

## INTERVIEW I

DATE: May 8, 1987

INTERVIEWEE: WILLIAM McCHESNEY MARTIN

INTERVIEWER: Michael L. Gillette

PLACE: Chairman Martin's residence, Washington, D.C.

Tape 1 of 1, Side 1

M: I had a stroke not long ago and my brain doesn't work as well as it used to, but I will do the best I can for you.

[Answering question:] That's a matter of judgment, of course, but I was fortunate that I had a very warm friendship with Dick Russell, who was a senator from Georgia, and he had good friends in the Pentagon. This is one of the problems you always run into in government. Dick Russell would call me and tell me what the expenditures were at the time, you see, and I'd say, "Well, that isn't what I'm getting from the Treasury."

G: Is that right?

M: This happens all the time in government. I haven't got my notes but it was true. I had better information than [Henry] Fowler or [Joseph W.] Barr had about the list of expenditures that were being passed out. And that's the key importance. So I was well ahead of them when it came to talking about inflation. I just cite that as an instance of what often happens in government: I had better information than the Treasury had. [It's] nothing to brag about or anything, but that was how it was sometimes.

But Dick Russell used to sit in this chair over here. We'd come in here. I knew him very well. He was from Georgia, and I had been chairman of the Berry Schools in

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Rome, Georgia, for many years. So I had quite a few friends down there. And he would come in here and he would tell me, "Bill, the inflation is terrible. I hope you're doing something about it." And I'd say, "Well, Dick, I'm doing the best I can. I don't know how you measure these things but as far as expenditures are concerned, we're just going overboard. That is something that concerns me very much. I will talk to Doug Dillon about it; it concerns him, too. I think this is something that has got to be watched." So that's really all that there is to that area, except that frequently various departments of the government have different figures. It would be nice if they didn't, but they do. And I was never one to try to usurp my authority or to make blanket assertions that I couldn't stand by. And I went to the President, oh, I'd say four or five times and told him my problem.

He was a great friend of Dick Russell's, too. He told me once that he thought Dick Russell would make a good president. They were really good friends.

G: Close.

But why wouldn't the Pentagon give Treasury the same Defense Department projections as they would give Senator Russell? What would account for the difference?

M: Who knows? But there's always a lot of politics in everything and the Defense Department at that time was not very--they and the Pentagon were not getting along very well.

Dick Russell was a splendid fellow, a wonderful fellow, an interesting fellow. I liked him very much. But he was a little bit crusty and a little bit arrogant and, as I say, I had this very nice relationship with him which I never took advantage of. But I got an appointment with the President several times through him.

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G: Did you?

M: Oh, yes. I didn't keep a record of these things. There was no reason why I should.

Well, you go ahead and ask me anything you--

G: What I would like for you to do is describe your discussions with either Henry Fowler or the White House before the [Federal Reserve] Board actually voted to allow the two banks to raise the rate from 4 per cent to 4 ½ . Remember, that was on December 3, 1965, just before you were scheduled to go down to the Ranch for a Quadriad meeting.

M: December 4, yes. Well, I remember that period pretty well. I have to take it in sweep, as I do all of these things. I certainly don't mean to imply that I knew more than anybody else about what was going on but I did follow it pretty carefully.

I decided in the spring of 1964--I think I'm right on this--that we were in real trouble and that inflation was building faster than we'd be able to halt it. I expressed that fear to Joe Fowler, which I'm sure he would confirm. Joe Fowler was a wonderful fellow to work with. You could express your doubts or anything to him directly and he would not take advantage of you. He was really one of the best public servants I ever had the pleasure of working with. We didn't agree on a lot of things but we would hammer it out, you see; I had a very warm relationship there. And in, I think it was probably February or March--now, don't hold me to these dates because they're not important--anyhow, I made up my mind that we were letting things get out of hand. So I took it up with my board and I had some sympathy there, but most of my board didn't think it was as serious as I did.

Walter Heller, who was a very able man and one for whom I have great respect and a real sense of friendship, would get hold of me and he'd tell me, "Now, Bill, I think

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you're leaning too hard on this break and I just don't think the situation is as serious as you think it is." And I'd say, "Well, Walter, that's a matter of judgment but as far as I'm concerned, and I will let you know it right now, I have only one responsibility and that's in this field of interest rates. Your responsibility is much broader and you talk to the President about a variety of things and I'm going to talk to him the same way. But I do think that we have a difference of view here and it concerns the budget." And he always took that good-naturedly. As you can see in your papers there which you let me have, I wouldn't say he was on my side but he leaned in my direction.

So probably in February or March [May 5?] of 1964, I got an appointment with the President. I didn't often get an appointment alone with him, but I got an appointment alone with him this time. I don't know what sort of records they kept in the White House on this thing, but I went to him and I said, "Mr. President, these are important matters. I want to just let you have my view. This is where the Fed comes in. I think we're in serious trouble and I think we're heading toward an inflationary mess that we're not going to be able to pull ourselves out of if we let it get much further ahead of us. I just want to keep you posted." He said, "You really think it's that serious?" I said, "Yes, I do, Mr. President; I wouldn't be wasting your time if I didn't think so." He said, "We'll talk about it." I don't know how well you knew Lyndon Johnson but I got to know him reasonably well. I don't mean that I knew him better than other people but I went to him on quite a number of occasions. I said, "Mr. President, I just hate to be put in this position but I just disagree with you."

He was a fascinating man. I had a lot to do with him and I ended up having a good deal of respect for him. He had a passion for secrecy and he would blow things up.

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I admit he was a little bit miffed with me. But I tried to be honest and--oh, I could write a book on my relations with Johnson.

G: How did he react in the spring, in March [May 5?] 1964, when you expressed your fear that we were going to have some inflation, that we needed to do something?

M: How did he react? He reacted very badly. He was good-natured about it but he said, "Now, I have some pretty good people here"--Walter Heller was one of them--"and they don't agree with you." And I said, "Well, Mr. President, that's their prerogative. I don't in any way attempt to put my judgment above theirs, except for one point: I am the chairman of the Federal Reserve Board and I have a responsibility that they don't have, and on this I think I have a right to speak." You see, this is where government has to wrestle. There are very few things that anybody has the right to override the president on or make a judgment apart from the president's. But there can't be the slightest question as to authority. Anybody who reads the record, not only of this but of others, will find that the chairman of the Federal Reserve Board has very few places where he is in a position to overrule the Treasury or the president. Now, maybe this ought to be corrected but that's the way I read it today. It would have been a lot easier for me if I hadn't had to read it that way because I had several people on my own board who didn't agree with me.

G: That vote in December of 1965 was of--

M: 1964.

G: I think it was December of 1965, wasn't it? I believe it was. The vote where you raised the discount rate.

M: Well, I think that was in 1964.

G: We'll check it. [It was 1965.] But that was a four-to-three vote. Is that right?

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M: That's right. We'd been wrestling with that for some time. I was out at the [Bethesda] Naval Hospital--Joe Fowler and I both were--when he [Johnson] had this little operation on his throat. We had a nice visit.

But I don't think this is important except that it was of great interest to me that he would get an obsession. One of his obsessions at that time was that he didn't want the discount rate raised. He didn't want any increase in rates and he wanted me to assure him that there wouldn't be. I couldn't do that, of course. I had already made up my mind that we needed an increase in rates. So I did my best to break this to him as gently as possible but wasn't so very successful, in that he was absolutely convinced that I was trying to pull the rug out from under him. I said, "Well, I want to tell you right now that if I can raise the rate I will, because I think you're just on the wrong course. I've been perfectly fair with you. I was over here early this year"--this is 1964--"explaining to you that in my judgment the economy was getting way ahead of itself. That was to me quite an important thing." But anyhow, somehow or other I got along with him. He went over the whole picture with me. I was expecting to spend ten minutes with him and I spent an hour.

G: This was while he was in the hospital?

M: No, he hadn't gotten to the hospital. He went to the hospital later. The hospital was an interesting experience, too. Joe Fowler can tell you as much about that as I could. Joe Fowler and I went out to the hospital on a Saturday [Thursday?] morning. He had this throat problem.

G: It was, I believe, November 1966 when he was out at Bethesda [for the throat operation].

M: Yes, I guess you're probably right on that.

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G: And [Charles] Schultze and Art Okun, and Bill Moyers were there too, according to my notes [November 17, 1966].

M: Yes, I think they probably were; they came in.

I got out there [to the Ranch, in December 1965?], and I've gotten along reasonably well--in fact, I consider her a good friend of mine--with Lady Bird, who was there. I got in and she was very gracious to me. They had a marine there and she suggested that I'd like a little coffee and something or other. I said I would and I got served with coffee and doughnuts and was sitting there quite happily when Joe came in.

We started talking about the budget and she said, "I wouldn't do any business until the President will be able to talk to you in a little while." I said, "I thought he was unable to get around. He's just had an operation." She said, "Well, you don't know"--I've forgotten what she called him--"You don't know him. He doesn't pay any attention to little things like that. He'll be over here and he'll know more about it than any of you." "Well," I said, "Mrs. Johnson, that's probably true. The President and I have disagreed on several points in the last few months." And she said, "Yes, I know that. I hope you have examined your conscience"--I think she said--"and you're convinced that you're on the right track." "Well," I said, "I am or I wouldn't be here. I haven't acted precipitously on this." She said, "Well, I hope you'll be very careful about what you do because this is terribly important to the President. He considers it of major importance." The President came in as I was answering her: "Well," I said, "Mrs. Johnson, I'm sure he considers it of major importance and I do, too. The only difference is that this is my responsibility, not his." The President spoke up and said, "You mean you think you're above the president?" And I said, "I've never said that and I've never in any way implied that I was right and

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you were wrong. I wouldn't do that. But I do have a strong conviction that the Federal Reserve Act placed the responsibility for interest rates with the Federal Reserve Board. This is one of those few occasions where the Federal Reserve Board decision has to be final." And he never forgot that. I'm sorry he's not alive because he was a lot of fun to talk to about these things.

G: You went down to the Ranch for a meeting of the Quadriad in December [1965] right after the board voted to raise the discount rate. Describe that visit to the Ranch for me, if you will.

M: Well, I was invited down and I went down with the head of the Federal Power Commission. What's the--?

G: Joe Swidler?

M: Swidler. We got down there and we got off the plane and--Swidler has got a good sense of humor. He turned to me just as we came down the ramp and he said, "Now, if he swings on me, you duck."

(Laughter)

I never forgot that. So I said, "Joe, I don't think he'll swing on either one of us but I'll remember that."

We got off and there he was in his glory. He drove us around the Ranch. It was one of those hair-raising drives. He liked to drive about sixty miles an hour someplace when you shouldn't go over twenty. And he was just in high spirits. He took me around, showed me a lot of things on the Ranch that were very interesting. He had most of the press down there. You'll see an account of this in the *New York Times*, on the front page actually.



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I thoroughly enjoyed the visit except that he accused me--and accused is the right word--of having totally disregarded his wishes. He said, "You went ahead and raised the discount rate." I said, "Mr. President, the only thing I want to say about that is that I gave you full warning of what I was going to do. But I never in any way took advantage of you. You knew what was coming during that period and I knew you disapproved of it but I had to call the shot as I saw it." Now, that's really all I can tell you about that.

G: Did he accept that explanation?

M: Well, you know Johnson probably better than I do. You saw more of him. He would accept things grudgingly. I enjoyed him. I could almost call his moves in various things.

G: Well, I believe at the time there was a feeling that he had been in the hospital [for his gall bladder surgery] and had been incapacitated, and maybe you hadn't had a chance to discuss it with him as thoroughly as you might have if he had been healthy. Was that an issue at all, or a factor?

M: No. That's one that was dragged in by what I call the hostile press. And I don't think--well, I won't talk for other people but I saw absolutely no rhyme nor reason in that argument.

I told him, "You knew what was coming." And he said, "Yes, I did, but I never thought you'd go forward after I expressed myself." "Well," I said, "Mr. President, you certainly were fair with me." And he said, "Yes, but this is a very serious thing. Because you went ahead and did something that you knew I disapproved of that can affect my entire term here. A very serious thing from my point of view." "Well," I said, "a serious thing from my point of view, too. Equally serious. After all, you're the president and I'm just a worker in the vineyard way down the line. I have no constituency. I have a board

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that supports me sometimes and sometimes it doesn't. In this they supported me, [but] only by a four-to-three vote." I think that I won every point. But he was very disagreeable.

G: Down at the Ranch he was?

M: Yes.

G: Well, he seems to have been conciliatory in the press conference.

M: He pretty well had to be. I'll say this for Johnson, he knew when he was licked.

G: Why did you have that vote right before you were going down to the Ranch? Why didn't the board wait until after that Quadriad meeting to vote? Was there any significance in the timing of voting ahead of that meeting rather than [afterwards]?

M: Not a bit. We'd had many meetings on this, you see. I had a very good board that supported me, generally speaking, and liked me for the most part. I went in there and I told them that this was the situation and I thought we couldn't wait. My reason for not waiting was that the Treasury financing was about to go forward and we had to act right away to try to keep a stable market, and I thought we had put it off too long already. I went to him in May, I think it was, of that year and I said, "Mr. President, we can't wait any longer. We're going to have to raise the rate. It'll be too late if we wait beyond that." He listened to that and he said, "Well, you'll give me another chance." I said, "I'll give you another chance but I'm warning you now. I've got three members of my board who are in complete agreement with me, so I've got a majority. I want to get this out of the way. You and I've been playing with this since February. Here it is July"--or August or some time in there [possibly August 26, 1965]--"and I don't think we can play with it any more. Insofar as Treasury finance is concerned, we're going to lose the whole impact of

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this if we wait another two or three months." I think practically all the Treasury experts that you can dig up and talk to will agree with me on that.

He was at his best. [In December?] he said, "Well, it's done. I ought to tell you that I've had an operation." But he said, "I wanted to tell you I think you were precipitous on this." I said, "But Mr. President, I warned you about it." He said, "Yes you did, but I never thought you'd move forward." "Well," I said, "I told you why. I couldn't wait longer. I would have liked to have raised the rate in May. You were adamant against it then."

I got a call about five o'clock one afternoon to come over to the White House immediately, which I did. I went over and I sat down and had a nice visit and the President said to me, "You know, Bill, I want to make it very clear to you that I think this is a very grave matter, very important matter. You don't seem to take it that way." I said, "No, I don't, Mr. President. I don't think it's that grave. I think the country will go on for many years regardless of what we do. To you it's become almost an obsession." He resented that word. He said, "I never let anything become an obsession with me." "Well," I said, "I'm just telling you how it looked to me. We went ahead and acted on our best judgment."

He said, "I want to tell you that you took advantage of me and I'm not going to forget it because here I am, a sick man. You've got me into a position where you can run a rapier into me and you've run it." I thought this was just silly. From my standpoint it was. But then--I don't know, but it is part of history in a way--he got really upset and he called me everything in the book. He made it very clear--and this was in the presence of several other people--he said that I had played him for a complete fish. And then he said,

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"You took advantage of me. I just want you to know that I think that's a despicable thing to do." He put me on the defensive, because what do you do? I've often thought about this. I was completely convinced that I was right. I still am.

G: Where were you when this conversation took place?

M: In the ground floor of the White House, just off the East Wing. I ask you or anyone else that's been through this: what do you do about it if a man in high authority calls you everything in the book?

G: Who else was there?

M: That I can't really recall.

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G: This was after the board had voted to raise the discount rate?

M: Oh, yes.

G: But was it the same year? Was it later?

M: It was the same year, same year. And what he was saying to me in essence was that I had put him in a position to run a rapier into him and I'd done it. To me that was grossly unfair and totally not factual. My conscience is completely clear as to having given him notice that this was coming.

(Interruption)

G: We're back on now.

M: I came back from this meeting at the White House never in the wide world expecting that I would be accused of having brought the government down by this action. I felt this was just really silly, but I accepted it and I'm not going to try to insult the president of the United States. He just got the story all wrong. Later he as much as admitted that to me.

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G: What did he say?

M: He said, "Well, Bill, you know, that was your judgment. But I just don't agree with you."

I said, "Mr. President, that's your prerogative. I'm not trying to make a case for myself.

I'm just trying to give you my side of the story. I don't for a moment claim that it wasn't my action that caused the problem but, as I have said, I was convinced it was necessary."

G: What would have happened, do you think, if the Fed had not raised the discount rate?

M: A golden opportunity to stop inflation in its tracks would have been lost.

I really enjoyed being with President Johnson. He took me out in the yard of the White House once and walked me all around the garden, telling me, "Now, you explain interest rates to me." And he had his two dogs, Him and Her, and every time I was about to make a point the dogs would jump up on me. It was quite an unnerving situation in which to try to make a point about interest rates. He was a very interesting man. I'm very glad I had the privilege of getting to know him a little--not intimately but a little.

At another time he told me he'd like to see the law changed, but I said I did not think that would be wise.

G: What law did he want changed?

M: The one that gave the authority for the Fed to act.

G: There were efforts to challenge the independence of the Fed after the discount rate was increased.

M: Oh, there still are efforts. That's still going on. Not as virulently because it's become less of an issue, but there's no question about it.

G: Did President Johnson take part in either defending the Fed there or failing to defend the Fed?

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M: He never defended the Fed on that.

G: Was there pressure from the banks to raise the discount rate?

M: Very little.

G: How about the international situation? There was some speculation that Great Britain might lower its--

M: Well, there were all sorts of stories floating around of which that was one, but I don't think there was anything to it.

G: That didn't influence your decision?

M: Not in the slightest.

G: It was primarily the projection of Vietnam spending; is that correct?

M: Right. I kept telling him we could not have guns and butter.

G: When you talked to Lyndon Johnson about this projection, what did he say? Did he disagree with it or did he agree with it?

M: He disagreed. He thought we could have guns and butter.

G: The Johnson Administration seems to have been promoting the coordination of economic policy. What did your independent action do with regard to coordination? Did this reduce the effectiveness of their ability to coordinate economic policy?

M: No, I don't think so. I think it probably hastened action on coordination.

G: Tell me, how would you evaluate the Quadriad under Lyndon Johnson? Was it an effective tool?

M: Yes, a very successful tool. It came in under Secretary [Robert] Anderson. I've forgotten when he was secretary. But he was secretary well before this action.

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G: You didn't feel that the Quadriad was just a device for the other economic authorities to put pressure on you to do what they wanted to do?

M: No. I thought it was a very good device to make it possible for me to talk to the President at convenient intervals without being forced into it.

G: Do you think he understood economic issues?

M: No. No reason why he should. He had a great deal of confidence in Walter Heller and that was fine. Fine with me. I consider Walter Heller a really top economist. There are not too many in this country or government, but Walter Heller is a top one. No, I don't think he [Johnson] did.

G: Did he seem interested in it?

M: Yes. He seemed very interested in it. He had many good ideas. This coordination was one of them.

G: You described a meeting strolling around, I think, the South Lawn of the White House. Others have characterized that meeting as an example of the Johnson treatment, that he had persuaded you to not tighten up the money supply at this point or raise interest rates at this point. Was that right? Was he able to--?

M: He wasn't able to persuade me. They may have thought he did. I tried always to be polite. You don't know me so you have no way of judging me. Truth of this, I'm just giving you my side of the story. My side of the story is that the Federal Reserve has never had a chairman--they've had a lot of smarter chairmen, better chairmen--who went out of his way to the extent that I did to not step on the president's toes or to in any way thwart his opportunity to put his point of view before the board. I don't believe you're going to find another period in the Fed's history when the coordination between the Fed

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and the White House was any closer than it was during this period. Now, that's just a judgment.

G: How would you characterize his appointments to the Federal Reserve?

M: Perfectly reasonable. He said once that he was going to have to throw things into a loop because he was seriously considering appointing a black man to the board. And I said, "Mr. President, that won't throw me into a loop. If you get a good black man, why, that's all right." He said, "I don't know whether he'd be good or not but I've got my eyes on a man that I think is going to be pretty good, and that's Andy Brimmer," who later was appointed. He said, "You go and have lunch with him and tell me what you think." He was always very fair with me. I had lunch with Andy and he was appointed and we got along very well.

Another time he wanted to appoint a fellow to the board. We had a vacancy. And I said to him, "Mr. President, if you appoint this individual, you have my resignation now." He said, "Well, I was afraid that would be your reaction."

G: Why didn't you want the man appointed?

M: Because the man that he wanted to appoint was a Chevrolet salesman from Louisiana, and that wasn't in my judgment the type of man that we needed on the Federal Reserve Board. We needed people who knew something about economics.

G: Was this Russell Long's candidate?

M: No, not Russell Long. I'm a great admirer of Russell Long. I like him very much. He is a very broad-gauged, intelligent man; he did a good job in the Senate.

G: You gave a speech at Columbia University in June 1965, comparing that year with the 1920s.



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M: Right.

G: And this startled the White House a good deal.

M: They had no reason to be startled about it, because that had been my theme song for some time.

G: Did you discuss that speech with the White House?

M: I discussed it with Johnson.

G: What did he say?

M: He said, "Well, there are as many views as there are people out there." I never had any trouble with Johnson on discussing things. He was very open-minded, and I liked him from that standpoint as well as many others.

End of Tape 1 of 1 and Interview I

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