

INTERVIEWEE: DR. JOSEPH A. PECHMAN

INTERVIEWER: DAVID G. MC COMB

March 19, 1969

M: This is an interview with Dr. Joseph A. Pechman. He is at Brookings Institution. I am in the Reading Room of the Library at Brookings where the interview is taking place. The date is March 19, 1969. The time is 10:45 in the morning, and my name is David McComb.

To start off, Dr. Pechman, I'd like to know something about your background--where you were born, when, where did you get your education.

P: I was born in New York City and went through the public educational system in that city--a Brooklyn grade school and a Brooklyn high school--and I'm a graduate of City College with a major in mathematics and a minor in Statistics and Accounting.

I became a professional economist later when I did graduate work at the University of Wisconsin where I got my Ph.D. I did most of my work under Professor Harold Groves, who was a very prominent public finance economist and, I'm glad to say, still living. Professor Groves is important in this, as a sideline, in that he was not only my major professor but also Walter Heller's major professor. We were colleagues together. He was about a year ahead of me, and he and I have known one another since 1938 when I went to the University of Wisconsin as a young graduate student.

M: You finally graduated in what--'42?

P: I got my Ph.D. in mid-'42, but I left the University in November 1941, expecting to be drafted. But that drafting stage lasted for about nine months, and in the interim I worked as an economist in the Office of Price Administration.

In the Army, after kicking around as a clerk for a little while, I took a course in meteorology, and became a meteorologist. That's what I did during the entire war, winding up the war as captain of a small meteorological group that was attached to anti-aircraft battalions that were defending both London and Antwerp against buzz bombs.

I returned to economics immediately after the war, as a matter of fact, on January 2, 1946. I got a job in the Treasury department as a tax economist through the good auspices of my friend Walter Heller, who called me up right after I got back from service abroad.

M: What was his connection with the Treasury?

P: He was then Assistant Director of the Division of Tax Research. I later became Assistant Director of the Office of Tax Analysis, which was the successor organization to the Division of Tax Research. The Division of Tax Research--and now the Office of Tax Analysis--is the place in the government where advanced research and thinking is done about technical tax matters. It is the only organization of its kind in the world, and practically every prominent man in public finance economics has either been on the staff or has been a consultant to that staff.

M: Is that where you got your initial interest in tax work?

P: No. I got my initial interest in tax work as a graduate student. I did my doctoral dissertation on the distribution of income in Wisconsin, but this was related to taxation. I did a major with Professor Groves, who is a tax man, and have kept my interest in taxation throughout my professional career.

I remained in the Treasury until mid-1953. As I said, the highest post I had was as Assistant Director of the Office of Tax Analysis. I then went to the School of Industrial Management of Massachusetts Institute of

Technology, where I taught corporation finance for a year. Then I was invited by Arthur Burns, who was then chairman of the Council of Economic Advisers for the Republicans, to join the staff of the Council on a temporary basis in 1954.

M: How did you know Arthur Burns?

P: Through professional contact. My thesis was published as a paper in one of the volumes that the National Bureau had published four or five years earlier. I had met him at meetings and so on. He didn't know me well at the time. He knows me well now. But he invited me down to do general economics and also to take care of the public finance sector in his office. I expected to stay only a year and to go back to MIT, but as these things go, I stayed two years. I had a very good time--got to know Arthur Burns very well, and am still friends with him, although I disagree with his political philosophy and I find him quite conservative in his economic philosophy.

M: Was there that same feeling in the '50's?

P: In the '50's he recognized that I was much more liberal than he was, but he always told me that he didn't care what my politics and personal views were. He wanted professional work from economists. He always said that he was always confident that I was giving him professional economics. I've heard later that he has told others the same thing, so I think this wasn't put-on.

I still intended to go back to MIT, but then I got a very interesting offer from the Committee for Economic Development to be on the staff of their research group, which was then headed by Herbert Stein, who is now a member of the Council of Economic Advisers under the Nixon Administration.

M: I'm not too familiar with this Committee for Economic Development. What was that?

P: The Committee for Economic Development is a non-profit organization consisting primarily of businessmen, but also some educators. It was created during World War II to investigate matters of public policy relating to business and economics. They have been the most responsible business group in the country and, of course, have developed quite a reputation for objective thinking in very sensitive areas.

M: It seems to span, then, the academic and business world.

P: That's right. That's their major strength. The original staff was headed by Howard Myers and Ted Yntema. Ted Yntema came as a prominent professor of economics--later became treasurer of Ford Motor Company--from the University of Chicago, and this link with the University has been maintained ever since. The statements that they issue are very unusual for a business group in their progressive and modern outlook.

I stayed with the CED for four years, it turned out, and came to Brookings in November 1960 to direct a study of public finance which has since produced thirty books. I hope that they have been influential. Two years later, I was elevated to the post of Director of Economic Studies, which I still hold.

At Brookings I have been not only director, but also a senior researcher and have published a couple of books and a number of articles in public finance and social security and other associated areas. During this whole period, since I've joined Brookings, I've always been interested in public service, and largely through my friendship with Walter Heller I've maintained close contact with the Kennedy-Johnson administrations.

M: You might make a statement about Brookings Institution in general and its purpose.

P: Brookings Institution is a nonprofit research organization that is privately

endowed. It does work in the social sciences with emphasis on economics, foreign policy, and political science. We have three research divisions--one in each of these areas--and I'm director of one. Our main output is books and articles. We rarely do work on a contract basis for anybody, including the government.

M: It's not like Rand.

P: It's not like Rand in that respect. We don't do any confidential work. On the other hand, because of our tax exempt status and because of our educational role in a broader sense, we encourage our employees to cooperate particularly with government agencies and other tax-exempt institutions in promoting public welfare. In that capacity, most of us do assist government agencies to the extent that we can. We have an unwritten rule that any agency can call on a staff member for a reasonable amount of time. We don't even expect to be reimbursed for that time, so that all the years that I consulted for the Treasury and for the Council of Economic Advisers in the Kennedy-Johnson administrations, this was done gratis and was paid for by Brookings.

M: You also have a policy to publish your ideas and books without restriction by the government?

P: That is correct. We will not accept a grant or contract unless it stipulates that we will be permitted to publish the book if it's not published by the grantor.

M: This would seem to indicate that you feel deeply about the dissemination of economic ideas especially.

P: Indeed. That's a major preoccupation.

M: Whether government agrees or not.

P: That's right. Most of the stuff we do--because it's always on the threshold of some innovation or change in policy--tends to be critical of an existing

policy. It's an interesting question in political science as to how we keep our good relations with the Congress and with the government in this way, but apparently the country has matured enough to accept an institution like Brookings with the implied criticism that goes along with constructive research.

M: It would seem that you would be sort of on the cutting edge of economic policy then, if not in the advance of it.

P: We try to be.

M: What relationship have you had with Lyndon Johnson?

P: I think that I met Lyndon Johnson a number of times in an informal capacity when he was Majority Leader of the Senate. I remember one particular evening at Max Kampelman's house in the late 1950's when he was a member of a group, and we chatted. But aside from an occasion or two like that, I never met him again until 1964 when he made me Chairman of the Task Force on Intergovernmental Fiscal Relations. That task force was one of many that Bill Moyers assembled to develop a program for what they then expected to be the elected Johnson Administration beginning in 1965. I was also a member of the task force on economic policy at the same time that was headed by Paul Samuelson. But my major activity and connection with Lyndon Johnson was through my chairmanship of the first task force, the one on intergovernmental fiscal relations.

Now, that task force has a very interesting history.

M: Let's pick that up. Before we get into that, is there anything prior to this in your consulting work with Brookings that bears on the governmental relationships developments?

P: I don't think so.

M: In the Kennedy era or anything of that nature?

P: I must emphasize that because of my close relationship with Walter Heller I was more than just an ordinary consultant. I was privy to many of the confidential problems that arose. I was called in very frequently by Walter on high level discussions. I got to know people in the White House under both administrations very well and made long-time friendships as a result of these contacts. As a matter of fact, many people often commented on the fact that I seemed to be a member of the administration even though I wasn't working for it.

One interesting anecdote--my daughter was hired by the Council of Economic Advisers as a secretary one summer. The following summer she reapplied, and they hired her again. The administrative assistant to Gardner Ackley, who was then chairman of the Council of Economic Advisers, called me and said, "You know, there's a rule against two members of the same family working for the same organization."

I said, "Yes, but how does that apply to me?"

He said, "Well, both you and your daughter are on the payroll of the Council of Economic Advisers."

I said, "Well, I'm without compensation."

He said, "Doesn't matter. You're an appointee of the Council."

In fact, he actually terminated my consultancy for that summer while my daughter worked for the Council for pay. Then after the summer was over they restored my consultancy, WOC.

M: In that period there seems to be, at least from a layman's point of view, a development of so-called New Economics and New Economic theory. Now, you must have been right in the middle of that.

P: Yes, I was. I think that much of what I would say about that has been discussed in literature. Walter Heller's book, of course, is the basic

source on this subject. I don't think I have anything more to add to any of the anecdotes that would shed light on my particular relationship with Lyndon Johnson, which I think is unique, as you'll see in a moment.

M: But I think it's significant that you were in before Johnson became President.

P: People would have regarded me as one of the members of the new economists, just as they would regard Paul Samuelson, who was a MIT professor and never really worked for the government, as a member of that group. I think that one very major feature--just, again, an aside, but I think it's interesting with respect to both the Kennedy and Johnson administrations--is that because of the economists they recruited, Kennedy and Johnson had the benefit of advice from a very large group in the universities and research institutions who were not necessarily working for them at the particular time. These people would not hesitate to call in their friends from outside to help whenever a particular problem arose. Very frequently you would find references in the newspapers and very famous incidents when Paul Samuelson would have been called in by the President himself. What was not said on these occasions is that people like Paul and myself and others would be called in by the Council or by the Treasury for intensive discussions of these problems. I think they found it useful. We found it exhilarating and, I hope, it was productive.

M: This would seem to be a significant point since there has been criticism of Johnson that he did not have close contact with the intellectual community.

P: It's true that except through the task forces he did not have as close contact, I would say, as Kennedy would have had. Again, I don't have any personal experiences to draw from. But I know of cases when Kennedy would have called on economists from outside the government. Nonetheless, I

would argue that, except for that difference, Johnson in economics had the benefit of the advice of as large and as influential group of economists as Kennedy did. It may be interesting to get the impression of others on this same point.

There was also a continuing consultants group at the Treasury department, of which I was a member and which should be described in the oral history. I'm not the one to do it, because I did not organize it, although I was a member of it. Seymour Harris, who is the organizer of it, did a very good job. He collected some thirty-odd economists periodically at a meeting that would be attended by the Secretary and the two Under Secretaries of the Treasury for a whole day, and usually by the Director of the Budget and the Council of Economic Advisers.

M: The purpose of these meetings being what?

P: It was to advise the Treasury on current economic trends and policy issues. The group that advised the Council and then a larger group that advised the Treasury were very influential in helping their colleagues who were working in the government to develop policies along New Economics lines.

M: What about these '64 task forces?

P: Well, Bill Moyers organized quite a number of task forces. I don't remember the exact number.

M: Were you in on that initial organization?

P: No. I knew about it. Walter Heller told me about it, and he then called me up one day and said that I was going to be invited to head the Task Force on Intergovernmental Fiscal Relations. Would I do it if I was invited, and I said, "Well, if you want me to do it, I'll be glad to do it." He sent me a memorandum which I have here, dated May 12, 1964--a memorandum for the President--"Subject: Federal Relief for State and Local

Taxpayers," in which he talks about the squeeze on state and local governments and the need for funneling money from the federal government to the States to help them meet their urgent needs. Walter's secretary typed out Lyndon Johnson's comments, which were handwritten on the memo that he got from Walter, and the comments are:

"Walter, go ahead. Give me any more specifics you have. I'm interested in it."--in the idea of helping the States and local government. Then it's signed "LBJ, May 13, 1964. 4:40 p.m." Now, this point--that he's interested in it--is, I think, historically significant in light of the fact that, as we will see later, he turned out to be quite an opponent of this idea.

I later received an official invitation. I don't recall from whom, whether it was from Bill Moyers or from Walter Heller, I don't recall exactly. I should have looked at my files. In any case, I was appointed chairman, and my task force consisted of the following people. I think the composition is significant too. Of course, I was chairman; and then Samuel M. Cohn, who was then Deputy to the Assistant Director for Budget Review, Bureau of the Budget--he is now Assistant Director in that same job; L.Laslow Ecker-Racz, who was then Assistant Director of the Advisory Commission on Intergovernmental Relations and had been my boss in the Treasury department, just before I left, for about three or four years; Otto Eckstein, who was then a member of the Council of Economic Advisers and now, of course, professor of economics at Harvard; Robert S. Hermann, Assistant Director, Bureau of the Budget, State of New York; Richard A. Musgrave, professor of economics, then at Princeton University, now at Harvard University; Alice M. Rivlin, senior staff member of the Brookings Institution, and since then she became Deputy Assistant and later

Assistant Secretary of HEW in charge of Program Planning, and she has just returned to Brookings about ten days ago; and finally, Jacob A. Stockfish, Director, Office of Tax Analysis, U.S. Treasury department. The composition of this group has never appeared in the press, and is highly confidential. It is confidential not only because the President wanted to keep it confidential, but particularly in light of the fact that the President never recommended our plan, you see. We met during the summer and submitted what I regarded as an outstanding report. The report contains thirty pages of a single-spaced text, plus six detailed appendices.

M: Now, the report has never been released.

P: The report has never been released. It is my belief that it's because of the leak which I will later talk about on this report--because this report was leaked to the press. The President embargoed all the task force reports that summer, and it was because of this task force report that he made that decision. Let me go on to tell you about that.

M: Incidentally, while you were doing your work, did the President ever consult with you, or have any meetings with the--?

P: Yes. Let me just add that our report was dated November 11, 1964. We were organized in the late spring, and we reported November 11, 1964, right after the election. Incidentally, it was intended not to be used during the campaign--these task force reports--so that it's not insignificant that it was submitted after the election.

M: Is it correct that these task forces were mainly to map out a program for the Johnson Administration?

P: For the new Johnson Administration.

M: Is that generally correct?

P: I think that's a fair statement. You might ask Bill Moyers what his view

was, but I think that that's a fair statement.

The whole task force did have one meeting with the President in the Oval Room. The President had in his hand a memo explaining the function of the task force that had been prepared by the Council of Economic Advisers--by Walter Heller--and he chatted with us about the problems of state and local governments and expressed a great deal of interest in what we were going to do, and urged us to be innovative and not to worry about any political problems, but to give him the straight dope. I thought that the meeting couldn't have gone off better. The President was cheerful and seemed to know what the subject was all about, and my guess is that he must have spent half-an-hour with us. And considering that there were many, many task forces, that's quite a bit of time.

The task force, as I said, met from time to time during the summer. We kept Walter Heller informed about our deliberations, largely through successive drafts.

M: Did you break up into subgroups?

P: No. In fact, the text of the report was written by Alice Rivlin and me. A number of the appendices were prepared by various members of the task force. I also should mention that we had the benefit of the assistance of Anita Wells of the Tax Analysis staff, who is one of the government's experts on intergovernmental fiscal relations. She helped us draft the report, too. But it was primarily done in final form by Rivlin and myself.

As I said, the report was transmitted November 11th. On October 28, 1964, a Wednesday, I was astounded to read in the right hand column of the New York Times--

M: The front page?

P: The front page--an article, the headline of which said, "President Favors

Giving the States Share of Revenue, Endorses Plan to Set Aside Constant Fixed Proportion of U.S. Income Taxes. Panel Ponders Details. Up to Three Billion Dollars Annually Might Be Granted States to Use as They Wish." The article was by Ed Dale, and dated October 27--the day before. The reason I say I was astounded was that our report had been in draft form, but had not been submitted to the President.

M: Was the newspaper account accurate?

P: The newspaper account was fairly accurate. Incidentally, this is the reason why this must be held quite confidential for a long time. I immediately picked up the telephone and called up Walter. I said, "Walter, have you read the New York Times?"

He said, "Yes."

And I said, "Where did he get it?"

Walter said, "Well, I talked to him about this, and he promised me on a stack of Bibles that this was just a background briefing."

This is the kind of thing that happens, you see. It was not Walter's intention to have it leaked at this particular moment. It was only his intention, as he would do frequently, to brief competent reporters in what was going on. But in this particular case, his signals were crossed with Ed. I know Ed Dale very well, and I've never bawled him out for this. It's not up to me. Since I don't know what Walter Heller told him, I couldn't tell him that he was off-base.

But in any case, this article was a very damaging article from the public policy standpoint. Now some people say that Lyndon Johnson is against revenue sharing even today because Walter Heller leaked the story. Incidentally, I know that the President knows that Walter Heller leaked it because Walter told me that the President joshed him about it.

However, I can't believe, and I don't believe, that the President's back was stiffened against the plan because of the leak, but the leak generated a lot of premature talk that might have been avoided if the report had been submitted, as we had hoped, in due course to the President and if it had been amply discussed within the administration and then presented publicly with Lyndon Johnson's imprint--

M: Did you personally ever get any communication from the White House about the leak?

P: No. Nobody ever complained to me, obviously because they all knew that I was not the source of the leak.

Why is it that the leak was so damaging! The leak was damaging because it immediately generated opposing forces without giving me and my colleagues on the task force--and the administration, if they wished--a chance to answer these charges, you see, because we were still at that time just preparing the report. The President had said that these were confidential; he had not yet embargoed them. By the time we submitted our report on November 11--now remember the article was October 12--by November 11, the major recommendation of the report, which was that the federal government set up a trust fund into which would be funneled a certain share of federal revenues computed on a formula basis that would be distributed to the States--that's the major point of the report--the report immediately generated opposition, particularly from the labor unions who are historical foes of state governments. Labor has had problems with state governments on the right-to-work laws and also on civil rights and so on. They regard, to a large extent correctly, state government as being anachronisms which the nation would be better rid of them rather than have them as they are. My own view on this point is that we're getting to

the point where the States are performing a regional role which they didn't perform before because of the growth of population and the economic role. While we might have a different type of regional government if we had to do it all over again, I think we'd have to have some kind of regional government and some of the biggest states do perform this role right now.

M: Where else did you get opposition besides from the labor unions?

P: Let me just say with respect to labor unions, I know that George Meany, the president of AFL-CIO, talked to the President about it and objected to it very, very strenuously--and fairly soon after the leak.

The leak also generated opposition from people within the administration, to wit: Willard Wirtz, a strong opponent of the plan, and Wilbur Cohen, a strong opponent of the plan. The whole Treasury department--Douglas Dillon and others--strongly opposed it. I don't know whether, if it had been handled differently, we might have been able to do a more persuasive job. I don't think any of them ever saw the report we submitted.

M: The opposition was formed on the basis of the leak?

P: On the basis of the leak. I shouldn't say I don't think any of them--most of them did not see the report. I don't know exactly when the President issued the order to Moyers to embargo all the task force reports, but it certainly must have been around that time because a very few days after November 11, I was asked to submit a list of people to whom this report had been sent and to send to Bill Moyers' office all remaining copies. In fact, I have withstood all pressures from personal friends and others to show them this report. So the report has never actually appeared in public. Now because of the leak and because it's sort of an obvious kind of a plan now, most of it has been talked about. It wouldn't be used today in any case. I have given speeches, Walter Heller has given speeches, and

there have been opposition speeches. And the plan has been refined many times in different ways. We have created a whole new literature on revenue sharing. There are several books on the subject. Incidentally, Walter throughout this period was a confirmed advocate of this approach, although he let the task force develop the details of the idea; and it has since become known as the Heller-Pechman plan. I think that is a fair designation, first, because, as I said, Walter wrote to the President on May 12, long before the task force, with the ingredients of the idea; second, because he has publicly endorsed it and supported it; and third, because he encouraged our task force throughout its deliberations.

M: Was part of your consideration here federal aid to cities; that is, the sharing in the sense that cities would benefit?

P: The consideration was that it was clear that federal revenues were ample to cover what we then saw as federal needs. In 1964 we had a very large tax reduction, and we were looking forward to more tax reductions, as a matter of fact.

One of the things that we were thinking about was using this money for urgently needed public programs at the state and local level. Now, our report took the view that if you gave the money to the state governments, that they would in any case funnel a good deal into the local governments because through grants they already account for something like a third or 30 percent of total city receipts in the United States--urban receipts. We did discuss in the report alternative ways of making sure that the cities would not be shortchanged, but there was not a unanimous view. Although there was no dissent in the report, on balance the majority felt that giving it to the States would be satisfactory. Since then, it's become clear that the city governments would not accept this plan without a mandatory

requirement for a pass-through of some of these funds into the cities. Walter and I have always said that if the Congress would like to do it that way, that's fine.

Now, I think the unfortunate thing about the whole thing is--I don't know, it's hard to say how the Johnson Administration would have developed if in fact they had seriously considered the revenue sharing plan.

M: But they never took it up seriously.

P: They never took it up seriously because Lyndon Johnson simply said, "No," because of the opposition that had already been generated--and even before he saw the report. I don't even know whether he read the report. There is talk that he was very angry with Walter about the leak. I don't think that's true. I have evidence that he was very fond of Walter even after the leak. He sought his advice many times. I have been in the room with Walter when the President called--after he had left the Council of Economic Advisers incidentally--so it's just not true that this strained relations between the two of them, and they still admire one another very much.

M: Beyond this task force, did you have much connection with the Johnson Administration?

P: I was also a member of the Samuelson task force, but I didn't see Johnson in that connection at all. I'm sure Paul Samuelson submitted a report, but by that time, none of the task force reports were made public, and everybody guarded them with their lives. So there were no further leaks.

I think I ought to tell you about an incident that occurred the following year which I think is historically significant. It has nothing to do with revenue sharing. In the spring of 1965, Bill Moyers called and said that the President had been so pleased with the results of the task forces in the prior year that he wanted to have a meeting of the task force

chairmen just to have a round-table discussion of what they might do--you know, what further ideas might be incorporated. By then, it was clear, for example, that the 1965 congressional session was a huge success. And the President was very pleased at many of the ideas that had been generated through this task force device.

So Bill Moyers arranged a dinner for all task force chairmen, of whom there were roughly twenty-five, and you can get the list of them. The people I remember who were there included Paul Samuelson; John Gardner, just before he was appointed; others like that; and myself. We met in the White House mess and had dinner. We met something like 7:30 or 8:00. Bill went around the table asking each task force chairman to just talk about the needs in his area, what had been done, and what more needed to be done.

About 9:30 there was a shuffle in the back of the room, and I noticed that Bill Moyers got up and said, "Mr. President, how are you? I didn't know you were coming." And in walks Lyndon Johnson. Bill asked the President, "Have you had dinner?"

The President said, "No."

And he said, "Well, won't you have dinner with us?"

And he said, "Thank you, I will." And there the President of the United States sat down before twenty-five people and ate his dinner. And as Lyndon Johnson would, he talked throughout the entire dinner. I recall that--maybe it was significant, I don't know, because Gardner was appointed not long thereafter--I recall that the first person after the President came in to whom Bill Moyers turned was John Gardner. John talked about the needs for increasing aid to education and so on. And the President was very attentive indeed.

M: Do you remember what he said at that meeting--what the President said?

P: He was simply endorsing the need for assistance, particularly to education, health and other social programs--and reflected a great interest in many of the problems that were talked about. He didn't stay long at that time. He might have been there about half-an-hour. Even though the task force chairmen were reporting, I think he talked most of the time. He would interrupt, you know, and it was really a lot of fun.

M: Did he come back later?

P: That's what I want to tell you about. I think one of the interesting things he said, which is significant in light of his later remarks, was, "I've got to go back to a meeting upstairs with a bunch of wise men on foreign policy. I'd much rather be here."

I think that in light of what I later learned, or read in the newspaper, that this was a meeting of people like Rusk and Acheson and others who were attending--and obviously on Viet Nam. And he said he was sorry, after he had been there for about three-quarters of an hour, that he had to go back to this meeting upstairs. We all got up, and the President walked out.

M: But your meeting continued then.

P: Our meeting continued. Half-an-hour later, there was another shuffle, and Bill Moyers said, "Well, Mr. Vice President, I didn't know you were here." And in comes Hubert Humphrey. This was about 11 o'clock. Moyers asked him, "Have you had dinner?" And yes, he had had dinner. "Won't you have a cup of coffee," and so on. Hubert said, "Go on, don't let me interrupt you." It was getting pretty late, you know. And we kept going. And, of course, Hubert interrupted and made remarks and so on. Then during one of these interruptions by Hubert--I call him that because he happens to be a very good personal friend of mine, I've known him for many, many years, and helped him write tax speeches and so on--in one of

these longish sort of remarks of his, there was the shuffle in back again, and back comes the President. He said, "My meeting is over. I heard you guys were still in session, so I decided to come down." And he said, "Hubert, go on. I don't want to interrupt you." And he sat. He didn't come up to the head of the table; he sat at the bottom of the table. I remember Hubert was talking about urban problems at the time. Of course, it developed that the President interrupted, as you might expect, with his own ideas, agreeing with the Vice President, "You're absolutely right, Hubert," and then going on with his own ideas, agreeing with the Vice President, "You're absolutely right, Hubert," and then going on with his own remarks.

But then apparently the discussions that he had during that day and at the meeting that he had left us for had impressed him a great deal. It was uppermost in his mind obviously, because he went on for a very long time, first on domestic matters. Then he said, "But these things are nothing as compared to the problem that weighs most heavily on my mind, and that is the problem of Viet Nam." Incidentally, I have never seen this in the newspaper--this little incident. This must have been--you can check the date, it's in the records, with Bill Moyers--this must have been in June of 1965. I can't believe it was later than July. It was at the time when the escalation was being seriously considered, and the President was really beset.

I remember very vividly, I still remember, the plaintive way in which he said, "I know you guys are not foreign policy experts, but if you have any ideas on Viet Nam, you write a letter to me, personally, and I'll read it. I'm very much interested in your ideas on this subject as well as on the areas in which you're experts." I remember I told my wife at the time

I had the feeling that he was a man who was going through a torturous decision-making process. He was reflecting it to a bunch of people whom he regarded as his friends, since he was very comfortable in this group he felt that they had worked hard for him and had contributed to his success and therefore was giving them his innermost thoughts. I think it's an interesting footnote to all we know about the escalation decision.

M: Was there any response from the group to the President's remarks?

P: Yes, there were a few remarks, but nobody said, for example, "Don't escalate." My guess is that probably by the summer of 1968, most of the people who were there were anti-administration on this point; in 1965, most of them just didn't know enough about what was happening and about the issues in this order. It was still a rather obscure problem, even for that group, let alone for the public. So there were no particularly outstanding ideas that were stated then.

I think he must have talked about that subject for at least fifteen minutes, and it was midnight by then. Then we broke up. He shook everybody's hand and we all left. We left after midnight --the meeting was supposed to be entirely on domestic policy.

M: Did you participate in any of the other task forces that came later, say the ones in '65?

P: No. The ones in '65 were entirely intragovernmental, as I remember. It may have been because of the unfortunate experience with our task force. But by that time, I would say that Lyndon Johnson was on top of things. You know, his legislative program was running well. They knew where they wanted to go, and so I think that was the appropriate thing

to do. I knew about the existence of these task forces, but I was not asked to participate. I suppose some outsiders were asked.

M: What was your position on this '64 tax task force--that you also participated in--the one by Samuelson?

P: Oh, no, that was economics. That was an economic task force--you know, general fiscal policies and monetary policies.

M: The one that you were chairman of?

P: The one I was chairman of was Intergovernmental Fiscal relations. The other one was Federal Fiscal and Monetary Policy.

M: That was the one that Samuelson chaired?

P: That's right.

M: What was your role in that?

P: I was just a member of the task force.

M: And you discussed some of the policies?

P: We discussed some of the policies and reiterated support for what was essentially the Kennedy-Johnson administrations view about activism in matters of fiscal and monetary policy.

M: Did you play any role in the development of the tax cut in '64--the development of that idea?

P: Insofar as I was a member of the consultants group, both in the Treasury and in the Council--more particularly in the Council. Walter Heller consulted me frequently on the way it was going to be done and what some of the detailed decisions would be. I knew what was going on most of the time. Also, the consultants group was urging the Secretary of the Treasury during the same period to support a major tax cut.

M: Was there any attempt to predict what would happen when that tax cut came in?

P: Oh, yes.

M: Were you in on that?

P: No. I'm not a forecaster. But I knew what was going on.

M: I've had some vague information that there was set up some kind of econometric model.

P: That's correct.

M: Which would give some indication of what would happen.

P: Oh, there was a forecast of all of that. There was a forecast of economic developments with and without the tax cut.

M: Were you in on the development of that?

P: Not except in general terms.

M: Then beyond this contact with the '64 task forces, you've had little role with the development of the Johnson Administration.

P: I wouldn't say that. I've had no contact with the President, but I continued my association with the Council of Economic Advisers.

M: You continued as a consultant?

P: Even after Walter Heller returned to the University of Minnesota.

M: You might be in position then to make some comment about the receptiveness of ideas by the White House--economic ideas. In the books written about Kennedy and Johnson, there is a great deal said about the fact that the economists, in effect, had to educate the President.

P: That's correct.

M: About New Economic policies. Do you have any comments you can make on that?

P: You remind me about another incident I think is worth recording for posterity. On November 23, 1963--that was the date that Kennedy was assassinated--Walter Heller and about half-a-dozen Cabinet members, including McNamara, and maybe even Rusk, were on a plane headed for Japan. The assassination took place while they were in mid-air--while they were en route. They turned around and came back. I heard that they were returning

over the air, and because of my close relationship with Walter, I made it my business to be in the offices of the Council of Economic Advisers when Walter returned that night, which was about 10:00 p.m.

And guess what we did! There was Gardner Ackley, who was the second member; and Walter Heller; John Lewis, I guess, was the other member of the Council; and I; and just a small number of staff members. And this was characteristic of Walter Heller--how he performs his educational role. His major objective was to get down on paper briefly and as clearly as possible the major issues of economic policy that the President should know about. That memorandum was on the new President's desk on November 24th in the morning when he woke up. We worked until well into the wee hours of the morning.

You asked me what my role was. Now, here's a good example. He didn't call me. He was in the air, and I knew that he'd want to have advice on this at this particular moment. Of course, I had an Executive Office pass, and there was no problem getting in, and so I participated in the preparation of this memo. I don't recall now the contents of it at all, but it's worth looking up.

I think the quality and the speed and the intention behind the memo all must have impressed Lyndon Johnson. Walter told me that, while Lyndon Johnson was Vice President, he tried to keep him as well informed as he possibly could. It's always difficult to deal with a Vice President if you're a presidential adviser. But Walter told me later that he was very pleased with the fact that he had made a special effort to keep Lyndon Johnson informed about the matters that he thought he should know. He said that the only thing that they had ever crossed

swords on--and they may still differ about this--was the SST. Most economists felt that the public benefits from the investment would not be worth the costs. But then there are questions of national prestige and so on that may override narrow economic considerations.

But aside from something like that, he felt that during Lyndon Johnson's vice presidency their relations had been good. But this was the first time that Lyndon Johnson as President saw how the Council of Economic Advisers could perform. From that very moment on, he would expect to be kept up-to-date--to get these daily memos. This is the way the New Economists educated Presidents Kennedy and Johnson.

M: The reaction in the face of tragedy is rather interesting too. That here, Walter Heller, closely connected with John Kennedy--

P: Oh, absolutely.

M: --and had gone through the educational process with Kennedy on economic policy, yet reacted so quickly--

P: That's right.

M: --to help the new President.

P: That's right. I don't know what the other agencies of government did. My guess is that his reaction was the earliest in the whole government. I can't prove that, but that would be my guess. And it's characteristic of Walter Heller. It's to his credit. It's interesting that I guessed it. My wife asked me why I was going down, and I said, "Walter is going to need me tonight." And there we were. We all rolled up our sleeves and we all wrote.

M: Do you remember if Heller said anything to you to preface what you were going to do? Did he come in and say--?

P: Oh, yes. We talked at length before we started writing about what we ought to say, what ought to be told to the President, and set up an outline. Everybody took a piece of the outline and wrote. Of course, as in the cases of all memoranda to the President, the chairman of the Council himself goes over the final draft, and personally puts his stamp on it. This was true of Gardner Ackley and Arthur Okun as well. While the staff might prepare the draft, no memorandum to the President ever went forward until they looked at it and put a heavy hand on it.

M: Did your close connection with the Council of Economic Advisers continue after Heller left?

P: I would say a close connection, but it was not as close as Walter's, because of personal friendships. You see, we had been classmates together. But Gardner Ackley and Arthur Okun are personal friends also.

M: So your consulting work--

P: My consulting work continued. I reviewed the relevant portions of every economic report that was written during the Kennedy-Johnson era in draft, from mimeograph to page proof. This continued with Gardner Ackley and Arthur Okun. Then, I would of course join them in consultants meetings, and would meet them occasionally. They'd call me up and invite me over to the White House mess to chat.

I don't want to overstate my role, incidentally. I think these guys were terrific, and I was awfully glad to help them. My presence may have been of some assistance, but I don't think it was crucial at all. I think that my role with Walter is significant on a personal basis, and I hope I helped him. I guess the public identifies the two of us because of the Heller-Pechman plan on revenue sharing, but there

is much more to our relationship than just revenue sharing.

M: Is there anything else that I should ask you about that I haven't asked you about, or anything else you want to comment on?

P: I just can't think of anything, no.

M: It may be that somebody working in the future on this subject might want to come back to you and ask you--or if we run across some more information, we might want to talk to you again if that would be all right.

P: Sure.

M: Thank you for your time.

P: Right.

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By Joseph A. Pechman

to the

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