INTERVIEW I

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PLACE: 59 Wall Street, New York City

Tape 1 of 2

M: First of all, I'd like to know something about your background. Where were you born, when, where did you get your education?

R: I was born the twenty-first of June, 1918, in Marquette, Michigan. My father was at that time the principal of the high school there, and he later, when I was two years old, moved down to the Detroit area. When I was four he moved to River Rouge, a suburb of Detroit, where he was then principal of the high school for twenty-five years. I went through all the River Rouge public schools and from there to the University of Michigan. I wavered between, first, the possibility of a career in law, then teaching English literature, then finally ended up in economics and got a first degree in 1939. I had intended to be a Rhodes scholar that autumn at Oxford, but with the outbreak of the war that was interrupted. I went back to Michigan and got a master's degree, and rather speedily in those circumstances took the preliminaries for a doctorate at Michigan.

Then, in the academic year 1940-41, I went out to Harvard as a tutor and teaching fellow. While there, I finished up my work for the doctorate at Michigan in the form of a dissertation and finally took the examination at Michigan ten days after Pearl Harbor, the seventeenth of December, 1941, so I got in under the wire. I remained, though, in Cambridge, teaching at Harvard and then part-time at M.I.T. through that academic year. Then I went to M.I.T. exclusively, and it was from M.I.T. that I went into the Army eventually in March of 1943, remaining until March of 1946.

M: And then you got out of the Army and went to work for the Federal Reserve System?

R: Yes. Actually, while I was teaching at Cambridge I also worked part-time for the Federal Reserve Bank of New York on an arrangement that was a little peculiar. I just commuted down here every week after my Thursday classes and returned on Monday in time for more classes. The man who was vice president of the bank at that time also commuted from Cambridge, so it didn't seem quite as peculiar as it would now. So I had a connection with the Federal Reserve Bank in New York. And when I came out of the Army it was really a hard choice as to whether to go back to M.I.T. or come here in New York, but it was finally resolved.

I was just getting married at that time, and my wife was interested in beginning Russian studies. She had completed a masters at Radcliffe in 1942, before she joined the OSS and then the Auxiliary Foreign Service. She resigned in February 1946, from the position of Special Assistant to the U.S. Ambassador in London, and had expected to accept a fellowship she had been offered at Radcliffe in order to begin Russian studies, a field in which she had become very interested while serving in the London Embassy. At about the time of our marriage--March 16--I was offered a very attractive position at the Federal Reserve Bank of New York. We then hurriedly submitted my wife's application to Columbia where she might enter the newly formed Russian Institute there. While on our honeymoon we learned that she had been awarded a University Fellowship at Columbia. So we gave up the Radcliffe-M.I.T. prospect which we had had in view when we became engaged, and instead came to New York. So I've been on the operating side, or the research side, of central banking most of the rest of my life until I went to the Treasury, when it was only a partial side step, and then got into private banking, only at the beginning of 1965.

M: How did you happen to be selected as an under secretary of the treasury in 1961?

R: I think that was the result of the effort the group with President Kennedy were making to find younger people who might have a fresh approach but would still have some roots in the details of whatever field they were going to work in. It was in my case, I think looking back on it now, a very natural thing. I had been at the other end of the telephone as the operating arm for the Treasury people in quite a range of their money market transactions, and for three years had been the operating supervisor of the trading desk in government securities at the Federal Reserve Bank in New York. With the arrangement that is inherent in a country where the financial capitol is separate from the political capitol, you have to work out some improvisations, and in the United States the way we've done it is to use the Federal Reserve Bank in New York as the fiscal agent for the Treasury, carrying through the Treasury's market transactions. So that I had been, as I say, at the other end of the telephone from whoever was under secretary of the treasury for about ten years before the appointment came.

So I just moved to Washington and dealt with many of the same things. But, of course, in an environment where change was coming rapidly, and where it was, I believe, a real advantage to have been sufficiently experienced in the full range of both domestic and international financial activity; so that I felt sure enough of myself to be prepared to take new steps and knew enough of the people in our financial community here and the people in most of the banking systems, at least of the leading countries abroad, so that I could, oh, operate at least with familiarity. This didn't by any means imply that I wouldn't receive as many brickbats as anybody else, whoever had this position, and the heaviest of them fell from some of my oldest friends.

But nonetheless, I didn't feel intimidated in trying new things, as I think would have been the case if someone had had that position who might have been ten times brighter than I was but who just hadn't lived through this particular kind of conditioning. I had been in markets and trading enough and exposed enough both to foreign exchange as well as to government security operations so that mystery which might be there for an outsider, and of course is always there in a way, at least didn't frighten me off when it came to trying to do new things.

M: Did you know the Kennedy family?

R: No, I didn't know any of them. As a matter of fact, I don't think until he died President Kennedy knew whether I voted for him or not. He never asked, and he assumed in several conversations that I was a Republican. Actually, in the position I had at the Federal Reserve Bank in New York, where I felt I was serving as a servant of whoever was in the Treasury but a faithful one, I was quite careful not to have a political identification, at least to the extent of not registering specifically for a party, although I carefully voted consistently. Only after I joined this administration did I take on a label, which I still have. I would now regard myself as a Democrat with a little bit of independence. I have kept that position now that I'm in private enterprise, no reason not to. But I hadn't known any member of the Kennedy family.

But put the other way around, I had known literally dozens of the young men who were also being drawn into the government at that time. I had by chance during the war been in London and then on the continent with a group of economists who were put together because no one else was trained for the sort of work to which we were assigned. We had more brashness than others to deal with a problem of selecting air targets, and that began by selecting the target systems that would be relevant for the use of the heavy strategic bombers. Then we became overnight experts with very few credentials in many aspects of target selection, where the problem was how to choose one set of targets over another in terms of their pay off. I ended up working in General Bradley's headquarters as sort of an adviser for the use of the Ninth Air Force in support of Twelfth Army Group troops. However, there was a circle of these people, many of whom ended up in the White House. One who remained straight on through the Johnson period was Walt Rostow; another, Carl Kaysen, who was for some time a presidential assistant.

Then, fanning out around this were a group of people in the OSS, who my wife knew better than I. I was actually, after I got into this work, carried on the table of organization of the OSS and then detached for service in these other headquarters. So that I got to know many of the OSS people, including such a variety of figures as Ken

Galbraith and Arthur Schlesinger and Kermit Gordon. Then also, by virtue of having been a teaching fellow at Harvard just before the war, I met a number of the others who were interested in this Kennedy circle, including Professor Paul Samuelson of M.I.T--I was actually, in one of the courses I taught in M.I.T., his teaching assistant, where he was the lecturer before the war--and also Seymour Harris whom we brought in as a senior consultant at the Treasury after I got there, and literally I guess a couple of dozen others. But these names come to mind first.

And so it was that sort of a circle of acquaintances that made things fairly natural and quite easy in terms of personal relations, and I must say we got to work from the very first moment of our being appointed. Not having any false modesty and many of us knowing each other pretty well, we got down to hammering out the things that involved, of course, differences of opinion, differences of departmental responsibility, but to the point where we had a pretty clear sketch of what in my area of interest we wanted to try to do before inauguration day. [This is] a contrast that I won't draw any further, but this certainly has not been imitated in 1969.

M: Did you or do you consider yourself one of the so-called new economists?

R: Well, I don't think those who were at the center of this group would consider me one, because I probably bring to the new economics a more traditional orientation. I would consider myself to have been [one], and I certainly still believe that the essence of that approach is the correct one for this country now as it was in 1961. It does have to be symmetrical, and it has its implications both when we're on the low side and when the economy's on the high side. It's been the problem of defining what that symmetry means when the economy is very strong that's given everybody all the trouble. But I did certainly think of myself as a new economist, and yet because my experience had been in the operating side of much of the financial markets I was essentially a financial man, not a general economist.

I think most of the others regarded me as sort of a conservative stick-in-the-mud, but that probably was just as well, because I often had to be. Somebody in every administration, or at least some little group, have to be the kind of hair shirt of last resort. As things worked out in the four years I was there, I think we filled that role in the Treasury in some respects even more than in the Budget Bureau, although the Budget Bureau certainly had to do it when it came to the detail of disciplining individual appropriation requests. We had to do it more in the overall sense of how to impose unpleasant discipline on some of the broader choices affecting social goals in an overall economic program.

M: I was curious as to whether there might have been a clash, say, between the Treasury people and the Council of Economic Advisers over economic theory?

R: Well, there was plenty of room for difference, and there were times when we felt pretty vigorous about our arguments. But I must say it seems to me, in retrospect at any rate, to have been about as first-class a kind of disagreement as I ever expect to enjoy. The respect on both sides was clear. We knew what each was trying to do or reflect, and we were in a sense acting as advocates, if necessary stretching our own view a little bit in order to make sure it was fully considered before the compromises came through. Because we were doing a lot of things that were new, and on much of them in full agreement, it was only on the things where there was a needful difference that had to be exposed and sharpened and then reconciled that we would have these conflicts. But we had them with what seemed like quite frequent regularity, even though on probably, oh, I don't know, nine-tenths or at any rate four-fifths of the things we were doing we were in agreement.

It was just there was so much we were doing that there was bound to be a number of things come to the surface where there had to be a reconciliation. And I suppose I got into the middle of this. Well, Dillon did a good bit, of course, because he was my mentor in all this, and I was just the sort of fellow who carried it through. But we brought together, at our one point in the government, the conflict between some of the international economic implications of the U.S. position and the domestic programs. That bridge has to be accomplished somewhere. There wasn't any clear-cut organizational arrangement to assure that that bridging of interest would be built into the government, and it came rather naturally in the Treasury. Because, as you know, distinct from many other countries, the international financial position of the United States is actually a legal responsibility of the Treasury and not of the Federal Reserve. This has been traditional, so that even though the Federal Reserve is often cast in the position of having been the rather disagreeable source of balance of payments thinking as injected into domestic economic affairs, within the administration it had to be the Treasury.

Although the nominal description of my position as under secretary for monetary affairs was really to handle the Treasury's debt management, its relations with the Federal Reserve domestically, and its relations with all other credit agencies of government--Fanny May, the intermediate credit banks, all that array, and that was a considerable part of the task all right--as things evolved, partly because of the background that I had had in the other field at the Fed in New York for a number of years, I became at the operating level beneath the Secretary the person to also bring into these considerations the international. This fitted into place from the very beginning. So much so that even before inauguration we were clear that in a sense Walter Heller and Jim Tobin particularly at the Council were going to be pressing for domestic things, and I was going to have to be saying, despite the wish I might also have to be with them, that there were going to be constraints on this that came in on us from the foreign side. If we were going to do them, we were going to have to do them in a way that had some reasonable chance of preserving the viability of the American economy in the world economy.

This kind of a conflict, which occurs in every country and will from time immemorial whether it's a planned economy or a relatively free one, this collision between what you're trying to do at home and how you still keep yourself in reasonable relationship with the world is just as built in as blood and oxygen. You just have to keep this in mind, and I think in any government you want to have people who are conscientious spokesmen for both sides. You work out the reconciliation with a pretty clear respect for both, and we did.

M: Did the Working Party Three start at this time too?

R: Yes. Working Party Three, I think, is something that Walter Heller and I can really take credit for jointly. This is one of the many things in which we had no difference of view at all. We were able to get it going. I don't mean to imply, incidentally, in what I said earlier that Walter or Jim or some of the others weren't very interested in external affairs of the country; they certainly were. It's just where did the sense of priority and responsibility seem to end up. They were most interested in doing what we could from the very beginning to make clear to the people in Europe that the ending of what had been called the old OEEC, the Organization for European Economic Cooperation, and which was then being transformed into something new called the OECD, the Organization for Economic Cooperation and Development [would lead to a] transition as we saw it that was something to seize upon and make into something good and significant and new.

There was a sense in Europe that, "Well, this OEEC"--which was the successor of the Marshall Plan and the sort of cooperation among

European countries that that meant--"is about dead. And this effort to create a successor organization is really just shadow boxing. There's not going to be anything here. The U.S. is ready to pull back and let Europe float by itself." We wanted to reverse that thinking. As you know, the State Department was very strongly urging everything in support of and furtherance of the development of the Common Market as a smaller and tighter entity within this larger group. But those of us outside the State Department, while in no way contradicting that view, wanted to put heavy stress, and State went along with us in this certainly, on the economic side of cooperation among the countries who'd come along so far.

So from the very beginning we began having meetings in Walter Heller's office on how to stage the appearance that this ought to make. We agreed that we would all go to the very first meeting, still nominally a meeting of the OEEC; the transition hadn't occurred yet, as I remember, it came in the summer. But we would go there with a big delegation. We got George Ball to go, Walter, somebody from Commerce as I recall, and Labor, Federal Reserve, Bill Martin himself went, a really impressive delegation. And we announced to them all in advance that this was evidence that the new administration meant business about keeping this organization alive and breathing fresh life into it.

We got there early. In keeping with arrangements that Walter and some of the others, including I, had worked out and had cleared at the higher levels, particularly with Rusk and Dillon--and then got the full blessing of President Kennedy himself in a meeting that, as I recall, President Johnson also attended in the Cabinet Room shortly before we went away, in which he was also genuinely interested--we got approval for an approach that would try to put a new kind of working role into the OECD by establishing two or three working parties. There was already one subgroup under something called the Economic Policy Committee working on the rules for commercial policy and so on; I've forgotten the name of it just now. So we suggested what later came to be Working Party Two, Working Party Three, Working Party Four, and in fact I think they've even added another one.

Our thought was to find a way to get one working party that would meet fairly regularly on balance of payments questions, and with particular reference to the way in which these impinge on domestic economic policies, but to be a smaller group. We felt that we didn't want to have it as small as just the Common Market, but it should be the leading industrial countries at that stage, without offence to Greece or Ireland or Iceland or Portugal or Spain. There were center interests in a smaller group that we ought to encourage. So we proposed Working Party Two as one in which all countries who wished could be represented; Working Party Three as one that would be of limited membership. Working Party Two was to work on common problems of growth; Working Party Three on balance of payments adjustment problems among the countries, with special reference to monetary arrangements.

So we met privately in advance of the regular meetings with a spokesman for every country delegation, trying to pick countries where we individually might know some of the people. I remember that one delegation I called on where I didn't know the people very well was Greece, and they were most congenial. But it took me about half an hour to make clear to them that we weren't proposing that they be members of the Working Party Three; we were proposing that they not be members. But at any rate they took it in good grace, as did most of the others, although it's always hard to explain to someone why he should be left out. It had to be started as a pretty much experimental, tentative effort, and in some of our earlier comments I suppose we almost deprecated the role we visualized for this. No one could have hoped that it would become quite as meaningful as it did.

We also, before we ever left Washington for these meetings, had caucused among ourselves and decided the man we wanted to have as chairman of Working Party Three. We also had a tentative thought of Working Party Two. It turned out both our men were selected and both remained as head of them for several years. In fact Emile Van Lennep, head of Working Party Three, will only be leaving now in order to become secretary general of the whole OECD,a title he takes on in the middle of 1969. We may not always have thought as time went on that we made the best choice; our chairman of Working Party Three at times took some pretty stern views on the profligacy of the United States, as he saw it, in the way we carried on our domestic program at the expense of our international liability. He could sometimes lecture us with a certain acerbity that wasn't pleasant at the moment, but I must say for myself that I thought he performed extremely well. He kept this whole group of countries in line and together and meeting frequently on a hard agenda. I think the results, in terms of, if not cooperation, at least harmonization, that have occurred over the last eight years owe a fair amount to that work.

M: Did the Group of Ten also emerge with this?

R: Yes. A different group of countries, slightly, and I can sort of explain the difference there. You see, what we wanted WP-Three to do within the OECD was to provide a forum where we could discuss the issues of policy, things that would require analysis over a long period of time and checking against evolving experience. You never are all that sure when you begin a year how things are going to work out, and you learn against your forecast what's gone wrong and why and to what extent this has anything to do with the behavior of other countries, and if so, what that might mean. So Working Party Three was a continuous exposure to evolving economic events overall. But paralleling that there was another kind of need. On this, as on Working Party Three, I should say that I did summarize, not in quite this rambling way, some of the origins of it in this chapter of the book that I got out in 1967, The Dollar and World Liquidity. The first chapter has a fair amount of at least the bare bones of the structure of how these things got started.

But the distinction between WP-Three and G-Ten in terms of function, I'll get into the composition in a minute, was that G-Ten was viewed from the beginning, at least on our side, as a purely financial operation, monetary operation, tied to the International Monetary Fund. Now there were half a dozen reasons for getting going on this. The one attributed to us by those who are caustically critical was that we just wanted to get easier access to a lot more of the IMF money when we were in trouble. I certainly concede that from the point of view of prudent planning we did recognize that given the IMF resources at that time there was not enough in the IMF that came from other countries, from the other leading countries who had been advancing faster than had their quotas in the fund increased. So that among the considerations, certainly, there was in my mind, that if the United States ever were to draw its full quota from the fund, at that time about four billion dollars, that we would have had to draw it in other currencies. There would have been very little, if anything, left in the way of good currencies to handle all the other requirements of all the other countries in the fund.

So what we had in mind was getting a group together of countries who could, in case of need, make a group contribution of currencies to the IMF as a supplement. Now, we saw this as a part of a complex of what I at least regarded as a series of defensive techniques to keep the whole monetary system working at a time when the dollar, which was the central currency, was getting into some trouble. I honestly believed and still do that I was thinking of this as much from the point of view of keeping the world monetary system working as I was from any purely parochial interest in the dollar. But I don't deny that I was very anxious to see that the dollar got all the protection and help that it could, because we were then, and still are, carrying a disproportionate burden of the unhappy side of trying to keep the whole world monetary system running with some order. It always looks to the other fellow as if it's all gravy and no gristle, but from our side, as I've seen it in the Federal Reserve Bank in New York for a long while, it seemed to me it was if anything more strain than gain.

But be that as it may, I also--and I say I because I can't speak for the others, but others who'll be taped on this will give their views--thought of the approach to the Group of Ten as knitting together some of the other innovations that we were trying in this same broadening out of international monetary arrangements at that time. I didn't want to try to do it through the OECD. What we needed was something new that was tied to the monetary fund; that's where the money was.

You see, another part of the arrangements which we began in May of 1961 included setting up what has come to be called the ring of swaps. This is an arrangement whereby initially it was the United States arranging with one country and then with the next one and then with the next one for a swap of currencies. The conditions surrounding each might be a little different, depending on how much they're willing to put up and whether you could have it on a telephone call or whether you had to do a lot more rigamarole. All that I wanted to do was to have this ring of arrangements so that if there was a heavy run on the dollar of a kind that I thought was likely to be reversed, I could take quite a lot of the pressure of this by drawing other currencies from them on a swap and paying out those currencies instead of just paying out gold. Let the other currencies be paid out, let them play some part of taking the strain on the system.

This sounds easy, and now that we've had it for a long time we take it for granted, but to get this started was something. You see, one thing you had to tell these skeptical fellows was, "Now, look, if we say this is temporary, and all . . . . " But of course if it isn't temporary, what happens? This is their worry. We could say, "Of course, if it isn't reversed, if we don't then begin to earn money back quickly so that we can reverse the swap and go back to where we started from, we can pay you gold." Then I had to ask myself, "But, now, how much gold are we going to run through?" If we run through a lot of gold fast, that's going to set off all kinds of alarms about the monetary system. So I'd like to have a way of getting at additional currency for a longer period if, to unwind the swaps, I needed three years instead of one year. So how to do it?

Well, if the fund doesn't have very much other currency, I can't do it. So I want an arrangement whereby if the system seems to be in any trouble you can activate a drawing on these other currencies, pay it into the monetary fund, let the fund pay it to us. You've got a middle man, it's not just exploitation. Our repayment to the fund could, under the fund's normal rules, run three to five years. I would be able in that way to refinance swaps that didn't run off by themselves. Now, oddly enough, you can't even explain all of this in the beginning without people having the suspicion that you're just trying to get a free lunch, "Let the U.S. go on running deficits and avoid discipline and so on." At home everybody accused me of being the damndest disciplinarian, talking about the way we had to be a little tighter at home in order to keep the balance of payments alive. But the foreigners always thought I was trying to play a trick and just get some free financing and go on running a big balance of payments deficit at their expense, so that you had with them to go cautiously.

It wasn't deception; it was just getting them accustomed to the idea gradually. So there had to be various reasons adduced for it, but as you can see the whole thing was of a monetary nature. Then once we got going, of course, I used the argument from the very beginning, both with the swaps and with the G-Ten that, "This is reciprocal. It goes both ways, you know, it may help you." Of course, the first uses were for the United Kingdom and then for Canada and then for Italy, and the U.S. didn't ever have to draw on it as such. But once the facility was there as a backstop for the swap ring, and we did of course use the swap ring quite a bit ourselves, the relations between the two became clearer to people. They were ready to see that this had two sides and it could be helpful to others than the United States. But it was a selling job initially.

What we did then, you see, to get countries for the Group of Ten, was we were a little sort of, I don't know what the word is, money conscious. We only went for countries who could make a significant contribution of currency and who had some reserves to draw on. Well, you had to go with the British because they were the other big reserve currency. They didn't have much they could put up in those days, but you had to get them in. And then the others either were then, or were potentially shortly ahead on the horizon, likely to be drawing currencies. So we went to Sweden but not to the other Scandanavian countries, for example. I don't suppose they've ever forgiven us for this, but we felt that the whole thing wouldn't work if we got too many countries in it.

We only wanted as many countries as would be enough to provide a standby facility for the International Monetary Fund of the equivalent of something up to four billion dollars. So what we did was to shoot for a figure of six; say the U.S. would take two of it, the others could take the four, and that in effect provided in case of extreme need, if the whole thing were activated, for a slightly more than doubling of what was then the fund's own good resources for meeting a crisis. That's how we picked out the figure, as a matter of fact, and we kept working at people to try to get them to put their shares in. There was no real science to it; we just improvised one way or another.

And in the very end we were about to announce this thing, and I'll never forget, we had five billion nine hundred and fifty million, and I just couldn't have a public announcement that chintzy.

Six billion looks as if it could have been anything; we just stopped at six. But five billion nine hundred and fifty looks like a bargain basement effort to squeeze out the last nickel. So I called the governor of the Central Bank of Italy, still the same fellow, [Guido] Carli, and I told him, you know, "You've done very well already. You're in for quite a big share, but you understand what this is all about perhaps more than most of the others. We really just need fifty to round this thing out." So he scrambled around and got it.

So these were the pledges which countries then had to, under the laws of each country, get approved. But the initial pledges were these, and in the end all those pledges were fulfilled, either by legislation or by action of the Central Bank Council or whatever was the local law. It took quite a long time after that. Then we had to enter into formal arrangements with the IMF, so that everybody putting up money would get a full credit and be able to draw back from the fund if he got into trouble himself. All of these things were negotiated in a good hard way. But that's what the Group of Ten was about.

Now once it got started and these countries had done a little something together, they began to get a sense of some little cohesiveness as a responsibility for the monetary system of the world on their own. We got Japan into this from the beginning, because we knew Japan was going to be a great economic power. It wasn't all that clear to other people in 1961, although I suppose it would be if they looked back on it now. But you see we didn't have Japan in the OECD, and we wanted them in this. We got them in the OECD later, by the way; we changed the definition a little bit and got them in. But at that time, for purely financial purposes, we wanted a moderately small group that could work together and develop a sense of responsibility for the monetary system that could in time take over what the United States had been doing alone, and through the monetary fund, a little more or a little less. Time changed this with different managing directors of the fund and so on, but the fund, because it had even then eighty-five members, now a hundred and ten, was too diffuse and too new, really, to take over full command if there was a crisis. It could act but it was . . . .

M: Were the personalities much the same between WP-Three and G-Ten?

R: Yes. It just meant that there were some countries in one that weren't in the other.

M: But the same men who wore two hats in many instances?

R: Yes. And very often as we got going, of course, we just had a meeting of one one day and the other the next day. In order to separate it, since these all met in Paris, we would have the Group of Ten meet in the French finance ministry building, and then we would move over to the OECD building for a WP-Three meeting, which just kept things sorted out so that we were very conscious of what kind of business we did in one meeting, what we did in the other. But the other thing is that when they were meeting to reach real decisions the decisions in the Group of Ten were reached by ministers, not by us deputy ministers. It's the deputy ministers who met all the time, but then the senior ministers had to get together for the big decisions. They're the cabinet officers. There wasn't any operating body comparable to that in the OECD. There is a Council of Ministers in the OECD, but it's usually, even there, mainly under secretaries who go to that Council of Ministers.

But here where you're commiting money, you know you're an operating body committing money in the hundreds of millions or billions, you've got to have finance ministers and Central Bank governors, the head men. So there was this parent body over the Group of Ten which was different from what you got in the OECD. When I say it's the same people, WP-Three and the deputies of the Group of Ten are the same people, but above it were the ministers of the Group of Ten.

M: Did the idea of the London Gold Pool come out of the Group of Ten?

R: No. The London Gold Pool was a different sort of a operation. We got all of these things going at once. The way we started the pool was partly a trick, too. Of course a smaller group of countries were willing to go into that. We only had six at the start, ended up with seven. We got them to recognize [this need] after the big flurry that came to a head on October 20, 1960, when the market went up to a forty dollar price. At that time that looked as though it was quite a threat to the stability of the monetary gold price and got them alarmed. So after that when it was clear, particularly by the time President Kennedy came in and made it firm that we were going to support the thirty-five dollar price and then the London price began coming down, it was fairly easy to persuade these other countries that, "You know, we ought to be together in this. Because as gold comes back into the market now, we, the United States, don't want to just have it appear that we're always taking all the gold out--putting it in sometimes, too, of course. Why don't we share this as a buying pool when it comes into the market at thirty-five? Then we won't be in there bidding against each other. It will be an orderly arrangement. It will be a little bit like a cartel, but in the interests of the world monetary system."

So they came in on the buying side, and we kept them. It kept going that way. Well, there was a month when it went out; we put up the money for that and then said, "What would you think? Should we maybe divvy up what went out? Leave it. We'll put up 50 per cent of what went out. Why don't we take the other 50 per cent out of what's been coming in in these other months?" And then, "How do we divide up that other 50 per cent?" "Well, divide it up in the same ratio that we've been taking it in." So we just edged along with this.

Now there was another reason to be careful. In all of these things, see, you can get quite a ways, provided you don't have to write it down or spell it out too clearly in black and white so that people get the sense of firm commitment forever. So in this one, since the central bankers who were in this group of countries meet every month at Basle, we said, "Look, this doesn't have to be a firm arrangement at all, you know. Why don't we regard it as something we renew every month? There it is now, going pretty well. We're taking a little more gold out than we're putting back in. Let's have technical men who follow this at our institutions meet at Basle just before the governors meet every month, and as they are putting the figures together and so on they can make a technical recommendation. The governors can assume it will be renewed unless there's some reason not to renew it, but in a formal sense there's nothing written. It's just an understanding, and we sort of reconfirm our arrangements every month."

This was also helpful from another point of view, because it meant we didn't have to go for legislation in the United States. Whereas if it were a written, firm agreement we would have needed additional legislation, too. So it served better to keep it that fluid, and it remained that way right down to the end, until it was dissolved in March a year ago, March 18, 1968.

You again had some of the same people, you see, from a still smaller group of countries, but we worked the whole thing out in parallel. Actually, given the sequence, we started working out the gold pool first. By now, I was at the Treasury talking to somebody else at the other end of the telephone, and the fellow that I talked to and who did a lot of the real negotiating on this as many of the other things was Charlie Coombs, who's the vice president of foreign operations at the New York Fed and who had for many years been my deputy when I was in charge of the research department at the Fed. He'd been assistant vice president when I was vice president, and so we knew each other very well. That was really a hand in glove arrangement.

So we got Charlie working on the gold pool in its incipient form right from the beginning, and by the end of January already, the first meeting in February in Basle, he was dickering for that just to get it started. See, the Germans and the Dutch revalued their currency 5 per cent early in March of 1961, which gave the market somewhat of a jolt, and so right after that we began developing the swap system. Then after the swap system we began, parallel with that, getting the OECD going on WP-Three, but we didn't get the things going for the G-Ten until really the late summer of 1961--before and during the IMF Annual Meeting held in Vienna that year-1961. But Charlie Coombs did most of the whole thing on the gold pool, always very carefully under Treasury approval and with memos going over to President Kennedy on the side to initial all along as we did it.

M: How does he spell his last name?

R: It's C-O-O-M-B-S. Close to you but not quite.

Then with getting the swaps started there were two problems. Of course, other countries were suspicious of that, too, didn't know quite what we had in mind. But also--and incidentally I had to research the existing legislation very carefully, but I discovered that we didn't need laws, I could go ahead and do it under present legislation; I had to get a ruling from the Treasury's General Counsel--the Federal Reserve was very suspicious and reluctant. It's a big body of people from all over the country, and you can't sit down and explain it all to them all at once and expect it to go across. So I figured, and Dillon certainly agreed with this, what we ought to do was prove it to them. But what we had to do there with the Fed was get going by having the New York Fed through Coombs arrange a swap line with this central bank or that central bank by using Treasury money.

Well, the Treasury didn't have very much money. [In] the stabilization fund at that time we had less than three hundred million dollars of free money, but I did a little bit of double counting. You know, I'd make a deal with Germany for a hundred million and France for fifty million and England for fifty million and maybe add it up to four or five hundred million, always assuming I'd never have to use them all at once. I got up to a billion in total swap lines with other central banks or governments by the end of that first year, and we had used up a little by that time, not for the U.S. but for the British. And it had proved itself enough so that we could then go to the Federal Reserve and say, "Look, this is a perfectly workable arrangement. These are short-term. You get the deposit of another currency when we pay out ours. This is ideal for the central bank to do."

So by February of 1962, they agreed to do the business from then on, and then gradually they took over the swap lines. Now the grand total of available funds is ten billion dollars, with a much larger group of countries. They've got fourteen countries plus the BIS --Bank for International Settlements--in the swap ring now. Originally I just aimed for the countries that we later got into the Group of Ten. I did get Austria and of course Switzerland, who's not in the Group of Ten because they're not on the IMF, but they're parallel with the Group of Ten and they happen to be in WP-Three. So anyway, that will just give you an idea that all of these things were going on simultaneously in a somewhat different way.

M: In this period of time in the Kennedy Administration were you thinking at all in terms of SDR's?

R: Yes and no. I was thinking of them in this way, that I didn't know where we would come out. I felt that everything we were doing was a useful experiment along the way in trying to see what works and what doesn't work in getting these countries together, that the Group of Ten itself might be the nucleus for whatever we were going to have to have. I was also very suspicious of some of the more full-blown schemes that were around at that time, particularly [that of] Robert Triffin, who is an extremely able man. I don't mean to say that his approach wasn't a very useful one, but he was proposing things that were so far out beyond what you could get central banks to agree to, or governments, that I thought it was discrediting the idea. If you went all that way you'd lose, because you really were asking nations in a significant way to give up their sovereignty over what they would find was a pretty important part of their economy to do what he was recommending.

So I took a very strong stance against that. I did it partly in order to keep my credibility with the central banks, from whom I was trying to get what I could get. I didn't want to destroy my credibility by coming out for something they would regard as nutty and way beyond their readiness to consider. Now, I didn't have anything all that powerful against what Triffin was trying to do intellectually. If pushing it helped to encourage more awareness, at least in academic circles, of a need for something to replace the dollar as time went on, that was perfectly all right with me. But I must say I went at it from my own point of view experimentally, feeling that the only reasonable posture to take in order not to have things come tumbling down on you was to assume that what we were doing was continuing an arrangement in which the dollar had been asked to do too much but was still at the center, and therefore it was going to have to appear as what we were doing was buttressing the dollar by partial use of other currencies. If that should work for ten years or twenty years, all right; I'm not going to be doctrinaire and ask for more. If it doesn't work, we'll at least have developed enough so that out of this we'll be able to find a combination that will take us the next step.

I thought I had found that combination about the time I was leaving. You see, we finally converted the Group of Ten into a study group on what to do. But as evidence of how far they were from any big steps, the only way I could get them to agree to begin these studies in a systematic way was to say that our statement of mission would be to study the international monetary system and its functioning; not that we were going to propose anything. We were going to study the system and its functioning; that was our mission the first year. We came out with a report that the academic people quite rightly smirked over. What they didn't realize was how far apart in terms of fundamental understanding of what the system did and what you might have to do to keep it working these different countries were. Many of them had just been coasting on an environment provided by the United States without realizing it, and it took a time to get that exposed, so that it looked like a very long period.

It took a whole year to study the functioning. Then the next year was devoted to, "Well, might there be some various proposals that ought to be considered?" And then [it was] still a year after that before a specific proposal came up. I know it looks tedious, but I'm quite sure we never would have gotten the SDR's without going through those steps. Now my own feeling was, by the time we finished the first year, which was from September of 1963 to September of 1964, that we were ready for something like an SDR, and I thought it could be within the Fund but only done by the Group of Ten countries.

M: Did your book in 1965, Monetary Reform for the World Economy, sum up your ideas at that moment?

R: Yes. That summed it up as of that time, and for a good many reasons I would still think we would have been better to have done it that way than to have got the SDR's. But I mean the key thing is you get what people are willing as a group to support, and they liked this better. In some respects it had some things about it I wouldn't have thought they would take, because it's a sheer credit instrument, there's no money in it. I started with the idea you had to deposit funds in the pool and then issue claims against the pool, and that if you're going to do that then what you put into the pool will have to be good currencies from strong countries. I thought that would have a much more telling effect and make the acceptability of the instrument much better.

M: Did you spend most of your time working in international affairs?

R: Well, no. This was where I guess I would have seemed most conspicuous, but I wasn't. I had, of course, the debt to manage all along. I did try to keep relations with the credit agencies here, particularly on the housing side. I sat on the Fanny May board and did a lot of work with those people, and I had to, in the Treasury, approve most of the financing terms of most credit agencies who were issuing obligations in the market. So that kept me in with them. Then I had a lot to do with the Federal Reserve and what they were doing in the home economy.

M: Did your work here come in regard to the Quadriad?

R: Yes. That would just boil up in terms of the big issues, but there are a lot of little things coming along that in a sense took more time. Then during one entire year, it would have been I guess calendar 1962, yes, it was pretty near a calendar year, it was a twelve month period that included most of 1962, I chaired in behalf of Dillon a committee, a task force on standards for all these credit agencies. I even forget now what the title of it is, but it was set up by President Kennedy when the CED came out with a big report on something called the Commission on Money and Credit with a number of recommendations. They presented it to President Kennedy sometime in 1961. He said, "Well, in this there are three things that ought to be studied further."

One of them was pension arrangements and their role in the society, and that was one group. Shucks, I forget, there was one other one. And then this one was trying to make some coherence out of this real patchwork of federal credit agencies and the role of subsidy or non-subsidy in interest rates for them, foreign and domestic.

We got this going with representation from the various agencies. Actually, Kermit Gordon was on it then initially as a member of the council, and then he shifted over to be head of the budget just about the end of that. And my deputy then, not actual, nominal deputy, but the fellow who helped me keep that going was Paul Volcker, who's now the under secretary for monetary affairs in the Treasury. I got him down from the Chase Bank. He had earlier worked where I was at the Fed in New York, so I'd known him well for a long time. For a year we met once a week for half a day to thrash out issues and to hold sort of informal hearings with the various credit agencies on all this. Then, of course, we came out with a report, and the President liked it, endorsed it, recommended it, but it didn't get very far. It was just too difficult.

They'd gone too far to get them welded back into a uniform pattern. I knew that when we were writing the report. All I recommended was that from D-Day forward things be done in a uniform way, against a background that could never be changed. We got a little out of it. We also got a more explicit recognition of what a subsidy is, and, "If it's going to be a subsidy let's have it, not be ashamed of it, but let's make it explicit." Of course, some of that has now been incorporated in the new budget, which was worked out under President Johnson by that David Kennedy commission on the budget which got introduced just at the beginning of calendar 1968.

M: Were you meeting with the Quadriad during this period?

R: Yes.

M: Now, did that start--?

R: Dillon was very good about that. Yes, the Quadriad started before it got named, really, because we had our first meeting with President Kennedy some time in the first week in office. Just by chance that was the group that got together, and then from time to time we'd get it together again. Give Walter Heller first marks for this; he usually took the initiative to get the meeting set, saw to it that people's schedules were checked, and he dealt with Kenny O'Donnell, who was the appointment secretary in those days and then would send a memo to the President saying what he thought the issues were that were about ripe. This was ad hoc, maybe every six weeks or a month, something like that at first, and then it gradually hardened into a form. And the same thing with Troika, the Troika we had too, because you have to face these issues when it comes time to. By October you've got to set the broad outlines of the budget that's going to be presented in January, so that you really bear down on the various departments to get their pieces fitting together.

This meant that the top people in the Troika, the Director of the Budget, Chairman of the Council, Secretary of the Treasury, had to do a lot of meeting at that time, and then they of course kept their eye on it. But then when you get into the real detail of, "What are the projections of GNP that make sense?" and, "How can all of this be translated into tax take and implications for other budgetary programs?" It's a process of successive approximation. Every time you make one estimate it affects the other one, and then you go back and change this. All of that detail kind of work had to be done by others, and it, in the Treasury, really centered down on one of the assistant secretaries, Bob Wallace, much of our time.

M: In this work with the Quadriad and the Troika in international affairs, did you play any role in the idea of a tax cut?

R: Yes. Yes, indeed.

M: Through Kennedy and Lyndon Johnson?

R: Sure, yes. Of course, there are two or three things that we got into on the tax side, and they all have a bearing on how you fit domestic and international economics together. Our first idea, the one that I was most involved with from the beginning, was the investment credit, which they have just knocked on the head today if you've seen the ticker. They're going to repeal it now. But that we got into and then other little bits of taxes. I got into some tax things that affected international flows. I would have to carry those bills myself, but they were relatively minor. But then on the tax cut, we were certainly all involved in that. We really thought when we started, at least Dillon and I did . . . See, we didn't have Fowler lined up quite right at the beginning on Inauguration Day, and the first two or three weeks before inauguration Dillon and I did a lot of this just sitting up nights by ourselves. We had the investment credit as a major objective and the tax cut, and we thought of them in one-two order; that we'd get the investment credit done in 1961 and the tax cut done in 1962. With this combination we were going to really prime the economy for a take-off such as had never been seen. We got the take-off anyway, but we didn't get the investment credit until 1962, and we didn't get the tax cut until 1964.

M: What was the difficulty, Congress?

R: Yes, it really was. It's amazing. They couldn't quite accept the idea that this wasn't debauchery. We could try to argue that with a real tax cut you could so get expansion stimulated in the economy that the tax take would be even bigger, [but] that just was too much legerdemain to believe. It just took a darn long time to get these things through.

M: Did you personally have to go up to the Hill to talk to people?

R: Oh, goodness sakes, yes. I was never as effective as many of the others who spent a lot more time at it. But not only just canvassing the Hill, but wherever you meet these fellows, at a cocktail party or anything, you just keep, not hammering, but insinuating away a little bit here and there. Then whenever you were testifying on anything it would creep in. So I don't know, it's hard to say. But the good thing was that, since our little group of people were together on so many things, you pretty much knew what the issues were and who was arguing what, even if it wasn't your primary responsibility. I had to just sort of get it out here, you know, and then be ready always to spill it out when the time came, even though I never attended half of the meetings that were held on this. I just couldn't, there wasn't enough time. But we had a very good institution in the Treasury. They still have. Meeting at lunch [we would] very rarely have any outsiders. I mean we could have Heller or Kermit Gordon or Bill Martin, but no other people outside the Treasury. It can be a real confidential discussion, usually. That's when you come racing back up breathless from your latest testimony on the Hill and spill it all out, and everybody compares notes. We used to stretch those lunches for as long as an hour and cover a lot, in addition to staff meetings, but this was more informal and just a few [attended].

That's one of the bad things about government that is inevitable. You have to, in the end, have very few people if you're going to keep coordinated, and yet they're not enough really to reflect all of the wisdom and accumulated knowledge that ought to be brought in. You struggle with it day and night, and you work sixteen, eighteen hours to read all the papers and try to absorb it. Still, you don't get the full benefit of all the wisdom and experience that is assembled in Washington, because things move too fast. The few people who could be together to keep it all coherent just haven't got time enough to read and get everything that ought to have a bearing on what they're helping to decide. And of course when you get the load of the President, you're absolutely swamped. I don't know how any man lives in that job for more than a week.

M: Do you have an explanation for why the tax cut passed under Lyndon Johnson and didn't pass earlier?

R: Yes. I think partly it took a little longer to sell, but also--well, I wouldn't want to certainly say that if President Kennedy had lived that he wouldn't get it through at the same time. I suspect he would have, and he would have gotten it through with the help of Johnson as vice president, as he did in so many other things. But it really took salesmanship at times.

M: It just took time to sell?

R: And President Johnson was just darn good at that. You know, as time went by and he got preoccupied with other things and the presidency became bigger and bigger I think that side of him slipped. I wasn't there so I don't know, I just judge from outside. But, by golly, during the thirteen months I was there with him as president I doubt if there's ever been a time when the White House had as effective liaison with the Congress. I don't know. Maybe in the Roosevelt days somewhere it was, but it was really something.

M: What made it effective?

R: I think he had a lot to do with it; I mean the fact that he had been so much a part of Congress for so long in such a key role, and the fact that he worked at it. The telephone really was a busy instrument in his day. Not that others didn't use it, but I mean he would call people on the Hill incessantly about things. I wasn't there to hear it but this is the impression I got from those who got the calls.

M: Did you ever have any direct dealings with him as under secretary?

R: With the President?

M: With Lyndon Johnson.

R: Yes. In the meetings of the Quadriad mainly, but also other meetings when I would go over there with Dillon. But as I say, I can't think of any time that I ever did anything alone. I don't think so.

M: You mentioned one meeting in July of 1964.

R: Yes. Well, the interesting thing about that meeting was that we'd been waiting, the Budget Director and Heller and Ackley, they were from the council, and Dillon and me, to have lunch with the President. He often ran behind on his schedule and understandably, but this time I think we were supposed to meet for lunch at quarter to one. One-thirty, he didn't come; two o'clock, he didn't come; two-thirty he didn't come. We knew he was in his office, and we were sitting in the Cabinet Room waiting.

M: Waiting to eat lunch?

R: Yes, and to go over to the Mansion. Finally he came out, about a quarter of three, and we went over there to eat. They hadn't set places at the table for Ackley and me, they just had a smaller group in mind, but the President was very gracious and got that all fixed up right away and then sat right down. He'd been joking a little bit as he came along about having just heard the one reliable poll that he thought he could count on. Somebody had been polling customers in a barber shop in Georgia, and I don't remember what it was, but it was some absurd result indicating that he was not likely to win the election. He was savoring this with a certain relish.

Then we got upstairs, and although he was clearly in a kind of a manic phase and really going fast on things, he conducted then until about four o'clock just about as good a seminar [as I've heard] in cross examination on, "Where are we in the economy now?" and, "What do we need and what are we going to be able to do?" and, "Are we going to try to see if we have a special interest that ought to be considered on the side of monetary policy?" I finally had to ask to be excused because I had a press conference scheduled for three-thirty that afternoon, and you couldn't keep them waiting too long. I had to get over there to deal with them. And then it did break up. It was only, oh, I guess a week later that I learned, maybe the others learned sooner, that the reason for the delay had been that this was that rather difficult time when he had to explain to Robert Kennedy that he didn't think he was quite the man to run as vice president on the ticket that fall.

I always thought it was pretty impressive, and it's certainly impressive of Johnson at that stage in his presidency, that he faced this very difficult personal and political issue. It had obviously taken him a long time. There had been a long discussion, very, very difficult, and he could just turn from that as fast as this, joke for five minutes on the way walking around over to get up to the second floor dining room on the Mansion side, and then sit right down and run a seminar. You know, this is pretty great stuff. I could live a million years and never have either that much command or even composure.

M: From your point of view, did Lyndon Johnson have any major faults as president?

R: Yes. Yes, I think so. I think, and while I was there I saw this, it was a kind of personal pique, or a sense that he personally was being offended over things that didn't need to have that implication at all. It's surprising for a man who was such a successful politician that in some certain ways his skin was very thin, and I'm referring particularly to the idea now of appointments. The sense that if word of an impending appointment leaked he was offended by it. Now in some cases--the one that I knew best, and this wasn't actually an impending appointment--I sympathized with him completely. Some time I guess in the summer there was a vacancy on the Federal Reserve Board. We were sitting there at a Quadriad meeting waiting for him in the Cabinet Room. He came in. He had two or three ticker items, and I remember his sort of looking at one and he said, "Who's this Seymour Harris?" He said, "This professor up at Harvard who just appointed himself to the Federal Reserve Board this morning."

So I knew right then that that was the end of Seymour Harris's appointment, which I didn't mind because I thought Seymour, while a very able, nice man, was too old to go on the Fed Board at that time. He was already sixty-six, and I had not favored it. But

Walter Heller had been pushing it hard, and I think it made Walter wince that this was happening. I mention that as just an illustration, but it was the kind of thing that reporters would joke about. It made you feel uneasy a little that, well, you don't want to talk about who's going to get in that position because, "If we get it out in the press, the President won't allow it." I can't now remember, but I mean there were two or three other cases where I thought there was something in it, and I think this element of taking personally things that just didn't need to be was a sort of a [flaw]. Everybody's got to have a flaw, and I think with him it was a flaw that did him a lot of harm in terms of things that could have been much more smoothly worked out.

M: On the other side of the coin, were there any major virtues? You mentioned the ability to change.

R: Well, the terrific capacity to absorb; the fact that he had to deal with this kaleidoscope of events; that he did it with genuine understanding; the ability to turn one on and another off; retention in his mind of all these things; being able to pull out what was important. It's a kind of innate high intelligence that you sort of wish every president would have. You know, we're darn lucky when he's got it, and he had it.

Also, I do think this judgment of priorities, what he could get through and when, is the capacity that a good general has, and he certainly had that. But, as I say, I think he had these capacities in a remarkable way.

On the other side, [there was] this just sort of a human weakness that caused him a lot of trouble that I wish he wouldn't have had to have. I do think then as we got on further this took another form. I didn't see this but I've heard it from others, that while he would be pleasant enough if people criticized the Vietnam undertaking, he took it personally when you didn't agree. I found that difficult. I tried to see him and didn't succeed. I think my old friend Walt Rostow probably had something to do with that.

Taking a different tack, I chaired a study group at the UNA association here, proposing that we take a different attitude on China. That's a long story, and I don't mean to get into it in detail except that at least my thought of it was that this was just clever strategy. The Chinese aren't going to come into the UN anyway, but I hated to have us on the defensive end of this always. And we had a fairly well thought out, lengthy report, and I even thought the President [would listen], because he did have an open mind. You know, he would open up subjects on East-West trade; it was wonderful the way he would take a fresh view at this. I think he might have even on this one, but again, it wasn't the first priority for him. You couldn't count on getting to him.

I saw Dean Rusk on this, too, and I don't know which one to think might have headed it off. I was certainly disappointed with Rusk, because his reaction right away instead of saying, "There's a certain strategy in that, obviously I'm not going to tell you what I think, but thanks for the report" [was to ask if] I realized how many lives would be cost in Vietnam for putting out a report like that. Well, you know, that's a pretty fast transference. Since he knew that I was very worried about Vietnam anyway and would like to have seen an earlier hopeful effort to try to get it over with, that was almost dirty pool to use that argument on me for the Chinese pamphlet. This is Rusk doing this one, and I think all of them--he and Walt and the President--got really so completely bound up in this commitment as a priority that it did weaken the full capacity of their freshness in judgment and view. So that would be the other thing I'd say if you asked me for an evidence of weakness. Mind you, I say this for a record and frankly.

Tape 2 of 2

R: Well, why don't I just finish that one thought I had, because I just wanted to make it very clear that I'm responding to a question in frankness. But I have such an overwhelming awareness of the pressures that come on that I don't want it to sound as if this is carping criticism. It's just an effort to say that in comparison with what perfection might have permitted this is where the evidence of weakness appeared.

M: Why did you leave then in December of 1964?

R: Basically, this is a hard thing for a man who is supposed to be a financial expert to admit: I was broke.

M: That happens.

R: When I went to Washington, you see, I had been sort of gradually getting better incomes in the Federal Reserve Bank in New York. But I started at the very bottom; my first salary there had been $2,400 a year. By the time I left my salary had gotten up to $31[000], but it just became $31. So over this whole period, with a family and other expenses, we'd saved some money, but, oh, I can't remember now precisely, it would have been less than $10[000] and more than $5[000]. And we had largely paid for a house. That's what we had, and because I had felt as a person operating in the securities markets on behalf of the government that I shouldn't trade or put money in anything except a savings bank or buy a house, I had made no other money except what we saved out of the current income, which was, as I say, by that time to a level where I could save. But I'd only just got there.

Then we went to Washington. The Under Secretary's salary then was $21[000], so I was already taking that much of a cut. We initially couldn't carry one house and rent another, not the way rents were running then. We just sold the house here and bought one in Washington and managed it all right. The mortgage payment wasn't all that prohibitive, but still expenses were high. I was in the international side. When I was here at the Fed in New York I did a lot of entertaining, not lavish but at least friendly, of visiting foreign bankers, people I was still in touch with in Washington all the time. But it was reimbursed at the Fed in New York. In the government they couldn't do it, and yet I had to carry that on. When I went abroad, all these trips, it was terribly exhausting for one thing. I don't suppose physically I had the stamina that the others do. I was about actually burnt out by the time I left anyway, but it did also cost me money every time I made a trip abroad.

The entertaining in Washington, the combination was such that my wife and I had decided in the summer of 1963 that we couldn't go on without some adjustment. I spoke to President Kennedy and I said, "I'm just terribly sorry. This is odd for a fellow who's supposed to be handling a lot of finances and refinancing the government's billions and billions every month here, but I'm just going to run out of money here pretty soon. "Well," he said, "don't worry. As I promised you a year ago, we're going to get an increase for you." Of course, shortly before I left they did raise the salaries, so that mine would have gone up to $28-1/2 [$28,500]. But by this time we had used all of our savings, and of course we had a much bigger mortgage debt on the house than we'd had up here. My wife and I just decided that we were not going to stay in Washington, as some of our friends did,if it meant living on borrowed money.

It's hard, I know, to think $28-1/2 [$28,500] and after tax, whatever it was, $21 or $22[000], shouldn't be enough, but in fact it really wasn't. Since I couldn't get reimbursed for a lot of the entertaining I did I didn't turn it in as a business expense either, because I just didn't want to have to go through the validation of it. The Internal Revenue is a part of the Treasury. I didn't want to have any arguments about it. So I suppose I was stupid from that point of view, but I just did it that way. Then, oh, along in there, some people came to me and said, well, they'd be willing to stake me and sign a note at the bank if I'd stay. We thought about it for a little while, but we decided that it was just silly.

Then, also, I had talked with Dillon about it earlier on, but then you see when President Kennedy was killed President Johnson said, "Will everybody at least stay on through this term?" So I said, "All right, we'll manage it somehow." We did, and just in time we got the other salary increase. So that we came through, but we were so close to the edge that I had to borrow against what principal we had in the house in Washington in order to get a down payment to get a house here and use part of that for moving expenses and so on. No bank was taking any big risk, but still, cash-wise we were absolutely broke by the time we left.

M: Did President Johnson accept this resignation with no difficulty?

R: Oh, yes. Oh, yes, certainly. He understood this. And not only that . . . . See, I had the ideal arrangement there. I'd been thinking about this so long that I had for over a year told Dillon who my successor ought to be, that I was quite sure he would like to come to Washington, that it was another dimension to his experience. He was an old-timer in the Federal Reserve, and he knew the business. He didn't know the foreign as well as I had, but he had quite an aptitude for it, I thought. He knew the Federal Reserve System very well. This is Fred Deming, and we had actually found ways in the course of this to get Deming to do one or two kind of errands for Dillon. Dillon could see what he was like, and so, oh, I guess it was well before the election, we spoke to the President and said I really guessed I'd have to leave but we have a very good man lined up and, "You might like to have him checked out."

So they started checking him out. Of course, he was a good friend of Humphrey's, and he had been a Democrat all his life, as distinct from me. Because he was in St. Louis and Minneapolis and not operating the way I was in New York, he didn't feel he had to be nonpolitical in the same way, and so everything checked out. I can't imagine a better arrangement, because I was leaving with a good friend coming in I could recommend as highly as I could recommend anybody. The President was delighted. He was not only a congenial fellow, but he's getting somebody from the Middle West and not from the center of New York, which is always a problem in financial work.

I must say, certainly our exchange of letters was as congenial as any will ever be. I half suspect that Dillon wrote that one the President signed; I mean the President is too busy to write them. At any rate, he signed it and gave me his picture and all the rest of it, and then I did see him afterwards, as I say, in these fleeting times. Maybe I didn't remember quite as many times when we were talking before we began taping as I should have, because now that I think about it there were at least two times when he asked me if I'd saved enough money to be ready to come back; of course just jokingly, because the first time I'd only been out of there about eight months. But another time--I can't remember--it was in the Fish Room when he asked me. It must have been maybe in 1968 sometime.

M: Then you had some meetings with him after you left?

R: Yes.

M: Were these social?

R: No, never anything social. I mean the occasion for these was [usually] a meeting of this committee that Dillon chaired after he left the Treasury which we called the Advisory Committee on International Monetary Arrangements. That group met in the Treasury over the period from mid 1965 to the end of 1968. I think they counted forty different times. So we were down there a lot, and every so often Secretary Fowler would put us in touch with the President one way or another, even if it were just at some ceremonial thing. Then we could see him and shake hands, and he'd tell us he was glad we were busily at work, even if not working hard enough, or something like that.

M: Well, you spent a long time with me.

R: Yes.

M: I wish to thank you.

R: Well, fine. Thank you very much.

[End of Tape 2 of 2 and Interview I]

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Robert V. Roosa
Donor

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