "Now, we have agreements with the Europeans if we keep to this, fine--they'll stand still. If we don't, all bets are off. Now, take it or not. Can you get it through or can't you get it through?" It was a risk, but I think it would have been worth taking.

As it turned out, the Europeans sort of outmaneuvered us. They

proposed instead that they accelerate their tariff reductions in place of our moving. This, of course, was very, very appealing. It would be right, be fine, but then they attached impossible conditions; that is, conditions which we couldn't fulfill in the end because they said, "Well, yes, we'll do this, but all you have to do is pass ASP in your trade bill." Well, we weren't able to pass ASP so they didn't accelerate the reduction in their Kennedy Round tariffs, so that's the way it ended up. I mean, what they did was in substance right, but practically couldn't have been met, couldn't have been fulfilled. On the other hand it was the kind of package that we couldn't very well refuse. By the time my feelings were--this was my recommendation at any rate on this thing to the President--that we shouldn't move once the Europeans had moved. There were some that believed that we should, but the President didn't need much persuasion because he never wanted to move in the first place.

M: That fit his prejudices perfectly.

F: So there it was. So there's the difference. I would have felt that had we moved decisively in the beginning, it would have been an interesting thing, a useful thing, and an interesting precedent. The fact is that in November the Germans who in the beginning of the year told us, you know, "You can't do this, it's illegal, but if you have to, all right, but it's a terrible thing," did it themselves in the reverse.

M: You mean in November 1968.

F: Sure. Their four percent adjustment, they moved the other way. They appreciated, but they put into effect an instrument that I think represents a useful addition to the international financial arsenal, and one which we would have been starting on the other end.

M: Right. It's a terrible thing unless it's us who want to do it.

F: No, don't misunderstand me. What they did was all right. They appreciated, which was the right thing. In other words, they penalized their own trade position by using the same kind of instrument we were talking about in the other way. We would have been temporarily depreciating. They temporarily appreciated--up-valued and devalued, which is the right thing to do. What I'm saying is that they essentially used the same kind of instrument, and I think it's a useful one. That's that part.

That lasted and had a favorable impact for about a month and a half or so. And then two things happened. The key part to the balance of payments program, you'll recall the first order of which was the tax bill, which was essential to the maintenance and refurbishing of the trade position, and great more and more doubts began to appear in Europe as well as in the U.S. that the President would ever get his tax bill. The second thing was that the French were playing around and contributing to rumors and all the rest, and we began to lose more and more gold.

M: Are you talking about French private interests, not French government officials.

F: Government, French government officials, yes. Rumors, or there would be leaks about the extent of gold losses and things like that. And third, equally important as the first--I don't think the second, the French moves, were all that important, but they contributed--was the gradual loss of confidence that the system could hold together and a growing belief that the U.S. would have to increase the price of gold. So gold losses became very, very substantial. They began to rise somewhere in February, I believe about the middle, something like this, and became more and more troublesome.

We had laid out for the President the possibilities, I think earlier in the year, of the things we could do on gold. One was to try to sweat it out, play the role of banker--when you get a run on the bank, put your money on the window and let them come. That if we could maintain the present situation this would be best because a one-price system generally is better than a two-price system for gold. We weren't sure. He, at a couple of points, crisis meetings, approved continuing on this course. At one point in one of the meetings, and my dates are off--I can't recall now--he specifically asked how much might be involved, and was told a possibly three billion gold loss. And he said we could accept that.

The second course of action, which was really a variant of the first and one of the reasons we felt justified in recommending to him that we move on the first, was a proposal that we try to persuade our colleagues and partners in the gold pool to take what was called the Gold Certificate Plan. In effect, what we told them--and this is the way we described it to the President--was that if we all got together--the seven countries, leaving aside France--we represented twenty-seven billion out of the total forty billion of gold reserves in the big part of the world's financial assets. And we would simply say by FIAT that "We're keeping the price of gold at \$35. If you guys want more gold, take it. And for every dollar of gold that we give out from our reserve, we're going to replace with a piece of paper, which we're going to call a Gold Certificate, and which we choose to count as a reserve. So the metal will go out, but our reserves will not. Our reserves will remain exactly as they were, and, in effect, you choke on it." I think this was by far the best proposal, and it was a really elegant approach and solution--

M: Knowing in advance that France wouldn't play.

F: They weren't necessary, no question about it. It was a really elegant solution. There was only one trouble with it. We couldn't persuade the others to go along! They just didn't have the imagination. And, in effect, they curiously enough over the course of the years, some of the European countries have become sort of gold bugs, or always were, but some more than others, and the U.S. sort of less so.

M: Reversal of the whole position.

F: Right. More and more in government there is a feeling--I would say a proper one--that gold is sort of silly. What's all the fuss about gold reserves! They're a man-made creation in any event. Even gold is, because the price of gold is man-made. I mean whether you have forty billion or twenty billion or sixty billion, it doesn't depend on the amount of metal--it depends on what monetary price you choose to give it. This is as much an international creation act as SDR's are. The price of gold wasn't set in the market as a commodity. It was determined by what the major governments of the world said it was. So why get that addicted to it! This was the kind of position that appealed to the President. I think there's a Populist streak in him, and the idea of being sort of a slave to gold was kind of an anathema anyway. So he never was really too concerned about the gold losses, up to a certain point. He was concerned, and I think saw clearly, the confidence problem. And again, his strictures throughout the gold crisis meetings, as in the other meetings, were as long as everyone else sticks with us, don't get us out on a limb.

M: Which eliminated that alternative you just mentioned, the Gold Certificates.

F: We couldn't move, but if the others had moved, we would have licked the

thing. Without any question it was a powerful solution to it, and a sensible one, and it would have worked. But we didn't.

Then the third was a two-price system for gold, now known as the two-tier system, which we felt could work. It was one that I happened to have been particularly fond of, mainly because I didn't think we'd ever negotiate the other, and which required that, in effect, countries pledge that they're just going to stay out of that market, and they just don't care what happens to the price of the market, and its risks. The risks were that you couldn't maintain, you couldn't get this kind of pledge, you couldn't maintain this kind of discipline.

And the fourth next possible approach, which was laid out somewhere in January or early February, was we break the link with gold, stop convertibility, and either support the present exchange rate--the current exchange--rate as other countries do or else float. The last, most of the President's advisers felt was the wrong approach to the problem. It was laid out. We told him why we thought it was wrong, and we said that we felt we would move in that descending order.

We moved pretty much along the route of paying out, of trying to negotiate the Gold Certificates. But all the while discussions were going on in which Fred Deming--throughout these things Deming was our negotiator with the Europeans in all of his numerous meetings--tried to work out something. And we found support for the second--for the two-tier, what we had known as the two-price system--coming from the Italians' proposing essentially--some Governor Carli. We encouraged it, with some additions, but it had been essentially something we'd worked out about the beginning of the year.

The crisis came when losses began to hit three or four hundred a week. Our European gold partners clearly were becoming more and more

reluctant to continue. We had another problem. We had to do something about the 25-percent gold clause. Fowler and Martin were practically on the Hill day-after-day, trying to get that through. We recognized that in order to make the two-price system work, we had to be able to assure that our entire gold stock was there for the system. We couldn't do that as long as that backing legislation existed. Technically we could. Technically there's a provision in which the Fed can suspend its operations for sixty days or ninety days, so that it could in effect keep doing it for ninety days indefinitely. But this was sloppy and psychologically wrong and bad administrative practice.

M: Bad for confidence.

F: And the confidence factor was so terribly important throughout these whole things. The critical points came in the week of March 17. We were meeting all day long, beginning on the weekend and Monday and Tuesday, and the gold losses kept getting bigger and bigger. We didn't have this legislation backing repealed. We had by this time then arranged a whole scenario, a fully detailed plan, for telling the gold pool, "We want to close the markets. This is the way we want to go. You take the pledge, no more gold, the two-price system. If we don't get agreement, we call an emergency monetary conference, suspend convertibility." And then we had a whole series of things we would then negotiate or push for at a conference--some change or appreciation of European currencies, limited flexibility, the drawing rights--a whole series of things, all kinds of goodies which everybody would agree, or most of the academic people would agree are good. But in that situation, we would feel then you have a complete negotiation. You move from the suspension of gold convertibility to a conference and hold off and see what can be done.

By about the middle of the week our own program by this time was fully worked out. We had statements, we had what we wanted the Europeans to sign to and all the rest. By this time pandemonium had virtually broken out. Just had gotten completely mad. You could see pictures of even Canadians, farmers, lining up to get gold. Looking at this, it almost seemed as though this part of the world had gone completely off its rocker. The losses were three to four hundred million dollars a day. And then a division broke in where one group of us felt that we had to close the market right away, another wanted to wait until the weekend. One group of us, I was in that group, wanted to close it on Wednesday, but the legislation was just not quite through, so we held it another day. We still had a division on Thursday, and met with the President. We had two meetings with him beginning about 11, then he had to interrupt, and then we met again on the issue of closing the market and where we'd go.

M: The question then was on when you'd close the market, not if--either then or the weekend.

F: When and then the meeting and what we'd want at the meeting. One group wanted, in effect, to keep it open Friday, and you meet on Saturday, and then what happens after that depends on the meeting--the outcome of the meeting. But that keeping it open would perhaps give us more leverage. And I think there was still a trace of feeling that, well, if you showed the world that you're still prepared to lose, that sanity would return. My feeling was, and this I think was the majority feeling, that this was not something that was any longer under control; that we would put the President in the same position as the British government was in the last day of sterling devaluation when they lost well over a billion dollars. They gave, in fact, speculators two hundred million

dollars. Everyone knew they were inept. There were bad statements-- unequivocal statements--and so it was very, very obvious that they were going to move, but they just held to the fetish that they had to do it in a weekend. My feeling was, to hell with the weekend! You can close any time. Why wait til the weekend! Anyway, we went over this whole thing with the President in the meeting. We outlined to him what we proposed to do at the meeting, what we could or couldn't accomplish. He said, "Close."

M: Right now.

F: Right now. Bill Martin called his counterparts, told the British to close the market, told the others we'd close, we'd meet in Washington Saturday morning. And that was the March 17 meeting.

Now the other thing on that was that in preparation for the meeting the President sent messages to Wilson, Kiesinger, Morro, Saragat--I guess those were the key, Germany, Italy, the UK, said, "We're having this meeting, it's a momentous meeting, lots of things in the balance. Let's not get back to the 1930's. There's one thing I'm not prepared to accept, an increase in the price of gold. You'd better know this now." That's what it said, in effect.

M: Removing that as even a potential option of the--

F: It's not an option. "So when you come, those are the groundrules."

M: And they came.

F: Oh, they came, and they knew what this meant. What it meant in effect was that we were prepared to cut the link to gold rather than to devalue-- rather than to increase the price of gold. This was fully within our power to do, so by ruling it out the options that were left open were either continue the gold pool under something like the Gold Certificate proposal, which by that time, as I said, was really non-negotiable--

they were too scared--or a two-price system in which they pledge to stay away from the market, and that's what we negotiated.

In the two-tier system there were some ambiguities that were still left. I think essentially the central bankers there were pessimistic about the outcome. They didn't have too much confidence in it. That felt that, we the Americans, were sort of deluding ourselves that we were--how shall I put it--that in effect we were sort of whistling in the dark as far as the speculators were concerned, and they wouldn't believe--this was just hollow.

Our position was "no." You know, this assemblage of countries is the financial might of the world, and you don't know your own power. And I think in general we were proven to be right, with the added help of the fact that by acting as we did in holding to the present price--you know, there were three billion dollars of gold that speculators had accumulated that was hanging over the market. You know, these guys were stuck. It had gone up, but the price has gone to 40-42, but not for any significant volume. So most of the people who had this gold, who had speculated on gold, pretty much had to keep it, and it costs money to keep. It costs 10 or 15 percent a year, so I'd say for the most part it had been a pretty bad investment. Now whether it will continue I don't know.

M: There has been some discussion of South Africa, I believe, wants to get out of its pledges. It's not one of the gold pool, of course.

F: South Africa never took the gold pledge, and what we've been fighting is a guerrilla war with South Africa in this whole area, with the South Africans essentially trying to say that in their war with the United States that nobody is behind us. Fowler was hipped on this. The obvious thing to do is why, they'd be happy to sell half their

gold to central banks and to sell the rest to the free market. Wouldn't that be more orderly?

Our position was, no, the two-tier system means that there are two kinds of gold--the gold that we have now, that's monetary gold, that are in reserves; and new production. New production is a commodity like yellow jute. Sell it for what you can. It's a commodity like coffee or anything else. If you can get a good price for it, more power to you, but we want you to sell it all on the market. We don't want to put you in the privileged position where you can feed it to the market in such a way as to keep up the price and take your surplus and dump it on us at \$35 an ounce. That puts you in a position of a discriminating monopolist. Now, you put the whole thing on the market, and then let's see what price will hold.

And our other point was in trying to hold to this position and really trying to get the Europeans to understand and follow us on this. What we were in fact all saying is that we were going to rely on SDR's for additions to liquidity reserves and that we didn't need to rely on gold which had already proven to be an unreliable source of international liquidity, and an inadequate one.

M: The SDR's were far enough along by this time that--

F: Well, we tied them together because what we said in the gold pool meeting in the statement was that in view of the prospective creation of the SDR facility, we no longer need gold as something like. So we tied, at the meeting on March 17, at the meeting that was going to take place at the end of the month for the final approval of the SDR, a facility and amendments. I think I described this before. There the critical point was what we were going to give, and in my view they weren't concessions. They were concessions but they weren't all that

important. They weren't the kind of concessions that people tended to look at. They weren't concessions to the EEC as such. They were in the voting majority because, as I said, I don't think that those are meaningful. You have to have everyone in if you're going to have--or most everyone--if you're going to have a working operation.

I think the facility could have been more flexible than on two provisions that we gave in on. One was a provision that would have permitted these things to be used for other purposes with an 85-percent majority. In other words, anything that wasn't specifically stated could still be done if 85-percent approved. That could have opened it up for other things, like funding sterling or something like that. But there, we were on weak grounds. The French were right. It was not something that had been approved in principle. At RIO, we were going beyond Rio and we had a weak legal position, and nobody supported us. That wasn't a concession, that--

M: That was the end of that, really.

F: Secretary Fowler gave that one at the beginning of the debate in a very graceful way. Even before it was part of the package he told Debre when Debre made his point, "I think you're right." That was that. It has gone beyond it, I agree. We negotiated a deal in London. This went beyond London. You don't want it. We won't hold.

M: That takes care of that.

F: That took care of that. There was another one that would have made it a little easier to use these things for AID technical provision. There, the Europeans simply opposed it. They were just afraid of it. That was not a part of the deal. They were just afraid of it, and there was nothing we could do. Those are the two provisions I regretted.

The other ones that were part of the deal on voting procedure I

never considered important, largely because as I repeat, you pretty much had to have their approval and participation, or otherwise you couldn't have a working facility anyway. That's a legal matter.

Well, that's the monetary stuff. Any other questions?

M: The only other one, if you've got time real briefly, is trade. You mentioned--

F: I want to say something on that, and I'll be very, very, very brief. There, I think, from my personal experience the President was consistent throughout in taking essentially a free trade position. I think he felt this very strongly. I think it was sort of bred into him. I don't know where, possibly Texas, possibly Rayburn. People have given me Rayburn as perhaps more important, but he seems to have grown up with it in his period in the Congress. And he certainly felt it very, very strongly on each of the issues. He'd always make the same basic points--you know, "Fellows, if you want to export, you've got to import. You start having protectionist restrictionist measures, it's going to be the end of our trade policy. We worked thirty-five years, you know." And he held that position very, very consistently throughout.

M: There was substantial pressure, I guess, from certain interests that seemed to be getting active again, or maybe new interests getting active again in behalf of protectionism--steel, for example--against some issues--

F: You're talking about now?

M: Yes, during his Administration.

F: Oh, well, sure. The thing was coming to a head because of the conjunction with the balance of payments problem. The balance of payments problem gave the protectionist that much more of a vehicle to exert

pressure for protectionist measures because they became in their mind somewhat more respectable. They could say, okay, you need this to save--

M: In the national interest.

F: Yes. Now, the issues that came up too early in my experience, we brought the four escape clause actions. And there you had a divided government. He ended up agreeing to continue. He had four of them. I don't remember. It was carpets, glass, stainless steel flatware and something else. These were actions in which President Kennedy had invoked the escape clause. And the decision that he had to face was whether to continue them or to let the higher tariffs go back down to the lower levels. In one of them on carpets--the other one was minor--but on two of them he decided to let them go back, revert back, and on two, to continue for a temporary period of two years. The critical one was carpets, and there the argument that finally got it was that conceivably this affected a very few small cities. I don't remember too clearly, a couple of New York cities and one other which were technologically on the skids. The argument wasn't too respectable because this pointed out--it was very, very difficult to show--that imports were the reason, and the real reason was technological. But I think in this case he felt that by this temporary measure he could throw a small bone to the textile industry which was fighting this. They were fighting for it. They were fighting for it not because they'd get anything out of it really, but they thought this would kind of serve as a precedent to get him to move on quotas for textiles. I think in the end his feeling was that by sort of giving this quarter-loaf and leaving the others go he could show that he wasn't entirely inflexible on these issues, that it was a human problem involved, he'd do it temporarily,

and then set up a group that was to develop a program to deal with the problem within the next two years to make sure that it wouldn't be repeated again.

It was curious, but it was my first experience and it was an interesting one on the trade field. My point is that his position was--he wasn't a fanatic about it, but I think he was being the practical politician. His position was very, very clear.

The next critical thing was on the whole series of Quota Bills that came up. There he specifically authorized the biggest assemblage of Administration power at one time as a demonstration of his position in testifying. He had Secretary Rusk, Trowbridge, Wirtz, I guess--I'm not sure whether Wirtz ended up testifying or not--Roth.

M: The first team.

F: The full Cabinet appeared together when the hearings began on the Quota Bills, saying that this was contrary to our interests, we couldn't go through with it. And then a number of speeches that he made, he agreed to some language that I recommended, others did, that he used. The most dramatic was--I had nothing to do with it, but a specific statement that he would veto--

M: I remember that one.

F: --any quota bill that came up.

M: That's about as good testimony of his general position as you could--

F: He took a very, very clearcut position on it, and there it was.

M: I have no other categories, but don't let me cut you off. If you have other categories you think you want to talk about--

F: No, that's about it. Nothing more comes to mind. If you have any other questions sometime in the future, give me a ring, or send me a note.

M: You've certainly contributed more than generously of your time, and we certainly appreciate it.

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By Edward R. Fried

to the

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