INTERVIEW II

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INTERVIEWEE: KERMIT GORDON

INTERVIEWER: DAVID McCOMB

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

Tape 1 of 1

M: We can start at the top of the list here and take up where we left off the last time. I'd like to know something about your appointment to the Bureau of the Budget.

G: I was a member of the Council of Economic Advisers. I came in with President Kennedy in January 1961. I had planned to serve for two years as a member of the Council and to return to my teaching post, which was at Williams College, early in 1963.

In the late fall of 1962, the directorship of the Agency for International Development became vacant. President Kennedy, after surveying the problems, decided that the right man to put into that job was David Bell, who was the director of the Bureau of the Budget. He was Kennedy's first budget director. Bell rather reluctantly agreed. I think that he would have preferred to stay in the Budget Bureau, but felt some obligation to go where the President felt was most useful, and he agreed to it.

Sometime in late October perhaps or early November of 1962, Ted Sorensen called me in and said that the President wanted to talk to be about the Budget directorship. I went in to see President Kennedy, and he asked me to take the job. This involved considerable personal dislocation since my family had already returned to Massachusetts, expecting me to return shortly after the turn of the year.

But I talked it over with my wife and the opportunity seemed to me to be too exciting to decline. I accepted. And my family came back to Washington.

I took over in the Bureau of the Budget at a rather unfortunate time. The Budget cycle is a rigid cycle, and a single Budget Director ought to complete the cycle. But since it was felt to be very desirable to get David Bell over to AID just as soon as possible, I actually took over the directorship late in December which was right at the last stage of the process of putting together the 1964 budget. In effect, that budget was a Dave Bell budget which I had to defend. By the time of course the budget was transmitted to the Congress, it was my responsibility. This wasn't particularly difficult since I though it was a very good budget and an easy budget to defend. But it was still a case that although I had no part in the decision making in the budget, it was my document and my plan to defend.

M: Isn't it true that the Council of Economic Advisers had worked closely with the Bureau of the Budget though?

G: Yes. The Council of Economic Advisers is of course a sister agency in the Executive Office of the President, and we were not wholly unfamiliar with the broad strategy of the budget. But from the point of view of the Budget Director, the budget is about 10 percent broad strategy and 90 percent minute detail--decisions on thousands and thousands of issues relating to particular programs and policies and on-going activities. So that although I had a sense of the basic strategic positions that had been made, I had to bone up pretty rapidly on the minutiae of the budget.

M: Was the so-called Troika in operation by this time?

G: Yes, it was. The Troika existed before it was semi-formalized and called the Troika. The Troika existed simply as periodic consultations of President Kennedy with the Chairman of the Council, the Director of the Budget, and the Secretary of the Treasury. But I can remember meetings of that group in 1961, so it was formed quite early in the Kennedy Administration.

Walter Heller invented the word Troika, and it stuck. The body, although it was a very influential and a very important body, had no formal terms of reference. It was never established in the sense of the President signing an executive order establishing it. It just came into being.

M: And the Quadriad.

G: This was again a Walter Hellerism. It was simply the Troika plus the Chairman of the Board of Governors of the Federal Reserve System, Bill Martin. In the Kennedy Administration, the Troika, of course all of whom were officers in the executive branch responsible to the President, met frequently with the President to discuss the broad issues of economic stabilization policy and balance of payments. On occasion, particularly in circumstances in which the dimension of monetary policy, credit policy, seemed to be important, Bill Martin was invited in to join this group. It was that group that was dubbed the Quadriad.

M: It's my impression that the Bureau of the Budget is one of the most important agencies or organizations of the executive branch, and would seem to be in on most all policy decisions involving money and items that might have impact on the budget. Is that correct? Is it sort of a central agency in the executive branch?

G: Well, the Budget Bureau gets rediscovered by the press about once every six or seven years. The tradition of the Budget Bureau is to maintain a degree of anonymity as a staff agency to the President. The press every once in awhile discovers that it's a pretty important agency, and this is called to public attention. But then interest subsides and it fades back into its normal anonymity for a further period. It's not an easy question to answer.

The Bureau of the Budget, to put the question in the simplest terms, is an important function--it's an enormously important function! It is the main staff capability that the President possesses to keep him informed on the policy problems arising throughout the executive branch with respect to program policies, expenditure policies, compatibility of policies being pursued in different agencies; and of course it is the instrumentality the President uses both to control the spending of executive branch agencies and to formulate each year, under his direction, the federal budget.

There's a great deal of misunderstanding, I think, about the degree of independent authority and power that the Budget Director exercises. I would certainly not go so far as to say that the Budget Director exercises no independent authority or power. Of course he does. But to say it that way, I think is really quite misleading. Any Budget Director who is worth his salt regards himself as an extension of the eyes and the ears of the President. Most important, most critical, vital, sensitive decision-making issues which come through the Budget Bureau are checked personally with the President; or, perhaps more so in the Kennedy Administration, with a special assistant to the President who is known to reflect the President's understanding and views. There are a whole host of what you might call second level or third level decisions, not of the highest importance or urgency, which are nevertheless significant enough to come to the Budget Director. Here the responsibility of the Budget Director to try to read the President's mind to stay close enough to the President to know enough about views, attitudes, priorities, and quirks of presidential thinking, to decide these issues as he knows, or at least is fairly certain the President would decide them. To the extent that the Budget Director is on the President's wave-length, is reading the President's mind correctly, he can be an enormously useful adjunct to the presidency by looking at the second and third level issues through the President's eyes--to the extent that he has that capability.

So you see it's awfully hard to say how much independent power the Budget Director exercises. In a sense very little; because if he sought to exercise a decision-making authority, quite independent of presidential priorities and preferences, he would soon be undercut. Any executive branch agency head is always free to go directly to the President if he can get an appointment, and most of them can, so that the Budget Director is not in any sense a final authority. If the Budget Director is reading the President's mind correctly and is calling them as the President would call them, when the decisions are appealed to the President, the President will back him up. When the word gets around in the Executive Branch that the Budget Director is reading the President's mind accurately, these appeals to the President diminish. It then is accepted by agency heads that the Budget Director is close enough to the President to know how the President would have decided it. Consequently they tend to accept in the second and third level issues the Budget Director's decisions as equivalent to the President's decision.

But it's really a very subtle matter. The Budget Director is in fact a staff officer serving the President; if he is loyal to his primary obligation, he is not really exercising a high degree of independent personal authority. He is trying to act as a surrogate for the President to decide issues the way the President would.

M: Is it sometimes difficult to decide what is a first level and, say, a second level decision?

G: Oh yes. I'm sure this is a continuum, not a discrete set of categories. I suppose one would have to answer that by saying that there are borderline cases that the Budget Director has to make a judgment, knowing about what is on the President's mind that day or that week, as to whether to take it for the President. If there is doubt in his mind as to whether or not to go directly to the President, and if for example this happens to be a week of a grave national security crisis, the Budget Director will decide not to bother the President and to decide it on his own. On the other hand, if it is a week in which access to the President is reasonably easy, the Budget Director will go to him.

M: There is no set criteria to guide you in what is a first--

G: No, and even the amount of money involved, you know, is not an infallible guide. Many of the most sensitive and potentially explosive policy issues that come through the Budget Bureau involve relatively small amounts of money. The number of dollars is not necessarily a measure of the political or policy sensitivity of an issue.

Let me clear up another point that's related to this. It occurred to me for the first time when shortly after I went into the Budget Bureau I was having lunch one day with one of the best Washington newspaper reporters who covers the economic financial scene. He asked me what the principal issues were that I was worrying about that day; and I ran down a list of issues. His reaction was, "Well, those are policy issues, not money issues!"

And I said, "Come, come, you know better than that. You've been around long enough. There are no important money issues which are not policy issues. There are some policy issues which are not money issues." But the notion that the money judgments are separate from the policy judgments--of course, it takes very little contemplation to conclude that there is no such distinction; that in fact the major money issues, or even some of the minor money issues, tend to be decided on what would normally be termed policy grounds. There is no such distinction, and to say as some people have in the past that the Budget Bureau should stick solely to money matters and leave policy matters to others is just nonsensical.

M: How much of the budget can actually be controlled? Say you're going into an economic recession, and you want to spur the economy. What can the Budget Director do about this? Can you turn the funds on and off like a faucet?

G: There are faucets, and you can turn these faucets on and off. But first of all, the extent to which you can do this is sharply limited. I wouldn't want to pull a figure out of the air. But we've got now a new budget concept which is approaching 200 billion dollars. Only a very, very tiny part of that is subject to the kind of manipulation in timing that you allude to. Obviously, the Budget Director can't pull money out of the chandelier. The only money available is money that has been appropriated by the Congress.

What can be done, of course, is to accelerate or decelerate the disbursement of funds; and there have been times in the last decade when such acceleration or deceleration has occurred. My own view, and this is a policy matter with which I think many people agree--some would disagree--is that trying to alter the rate of spending in a short period for purposes of economic stabilization is a very, very inefficient way of seeking to stabilize the economy. It is hard enough to assure that federal funds are spent efficiently in achieving the goals of the programs in which they're being spent without at the same time taking on the additional responsibility of trying to stabilize the economy by speeding up or slowing down the expenditure funds. Invariably stretching out projects--construction projects for example--will increase the total costs. This means if you stretch it out, you've got to shut down portions of the project; you've got to make termination payments to contractors. There are all kinds of technical matters which result in an increase in the cost. Accelerating projects tends to have the same effect.

In my view, the flexible element in fiscal policy, in government's stabilization policy, ought to be taxation which can be adjusted much more rapidly with much less inefficiency than can the rate of government spending. I always, although in some circumstances we had to try to alter the rate of spending, argue and would continue to argue for the use of taxation as the flexible element in stabilization policy rather than the use of expenditures for that purpose.

M: Now in adjusting taxes, you have Congress to deal with.

G: That's right.

M: Now that's going to take away some of your flexibility.

G: This is one of the reasons I think that the next major step forward in achieving a sensitive and effective stabilization machinery is going to have to be some limited delegation of authority to the President to initiate the revision of income tax rates for short periods. This is a proposal that was made first by President Kennedy in 1962. It was made before that by the Commission on Money and Credit which reported in the late 1950's. It's an idea which is still alive, and it may be a long time before we come to it. I think it is a highly desirable reform that will enable fiscal policy to operate much more efficiently to stabilize the economy than it has been able to operate up to now.

If, for example, it seems to me, there's no question in my mind that if such power had been held by the president in this recent inflationary period starting in the middle of 1965, the President would have exercised it in early in 1966. I feel morally certain of that, and many others who were involved in those deliberations in 1966, which was really the critical period, I think share the view that the President would have acted if he'd possessed the power. He would have gone to Congress early in 1966 if he thought that there was a good chance that Congress would enact a tax increase. He was convinced that Congress would defeat a proposal to raise taxes and so he didn't do so.

On the difficulty of using spending as an element of economic stabilization, the best example I can think of is a program that was called Accelerated Public Works Program, first authorized and funded by the Congress, in the fall of 1962. This was an emergency public works program designed essentially to reduce unemployment, stimulate the economy. The program provided that grants would be made to states and localities for public works activities of a sort which could be completed in a short time. I think there was a one-year limit on the length of the projects that would be financed with this money. Well, the money was first appropriated in late 1962. The last time I looked they were still spending--they were still spending some of this 1962-63 money in 1967. And a better example of inept timing is hard to imagine. In 1967 the last thing in the world we needed was an increase in public works spending to reduce unemployment. We were then in the middle of a very severe inflationary outbreak. This is an example of the difficulty of timing public expenditures for stabilization effectiveness.

M: Was the delay in this emergency public works due to red tape or the nature of the projects?

G: It was due to the fact that construction takes time, particularly when it's done through machinery of government. It means that first project has to be identified and approved. And then the architect has to design it. And then an invitation to bidders has to be issued. And then the bids are submitted, and they're reviewed. And then the contract is awarded to a contractor, and it takes some time before he can get his men and machinery on the job. It is just a lengthy process, and the notion that you can respond quickly to a slump in the economy with this kind of device I think is just wrong.

M: I would suppose too that once you start one of these projects it's hard to stop it.

G: That's right. As we saw. They were still going on in 1967.

M: And some of them, I suppose, you wouldn't want to stop. Say, you're building a road; you just can't end it in a corn field.

G: Or if you're building a county courthouse, it's kind of foolish after you've got two-and-a-half stories completed not to put on the third story.

M: So by the nature of public work projects, they would be long-running. Now what kind of discretionary tax power would you give to the President?

G: There are many forms of this idea. The form that appeals most to me is an arrangement much like the pattern of the Reorganization Act. Under the Reorganization Act, as you know, the President is authorized to submit executive branch reorganization plans to the Congress. If the Congress does not act to override the plan, to reject the plan, within sixty days the plan automatically goes into effect, so that Congress is empowered to act negatively. The difference of course is that you don't require a positive act from the Congress to institute a reorganization plan.

This device seems to me very well adapted to this purpose. I would like to see legislation under which the Congress would set standards that would first make clear the purpose for which this authority was to be used; would indicate what measures of economic activity were to be taken into account by the President in deciding whether or not to exercise this authority; would specify the kinds of tax changes which the President could propose. One that I like would be a decrease or an increase in the rate of income taxation up to the five-point increase or five-point decrease a range of ten points, so that the President would be free to raise income taxes by 1 percentage point--4 percentage points, or 5 percentage points, or reduce them by that amount. The President would send the proposal to Congress; it would lie on the table and if neither house acted negatively within thirty days perhaps, it would automatically go into effect for, say, six months; and could be renewed again by the same process. There are a lot of variants on this scheme, but something along those lines seems to me the best scheme.

M: Have you reflected on the constitutionality of such a--?

G: There's no constitutional question. That's a red herring. You're talking about the delegation problem, the delegation of the legislative function to the President.

M: The idea that taxes have to originate in--

G: In 1934 the Congress made a delegation of tax authority to the President much more sweeping, much more massive, much more unqualified than anything that's now contemplated; and the constitutionality of that act was upheld. I speak of the Reciprocal Trade Agreements Act of 1934, which was a delegation of tax authority--import duty is a tax--to the President. And there was no insuperable constitutional question. A lot of people raise the constitutional point on the basis of this precedent. I don't think it's a valid one.

M: Do you think the income tax would be responsive enough for the control of the economy? The reason I ask this is that seemingly under the surcharge spending has nonetheless continued.

G: I wouldn't quite go that far. I think the tax surcharge which was instituted last summer has had some restraining effect, but the restraining effect has not been nearly as great as many people expected--as I expected it would have been by this time. What happened, the second half of 1968, was a reduction in the personal savings rate which cushioned the reduction in disposable income. In other words, the impact of the increase in income taxes was in large part on savings rather than on consumption expenditures. This, I suppose, is a factor which weakened somewhat the effectiveness of income tax changes in achieving high efficiency in altering the rate of spending. What it probably means in retrospect is that for stabilization purpose the surtax was too small. Clearly savings do not constitute an infinite cushion. Savings can absorb some of the impact of an increase in taxes. I think we learned a lot from this experience. Although I won't say that there wasn't some speculation about this in advance, but we learned that savings can in fact cushion the substantial part of an increase in income taxes. Maybe what this indicates for the future is that this factor will have to be taken into account in deciding on the size of the tax increase or tax reduction that's appropriate in circumstances. I wouldn't say that the increase in the surtax was ineffective. I think it has softened the economy somewhat in the fourth quarter in 1968, and I think this softening is going to be even more visible in the first half of 1969.

M: Since you were Budget Director, you obviously had some contact with the Federal Reserve System--at least through the Quadriad. Are you satisfied with the work of the Federal Reserve System in monetary control of the economy?

G: I'd hesitate to make a sweeping judgment on that question. I was perhaps closer to monetary policy decision-making in the period when I was in the Budget Bureau than I have been since. I am aware of the fact that there has been a good deal of criticism about over-reaction on the part of the money managers, particularly in the last three years. The great credit crunch of the summer of 1966 is often pointed to as an example of monetary policy misfiring. I wouldn't want to utter a single judgment on the wisdom of monetary policy.

I think the problem has been enormously complicated for the Fed by the balance of payments dimension. It has been necessary to make monetary policy decisions not only in the light of the state and needs of the internal economy, but also in the light of the effect of these decisions on the balance of payments. This is a very, very complex confining kind of climate in which to make these decisions. I do think that the quality of the Board of Governors today in the Federal Reserve System is certainly better than at any time in my memory. I think the capabilities of the members of the Board of Governors and the staff--it's also a first-class staff--looking at it in those terms, I have a very high regard for the board, but I would not want to try to second-guess the decisions that have been made over the last three years when I really haven't been very close to the situation.

M: Is the independence of the Fed necessary and worthwhile, especially in respect to stabilization of the economy?

G: Here you've got to make clear whether you're talking in the abstract about the best structure of relationships in the federal government, or whether you're talking pragmatically, realistically about the present situation as it seems to work. If I had my druthers, if I were starting from scratch in designing the United States government as I think it would work best, I would move in the direction of some further degree of subordination of the Federal Reserve Board to the President by a variety of means. Certainly in any case I'd make the term of the chairman practically coterminous with the term of the President, so the President could pick his own chairman for the Board. And there are other things I think of that could to done to assure a higher degree of consistency between the policies of the executive branch and the Fed.

But looking at it pragmatically and realistically, I don't think this has been a very serious problem in recent years. The degree of cooperation between the Fed and the Executive Branch through the 1960's has been excellent--just excellent! If you're concerned about neatness in organization charts, you might worry about the present situation. If you're concerned about performance, you're a good deal less worried.

In the 1960's the only clear conflict that erupted between the Federal Reserve and the Executive Branch was the decision of the Fed in December 1965 to raise the discount rate. Well, that wasn't nearly as much of a conflict as it appeared to be on the surface. There was a good deal of covert support within the Executive Branch for that act. It did not leave, I think, a residue of bad feeling. It was really a disagreement, the magnitude of which was exaggerated and overplayed. I don't think it was a very deep disagreement. It was a disagreement essentially over timing.

The reason that the Federal Reserve is able to preserve its formal and nominal independence is because it does not choose to exercise it very much. If the Federal Reserve chose to throw down the gauntlet to the President and to adopt a pattern of policies quite inconsistent with the policies the President was pursuing, the President would have to meet the challenge. The consequence I think predictably would be a diminution in the formal independence of the Fed. The Fed understands that and, in consequence, I think you get a degree of a coordination of policy much greater, much more satisfactory than you would expect simply by looking at the formal organizational relationship.

M: Do you remember or can you tell me anything more about the seeming disagreement in timing in 1965?

G: Well, it was clear that some restrictive action, some restraint, through the instrumentalities of the federal government, was necessary. The view of the White House was that the Fed should have deferred a decision until its decisions were made by the President on the budget which was to be submitted to the Congress the next month. This was really a question I think of the degree to which monetary decisions were to be coordinated with fiscal decisions.

M: Is the basic problem here the increased expenditure in the Vietnam war?

G: Oh yes. This was the basic problem. This was the main source of the increased government spending which was certainly an element in the total picture of excess spending in the economy. The President, you remember, did propose a limited and modest tax package, certainly minor taxes, in January, 1966. I don't know--it's conceivable that that package might have been stronger, it might have involved somewhat more restraint on the fiscal side if the Fed had not moved, in the eyes of the White House, prematurely on monetary restraint in December. So I think the view of the matter that was held in the White House is the Fed jumped the gun in making its decision independently of knowledge of what the President proposed to do on the fiscal front.

M: But the decision and the consequences of it have been exaggerated?

G: I think greatly exaggerated. Well, in retrospect now, considering the fact that inadequate fiscal restraint was applied in 1966--the President did not ask for a major increase in taxes; and I think the reason for that was because he didn't think he could get it. But in view of that fact, I think few people would now be disposed to argue that the increase in the discount rate in December '65 was a mistake.

M: There is also the idea in that period of time that the fiscal decisions were based on the idea that the Vietnam war would shortly be over, or at least within a year. Is this true?

G: Certainly nobody in 1966--nobody in authority--thought we would still be fighting an apparently unsuccessful war in Vietnam in January 1969. And there were some unfortunate statements made in that period about how soon the troops would be back from Vietnam. So I think what you have said is a fair statement.

M: I'd like to ask you now a little bit about the internal workings of the Budget Bureau. Did McNamara's cost benefit ideas--PPBS--influence the Budget Bureau at this time?

G: Oh very much, very much! This was a process that I think began--it's awfully hard to date the origins of any important elements, developments. You can trace them back practically to the beginning of history. But the success that McNamara had in the application of systematic analysis to the problems of choice in the Defense budget were most impressive, and I was well aware of them while I was running the Budget Bureau and introduced, even as far back as 1963, an effort to press the agencies into a more systematic and rigorous approach to the evaluation of the programs they were running and an examination of the alternative strategies which were available to them.

The main step, however, came after I left the Budget Bureau in August of 1965 when the President directed the extension of what came to be called the PPB system to all agencies of the federal government. So this was the major decision. This was just a couple of months after I left, although there were origins that went back into my time. Unquestionably the success of this technique, as it was used in the Defense Department, was a very important influence in the decision to try to extend this kind of approach to the rest of the federal government. So it was very important.

M: Are there limitations on how far you can quantify some problems and measure the goals?

G: Profound limitations, very profound limitations, of course.

M: I can see how it might apply to a military situation perhaps easier than, say, to housing or education.

G: It's very hard and there are problems of application both in the Defense sector and the civilian sector. Let's be clear on what the system really accomplished under McNamara. There is nothing in the PPB system which enables you to determine on the basis of objective logical analysis what level of defense is optimal for the United States; that is, whether we ought to spend fifty billion a year or sixty billion or seventy billion or a hundred billion or a hundred-and-fifty billion. There's nothing in the system that helps you to answer that question. There is, I think, very little in the system which enables you to make choices, for example, between adding another billion dollars a year to research and development or adding another billion dollars a year to conventional forces. That is pretty much a seat-of-the-pants judgment. Where the system is effective is in identifying clearly a goal, an objective, of Defense policy; of say, "we want to have this level of capability," and then to say, "there are five or six ways we can achieve that level of capability--what is the most efficient way of doing it." For example, in strategic nuclear capability, the simplest example is the choice between bombers and missiles. Now this kind of question can be analyzed very effectively. This is a case where you can set an objective. The objective may be a secure second-strike capability, the ability to absorb a first strike from the enemy and to destroy his society after absorbing the first strike. That's a fairly precise goal.

Now PPB won't tell you whether that's the right goal or not, but it's a goal. PPB can tell you a good deal--cost effectiveness analysis, which really is a better phrase, can tell you a good deal about what's the most economical way to achieve that level of effectiveness.

So the device is of limited applicability, even in the Defense sector, and it has the same kinds of disabilities in the civilian sector. Cost effectiveness analysis will never tell you whether the country would be better off by putting another five billion dollars into education as opposed to health research. These are incommensurable. There is no way of measuring the contribution to welfare to national objectives, of education versus health research. But within the educational sector, particularly within--

M: Excuse me. You're saying that you can't measure whether it's better to have better education or better health. Is that it essentially?

G: Yes.

M: And that would be a judgment that would have to be based on subjective--

G: That's a judgment that would have to be made the way these judgments have always been made in our national history, in some sense a reflection of the attitudes and visceral feelings of the President, the Congress, the people. But, within the educational sector, if the objective is to improve the effectiveness of primary education for low income students, you can say what you mean by improving the effectiveness of education. You can establish measures--reading ability etc., objective tests of ability. You can say what you mean by improving it and then you can analyze the effectiveness of alternative approaches. So that once you've established an objective, preferably in quantitative terms--not necessarily money terms, but quantitative terms--you can analyze alternative ways of achieving this objective and select the one which is most efficient. So there are vast opportunities for the application of cost effectiveness analysis in the civilian sector just as there are in the Defense sector. And there are limitations on the extent to which it's a useful device in both sectors.

M: Is electronic data processing equipment and technique necessary for this system?

G: No, it's not necessary for anything. It's just that in some applications it saves you a lot of time and money. But really a computer is really nothing--you can't do anything with a computer that you can't do with, say, a hundred thousand morons sitting in a great big room, each with a pad and a pencil. It's just a lot faster and a lot cheaper.

M: The point is that the evolution of this system--this idea this tool of analysis, PPB--was not necessarily dependent on the technological developments.

G: Greatly facilitated by it, but not dependent on it, no.

M: Now what about these Brownlow-Merriam studies?

G: Way back in the '30's, you mean?

M: Apparently this had something to do with the evolution of the Bureau of the Budget.

G: This was the--what was it, the President's Committee on Administrative Management, I think was the name. It was a committee appointed by President Roosevelt in the late 1930's that resulted, I think, in one of the most creative and successful advances in government management that we've ever seen. It was a wise and farsighted and sophisticated group of men. What came out of that report was a number of things, but mainly the creation of the Executive Office of the President. The Executive Office of the President did not exist before that time--and the shift of the Bureau of the Budget out of the Treasury into the Executive Office of the President and a conception of the role of the Bureau of the Budget which was very farsighted, which was not too different from the role that the Bureau of the Budget has tried to fulfill in the last twenty years.

M: Then from your point of view, the Director of the Bureau, these studies and their concept of what the Bureau should be, were fairly accurate, and therefore the study was [worthwhile].

G: Quite. The Budget Director who probably did more to shape the modern Bureau of the Budget than anyone else was Harold Smith, who was the

Director of the Budget during the war. I forget exactly what his years were, but his tenure in the job was quite lengthy. He must have been director for perhaps six years or more. This was immediately after the Brownlow-Merriam report. And Smith reshaped the Bureau of the Budget into its modern form. Certainly the ideas stem to considerable extent from the Brownlow-Merriam committee, but the execution of the ideas, I think, has to be attributed mainly to Harold Smith. In a sense he is the father of the modern Bureau of the Budget. He served, I think, till 1946 or '47.

M: I'd like to move along to this next question and ask you about your reaction upon the death of President Kennedy. Now if you wish, we can delay this until next time.

G: No, I can go on. I've got another ten minutes or so.

Well, it was pretty shattering.

M: There must have been a personal reaction, but then there's also a professional reaction, I would guess.

G: Yes. Everybody of course can tell you exactly where he was and what he was doing when he first heard the news. That's the way these shattering events register in people's minds. We were deep into the final stages of the budget process on November 22.

M: Is this the second budget you're preparing now?

G: This was really my first budget that I carried through from beginning to end. The previous budget I had taken over from Dave Bell, but it was the first budget I had carried through from beginning to end.

I saw President Kennedy on Wednesday--that must have been the 20th of November; saw him in his office for about an hour on a number of issues. And I told him that I wanted to have my first lock-up meeting with him the following week, if possible--that is, final decisions on a number of major budget problems. And he set a time--he gave me an appointment on Wednesday, November 27th, if I remember correctly.

That afternoon--on the afternoon of Friday the 22nd--was the final meeting that I had with the Secretary of Defense, Bob McNamara, on unresolved issues between us on the Defense budget. The two staffs had worked together for a long time and we had resolved a number of issues, either at the staff level or in consultation between us. There were a number of residual issues, some of them quite important, on which we were to have two meetings. We had already had one. This was the final meeting. It was in his office, convened I think at lunch if I'm not mistaken on Friday the 22nd; and we were around the table with Ros [Roswell] Gilpatric, the Deputy Director of Defense. Mac Bundy was there; Jerry Wiesner was there; Carl Kazen was there; Elmer Staats of the Budget Bureau; Alain Enthoven; and a number of others. There must have been four or five other people around the table. We had an agenda of issues that we were going to talk out at that meeting.

We'd hardly started when an aide to Secretary McNamara came in--sergeant, I think--and handed him a little note. He looked at the note and said, "Excuse me," and asked Ros Gilpatric to chair the meeting while he was out of the room. He was gone I think for perhaps ten minutes and we continued. He came back looking ashen and he said he had to stop the meeting. He wanted to tell us that President Kennedy had been shot.

Well, this was a stunning thing. The people in the meeting just sat--just sat! Somebody asked whether he was still alive, and the answer was "yes," that he had been rushed to a hospital. We were all so stunned I think we must have sat there waiting for more news. No one left his chair for perhaps--oh I forget--I guess fifteen-twenty minutes. By that time we got some further news flashes, and it was then pretty clear that he had been fatally and mortally wounded; and Bob McNamara said he didn't see that there was any point in our sitting there. We'd probably want to go back to our offices, and we left.

I went back to my office, paced the floor without knowing quite what to do, heard over the radio that he was pronounced dead. I then began to think about what my presence in my office could accomplish that afternoon, and I decided none. For personal reasons I wanted to be with my family, and I just got in the car and went home and spent the rest of the day with my family.

The next day I began to think again--

M: This was Saturday?

G: Saturday. I began to think for the first time of my responsibilities and how this terrible thing had affected them. Of course, my first concern was with keeping the budget on the track. The President has a statutory responsibility to present the budget to Congress within two weeks after it convenes; and that was then very soon--within six weeks or so, a little more than six weeks. So I sat down and wrote out in longhand a one-page memorandum to the new President that did two things: First, it described very briefly what the functions and responsibilities of the Budget Bureau are. I thought this might be necessary because so few people in the Congress really know what the functions and responsibilities of the Budget Bureau are. Then I said that it was awfully late in the budget cycle, that a great many tentative decisions had been made, but that if he were prepared to devote a great deal of time to mastering the budget and its problems, there was still time for him to make the budget his budget. I had this typed and sent it down to his office which was then--let's see, I was on the second floor of the Executive Office Building. The Vice President's office where the new President was working was on the same floor on the east side of the building.

I sent the memorandum down to his office and got a call from I forget who it was, perhaps Jack Valenti. He said the President wanted to see me the next day, which was Sunday. I saw him I think at 6 p.m. with Elmer Staats, who was my deputy. I tried to describe to him the nature of the burden on him that he would assume if he decided that he wanted to make the budget his budget. He said he did and that he was prepared to devote the time to it.

That meeting, of course, began what was probably the most hectic period in my life, a solid month of meetings with the President--morning, afternoon, night, Saturdays, Sundays--reviewing the whole budget from stem to stern, and getting from him the decisions that he had to make with the briefings that I was able to give him on the background of each of the issues. And it came out as his budget; starting November 24 and ending very early in January, he made the budget his budget.

M: Did you have to educate him about the workings of--?

G: I sure did. You know, it's a curious thing. The Executive Branch and the Legislative Branch of the United States government are coordinate branches of the government, and one would assume that a person who has been in the Legislative Branch for a long time would know a great deal about the way the Executive Branch works. That is a false assumption.

President Kennedy was very poorly informed about the nature of his duties as he learned them when he came in, and so was President Johnson. Although President Johnson when he was a Senator was a member of the Senate Appropriations Committee, he somehow had never really fully mastered the intricacies and the technicalities of the budgetary process that he had to master when he was President, but he was a very quick study.

M: He understood what you were talking about then? He learned?

G: He learned in this intensive four or five week process. But I can't honestly say that he came very well prepared with the technical equipment to understand this problem.

M: Did you say he did?

G: He did not, nor did President Kennedy. It's very curious. It's hard for me to understand why this is so, but I've seen it in two Presidents. The world looks so different and operates so differently from the Executive Branch than it does from the Hill. Although service on the Hill may be excellent training for the Presidency and the kind of leadership in a political sense, it is not very good training for the President in his role as manager and administrator.

M: Why don't we break at this point and take up with the President next time?

G: Very good.

[End of Tape 1 of 1 and Interview II]

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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.

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