

**Kermit Gordon Oral History Interview – JFK#1, 7/12/1964**  
Administrative Information

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**Biographical Note**

Gordon, (1916 - 1976), economist, government official. Member, Council of Economic Advisers (1961 - 1962); Director, Bureau of the Budget (1962 - 1965); Chairman, Health Benefits Advisory Committee (1965 - 1967), discusses the Troika and JFK's level of economic understanding, JFK's budget policy throughout his administration, and supporting supersonic transportation, among other issues.

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Oral History Interview

of

Kermit Gordon

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Kermit Gordon – JFK #1

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Oral History Interview

with

Kermit Gordon

Washington, D.C.

July 12, 1964

By Professor Robert C. Turner, Indiana University

For the John F. Kennedy Library

**TURNER:** This is an interview with Kermit Gordon, who is Director of the Bureau of the Budget, who assumed office as Director of the Bureau of the Budget on December 27, or thereabout, 1962, succeeding Mr. David Bell [David E. Bell], and continues to be Director of the Bureau. The interviewer is Robert C. Turner, Professor of Business Economics at Indiana University, and formerly an Assistant Director of the Bureau of the Budget. This is July 12, 1964; the place, Washington, D.C.

Kermit, you were, of course, a member of the Council of Economic Advisers before taking on your present assignment and your relationships with President Kennedy [John F. Kennedy] in that position will be covered in other interviews. This interview has to do only with your role as Director of the Bureau of the Budget with President Kennedy, since your appointment to this position in December, 1962. Are there any interesting recollections that you have that have to do with your appointment as Director of the Bureau that you think might be worthwhile to put in the record here?

**GORDON:** Well, Bob, I had decided that two years' service on the Council was about the proper period of service and I had planned to go back to Williams College after we got out the 1963 Economic Report - I was planning to go back late in January or early in February. And I had actually sent my family, my wife and children, back to Williamstown in the fall of 1962 so that the children wouldn't have to change schools in the middle of the year. This was a fairly firm plan and it was then the

question of my staying

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on to move to the Budget Bureau came up - I believe sometime in late October or early November. I had just come back from an OECD meeting in Paris. I suspect that was early November. I had a call from Ralph Dungan [Ralph A. Dungan], who first indicated that there was a question of Dave Bell's leaving the Bureau to go to AID [Agency for International Development] and indicating that the President had me in mind as a possible successor to Dave at the Budget Bureau. I think I talked to the President then; oh, perhaps within the week after I had talked to Ralph Dungan. I remember he took me into that little anteroom he has off the Oval Room to talk about it. He did not offer the job but wanted to know about my availability. I told him that I considered the opportunity a difficult one to turn down but that I would have to consult with my wife, who had already gone back to Williamstown, who I knew would be most reluctant to return to Washington. I did; and after some soul-searching we decided that if in fact the job were offered me, I would accept it.

I was interested to note then, as I did on other occasions in matters relating to appointments, that President Kennedy was extremely loath to exert pressure on persons he wanted for particular jobs - extremely loath to pull out all the stops and urge that they accept appointments as a matter of national duty. I think this was a reflection of the general quality of restraint and understatement and reluctance to play on emotional and patriotic motives which characterized him, I think, in so many other ways. I think it was in part a respect for the independence of judgment of other people. In particular, I think, it was a reluctance to wear his heart on his sleeve. He was always, as you know, most reserved and reluctant to use emotional appeals in his face to face dealings with others, although he was well capable, of course, of using them in public speeches, politics, etc. Well, the matter of the transfer was held up until the AID job was settled. There was a question, I think, as the President indicated, whether Sargent Shriver [R. Sargent Shriver, Jr.], his brother-in-law, was interested in the AID job, in which case, of course, the transfer would not have been necessary. As it developed, apparently Shriver was not attracted by the AID job and so the transfer did in fact go through. I was sworn in, late in December, at Palm Beach, where the President had gone in the period between Christmas and New Years.

TURNER:           The President can do an effective job, of course, only if he is backed up by a strong and well-knit immediate staff organization. I think it would be of value to historians who study this period if you could add something from your rather intimate knowledge as to the character of this organization that backed up the President. Who the key people in it were, what their respective roles were, and something perhaps about the kinds of positions that they took? I have in mind here not just the White House staff, but the key people in the other agencies in the Executive Office of the President, the Bureau of the Budget, the Council of Economic Advisers, etc. Do you have any general thoughts on this topic that you think you could put in the record?

GORDON:           Yes, Bob, I'd be happy to reflect on it. I think when the you talk about the staff work that was done for President Kennedy, you've got to give major attention to the role of Ted Sorensen [Theodore C. Sorensen]. I don't

know whether there has ever been in any previous administration a person whose work, position, and influence corresponded closely to that of Ted Sorensen. I would say that in the present administration - Johnson's [Lyndon B. Johnson] Administration - there is no one who plays this role. First let me say that although

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at times I have disagreed with Sorensen and been provoked by him and irritated somewhat by him, in perspective I would regard him as the closest thing to a universal genius in presidential staff work that I could imagine. His talents were perfectly astonishing. He had, of course, an excellent sense of the process by which policy is developed; he was extremely sensitive to political considerations without allowing his preoccupation with politics to divert his attention from the substance of the problems. I think, perhaps, he combined, of all the staff people, the feel for the politics of the problem with an understanding of the substance that was really quite remarkable. He, obviously, was very close to the President, personally. Perhaps his greatest strength was his ability in, I would say, at least nine cases out of ten, perhaps more than that, to anticipate what the President's judgment would be, what considerations the President would think most important when the issue finally reached him. So that it became clear to most of us that a Sorensen judgment on a difficult policy issue was highly likely, almost certain, to be confirmed when the matter was later put to the President. Not universally, I can think of perhaps a few cases in which this didn't happen but I think this was because Ted Sorensen had almost fashioned himself into a replica, a carbon copy, of the President. He thought like the President in many ways; he talked like the President; even his personal mannerisms and style in a way came to resemble that of the President. It was a very unusual and remarkably close relationship. I would say that most of my work on presidential matters was work that was funneled through Sorensen. Again, not in every case. There were some matters in which I went to the President directly, but in most cases the work was funneled through Sorensen.

In addition, of course, to his policy work - in addition to work on the substance of programs and the day to day policy decisions that the President has to make - he was also a highly effective speech writer, a writer of important statements for the President. The work he turned out was not only remarkably good and uniform in quality but the most astonishing thing about it, and one of the reasons I have no hesitation in calling Ted a genius, was the speed with which he could produce these remarkable documents. We worked very closely with him, of course, on the statements, the speeches, the important letters to the Congress. Typically the procedure would be for Ted to call a meeting in his office on the matter, perhaps having checked with the President in general on how the matter ought to be handled. He would ask for the submission of material - memoranda or draft statements to be incorporated in the speech or the message, or whatever it was - he would then closet himself with the material and would turn out a first draft. Typically, his typical style was to produce a first draft at about 8 or 9 p.m. for a speech or message that had to be completed the next day, which would mean that we were in the habit of spending many nights in the office working over Sorensen's first draft. He also - this, I think, is a sign of a man with good judgment and balance and perspective on his own role - he also was quite willing to accept suggested changes, both of a substantive and a stylistic sort, in his work when they were good. So that

one could often feel that one had an important part in the exact language of a presidential statement even though strictly the first draft was Sorensen's work. The standard procedure was for Sorensen to go to the President with the corrected draft - the second draft - only, I think, very rarely did messages or speeches or important letters go through more than two or three drafts. I do remember cases on matters very difficult when more than two or three drafts were involved, but typically Ted would take the draft to the President, perhaps just a few hours before it had to be released and in almost every case one could see the handiwork

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of the President himself, who rarely used an important speech or statement without making a personal contribution to the language. But this of course was another very important role that Sorensen played. Perhaps it's not an exaggeration to say that in the broad range of policy questions that moved through the White House, Sorensen was the funnel and he did the job with astonishing brilliance.

TURNER: You are referring here, I think, chiefly to domestic matters and to budgetary matters, not principally to matters of international policy or military affairs.

GORDON: I'm glad you made that point, Bob. It is generally quite correct. Sorensen, although his primary role was in domestic affairs, was not by any means inactive in the area of foreign affairs or military affairs. I can remember cases in which Sorensen played an important part in these matters, but when I speak of Sorensen as the funnel through which virtually everything moved, I am talking predominantly about domestic affairs.

TURNER: And more particularly about the kinds of things that you, as Budget Director, would be taking to the White House.

GORDON: That, and I would - no, I'm not sure I would make any exceptions. I am not aware of any area of Federal policy on the domestic scene in which Sorensen did not play this role. Now, of course, Sorensen did the job with remarkable skill and his effectiveness depended in large part on the help he got through other people, like Feldman [Myer Feldman] and Lee White [Lee C. White], two very different kinds of people. Lee White, who operated in the area of civil rights, nature resources, housing, urban problems, and several others, earned my admiration to a degree just about equal to the admiration I developed for Sorensen. Lee White, perhaps more than any man in the White House - any staff man in the White House - had a sense of the national interest transcending the political pressures and necessities of the day, and I think could always be depended upon to deal with, to give weight to, the substance, to the merits, of the case; to a degree that I found most heartening and reassuring. The temptation, operating within the political vortex of the White House, of course, is always, unless it is strongly resisted, to subordinate the judgments on the merits to the political pressures of the day or hour. I don't mean to suggest, by any means, that Lee White was insensitive to these matters; he was not,



and I think was quite astute politically, but he had a balance in his judgments and a respect for the argument on its merits which I found most commendable and admirable. Mike Feldman, on the other hand, in all candor, I would say, was wont, perhaps, to give excessively to the political necessities and imperatives of the hour, and I think this tended somewhat to be reflected in the kinds of judgments which emerged in the areas with which Mike dealt, for example such areas as agricultural policy, import competition, etc. Nevertheless, both of them were highly talented people; both extremely fast workers, resembling Sorensen closely in that respect; but White, I think, was closer to Sorensen in the emphasis he put on the substance of the problems than was Feldman, although Feldman was extremely effective in political dealings with the Congress and with others in the fields over which he had jurisdiction.

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TURNER: Are there some other members of the White House staff that you felt played a key role?

GORDON: First, one can't talk about the White House staff without talking about Mac Bundy [McGeorge Bundy]. My own personal contact with him was less intimate than with the three people I talked about because, as you know, the role of the Budget Director is not nearly as broad in the area of foreign affairs and defense matters as it is in domestic matters, so that I can't really testify with any deep degree of conviction about the nature of the role that Mac Bundy played although it is, of course, well known that the President placed very great confidence in him, that he was in some ways perhaps as close personally and socially as any member of the White House staff.

In the early days there was some visible tension between Bundy and Sorensen over the respective roles that each man had in the White House. I think this tended to settle down after a while as each man took the measure of the other and found him to be an extremely formidable and able colleague. Bundy occasionally would involve himself with domestic matters. I had the feeling that he was attracted by the somewhat broader role than simply the foreign affairs and defense role, although I never had the feeling that he really established himself as an independent force in the area of domestic policy.

Well, I doubt if it would be worthwhile, Bob, if I ran through the whole list of White House staff people and commented on each. From my vantage point, by far the most important people were Sorensen, Feldman, and White. Let me say just a word about the congressional relations group - the Larry O'Brien [Lawrence F. O'Brien] group people. I don't know what the popular image is of these people. I suppose they are regarded as hard-nosed, pragmatic, cynical politicians. For some of them at least this is a quite erroneous characterization. One of the remarkable things about these people, who have very substantial talents in the political arena, is the awareness that some of them have for the importance of issues on their merits and for the occasional, the sometimes frequent, necessity of acting contrary to political pressures because the merits of the case demand it. I think, for example, of three people whom I'd mention in this connection. I think of Dick Donahue [Richard K. Donahue], who is no longer with the White House staff, who I think was very effective while he was there. I think of Chuck. Daly [Charles U. Daly] and Henry Wilson [Henry Hall

Wilson] - these were three people regarded, I think, as professional politicians who in fact showed a remarkable receptivity to nonpolitical considerations bearing on the merits of issues that I found very reassuring. If relations with the congressional relations group, Larry O'Brien's group, had always been excellent; I had found them to be very reasonable. I had found that on the frequent occasions when they find it necessary to make concessions which seem to me unjustifiable on the merits, that they do it with great reluctance, they're usually well aware of the sacrifice they are making; the decision is based on a judgment as to the major advantages sometimes to be gained by minor concessions on the issues, and I would emphasize the fact that these have been very infrequent. I can think of any number of cases in which an argument on the merits with the O'Brien group has prevailed over their own political judgment as to what it would be expedient to do in the short run.

TURNER: In the matter of economic policy, including in that term policy with respect to government expenditures, revenues, and taxes, an organizational

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relationship was set up under President Kennedy which I think is somewhat unique in presidential history - at least I am not aware of a similar type of organization. This organization did assure a high degree of coordination in the advice given the President in the fields of economic policy, taxation, and expenditures. And where there was not agreement, at least the areas of disagreement, the reasons for disagreements were made clear to the President. Would you care to describe this arrangement as it developed?

GORDON: Yes. It started quite early; I suspect it goes back to 1961. The principal group is familiarly known as the "Troika," consisting of the Secretary of the Treasury, the Chairman of the Council of Economic Advisers, and the Budget Director. Clearly, members of this group have very important interests in common; interests relating to the level of taxation - which is primarily the responsibility of the Secretary of the Treasury as an adviser to the President to the level of government expenditures which is primarily a responsibility of the Budget Director as a presidential adviser and to the interrelations between the two and their impact on the level of economic activity and the economy in the questions of recession, of expansion, and of inflation as they are affected by fiscal policy; which are a primary responsibility of the Chairman of the Council of Economic Advisers. In addition, of course, all three agencies - individuals - have an interest in monetary policy and debt management because this affects the way in which the supply of credit in the economy tends to affect economic activity to affect the cost of the servicing of the national debt, which is a concern of the Budget Director, etc. So there is this important area of common concern among these three people.

I suspect it was on, I am almost sure as a matter of fact, it was on Walter Heller's [Walter Wolfgang Heller] initiative early in the Kennedy Administration, that this machinery was set up and I think it worked very effectively throughout the Kennedy Administration. Typically, apart from meeting as a group with the President to deal with ad hoc issues from time to time, the principal machinery was based on a joint review of the economic outlook as it related to tax policy, to expenditure policy, and to monetary policy. This was carried on

jointly by the staffs of the three agencies. There was then a review of the staff work by a member of the Council of Economic Advisers, an Assistant Director of the Budget Bureau, Assistant Secretary of the Treasury, and finally a review by the heads of the three agencies who would use this appraisal, this assessment of the economic outlook in relation to fiscal and monetary policy as a basis for a meeting with the President. Quite frequently policy issues were raised in the context of these projections of economic activity and government finances when they seemed to raise policy problems that required the President's attention.

The Troika group met on an irregular schedule with the President. I suspect there were very few periods of more than two months when there was not a meeting. Perhaps on the average they met with the President somewhat more frequently than that. The President would use these meetings, which usually took place in the Cabinet Room - once he got accustomed to the group and the setting for the meeting - use them as an opportunity for him to raise questions that were concerning him to press members of the group about policy matters in which he was interested. Occasionally, the group was augmented, when the issue dealt principally with monetary policy, with by the Chairman of the Federal Reserve Board, Bill Martin [William McChesney Martin, Jr.].

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These meetings were somewhat less frequent but I suppose they took place three or four or more times a year. This was the principal device by which the policies of the Federal Reserve System were made compatible, or at least as compatible as possible, with the policies and objectives of the Administration. The purpose of the meetings with Bill Martin was to communicate to him the President's views on the manner in which monetary policy could contribute to the administration's objectives. Rarely was there any firm or hard agreement reached on what the Federal Reserve would do. Martin, as would any other Chairman of the Fed, of course valued highly the tradition of independence of the Fed and would have considered it improper to negotiate the details of Federal Reserve policy with the President, but at the same time it was quite clear, if you look at these meetings in relation to subsequent policy decisions of the Fed, that they did have in fact, I think, a very important influence on decision making within the Federal Reserve system. By and large, with some exceptions, there has been a rather close policy harmony between the administration and the Fed during the Kennedy Administration and the machinery which accomplished this was in large part the presidential utterances made at these meetings in the presence of Bill Martin and his subsequent efforts to the extent he thought it proper and possible to accommodate Federal Reserve policy to the administration's attitudes. I don't think he ever quite promised that he would do that. I'm sure he didn't, but the evidence is perfectly clear, in fact, that the President's views did strongly influence his policy.

Let me say in my follow-up on this a bit.... Monetary policy, as you know Bob, is a very complicated area of public policy and there have been few Presidents, if any, in our history who really understood the extremely technical problems of monetary policy. One of the remarkable things about President Kennedy, and this is seen in other areas as well, was the way he mastered the passage of the months and the years. Some of the technical matters that were dealt with in these so-called quadriad meetings - Walter Heller's term for the group when Martin was added - I think, and this is a considered judgment, although it may have to

be restricted for some time, that by 1963 President Kennedy was a more advanced student of Monetary policy than was Bill Martin. As a matter of fact, I can remember one meeting in 1963 when the President was obviously enjoying himself somewhat at the expense of Bill Martin by asking Martin questions which had the effect of exposing the inconsistencies in Martin's position, doing it very gently and without any rancor but still obviously amused at the fact that here the President of the United States, who had never, as far as I know, given much attention to economics before he became President but who gave it a great deal after he became President, being aware of the fact that there were some basic contradictions of simple inconsistencies in Martin's position of which he, the President, was aware. I could talk about the substance of the matter but I doubt if that is really important. Actually, the greatest achievement - Walter Heller's greatest achievement - in the Kennedy Administration was the education of a President. What he accomplished - helping the President develop a technical understanding of some of the intricate issues of economic policy - was really a very remarkable achievement. President Kennedy, by 1963, was a good economist. I say that, defining the word "economist" as a person with some familiarity and feel for the elements of modern economic analysis. And I think this almost wholly attributable to the beautiful job that Walter Heller did through 1961 and 1962 of using current policy issues as a vehicle for educating the President in memoranda that he sent him which went in a regular stream,

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almost all of which contributed to some extent to the President's economic knowledge, and in meetings with the President.

As you know, President Kennedy had an intellectual interest in the - a scholar's interest - in some of the matters he dealt with which went beyond the immediate necessities of the problem and the responsibilities of the office. You can see that he was a man who wanted to acquire a depth of understanding, not necessarily because it would make him a better President, but because he was curious and was motivated by the desire to understand. I have often thought that President Kennedy, at the end of his first term, could have taught if he ever wanted to - which I doubt if he would - could have taught quite a respectable course in the introduction of economic analysis.

TURNER: This economic understanding of his, of course, could have been made only by a man who was extraordinarily perceptive. A good many Presidents, no matter if they had had Walter Hellers around or not, couldn't have become the kind of economist we are describing here. I am suggesting that President Kennedy was an extraordinarily intelligent man.

GORDON: He was extremely perceptive, extremely insightful; he had the quality, probably, which went far beyond the common traits you see in many political figures of short-run astuteness and cunning. It went, I think, to the level of generalization, abstraction, which is the real test of the quality of a person's mind, and he was clearly a person who liked to play with ideas, who never for a moment forgot that he was not President for the purpose of allowing him to play with ideas, that the job of President is essentially a decision-making job in which most decisions have to be made on

the basis of an adequate understanding both on the part of the President and his advisers. Still you could see that in moments of relaxation he sometimes would give an inordinate amount of time to matters that just happened to intrigue him, irrespective of their importance to the job of the presidency.

TURNER: I think it might be appropriate now, Kermit, if we move to the field of budget policy and I would like to suggest that you do a little recalling of the development of President Kennedy's thinking as regards budget policy over the years, and this, I admit, will require going back to the period of time before you became Budget Director, but you were nevertheless around here in a very responsible position at the time. It is my impression that President Kennedy's thinking with regard to budget policy, more particularly with regard to the necessity and desirability of balancing the budget, changed considerably over time. You will recall that in early 1961 when he first became President he stressed with great vigor the fact that the recommendations that he was going to make to the Congress would not in fact unbalance the Eisenhower [Dwight D. Eisenhower] budget, assuming that it was balanced, which he said it in fact was not. But accepting the Eisenhower budget at its face value he emphasized that his recommendations would not in themselves unbalance it except for defense expenditures on which, in the early weeks, he was not prepared to make recommendations on. What this meant, in effect, was that he was limiting any recommendations for increases in non-defense expenditures to those which would increase expenditures by less than the indicated surplus in the Eisenhower budget.

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And in the summer of 1962 after the Berlin crisis he made a commitment to present a balanced budget for fiscal 1963. This commitment, made far in advance of the actual date of submitting the budget and without knowledge of what economic conditions would be in January of 1962, served as a constraint in the development of the budget in the following months. Nevertheless, in 1962 and in 1963 he was prepared to recommend to the Congress a deliberately unbalanced budget coupled with a tax cut that would unbalance it further. This seems to me to represent an evolution in thinking. Would you care to comment on this?

GORDON: Well, there was, as you say Bob, an evolution in his thinking and I think it is closely related to what I was talking about a little while ago, the growth in his understanding of the relationship of taxation and growing expenditures to the behavior of the economy, to his growing understanding of recent history in which I think unwise budget policy, for example in 1959-60, in the Eisenhower Administration, premature efforts to balance the budget clearly contributed to an economic recession. All of this was growing, I would say, very largely under the influence of Walter Heller through this period. A landmark in the development of his thinking on fiscal policy and the economy quite obviously was the justly famous speech he gave at Yale in June of 1962. I think that almost could be regarded as a watershed in the President's intellectual development in the field of economic policy. As his appreciation of the necessity for a flexible fiscal policy developed however, he perhaps, for a while, underestimated the power

and strength of the traditional views as to proper budget policy which existed in the Congress, and I think this fact plagued him, bothered him, in 1963.

As you said, he did bring himself to the point in the 1964 budget at which he was willing to project a deficit in the budget and to advocate a tax cut at the same time. I think, and I think many others who were close to the problem, think that this was a wise and necessary budget policy at the time. However, you remember that the major tax reduction and reform proposal he made to Congress in January 1963 at the time he submitted his 1964 budget, which showed projected deficit, taking into account the effect of the tax cut of just under \$12 billion. The reaction from the Congress, and I'm afraid the country, was a good deal more negative and hostile than the President anticipated. In other words, I think that in his Yale speech of June 1962 he enunciated truths which he hoped important elements of the country recognized. I think they did, but people who recognized the truths of that speech were not nearly as numerous either in the Congress or in the country as he had hoped, and the bricks began to fly after the submission of the 1964 budget. This was, I think, a very difficult time in the development of economic policy in the Kennedy Administration. There was a loud uproar from Congress, a protest against the unheard-of policy of proposing a big tax cut which involved a projected or planned deficit, as they said, of almost \$12 billion and this fact, I am quite confident, tended to weaken the support in the country for the tax cut. If you remember, in the early months of 1963 the majority sentiment in the business community, I think it could be said, was opposed to the tax cut. This goes against one of the traditional rules of American politics that the people are always in favor of a tax cut. As a matter of fact, early in 1963 they were not. There were many signs that business sentiment and popular sentiment felt that a tax cut when the economy was on the upgrade and in the face of budget deficit was simply bad policy for the government, and in the first six months or so of 1963 the tax cut began to run into very heavy weather in the Congress.

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It ran into interminable hearings in the Ways and Means Committee, where it was held up, I think, actually for about nine months. The conservatives in the Congress, in both parties, expressed their displeasure with the President's policy by deliberately dragging their heels on appropriations. We had the worst record in 1963 in terms of speed of action appropriation action in the Congress than we had in many, many years - perhaps for all time. As you know, the 1964 appropriations were not completed by the Congress until the fiscal year was more than half over; actually some of them were passed - well, just about half over - they were passed mainly in December of 1963, after the assassination. So that it took the form of strong Congressional opposition among conservatives to the tax cut, on the ground that the President was being reckless and irresponsible, and a deliberate slow-down or sit-down strike on appropriations. This concerned the President very deeply and he tried throughout 1963 to deal with this threat to the tax cut in a number of ways. For one thing, he again made pledges on the size of the deficit that he would accept in the new budget - the 1965 budget - during the summer of 1963. He wrote, as you remember, a letter to Wilbur Mills [Wilbur Mills] in which he committed himself to a policy of prudence and restraint on expenditures and set a limit on the size of the deficit that he would accept in the 1965 budget. This apparently was necessary to get the support of Wilbur Mills in reporting any kind of a

substantial tax reduction out of the Ways and Means Committee. In addition, the President became deeply concerned with the growth in government employment, which was frequently used by his opponents in the Congress as an index of the degree of waste and extravagance they said was occurring to the administration. I think he indicated this first before I took over the Budget Bureau back in the fall of 1962 when he apparently became concerned about the very rapid growth in government employment that took place in 1961 and the first half of 1962. He was even then thinking of imposing employment ceilings on the agencies. Dave Bell, at the time, felt that employment ceilings were not the best way to handle the problem and instead he launched a program designed to improve manpower utilization by improving manpower management in the federal government in the fall of 1962. This program is still going on, I think, with slow but nevertheless beneficial effects.

This didn't satisfy President Kennedy, in view of the strength of the criticism of his economy performance, and he took the initiative again in September of 1963. I remember he wrote me a memorandum early in September, saying that the new legislative proposals of the administration were not doing very well in Congress. It didn't look like Congress was going to pass many of them. He said in view of this he saw no reason why government employment should increase at all in the fiscal year 1964 and he asked me to look into it. Well, as a result of this exercise we did, I think late in September, at a Cabinet meeting that President Kennedy called for the purpose, set new ceilings - employment ceilings - for all the major agencies which reduced them very substantially - reduced employment targets very substantially - below the figures which were carried in the original 1964 budget, so that throughout 1963 the President, I think, was engaged in pulling in his horns a little bit on the question of spending, employment, and other indications of what is called the fiscal responsibility issue in order to improve the climate for the enactment of the tax bill.

I think he succeeded to some extent because during the summer and into the fall of 1963 there was a very steady shift in business thinking toward support of the tax bill. I think this was helped by the growing indications throughout the course of 1963 the President was becoming increasingly concerned about the level of expenditures, the level of employment,

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etc. This, of course, raises the question which I have been asked many times: What would President Kennedy's 1965 budget have looked like in comparison with the budget President Johnson actually did submit? The answer is, I don't know, and I don't think anybody else knows. On the timing, we had gone through the regular exercise during the summer of 1963 of getting the President to approve some planning guidelines for 1965 and these planning guidelines, which were never revealed at the time, showed total 1965 administrative budget expenditures of about \$102 billion. Of course this is substantially above the budget that President Johnson ultimately submitted, but this planning budget of \$102 billion was designed to be on the safe and comfortable side and it included very substantial allowances and contingency items for new legislation or new programs which we thought the President might want to include in the 1965 budget, so that it was a soft number and clearly could have been trimmed. I saw President Kennedy on Wednesday, the 13th of November, two before the assassination on another matter, and said that the time had come when I wanted to sit down with him for about an hour and a half and go over some of the issues that were crucial

to the upcoming budget position as our first formal and intensive meeting on the 1965 budget. We had not had a lengthy meeting on the 1965 budget which would have enabled the President to focus on the problems of 1965. He said that he wanted to do that and Ken O'Donnell [Kenneth P. O'Donnell] set aside an hour and a half on Wednesday, November 27, for this first intensive review of the 1965 budget. Of course he never lived to see that day. So that President Kennedy never really focused sharply and intensively on the 1965 budget, and that's why I say I don't know what he would have done. I would judge, however, from the fact that he was increasingly concerned about - of course the tax bill was still un-enacted at that time - increasingly concerned about the danger that the tax bill might fail because of his budget policy, that I would have expected that he would have taken a restrictive attitude toward the 1965 budget for essentially the same reason that President Johnson did, which was to create a climate which would have assured enactment of the tax bill to which he attached, of course, major importance. Furthermore, one of the reasons I suspect that the size of the budget would have come down under President Kennedy's scrutiny is that many of the contingencies - many of the allowances for contingencies which we had in that \$102 billion figure - in fact did not materialize so that when President Johnson first looked at the budget, it was possible to bring it to below \$100 billion with very little difficulty simply because of the evaporation of some of these situations for which we had made - these contingency situations - for which we had made generous provision in this pro forma budget. Whether the Kennedy budget in 1965 would have gotten as low as \$97.9 billion, I doubt; but I would think it would have come in significantly below \$100 billion. Of course this was the great psychological or propaganda issue that surrounded the formulation of the 1965 budget. Any questions?

TURNER: Well, is it proper to note for the record here that some of the reductions in the budget that made it possible to get it down to the \$97.9 figure were not actual cuts in programmed expenditures; they were such things as increased sale of financial assets by various Government agencies, a shift in the method of financing foreign aid expenditures; these are means of...

GORDON: What was the second - a shift in the method of financing foreign aid

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expenditures?

TURNER: Of turning money over to countries under foreign aid - the sight draft procedure.

GORDON: Oh, oh yes. You mean, for example, grants to the Inter-American Development Bank - yes, yes.

TURNER: Well, a billion or two of the cuts were one-shot things of this sort, which did not represent a cutback in government programs.



GORDON: That's essentially correct. The practices, variously known as bookkeeping adjustments or, by unfriendly critics, as gimmicks, which I'm afraid have traditionally been used to put the expenditure budget in the best possible light, were in fact used in the 1965 budget, as they have been in all previous budgets. And, incidentally, I would say that on the merits of each of these decisions I think we could make a pretty good case for them in the 1965 budget. You are quite correct in suggesting that the \$102 billion figure which was in the planning budget didn't take account of all these opportunities for reducing the stated rate of expenditures by these bookkeeping devices. That's another reason, I think, for having some confidence that if President Kennedy had lived to formulate his 1965 budget it certainly would have come in under \$100 billion.

TURNER: Kermit, let's move to some of the more specific policy problems, and suppose we start off first with the poverty program in which you were, of course, intimately involved. To what extent was the notion, the idea, the broad outline of the poverty program worked out under President Kennedy's guidance and inspiration and to what extent did it come later?

GORDON: The work - the idea - the work which led to the development of the poverty program began in the summer of 1963 under President Kennedy. As I remember, the development of the program - the initial idea impetus to considering the poverty problem as a distinguishable area for government policy came from Walter Heller. Some time in the summer of 1963 I remember that he had Bob Lampman [Robert J. Lampman], University of Wisconsin, an economist who has specialized in problems of low income groups, come into the Council during the summer to do some intensive work on an attack on the poverty problem. President Kennedy gave the green light actually - strong personal support to this effort - in the summer of 1963. Starting in the fall, the Council and the Bureau working together began to develop a detailed proposal for mounting a concerted attack on the roots of poverty. By the time of the.... Well, let me say that President Kennedy personally was becoming increasingly aware of the problem of the persistence of pockets of poverty in a climate of increasing affluence. I remember, for example, that President Kennedy one Sunday - I think this was probably the early fall of 1963 - read a story, which I happened to read too, on the front page of the *New York Times*, by Homer Bigart [Homer William Bigart], a reporter from the *New York Times*, on poverty and degradation in the mountains of eastern Kentucky. It was a harrowing story about the degree of economic deprivation, isolation, squalor which the people lived in in eastern Kentucky. President

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Kennedy was so moved by the Bigart story that he asked that an immediate effort be made to try to mount an emergency program to help the mountain people in eastern Kentucky over the next winter. In fact we did. There was a special concentrated effort guided, as I remember, by Franklin Roosevelt junior [Franklin D. Roosevelt, Jr.], of the Department of Commerce, who focused all of the available programs to meet the poverty, particularly the stress and the suffering of poverty during a hard winter in eastern Kentucky. And this

actually happened during the winter of 1963-64, so it was a problem that President Kennedy was personally aware of, in fact had taken a personal initiative on the eastern Kentucky activity was solely the result of his having been so moved by the Bigart story in the New York Times.

By the time of the assassination the Council of Economic Advisers and the Budget Bureau had developed in fairly detailed form the concept of the community action program. This was the essence of preparatory work we did on the poverty program. The essential premise of the community action program was this: in talking to people who had experience in the field, it seemed to us that the federal government, and state and local governments, conducted a variety of quite specialized or categorical efforts to help people in need, but the nature of these programs tended to look quite narrow at the cause of the need. For example, we have vocational rehabilitation programs, we have programs for the blind, we have certain types of education efforts. All of these are run quite narrowly, with a focus on some element of a needy family situation which may constitute a cause of its general hopelessness and impoverishment, and the thought behind the community action program was that really to break the cycle of poverty, to cut into the cultural poverty, and to break the ties by which chronic poverty is bequeathed from parents to children, it was necessary to mount a massive attack and to concert within the community all of these various categorical programs - the specialized programs - to deal with the family as a whole. This is the essential concept behind the community action program and it remains in the poverty bill as it stands today. In addition, when the poverty was developed further after the appointment of Sargent Shriver as the head of the program by President Johnson it was elaborated in several ways. New efforts were added to the poverty program but I think the community action program, in the long run, is still regarded as the great hope of the poverty program to cut into the cycle of inherited poverty.

TURNER: If I recall correctly, one of President Kennedy's first acts after he was inaugurated President was to increase the rations of surplus foods provided by the federal government to poor people of the nation. And indeed throughout his administration, President Kennedy demonstrated a very deep, a very profound concern for people who were living in poverty and this is perhaps one of the attributes of President Kennedy that we should underline in this interview. Do you agree with this?

GORDON: Yes, I do, Bob. I don't know how much President Kennedy knew about poverty when he became President. I expect he didn't know very much. He was the son of a wealthy father. He grew up in a rather narrow and limited economic, protective milieu. People personally closer to him than I was could answer this question with more authority. I suspect that one of the most deeply moving experiences he ever had was campaigning in West Virginia in 1960. So often throughout the course of President Kennedy's Administration he would draw on observations he made among the people of

West Virginia to illustrate a point. I got the impression that he saw a side of American life that he had never really seen before. And, of course, West Virginia and the Appalachian area remained a major concern of his throughout his administration. This ties in with what I just said about the miners in eastern Kentucky. You mentioned the increase in the distribution of surplus foods early in his administration - I think many of the steps he took in the first month or two such as, for example, recommending an immediate liberalization of the aid for dependent children program as part of his first legislative program. Many of these steps, I think, grew out of this concern for people living in states of extreme deprivation and hardship.

TURNER: One of the important decisions that was made by President Kennedy had to do with the expenditures of rather large amounts of money, and I don't know the numbers but probably several billion dollars, for the development of a commercial supersonic air transport. I have a suspicion that historians may have rather considerable interest in how this program was initiated and what the arguments were for proceeding with this kind of an expenditure for something as esoteric as supersonic transportation purposes. Is there some of the story of the deliberations that went into this decision, the arguments that were brought to bear and the way that President Kennedy responded to them, that you can put in the record for us here?

GORDON: Well, it's a long story with a lot of detail, Bob, that I don't think will interest the historians but maybe I can sketch it out in its major details. Actually, the interest of the federal government in supporting the development of a supersonic transport goes back, I think, to about 1960. Scientific engineering research on the SST, as it's called, has been going on, I think, for three or four years in both the Federal Aviation Agency and the National Aeronautics and Space Administration [NASA], spending modest sums of money essentially for engineering research on some of the problems of building a commercial airplane that will fly two or three times the speed of sound. I became involved in this problem just about a year ago when I moved into the Budget Bureau. At time Mr. Halaby [Najeeb Elias Halaby], the administrator of the FAA [Federal Aviation Agency], was pushing very strongly for a go-ahead from the President for the next phase of the SST program beyond the engineering and research phase, moving in to the letting of a contract for the development of a prototype, both an airframe and engines, with a development cost estimated to be somewhere in the range of a billion dollars, initially. The arguments for the SST which were made then, and which I think are still being made, are essentially as follows: that this is the next logical step in increasing the speed of passenger air transportation beyond the present jets, which are, of course, subsonic; that the development of such a plane is necessary to maintain the technical leadership that the United States enjoys in commercial aviation; that it is in view of the fact that the British and the French, through a consortium, are now engaged in developing a supersonic transport, the so-called Concorde or Concorde, that the leadership of the United States in aviation matters is threatened by this British-French development; and furthermore, that the development of an American SST is necessary to protect our balance of payments position. The argument is made that if American airlines acquire their SST equipment from the British-French combine this will involve a balance of payments drain sometime in the early 1970, perhaps as much as

a couple of billion dollars a

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year for the acquisition of aircraft. Well, these are essentially the main arguments, I think, which have been used and are still being used for the SST. Recently there seems to be somewhat more evidence that the Russians are worrying or working on a commercial SST which provides additional impetus. There has been some skepticism in the government about the urgency of massive government support for supersonic transport. I think this skepticism initially was concentrated in the Budget Bureau, the Council of Economic Advisers, the Defense Department, and the Commerce Department.

Well, the issue came to a head early in 1963 when Mr. Halaby, the FAA Administrator, as I say, was pressing the President for a green light for movement into the stage of prototype development. The President convened an interagency committee - advisory committee - which was shortly thereafter put under the chairmanship of the Vice President, Mr. Johnson, to review the SST program and make recommendations to the President on what he ought to do about it. This committee, which involved the Vice President, the Chairman of the CAB, State Department, NASA, FAA, Commerce, Defense, Council of Economic Advisers, and perhaps one or two others, had several meetings under the chairmanship of the Vice President. It became clear in these meetings that one group felt that the federal government should move ahead promptly and aggressively and commit very substantial funds to finance the development of one or two SST prototypes. The other group was more deeply concerned about the sonic boom problem, the fear that the SST would involve a noise level which the population, particularly adjacent to airports even over the flight paths of the SST, would find unacceptable, and the other group also questioned the need for urgency in committing the government to these very large expenditures.

One of the issues - perhaps the main issue - boiled down to the question of how an SST should be financed. With the support of Secretary McNamara [Robert S. McNamara], I took the position in these meetings of the Vice President's committee, that we should adhere, at least for public purposes, tightly to the position that the SST was essentially a commercial venture, not the procurement by the federal government of equipment that the federal government required for its own needs. In other words, it was not to be regarded as comparable to the procurement of the B-58 bomber by the Air Force, which was of course an airplane which we needed for public purposes. This was not such a case and should not be handled, financially, on the same terms. It seemed to me that the SST was a commercial airliner and that the only reason at all for any federal government involvement in the development of a commercial airliner was the obvious fact that the aircraft manufacturers simply did not have the capital to finance the development of a project of this magnitude. And so I concluded from that that the problem was essentially a capital problem, not a procurement problem or a management problem of the federal government and I urged that we adhere rigidly to the then position of the FAA that the contractors should be required to bear 25 percent of the risk. In other words, we were assuming an initial prototype development program that might cost a billion dollars and we wanted to make it a condition that the contractors would put up \$250 million of their own money and would incur an

obligation to reimburse - repay the federal government - if the project were successful and in fact yielded earnings sufficient to enable them to repay the three-quarters of a billion dollars.

I took this position essentially for two reasons. The main reason was a fear that we were pushing forward on this project prematurely before all the technical problems had been solved. Now, when the federal government is bearing 100 percent of the cost, or nearly 100

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percent of the cost, of course you can always get a contractor to do anything to produce a plane which may be unsatisfactory or which may not be commercially successful since the contractor loses nothing by so doing. It seemed to me that one way to guarantee that the plane that was ultimately produced would be a sound commercial vehicle was to require 25 percent contribution by the aircraft manufacturers on the assumption that they would not engage in a joint venture of this kind unless they were reasonably certain that they had a product for which there was an adequate commercial demand, because the product - the plane in question - would in fact be an economical means of air transportation. That was the main reason to guard the 25 percent contractor participation, in my mind, was essentially designed to guard the government against involvement at great cost in a project which might be a flop. It seemed to me that if the contractors were grilling to put up the 25 percent, the likelihood that it would be a flop would be much less because in their judgment they would not have done so unless they had confidence in the product. The other reason, of course, was to use the 25 percent contractor participation as a way of getting the job done more economically. As you know, cost-plus contracts are not very economical ways of getting things done and if the contractor knows that one dollar out of every four dollars wasted comes out of his pocket, there is likely to be tighter management and better supervision and more economical management of the project than if it were on a cost-plus basis.

Well, this, as I say, was one of the essential issues. There was some general difference of opinion on how hastily the project should be pushed. But in any case, the report of the committee to the president was a compromise which took account of our position and the President's letter to the Congress of June 1, 1963 made this point, I think, quite effectively. It took the position that there should be a 25 percent contribution by the manufacturers and it also said - I have it here - that if at any point in the development program it appears the aircraft will not be economically sound or if there is not adequate financial participation by industry in this venture, we must be prepared to postpone, terminate, or substantially redirect the program. This position that the President took in his letter to the Congress I think met the principal qualms that we had about the project.

TURNER: Who took the opposite position that the federal government should bear more or less the entire cost?

GORDON: Well, Bob, I don't know that anybody was taking precisely that position. What they were saying was that this requirement should not be allowed to become an obstacle. It would be nice if the contractors would put up 25 percent however, this seemed unrealistic and we should not be insistent on this point but should negotiate the best deal we could with the contractors even though this meant only a

nominal participation by the contractors. I would say this was the view of the Vice President, the State Department, Secretary Dillon [C. Douglas Dillon] - the view essentially of all the members of the committee, with, I think, the exception of Mr. McNamara, Commerce Department people, Walter Heller, and myself. I think that Halaby in FAA saw the merits in this position but in a show-down would have been inclined to accept a compromise under which there was a substantially smaller contribution by the contractors.

During the summer of 1963 and into the fall, although I had no direct indication of this from the President, he apparently talked to people who caused him to wonder whether

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the 25 percent requirement was in fact reasonable and at the suggestion of - I am told, I don't know this for a fact - of the Deputy Secretary of Defense, Gilpatric [Roswell L. Gilpatric], the President appointed a two-man committee to look into the financial problems surrounding the SST. These were Gene Black [Eugene R. Black], the retired president of the World Bank, and Stanley Osborn, a businessman who I think is chairman of the board of Olden-Mathieson. The Black-Osborn report was commissioned by President Kennedy - initially it was expected to deal principally with this question of the appropriate pattern of financing the SST; actually when it was submitted it dealt, more broadly with the whole SST program - commissioned by President Kennedy but was submitted after his death and was actually considered by President Johnson. The Black-Osborn report by and large took the position that 25 percent participation was unreasonable, that the participation by the manufacturers should be much less. They also proposed several other things; for example, that the management of the program be taken out of the Federal Aviation Agency and put in an independent office reporting directly to the President. But on the financing matter, the influence of Black and Osborn, who had talked very, very extensively to the aircraft manufacturers and the engine manufacturers, was to push in the direction of greater reliance on government financing than was contemplated in President Kennedy's letter to the Congress of June. It may well be that President Kennedy himself was turning in that direction after having talked to a number of people in the industry.

I think that Secretary McNamara, who is now under President Johnson the head of a special advisory committee to him on the SST, probably now regards the 25 percent goal as unduly severe. But the matter is still unresolved; there are still as of this date, the summer of 1964, deep doubts as to whether the sonic boom problem has been dealt with successfully, deep doubts about whether any of the manufacturers has yet been able to design a commercial supersonic transport which will be able to operate without subsidy, which was another condition that we felt should be laid down before the development program. The present state of the SST development is in effect a series of contracts with two airframe manufacturers and two engine manufacturers in which they are expected to produce by the end of this year an alternative series of SST designs representing their current best thinking on the engineering problems of the SST. And Secretary McNamara's committee is then going to study these designs from the point of view of their economic feasibility, from the point of view of their operational characteristics, costs, etc., and there may be a decision - stop or go decision - in the 1966 budget with respect to the major financing of the SST. In

other words, as of this moment, there is no irrevocable commitment to proceed to the development the prototype.

TURNER: One of the innovations in the work of the Bureau of the Budget and of the executive branch generally that President Kennedy initiated was the so-called gold budget. Can you give us some reflections on how this came to be developed and how it has worked, and Kennedy's personal role in seeing to it that we kept this kind of a set of accounts?

GORDON: Yes. Well, this is really one aspect of President Kennedy's deep concern and preoccupation with the balance of payments problem during his administration.

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I suspect that of all the overall economic problems he dealt with, the balance of payments problem was to him the most frustrating, and most unresolved really, at the time of his death. It occupied a good part of his attention in the area of balance of payments policy. There was of course participation on the part of the Secretary of the Treasury, the Chairman of the Council, the Chairman of the Federal Reserve Board, the Budget Bureau. I must say that in this area there were probably more differences, something closer to conflict, among the President's advisers than in almost any other major area of economic policy he dealt with. The President's concern was very deep and his own role in the efforts to improve our balance of payments situation was very direct and persistent. He was constantly pushing the Secretary of the Treasury, the Chairman of the Council, and the Budget Bureau to deal more effectively with the balance of payments drain and, of course, the related gold drain. One part of the program which was evolved to help correct the persistent deficit in our balance of payments fell peculiarly to the Bureau of the Budget and this is the so-called gold budget which you mentioned. Actually, of course, it is a misnomer, it doesn't deal with gold; it deals with foreign exchange. It should be called something like a "foreign exchange budget."

Back in 1962, studies were made which indicated that, of course, that expenditures in foreign currencies by the federal government were an element of considerable importance in our balance of payments deficit. The principal elements in this picture were the Defense Department and the AID program. Here large expenditures in foreign countries, or which involved the purchase of foreign currencies, constituted a major element in our persistent balance of payments deficit. In these two areas stringent measures were taken - these lie a little bit outside my personal domain; I am sure there will be testimony on these matters by others. In the Defense Department, for example, there has been a quite effective effort to offset some of the balance of payments drain - some of the foreign exchange expenditures in our defense program - by a variety of means. Just to take one example, the negotiation of an agreement with the Germans under which the Germans agreed to buy military equipment in the United States in an amount roughly equal to the amount of our mark expenditures in Germany. Similar agreements have been negotiated with Italy. Sales of military goods to our allies are to a certain extent offsetting our foreign expenditures on defense account. In addition, there have been very substantial economies in the Defense Department.

Installations abroad have been closed down, our logistics support facilities have been reduced, all in the interest of curtailing the foreign exchange expenditures in our defense program.

In the AID program, of course the principal effort has been to tie an increasing proportion of our foreign aid to procurement in the United States. This percentage has been rising steadily; it's currently somewhere between 80 and 90 percent and will continue to rise. However, over and above these two major elements in the government sector of the balance of payments, there are expenditures overseas for a wide variety of purposes by many other government agencies and it is these that we have mainly concentrated on in this gold budget procedure. Under this procedure we have a budget review process in operation, which began in the fall of 1962, which resembles in many respects the regular budget process. Agencies, for example, first seek to estimate the balance of payments effects of their overseas programs. They submit to us periodic budgets of expenditures affecting the balance of payments; they set targets or make projections of their future expenditures affecting the balance of payments. We study these and try to isolate issues - try to isolate management

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issues - which if dealt with successfully can have the effect of reducing our overseas expenditures. Our internal review of these gold budget submissions consists principally of isolating policies or practices by agencies of government which if changed can economize on foreign exchange expenditures, and we have done a great many things through this control of overseas expenditures which have the effect of reducing them. For example, we have in several cases curtailed the overseas offices of certain government agencies. The State Department has shut down a number of consulates essentially for balance of payments reasons.

[END SIDE 1, TAPE 1]

[BEGIN SIDE 2, TAPE 1]

GORDON: I was telling you, Bob, of - giving you examples of some of the things we have done on the so-called gold budget procedure to try to reduce the overseas expenditures of government agencies affecting the balance of payments. We discovered in analyzing these gold budget submissions that a number of federal agencies were making research grants to people in various fields of scientific research overseas. We concluded that in view of the balance of payments pressures, we should have a more restrictive criteria for the support of overseas research than domestic research, and this has been curtailed. We actually spend something between \$150-200 million a year on annuities and pensions of various kinds for people who live overseas - Social Security beneficiaries, veterans pensions, etc. We have initiated a number of reviews of the eligibility of some of these recipients in view of the obvious fact it is harder to check on the continued eligibility of people living overseas for government annuities and pensions, and we have realized some savings in this way. But these are just examples. These were reported quite regularly to President Kennedy who took a strong interest in this effort, and in occasional



Cabinet meetings he stressed to members of the Cabinet the importance he attached to economizing in expenditures which affected our balance of payments. By the time of the assassination, I think the gold budget procedure had gone just about as far as we could push it in finding easy economies overseas which did not involve drastic program curtailments. We could still, of course, cut down our expenditures even more if we were willing to slice programs drastically. So far we have not had to do that. These have been marginal and peripheral things.

TURNER: It is my impression Kermit, that on this whole problem of balance of payments, President Kennedy took a position that most economists would classify as quite conservative and that his thinking in this was not influenced as much by the thinking of economists as was his thinking in the fiscal policy field. Indeed a number of the steps that he took to help to solve the balance of payments were steps that made the economists quite unhappy. I have in mind, for example, the tying of foreign aid and raising the preferences given to domestic firms for government procurement of military items. What is your impression as to President Kennedy's thinking in this field and how do you account for this difference in his thinking here and in the matter of fiscal policy?

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GORDON: Well, the story of the development of balance of payments policy in the Kennedy Administration is a very long and complicated one and I presume that others who were closer to the firing line will be testifying to the detail so that I will try to avoid excessive detail. I'm not sure it would be correct to say that President Kennedy was less attentive to the advice of economists on the balance of payments problem in the international monetary situation than on domestic fiscal policy, but I think he was more influenced by the advice of a different kind of economist. This was a situation in which, to oversimplify it, there were pressures on the President emanating principally from the Council of Economic Advisers. And here the key man was Jim Tobin [James Tobin], for an attack on the balance of payments problem which would have involved some degree of fundamental institutional reform in the international monetary system; of strong pressures from the other end of the White House--from the Treasury Department, particularly from Bob Roosa [Robert V. Roosa], whose domain this was within the Treasury--in opposition to basic alterations in the International monetary methods. Roosa had extremely strong and powerful support in the banking community, particularly in the New York banking community. Roosa is an economist, a very able economist, and a strong willed and highly effective negotiator and adviser. I would speculate, and this is pure speculation, that President Kennedy, as he began to understand the intricacies of the international monetary problem, began to lean toward efforts to deal in a fundamental way with the international monetary problem but was at each juncture dissuaded by a fear that he would provoke the active hostility of the banking community and particularly the New York banking community and possibly create a crisis in the administration which could have taken the form of the resignation of Bob Roosa. This is personal speculation but I believe that his unwillingness to risk a showdown within these two groups in his administration for fear that

a Roosa resignation with a highly critical statement by Roosa on the occasion of his resignation could have done the President great damage in Wall Street. And the President was having plenty of trouble with Wall Street on other grounds.

Several times President Kennedy marched up to a point at which he seemed about to move in a fairly decisive and fundamental way to reform the international monetary system. Each time he drew back. I remember on occasion he asked Dean Acheson [Dean G. Acheson] very quietly to come in and survey our balance of payments problem and make recommendations to him. Acheson wrote a report - this was, I believe, sometime in 1962 - which urged the kind of action which Roosa in Treasury strongly opposed, and which urged in effect, if I remember correctly, negotiation with our European creditors under which they would agree not to convert into gold a certain part of their acquisition of dollars resulting from a continuation of the US deficit. The President did not act in accordance with Acheson's recommendations. There was actually a very tense meeting in the Cabinet room at which Acheson impugned the courage of the President in a way indirectly but in a way which made his meaning perfectly clear. The President was angry but managed to restrain his anger. I suspect that this was the end of the relationship between President Kennedy and Dean Acheson. But as I say, on the details of this very complex and continuing balance of payments struggle within the administration, I think the testimony of the direct participants would be more useful.

TURNER:           Let's approach the problem of farm policy, Kermit. It is my impression that

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President Kennedy had some rather strong convictions as to the appropriateness and legitimacy of our farm policy, convictions that were not entirely consistent with the formal actions that were taken by the administration in this area, and perhaps if you could give us some of the behind-the-scenes arguments that went on and some reflections as to President Kennedy's thinking in this area, it would be useful to future historians.

GORDON:           Yes, your surmise is quite right, Bob. I suppose that farm policy is a hair-shirt that every President has to wear. President Kennedy did not enjoy it particularly, yet he felt himself frustrated and immobilized for political reasons. Quite early in the administration he was disturbed by the enormous cost of the farm program which didn't seem to be solving the underlying farm problem, and he also concluded that it was necessary to have an independent judgment of major farm policy decisions by people he trusted outside the Department of Agriculture. So he made an arrangement sometime in 1961 whereby any major change in price support policy or policy affecting the incomes of farmers such as acreage controls or price support levels which were in the discretionary authority of the Secretary of Agriculture....

TURNER:           P.L. 480 purchases, for instance.

GORDON: P.L. 480, for instance - well, not actually; that's in a somewhat different circuit. In any case, he said that he wanted these reviewed by the Budget Bureau and the Council of Economic Advisers, remember, before they were submitted to him. This was after a few decisions had been made without independent review outside the Department of Agriculture that he later decided were unwise. So that the Budget Bureau and the Council had been involved in these decisions almost since the very beginning and have exercised somewhat of a restraining influence on the Department of Agriculture, which of course is subject to almost irresistible political pressures from various farm groups.

One insight I got into the President's thinking on farm policy came sometime perhaps in the spring of 1963 - maybe it was the summer - when we were meeting with the President on the cotton problem - new cotton legislation either pending or about to be submitted to the Congress--and in the meeting I remember were Orville Freeman [Orville Lothrop Freeman] and Mike Feldman and myself. We felt very deeply at that time that the line that the Congress was likely to take on cotton policy would be seriously harmful to the agricultural economy. The disposition in the Department of Agriculture as usual was to find some kind of accommodation with the heads of the Agriculture Committees in the Congress. I started out the meeting by saying, "Mr. President, I thought before we started to discuss the details of the cotton program you might want to have a look at some facts about the people we are helping here with this price support program." I gave him a sheet of paper I had prepared, a very simple sheet of paper, showing the average net income of cotton farmers of different sizes and in different parts of the country. As I remember, it showed average net income of cotton farmers: Southern Piedmont-\$3,000; average income, large cotton farmer Mississippi Delta-\$5,000; average income, large cotton farmers, high plains or Texas-\$30,000; average income, large irrigated cotton farms, San Joaquin Valley, California-\$80,000. Just a little table that showed these numbers and when he saw that he blew up. He got out of the chair and paced around. He said, "You know, everywhere I look in this government to see where

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the money is going, you know it's always ending up in the pockets of the people who have most of it already." And he said, "If I get back in here again, I'm going to take this government apart and put it together all over again." This was his reaction to - a clear insight into what he was doing with the cotton program; in effect subsidizing people with incomes of \$80,000 a year. But he recognized that in cotton one has to deal with Mr. Whitten [James W. Whitten] and the other cotton spokesmen in the Congress and actually we have - although we made some changes in the cotton legislation which were mildly beneficial - we still have not by any means produced a cotton program which can be defended as in the national interest. But I thought this was an interesting - this generalization, this growing awareness that so many government support and subsidy programs tend to get distorted so as to put the assistance where the need is least rather than where it is greatest - was an insight that President Kennedy had and it led him to this interesting statement that he was willing, when he got back - presumably got reelected - to take quite drastic steps to see whether something couldn't be done to correct these evils.

TURNER: Before we close Kermit, are there any other recollections or comments that you might put into this record about President Kennedy's personality, the way in which he conducted his job, the way in which he made decisions, that students of Kennedy, the man, might find of value in some future time.

GORDON: There are a few disorganized observations I would make, Bob. One thing I haven't yet mentioned that I'm sure had struck many people that always surprised me so, was the retentiveness of his memory. I don't know actually whether most people who talk about President Kennedy thought of him as a person with an unusually retentive memory, but on many, many occasions I can remember his dredging up of something I had told him months before, a fact which was relevant to the matter then under discussion which I had forgotten. It was always very embarrassing to have him remember a fact that I had given him in a memorandum that was relevant to something we were talking about and have him remember it rather than have me remember it. This was a quite remarkable power of recall.

His humor, of course, was something that I suppose everyone was well aware of. The kind of wry, self-deprecatory humor that characterized his speeches, his public appearances, was just like the humor that he used in smaller groups. It was just natural humor and he could, of course, often lighten meetings in his office not with set jokes or formal jokes but little twists of phrase, little turns of ideas which were very effective. This actually happened before I came to the Budget Bureau; perhaps it's worth telling; anyway. Back in 1961 - the fall of 1961 - the President, you may remember, initiated his price discussions with the steel industry by sending a dozen letters to the heads of the major steel companies, having to do with the steel prices. This was in September of 1961. I remember I had written the letters and I was in to talk with him about it one day. He got answers from some of the heads of steel companies to whom he had written. One of them was really quite rude. The president, I think, of the McLouth Steel Company in Detroit wrote an acknowledgment which didn't even descend to the salutation "Dear Sir." It said, "Sir: I have received your letter. You are a so and so." Nothing further, and it was intentionally rude I think. And it annoyed the President. And as he looked at it, he picked up the phone and called the Attorney General and he said,

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"Bobby [Robert F. Kennedy], here is a man I want you to indict," and apparently the Attorney General said, "What did he do?" The President said, "Listen to the letter he wrote me." He read him the letter, and then the Attorney General must have said, "But you can't indict a man for that," and the President said, "Now wait a minute. Just the other day you told me you could indict anybody." He said, "I'm not asking you to convict him, I'm just asking you to indict him."

This sort of playfulness, which I must say he used perhaps more with his family and his brother than he did with others, was a side of his nature that was very pleasant. I saw him angry I think just twice - really angry. Once, of course, was the famous eruption of anger at the time of the steel price increase in April of 1962, just after Roger Blough [Roger M. Blough] had been in to see him to tell him about the decision to raise the price of steel. The other time was on the occasion of a blunder which had occurred in his office. Apparently, the

plan was to appoint a new Comptroller of the Currency once the incumbent had submitted his resignation, apparently by request. There was a slip-up in the White House Office and it appeared that the nomination of the new Comptroller of the Currency was sent to the Senate before the incumbent had resigned. When the President learned this - I was actually engaged at the time I remember in a quite important, at least I thought important, discussion with him but this ended the discussion - he was furious. He stomped around Ken O'Donnell's office and inveighed against the kind of administrative sloppiness that would permit this to happen and it was not possible after that to talk with him about the rather complicated issue we were discussing. But anger - I must say there was abundant provocation for anger in that case, it made the President look very foolish.

TURNER:            Would you say that he lost his temper - blew up?

GORDON:            Yes, he blew up; he blew up. He lost his temper. He said some very....

TURNER:            He was very careful not to do so in public.

GORDON:            No, that's quite true. He lost his temper; he blew up. He said some quite sharp things to Ken O'Donnell and some of the others who were the hapless victims of this episode. On the way he made decisions - one of the things I noticed about President Kennedy was perhaps a rather obvious point, maybe a great many people do it - when he had two contending parties before him arguing different sides of a case, a matter which he had to decide, he would rarely if ever make the decision in their presence. And I suspect this was wise. I never really thought of it before. I suspect this is a way to make a decision which does not unnecessarily humiliate or disappoint one of the parties. The decision was usually communicated either by the President or by Sorensen at a later time, but he always felt it inexpedient to make the decision in the presence of the contending parties even though, I am sure, in many cases he had in fact made up his mind.

In my experience with the President, he was very sparing in his praise of his assistants, certainly as compared with President Johnson. I always had the feeling that President Kennedy would have been somewhat embarrassed to praise a subordinate or an assistant in his presence, although he frequently said flattering things about people to others who relayed them back to the subject of the praise. I suspect this too, was another evidence of his restraint and understatement, his reluctance to engage in the kind of personal intimacy

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that face-to-face praise and commendation usually implies. As far as I can remember, the only commendatory thing he said about me after I became Budget Director - he didn't say it to me, he said it to my daughter whom he happened to meet at a White House reception one night - and I think this was quite typical. Another thing - this is in the realm of pure speculation - it always seemed to me that President Kennedy in his dealings with the White House staff, was consciously using a device to elicit better performance from his assistants, and this device was to occasionally grow cool toward the person in question, at least visibly, at least in small ways. I thought I even noticed occasions in which the President indicated

some coolness even toward Ted Sorensen. Now I suspect that this was actually a very clever device because I consider this one of the constructive uses of insecurity - to have people just slightly uncertain about the strength of their position, their status, I think, is usually a very good way to elicit even more effective performance, and I have a hunch, without being able to prove it, that President Kennedy consciously used this device as a way of eliciting better performance out of his helpers.

TURNER: It might be helpful, Kermit, if you gave us a few observations on the relationships of the President with the Cabinet. I believe that you have been attending Cabinet meetings regularly since you have been Director of the Bureau of the Budget, and probably attended some before that.

GORDON: Yes, I believe I have been to all of the Cabinet meetings since I've become Budget Director and I did go to a few before that when I was a member of the Council. Well, the simplest and most obvious observation about the Cabinet meetings is, that they bored the President almost to excess. He didn't enjoy them. He didn't think that was a good way to get work done. He was reluctant to have them. He kept them as short as possible and he was always visibly delighted to get out of the room. He liked to operate, as you know, by vesting authority in a person and expecting that person to deliver for him, and he didn't think much of the system of roundtable discussions in the Cabinet meetings on matters which most Cabinet members didn't know much about. He liked to look to the individual Cabinet member for advice and guidance on matters within the province of the Cabinet member, so that his Cabinet meetings were ceremonial and formal, brief, and I'm afraid dull.

TURNER: He did use them, I understand, as a means of communication, not as a method of arriving at decisions.

GORDON: Almost wholly. I can't think of any case in which the Cabinet was used to help him arrive at a decision - almost wholly as a means of communication with the Cabinet, and on matters, I think, of secondary importance. He occasionally would be prodded by his staff to have a Cabinet meeting to give the Cabinet members a chance to sound off on something or other. He would go around the table and give each man a chance to speak but I think this process rarely had much impact on the outcome. Sometimes you could see in the President's manner at Cabinet meetings something about his relations toward particular Cabinet members and his estimate of their talents. The Secretary of HEW, Tony Celebrezze [Anthony J. Celebrezze], has a habit, when discussing almost any matter, of

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beginning by telling how he did it in Cleveland, he was Mayor of Cleveland. And after having heard Celebrezze comment on a variety of issues by telling an anecdote about how he handled the same problem in Cleveland, one time the President was going around the table

and asking each Cabinet member what his views were, when he got to Celebrezze, he said, "All right now, Tony, tell us how you did it in Cleveland."

If you look at Ted Sorensen's Columbia lectures, which I think reflected not only his views but the President's as well, you do find - and actually you find it more in the earlier drafts of the lectures than in the final draft [the earlier drafts were a little bit indiscreet and had to be toned down] - you find a view that Cabinet members by and large are not very good advisers to the President. And the reason, I think, that in Ted Sorensen's mind and I suspect the President's as well, the reason, I suspect, is that a Cabinet member, by virtue of the fact that he tends to be responsible to a particular clientele and to derive a good amount of his strength from the support of that clientele, tends to become more parochial and narrow-interest oriented than the President can afford to be. I am not thinking now of the Secretary of State who obviously is in a quite different position. He's not responsive to a particular clientele but certainly the Secretary of the Interior, the Postmaster General, the Secretary of Agriculture; these people are necessarily very clientele oriented and this tends to narrow somewhat their vision and perspective. And I think you got the same sense of the President's attitude that for this reason he needed independent judgment in and around the White House which tried consciously to take a presidential perspective, a national perspective, rather than an narrow-interest oriented perspective. This, I think, is another reason why the Cabinet meetings meant so little to him. He really didn't value very highly the advice of Cabinet members particularly on matters outside the purview of their responsibilities and in many cases he was even suspicious of the advice within the purview of their responsibilities.

TURNER: Is it correct to say that most, if not all, of the Cabinet members recognized that the President did have a different perspective than they had, that the national interest point of view was different from their point of view and that they were willing to accommodate themselves to his thinking, sometimes reluctantly but eventually at least?

GORDON: I think that's a fair statement, Bob. I don't know of any Cabinet member in the Kennedy Administration who could fairly be described as disgruntled, generally disgruntled. There were some who were unhappy with particular decisions and particular policies, but by and large I think they were all strong and loyal supporters of the President even though frequently disappointed on particular issues.

TURNER: I think it's significant that there have been probably fewer changes in this Cabinet than in any first-term President's Cabinet that I can recall.

GORDON: I suspect that's right. I suspect that's right. It was probably a pretty strong Cabinet, as Cabinets go. Well, I don't think there is any point in my going through the Cabinet.

TURNER: No.

[END OF INTERVIEW]

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