INTERVIEW I

DATE: December 16, 1968

INTERVIEWEE: KERMIT GORDON

INTERVIEWER: DAVID McCOMB

PLACE: Mr. Gordon's office, Brookings Institution, Washington, D. C.

Tape 1 of 1

M: This is an interview with Mr. Kermit Gordon who is president of the Brookings Institution.

To start off, I'd like to know where you were born and when.

G: I was born in Philadelphia on July 3, 1916.

M: And you got your college education where?

G: I first went to Penn State and then transferred to Swarthmore where I finished my college education, getting a bachelor's degree in 1938 at Swarthmore.

M: And that was a major in what?

G: In economics.

M: Then you got a Rhodes scholarship?

G: I was a Rhodes scholar, elected from Pennsylvania. I was at University College, Oxford, in 1938-39 and had my term at Oxford cut off by the war. I returned when the war broke out in September 1939.

M: That must have been a fairly strained situation there while you were there in England, was it not?

G: It was, it was indeed. The whole year--of course, we went to Oxford right after the Munich crisis, you see, in September of 1938, so the year was the year between Munich and the outbreak of the war. It was a very tense year. It was not the best year to study at Oxford.

M: Did you follow the events in Europe very closely?

G: Very closely.

M: I suppose the students discussed these.

G: Very much so. I guess I would describe myself as an isolationist when I went to Oxford. You remember this was the period of the great debate between the isolationists and the advocates of collective security. I think I was on the isolationist side, and I can date the change in my outlook. It was March 15, 1939, the day Hitler marched into Czechoslovakia and Sudetenland.

M: This changed your idea of being an isolationist?

G: That's right. I ceased to be an isolationist that day.

M: What did you think, that this was the point that this man had to be stopped?

G: Yes. It seemed to me perfectly clear then that this man was going to overrun Europe unless he was stopped by force.

M: This brings up a question about aggression in general. Do you still believe that aggressors of this nature should be stopped as quickly as possible? Do you have any reflections about that?

G: It's a hard one to generalize about. You say "aggressors of this nature." You know, I'm not sure if any prospective aggression has exactly the same characteristic as any other prospective aggression. Certainly in that case it took me a long time to get over the watershed and to see that the use of force was inevitable. I must say I was very reluctant then to reach that conclusion, and I still am, but not in any rigid or dogmatic way.

M: You would draw no parallel then between Hitler's aggression and the aggression, say, in Vietnam?

G: I would not think that's a very good parallel.

M: There are too many other factors.

G: There are too many other factors. The world has changed a good deal in this thirty-year period.

M: Did you have any trouble getting out of England?

G: Not particularly, no. We came back on an American merchant ship, picked up some survivors of a German submarine that had been bombed at sea by aircraft off the Ark Royal, which was sunk while the aircraft were in the air. It was kind of exciting.

M: Well, the war had actually begun then?

G: The war had begun, the war at sea had begun, yes. I came back actually I think in early October 1939.

M: Then when you went back to the United States, what did you do?

G: I went back to Swarthmore and I worked for a year as a research assistant to Professor Clair Wilcox, an economist at Swarthmore, who was doing a study for the Temporary National Economic Committee. I spent the whole year working on a monograph that was subsequently published by the Temporary National Economic Committee.

M: Apparently the TNEC was a rather important study, especially in regard to monopoly and anti-monopoly. Is that correct?

G: I think it had some rather important influences on the development of policy. The monograph I worked on was No.21, "Competition of Monopoly to American Industry." It was not really a policy study. It was an effort to analyze the competitive or non-competitive characteristics of markets of the American economy covering a very wide range of industries.

M: Does that study compare to the task force approach to problems today?

G: Not really, because first, a number of the TNEC studies were not really policy studies. They were efforts to analyze circumstances and problems without propounding solutions. Now, this was true of some of them; others were more sharply focused on policy issues. But by and large they were written by individuals or small groups of collaborators. They didn't have the breadth of input that you typically get from a presidential task force, which ordinarily will have six-eight-ten-twelve people with different perspectives and different points of view. Furthermore, the task force as we've known it in the last four or five years tends to focus on an immediate design of an immediate legislative proposal of one kind or another--most of them do in any case--whereas many of the TNEC studies were of much more longer range and less sharply focused on enactments by the next Congress.

M: Well, then, why was this called? Who brought this study about?

G: The origins are rather dim in my mind. The key figure I remember was Senator Joseph O'Mahoney of Wyoming who was one of the leaders in that period of the group in the Senate that was concerned about what they thought was the growing concentration of American industry. Theodore Kreps [?] was the staff director, a very energetic and aggressive capable economist from Stanford. But I would think politically Senator O'Mahoney was probably the moving force of the committee.

M: Then after working on that, you worked on that for a year or so--

G: Then I went to Harvard to do graduate work in economics.

M: This was what--1940?

G: 1940-41. I spent a year as a graduate student in economics at Harvard. Then my graduate work was interrupted a second time by the same war. It had been broken off once at Oxford when Britain got into the war. By the summer of 1941, the handwriting was getting clearer all the time for us. I was then developing a strong interest in the emergence of the Emergency Economic Control machinery in Washington. I came to Washington in June 1941 for my first full-time government job, which was a job as a junior economist in what was then the Office of Price Administration and Civilian Supply--OPACS, that later became OPA. It was headed back in 1941 by Leon Henderson who was the first administrator of OPA. I worked in OPACS and subsequently OPA from June 1941 until early 1943, when I was drafted and joined the Army.

M: What was the nature of your work for OPA?

G: I got into the price control side of the work. In June, 1941, which was the early stages of our defense mobilization, the most acute price problems were in the area of raw materials, and particularly scrap materials. I became an expert in metal scrap. Gardner Ackley, by the way, who was the chairman of the Council of Economic Advisors under President Johnson, came to OPACS the same day I did; and we shared the same desk, and worked together for the better part of two years initially on scrap metal problems. As I remember it, I covered lead, tin and zinc; he covered copper and brass. We became experts in the economics of the junk business.

M: And then you went into the U.S. Army?

G: I joined the army in the spring of 1943. I went through basic training at Lincoln Air Base, Lincoln, Nebraska. Then shortly after my basic training was completed, I was assigned to the Office of Strategic Services, and I found myself back in Washington in a sergeant's suit working in the Research Analysis Branch of OSS. I worked in OSS for about a year.

Then I had a rather strange turn in my military career. One of my superiors at OSS was Edward Mason, Professor Edward S. Mason of Harvard, an eminent economist, who had been one of my teachers at Harvard. Sometime in 1944 he moved over to the State Department as deputy to Will Clayton, who was then assistant secretary of state for economic affairs. Somehow or other, Ed Mason maneuvered it so that I was detached from OSS and moved over to the State Department as his assistant. I think for about a year I was the only uniformed employee of the State Department. I was then a second lieutenant working as an assistant to Ed Mason, who was deputy to Will Clayton in the economic affairs part of the State Department. I was in State from some time in 1944 'till I was discharged late in 1945. Then I stayed on at State as a civilian to the summer of 1946. At that point I left the government and went to Williams College in Williamstown, Massachusetts, as an assistant professor of economics.

M: And you stayed there officially until 1962?

G: Until 1962, that's right.

M: Now, someplace in here you must have come into contact with John F. Kennedy.

G: Oddly enough, I had very little contact with John F. Kennedy. I met him, I think, just once before he was elected to the presidency. This was a very tangential encounter. I was leading a group of Williams College seniors on a Washington spring vacation trip. Among other governmental figures we met with at that time was then-Senator John F. Kennedy, and we spent an hour or so with him. This was my only personal encounter with him up to the time he was elected president.

M: Did you have any contact with Lyndon Johnson?

G: None whatever. No contact with Lyndon Johnson until I was a member of the Council of Economic Advisers, and later director of the Budget under President Kennedy. Lyndon Johnson was vice president, and then the contact was very casual. Actually, I remember only one substantive relationship I had with Lyndon Johnson before he became president. This was the time that he was vice president, and I was budget director.

M: Did you do any campaign work for Kennedy?

G: No, I did not. As a matter of fact, I was in the 1960 period a supporter of Adlai Stevenson, and I was not active in the presidential campaign at all. I was that year on leave from Williams at the Ford Foundation. I was director of the program in Economic Development Administration at the Ford Foundation in 1960-61, and I was heavily involved in Ford Foundation work at the time of the presidential election and took no part in it.

M: Well, then the question is, why were you appointed to the Council of Economic Advisers?

G: To the best of my knowledge I was appointed because Walter Heller, who was chairman of the Council, and James Tobin, who was the first member of the Council appointed, and Paul Samuelson, who was a close adviser to President-Elect Kennedy, got together one night to discuss the third appointment to the Council--the other second member. As the story was told to me later they agreed that I was the right person for the job, cleared it with President Kennedy, and he extended the invitation. I think perhaps the simplest way to put it is that Walter Heller, with the advice of Paul Samuelson, was given carte blanche pretty much to select his own colleagues on the council.

M: Then you were appointed in 1961?

G: 1961, that's right.

M: Incidentally, does that require senatorial approval?

G: Yes. The budget director does not, interestingly enough.

M: Then you had to go through some hearings then, I suppose?

G: Yes. There were confirmation hearings--perfunctory.

M: And then you went to work as a member of the CEA?

G: Yes.

M: Now I have read that Heller fairly well dominated that Council, is that correct?

G: The answer is, Walter Heller tends to dominate any organization or association with which he's affiliated. He's a very enormously capable and effective person. I would not have used the word "dominate" in the sense that the other members of the Council felt subordinated and relegated to minor roles. Actually, we worked very, very closely as a group. We consulted and worked jointly on every issue. Walter Heller was particularly effective as a public spokesman, as an ambassador to the White House, as an adviser to the President. Most of the public expressions of the Council--not all by any means--but most took the form of statements by Walter Heller. Certainly, in that sense his personality dominated it; but both Jim Tobin and I felt that we had a thoroughly satisfactory scope for expressing our own ideas and influencing policy deliberations within the government.

M: I need to ask you at this point whether or not you recorded any oral history for the John F. Kennedy Library?

G: Yes.

M: To what extent?

G: With respect to my term on the Council, Paul Samuelson was the interviewer. Heller, Tobin, and I met with Paul Samuelson one weekend at Camp Richey, Maryland. We sat with a tape recorder for I suppose six or seven hours. I'm afraid in giving the kind of chronological account of the work of the Council, we got only as far as early 1962. At that point, we were exhausted and never had an opportunity to complete the story. So I think the story is voluminous, but it ends sometime early in 1962.

M: The reason I ask you is that for this interview, there's no need repeating that if it's thoroughly recorded elsewhere.

G: It is recorded in the most minute detail into early 1962. I suppose that some day we'll be reassembled to try to complete the story. But memories fade awfully fast, and I would be hard put to it. This was a very, very intensive account of the development and implementation of economic policy in the Kennedy Administration, almost on a week-by-week basis. We would have to do a great deal of paperwork before we could take up the story again and try to complete the story of economic policy in the Kennedy Administration.

M: Perhaps what I can do here then is to take up after early 1962 and assume that that segment has been well covered in your career before that.

G: That's a good assumption. I'm not sure without some boning up how much I can carry on through beyond that period. I don't believe. . . I'm trying to think when we cut off that account--I'm not sure whether we actually got as far as the great steel price confrontation of April 1962, which was a very important episode in the work of the Council and the relation of the Council to President Kennedy, one in which I was heavily involved personally.

But my own association with the Council didn't go much beyond that. I became budget director in December 1962, so that my work in the Kennedy Administration as a member of the Council was for a little less than two years. Then I had a little less than one year as budget director before the assassination.

M: Let me ask you then a few general questions about that period. Was it during this period that the concept of the tax cut came forward?

G: Oh, yes, very much so. I think the real push within the government from the Council for the big tax cut began around the middle of 1962. I'd have to refresh my memory and check the papers to date it more closely than that. You remember, there was the big steel uproar in April or May, but there was then the big stock market collapse in June of 1962, and the economy began to look very wobbly during that summer. We were in a recession--we were coming out of a recession when Kennedy took office as President. The economy advanced very smartly throughout 1961, and it began to wobble in '62.

'62 was an uncertain year. It was not clear whether the economy was again beginning to show signs of stagnation; whether in fact there was a real danger of a recession developing sometime in 1962--great uncertainty about the future of the economy that year.

It was some time in the late spring or early summer that the Council began to push within the Administration for a substantial cut in income taxes. Kennedy, you remember, in August 1962, I think it was, in a television speech said he was not going to be stampeded into urging a quickie tax cut. But it was at that time, I think, that he indicated that he was going to propose tax legislation in the new session of Congress--and, of course, this was the new Congress--beginning in January 1963.

There were intensive internal discussions and negotiations within the government. The Treasury thinking at the beginning was heavily on the side of reform in the income tax structure, lubricated by a net tax reduction. But the Treasury emphasis was heavily on reform initially regarding the tax cut as the necessary political price to be paid for the tax reform. The Council view was much more heavily on the side of a tax cut for overall economic purposes to deliver a needed stimulus to the economy.

M: Did the idea actually come out of the Council?

G: I can't answer that. My memory simply fails me there. The Treasury very early was talking about the need for reform of the structure of the personal and corporate income tax. Certainly, in the innumerable and interminable discussions between the Treasury and the Council, the Treasury emphasis initially was heavily on reform; the Council emphasis was heavily on reduction. And the political and economic realities of the situation steadily shifted the emphasis from reform to tax reduction, not because the Council was by any means opposed to reform. In this respect, I'm sure we were just as eager to eliminate inequities in the tax structure as Treasury was but we felt that the aggregate needs of the economy, the need for the kind of stimulus a major tax cut could produce, transcended in importance the importance of restructuring the tax system. We saw, as the Treasury saw, that there would be very very formidable political obstacles to achieving the kind of tax reform that the Treasury had in mind. And as the economic history of 1962 proceeded and it became clearer that the economy was not behaving as strongly and vigorously as we hoped it would, the emphasis steadily shifted over toward the goal of a substantial tax cut for economic stimulus purposes.

As you remember, when Kennedy sent his tax message to Congress in 1963, there were substantial elements of reform in the proposal; and most of the reform proposals were lost in the Congress. The whole package steadily became less reform oriented and more reduction oriented.

M: Does the idea of tax cut fit into a Keynesian theory?

G: Oh yes. The essence of Keynesian theory is neutral as between an increase in public expenditures or a reduction in taxes as a means of delivering stimulus to a lagging economy. By neutral, I mean it would simply indicate that either is perfectly capable of increasing the level of economic activity, and the particular road chosen in any particular circumstances should be determined by other considerations.

M: So it's not violating or changing basic Keynesian philosophy?

G: No.

M: The idea was accepted at the time as being rather novel, however.

G: It was. You remember the budget was in deficit, and it transgressed the canons of conventional finance to recommend a reduction in tax rates at a time when the budget was already in deficit. We felt that the time that the stimulus to the economy that would be generated by a tax cut would so expand employment output and income that the tax base would be broadened, and the reduction in tax rates would be offset to some extent by an increase in tax payments based on a broadening of the tax base. As a matter of fact, that's exactly what happened. Of course, the year after the big tax cut in 1964, tax revenues had exceeded the level of revenues of 1962 at the earlier higher tax rates.

M: So the public interpretation of the success of the tax cut is correct from your point of view, also?

G: Yes. I think the tax cut worked as it was intended to work, and delivered, I must say, belatedly. I think it should have come a good deal sooner. The economy would have behaved much more satisfactorily if the tax cut had come earlier in 1963 instead of in 1964. You remember it was pending for some thirteen or fourteen months before the Congress before it was finally enacted.

M: Now, comparing this to the surcharge tax of this year, does the surcharge make sense to you, also?

G: Yes, indeed it does. Except again with respect to timing. It came much too late. I think that the case for an increase in taxes was very clear early in 1966. It was almost a year and a half too late.

M: The reason for this being inflation?

G: The reason being that the appearance of strong, fairly visible inflationary forces late in 1965 and early in 1966 fueled by a very buoyant private economy, a high rate of business investment, and a rapidly accelerating level of government expenditures related to the war in Vietnam.

M: So the economic conditions are such that both decisions were correct at the time.

G: I think both decisions were correct. I think both came a good deal later than they should have.

M: Now what about this steel price fight that also occurred?

G: That story has been told, as you know, in the most intimate detail in a good many places. It's a long and complicated story, and I don't think you want me to go into it [in detail].

M: You're correct. If has been recorded elsewhere. I would like to know what your role was in this and your opinion about it.

G: My role was fairly significant. We had some division of responsibility within the Council in the sense that each of us took the lead with respect to particular areas of economic policy. I was the member of the Council charged with the responsibilities for following wage-price developments--it was one of my concerns.

The steel story really starts not in the spring of 1962, but back in the summer of 1961. There was a letter sent by President Kennedy to the heads of the, I think, twelve major steel companies in America, taking note of the fact that the press had reported the likelihood of a round of steel price increases. The President urged the steel companies to hold the line on prices and strongly implied in that letter that if the steel companies would behave responsibly with respect to prices, in the fall of 1961 the federal government would do what it could to assure that the steel workers accepted a non-inflationary wage settlement in the negotiations which were to begin early in 1962.

The letter was initially drafted in the Council. I worked on it. As a matter of fact, the initiative for the whole venture came from the Council. We worked very closely on the strategy of the approach with the Secretary of Labor, then Arthur Goldberg. The letter was changed somewhat in the White House before it was finally sent, but the steel episode really dates from that letter sometime early in September of 1961.

M: Let me ask you one question at this point. Is that kind of strategy unique at all--for the government to take steps in trying to hold down inflation by initial contact with the steel companies; and, in effect, setting up a deal, a bargain for the control of the economy? Is this new or unique in any way?

G: It certainly represented a degree of aggressiveness, of activism, on the part of the President in dealing with a prospective episode that threatened to disrupt the pattern of relative price stability. I guess my answer would say, yes; there were elements of novelty to it. All the way back through the Eisenhower Administration, there were any number of involvements of the White House in critical wage negotiations. Vice President Nixon, for example, was heavily involved in the steel wage settlement of early 1960. But I think there was a degree of activism and aggressiveness in this episode which went beyond anything that happened in the Eisenhower Administration.

M: It was obvious what had happened. You'd been through these steel wage price negotiations before under Eisenhower--

G: Way back under Truman of course. This was an industry which up to 1958 had typically granted very generous, very substantial wage increases, and then fully reflected them--or in some cases more than fully reflected them--in subsequent price increases. There was reason to believe that the inflation which occurred between 1955 and '58 was heavily influenced by steel wage and price policy in that period. So we were very concerned about a resumption of the pattern of wage price inflation in the steel industry leading a broader pattern of inflation in the economy beginning in 1962.

M: Now, was there any formal acceptance by the steel companies of this Kennedy proposal to keep wages down?

G: No. Their replies were very interesting. I think all of the heads of the steel companies replied. Some were very curt. Some were very reasonable and reasoned. But there was certainly nothing in any of the letters which said, "We see the deal you're offering, we'll buy it"--nothing quite that precise. I remember there was a very thoughtful and detailed analysis of the wage-price situation in the reply by Roger Blough, who is president of U. S. Steel. Some of the smaller companies were very brusque.

In any event when the wage negotiations were opened--oh the steel companies, I might say, did not raise prices in the fall of 1961.

M: Incidentally, is Blough correctly assigned the role of spokesman for the industry? Does he serve in that capacity?

G: I don't know that the other steel companies would accept that. He's the head of the largest company, and probably, for that reason tends to be regarded by the press as the principal spokesman for the steel industry.

M: He's cast in that role.

G: He's cast in that role. I'm not sure the other companies would accept the statement that he is the spokesman for the industry. He is simply the head of the most prominent company, and consequently his utterances get more than average attention.

M: Can you say that the other companies follow his lead?

G: No. As a matter of fact, there's plenty of evidence in the circumstances of the last five or eight years that in some cases they don't.

M: Then you got some reply to Kennedy's letters, but certainly no acceptance of a bargain.

G: No acceptance, but as I say, the prediction by the business press that there would be a round of steel price increases in the fall of 1961 were not borne out. This represented, we thought, a commendable degree of restraint on the part of the steel companies. Under the wage agreement which was negotiated early in 1960 with the intervention of then Vice President Nixon, there was a wage increase scheduled to go into effect, I think, on October 1, 1961. It was in connection with that wage increase that the press anticipated the corresponding price increase. The price increase did not occur, and the Administration moved very aggressively to try to influence the wage negotiations and to hold the wage settlement to a non-inflationary level. Behind the scenes Secretary of Labor Goldberg was very active in the negotiations which began early in 1962, and with great success. The final settlement which was announced in April called for a wage increase of about 2½ percent, which clearly was a non-inflationary settlement; and the President was very elated.

M: This was well within the bounds of productivity?

G: Oh, yes. The President was very elated and so were we. We thought that we had forestalled another turn of the steel wage-price spiral; and by delivering on the implicit commitment the President had made in his letter the previous summer, we thought that we had brought the situation to a happy conclusion.

Then, as you know, shortly after the last wage contract was signed, U.S. Steel announced a price increase; and President Kennedy regarded this as a double-cross. He felt he had been betrayed, that he had done what he had promised to do, and had, in fact, through his Secretary of Labor helped to achieve a non-inflationary settlement; and once the settlement was wrapped up in contracts with the unions the round of price increases began. This produced that very angry press conference statement that the President made on the steel price question.

M: Is the public story of Blough coming in and announcing this to Kennedy, much to Kennedy's surprise, and the angry reaction of Kennedy to this correct?

G: Yes, it's essentially correct, except that I don't think Kennedy's reaction when he was talking with Blough was an angry one. His own internal reaction was very strong, but I think he was polite to Blough. He called Arthur Goldberg in immediately and Arthur Goldberg was covered with consternation. This was a development he did not expect. I don't know that the conversation with Blough was particularly tense or heated. It was perfectly clear to Blough that the announcement he had come to deliver to the President did not please the President. But the eruption of anger didn't come until the next morning at the President's press conference.

M: Do you have any idea whether Blough thought he could get away with this?

G: Of course he did, or he wouldn't have done it.

M: Did he have any recognition of what the President's reaction might be?

G: That I do not know. I am sure he knew that the President would be displeased. I'm not sure that he foresaw the intensity of the reaction.

M: So then the next phase of the story is the marshalling of governmental forces to force a rescinding of the price rise?

G: Well, that's a very complicated story. These forces that were marshalled by the government were really very feeble forces indeed. That has been gravely exaggerated. The knock on the door in the night and all the drama and histrionics that are associated with that episode have been greatly exaggerated. Actually, there was not much the government could do except cajole and persuade, and there was a great deal of effort made along those lines. Of course, ultimately the reason that U. S. Steel had to back down was because two or three companies eventually decided not to follow the price increase; and in the steel industry where you've got a relatively homogeneous product, you can't have two prices prevailing for the same product in the same market at the same time. Since some fairly significant companies declined to go along, then U.S. Steel had no choice but to back down.

M: Was the threat of switching contracts possible?

G: Of course. The law requires the Defense Department to buy its supplies from the lowest bidder. This isn't a matter of discretion, it's a matter of law. So the threat to switch contracts to companies that had refused to raise their prices was nothing more than adherence to law.

M: And the fact that the industry was not uniform in this price rise allowed for the breaking of Blough's mission?

G: That's right.

M: Which would be, I assume a fairly good argument that monopoly does not exist in the steel industry.

G: If you mean by monopoly a tight and unshakable collusive arrangement, that's certainly correct. You know, economists don't really talk about monopoly as a "yes" or "no" thing. They talk about degrees of monopoly power; degrees of discretion over price. Clearly the steel industry is neither a model of complete monopoly nor atomistic competition. It's in the imperfect competition area.

M: Then was there any celebration over the success over Blough and the price rise?

G: I can't remember any very jubilant reactions. People were so exhausted, having spent the better part of a week almost without sleep trying to cajole and persuade the holdout companies not to raise their prices, that the reaction was one of satisfaction but hardly of jubilation. Kennedy's first reaction after Steel had backed down was to order all of his subordinates to adopt a conciliatory tone toward the steel industry. This was I think a very interesting response. It was he who had reacted with great anger and who after the victory had seen the need for extending the hand of friendship and understanding to the steel companies.

M: What kind of reasoning could you offer to a holdout company for not raising their prices?

G: Well, one of the companies that didn't move at that time was Inland Steel, as I remember. Inland Steel was headed then, and I think still is, by Joseph Block who is a very thoughtful statesmanlike person deeply concerned about the health of the economy. I know that most of the discussion with the Inland Steel people had to do with the untoward consequences of another turn of the steel wage-price spiral on the health of the economy.

M: So you could appeal to his sense of economic and social responsibility then?

G: I'm sure that was the primary emphasis.

M: It would seem obvious that there would be little else to gain. If all of the prices rescinded to their previous level, you still couldn't promise shifting contracts to, say, a holdout company.

G: If there were any such promises, I never heard of them. I'm not sure that any of the holdout companies gained anything tangible or material from the government as a result of these decisions.

M: Was your role in this phone calls, letters, meetings--that sort of thing? Is that what you did personally?

G: Some of that. But mostly to persuade President Kennedy that his strategy ought to be to focus on the holdout companies and to convince them of the wisdom of holding the line on price for the reason that the characteristics of the industry made it clear that if all of the major companies did not go along, U.S. Steel would have to back down.

M: What other choice would the President have? That was your position in the way to break this price rise: what else could he have done?

G: Most of the persuasion could have been focused on the leaders--on U.S. Steel and Bethlehem. In fact, it was not.

M: You thought this would do no good to do that?

G: There was some contact--I know there was some contact with the major companies, but it didn't seem to me that this was the key to a successful strategy.

M: You did not foresee them backing down from their position?

G: No, I don't think they would have if they had been followed by all the other significant steel companies.

M: So your strategy worked out then. Did you have any trouble persuading the President to go along with your strategy?

G: A little bit, because he was getting advice from other sources that the strategy couldn't possibly work since U. S. Steel would not have moved unless it were certain that it would be followed by all the significant companies. This other source of advice suggested it would be hopeless to try to break off the other companies, since the fact that U. S. Steel moved was in itself sufficient indication that the other companies were already in line. We didn't believe that.

M: This is the thought that there would be a conspiracy to raise prices?

G: Yes.

M: This would be the monopoly action?

G: He was advised by others that there undoubtedly was a collusive agreement and that consequently it would do no good to seek to break off some companies.

M: Can you tell me the source of these other arguments? Did they come from the Council of Economic Advisers?

G: No, they did not. I'd rather not say. There were other people in the government who were urging this view on him.

M: Now in that brief span of time that you were on the Council of Economic Advisers--

G: It wasn't all that brief. Almost two years.

M: Well, for your long and eminent career: You had the tax cut. You had the steel price imbroglio. Are there any other major events of this period that ought to be touched on?

G: There were a number of other major events, but I just stagger at the idea of trying to recount them. For example, the Council was heavily involved in the whole U. S. balance of payments crisis during that period. We were heavily involved in agricultural policy. At one stage President Kennedy was unhappy about the direction our agricultural policy was taking, and he directed that the Secretary of Agriculture consult with the Council before making any major changes in support levels for major agricultural commodities. That was a very important episode in the agriculture field.

The Council--this is also in my area of concern--organized very early in the Kennedy Administration an informal coordinating mechanism for housing credit policy involving the Treasury, the Federal Home Loan Bank Board, the Housing and Home Finance Agency, the Farmers Home Administration, the numerous agencies of government in the business of extending or guaranteeing credit for residential construction. We had a very effective, I think, coordinating mechanism designed to move the various agencies of government in the same direction at the same pace in the housing credit field.

Jim Tobin was influential in the monetary policy area through contacts with the Treasury and the Federal Reserve Board. I'm sure I've overlooked a number of areas, but I mention these just as examples to suggest the scope of activities of the Council in that period.

M: Let me ask you this then. Are you in a position to judge whether there was any significant change in the influence of the Council of Economics Advisers in this time, as far as an agency or a group in government is concerned?

G: Not from personal observation, because I was not of course personally involved in the work of the council during the Eisenhower Administration. So any evidence I would have there is wholly second-hand. With that caveat I can say that it is my strong impression that the Council in the early days in the Kennedy Administration was substantially more influential than it was in the latter days of the Eisenhower Administration.

Now, you remember Eisenhower had two chairmen. He had first Arthur Burns roughly corresponding to his first term and Raymond Saulnier corresponding to his second term. I think the general view--and here let me reiterate that this is not first-hand information-- is that Burns who dominated his Council, I think, in a way that few other chairman have, was considerably more effective and influential with Eisenhower than was the Saulnier Council. This I'm just here repeating what I've heard from people who were involved in the Eisenhower Administration. So that the shift in the Saulnier Council to the Heller Council, I think did represent a very substantial accretion of aggressiveness and influence in the work of the Council. I can't compare it with the Burns Council. The Burns Council was clearly more effective and influential than the Saulnier Council.

M: And the influence of the Council in the Kennedy Administration is based then on both the personality of the men on the Council and the acceptance of the President's position?

G: Oh, yes. Most of the credit here for the impact of the Council on the thinking of the President has to go to Walter Heller. Much of the technical work was done by a first-class staff--it had an excellent staff then--and by the other members of the Council. But the job of convincing the President of the correctness of what we were urging fell very largely to Walter Heller, and he did it superbly. He peppered the President with brief memoranda on the economic issues that were confronting us, superbly written, very effectively argued. The growing impact of these memoranda plus the personal contact that Heller had with the President, virtually on a daily basis, gradually wore away Kennedy's doubts, and I think by the summer of 1961 he had accepted Heller and Heller's Council as a primary source of advice.

M: I think this is a good point to break.

G: All right.

[End of Tape I of I and Interview I]

GENERAL SERVICES ADMINISTRATION
NATIONAL ARCHIVES AND RECORDS SERVICE
LYNDON BAINES JOHNSON LIBRARY

Legal Agreement pertaining to the Oral History Interviews of Kermit Gordon

In accordance with the provisions of Chapter 21 of Title 44, United States Code, and subject to the terms and conditions hereinafter set forth, I, Mrs. Kermit Gordon of Williamstown, Massachusetts, do hereby give, donate and convey to the United States of America all my rights, title and interest in the tape recordings and transcripts of personal interviews conducted with Kermit Gordon on December 16, 1968 and January 9, March 21, and April 8, 1969 in Washington, D.C., and prepared for deposit in the Lyndon Baines Johnson Library.

This assignment is subject to the following terms and conditions:

(1) The transcripts shall be available for use by researchers as soon as they have been deposited in the Lyndon Baines Johnson Library.

(2) The tape recordings shall be available to those researchers who have access to the transcripts.

(3) I hereby assign to the United States Government all copyright I may have in the interview transcripts and tapes.

(4) Copies of the transcripts and the tape recordings may be provided by the Library to researchers upon request.

(5) Copies of the transcripts and tape recordings may be deposited in or loaned to institutions other than the Lyndon Baines Johnson Library.

Mary Gunnell Gordon
Donor

November 3, 1980
Date

[illegible]
Archivist of the United States

Nov. 12, 1980
Date