

INTERVIEWEE: ANTHONY SOLOMON

INTERVIEWER: PAIGE MULHOLLAN

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M: Let's begin by identifying briefly you in time and position. Did you join the government service prior to the time Mr. Johnson became President in 1963, or was it after he became President?

S: In the beginning of 1963 I headed a mission to Bolivia for the Bureau of the Budget as a special consultant. Then, in the late spring of '63, I headed a mission for President Kennedy to the United States Trust Territory in the Pacific Islands, and that occupied me through October. Again, that was as Special Consultant to the President. On the first one, I should say, it was technically special consultant to AID, but it was really the Bureau of the Budget and White House job.

M: I have been talking with some of the AID people. There is a good connection there with the Budget.

S: Right. On the second mission I was special consultant to the President, President Kennedy. I saw President Kennedy in September or October of '63 and he persuaded me to accept a permanent position in the State Department that I had been offered as Deputy Assistant Secretary of State and Deputy Assistant Administrator of the Alliance for Progress. I had hesitated at accepting that but finally decided to and was sworn in the night before President Kennedy was assassinated.

M: By President Kennedy? That would be after he was in Texas.

S: No, I was sworn in here in the State Department. But it was the night before, so actually my first day on the job was the day that he was killed, and it's a curious fluke because if I had waited another twenty-four hours

I would have never come in, you see. So then I continued on in this dual position in the Latin American Bureau under Tom Mann when, about a month later, the President replaced Ted Moscoso and Ed Martin in their two different jobs with one man, Tom Mann. And I stayed on in that same capacity, with the dual deputyship on both State and the Alliance for Progress side, until April of '65 when President Johnson appointed me to my present position.

M: Now, during that interval, did the nature of that job you held change? Didn't it become Assistant Secretary of State and AID Director for Inter-American Affairs?

S: No, it was during that period of time the same two deputyships that I was appointed to just the day before Kennedy was killed--

M: So you stayed in the same job?

S: From November 21--he was killed on November 22, wasn't he? From the evening of November 21, 1963, until April of '65, I stayed in that job wearing that double hat, which was Deputy Assistant Secretary of State for Inter-American Affairs and also Deputy Assistant Administrator of the Alliance for Progress.

M: Did you come in contact with Mr. Johnson at all prior to November 22, 1963?

S: Never.

M: You had no earlier contacts with him at all?

S: No.

M: What about the early months of his presidency then? Did you have direct dealings with him during that time?

S: Yes, but to a limited degree and, almost always, the few meetings I had with him were ones where I accompanied Mr. Mann, who was both the Assistant Secretary of State for Latin American Affairs and the Coordinator of the Alliance for Progress. And Tom Mann took me to some of those meetings.

I met the President, also, on certain social functions revolving around Latin American relations at the White House and had, therefore, some very limited participation in conversations with the President. It was only after I was appointed Assistant Secretary of State for Economic Affairs that I developed a more sensitive relationship--direct relationship--with the President.

M: Can you go into that a little bit? How does the President or any President deal with, let's say, the State Department at the Assistant Secretary level? Does he deal directly with the Assistant Secretary frequently or infrequently?

S: My experience is that he does not deal directly, at least President Johnson did not. He went pretty much through the channels of the Secretary of State or the Under Secretary of State. What he did encourage, I believe, was that in meetings where an issue was important enough to have a meeting at the White House he encouraged, or else the Secretary of State or the Under Secretary, on their own initiative, would take me along, and I would sit at the cabinet table with them and the President would call on me, directly, to give my own views in addition to calling on the Secretary or the Under Secretary. So it was in that connection that I had face-to-face dealings with him. He never telephoned me directly himself.

M: In spite of the famous myth that he phones people all the time?

S: Right. He did in a few cases, through his Special Assistants in the White House, send me a message on some particular matter that I was handling. It had come to his attention and he was interested and he would send me an expression of his view. One way, but there were others, that I came to his attention was that we have a presidential evening reading file which goes every evening from the State Department to the President on key issues--a short item of each issue--and I believe in many cases it was in inclusion

there of some matter that I was handling in which he was interested, that he would react to and send me a message through his special assistant.

M: When he does that, is that the Rostow operation in the White House that gets in touch with you directly?

S: Not necessarily. Sometimes it was through other special assistants. Because, unlike other assistant secretaries in the State Department, the fact that I handle economic affairs means that I am very intimately involved in economic affairs too, because they all have foreign aspects. And, therefore, frequently the special assistant who would be handling a particular problem for him-- let's say, a copper problem--

M: I was going to ask, [it would] be a good example, the stockpiling problems, for example. Copper is a good one.

S: Right.

M: You would get involved right in the middle of that.

S: Right. You see, there he would make his comment to the special assistant who is handling this and it would not normally be somebody on the National Security Council staff. It would be somebody handling it from the domestic point of view.

M: This would be Califano and his people?

S: Right.

M: And then they would call you in for what, as adviser on the international implications of whatever they were going to do?

S: That's correct. And they--. For example, on stock pile disposals, for a long period of time we had weekly meetings with Joe Califano's office, but then every once in awhile he would telephone me either with his own ideas or sometimes it would be a message from the President.

M: I see. In cases where the domestic economic needs are perhaps not entirely compatible with foreign economic implications, is pretty well equal consideration given to both, or do domestic considerations tip the scales?

S: Well, it depends. It varies from case to case, but we were always given an opportunity to present our views to Califano, or to the President, and usually I would present it directly to Califano. In a couple of cases I had the Secretary of State present it directly to the President--our views of a particular proposal. And consideration would be given both to domestic pros and cons, and the foreign policy pros and cons, before the President finally made a decision, so that I had no complaint on the decision-making procedure.

Sometimes the decision would come out more heavily weighted on the domestic side than I would have liked to have seen, but where we felt strongly enough and such a state [was] sufficiently important for the Secretary of State to get involved, then I think that in most cases sufficient attention was paid to the foreign policy considerations so that the narrow domestic view did not prevail.

M: The point I was driving at, you didn't have any trouble getting your views to the top. The machinery involved didn't hinder your making your case.

S: No. Califano was always, I think, quite considerate and careful about getting all the factors that should go into a presidential decision to the President.

M: You mentioned the difference between the Bureau of Economic Affairs and the balance of the State Department. I read the other day that your bureau makes about half of the day-to-day decisions that the department makes. Would you think that was an accurate estimate of the amount of things that this bureau in the department is concerned with?

S: I have no way of judging that. We are a very active bureau, extremely busy, and we have direct relationships with all the agencies in town. We have a need to be involved in many, many domestic decisions which the regional bureaus and most of the other bureaus in the State Department do not have. Therefore, in some ways we are a kind of curious bureau because we are also looking at the U.S. economic domestic interests.

My view of the Bureau of Economic Affairs is that its functions is not to simply to present the views of what friendly foreign governments would like us to do in the area of economic relations. My view is that that's only one factor. A second factor is, what are the best economic policies to follow in our interests bearing in mind both our domestic needs and our foreign relations. And frequently I have recommended going ahead with certain economic policies which will not be liked abroad, but which, in my opinion, are sufficiently important for us to follow notwithstanding the foreign policy disadvantages.

M: Right.

S: Now, where I think the foreign policy disadvantages are tremendously great and the domestic gains to be achieved are relatively minor, then I would make a contrary recommendation. Or more frequently--because in my case most of the problems I'm involved in I do not make recommendations upstairs--I actually negotiate out with the other domestic--with the other agencies, mostly the domestic agencies--I negotiate out with them a compromise or a reformulation of the approach to a problem which will take into consideration our foreign policy interests as well as the primary domestic objective we are trying to achieve. Frequently, though, in many cases, I will support entirely the original formulation put forward by a domestic agency and will not accept the recommendation of a regional political bureau because I do

not feel that the foreign policy interests of the United States will be sufficiently adversely affected for the State Department to intervene.

M: Now you are anticipating my next line of questioning [which] was how does the bureau, because of its peculiar role here, relate to the geographical desks. Do you have difficulty, for example, with Foreign Service--prejudice against the Bureau of Economic Affairs, because your interests are somewhat different than theirs?

S: I am not too aware of, and I don't think that any across-the-board prejudice exists. Certainly there are specific decisions that come up where the regional bureau may be somewhat unhappy that the Bureau of Economic Affairs did not support their position. But that's happened frequently within any major agency. And you would simply have a pretty vitiated and meaningless decision-making process if you didn't have a difference of view, and a confrontation process, and an arguing out, and a decision can rarely be a unanimous decision. In many cases I have supported the regional bureau's position and then intervened very vigorously and in most cases, effectively, with the other agencies, or with the White House. But where I feel the regional bureau's view is not sufficiently well based to justify a State Department intervention I would simply say so.

Now, the regional bureau is free just as I am free to take a difference of view with another bureau to the seventh floor, to the Secretary or the Under Secretary. That has happened in a few cases, but considering the fact that I have been here three and a half years, the number of cases that that has happened has been very, very few.

M: What about personnel problems at a lower level? Your bureau needs to employ people with great technical competence and, yet, they are not Foreign Service officers normally, are they?

S: Roughly half of our professional officers are Foreign Service officers, or more than half. But, most of those have had advanced economic graduate training at universities. Some of them have Ph.D.'s, some have master's degrees in economics, some of them have some business experience and background. Then we also have civil service officers who have economic backgrounds and advanced economic training at universities or, in some cases, have highly technical expertise in a narrow area. For example, in telecommunications, some of our officers are civil service officers who have never been overseas but who are very competent in that highly technical area of telecommunications.

I make a point of staffing the particular jobs in the bureau with the right mix of qualifications. For example, in monetary affairs you need people invariably who are extremely expert in international economics and are technically expert in international monetary matters. Whereas, for example, in certain aspects of economic relations with the communist countries, there you do not need necessarily a high degree of economic sophistication. You need a heavy background in actual business relationships, in political understanding of the communist countries, in understanding of the technical issues involved in the issuing of export licenses for different goods and people who have sufficient technical engineering expertise that they can work with the Department of Commerce and the Department of Defense on highly sophisticated technology in the question of which products we can safely release for trade and which we cannot. So there is a different set of mix. They are a different mix of training and actual experience which is required for different parts of the Economic Bureau. And it's because the bureau handles such a range of miscellaneous international economic matters.

M: Which as you said involved you with every agency in town. How do you work interagency cooperation and coordination? How is that accomplished, let's say, between your bureau and Treasury and Commerce and AID and all the other people involved?

S: Unless it's a matter which is so delicate and, under instructions from the White House, being handled only at the very highest levels, unless it's that situation which is very rare, the initial contact between agencies are normally at the staff level. That part of the bureau which has jurisdiction over that kind of a problem takes it up with their counterparts, their liaison points in Treasury, or Agriculture, or Commerce, etc., whatever the case may be.

If they come to an agreement of view, they inform both me and my counterparts in the other agency more or less simultaneously. And in most cases--not always, but in most cases--it would be normal practice for myself and my counterpart in the other agency to go along, because there no difference of view between staffs. If, however, they cannot reach an agreement, which is quite common, then I will pick up the phone--or the other guy will pick up the phone--and we will talk this thing out or we will meet face-to-face if we feel it requires that kind of a meeting. And usually with our staffs, but sometimes we will meet without staffs, depending on the particular problem, and see whether we can't convince the other guy of our case, listen to his arguments, try and rise above narrow bureaucratic considerations because there is a tendency on the staff level--for what we would call bureaucratic considerations--to enter into their positions whereas the higher up you go in the government normally that is less trouble. And in most cases we are able to reach either the acceptance of one position, one agency's position fully, or a reasonable compromise which accommodates

to the various policy objectives of the United States government.

Now there are some cases where we cannot reach agreement in which case it then goes to the Cabinet level, and the same process takes place there. And if agreement cannot be reached and if the issue is really very important, then it will go to the President, to the White House, in a form of a memorandum explaining the positions of the different agencies.

The President will either make his decision on the basis of the memoranda, or if he feels that to make the right decision he should take the time to have a meeting and listen to the various views, then he will call a meeting. Most issues that go to him, I would say, he feels able to resolve on a basis of the different memoranda that are put to him. Once in awhile, on a major matter, he will call a meeting of the different agencies that are involved and hear the arguments pro and con and then make his decision.

M: Are there any instances, or frequent instances, where the motivations of the two or more agencies involved are simply so different that they operate from entirely different frameworks of decision-making. In other words, State considering one set of conditions and, let's say, Treasury or somebody, just entirely different, or are they usually just disagreements of minor degrees?

S: Sometimes they are major policy differences.

M: Those are the kind that the President--

S: Right. We would never, I hope, take an issue to the President where the differences were of a relatively minor degree. Normally no Cabinet officer would be that irresponsible, or sub-Cabinet officer for that matter, would be that irresponsible as to encroach on the President's time on something which is a relatively minor matter. There have been a few exceptions which surprised me. And the White House staff would not normally permit it and correctly so. If they feel that the matter is not that important that it should go to the Presi-

dent--the difference between the agencies are not that vital that it should go to the President--and there are only relatively minor differences, but which are so stubborn that by some strange reason they have not been worked out between the two agencies directly, then that usually is resolved in a three-way conversation with the special assistant on it from the White House staff who has responsibility in that area. Not that he will make the decision normally, but his presence and any suggestions that he may have frequently are helpful to the two Cabinet or sub-Cabinet ministers actually involved, or he may sometimes strongly influence the people involved along the lines of a particular solution.

M: That was actually what I was getting at, the role that the staff plays here, the President's staff, to be honest brokers, that does take place on less important and less critical things?

S: Yes.

M: What about in the field where you have an agency involved in economic policy abroad? For example, Commerce has a lot of people in the embassies around. Is there a problem encountered by the State Department in controlling the activities of those non-State Department representatives that are in the country concerned?

S: Not normally. President Kennedy, you know, clarified the concept of the country team with the Ambassador thing fully in charge of the entire American American government establishment abroad, so that even where you have a situation, let's say, agricultural attaches, [he would] report directly to the Department of Agriculture. Commercial attaches report through both the State Department and Commerce Department and are part of the Foreign Service, but agricultural attaches are separate agricultural Foreign Service.

But even in those cases they will accept, are supposed to accept, and I believe they normally do, the discipline and the policy guidance supervision of the Ambassador. Now, one hears stories from time to time, you know, of a particular incident where, let's say, some CIA-type may have reported something back which the Ambassador didn't know about. But I think that has pretty much died out. Those stories were much more common years ago. I hear from the old-timers that since Kennedy clarified that concept of the country team, the ambassadors are kept informed even by the undercover people we may have abroad.

M: So it does work, in practice, pretty well like it's now written down?

S: I think it does.

M: As you say, the stories sometimes get more publicity than the reality of the case.

So far as your bureau's immediate activity is concerned in the various fields that are assigned to it, commercial affairs and so on, do you have to rely to a great extent on voluntary cooperation of American business firms in such things as investment abroad, which certainly influences or affects our foreign policy--instances where our business people might come up against the interest of a foreign government? Is it pretty well a matter of asking them to voluntarily go along with our policies?

S: That kind of situation does arise from time to time, but not too extensively. And the reason it doesn't arise too extensively is that normally we have statutory authority for whatever we ask business firms to do, particularly if we are asking quite a few firms.

Now, a situation may arise from time to time where a particular U.S. firm is in difficulties, is in a political confrontation, you might say, as a major U.S. firm operating abroad with a particular foreign government.

Then that firm will turn to us, or we ourselves can initiate the contact with them, for our suggestions on how best to resolve the problem. And, therefore, we will make recommendations to that firm as to what is appropriate, and what is advisable, and what is not in our opinion.

And there are cases obviously where the U.S. firm's judgment is different than ours. We will almost invariably put it to them that this is our best judgment and we would advise you to follow this. But if the firm, after hearing our views, feels differently and we do not have a statutory basis for instructing them to behave differently, we will not carry it any further. We do not do arm-twisting. We never insist on it because Congress has provided statutory authorities for us to intervene, or the President may have, based on his executive authorities. If we do not have executive authority or legislative authority, we will simply give our best advice and recommendation and if the U.S. firm does not wish to accept it, then we have no alternative.

M: What has been the experience, particularly in cases where your advice might be based on the judgment or the action of an international organization? I'm thinking particularly of the sanctions of the United Nations on Southern Rhodesia and South Africa. Have our firms, by and large, honored the sanctions, although I think there is a statutory requirement to do so?

S: Yes, there is now.

M: Oh, there is now?

S: At the very beginning, there was a short period of time in which there was no statutory basis for the sanction program and we asked for voluntary cooperation from the few firms that were affected. But that was very shortly thereafter succeeded by an official action of the Security Council and then, under the U.N. Charter, as a government we had an obligation which we

implemented through an Executive Order of the President of the United States to implement the resolution of the Security Council which therefore represented a full statutory authority and basis for the sanctions against Rhodesia. But there was a short period of time there in which there was a request for voluntary cooperation on our part, which was a multilateral one, that most of the West and most of the Western governments were supporting the British government as the legal sovereign of Rhodesia. And the British government had officially asked us, and other governments, to take certain measures and therefore we asked our firms if they would cooperate in this matter and forwarded to them officially the view of the legal sovereign of Rhodesia.

M: And our firms generally cooperated during that period of time?

S: Yes, they did. By and large, I would say that they all cooperated. There may have been a few cases where there was a question of interpretation, where there was something that might have been on the borderline where they might not have interpreted this in the way that we or the British government would have ideally desired. But, in general, there was a very high level of cooperation.

M: Has President Johnson initiated any major changes or major differences in commercial and trade policy generally during the time you have been Assistant Secretary for Economic Affairs?

S: In the area of foreign economic policy, you have certain key components. First, on trade policy, he carried through on the Kennedy Round, which was negotiated and concluded under his administration. The beginning negotiation, and the statutory basis for it, was in President Kennedy's period. But President Johnson carried through on that, and that was a very major furtherance of our post-World War II liberal trade policy.

In international monetary policy, President Johnson's Administration initiated the most important changes in the international monetary system since Bretton Woods, particularly the agreement worked out among all countries that are members of the International Monetary Fund to create a new special reserve asset.

M: This is the paper gold, as it is commonly called, idea?

S: Right. And this, of course, is a very major initiative.

Thirdly, President Johnson's Administration was successful in getting the key financial powers of the world to restructure the role of gold in the March 17 meeting of this year, when the key financial central banks of the world agreed that there was no need for further accumulation of metal gold reserves and they would not sell gold to the private market. And that they would rely in the future for needed increases to world liquidity on the special reserve assets--or paper gold, as you say. That, in practice, meant the closing of the London Gold Market and the divorcing entirely of the use of metal gold for monetary purposes--the \$40 billion dollars existing in metal gold that is in the hands of central banks around the world today--divorcing that from the supply and demand for gold as a commodity by jewelers and industry and by private speculators. And that is now a separate market and insulated from the workings of the monetary system to a large degree. This was a very major step forward, so I think this, incidentally, is one of the areas of very conspicuous progress in the Johnson Administration.

M: Does the President get directly involved in this kind of thing?

S: Oh, yes. The key work went on in a small group of five men who were five men who were appointed by name by President Johnson. He appointed Art [Arthur M.] Okun of the Council of Economic Advisers; Fred [Frederick L.] Deming who is the chairman of the group--we call it the Deming Group--Under

16

Secretary of the Treasury for Monetary Affairs; [J.] Dewey Daane, one of the Governors of the Federal Reserve System; myself; and the White House staff man on these matters, who was originally Francis Bator, now teaching at Harvard, and then he was replaced by one of my deputies, Ed Fried. Now this group of five, called the Deming Group, worked out the basic U.S. position on all these international monetary reform matters and gave their advice, on a continuing basis in frequent meetings to the Secretary of the Treasury and the Chairman of the Federal Reserve System, and when the issue was important enough the President was involved as well. There were frequent meetings between the Secretary of the Treasury and the President, and there were some meetings on the U.S. balance of payments, as well as international monetary reform measures--the two are related--where the President would have the various agencies represented at the table before he made his decision.

M: Then we ultimately implemented pretty much the recommendations that came out of the Deming Group?

S: Oh, yes. I think that was a leading example of an effective and successful interagency mechanism. Most interagency committees do not work that well. For example, quite frankly, the interagency committee on the balance of payments has not been as effective a mechanism as it should have been for various reasons. I think the group is too large. There are too many agencies represented whereas in the Deming Group, this five-man group on international monetary reform, we seem to have a right mix.

Secondly, a tremendous amount of personal time is given by the five members of the group. We would spend hour-after-hour Sundays, well into the night working on these problems, and I think the results witness that

it was an effective operation.

Now, in a third area, foreign investment, the President using certain executive authorities did switch from Commerce's voluntary program on January 1 of this year to a mandatory program. Now, even though this is not liked in the business community, the restrictions on the amount of money they can send out of the country to invest abroad, in practice we believe it has been even more successful than we had expected, for two reasons. One, and the major reason it has been successful, is that U.S. firms have been able to raise all the money that they needed in European capital markets much more easily than we had expected with very little difference in interest costs and, therefore, there has been no significant restriction on investment and plant and equipment in U.S. subsidiaries abroad. The only difference is that they have been financed from abroad rather than from the United States. So we have had a major balance of payments saving at the same time that we have not interfered with the ability of U.S. firms to expand abroad.

Notwithstanding Mr. Nixon's statement that he hopes to eliminate this program because it is objected to by the business community, I would doubt that, given the success of the program and the lack of other good alternatives for helping our balance of payments, that he would be able to.

M: What happens in a case like this? I was going to ask this in regard to the Kennedy Round and it's applicable here too. When a policy is adopted of this type that provokes a response from the American business community of opposition regardless of what particular business interests might be involved, does the White House take any initiative in running interference for the policy here? Has Mr. Johnson, for example, dealt with the business leaders to placate them, to educate them on the policy, or is that left up

to you and your agency and the other agencies involved?

S: In this particular case, the Direct Investment Managerial Program, I am not aware of any meeting that the President has had with the business community, as a whole or an across-the-board representative sampling. I would assume that some businessmen have raised it with him in the course of groups coming to see him on other issues, and I would assume he is giving some kind of appropriate response. But as far as I know, he is not taking any initiative, personally, to pull a wide representative sample of the business community to Washington to discuss their complaints under this program. This has been left, primarily, to the Secretary of Commerce, Secretary of the Treasury, and, to some extent, ourselves to make our reasons known both in speeches and in direct contact as to why we think this program is essential for the time being.

M: Is this an instance, this matter of foreign direct investments where the voluntary compliance program that Commerce pushed for two or three years, simply didn't work? Compliance didn't occur or, in some way, was proved inadequate by experience so that a change had to be made?

S: Well, what happened is this. Under the voluntary program, the bulk of firms complied. Some firms overcomplied for their own individual reasons. They didn't actually even use the ceilings that they had voluntarily agreed to. There were about seventy firms, I believe, that did not comply, but the amount that they exceeded their ceilings was offset by the amount of shortfall, more or less, so that in global terms there was not a significant shortfall from the overall voluntary agreed-upon target with the business community, and that was a program that was worth about--I think it was a few hundred firms. I don't remember the exact number because, even though 700 firms made up the overwhelming bulk of our investment program abroad,

I think the voluntary program was actually a somewhat smaller number than the 700.

The reason why it was necessary to move from a voluntary program to a mandatory program at the beginning of this year was that we needed a larger saving than the Secretary of Commerce thought could be negotiated with the business community on a voluntary level. And, also, that [with] that drastic a savings in mind as our target, it was felt that it would be inequitable to depend upon a voluntary program because some companies would comply and those that didn't would be free of any sanctions, so therefore it was best to make it a mandatory program and there would be sanctions.

M: You were rewarding the non-compliers in the other case.

S: Right. So that's the reason why. It was not the breakdown in the voluntary program. It was the fact that we needed a larger saving than we felt would either be practical or equitable to achieve on a voluntary basis.

M: What kind of response abroad to the various measures that the governments had to institute in connection with our balance of payments problems and so on? Has this posed a problem in bringing out your solutions?

S: Less than we expected. The governments abroad, with virtually no exceptions to speak of, have understood fully our need to take this action, both in the rich countries and the developing countries. And we consulted with them twenty-four hours before the announcement of the program and explained our reasons for it. I did it myself; I called the ambassadors of all the countries accredited to Washington in groups and did this. The other balance of payments measures that we have taken they also understand and go along with.

The one area [where] they have been concerned that we would take a balance

of payments measure and where they have made their views strongly known, we have not taken any action. Namely, they have been afraid that we would move toward a protectionist trade policy. And we have not taken the action leading in that direction because we felt that, first of all, there would not be much, if any, advantage to our balance of payments because other countries under the GATT would retaliate and we as the leading exporting country would lose exports just as much as we would save on imports. Secondly, we felt that a regression to a protectionist trade policy, like we had in the 1930's, would just tend to impose a similar set of regressive policies around the world and strongly increase the possibility of world-wide depression. So for very major reasons we have not taken the action that foreign governments were very concerned about. The President's statement at the beginning of the year on the balance of payments program for this year had some general language in there about trade measures, and it was not clear what the content would be until we went through a series of consultations. And he said in the statement that there would be consultations before the content of what trade measures we would take would be defined. Based on those consultations, based on our further analyses of what, if any, gains could be made, it was finally decided by the President not to send up any restrictive or protectionist trade measures.

M: This is another area where you can excite a great amount of American opposition or protectionist outcry, which was particularly represented in Congress. Has Mr. Johnson personally, to your knowledge, taken any initiatives to silence this type of demand, the demand of the protectionists who--?

S: Well, he has taken many initiatives to stand firm against different kinds of protectionist pressures, to make known our commitment, continuing to a

liberal trade policy. Also, privately, he has argued with key senators and congressmen who have come to see him and pointed out to them that it was not in the national interest.

Now, one thing I would like to point out there, though is that the large amount of publicity that these industries put out about their desire for protectionism and their ability to influence quite a few members of Congress through their various lobbying representational activities on the Hill, does not mean that the American public as a whole is fed up with the liberal trade policy and would like to move in a protectionist trade direction. This is, I think, clear when you look at the press of the country.

M: Yes, I agree but the votes up there still can be symbols sometimes for the protectionist measures and Mr. Johnson has taken a personal interest in preventing that type of thing from coming up against you in Congress.

S: That's right. And it is generally recognized in the Congress and in the country that President Johnson has been very, very strong--consistently strong--on this question of maintaining a liberal trade policy for the United States. This has shown up in his decision on specific escape clause actions. It has shown up in his policy statements, in his specific statement last year on television, I think it was, that he would never sign, that he would veto, protectionist trade legislation. And I think that has been a very big factor in discouraging Congress from attempting to pass protectionist legislation.

M: You mentioned the foreign governments generally understood our necessity for taking some of the measures we have had to take. What's their reaction to the American business community? Do our business firms, by their operations, their encroachment as it is sometimes called, arouse foreign fears

that give the State Department a great deal of trouble?

S: yes and no. [A] few years ago there was a policy in effect in France implemented by Couve de Murville, when he was economic minister, which discouraged U.S. investment in France. But that policy was changed, although without publicity, without public statements, when Debre became economic minister because France saw that by keeping our U.S. investments it was simply encouraging that same U.S. investment to enter other countries in the European Common Market and to service the French market from Holland or Germany, Belgium or Italy. And therefore it was a rather irrational policy. Therefore the French emphasis has shifted to trying to promote mergers of French companies so that they would be of a size where they could compete against U.S. subsidiaries in the Common Market. And it is no longer a policy of discouraging U.S. investment in France at all.

Now, [with] Canada we have had continuing irritations from time to time, but basically very minor ones. The biggest single irritation was the publicized case of the Mercantile Bank owned by the First National City Bank. Even though there is an emotional feeling in some parts of Canada that U.S. corporations are so strong, so predominant in the Canadian economy that there is a kind of nationalistic feeling that maybe Canada will not control its own economic destiny, each Canadian government in power has recognized that it is very much in Canada's interest to encourage high levels of economic activity through U.S. investment. And with the exception of the restrictions in the banking law, which were triggered by that Mercantile Bank situation, which the Canadian government had told us in a Cabinet meeting in answer to a question that I specifically asked, they said that was an exceptionally sensitive industry in their view, or a sector

of economy--I should say--and did not represent any across-the-board policy of the Canadian government toward U. S. investments.

We have also had the Mexicanization problem, namely, the Mexican government increasingly requiring 51 percent majority ownership of foreign firms by Mexican nationals. Again, Mexican government has been, I think, reasonably pragmatic about it. We don't like that kind of government fiat, but the Mexican government has apparently been able to implement that policy to a large degree--not rigidly, not across-the-board--and still get a continuing inflow of direct U. S. investment in a very satisfactory mass.

Aside from those three situations that I have mentioned, I know of no across-the-board broad policy of discouraging or restricting U. S. investments in countries of importance to us. There may be in a particular industry, let's say, like oil exploitation, a tendency to in certain governments, not to wish to have--let's say--foreign oil companies, whether American or British or Dutch or what have you. But even there that has not been the trend. I think the trend there, in oil, for example, has been for the governments in those countries to insist on better deals, better terms, through one device or another, to get a larger cut of the take, either through direct increases in the tax rates, or in the royalties, or through indirect mechanisms by computing the tax rates on certain arbitrary bases, arbitrary posted prices, whereby in effect they get a higher cut of the profits. There has not been very much of a tendency lately to expropriate directly.

Of course, we have had one or two cases--e.g., there is the recent case of the International Petroleum Company in Peru. That would be my summary. I would say that we have not had to face this, really, as a broad policy problem. We have had a few specific incidents which we have had to negotiate out as best we could or, in one or two cases, the problem may

still remain.

M: Usually the foreign government has the right of expropriation with adequate compensation by contract, does it not?

S: Well, normally under international law, it is fully accepted by everyone, that a sovereign government has a right to expropriate if it pays fair compensation. There is a difference of view as to what the international law is in regard to the right of the sovereign government to cancel a contract. The business community, I think, would argue that that is a different situation, and there is no international law sanction for the right of a sovereign government to cancel a contract [unilaterally] when it's one of [the] two parties. In practice it is very difficult to do anything but ask for fair and prompt compensation when a sovereign government does cancel a contract.

M: Regardless of what the interpretation of the law is?

S: Regardless of your view of international law.

M: One of the popular books now is The American Challenge by Servan-Schreiber, which I have not had a chance to read, but presumably he documents a sort of a fear of technological encroachment by Europeans particularly. Has this occasioned political repercussions that have bothered the State Department?

S: No, we have read the book very carefully. I've commented on it in a couple of my speeches. It's a curious book because even though it outlines the doom syndrome, you see, of Europe becoming a third-rate power because of this tremendous superiority of large U.S. companies, at the same time the specific recommendations that Servan-Schreiber makes to meet this challenge are relatively constructive ones because he does not recommend restrictionist governmental legislation. What he does recommend is that European firms

become more Europe-minded rather than French-minded or German-minded, etc.; that they concentrate on research developing economies of scale, etc., and these are of course in accordance with our own thinking, both of our economy at home and the economies of friendly countries.

M: In this case he is sponsoring our stated policy.

S: That's right.

M: Finally, President Johnson has made quite a lot of his program of building bridges to the East and particular emphasis has been placed on such things as the East-West trade bill which is still bottled up in Congress. How successful is the use of trade, as in this case I assume it is intended [to be] a political weapon. Can trade be that kind of operation?

S: Well, I think it's quite clear that the very large volume of trade that other Western countries have with the Communist countries of Eastern Europe has been a major factor in prying open the Iron Curtain. This is particularly true of the smaller countries of Eastern Europe; that they have oriented their economies increasingly to trade with the West and a smaller and smaller share of trade with the other Communist countries; that certain economic reforms leaning towards managerial independence and less controlled by the Communist party hacks have followed from that greater dependence on trade with the West; that businessman visits to those countries, the taste for Western consumer products all have tended to open up more and more holes, shall we say, or windows, rather, in the Iron Curtain. And I think that, in a curious and perverse kind of way, the events in Czechoslovakia have tended to prove this, that the liberalization, the internal liberalization in Czechoslovakia, has been to a large degree as well their dissatisfaction with their economic progress and their increasing desire to reorient their economy and their trade along the lines of that of the West. And along with

that kind of dissatisfaction with their closed Communist-type economy, that provided a base for demands for liberalization and freedom of the press, and freedom of speech, and the freedom from a one-party monopoly. So that in my view trade in peaceful goods with the Communist countries of Eastern Europe is an important instrument for achieving what you call political objectives, but I would prefer to call policy objectives. Because it isn't that we are trying to subvert them to bring about violent revolution, but we are trying to get them to move towards open societies with freedom for their peoples and liberalization of thinking and we believe this is in the interest of world peace. So we believe trade to be a very effective weapon.

Secondly, I may add, even though many people put [it] in a very minor place--I don't--that when the Western countries of the world outside of the United States are trading to the extent of \$14-\$15 billion dollars a year with the Communist countries of Eastern Europe, it seems ridiculous for us to follow a policy which cuts off our nose to spite our face and deny our farmers and our businessmen and our workers the opportunity to participate in that trade. I'm not talking about strategic goods; I'm talking about peaceful goods.

M: What about the argument that the congressional critics make on it that by our trading with that bloc in a time when they are presumably aiding our opponents in Southeast Asia, we then don't have any leverage to ask our allies not to trade with them. If we go in without clean hands, we can't then influence our allies not to trade. Is there anything to this argument?

S: I don't know of any congressman who makes that particular argument because all congressmen know that even if we didn't have one dollar of trade we would never be able to get our allies to stop trade with the Communist countries in Europe. You are talking about getting them to stop trading

with Viet Nam. We don't have any trade with Viet Nam, either. And most Western countries do not have trade with Viet Nam to any degree. It's a, I think, maybe \$7 million dollars a year which is actually nothing. We have no leverage in denying ourselves trade in trying to get other countries to follow cold war trade denial policies.

Hell, even at the height of the Cold War in the 1950's, the Western European countries continued to trade and increased their trade every year. That's been a very dynamic trade area increasing faster for absolute amounts and percentage wise than in other types of international trade with the Communist countries, except for the United States where we've stood still. And you cannot in any way affect the strategic capacity or the military capacity of the Communist countries by denying trade in peaceful goods. It isn't that there aren't some peaceful goods that won't help their economy, there are, but first of all they can get them from many other countries in the world. Secondly, we are not giving them aid or long-term credit terms. They have to pay under commercial terms and what they give up is a fair exchange for what they take.

It's generally thought, for example, and erroneously, that the Soviet Union and other countries in Communist Europe are interested only in advanced technology and sophisticated products--importing them from the United States. In practice the majority of our exports to the Soviet Union are agricultural products.

M: Hardly advanced technology.

S: Hardly.

M: Why is it stalled apparently against Mr. Johnson's fairly strong position to the contrary in Congress for so long?

S: It has been a very emotional issue. It is very easy for people to say that you are giving encouragement to the Communist countries when you trade with

them. In practice this doesn't stand up to careful analysis but this is not the way the issue is presented to the public. It is put on a purely emotional basis. The press of the country has tended to be quite sympathetic to trade, increased peaceful goods trading with Eastern Europe. But individual congressmen have felt that they would be vulnerable in the next election campaign when their opponent would accuse them of being "soft on Communism," you see, if they went along with this kind of approach. It is very unfortunate that this is one of the situations that crops up where people react purely on an emotional basis and not on one of analyzing the rational components of the problem.

M: Mr. Solomon, you have been very patient. Are there any areas where your career has touched President Johnson which we haven't gone into that you would like to mention here by way of closing? Sometimes there are important instances of cooperation and effort on your part that I haven't come across and I certainly don't want to cut you off?

S: Well, outside of the area of more or less normal foreign policy issues and problems where I have had contact with the President, the one thing that maybe I should mention was my involvement in the Dominican Republic intervention where President Johnson sent me down to handle the food crisis and the entire economy problem which was falling apart. And then when I came back at the end of the first week I met with the President, and with Mac Bundy, and Dean Rusk, and McNamara, Cy Vance, and a couple of other people--about seven or eight of us spent six or seven hours in the Cabinet Room discussing my recommendations both in the economic area and primarily in the political area because even though that is not normally my area, I did bring back my own personal views. And I did recommend that we move towards a coalition government in the Dominican Republic, or if that proved impossible--toward a more moderate civilian government, rather than giving support to the

military junta headed by General Imbert [Brig. Gen. Antonio Imbert Barreras].

M: When was it that you went down?

S: That was the end of the first week.

M: End of the first week. This was after our troops had started landing in the middle of the week.

S: Right. And I went down two or three days later and I was there a week. At the end of that first week I came back. And I was taken to see the President and I made those recommendations and the President did decide after hearing all the pros and cons that we would attempt to do that. And that's when he sent down McGeorge Bundy and Cy Vance to try to achieve that objective. So I played a key role in that one, and I am pleased that I did because I feel that if we hadn't gone down that kind of a road, we might have gotten bogged down in the Dominican Republic and had some serious long time problems. I don't think that the military junta could have commanded the support of the Dominican people sufficiently to bring about the kind of constructive resolution of the problem that finally did emerge. Because even though McGeorge Bundy was not able to put together a coalition government immediately, that did lay the groundwork for moving towards a civilian provisional government to replace the military junta.

M: The [Hector] Garcia-Godoy government was not coalition, strictly speaking?

S: No, it was not. We could not put together a coalition government in which Colonel Caamano [Colonel Francisco Caamano Deno] would participate and some of the other representatives of the so-called rebel movement but since we could not put together a balanced coalition government, we put together, or helped put together, a balanced provisional civilian government with men who were not identified either with the military junta or with the rebel movement. And I think it was a timely move on our part because if we had

stayed wedded to the military junta I think we would have had difficulties.

M: There were, when you went there, elements of the so-called rebel movement with which we could still cooperate, that we could have used as a basis for a coalition if there was one.

S: Yes, McGeorge Bundy came very close to putting it together. I don't know whether Caamano himself would have been in that government. Maybe not. But there were some members of the rebel movement who we thought were non-Communist. You know, there were Communists in the rebel movement. There were many leaders in the rebel movement who were not Communists and who had a more moderate view and who would have been appropriate for inclusion in a coalition government. I should explain that, from the very beginning, our conception of the coalition government was one that would involve not simply representatives from the rebel movement as well, but neutral non-political types as well, more or less of the kind that finally appeared in the Garcia-Godoy government.

M: This calls for speculation, but you were there within a few days. What would have happened there had we not gone in with troops?

S: Well, it's very hard to judge. The American Ambassador felt that there would be bloodshed in terms of American lives. How many, he didn't know nor did I know. I don't think there would have been a deliberate execution of Americans, by any means. However, it probably is true that the government in power, or the military general, could not give effective protection to American nationals. So there might have been some loss of life. I think there would have been a fairly long drawnout military conflict. I do not believe that it was clear that the Caamano movement would have taken over the country quickly and without continued fighting because the military forces of the Dominican Republic were still intact.

Even though they were not fighting well they were still intact. [Tape ends abruptly at this point.] --Communists dominated it. Our feeling was that their influence was important and that it was conceivable you could have quite easily a set of political circumstances developing where either the Castro group, or the orthodox Communist group or a combination of both, might have been able to command positions of increasing power in a Caamano government if that government would have come into existence free of any kind of a need for restraint.

M: The Reid Cabral government was just gone, so there was nothing between the two extremes by the time we got in.

S: That's right. The Reid Cabral government was gone, and the only people resisting the Caamand movement were the military and they formed themselves together with some encouragement from Ambassador Bennett and from John Barlow Martin, the special representative sent down, into a junta so that there was some kind of governmental structure. But my point was that that junta could not command the loyalties of the Dominican population and, therefore, should not be supported but that [it] should be encouraged and persuaded to give way to a coalition government or a neutral government.

M: Did you have anything to do with placating the other Latin American governments after the event, any of the negotiations with the OAS, for example, moving out--

S: Not directly. My involvement with the OAS, for example, was during my first trip to the Dominican Republic and then I went down again the day after Mac Bundy went back down during my second trip in which I was handling economic matters. I worked very closely with the OAS representatives, but I did not have an official responsibility for negotiating with any of the Latin American governments.

M: I certainly appreciate the time you have given me.

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By Anthony M. Solomon

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