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Biographical information:

Govt. ofcl.; b. Englewood, N.J., Dec. 12, 1929; grad. Phillips Acad., Andover, Mass., 1947; A.B., Princeton, 1951; with Cal. Tex. Oil Co., 1954-58; operations mgr. Esso Standard Oil S.A. Ltd., Panama, C.Z., 1959-61, div. mgr., El Salvador 1961-63; pres. Esso Standard Oil Co. (P.R.), 1963-65; assistant secretary comme 1965-67; sec. of commerce, 1967---.

Interviewer Paige E. Mulhollan

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Discusses his career in government.

Date	Place	Length
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May 7, 1969	Tape #2	33 pages

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INTERVIEWEE: ALEXANDER B. TROWBRIDGE (Tape #2)

INTERVIEWER: PAIGE E. MULHOLLAN

May 7, 1969

M: This is the continuation of the February 19th interview with Alexander Trowbridge, former Secretary of Commerce, May 7, 1969.

You said you would like to begin with the balance of payments issue. That was probably the most continuing one, I suppose, during your tenure. Would you like to describe the situation as it was at the time the message of January 1, 1968 was in the works and lead up to the details of how that progressed?

T: Yes, it was a continuing problem. It was one in which, on a month-by-month basis, we kept very close track. This, primarily through review of the trade statistics--the import or export surplus, the defense procurement levels which were one of the larger outflow aspects of the problem--

M: Procurement abroad, you mean?

T: Procurement abroad, yes, the defense expenditures primarily in connection with Viet Nam. Most of the expenditures being in the Far Eastern area, of course with Germany a major sector as well. The tourist expenditures as well being of primary interest to the [U.S.] Travel Service, which was in the Department of Commerce. Well, all of these factors were reviewed not only on a monthly basis in terms of numbers, but reviewed on possibility of future policy implications in the Cabinet committee on balance of payments of which Secretary Fowler was chairman. This committee had a subcommittee or a committee of Assistant Secretaries who met more often and tried to iron out the disagreements, if any, between Departments; to highlight the key issues for decision which should be put to the Cabinet committee. And on that subcommittee, Larry McQuade and Bill Shaw, who were Assistant Secretary for Domestic and International Business and Assistant Secretary for Economic Affairs respectively, represented the Commerce Department. The Assistant Secretary for Economic Affairs in State, Tony Solomon; Francis Bator from the White House staff; Arthur Okun from CEA. That committee probably met more often--it got more into detail, but it was the watchdog affair really, and tried to, as I say, alert the principals to any problems that had to come up.

Along about mid-point in 1967, mid-year, we began to get cranked up for the 1968 program. We had the second full year of the voluntary program behind us--in 1965-66 that program had been operable. In 1967 it was still operable, and, I think, basically on target. It was accomplishing as far as we could see what it was intended to accomplish and what, indeed, the companies said they could do. By July-August, we had decided that we should set the 1969 policy perameters and make them available by October-November at the latest because--

M: Available to business?

T: Available to the public, to the business participants in the program, because companies needed that advance warning to make their further plans. We wanted to give them the news that this was going to carry on and therefore they shouldn't bunch up all of their investment plans into 1967 and hope that 1968 would bring a relief from the problem.

The trade surplus was diminishing and had been diminishing steadily since 1964, when it was at about 6.4 billion. It had gone down to a level, I guess, in 1967 to less than 4 billion or roughly 4 billion, and was heading for a level closer to 3 billion, I guess, by the end of the year (it was running at that annual rate).

The tourist outflow was looking rather ominous in terms of new passport applications, renewals, et cetera. Our efforts to encourage European and other nationals to visit the United States and spend their money in the U.S. as an offset were slow at best. They were hampered. The U.S. Travel Service was continually hampered by a severe budgetary limitation, a rather personal vendetta that Congressman John Rooney, who was head of the Appropriations Subcommittee, had against the Travel Service; and he just plain refused to believe that the Travel Service was worth anything and that it could, or should, have all the money that it was authorized to have.

All of these things looked rather ominous for the 1968 period. We looked at the Balance of Payments voluntary program on investments with the question, "How much can it further contribute--how much improvement can be squeezed in the voluntary way, in a reduction of investment outflows versus the 1967 level?"

We met rather steadily with the Balance of Payments Advisory Committee which was a group of businessmen chaired by Al Nickerson of Mobil Oil, a very, very helpful committee, one which not only gave us honest and sound advice but indeed went back into the business community and urged support for the voluntary program. I think without that committee probably the success of the voluntary effort would not have been what it was. The outlines of the program began to emerge and in October, I think it was October of 1967, at the fall meeting of the Business Council in Hot Springs [Va.] I announced the framework of the voluntary program, a continuation of it--a target which would set the overall investment outflow at about $200,000,000 less than the 1967 level; a continuation of the program in the basic form with this new target and increased efforts at export expansion; increased efforts at tourist attraction, et cetera. Within the Cabinet Committee on Balance of Payments, this was a somewhat difficult agreement to get because most of the other members of the Cabinet Committee felt that the outflow was still at a high level; that the voluntary program and the Business community should produce more. I think that the problem really was that everywhere we looked we saw relatively little paydirt. Treasury, in its attempt to negotiate offset agreements with Japan, Korea, and the Philippines, and Germany, to cover some of the defense procurement expenditures was having relatively little success; our trade balance kept going down; tourists going up. There was pressure to find a way of getting savings at all points.

M: So it wasn't the lack of effectiveness of the voluntary plan--what you're saying is that it was the magnitude of the problem that had increased?

T: The magnitude of the problem, and in all honesty, there was a very real tendency to say--at least on the part of the government people to say--you know, "Let's get more out of the private sector. The government has done all that it can."

Within the private sector there was a real feeling that the biggest part of the problem was U.S. official spending abroad, defense and foreign aid, and that the government really had the biggest job to do, of curtailing its own expenditures, to make any impact on this problem. There was this element of "clean up your own back yard before you tell me to do anything." And this existed on both sides of the coin. I think the government fellows were probably too, too ready to say, "It's all the private sector's responsibility"; there was a very easy sense of, you know, "We've done it all. You can't squeeze any more blood out of the defense stone; therefore, let's get it out of the investment sector."

At the same time, there was very little desire or interest in proposals which would be stimulative of exports in a way which would have had much effect. We had a lot of promotional activity, and we had reasonable success in that. But you could measure those advances in terms of millions when you really had to get billions to make any impact. And the tax philosophy of Stanley Surrey, the Assistant Secretary of the Treasury, and I think of Joe Fowler basically too, was very, very basically against any form of tax incentives, domestic or international. And this was a matter of deep philosophical belief on their part. And they were consistent and they were effective in opposing any kind of suggestion along these lines.

Several useful suggestions had been put forward during 1967 and 1966, part of them coming out of the National Export Expansion Council, dealing with tax incentives, dealing with rediscount facility for the Export-Import Bank via the Federal Reserve; a number of what would have been, I think, if the details could have been worked out on them, would have been significant amounts of impetus from the federal government that the private exporting community would have grabbed hold of and used. But these never got anywhere, and there was a sort of fall-back position that everybody could agree on which consisted of "Let's do more of trade fairs and trade shows. This is what we can do, and we're hung up on the other thing."

M: Did everything stop below the White House level then?

T: Generally so, yes. The National Export Expansion Council recommendations did go to the President; he received them. Jack Connor and I and Joe Fowler in 1966 took these Action Committee reports and the three chairmen of the Action Committees within the National Export Expansion Council; and we met with the President for an hour or an hour-and-a-half, and they briefed him on the recommendations. It was an interesting meeting, because the President really was at that point more concerned with wage-price guidelines and how to get a handle on inflationary pressures that he could see coming up, and the question of a tax increase--a tax surcharge--than he was with the balance of payments. So that he listened and received the reports on the balance of payment recommendations; he turned them over to Joe Fowler as chairman of the Cabinet Committee; asked for a review and recommendations from the Cabinet Committee on these proposals. Harold Linder of the Ex-Im Bank, Gardner Ackley of the Council of Economic Advisors, Francis Bator, Jack Connor and I were there at that particular meeting. From that point on, the Action Committee recommendations were in the hopper. Some of them got implemented. They were really sort of a score sheet against which we periodically had to report back to the National Export Expansion Council and for that reason, we kept working on their proposals because we wanted to show movement, show some progress toward their objectives and maintain their enthusiasm for the effort, because they were the guys that went back out to the Regional Export Expansion Councils and through some twelve to thirteen hundred businessmen across the country, were a real mechanism of getting to the exporting community.

Very few, literally, of all those things got implemented. I think probably the most significant one was the establishment of a so-called "special interest" or "special risk" fund of $500,000,000 within the Export-Import Bank, which could be used for export credits to countries which had already received more than normally they would get from the Ex-Im Bank, or on projects which would have more than normal commercial risk in them. That was a real plus, I think, as far as the NEEC went; but the question of tax incentives never got anywhere.

Anyway, we came down to the 1968 program announced in its basic form in October, 1967. And although 1968 looked like a difficult year, we really didn't have that much foreboding on the outcome, and we were satisfied with the program as at that point designed. Well, mid-November, November 16, the British devalued the pound. This was a very well-kept secret. I don't know whether Joe Fowler, or how long in advance he knew about it, but if he did know about it, it didn't go beyond him. I think he probably alerted the President within a day or two before the impact and before the thing hit, but nobody else in the government that I know of was in on it. Just as well--it's one of those pieces of information on which vast amounts of money could be made if it became an open secret. And, indeed, the British, I don't think, made up their mind until something like twelve or twenty-four hours before the actual fact. So that this came as a major new development, and it immediately put a great deal of strain on the other Western currencies. The franc, the German mark, the others, were all at a point where they could have followed the trend; they didn't because the British devaluation was limited to about 14%, and this was just enough to avoid a ripple effect. But it put a real question mark on the dollar, as well. Combined with the heavy deficit forthcoming in the federal budget, already visible in the fiscal year 1966-67 and projected for 1967-68, combined with the inability to get anything through Congress on the tax surcharge, combined with the devaluation, the Central Bankers of the World began to say, "Well, now, is the U.S. really serious about getting its financial house in order; and is the government capable of controlling inflation, and will they be able to put through this dampening tax legislation? Will they get their handle on the budget?"

And there was a good deal of speculation that this could not happen, that the balance of payments deficit was going to blow into major proportions; and, indeed, between November 16, the day of devaluation, and December 20 or so, it became very evident that there was a lot of flight capital. There was a lot of U.S. private money going out; there was positioning by companies. We couldn't tell where, or in what degree, and how much was involved; but it was quite strong.

M: This would have been in violation of the existing voluntary system?

T: Well, some of it would have been, yes. To the extent that companies positioned money abroad. They would have been going against their own targets. We couldn't tell how much was going on and in retrospect, I think the last quarter of 1967 had a deficit, if I'm not mistaken, of about $1,900,000,000, combined all factors. And that at an annual rate was something like an $8,000,000,000 deficit for the balance of payments, and this kind of swing was obviously not one that we could live with.

It became pretty clear that the voluntary program was again under question. Every part of the program was up for review and analysis. The Subcommittee of the Balance of Payments Committee was actively looking at it; the various parts of the government that were concerned with it were back at the drawing board. And somewhere along the line, I'm still not sure where the objective was finally set--I think maybe that Secretary Fowler went to the President with it--but a goal of $3,000,000,000 savings for 1968 over 1967 was established. And then we began to talk of how to get to that goal. And I think everyone agreed, everyone involved at the Cabinet level, that no program was going to have any credibility nor be able to really stand unless it was a program designed to touch all phases of the deficit problem. If it leaned entirely on the private sector, it wasn't going to work; if it was entirely on the public sector, it wasn't going to work. If it avoided such politically sensitive elements as the tourist outflow, it wasn't going to work. At least, we didn't think so. So that by the 20th of December, this $3,000,000,000 goal was pretty well outlined. And between the 20th of December 1967 and January 1, 1968 the President's message was really hammered out and put together.

M: Program and message.

T: The whole bloody thing. And that gave us about eleven days.

M: Over Christmas.

T: Decision-making under those conditions isn't the best--there's no question. There was a lot of information available; there was a lot of previous analysis that had gone on, but I don't really think that any of us had the time nor the reflection nor the sense of being out of a real pressure chamber which would have led to a well-reasoned package. We thought we had one, the best available under those cirucmstances; but this was hammered all day Christmas and it was hammered out all night Christmas Eve and it was every day and every night for those eleven days.

And it was on Christmas afternoon, I guess, or the day after, that--let me go back a little bit. Just a few days before Christmas, it had become pretty evident that of the $3,000,000,000 target, $1,000,000,000 of that was going to be given to the private investment area. And the question was put pretty closely to me. Can the voluntary program be expanded from $200,000,000 as the target to $1,000,000,000? I met and asked the Advisory Committee to come to Washington on a very rush basis. I talked with them as frankly as I could without telling them that this was really a very real possibility. I laid out the problem to them, and I said, "What can the voluntary program do? How much more can we get out of it?"

And essentially their answer was, "It has gone about as far as it can go." The cooperation under the new target was going to be, but if you expanded that target it was unlikely that it could be done. I intimated at that point that in that case I would not be able to guarantee the future of the voluntary program but I didn't know what the alternative was definitely going to be.

I called Jack Connor, who by that time was in New York at Allied Chemical, and I talked with him because really the voluntary program was his product.

And I said, "Look, Jack, if there is a major increase in the target and if the advice of the committee is that basically the voluntary system can't bring it, how much can I hold not for continuation of the voluntary program?"

And Jack's reaction was, "Well, I don't think you have any choice at all. I think this clearly requires mandatory controls because you're essentially getting into an area where, without a sense of voluntary cooperation, you're going to get everybody grabbing for what they can if you don't have rules which apply for everybody."

M: And reward the non-compliers, then?

T: Could be. And the lesser of two evils would be rules that apply for everybody rather than having some guys play the game and other guys say, "Well, I fooled them on that one."

By Christmas afternoon or the day after, meeting with Fred Deming and Ed Fried of the White House staff, Fred Deming the Under Secretary of the Treasury--

M: Fried took Bator's place in the--

T: Fried took Bator's place, right. And he was hot for mandatory controls. He was very, I think, basically antagonistic to the private enterprise sector, not to the system; but he was a very caustic and a very antagonistic individual as far as major corporation activity went. I always had the feeling that he was left over from the intellectual days of the New Deal which sort of said, you know, "Private sector is evil; public sector is all good, and therefore government has to do it all." This is an overstatement, but Ed's basic suspicions are very much toward the private sector. But he was working hard for several points of view; he was trying to establish his own role after Bator--he was fairly new. I don't think he really had the confidence of the President the way Bator did, but he was playing the role very strongly and felt his responsibility to the President. And he pushed hard on the mandatory controls.

Fred Deming was much more aware of the dangers of it, but also, I think, realistic when it came to judging the voluntary ability to reach a goal of $1,000,000,000.

Joe Fowler left it pretty well up to me, I guess. Bob McNamara was very quick in saying mandatory. Nick Katzenbach-- Gene Rostow, I guess, was hesitant, but went to mandatory pretty quickly. And I guess I was the last one to topple over--

M: It sounds like you were pretty much alone.

T: Yes. And I had to accept the inevitable and when I did, it was just-- you know, there we were. It had to be that way. And there was, I think, justification for it under the same explanation that Jack Connor gave. If you're going to set this kind of target, a voluntary system won't bring it about and indeed shouldn't be asked to bring it about because there would be different reactions among different people and it's better to have the same rules for everybody.

But the problem was one of devising even the barest outlines of what those rules would be, and this is what occupied a great deal of the time and discussion during that ten or eleven day period, particularly after the mandatory decision was taken. At the same time, of course, we had a Justice Department ruling that the Banking Act of 1917 would be available--

M: So it didn't need legislation.

T: It did not lead to legislation. And this was, of course, really a requirement; because to propose to the Congress a series of controls would have brought about long, long debates over it and the likely occurence would have been a large scale positioning of private funds abroad.

So, by the time we put all this together, we all kept agreeing that, you know-- "If we go mandatory on private investment, we've got to put something in the package which would ask a similar sacrifice from the tourists, would ask a similar amount of effort from the governmental side of things," and we began to talk of the four-legged stool--trade, tourism, investment, and government expenditures. And those four legs had to be in the President's message.

And by the time January 31 came along--I can't remember whether that Saturday was a 30th or 31st, I guess it was the 31st--we flew down in the morning from Andrews to the ranch--Dean Rusk, Bill Martin, Joe Fowler, myself, Gardner Ackley I guess was aboard, Bill Roth was aboard. And it was all very hush-hush. We all were not allowed to tell anybody where we were going, and we rendezvoused out at Andrews--early morning flight--you know, we couldn't even tell our drivers where we were going. Just said, "Pick us up at 6 in the morning."

Then when we got in the car, we get out to Andrews and nobody was very happy about all this, but we had to do it. The President and all the staff were down at the ranch.

M: Happy New Year!

T: Happy Goddam' New Year! I had not been to the ranch before, and when we landed, I was most amused because we were met at the plane by a tall gentleman dressed in Western clothes, but with a beret on his head. And the beret was not sort of jaunty French style, but it was pulled down over his head. And I looked about three times before I recognized the President of the United States! And he was driving a station wagon. He poked his head out and said, "Come on, get in!"

M: This was at Johnson City?

T: This was at the ranch. And I thought this was rather amusing frankly, because I had never seen the President wearing a beret, and the way he was wearing it was even more classic. But he showed us around the ranch a little bit, and we waited for several other planes to arrive, one of which brought Hale Boggs and, I guess Russell Long from Louisiana. Wilbur Mills and Mike Mansfield came in from Little Rock. I guess Mike Mansfield had come from Washington. And let's see, who else was there--I guess that was it except for Jim Jones and Joe Califano.

Anyway, we gathered in the guest house, and we went through the whole program. Joe Fowler led the discussion, and we all added our rationale to it. The President was--well--his political antenna was working very well, and he was very right. He said "The toughest part of this is going to be the tourist portion." The tax which would be imposed not to interfere with travel, but to cut down spending--He said, "That will never pass."

M: That <u>did</u> require legislation.

T: That did require legislation. And all of the Congressional types agreed with his assessment there. But in the end they said, "Yes, the four-legged stool has to stand and for credibility," particularly with the European central bankers--who by this time had really become quite skeptical of our ability to maintain the dollar--"it had to be in the message." The border tax proposal, which was in the trade field, was not very happily received by Hale Boggs, particularly. He's a very free trade enthusiast. Bill Roth was reluctant in saying that this should go, but at least it was justifiable under the Gatt rules as an equivalent to the European practice.

M: Had the Europeans been sounded out on that pretty thoroughly, too?

T: Yes. If I'm not mistaken, Gene Rostow and Nick Katzenbach took off--I'm not sure they sounded out the Europeans beforehand, but right afterwards--they took off and explained it to the Europeans. I think it was the next day or two after New Year's.

Well, anyway, we put this thing together, and the President gave his final approval to it late that afternoon. We all climbed back in the airplane and flew back to Washington A good deal of work and polishing up was done that night. The final message was hammered out that night and early the next morning, teletyped down to the ranch, edited, and, I think at 11 or 11:30 New Year's Day, the President held a press conference at the ranch, announced the program, read the message, Joe Califano briefed on some details. But they also announced that there would be a press conference at the Treasury at 1 or 1:30 that afternoon.

We gathered in the Cabinet Room and listened to the press conference as it was piped in while going on, and then went over and had lunch at the Treasury. I had done really two things in the trip. Let me think. One was to get Joe Fowler and Dean Rusk and others--Bill Martin, I guess--to agree with me on the deletion of a certain portion of the program that would have, in effect, forced investment patterns by denial in certain geographic areas and types of business and approval in other geographic areas and types of business. Also we deleted a ban on "takeovers"--purchases--by U. S. firms of foreign firms. The attempt really was--

M: Channeling?

T: To channel the funds where available into developing countries and into joint ventures. This was really far beyond what the law allowed, in my opinion; and secondly, it was an attempt by government to make a lot of decisions which were purely private in nature and could not be made on a sound basis by government. And I was successful in getting that deleted. It was not until the plane ride down that this was decided however.

The other question was who would run the Office of Foreign Direct Investments, where would it be, and who would be in charge? There was the question of whether it should be in the Treasury Department or the Commerce Department. I was frankly not that anxious to take on that responsibility--

M: That's not a pleasant one.

T: Unlike some Washington battles, this was a hot potato that really nobody wanted. Treasury argued that they, as a regulatory, taxing, tax collecting agency, should not be put in the position of dealing with this kind of decision and that the expertise and the cordial relations really did reside in the Commerce Department. I couldn't argue against those theses. I just hated to go from being the exponent of a voluntary program and the person who had cheered on the various companies in urging their continued support for it--just overnight put on a mandatory hat. I found this to be a very difficult thing to swallow and accept, but in the end the issue was put to the President; we did recommend the Commerce Department; I told the President that I didn't do so with any great cheers. And his reply was, "Well, none of us are sitting around here in a clambake. This isn't fun for any of us."

He had the initial instinct it should have been in Treasury; but, again, he made the final decision, according to our recommendations, for Commerce. I then asked the President if I could have the then-Under Secretary of the Navy, Chuck Baird, on a loan basis to help set this thing up. Chuck was a guy that I had gotten to know in Washington. He had been in the Jersey Company. I had not known him while working there, but he had been in the financial end of Jersey's operations; he knew international finance very well; he was a good manager; he would have brought prestige from that office. And I wanted him to do the job. I asked the President if I could have him, and he said, "Will Bob McNamara let him go."

And I said, "I don't know. I haven't talked to Bob, but I will."

He told Joe Califano to talk to Bob. And Bob baffled the hell out of me, frankly. Not only did he say he wouldn't let him go, but he said he was the wrong guy for the job. In all honesty, and this is a confidential record, my feeling is he said this guy was not for the job because he wanted to keep him. He knew the President wouldn't put him on the job if he had just said, "No, I need him in the Navy." Because I think the importance of setting this thing up was more important than the ongoing Navy job which somebody else could have filled in on.

Anyway, Bob was faster on his feet than I was, and I didn't get Baird.

Just before the press conference, the President called me and said, "See if you can get Bob Anderson--Robert Anderson, former Secretary of the Treasury. See if you can get him to do this job for you, and do it through John Loeb of Loeb, Rhoades [and Co., N.Y.]."

So I got on the phone with John Loeb and said, "What do you think? Would Anderson be available for this kind of assignment?"

And, of course Loeb hadn't even heard of the President's message at that point. He was off in Connecticut somewhere for the weekend. He said he'd ask and find out, but he doubted it very strongly. Anyway, I replied to the President later on that I'd made the effort and Anderson was going to get back to us, and we then went on with the press conference and it was a rough go. The press was all over us with many questions. We explained it in the best manner possible, barring answers to a hell of a lot of the details they wanted to know about which had not been decided yet. And then we were off to the races.

I got a no from Anderson. I tried to spot people in the government who might be available to do this job. I was unable to. In the meantime, Bill Shaw, who was the Assistant Secretary for Economic Affairs, was scheduled to leave on the 1st of February, going back to private business. I talked him into taking on the organizing job in January and staying on for thirty days into February, at the same time keeping my eye out for someone who could come in and do the job. I offered it to--I've forgotten his name now, but he's a former Secretary of the Air Force.

M: Zuckert?

T: No. Gosh, he's a lawyer with Coudert Brothers.

M: Finletter?

T: No.

M: He qualifies. He's with Coudert and he's formerly--

T: I can't remember. He was either former Secretary of the Air Force or Assistant Secretary of Defense, and I honestly can't remember now what his name was.

M: Gilpatric?

T: No. Well, it doesn't make any different, because by that time, the 24th of January, I had a recurrence of a heart problem which was enough to put me in the hospital for six days and then home for about ten more--eight or ten--at the end of which I got checked out by the Johns Hopkins people and had advice from three doctors that I should withdraw from the government. And told the President about it and at that point, he got C. R. Smith to step in.

I recommended to C. R. Smith the name of this fellow-- I'm trying to think of it. He wasn't very taken with the man. He made some inquiries, and apparently his references weren't as favorable as mine. And in February, before I left, I asked Joe Bartlett, who was then the General Counsel of the Department of Commerce, to step in on an acting basis to take on the organization for the OFDI, which he did. And he did a good job on until C. R. Smith got Chuck [Chas. E.] Fiero from Chase Manhattan to come in and do the job.

M: No Department wanted it and no man wanted it. How bad was the business reaction which must have come during your last month there?

T: Well, it wasn't very happy. It was a strong feeling of not only disappointment, but in some cases betrayal. A sense that, you know, "Here, we've complied with your voluntary program; you've been telling us that we had to do so in order to avoid mandatory control. And you have told us that the voluntary program has worked, and we've been cooperating, and even in spite of this, you slap mandatory controls on us." Again, a feeling the government hadn't done all of its own housekeeping and that it was putting the burden on the private sector. I think we achieved an understanding when we made the explanation in terms of a billion dollar target, the inability of a voluntary program to meet it, the inequities of a program that would not have the same rules for everybody, you know--that side of the argument which was really the major justification for it was understood by those who looked at it squarely. Of course, the first month or two there were relatively little firm details of the program, because we just slapped it together in such a hurry that there was just a broad outline--we had the three categories of geographic areas; we had the general targets which had to be refined, put into regulations. And by the time I left on the first of March, there were still details that people were waiting to see. There were thousands of lawyers all over the place trying to find out about it. There was tremendous recruiting job. We scrounged the whole government, getting people on loans--thirty days, sixty days--from the Internal Revenue Service, from the Treasury, from everywhere we could find them. And people who were in the government were very cooperative in letting us have good men to at least get the thing started. But it was a real hodgepodge--it really was.

I think they did an amazingly good job under the circumstances in getting something organized. The tendency was to overregulate at the early stages;

the tendency was to take care of immediate pressure problems by sort of ad hoc decisions, and there was a lot of confusion as a result of that. Special cases, specific requests, specific approvals.

I went up to New York to get a bunch of lawyers, if I could get them on loan, from knowledgeable law firms. Cyrus Vance called together a group of representatives of some of the biggest firms with international reputations, and we were able to recruit five or six good young lawyers out of that. But it was a hodgepodge--there's no question, and it was almost bound to be; the nature of the beast and the nature of the timing required it.

I don't think it was the proudest moment of the government's career. On the other hand, it was a necessary and tough decision, and it was one of those miserable moments where you really were forced into a certain type of response. It's a response which your whole being is repugnant against, but, you know, there you are. The problem's there and you've got to act.

The net effect--looking back on it--I think the immediate effect was a very reassuring one to the European doubters. It did look like a four-legged stool; it did look like a serious effort. Not too many parts of that stool got put together. The tourist program was shot down, the border taxes never even got suggested to Congress. We hardly got anything more exciting in the trade promotion field. There were some efforts at defense procurement cut back and offset agreements. But the mandatory investment controls and the Federal Reserve Bank "voluntary," unquote, program which, you know, they could do and they had been doing on the basis of real clout rather than law--these were the real hard decisions and the hard results.

M: Which means the private sector ended up bearing the load.

T: Basically. There was an attempt on the part of the Pentagon to cut down defense expenditures, and there were a lot of efforts to get the Japanese and the German to do more, but you know, they'd been doing that before.

M: Was the trade issue a more pleasant experience then?

T: Well, trade policy was a continuing part of that.

M: You were there, I guess, when the climax came to the major trade activities that Johnson undertook?

T: Yes, the Kennedy Round business was in mid-1967.

From that point on, I guess there was a sort of sense of relaxation. There was a let's not get ourselves in another Kennedy round for three or four years. We're all exhausted." There was a good deal of sort of mopping up that had to be done, the biggest part of it being the American Selling Price commitment that had been made in Geneva.

Mike Blumenthal resigned. Bill Roth took over from Governor [Christian] Herter. Well, he had before that; but his role was more or less of a caretaker and a mopper-upper.

M: Does that cause a lot of trouble--the Special Trade Representative being in the Executive Office and not in the Commerce Department?

T: Oh, I don't think so, really. There was a very real tendency for STR and State to side with each other; Treasury and Commerce very often would be allied against those two. But I think Bill Roth was a very fair and very balanced individual, and he pulled a number of sticky situations out of the fire and did, I think, a balanced job. Mr. Stans since then has been reported to have tried to get it into the Commerce Department, and I think the Commerce Department could handle that job. It would have to beef up its staff appropriately, but it could handle it. And I think it would handle it without running a major risk of protectionism. I think there's an automatic assumption within the Congress that Commerce would respond to domestic pressures much more rapidly, but I don't think that's necessarily the case. Most of your guys in the Bureau of International Commerce--on the trade policy side of Commerce--are just as free trade prone as anywhere else.

M: There's a lot of Congressmen that aren't, too.

T: That's right.

M: Did the President ever express in matters of trade when the conversation got that far what you would consider a consistent viewpoint--Free trade, or--?

T: Yes. Consistent free trade. He really was. In spite of some real pressures, particularly in the Northeast on shoes; Southeast on textiles; I. W. Abel and the steelworkers plus the steel companies on steel; he was very consistent, very, very strong in saying, "Look, I'm not going to lead this country into a trade war. I'm proud of the Kennedy Round; I'm proud of the general objectives, and I just think there are other ways and you guys are going to have to figure out where they are, of doing this job without getting us into a stroke and counter-stroke trade war."

And I think this rang true all the time. Now he was very often skeptical of the generalities that the free traders would make, as far as promises go. And he was well aware of the political pressures. He would make the free traders justify and prove their assertions. But, by and large, his point of view was a very strong free trade one.

M: And from what you've said, most of the people in key positions on the issue, at least outside Commerce Department if not within, were of the free trade persuasion also, so that's the kind of advice he got.

T: Yes, that's right. And we were too. I don't think there was any basic philosophical disagreement. I think Commerce probably is showing today what it was feeling then; that is, that you should work on specific areas of pressure and problem, i.e., textiles, to gain if possible a voluntary type of limitation on exports and imports, so that the U.S. didn't become the total residual market for the world in that one area and so we could head off some of the political steam which was a very potent factor on the Hill. I think the Nixon Administration is playing basically the same game. They're saying, "We are free traders, but we're going to try and get a voluntary expansion of the textile agreement in order to satisfy the voices up on the Hill which are really clamoring on this issue. There is no industry that is better organized and more forceful and cleverer than the textile industry on the trade issue.

M: Been at it a long time.

T: [Whistles] They have really developed their techniques down to a fine, fine edge; and it's the industry and labor so that you get the Department of Labor, the Department of Commerce, the Treasury Department, all feeling this joint effort by industry and labor and, indeed, they put it on the Congress in very effective ways so that the pressures were very strong and I think State and STR were reluctant, indeed very strong, fighters against the textile industry. We carried it upwards and downwards and backwards and forwards. At one point, the Vice-President got into it; and he knew the political pressures. He saw them up on the Hill. He had made some promises himself to the textile industry that they would be accommodated in one way or another, and he took over the Interagency Cabinet Textile Committee at one point on this issue, just saying: "Well, let's get to a decision."

Well, we never really did--

M: Was Ernie Goldstein the White House man on that?

T: It was several. Harry McPherson got into it; Ernie Goldstein got into it.

M: What was their position?

T: They were really trying to protect the President, and I think as such were more aware of the political pressures against the President than the issue of free trade versus protectionism. And I think basically Harry McPherson and DeVier Pierson, his assistant, were responsive to the textile industries' position and urged the President to do something about it. I think he probably delayed and delayed sufficiently long so that the issue never really got joined.

M: State and STR just don't have much constituency when you get right down to it.

T: They sure don't.

M: What about the voluntary programs such as we have with Japan? Voluntary restrictio agreed mutually?

T: The long-term agreement?

Well, the cotton agreement was enforceable, and we did enforce it through a series of bilateral negotiations and controls, quotas. There were always exceptions; there were always developing countries that had major, major problems in living up to the agreement, but by and large we kept the lid on the cotton imports on this negotiated treaty basis. But what was really happening was that the cotton textile business was being transformed, and still is, into a blend, where you have a minority part of cotton and a majority of synthetic fibers; and this becomes classified as man-made textiles and not subject to the control of this LTA agreement. And this is why the textile industry says, "Look, if you're going to do this, do it for the whole spectrum of textiles because we're just being helped on one hand, but ruined in another."

Well, of course, the textile industry is essentially saying that the time to fix the roof is when the sun shines and, indeed, the sun was shining. They had fabulously strong sales and very good profits, and it was a very tough argument on their part to get anybody to believe that they were in trouble.

M: Hard to get sympathy when the sun shines.

T: It sure was.

M: One of the most provocative things you said last time was in describing the issue of price stability--the extremely tough and measures that sometimes hurt and sometimes were later regretted. Can you go into that in some detail?

T: Oh, I guess the classic example of that one was the confrontation on aluminum which was--gosh, when was it? Either late 1965 or early 1966, when the President tried to, and indeed succeeded in getting the aluminum companies to roll back the half cent a pound price increase that they had put in across the board, and really rolled out the Defense Department in that one. And Bob McNamara and Paul Ignatius, who was then Assistant Secretary of Defense for Logistics and Installations and who had the major economic role and policy role for procurement and stockpile policy role--they just got these guys down to Washington and said, "Goddammit, you're going to roll those prices back, gentlemen!" And it was about like that; and the aluminum companies did.

This was a fire-fighting operation that went on for about a year and a half, and it was really to try to use government leverage where it could be effective. And it was made up of a whole series of techniques: stockpile releases; government procurement; personal confrontation; public statements of condemnation; decisions on--goodness, there were a whole series of things--export controls; the overall attempt being to keep the price indexes from going through the ceiling during a time when the Viet Nam war was switching our economy into a super-heated cycle and putting tremendous pressures on output and labor, getting increasing reductions in the unemployment, pressures from labor to gain a higher increase every time they went through the negotiating cycle, but damn little leverage that the government had on labor. And the inevitable discrepancies and difficulties of using your leverage against one part of the spectrum and not doing it against the other.

M: The leverage against business, I assume, is real. The defense procurement, stockpile release, and so on--you can make it hurt.

T: It can make a difference. I think there's a lot more fear in the business community of the potential impact of those actions than, indeed, is possible within the government. If you're trying to make one of these things happen and you're using the law, the threat of doing it is really much more effective than the actual implementation.

M: Which makes confrontation effective. Does that get up to the President's level?

T: Oh, sometimes.

M: Does he ever have confrontations?

T: Oh, I don't know whether he personally did, but he sure ordered it. He was serious. He didn't want that copper price, for instance, ever, ever changed. And we released copper out of that stockpile at significant rates, well below the so-called strategic objectives set by law, in all honesty, using Justice Department rulings which were--you know, they were predetermined. This was a decision to release the stockpile. Question: "Is it legal?"--"Make it legal!"

M: Right. The decision to do it came before the decision that you could do it.

T: That's right. And there were some marvelous moments of justifying decisions which complied with the letter of the law but were really the most far-fetched kinds of supporting arguments.

Gardner Ackley would run back to him office and dictate some statement to the effect that the economy was going to collapse if we didn't release 200,000 tons of copper, and I was told to get back and justify it from the Commerce Department point of view, and everybody scrambled around writing these letters to the Attorney General. And you know, he had his decision made before he'd get the letters. It was just a matter of fulfilling the requirements.

And I guess, you know, you get to points where you've got to do this kind of thing. I always--I was a foot-dragger. My feeling was that the real impact of the government was being entirely one-sided in its attempt to control prices, but not wages. The leverage was used where it could be used, and that was in the management side of the coin rather than the labor side of the coin. There was a real unwillingness to look George Meany in the eye and tell him he had to buckle down. Nobody did that. That wasn't sensible.

M: But you can look at the president of an aluminum company or a copper company--?

T: You can look at John Harper or Frank Milliken or some of the senior executives of the various major mineral producers, and they would feel the impact. And they didn't have that many votes.

M: What is their long-term reaction to this?

T: It becomes a little, not only juandiced, but indeed bitter. It's pretty hard to convince them that this is for the good of the country. And they feel put upon, the scapegoat, et cetera, et cetera. They also are very realistic and very pragmatic about it. They knew that sometimes these things happen and although it wasn't fair and it wasn't entirely within the sphere of the letter of the law, this is the way the ball game got played periodically.

When it got into the newspapers, everybody was quiet as a church mouse. "Who, me? We didn't do nothing. No, no!" But it was an interesting series of developments because at the beginning, we'd sort of rush around and Gardner Ackley would issue a statement, or even the President sometimes would issue statements about the importance of price stability, the need to consider the public interest. And then when a particular price rise would come along, aluminum being probably the most clear, they'd analyze this thing in about twenty minutes and they'd put out some statement about how the ripple effect was going to drive the consumer price index up X number of points; and "Copper companies are taking too many profits"; and "Aluminum companies are making too much money"; and, these confrontations got sort of piled up on each other after awhile, and it didn't take too long before Gardner Ackley, for one, just said, "Damn, I'm tired of these things, and they are not all that effective. We are losing our credibility; we are not doing the President that much favor to go out and make a big public splash over this kind of deal. There must be better ways."

One of the things which we did, and which I found very useful from several points of view, was to have a continuing series of meetings, one every two or three weeks, with senior executives--the chief operating or executive officer, if we could get him--of the major companies in a particular industry. And we held ten or twelve of these while I was in that office. They were unstructured meetings. Other than about three hour format, we would ask the men to go around the table. From the government's side, it was usually either Gardner Ackley or me plus usually somebody who was particularly interested. For instance, the meeting of the copper industry--I think we had the Interior Department there because of their mineral resources interest. But we'd go around the table and we'd say, "Look, what are your major problems? What are the kinds of things that are affecting you these days, and what's the outlook for your industry in the next six months--twelve months?"

And then we, on the government's side, would give the pitch about the need for price stability and the need for public interest considerations in pricing decisions; and we would agree to disagree when it came up, but there were no confrontations. It was quietly held; we would hold a press conference at the end of it because the meetings were public knowledge. We would summarize what the industry people had said to us and what we had said to the industry.

In this way, we did give a voice to the industry people--a forum to them on economic policy, and we learned a heck of a lot as to what impact policy problems had on that particular industry, and what their outlook was for the next six to twelve months.

At the end of each one of these sessions, I'd summarize them in a memo to the President and try and keep him aware of the feelings of the industry--

M: These were held before the crunch came?

T: These were held really as an alternative to the confrontation thing, an attempt to build some mechanism that would be a continuing one, which would get the word out and wouldn't result in one of these great flareups. They were getting not only unproductive, but nasty.

And as I say, there was <u>nothing</u> done on the labor side. There was one attempt a New Jersey construction industry, to get a wage increase, I think of 20%, rescinded. And a guy named Weber, who was the chief of the various bargaining unions went to Miami Beach and sat on the beach and said, "Go shove it! I couldn't care less about you up in Washington, and I'm not going to come up to see the President or anybody else!"

M: And no leverage, like you said.

T: What do you do with it? We couldn't do a darned thing! They were going to cut off construction funds for the roads, federal projects--Governor Hughes said, "My God, you can't do that!"

M: Start finding out where the constituency really is in a case like that.

T: It really was very, very difficult. Bill Wirtz was aware of the problem, but he didn't want to ruffle his constituents' feathers too much. He was good in talking with them individually, but there was very little he could do in reality.

M: How much does the Commerce Department get into labor troubles, major strikes and such?

T: We normally don't. We normally didn't. The one that we did get into on a very continuing basis is that copper strike.

M: Which is the big labor-management issue.

T: Eight or nine month copper strike in 1967. And it was one of those real battles to the end, because the unions just decided they were not about to give up the demand for joint representation, for collective--you know, all unions being under the same contract, all companies being on the same pattern. And this would have been, in the companies' viewpoint, absolute suicide.

Bill Wirtz and I tried to mediate this at several different points, and it was at our level. I had one guy helping, but basically it was Bill and I and Jim Reynolds, periodically. And I would talk with [Frank R.] Milliken at Kennecott and [Charles J.] Parkinson at Anaconda and [Robert G.] Page at Phelps-Dodge; and he would talk with Joe Maloney of United Steel workers, and the others. And we tried to find some middle ground. We knew where the thing was going to end up; we could foresee where the compromise would have to come; but it just ran its course, and it finally did get settled on that basis. But it took eight months where it should have taken one or two.

M: Did this get up to the Presidential level?

T: Yes. The President was always kept informed on it, and very often he'd send us back and say, "All right, try it again!" As far as I know, he never got into it personally except maybe in a conversation or two with George Meany; but George Meany would always say, "Well, that's Joe Maloney's job; I'm not going to tell him what to do."

M: The President didn't have a confrontation in this case in person?

T: No, although the question was whether to invoke Taft-Hartley all the way through it and to get them back to work on an eighty day cooling off period. At no particular point could we see any prospect for it being settled at the end of the eighty days even if we had invoked that. And there was some question as to the legal justification for Taft-Hartley because the Defense Department was getting all the copper they needed. They had to pay for it, but they got what they needed for defense requirements. So it was hard to justify the Taft-Hartley.

M: But as you say, the Justice Department probably could have managed that if they--

T: It would have been hard. I suppose you could have had a predetermined one; but again, looking at it from the point of view of what's the second step even if you did it, would this end up in an impasse eighty days from now, and would the factories and the mines be able to get cranked up again and produce anything significant in the eighty days? I think we came to the conclusion that it would have been a wasted exercise.

M: Did the President indicate that he was willing to do that if you all advised him to do so?

T: I'd say he generally did not indicate one way or another. He always asked, "What is your feeling on Taft-Hartley?" We had to explain that this was a situation that was so locked in cement that it was hard to see where it could be justified or successful. And he would nod, but I don't recall him saying that he felt it had to be done.

M: The only other issue is the tax surcharge. You mentioned your telephone poll last time in some detail. Are there other aspects of that that you feel are important to include here?

T: No. Actually, the biggest chunk of that fight was carried on, I guess, certainly by Joe Fowler, and after the time I left Washington. It was a real tugging match with Wilbur Mills, and one always had the feeling, talking with Wilbur Mills, that he just felt that unless he set up that sort of goal line stand two things would happen. One, that there would never really be any meaningful reduction in government expenditures and two, he would not be able to carry the votes of the House. Wilbur is, I think--I don't know what the occasions are, but reputedly he has only lost two votes in his career, and both them were issues that were important. And both of them led him to say, "Never again will I take a stand unless I know I can win!" And he knew he could not win the surcharge unless he got a quid pro quo, and he knew that there was enough opposition in the House that the quid pro quo had to be a sizeable commitment on budgetary limitations.

M: Was there ever any realistic consideration of alternatives such as excess profits tax, price controls perhaps, or something like this?

T: Price controls, wage controls--I never heard seriously discussed by anyeone in the Cabinet or in the Council of Economic Advisors. There's an important factor in the personalities involved. Gardner Ackley had lived with the OPA during the 1951-1952 period. Joe Fowler had, too. They had seen the inequities, the difficulties of effective implementation of the price control system. And I think they had come out of it pretty well burned and pretty well convinced that this was just not a viable alternative. Secondly, there was no authority for it and to get authority you'd have to go through Congressional procedure. While the debate was going on you'd just see the skyrocketing of prices and wages to get ready for it. So, at no point was that considered.

Excess profits tax I don't think really got much play either. At least I never heard much about it. It could have been in consideration. I think, really, after the guidelines sort of fell apart the one thing that seemed to be feasible was this constant effort at talking to, convincing, cajoling, public interest considerations on the part of the decision-makers.

M: And then the surcharge, finally-- That came rather late--

T: Yes. It's partially that of more reliance on the traditional, fiscal and monetary policy controls available together. And I think we're going through a period now where Republicans have basically come to the same conclusion. You use the big tools, and you can't really devise a series of laws or controls that are going to be applicable to specific segments of the economy and give you that fine tuning which may appear necessary or desirable.

M: You've, again, been very patient. Have you got anything else to add for posterity? Now is the time to do it.

T: Oh, I don't know. I think in looking back at it--last week's Wall Street Journal had a long story, the effect of which was that the Nixon Administration is finding out that it's a little harder to govern than they had anticipated.

M: The problems remain the same.

T: The problems do remain the same; the vehicle for solving them is a complex one. I think the Johnson Administration, by and large, had more people dedicated to the solution of those problems than one gives them credit for. Harder working, really, really strenuous efforts at getting a handle on some of those things, and a sense of loyalty to the President which was really strong, throughout. There was a real sense of trying to do it not only to solve the problem, but to make the President look good in the process of that solution--to protect his interest and protect his objectives. Sometimes you swallowed stuff which was just ridiculous, and the methodology by which we scrambled to get a short-range objective met suffered for the long-range; but by and large it was done out of honest desire for results rather than any devious or nefarious or underhanded purpose. And I think, I don't know--maybe the world is far more Machiavellian than I saw it work, but I think, by and large, the motivation of the guys involved was a good one. And their frustrations over inability to completely control the situation were understandable. The President bore the biggest burden of everybody.

M: That's about as good a summary or peroration as I could think of.

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