

Kermit Gordon and Walter W. Heller Oral History Interview –JFK #2, 9/14/1972
Administrative Information

Creator: Kermit Gordon and Walter W. Heller
Interviewer: Larry J. Hackman and Joseph A. Pechman
Date of Interview: September 14, 1972
Place of Interview: Washington, D.C.
Length: 50 pp.

Biographical Note

Gordon, Kermit; Economist, Member, Council of Economic Advisers (1961-1962).
Heller, Walter W.; Economist, Chairman, Council of Economic Advisers (1961-1964).
Gordon and Heller discuss wage-price guideposts, the steel crises in 1962 and 1963, John F. Kennedy's [JFK] relationship with the business community, and their efforts regarding tax reform and a tax cut bill, among other issues.

Access Restrictions

No restrictions.

Usage Restrictions

Copyright of these materials have passed to the United States Government upon the death of the interviewees. Users of these materials are advised to determine the copyright status of any document from which they wish to publish.

Copyright

The copyright law of the United States (Title 17, United States Code) governs the making of photocopies or other reproductions of copyrighted material. Under certain conditions specified in the law, libraries and archives are authorized to furnish a photocopy or other reproduction. One of these specified conditions is that the photocopy or reproduction is not to be "used for any purpose other than private study, scholarship, or research." If a user makes a request for, or later uses, a photocopy or reproduction for purposes in excesses of "fair use," that user may be liable for copyright infringement. This institution reserves the right to refuse to accept a copying order if, in its judgment, fulfillment of the order would involve violation of copyright law. The copyright law extends its protection to unpublished works from the moment of creation in a tangible form. Direct your questions concerning copyright to the reference staff.

Transcript of Oral History Interview

These electronic documents were created from transcripts available in the research room of the John F. Kennedy Library. The transcripts were scanned using optical character recognition and the resulting text files were proofread against the original transcripts. Some formatting changes were made. Page numbers are noted where they would have occurred at the bottoms of the pages of the original transcripts. If researchers have any concerns about accuracy, they are encouraged to visit the library and consult the transcripts and the interview recordings.

Suggested Citation

Kermit Gordon and Walter W. Heller, recorded interview by Larry J. Hackman and Joseph Pechman, September 14, 1972, (page number), John F. Kennedy Oral History Program.

Oral History Interview
Of
Kermit Gordon and Walter W. Heller

Although a legal agreement was not signed during the lifetimes of Kermit Gordon and Walter W. Heller, upon their death, ownership of the recording and transcript of their interview for the Oral History Program passed to the John Fitzgerald Kennedy Library.

The following terms and conditions apply:

1. The transcript is available for use by researchers.
2. The tape recording shall be made available to those researchers who have access to the transcript.
3. Copyright to the interview transcript and tape is assigned to the United States Government.
4. Copies of the transcript and the tape recording may be provided by the Library to researchers upon request for a fee.
5. Copies of the transcript and tape recording may be deposited in or loaned to institutions other than the John F. Kennedy Library.

Kermit Gordon and Walter W. Heller- JFK #2

Table of Contents

<u>Page</u>	<u>Topic</u>
29, 50	Tax reform and reductions
30, 35, 43	Wage-price guideposts
32, 43, 46	1962 steel crisis and possible legislation for the steel industry
39	1963 “mini” steel crisis, meetings, and negotiations
46, 62	President John F. Kennedy [JFK] relationship with the Business Advisory Council and the business community
48	Attempts for legislation regarding a tax cut authority, public works authority, and unemployment compensation
51, 56, 63, 68	Palm Beach, Florida meeting on the tax cut
51, 57	JFK’s speech on the economy and a tax cut, August 13, 1962
53, 75	JFK’s tax cut speech, September 18, 1963
59, 73	The Cabinet and their meeting on the tax cut, December 10, 1962
63, 68, 71	Dwight D. Eisenhower’s deficit constraint
66	Heller’s “Puritan ethic” comment during his testimony
69	JFK on tax reform and tax cuts at the American Bankers Association symposium, February 25, 1963
70	Henry H. Fowler’s role in getting the tax cut bill through Congress
72	Lyndon B. Johnson’s role in getting the tax cut bill through Congress
73	Heller’s notes on various meetings regarding support for the tax cut bill
76	Heller’s conversation with JFK regarding consumers and his Council of Economic Advisers

Oral History Interview

With

KERMIT GORDON and WALTER W. HELLER

July 20, 1965
Washington, D.C.

By Joseph A. Pechman

For the John F. Kennedy Library

PECHMAN: This is a recording of the recollections of Walter Heller and Kermit Gordon on economic policies concerning wages and labor markets. We will try to cover a good deal of the ground in 1961 and 1962 when the Kennedy Administration developed the wage guidelines that are now governmental policy. Walter would you start the ball rolling, please?

HELLER: Well, let me just try to record the high spots as I recall them. Then, perhaps, we can go back over them and just sort of use it as an outline. I tend to date the origin of the guideposts, in a sense, to the late spring-early summer of 1961 when Kermit Gordon was first concerned by the threat that the steel industry would raise prices at the time of the second installment of the wage increase on October 1 of that year, and when the steel trade journals and so forth were tending to foreshadow that move. Kermit began to have a serious tracking of prices and so on as background for discussion and analysis of this and for possible approaches to the steel industry and later on to the steel unions. I don't recall exactly when we first discussed this with the President, and perhaps as we talk further we can get closer to that point, but I do recall that in the summer--in June and July of '61--we did alert the President to the problem and indicated how damaging it could be to his expansionary program if steel prices went up and touched off other price increases.

This led to the thought that perhaps some of the liberals in the Senate should be activated to point up the dangers of a price increase and the open invitation that it would give

to the unions in their negotiations in 1962 to put up wages excessively. The President had me call Senator Gore [Albert Arnold Gore] and bring him into the White House. I recall that Kermit, the President, Gore and I kind of laid out a program for Senate debate on this. We quarterbacked this with facts and figures and arguments and so forth. I remember that the Senate liberals took to it like a duck to water, loved the idea of joining hands with the White House in an attack on the interests and reported to us later, rather gleefully, that thirteen senators took part in the debate one way or another in the attack on the steel industry.

GORDON: President Kennedy instinctively turned to Gore in situations of this kind where he wanted to mobilize the liberals in the Senate. He had a very high regard for Gore...

HELLER: Which is particularly significant because Gore later on soured on the President. He was so disillusioned that Kennedy did not push things further in a liberal direction. He was particularly doubtful about the tax cut and so forth. I heard him on a number of occasions...

PECHMAN: He opposed the tax cut?

HELLER: Gore opposed the tax cut, yes. On the grounds that it would restrain the growth of welfare spending. After the Senate debate the next event I recall was that Kermit and I talked with Kennedy about how to approach the steel industry to try to dissuade them from any price increase on October 1. We, as I recall, wanted the President to call them in one by one. He couldn't call in a whole group because of anti-trust considerations and so forth, but the President rather quickly closed off the discussion by saying, "Let's write a letters." That led to a letter to the steel industry which we will want to enter here someplace or another for the record. It went out to the presidents of the top twelve companies. Some of the answers were rather good, some were bad, some were downright insulting. One in particular, from the head of McLouth Steel...

PECHMAN: Just as a matter of record, Walter; the letter was written, the initial draft of the letter, with the Council of Economic Advisors?

HELLER: Oh, yes.

GORDON: The letter was written in the Council, Joe. The President made just one revision in it, I remember. The letter that we drafted was drafted with considerable care and cunning. The President felt that he wanted to make reference to the level of steel industry profit in a way the suggested that they were too high, overly generous profits, dividends, and such matters. We didn't really think this was appropriate to the case, but we wrote in a couple of paragraphs to carry out the President's view that there ought to be a stress on the adequacy of profits and dividends. I think in retrospect the President may have regretted this because this was the part of the letter that

offered a target to the steel companies, the *Wall Street Journal*, and other critics. Do you remember that?

HELLER: Yes. Of course we related the level of profits very carefully to the operating rates in the industry; therefore, it was never a clear-cut case as to whether we were right or wrong. We thought that you could make a good case that translating their profits into high operating rates that they were adequate.

The other part of the letter, since we're stopping on that for the moment, was the paragraph in which the President, in effect, told the steel company that, "You behave and hold prices; you may count on me to exert a restraining influence on the unions later," which has a very definite role as an antecedent to the steel crisis.

GORDON: You see, this October 1 wage increase was the last scheduled increase under the settlement of early 1960, which followed the long steel strike of late 1959, and new wage negotiations were to begin just after the turn of the year, in early '62. The President, in effect, was saying in the letter, "If you will forego a price increase on October 1, at the time of the scheduled wage increase, you can count on my support to hold settlement next year down to a level which you can absorb." This was made crystal clear in the letter and was so interpreted by the press.

HELLER: Let me just run through and touch a couple more bases, and then we want to go back. There were some behind the some contacts between Secretary Goldberg [Arthur J. Goldberg] and the union and so forth, I think in late 1961, preparatory to the 1962 negotiations.... Of course it should be noted that the steel companies, either because of the President's appeal or because of competitive conditions, did not raise prices on October 1, which put the bee on the administration to make good on its commitment. It was during this period between October 1 and the issuance of the first economic report of the Kennedy Administration that the thinking went into the principles that should guide wage increases and price changes and led to the development of the wage-price guideposts centered on productivity advances. Of course we have to come back to that because that was a important episode in the formation of economic policy in the Kennedy Administration. These were enunciated--these wage-price guideposts--in late January '62. Then, appropos their application to the steel industry, the Council sent Arthur Goldberg, as Secretary of Labor, a letter translating the guidepost into fairly specific terms for steel wages. As a matter of fact, after all was said and done, that's almost exactly where the steel wage settlement out.

PECHMAN: Didn't that letter mention two and a half percent?

HELLER: I think it mentioned twelve cents an hour, but again, we can find this for the record and enter it in the record. We should. It may have been two and a half percent, I don't recall.

GORDON: My recollection is that the letter, either in cents or in percentages, indicated

that the steel industry in the wage settlement in 1962 could comfortably absorb a two and a half percent wage increase without an increase in prices. This may have been put in terms of cents per hour. That's what the settlement was.

HELLER: Throughout this, while it's true that the industry, especially through Roger Blough [Roger M. Blough], kept talking about the need for a price increase to restore their profits and profit margins, it was felt to be part of the atmosphere that the steel industry would hold its prices if the President made good in getting the union to take such a modest increase, certainly very modest by contrast with what they got to '50. Then, of course, we all know that Blough came in with the six dollar a ton increase, that this was rescinded after about seventy-two hours. We have to discuss the opposing views as to break a steel price increase and so forth, but that did lead to the situation in which the guideposts were applied; they really led to the steel crisis and for that matter have since led to its resolution. Now I think we might to go back.

PECHMAN: Kermit, would you return now to the summer of 1961 and try to recollect some of the incidents in connection with the discussions with the liberal senators? That might be worthwhile.

GORDON: Well, let me go back a bit, Joe, and see if I can put the whole steel episode and the development of the guideposts in the context of Walter's statement because I think this was awfully important in our thinking. Our concern about price developments in 1961 stemmed from several causes. The immediate urgency, we felt, related most closely to the balance of payments situation. We felt even then that the US competitive position in the world markets had been seriously weakened in the '55-'58 period by the sharp increase in prices which had occurred in those years. We were deeply concerned about the prospects of the balance of payments in '61 and felt that it was a very important goal of policy to try to do everything within reason to restrain a repetition of the '55-'58 episode as the economy pulled out of the '61 recession.

PECHMAN: It's fair to say, Kermit, that 1950's had seen a great worsening of our balance of payments position from steel alone, isn't it? About a third or more of our balance of payments was deterioration was...

GORDON: Something like that. There was a study that Otto Eckstein did for the Joint Economic Committee that we relied on very heavily at the time, the purport of which was that the behavior of steel prices in the '55-'58 period explained a surprisingly large part of the total increase in wholesale price level both directly and indirectly through its effect on other prices. We had a good study, I remember, by Dick Cooper [R. Conrad Cooper] which related the rate of increase in US Steel prices in that period to the declining share of US Steel exports in the international markets. So that it was the balance of payments orientation, the recent '55-'58 experience which was very clearly in our minds and the conviction--we thought, quite well founded; I still think--that steel was critical in that period and that any successful effort to restrain price increases in the expansion which we then saw coming in 1961 would depend very heavily on the behavior of

steel prices. This both explained the nature of the price concern, it linked it to the balance of payments, and it focused our attention on steel. I think this is necessary as background.

HELLER: This, in turn, required that the public interest be recognized at the steel bargaining table. It was a cliché, but I think a correct one, during the '50's that labor and management colluded to get theirs and simply passed the costs on to the public. The articulation of the public interest and making it meaningful was really a number one requirement for getting any kind stabilizing impact on the steel industry.

GORDON: This reminds me, Walter, the worst labor settlement in post war steel history, as I remember, was the '55 settlement. Wasn't that the year in which the cost of the settlement was about eight percent? Arthur Goldberg was the key man in negotiating this settlement. In the course of our discussions in 1961 of steel, steel prices, the balance of payments, Arthur conceded rather flatly that in the perspective in which he then saw the problem, the steel union had made a serious mistake in '55 in the settlement which he himself had negotiated.

PECHMAN: On this background, now that you've mentioned Arthur Goldberg, was the Labor Department as concerned as the Council of Economic Advisors about wage developments in connection with the balance of payments?

GORDON: Let's compare recollections here. I'm not sure what Walter would say. Given the unavoidable and expected interests and prejudices that a labor department could be expected to have in these circumstances, I think that the Labor Department under Arthur Goldberg was surprisingly receptive to the line of argument we were taking in 1961. In some cases he held back, he wasn't willing to go as far as we were, but I think he accepted the basic analysis. Would you disagree with that, Walter?

HELLER: Only in part, it took a period of education--I don't think it's presumptuous to say that--before Secretary Goldberg was ready to accept at least the full implications of the productivity standard for wage increases. I thought in '61 there was quite a bit of resistance, based in part on a misunderstanding...

GORDON: But remember, Walter, the memoranda that we sent to Secretary Goldberg in the fall of 1961 in effect giving our analysis of the terms of the steel wage settlement which were consistent with stable prices. He accepted and worked very effectively with the steel union to carry out in the terms of the settlement.

HELLER: Absolutely, but my recollection on that is different than yours. It wasn't the fall of '61, but early '62, before we sent this letter. By then there is no question, especially after the hammering out of the wage-price guidepost, that Secretary Goldberg was entirely on board.

GORDON: The files would show that that. My recollection was that that letter was about November or maybe December of '61, but it could have been after that.

HELLER: There was a very considerable period of hammering this out at a time when, needless to say, Art Goldberg's moorings in the steel labor were conflicting with his economic understanding of what was necessary as a matter of national policy. But the thing about Goldberg is that the President's policy and the national policy always won out with him. He never took a narrow, parochial interest once he understood the issues, and I don't mean to imply that it took a long time for him to understand. This did require some conditioning.

GORDON: I would second that very strongly, Walter. For a man who out of the steel union, he displayed not only capacity to learn quickly but capacity to separate his longstanding attitudes and interests from his new conception of what the national interest required in a most reassuring way. I think it was very impressive.

PECHMAN: Kermit, will you continue?

HELLER: By the way, Kermit, if you're not going to say something about Bill Martin [William M. Martin, Jr.] and prices, I will.

GORDON: Why don't you say that now?

HELLER: The only thing I'm trying to get across here is that while we were very much concerned about a renewal of say a wage-price spiral or cost push, we were at that time a hundred percent convinced that there was no demand full inflation in sight. I say this explicitly because after one quarter of vigorous expansion in the second quarter of 1961 when we jumped about 15 billion in our GNP rate, Chairman Martin began to sound warnings of inflation and told the President that that was a big problem and we had...

GORDON: That's right. It should be linked, Walter, with the structural unemployment discussion which took place in '61, which grew out of this. You talk about that, you were...

HELLER: Absolutely. Our first testimony in March of '61 before the joint Economic Committee of Congress--the testimony of the Council of Economic Advisors--said very strongly that it was lack of adequate demand and not some immutable structural force that was holding unemployment at such high levels. Bill Martin disagreed and felt that if you pumped much more demand stimulus into the economy you'd be trying to pound square pegs into round holes, and this process would inevitably generate inflation.

GORDON: Without reducing unemployment significantly.

HELLER: Right. His statement was made at the same set of hearings as I recall.

GORDON: He had made several previous statements, but I think you're right. He did testify at the same time.

HELLER: And relating this to the presidency, as, after all, is the purpose of these recordings of this history, I think the President's predilections for a while were somewhat along the structural lines, Kermit. You remember he talked on several occasions.... I don't recall the sequence here, but on several occasions President Kennedy wondered whether we didn't have to learn to live with five percent or five and a half percent unemployment.

GORDON: You remember--this is another story which I think has already been told, but was closely related here--the period during which the President flirted with a tax increase in the summer of 1961 as an outgrowth of the Berlin crisis. This grew from the same kind of logic, of fear that the added military spending resulting from the Berlin crisis would produce inflationary consequences in the absence of a tax increase. And, as you remember, at that point--bearing out your previous observation that it took Arthur Goldberg some while to understand the situation--Goldberg supported the tax increase in the summer of 1961.

HELLER: Very largely for political reasons. You know, the sense of involvement in the Berlin crisis. I think both Goldberg and Ribicoff [Abraham A. Ribicoff] were moved to advise the President to have a tax increase because they felt that this would develop a higher sense of participation, but it also reflected the fact...

GORDON: And carry out the sacrifice theme in the Inaugural.

HELLER: Exactly. But it also reflected the fact that they were somewhat fearful of overall inflation. It's again relevant, and let's record it here, that one of the things President Kennedy always remembered in retrospect was that the Council had told him early in the game, and particularly underscored it in connection with the Berlin crisis, that he need not worry about demand inflation.

PECHMAN: Let me pin this down with regard to the President's attitude. Did you think that your March 1961 statement convinced him on structural unemployment?

HELLER: All I can say on this is that he went over that statement with a fine tooth comb and dictated a paragraph or two of it that he thought we should include in our testimony.

PECHMAN: Which paragraphs were those Walter? Do you remember?

HELLER: I would have to have the document in front of me to recall.

PECHMAN: Do you remember the subjects?

HELLER: I think we recorded that in our earlier recording on this. I would only my in direct response to your question, I don't think he was convinced at that time even though he was exposed to the argument. Now, Kermit may have a different view.

GORDON: No, I agree with you. I do not think that he was convinced at that time.

PECHMAN: As a matter of fact, my recollection is that the paragraph of two that he asked you to incorporate, or that he may have dictated, sort of was weasel-wording in the other direction a little bit. But I'm not sure.

HELLER: Well, this is something that I can check the record on, and ought to get this straight.

PECHMAN: Just to complete this little portion on presidential history; how long did it take him to get converted to the Council line? Was he converted, do you think?

HELLER: Do you mean on aggregate demand versus structural?

PECHMAN: Yes.

HELLER: The first overt action which bore directly on this was, as Kermit has suggested, his final vetoing of a tax increase for the Berlin crisis, but this was by no means a final....

PECHMAN: Conversion. Do you think he was ever converted fully to the Council line Kermit?

GORDON: This I find very difficult to answer when you put it that flatly, Joe. I think that the process of the economic education of John F. Kennedy was a gradual process in which conviction developed steadily, and clarity developed steadily. I think that the farther along you get in his administration the more secure his command of the essential economic analysis became. I think by the time he made the decision on the big ticket proposal, in the end of 1962, they had become quite secure, but I think there was a steady growth.

PECHMAN: I would have said, when he flatly stated that he was going to reduce tax rates from top to bottom in the summer of 1962, publicly, that by that time surely he had been converted to the Council line.

HELLER: June 6, 1962. Yes, but there were occasional periods when he did some soul-searching about Ken Galbraith's [J. Kenneth Galbraith] approach to life. Mainly, oughtn't he be raising expenditures rather than reducing taxes. All I can say is that those doubts gradually disappeared only in late '62 and early '63. I remember so vividly one of the things he said to me November 11, 1963. When he called he was out at

Atoka or somewhere, and it was a rainy day. He talked to me at some length about my testimony the next day before the Senate Finance Committee on the tax cut. The most vivid recollection I have is when he said, "Well, first we'll get your tax cut, and then we'll get my expenditure increases," which reflected his understanding of the demand impact of the tax process, and that that would generate revenues, and that that in turn would permit higher expenditures. This is somewhat off the track, but I thought it was terribly important to note that our concern about inflation, or about cost and price increases, was an entirely different thing from Bill Martin's, and that we were pursuing these two lines simultaneously, which has sometimes confused people.

GORDON: One other point of background which I think is important, Joe. The question might be asked in retrospect why we got our wind up about the price problem as early as the summer of 1961. In retrospect, this looks a little premature to have become deeply concerned about price problems. You must remember that we were then anticipating a rate of economic growth in 1962 considerably more rapid than we achieved; the whole framework of our thinking on the wage-price guideposts related to the prospect that by the end of 1962 the growth in the economy and decline in unemployment might put us in a situation; not a demand-pull situation but a situation in which labor markets were sufficiently strengthened so that the wage-price problem would reemerge. I think this is the reason why it now looks premature, but didn't look premature to us at the time.

PECHMAN: Let me just say on this matter of looking premature: One of the most fortunate things for our income policy or wage-price guideposts is the fact that they were established as early as they were so that we now can look back on three years when, aided by slack, the performance of labor and management essentially conformed to the guideposts. One of the great problems of the British income policy is that they're coming in at a time of very tight markets, both labor markets and product markets. They're running against the wind, we're running with the wind. Maybe that was just good luck, but it certainly is a factor in seating the guideposts in the economic policy of the country.

GORDON: To get back to the unfolding of events, when the President sent his letter to the steel companies in early September 1961, as Walter has said, the quality of the replies varied sharply. There was one very terse, almost rude, reply from McLouth Steel. At the other extreme was, I thought, a very intelligent letter from Joe Block [Joseph L. Block]. The most detailed letter that the President got in response to his was a fully argued brief for the necessity for a steel price increase that he got from Roger Blough. You remember that was a quite lengthy letter, and it got a lot of attention.

PECHMAN: What was the President's reaction to this series of letters?

GORDON: I think at that time he was generally pleased with the whole episode. The press felt that the President's was timely, that it probably had blocked an October 1 price increase. Whether it blocked it or not, there was no price increase on October 1, and I think he felt that this was an achievement; this was a successful action. To

indicate his mood when these letters came in, I remember he was sitting at his desk one day when Walter and I were there looking at the letter from the president of McLouth Steel, the salutation was "Sir:" not "Dear Sir:" but "Sir:" I remember. The message was something like, "I have received your letter of such-and-such a date," and no complimentary close but just a signature. This was the nature of the reply. While we were sitting there, the President with a twinkle in his eye, picked up the phone and called the Attorney General, and he said, "Bobby, I got a man I want you to indict."

HELLER: As a matter of fact the first thing he asked him, Kermit, was whether he could find out from Internal Revenue whether they had anything on this guy.

GORDON: He said, "Bobby, I've got a man I want you to indict." Bobby apparently said, "What'd he do?" And the President read him the letter. Judging from the end of the conversation we could hear, the Attorney General must have said, "But we can't indict him for that." The President then said, "What do you mean you can't indict him for that? You told me last night you can indict anybody. You might not be able to convict him, but you can indict him." [Laughter]

HELLER: That's virtually a verbatim recording of that conversation.

GORDON: But this is an indication of his mood. It was a light-hearted mood. I think he felt that he had accomplished something useful, both politically and economically, with this letter.

HELLER: Kermit, I think you ought to go back, though, for just a moment to the price tracking system that you set up at that time because we used that to inform the President on a number of occasions.

GORDON: We were following the development of sensitive prices very, very closely, the sensitive materials prices actually on a daily basis, and keeping the President closely informed on any price development that seemed to us to be sufficient importance to call his attention to. Emphasizing again that everything that we said to him about the price problem was put in the balance of payments context and he understood this thoroughly. He understood, I think, as early as the first half of 1961 that our best hope for strengthen the US balance of payments lay in achieving expansion with price stability.

HELLER: I was just going to add that we conditioned him to the later events perhaps, and appealed to his fighter instincts by sending him excerpts and quotes from the steel magazine, an *Iron Age* and so forth, that seemed to foreshadow price increases on October 1. And that was part of what led him to feel that, while he couldn't make a direct assault on the industry or air what he regarded as the arrogance of such a price increase after the record of the 50's which we also had laid before him, he thought that people like Senator Gore, Senator Douglas [Paul H. Douglas], Maurine Neuberger [Maurine B. Neuberger]: who were some of the others in the Senate...?

GORDON: Kefauver.

HELLER: Kefauver [C. Estes Kefauver] of course, could do this, and that's what led to this delightful incident. I remember this with real pleasure because of the, as I said earlier, the spirit with which this was picked up by that liberal group and the delight with which they responded, and the comments about how such cooperation between the White House and the liberals in the Senate was the kind of thing that they had anticipated at the time of Kennedy's election. This was really the first, and I'm afraid in many ways the last, of such realization of hopes--that these hopes in terms of the Presidency and its relationship to the liberals in Congress, I think this is quite important, these hopes were pretty regularly thwarted as the President threaded his way through these minefields.

GORDON: Do you remember whether Humphrey [Hubert H. Humphrey] joined in this debate in September of '61?

HELLER: I'm almost sure he did.

GORDON: I don't remember. It would be interesting to look.

HELLER: This would have been irresistible for Hubert.

GORDON: Maybe we ought to move on to the guide.... I might say, Walter, following along this steel theme, which was a separate track from the guideposts theme, we did not participate at all extensively in the behind the scenes maneuvering which went on with the steel companies and the union looking toward the bargaining in the spring of 1962. We pretty much.... When we knew that Arthur Goldberg basically accepted our analysis of the problem, I think it was our conclusion that he was much better equipped to engage in the backstage maneuvering. We pretty much withdrew and, as I remember, were not even very closely informed from day to day on what he was accomplishing.

HELLER: That's essentially correct. The President put this in his hands and let it be said here, as I'm sure it will be elsewhere, that the President had enormous confidence in Arthur Goldberg's ability to handle these things with wisdom and with a proper weighing of all the factors, and, of course, he recognized that, better than anyone else in his administration, Arthur Goldberg knew the ins and outs of the steel industry--although not all of them as we discovered later on.

GORDON: In April, yes.

PECHMAN: Getting to the guideposts directly, did the Council decide well in advance of the time when the January 1962 economic report was written that a guidepost would be included in the economic report? [Interruption]

The interruption to this recording was occasioned by the news, delivered by my secretary, that Arthur Goldberg had just been appointed Ambassador to the United Nations.

Walter Heller and Kermit Gordon were reminiscing about Arthur, and we all remarked that it was uncanny that we'd just been talking about Arthur in connection with the guidepost. Do you want to add anything Walter?

HELLER: Only this. Arthur told me after he was appointed to the Supreme Court--in fact the day after--that, had President Kennedy told him before he accepted the appointment how such he had meant to him as a member of his cabinet rather than after he had been appointed and accepted, he probably would have stayed in the cabinet rather than gone on to the Supreme Court. This does bring up a characteristic of the President's that I think we all recognized, that President Kennedy found it very difficult to articulate or to convey to his associates in the Cabinet and in the White House and so forth his appreciation of their contributions. We all recognized that, I think, and accepted it and didn't expect him, except on very rare occasions, to come forth. He had no, shall we call it, "gift of flattery" whatsoever, and I think it was his fear of breaking over from honest compliment to flattery, if one can speculate about these things, and his total inability to be anything but high fidelity on these things that led to this kind of block almost. Now he could do the kind of thing when you'd appear on *Meet the Press*, you know. He could call you up afterwards and say, "You did us a lot of good tonight. You sure handled that son of a bitch Richard Wilson effectively." Something like that.

GORDON: He had a dread, though, Walter, of taking extravagant statements about people. Typically, the way you learned that he thought you were doing a good job was through an intermediary whom Kennedy had told he thought you were doing a good job. It was quite rare for him to say this to you directly. It was embarrassing to him.

PECHMAN: He was obviously very, very fond of Arthur Goldberg.

GORDON: Yes, although there was a serious strain at the time of the steel crisis in April of '62. Kennedy felt that Goldberg had let him down. He had not anticipated this development, he had not warned the President, and, as a matter of fact, in that dramatic hour or so in the president's office the night the price increase was announced the President was continually chiding Arthur for his failure to give him advance word. Arthur was visibly unhappy. As a matter of fact, I think it's later been said--I didn't know this, but I think it been common knowledge--that Arthur Goldberg offered his resignation.

HELLER: Well, the reason for that resignation, oh yes indeed, was different.

PECHMAN: Are you certain?

GORDON: We are quite certain.

HELLER: Well, Arthur told me this himself.

PECHMAN: That he had offered his resignation?

HELLER: That he had offered his resignation, not because of failure to anticipate that this would happen but because his position with the labor movement became absolutely untenable if that price increase would hold. Essentially, Arthur had, in his negotiations with the labor movement, to apply the guidepost to the steel wage settlement, [he] had said, "If you accept this guidepost settlement we'll see to it that there's no price increase." When the price increase came through it just knocked out the props from under him. I think what you said, Kermit, played a role in this because he'd had an explicit warning the week before--the President had--through Charlie Bartlett [Charles L. Bartlett], originating with Hal Korda, that steel was going to raise prices and Arthur Goldberg had said, "Impossible! It can't happen here." So this played a role. But let it also be added that this pique that the President may have had with Arthur didn't last long, and that he thought the world of him and told him that after he put him on the Supreme Court. Arthur did make this statement, and I think he repeated it to others that he might not--or perhaps he said he would not--have gone on the Court if he'd known how much the President relied on him in the Cabinet. I think Arthur was always restive on the Court though he enjoyed it. He is an activists and it's not surprising to see him accept this appointment.

PECHMAN: In the remaining time let's go back to the formation of the guidepost and to the steel crisis.

GORDON: Walter, I can't remember when we first decided that we were going to enunciate the guideposts in the '62 report. I do remember that the first outline of the '62 report was prepared by Jim Tobin [James Tobin] after we had done a good deal of informal talking about it. I think the first time the central idea was reduced to paper was in Jim's outline. That is, he outlined the report as we had discussed it, and he had a section at the end called "Standards for Wage Price Behavior," or something like that. My recollection is that this is the first time it was reduced to paper. Now, exactly what discussions preceded it, I can't remember.

HELLER: I do remember this: that there was considerable difference of opinion whether we ought to do it. Remember Lloyd Ulmon on our Staff...?

GORDON: Oh, the staff! The staff was violently...

PECHMAN: I just want to ask a direct question. Is it not true that in this particular case on this particular issue the Council itself was unanimous about the desirability of enunciating the guideposts whereas.... And you had to carry along the staff, except for Bob Solow [Robert M. Solow] who, I think, joined you wholeheartedly.

GORDON: He did, that's correct. In my recollection on my time on the Council, the strain on my relations with the staff was incomparably greater over this issue than over anything else that happened in this one and a half-year period.

HELLER: There's no question about that. I remember it coming up to me this way, that

there was strain with the staff about it, there was tremendous difficulty in formulating it, and there was the problem of whether something acceptable to the Department of Labor could be formulated. There was a great deal of back and forth. Consequently, we decided, "Well, let's take a crack at it, but leave ourselves an out, leave the question open whether we actually finally include it in the report." I think you will remember, as a matter of fact, that it was not only the eleventh hour but the twelfth hour when we finally worked out a formulation that we put into the report and we organized the report so that those were the last pages of the last chapter. It was a hairsbreadth...

GORDON: And could easily be deleted if there were a lass minute decision to delete.

HELLER: Yes.

PECHMAN: As a matter of fact, none of you knew whether or not the President would accept the guideposts as written at that eleventh hour.

HELLER: That's correct. Now Kermit, here I have some difficulty, and this is a very important point, as to how we conditioned the President and got the decision from him on this.

GORDON: My recollection, Walter, is that we did not have much difficulty persuading the President of the desirability of doing this.

PECHMAN: Did you specifically call that portion of the draft, particularly, to his attention?

HELLER: Oh, yes, we had to. And particularly to Sorensen [Theodore C. Sorensen]. You see, Sorenson went through things first and then flagged some things for the President, and we flagged some things for the President. But now I recall that he said, "If you can work it out with Goldberg I'll accept it." I don't believe it was absolutely flat, but essentially it was. I think this was the nature of his....

GORDON: Remember, too, Joe, that this was not in the President's economic report but in the annual report of the Council. The President always had the view, and repeated it on many occasions, that he wanted the Council in its report to get out a little bit ahead of him and take positions somewhat in advance of positions he was willing to be personally identified with. And I think when he read this he looked on the wage-price guidepost as a kind of trial balloon to which he was not fully committed because they were in the annual report rather than in his economic report.

HELLER: I think that's a fair statement.

PECHMAN: Also, as a matter of history, what about the attitude of the other departments towards the draft that they finally saw? The draft of the guideposts?

HELLER: Since Kermit handled this chapter and the intimate give and take with the

other departments, I think he ought to try to recollect that.

GORDON: My recollection, Joe, is that the guideposts as they finally emerged were not greatly different than the first careful draft we had done in the Council. I remember getting reactions from the Labor Department on a technical nature, helpful suggestions which helped us to spell out some of the qualifications and modifications which are in the guideposts. I don't remember, Walter, that we ever had anything approaching a basic argument in principle with the Labor Department. Is that wrong?

HELLER: Some fears were expressed, and I think they did some checking with the labor movement. I could be wrong about this, but I think some fears were expressed that this would be unduly restrictive on labor, partly because it was easier to name a specific figure on wages than it would be a specific standard for prices. This may be hindsight, but I do recall some difficulties on principle not just on the technical...

PECHMAN: I also recall that you expressed to me at the time that you were having some difficulties, but wasn't part of the reason why you, quote, "got away with it," end quotes, is that it wasn't in Kennedy's report it was in the Council report? I think that's one of the reasons you didn't get more flak than you did. No, I think you did get an awful lot of flak even on...

GORDON: Before it was published? We got a lot afterwards.

PECHMAN: Before it was published.

HELLER: It was a very difficult section to get cleared. While we held it to be the Council's prerogative, if you will, to determine the content of its own report--here, parenthetically, let's recall that we went back to the old Keyserling [Leon H. Keyserling] practice in the report of dividing it into a Presidential message and a Council report whereas all during the Eisenhower years the whole report had been considered a Presidential document. That was in the years when you were in the Council, Joe.... But this was such a sensitive area of policy that we didn't feel that the Council could willy-nilly enunciate these principles unless the rest of the government was on board, and principally the Labor Department. I thought there was quite a lot of hesitancy on principle for a while.

GORDON: Well, my recollection relates mainly to the flak we got from the younger staff of the Council, Walter. This was where emotions reached their highest pitch, I think. My recollection is that virtually every younger, junior member of the staff of the Council was strongly opposed to the guideposts both on economic and political grounds, and there was a good deal of sniping from the staff which reached the point at which I decided that we'd better bring this out into the open. You may remember that we had a kind of confrontation meeting in my office, and I gave every member of the staff a chance to speak his piece. This went on...

PECHMAN: This was after the draft was prepared?

GORDON: Oh yes. This went on for at least two hours, perhaps three hours, and was very tense; people used strong language, and I must confess I was a bit shaken by it, but on reflection decided to stick by my guns.

PECHMAN: They were reflecting, Kermit, I think they were reflecting the attitude of the economics profession is general toward the guideposts which was very hostile at the time, and even today are still not wholly accepted by the profession.

HELLER: Now, let's button down what the main concerns were. I remember Lloyd Ulmon, for example, was concerned that this would inevitably lead to direct control, that you couldn't enunciate guideposts.... Well, it was partly based on his conception of the collective bargaining process and what was appropriate to bring to the bargaining tables, but I think that one of his main concerns was that if they were flouted you'd have to institute some kind of government review and eventually come around to direct wage and price controls. Is that correct, Kermit?

GORDON: This was certainly one of the arguments that was very common, Walter. I'm not sure whether this was the one Ulmon stressed. Ulmon, I think, stressed the unacceptability of these guideposts to the labor movement and argued this could cause great political difficulty for the administration. I think there was also in the minds of some of them a deeper economics view of the problem, a feeling, and I may be wrong here, that it was possible, through collective bargaining, to shift the distribution of income toward labor without an increase in the price level. Some of the people on the staff believed that, and I think they felt that the guideposts would inhibit that process.

HELLER: In fact, it would tend to freeze the distribution as it stood. The one thing that I can't help injecting in this conversation, because it bears directly on the President's attitude, and I want Kermit to check me on this: One of the things that conditioned President Kennedy to the guidepost was Walt Rostow's [Walt W. Rostow] proposals fairly early in 1961 to have a wage freeze. Do you remember?

GORDON: I do remember that, but it never occurred to me that this had any influence on the President.

HELLER: I think it did because the President once asked me to talk to Rostow about his ideas, which Rostow had presented to the President in a memo. Rostow was so concerned about the balance of payments situation and the cost push and the whole question of unit labor costs that he was proposing a freeze for a year in wages. He proposed this to the President and the President definitely, I recall, asked me to talk to Walt about it.

PECHMAN: Just to finish off on the preparation of the actual guideposts, who would you credit for having authored the guideposts? I know I remember distinctly that

the whole Council, that last evening or so when the final draft was more or less prepared, was involved. But I also remember that Bob Solow and Kermit were drafting little pieces here and there and so on. I don't recall exactly what the sequence of events was.

GORDON: I don't know what Walter will say to this, Joe. I would that say that your question is unanswerable. I think the guideposts were conceived and drafted by Heller, Tobin, Gordon, and Solow. Exactly what part each had in the final product, I think it would be impossible to separate.

HELLER: Kermit is too modest.

GORDON: No, no.

PECHMAN: He prepared a first draft.

GORDON: I was doing the writing, but God, how many drafts did we go through.

HELLER: Innumerable drafts.

GORDON: And after full discussion. The fact that I reduced the words to paper put me in a kind of secretarial role. More than that; a lot of the ideas were mine, too, but I can remember some deep discussions with Tobin about matters of doctrine. I can remember some drafting that Solow did. I can remember some redrafting that you did. No, I think my first answer was the right one.

PECHMAN: This is very interesting--the point that you make that the Council itself, plus Solow who was considered a fourth member of the Council at the time...

GORDON: Yes, he was indeed.

PECHMAN: Isn't it true, as a matter of fact, every Council member appointed since then has been a proponent, a strong proponent, of the guidelines and that the Council itself has had to bring the staff along most of the time? Gardner Ackley [Hugh Gardner Ackley], after all.... I remember when his appointment was discussed, that one of the things that was mentioned was that he was on the same wave length as the Tobin-Gordon-Heller Council on matters of wages and prices. Remember, he wrote that article on cost-push inflation?

HELLER: Well now, yes, you're right about that.

PECHMAN: And, of course, Eckstein with the steel article. I know Otto adhered hundred percent to the guideposts.

GORDON: There has never been anything like a loyalty oath or a saliva test on the guideposts. The subsequent appointees have all been first-rate and highly

competent economists and one would naturally expect that people of this quality would see the merits of the guideposts. [Laughter]

HELLER: In talking about origins of ideas, though, it should be noted for the record that Kermit had responsibility for the wage-price area. I just want the reword to show that. What about John Lewis [John P. Lewis] when he came on the Council?

PECHMAN: He was a strong proponent of the guidepost, too.

HELLER: On the other hand I think he was a little more concerned about the impact on labor, perhaps, and some of the criticism.

GORDON: You know, we're getting a little ahead of ourselves, perhaps, but since we're talking about who likes them and who doesn't, I think you'll find it very difficult to cite the name of one highly regarded economist, who is not a labor mediator, arbitrator or labor relations specialist, who has publicly opposed the guideposts. I challenge you to do so.

PECHMAN: Arthur Burns [Arthur F. Burns]?

GORDON: That's a point. I give you that.

PECHMAN: I still think, Kermit, that the profession has been brought along very far since late 1961, but that most of them probably would be happier if they just didn't exist. I may be wrong, but that's my impression.

HELLER: You have to identify the basis for opposition, though. One basis was that people didn't like to see this interference with the pristine nature of collective bargaining. Another basis was...

GORDON: This, of course, was what was on the minds of the professional arbitrators who were virtually solidly opposed.

HELLER: And then there's the opposition that this was too specific and too tough on labor. But then there's the opposition of the Arthur Burns type which is that this is an unwarranted interference with the free market. "Government by guidelines," to use George Champion's phrase. But I do think, again relating this to the presidency as we must, one of the reasons that the guideposts were pursued and supported by two presidents is Bob McNamara [Robert S. McNamara]. McNamara has said on a number of occasions that he thought the guideposts were the single greatest innovation and contribution that had been made by the Kennedy Administration to economic policy. This was before the tax cut. He expressed this view both to President Kennedy and, even more forcefully, to President Johnson. I think that part of the Presidential support for our position stems from the experienced and highly respected voice of Bob McNamara.

GORDON: Let me say this, Walter, that I think that by the end of the Kennedy Administration, the President was pretty solid in the view that this was a wise staff and that we were on sound ground, and he was glad he did it. But there was a time in the spring of 1962 when he was having very cold feet. I remember his saying, in so many words, to me--and I presume you were there--"I think maybe we went a little bit too far on those guideposts."

HELLER: I recall that. And, mind you, at the end of the thousand days he wasn't saying a great deal about the guideposts. When President Johnson [Lyndon B. Johnson] jumped in and in effect permitted us to have him say what he did in the economic report and the economic message in January '64, we did feel that that went beyond what Kennedy would have permitted.

GORDON: Kennedy's position, our position throughout the Kennedy Administration, was always the proposition that the purpose of the guideposts was to aid public understanding and to facilitate public judgment in these issues. It was not until the Johnson Administration that the government went one step further and cited the guideposts as a kind of standard which the unions and management should accept in determining the outcome of their wage negotiation and price behavior. I think that's right, Walter.

HELLER: Well, I don't think the distinction is quite that sharp, but I think in terms of approach that it's not incorrect.

PECHMAN: While Kermit's still here, we have a little less than fifteen minutes, let's go to the steel incident. I think with respect to the steel incident, instead of describing the whole thing from beginning to end might it not be a good idea to try to enter into the record your recollection of parts of the incident that have not been disclosed publicly?

GORDON: I don't think there are any parts of the episode that haven't been disclosed publicly, Joe, in at least three different versions.

PECHMAN: Let's get your version. [Laughter]

GORDON: Banquo's ghost, I think, should testify first. [Laughter]

HELLER: The call I had from the President the night Roger Blough laid this manifesto on the President's table is a memorable one; that whole scene is one [of which] one obviously would never forget. Just to back up a little bit, I do want to say that the President had assumed that he had the steel industry's tacit consent not to raise prices in the light of this very modest wage settlement, and I think we would agree it was very modest both in terms of the economics of it and the history; that Roger Blough, however, having consistently said that a price increase was needed, I don't believe acted in bad faith. I think he, in his eyes, did not act in bad faith regardless of what else one can say. I

believe Blough felt that he had kept the administration on notice that they were in a tight price situation and so forth.

GORDON: Let me interrupt here to say, Walter, that I can't conceive that Blough did not know throughout this period that the President had a different conception of the tacit understanding between them than Blough had. I think this was perfectly clear.

HELLER: I think that's right, too.

GORDON: He must have known what was in the President's mind.

HELLER: But, if ever the President had thought he was stabbed in the back or double-crossed, this was certainly the occasion.

PECHMAN: What were the specific words that he used, if you can recollect approximately, when he called you? Was he angry?

HELLER: Oh, he was livid! He just said something to the effect that, "You won't believe it, but Roger Blough has come in and laid a six dollar a ton across the board increase in steel prices on my desk. Arthur Goldberg and I are over here and we want you to get over here as fast as you can." I went over and for a while there were just the three of us and a couple of people around the White House. Then you, Kermit, came over very shortly afterwards for discussion of where we were to go from there.

PECHMAN: Was McNamara in?

GORDON: No. The people in the room were.... Let's see if I can think of them all. Salinger [Pierre E.G. Salinger] was there, Bundy [McGeorge Bundy] was there; you and I, Goldberg, Kenney O'Donnell [Kenneth P. O'Donnell], and Sorensen. I think that's all.

PECHMAN: The decision that night was to do what?

GORDON: I've got something to say about that.

PECHMAN: What did the Attorney General...?

GORDON: Was Bobby there?

HELLER: Not right away, as I recall.

GORDON: He may have come in later. Somehow I don't remember.

PECHMAN: I'm sure he'll remember the discussion.

GORDON: Let me make one point, Joe. This is the only time in my association with President Kennedy that his Irish temper got the better of him. It was a typical display of Irish temper; he was furious, and this lasted for about thirty-six hours. I remember the dramatic effect of coming into a meeting with him the day after the press conference and finding him cool as a cucumber. He'd gotten over it. He was talking conciliation then, but this pet--this violent temper--had lasted for thirty-six hours, and it colored everything he had done about...

PECHMAN: Were either of you in the room when he is alleged to have made that very famous, colorful remark about the steel industry?

HELLER: As a matter of fact, all of the people that Kermit named were in the room.

PECHMAN: What was the remark?

HELLER: You know these things are terribly hard to remember, but let me give you my recollection and then Kermit can give you his. My recollection was that he said, "My father always told me that businessmen were SOB's, and now I believe him."

GORDON: I remember it almost exactly like that, Walter. I do remember, I think, writing in my notes a couple of days later that he said "big businessmen." And I don't remember.... He used an unprintable word. I'm not sure it was SOB. It could have been bastards or something.

HELLER: Oh, no. It was either SOB or some...

PECHMAN: Did he use the initials?

GORDON: Oh no. He never used initials. His language in circumstances like this was very steaming. He would never use the phrase SOB.

HELLER: There was, somehow or another.... In this statement, I would agree with some of it... The implication was "this kind of businessman." Later on when he explained in his press conference that he was not talking about all businessman, that was, I'm sure, absolutely right in terms of the spirit of his remark.

PECHMAN: Let's keep going on the highlights of this.... What about the instructions to the Justice Department, to the Attorney General that were made that night?

HELLER: Let's follow, first, the theme of the Irish temper because this is very important. We met in a very unstructured meeting in which everyone was standing up facing the President...

GORDON: The President never sat down throughout this period which lasted for what, an hour, an hour and a half. He never sat down.

HELLER: He occasionally walked out of the doors into the Rose Garden and so forth, terribly agitated, and we really didn't know what to do. For one thing, don't forget this was just US Steel now.

GORDON: This is a central point you're about to make, Walter.

HELLER: This was just US Steel. We did not yet know whether the others would follow, though we assumed either through price leadership or collusion that the other big boys would come through in the end.

GORDON: Let me add two points here right away. Arthur Goldberg clearly was of the view that steel prices were determined by explicit collusion, and Arthur's view in that meeting was "the jig is up; there's nothing we can do about it; they're all in cahoots; they're all going to raise prices." Walter and I made the very simple--we thought transparently obvious--point that in an industry like steel if you can break away one or two producers, keep them from raising their prices, the others would not be able to sustain the price increase and would have to come back again. This follows from the simple fact that steel is a relatively homogeneous product. But I was astonished to encounter opposition to this view. It seemed to me such an obvious thing that the strategy was to try to break away one or two companies. Arthur, I think, was of the view that, even if you did get a couple of companies to hold back US Steel and Bethlehem and other big ones would not reduce their prices. This seemed to be incomprehensible and impossible. And we argued this out, you remember, in front of the President.

HELLER: Yes, we did. But your earlier point, that he was sure that this was a more or less collusive moment either implicitly or explicitly, and they all would jump on the bandwagon really, I think, was the predominant point. I don't believe he honestly felt there would be significant holdouts. Kermit and I, applying the lessons of economic studies that had been made of oligopolistic industries, and so forth, pressed the point. When you get as much as ten percent of production, you had an excellent chance...

GORDON: In an industry of excess capacity.

HELLER: ...an excellent chance of making the prices...

PECHMAN: What view later prevailed?

HELLER: That's correct. I don't know that the view ever prevailed because, as I like to describe it, the President was proceeding on both the high road and the low road at once. He was proceeding on the high road to the heads of the top companies through Arthur Goldberg and Clark Clifford [Clark M. Clifford], and the low road, the Gordon-Heller road, of trying to split off some and prevent the price increase, was

going on with Inland Steel [Inland Steel Industries, Inc.] and Armco [Armco Steel Corporation]. Eddie Gudeman was corresponding with Inland Steel, and I've forgotten who called Kaiser [Kaiser Steel Corporation]. I know I called Joe Hall [Joseph B. Hall]. He was on the board of Armco.

PECHMAN: Was all this strategy made during that first hour and a half?

GORDON: No, the main decision in this first hour and a half was that the President was going to respond in his press conference the next morning. The work that followed all that night had to do with preparation of the material for his press conference statement and the preparation of background factual material to be used by the administration to oppose the price increase.

HELLER: That's right. Such things as the cost of the defense budget. I remember that I went to the German Embassy; that's where the Banquo's ghost reference came from. Looking like Banquo's ghost, I got there an hour late because of this meeting. I ran into George Ball [George W. Ball] and talked with him, and he came back to the office.

GORDON: Yes. George Ball was in the office of the Council of Economic Advisors at 1 a.m. to offer to help. [Laughter]

HELLER: Some of this offering to help took the form of pointing out the serious international impact of the steel price increases and some of it took the form of trying to figure out whom in the steel industry he knew whom he could call. In other words, following the strategy of trying to split some of them off.

But I do think, again, that as far as the President was concerned, that night and the next morning and the formulation of the statement which was given at the press conference, we ought to quickly finish that off because don't think this story has quite been told. I think there are two elements in it that should be mentioned. One was the steady march of the big companies coming in, especially during the morning, hour by hour. You know Bethlehem [Bethlehem Steel Corporation] was following and Jones & Laughlin [Jones & Laughlin Steel Corporation] and Republic [Republic Steel Corporation] and so forth; this kept that Irish temper mounting.

A second thing which played a bit of a role was a call I had from Al Otten [Alan L. Otten] of the Wall Street Journal when I came back to the office with George Ball. This was perhaps between twelve and one o'clock in the morning. Of course the press was just going crazy trying to find out what was going on. Al Otten said to me, "You know, I've been talking to some of these fellows in the steel industry, and..." Let me back up just a little. Al first said, "Well, what are you fellows going to do about this? What can you do?" I began to give him a somewhat equivocal answer and he said, "Let me tell you what the people in the steel industry say you can do. Essentially, not a God damned thing." I, wisely or unwisely, reported this to the President at breakfast, at the briefing session. He had one of his

traditional, except this was not like anything that had ever gone before, but one of his regular breakfast briefing sessions before a press conference. These sessions in which, as you know, he used to have the vice president, Dean Rusk and or Ball, Mac Bundy, Ted Sorensen, Salinger, Mike Feldman [Myer "Mike" Feldman] and myself. At this point he added Arthur Goldberg. Some of these reports, I remember, from the additional steel companies falling in line with the price increase came in during this elongated breakfast. I remember his his visible reaction when I reported Al Otten's comment. You recall, Kermit, that you and I had drafted a statement for him to issue.

GORDON: A damned good statement, too.

HELLER: A damned good statement. And it wouldn't have caused nearly the trouble that the actually issued statement did cause. Arthur Goldberg also had a statement. The interesting thing is that both the Goldberg and the Gordon-Heller statements were quite mild by comparison with what came out. They were factual; they traced the history of the economics of it and said this was an untenable position for the steel industry to take. He just thrust these aside and said, "Sorensen, I want something a hell of a lot stronger than that," and gave Ted a sort of general outline of what he wanted to say. We all know that this was a blazing hot statement delivered with white heat on the part of the President, and clenched teeth, in the press conference itself. I don't know whether you want to add anything else to that.

GORDON: I'd add just one thing. There was a phrase in the statement the President was going to deliver in which he referred to the leaders of the steel industry as a little band of selfish men. The word selfish was in there but the word band may not have been--a little group of selfish men. At the last minute I remember talking Ted into taking at least the word selfish out. I think that that phrase would have done twice as much damage.

HELLER: Then of course, you know, the ensuing two or three days, twice I was scheduled to be on the *Today* show confronting Bob Tyson [Robert C. Tyson], president [sic, vice president] of US Steel, and both times the president called this off. I got my signals at 1:30 one morning, and the other time at something like six o'clock in the morning, not to go on. This has a direct relevance to this high road versus low road thing. The point was that Arthur Goldberg and, I believe, Clark Clifford, and possibly others, were negotiating with US Steel to try to get them to rescind. The President thought, persuaded by Arthur Goldberg's argument at that time, the best thing to break this thing was to get US Steel to rescind, and he didn't want to exacerbate the relations by having an acrimonious debate on television. So both times I got...

GORDON: This was after he cooled off, the day after the press conference.

HELLER: He was trying to be somewhat conciliatory. Arthur went up to New York and a group of US Steel officials flew down to Washington.

GORDON: And had a conference in the plane at the airport.

HELLER: These are some things that I don't believe have been told. Finally, as we know, the thing that broke the steel price increase was the fact that we got Block [Joseph L. Block] of Inland Steel and Armco to hold out; the others, then, rescinded. There are same other events which are apropos here.

[Pause in recording]

HELLER: Now, although Kermit had to leave for another appointment, perhaps I should just fill in a few more recollections of that steel incident.

PECHMAN: Let's go back to one of the points that you haven't satisfied. Is it a fact that during that night the FBI [Federal Bureau of Investigation] was instructed to check?

HELLER: My net impression of that--I don't have first-hand evidence--from talking with the President and with the Attorney General and so forth is that these people were instructed to get evidence and to get it fast, that no one contemplated that they'd be knocking on doors in the middle of the night. But in the white heat of the moment, I'm not too surprised that they interpreted their instructions in such a way as to do exactly this. That's all I can say on that.

PECHMAN: Were you in the room when such instructions were given to the Attorney General?

HELLER: I'd have to go back. I made some notes at the time, too. Some scattered notes. By the way, you should ask Kermit to take a look at his notes because he dictated some of them to [Inaudible] at the time. This is more an impression than direct evidence. I do remember that the President mobilized everybody in the government to see what they could do as a counterattack on the steel industry. McNamara was ready to cancel contracts and so on as part of this campaign.

Let me recall one or two other things. We began to get an intimation on Friday. Let's see, the initial notification had been put on the President's desk on Tuesday night, and we had the press conference on Wednesday. These efforts frantically were going on through Wednesday and Thursday. On Friday there began to be indications that it might be rescinded. The President was going down to an aircraft carrier, if I recall correctly, in what? *Newport News* or something like this. I had this intimation that there might be a break, and I intercepted him at Andrew Air Force Base between the helicopter and Air Force One, which was the plane he was taking, and told him of the very latest developments, that things might be breaking, and that it was important for the moment not to say anything because this thing might be resolved. Of course within two hours we got the news and passed it along to the President. I think, finally, it was Pierre Salinger that passed it on to him. Then began the

process of soul-searching as to what should be the attitude towards the industry. It was decided very early in the game that there should be no recrimination.

A meeting, that stands out very vividly in my memory, in the President's office took place on Monday morning--late Monday morning--after the price increase was rescinded. The people who attended that meeting were the Attorney General, Clark Clifford, Arthur Goldberg, and myself in addition to the President. The question was: Where do we go from here? The Attorney General was still much more incensed by the whole steel attitude than the President, and he, if anything, was one of the hawks. I think everybody else was a dove, Bob Kennedy felt the pressure should be kept up, and that Kefauver's [C. Estes Kefauver] thought of having an investigation, perhaps trying to prevent a recurrence of this by some sort of legislation should be given, if not a green light, at least a tacit kind of approval. The majority was strongly against this, and the President was obviously already concerned about the violence of his reaction, and what this would do to his relations with the business community. Clark Clifford wanted to pour oil on the troubled waters, and Arthur Goldberg went along with this view, too.

After this there ensued a great period of trying to reassure business that this was not a pattern-setting incident. Business was tremendously sensitive then that from here on in any price increases in any major industry would be a subject of presidential concern. I remember giving Bart Rowan of *Newsweek* an interview, which he often alluded to later, in which I just denied this. I said this was, after all, sui generis, that this was a single industry which played a role in the national economy unlike any others both as a bellwether and as the actual entry of steel into so many other products and so forth. There was a long history of presidential intervention; this took a little sharper form and so forth, but President after President, after all, had been engaged in steel price and wage negotiations. But this didn't carry conviction. One good example of that was when Secretary Hodges [Luther H. Hodges] and I were out in Los Angeles the following week. We were at some one of his regional meetings at the Chamber of Commerce out there and so forth. We had a press conference beforehand and the press, of course, couldn't talk about anything but the steel price incident. They said, "Well, now, is this likely to happen in other industries?" Luther Hodges said, "Well, of course we're going to keep a close eye on all basic industries so that they don't upset the price stability in our economy." And they said, "Give us an example of an industry." And so the Secretary turned to me and whispered, "Can you tell me what would be the best example." I thought for a moment and I said, "Well, aluminum." So he said, "Aluminum." And that day the prices of aluminum stocks dropped by I don't know how many points on the New York Stock Exchange. I mention this as an index of the sensitivity at that time to this whole incident. The President's decision was: "Let's be meliorative, no recriminations; let's heal this wound as rapidly as possible." But for a long, long time he just didn't carry conviction. The son-of-a-bitch statement which got out to the public--I don't think anybody has ever really tracked down how that leak could have opened--but that statement was clasped to the bosom of the business community and taken as his attitude towards business as a whole.

PECHMAN: Did the President ever express annoyance that the statement was issued?

HELLER: Oh, yes, of course! Efforts were made to find out how and by whom and so forth. My own guess was that a statement like that obviously would not be kept absolutely quiet by individuals. I don't think any one of the individuals in that room would have leaked it to the press, but you know how these things go. All you have to do is mention it to one other person, even some very close colleague, and he doesn't feel as responsible about repeating it, and then a third or fourth party feels even less responsible. That's the way it creeps into the press; so that if you're going to have presidential privilege of secrecy, of confidentiality, it isn't just a question of the people close to the President not talking to the press. It's a question of them absolutely buttoning their lips completely which this kind of remark almost prohibits.

[END OF INTERVIEW #1]