

Robert A. Lovett Oral History Interview – JFK#2, 08/17/1964
Administrative Information

Creator: Robert A. Lovett
Interviewer: Dorothy Fosdick
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Biographical Note

Robert A. Lovett (1895-1986) was a member of the General Advisory Committee and the Arms Control and Disarmament Agency. This interview focuses on the staffing of the Kennedy administration's cabinet, Lovett's role as a consultant for the Kennedy administration, and the stock market decline of 1962, among other topics.

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Robert A. Lovett– JFK #2

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ORAL HISTORY INTERVIEW

Person Interviewed: The Honorable Robert A. Lovett

Address of Interviewee: 59 Wall Street, New York City

Date: August 17, 1964 (morning)

Interviewer: Dorothy Fosdick

Others Present: ---

Organization Interviewee Associated with: Brown Brothers Harriman & Co.

Subject Matter Covered in Interview:

Continuation of Mr. Lovett's discussions during period of the formation of the Cabinet - checking of names for post of Secretary of Defense, conversations relating to post of Secretary of State, arrangements for Mr. Lovett's role as personal adviser to the President.

Q. Mr. Lovett, it is clear from your first meeting with the President-elect on December 1st that he was counting on you very heavily to try to find the right men for the key Cabinet positions. In your discussions about the Secretary of Defense post he asked you to get up a list of people that he might consider without regard to whether or not you were sure that they were available at the moment - and you agreed to suggest some names. Do you want to follow up on what happened?

A. The President had discussed the problem of filling the Secretary of Defense post in my first meeting with him but these discussions were cursory, and necessarily so, because most of our conversation was concerned with the qualities which an individual should have either as natural traits or talents in order to do the job which appeared necessary in the relative period of peace and enormous technological advance.

I submitted three or four names, including that of Robert McNamara, then head of Ford Motor Company, and explained that he had a good background in the mechanics of the Department and was a trained analytical statistician. He had worked in the group which I had set up under C. B. Thornton which had borrowed a good many men to round out the training program at the Harvard Graduate School of Business and, finally, to run the statistical control units in all of the Air Forces around the globe.

The President said that Sargent Shriver had been put in charge of trying to coordinate the various lists of individuals who might be considered for Cabinet posts and that he would ask him to fly up and see me in New York as soon as possible. Within a short time Shriver phoned and said that he would stop off in New York on the way to Chicago. He flew into LaGuardia

and I had him met and he spent the major part of either a Saturday or a Sunday with us at Locust Valley and flew out that night to Chicago.

During his stay we went over the list, both for the Department of Defense and the State Department. On the list for Defense were three of the names that I had mentioned to the President, including McNamara. I recall the conversation with Shriver rather clearly because he impressed me most favorably and obviously had done a great deal of work in checking out the individuals whom he had on the list. I would guess that there were about ten names on it, - some entirely political - some old retreads, like myself - and some new talent in what seemed to me to be the appropriate age group. I thought McNamara was outstanding among the group and said so, and was questioned closely by Shriver as to my recollections of him. Shriver was interested in obtaining these views because he had already had good reports from the automotive industry. I said that, if he wanted to get day-to-day experience with McNamara, he could easily obtain it by either calling Eugene Zuckert, who had been one of the Harvard Business School men whom we had gotten into the Air Force programs, or, alternatively, could call C. B. Thornton, at Litton Industries, in Los Angeles. McNamara's virtues included an almost iconoclastic approach to any organization. I suggested that this was a virtue only if it was under control but that his eagerness for facts could be turned to great advantage in the Department and that he was well equipped to do the analytical work which would necessarily follow this.

A number of other names were discussed at some length and were put in what, I think, might fairly be called "Class B". I was particularly interested in Shriver's saying that the President had not put any limitation on the political affiliation of the men that were to be considered and it was evident from the list that this was the fact.

Q. Did you at any point, either at this time or shortly after his

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appointment, talk to Secretary McNamara himself?

A. Yes. Some time after the discussions with Shriver, the President had obviously spoken to McNamara and got his concurrence and acceptance. McNamara phoned me after he had accepted and said that he would like to stop by and talk things over if I could make the time. I was delighted to agree to this and he came up to the apartment at the Hotel Pierre in the middle of the afternoon and asked a number of searching questions, with a notebook on his knee into which he put down whatever bits of information seemed to him worth recording. I do not remember accurately whether he said he was going down to Georgia to see Chairman Vinson and Chairman Russell, or had been down. But I urged him to remember that both of these gentlemen had just as much interest in National Security as he himself had and that his task would be either a success or a failure, depending on whether or not he was able to obtain their full trust and their confidence. It was not necessary for him to attempt to be either unctuous or subservient to them in the development or articulation of policy but it was always necessary for him to be completely frank and forthright and to remember that they could be enormously helpful if he would give them a chance, both in warning him away from pitfalls and in helping him to make proper use of the machinery of the government, about which I ventured to suggest that he was not as well informed as they.

As to staffing his office, I cautioned him against having hacks planted on him and said that he must have people in whom he could place trust or else it would develop into a one-man show and quickly destroy him.

He said that he needed a good Under-Secretary and someone for the Department of the Army but that he knew Gene Zuckert so well that he thought he could get him to take the Air Force job. I applauded Zuckert and had no suggestions to make as to either of the other posts beyond

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cautioning him to get an agreement with the President that the Department was to be run with a complete non-partisan approach to all problems. This he readily agreed to as a wise policy and said that he had a letter from the President indicating approval of a considerable degree of independence in both the appointments and the conduct of departmental policy.

Q. In your talk on December 1st, when it was evident that you were not available to serve in one of the key Cabinet posts - including that of Secretary of State, - I note that President-elect Kennedy said he did not know who would be competent for this post and that he was probably going to have to take largely on trust someone finally recommended by his advisers. Did you have further discussions with him about the Secretary of State post?

A. Yes. The President had said quite frankly that he had talked to two other people since our earlier conversation at the beginning of December and that, for a variety of reasons, it was either not possible or unwise for them to serve. As a consequence, he was coming around more to considering Dean Rusk, whom he had met but did not know at all well and who had also been strongly recommended by Dean Acheson, with whom the President had been talking over a period of weeks. The President asked me specifically if Rusk's performance at the Rockefeller Foundation had been good. I told him that, in my opinion, it had been excellent; that he had handled himself with great tact in an atmosphere which had some of the aroma of a college faculty with all of its peculiar cliques, and that in the defense of the Rockefeller Foundation before the Congressional Committee, Rusk had handled himself superbly. The Rockefeller Foundation lawyers were as much impressed by him as were the men on his staff who worked with him daily. He had a judicial mind and a deep conviction as to the position of the President in our governmental system evidenced, in part, by the series of lectures he had

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given on the office of the President, the Secretary of State, Foreign Policy, etc. I suggested that the President might learn a great deal about him through reading these. President Kennedy laughed and said he had already done so.

Since President Kennedy had not asked me about Rusk's politics, I thought it would be prudent to mention it and say that I did not know what his politics were; that he had been recommended strongly for the position of President of the Rockefeller Foundation by Foster Dulles but that I thought that this was a recognition of competence and had nothing to do with any political affiliation whatsoever. I told him that Rusk was a Georgia boy with a thirst for knowledge and a talent as a teacher; that, while I was not too much impressed with his executive ability, he was a good presiding officer and, if given a very strong staff in the Department of State, I felt that he could do the job as well as anyone I knew who might reasonably be available.

I felt bound to explain to the President that, as result of my position as Chairman of the Finance Committee of the Rockefeller Foundation, I was aware of the fact that Rusk's personal means were almost non-existent and that he was entirely dependent on his salary. He had spent all of his adult life either teaching at Mills College in California, or in the Army, or in Government service and, for the first time in his life, was now enjoying a salary on which he, his wife and children could live with reasonable comfort. For him to abandon it would, of course, be a serious decision for him to make but I felt confident that this would not outweigh, in his mind, the strong sense of duty which he had always evidenced. The President said that this was a fact which he had taken into account in a number of other instances and proposed to get at the problem of more reasonable government pay as soon as the new Administration could. I mentioned that Rusk would be entitled to some termination allowance from the Rockefeller

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Foundation in lieu of the funded pension to which he would be entitled within a year or so, but that otherwise, as far as I knew, there was no source of income, and I felt that the President should take this into account in discussing the matter with Rusk.

Q. Did you have direct talks with Dean Rusk prior to his actual appointment?

A. As a matter of fact, I did - in circumstances which were somewhat amusing. The Annual Meeting of the Rockefeller Foundation, which is a three-day affair, is held normally at Williamsburg, Virginia, and just at dinner-time, one of the bellboys came into the dining room - all dressed up like Astor's pet horse with white spats on and a rather elaborate uniform - and announced, in a loud, clear voice, that I was wanted on the phone; that the White House was calling. This caused a minor sensation and I finally found a secluded phone booth and took the call.

The President said that he had made up his mind about Rusk and asked if it would be possible to find out whether the circumstances were such that Rusk would feel compelled to decline. I got the impression that the President did not want to be in the position of putting pressure on Rusk or embarrassing him unnecessarily. I told the President that I thought I could find out without too much difficulty and that I was sure that Rusk would keep the matter confidential. I spoke to Rusk after dinner and, in the process, spoiled his sleep for that night and probably digestion, as well. He expressed amazement; mentioned all of his liabilities and modestly neglected any reference to his assets. It was arranged that he would stop in and see the President after the Annual Meeting had broken up, which would probably mean that he would go back to New York first and then down to Washington.

In our discussions I told Rusk that the matter of finances was one which did not, in my view, present an insuperable problem, largely

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because, as a result of his long service with the Rockefeller Foundation, he was certainly entitled to some termination allowance in view of the accrued pension rights which he would abandon by leaving the Foundation before the ten-year period. I believe this eased his mind considerably because he had just arranged for a house in Riverdale and was apprehensive about his outstanding obligations. As events turned out, the termination allowance was made by a Committee appointed by the Board of the Rockefeller Foundation and Rusk gave up any claims he might have against the Foundation for pensions and other payments.

Q. Following President-elect Kennedy's invitation to you to serve as a Cabinet officer and then his realization that you would not be able to be on his Cabinet, he had made it clear in your December 1 talk that he wanted you to help him - on a continuing basis - as an adviser, with whatever formal title you felt appropriate. How was your relationship with the Administration formalized?

A. In some of our earlier conversations the President had seemed amused at my distaste for service on committees. We had, in fact, laughed at the old wartime crack about "a committee being a group of men who, as individuals, can do nothing but who, as a committee, can meet formally and decide that nothing can be done." I was careful to exempt from this definition committees of the Senate and the Congress as a whole. Therefore, when he suggested that I might serve as a consultant, I readily agreed to do so, provided I was not on a Committee of Consultants or Advisers. He, in effect, said that was the last thing he wanted and that he was, in fact, getting rid of a committee. He pointed out that, in order to get cleared for top classifications, I would need some formal appointment and he proposed to do that through the Bureau of the Budget. I believe some formal announcement was later made. I think you can find that appointment in the records and it might be well to include it here to complete this story.

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29 Statement by the President Upon Announcing the Appointment of Consultants on Government Organization and Operations. February 10, 1961

I AM PLEASED to announce the names of four men who have agreed to serve as consultants on major issues affecting the structure and operations of government. The men are:

Robert A. Lovett, of New York, former Secretary of Defense and Under Secretary of State.

Richard E. Neustadt of New York, Professor of Government at Columbia University, who served between last fall's election and the Inauguration as my special consultant on organizational matters.

Don K. Price of Cambridge, Massachusetts, Dean of the Graduate School of Public Administration at Harvard University.

Sydney Stein, Jr., of Chicago, a partner in Stein, Roe, and Farnham, investment counsellors, formerly associated with the Bureau of the Budget in the field of government organization and management.

They will be consulted in matters where the disinterested advice of highly qualified and experienced men in private life may help us find effective solutions to problems of government organization and operation. They will not act as a committee nor will they hold regular meetings. Instead, they

will be asked for advice as individuals, under flexible and informal arrangements suited to the needs of the problem at hand. Their regular point of contact will be the Budget Director, who will keep them informed of significant developments and emerging issues.

It is my conviction that the structure and operations of government must be continually adapted to constant changes in the requirements for governmental action and the methods of meeting those requirements. The consultants named today are exceptionally well equipped to help us conceive and carry through the necessary adaptations in timely and orderly fashion. I am grateful for their willingness to serve in this important capacity.

In view of these simpler and more flexible arrangements, the Advisory Committee on Government Organization, created in 1953, will no longer be necessary. Accordingly, I am terminating that Committee by Executive Order.

I am also terminating the Advisory Committee on Management Improvement, which was established in 1949 but has not functioned since 1952.

Q. Mr. Lovett, I might just note - with a smile - that you did not entirely escape the fate of serving on committees of consultants and advisers in the Kennedy Administration - notably, you were on the Advisory Committee to the Arms Control and Disarmament Agency and the Randall Committee on Military Pay. How do you account for such departures from deep-rooted conviction? Are you going to tell me that "a foolish consistency is the hobgoblin of little minds"?

A. No, I am going to plead force majeure and the conditioned reflex of an old fire-horse who can be sent into a short gallop by a clanging bell and a cry of "fire" when made by the President.

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ORAL HISTORY INTERVIEW

Person Interviewed: The Honorable Robert A. Lovett

Address of Interviewee: 59 Wall Street, New York City

Date: August 17, 1964 (afternoon)

Interviewer: Dorothy Fosdick

Others Present: ---

Organization Interviewee Associated with: Brown Brothers Harriman & Co.

Subject Matter Covered in Interview:

Conversations with President Kennedy on initial approach to Treasury problems and general discussion on the Treasury Department; conversations regarding the C.I.A. and the President's Board of Consultants; discussions with President Kennedy during Stock Market break of May 1962.

Q. Mr. Lovett, in view of President Kennedy's invitation to serve as his Secretary of Treasury, I am sure you must have had a number of conversations with him about Treasury problems. Do you recall some of them?

A. As you correctly surmised, the President discussed numerous financial problems and Treasury Department policies over a period of many months. He did this on irregular but frequent occasions and covered a wide range of topics - sometimes in conversations in Washington, sometimes by telephone.

Perhaps the most significant were the conversations at the outset in which his initial approach to the Treasury and our economic and fiscal problems became apparent. During our early meetings in the months of December and January, it became clear that the President was impressed by the easy and assured writing style of Dr. J. Kenneth Galbraith, of Harvard, and some of the doctrines supported by the less publicized but equally controversial economists of Harvard, such as Seymour Harris. He was also more reasonably influenced by Professor Paul Samuelson of M.I.T. I got the impression that Galbraith and some of the others had been recommended by Arthur Schlesinger, Jr., who was a friend and personal adviser to the President at that time. I recall that he asked me about the acceptance of some of these men in the financial community and I was completely frank with him in my reply. I told him that I thought that Galbraith ranked higher as a novelist than as an economist and that some of his testimony before Congressional committees and his citations of opinions of others were careless and seriously questioned, notably by Dr. Arthur Burns. I confessed that during his Presidential campaign his apparent reliance on the views and

theories of some of his outer-fringe Harvard economists caused me to look longingly at Republican conservatism without going so far as to wholly embrace Adam Smith or Dr. Milton Friedman of Chicago. I recommended that he talk to some knowledgeable people in various types of financial enterprises and especially to Dr. Arthur Burns who had an unusually good record as a clear-eyed economist.

There were numerous discussions about Western European recovery and the theories and practices under which the amazing revival of Germany, the Low Lands and France were accomplished. In these discussions I tried to emphasize the relationship between economic growth and stability of prices and wages. I also gave him to read excerpts from the story of German recovery and particularly the views of Dr. Wilhelm Roepke, as well as comments from the Statistical Section of the Bank of France indicating that the restoration of confidence in the currency and economic health was related to budgetary control. In this connection, the dialogue usually got around to the subject of unbalanced budgets and the proof that our own experience gave of what I believed to be the fact - namely, that government spending does not necessarily insure economic growth. We had had deficits over a long period of years but the rate of economic growth was inadequate.

Q. Without necessarily going into detail, what were some of the Treasury Department matters on which discussions were pursued during President Kennedy's first year in office?

A. I believe they fell into three broad classifications. The first was the matter of the U.S. loss of gold and the flight of capital. A number of discussions were held on this, and I suggested that this was not a matter to be left solely to the economic advisers but needed some very hardheaded practical men with considerable foreign banking experience and especially the New York Federal Reserve Bank. I thought the appoint-

ment of a small committee of officers of banks with foreign branches and large industrialists with overseas plants would be helpful. President Kennedy promptly agreed.

In the second place, the matter of the budget and taxation occupied more time than any other subject. There appeared to be no immediate prospect of balancing the budget but efforts should be made to increase business activity and particularly to stimulate capital expenditure and venture capital through an overhaul of the taxation system and depreciation doctrine to encourage replacement of over-age plant, equipment, rolling stock, etc. This was one of the most interesting aspects of our relationship and in the discussion the President showed a great deal of courage in facing up to the political problems inherent in enlarging an anticipated budgetary deficit which, even without tax relief, would be large if we were to bring our national security posture up to the desired point promptly.

The third area was a discussion about the Federal Reserve and the Treasury Department - their respective duties and responsibilities and their proper roles. In this connection, I strongly urged the retention of William McC. Martin as Chairman of the Federal Reserve Board in his present position, although I had listed his name as one to be considered in connection with the Treasury Department. I had recommended against using him as Secretary of the Treasury for a variety of reasons, among which was the fact that he was very good at his present job as head of the Federal Reserve System, which brought him into frequent controversy with the Congress, particularly on interest rates, etc.

Q. How did the President react in these discussions to points on which you may have disagreed with his other advisers?

A. President Kennedy's reaction was extraordinary. His thirst for information was so strong that he invited frankness and did not seem

at all impatient with views which ran counter to those given him by others. He was, in fact, quite unusual in permitting and almost welcoming disagreement with his own views if he trusted your intent and your knowledge of the subject under discussion.

Q. Turning now to the Central Intelligence Agency, I understand that the President and McGeorge Bundy held frequent conversations with you on the C.I.A. and also on the President's Board of Consultants on Foreign Intelligence Activities, which had been set up by President Eisenhower and on which you served. Do you recall any matters of particular importance in these discussions?

A. You may remember that immediately after the election, President Kennedy indicated that he had asked J. Edgar Hoover, of the F.B.I., and Allen Dulles to continue in office so as to permit uninterrupted operation of their essential protective, domestic counterintelligence and foreign intelligence activities. This was, I believe, an evidence of his proper concern with these functions as an element of national security. I think it is fair to assume that he was not informed in any detail as to the workings of the C.I.A. at this time and it would be unreasonable to assume that anyone other than a very few especially cleared governmental officials had any concept of the size, cost, methods or activities of this Agency which operated with unvouchered funds.

Shortly after McGeorge Bundy was appointed as a Presidential Assistant on National Security matters, I was asked to come down to see him and talk about the C.I.A. since he was aware of my background with the intelligence studies in the Pentagon and my five-years of service on the President's Board of Consultants.

I came down to Washington, as I recall, during the winter months and talked with McGeorge Bundy. He asked my opinion of the C.I.A. and of its dual role in the governmental intelligence community which consists of twelve different groups of collection agencies or evaluators. I told him that I thought the operation was essential but excessively costly; that it was dangerously amateurish in many of its activities; that it was badly organized and that, in order to be successful, it would have to be run in a very hard-boiled fashion, which was not possible with Dulles as Director or with Eisenhower as President. I expressed some doubts as to whether any administration under our system of government could operate a fully-rounded intelligence agency in a sophisticated and ruthless fashion to make it competitive with the best European systems - except perhaps during wartime.

I told him that I thought the intelligence function should be one of the most important in government and that, except for the unusual electronics developments, we were not getting our money's worth and that we would not unless the President himself took an interest in the problem. He asked me if I would repeat to the President what I had said to him. I said that I would and I did so later in the same day.

Q. What was the President's reaction and did you have subsequent conversations with him?

A. President Kennedy appeared to be concerned about the Agency and asked me where one got professionals in this field. The answer, of course, was that they generally have to be developed over a period of time; that they have to operate under a plausible cover and that they cannot be active participants in the cocktail circuit unless their cover demands it. The F.B.I. personnel and training is a good model of what is needed. I suggested that Bundy might talk to J. P. Coyne, the secretary of the P.B.C., if he wanted to explore this area further.

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I told Bundy first - and later the President.- that, having served five years with the P.B.C., I was anxious to have my resignation accepted following the last meeting of the old Board, which would take place early in January, 1961. My reasons were partly those which compelled me to decline a Cabinet post (the necessity for reducing outside activities because of deteriorating health) and partly a feeling of futility as long as the current set-up was continued.

The President asked me to continue to keep in touch with Bundy and to advise with him on steps which might be taken to improve personnel in certain areas, as well as to provide for continuation of the successor P.B.C.

Q. You refer to the last meeting of the old President's Board of Consultants. When did this take place?

A. The last meeting was, I believe, a two-day session on January 4th and 5th, 1961. After the January 5th meeting, the Board met with President Kennedy and I believe all of our resignations were submitted at that time, in accordance with the usual practice.

Following the meeting, Bundy asked me if I would stay on for an interim period as Chairman and I said that I could not. I suggested that Jim Killian might be persuaded to take the job temporarily until they got a new man. This suggestion was made in spite of the fact that the Board was getting to be heavily loaded on the scientific side but was inadequate on the military, administrative and conventional intelligence side. I emphasized to Bundy the necessity for having one or two men on the Board in whose judgment the President had great confidence. He asked for a sample and I suggested Clark Clifford as someone whom the President had consulted on other important matters.

Q. Was there any discussion with the President about getting a

new C.I.A. Director?

A. There was none directly with the President at this time but there were several with Bundy, in accordance with the President's request at an earlier meeting. A number of possible names were discussed but none combining a knowledge of the importance of intelligence, how to use it, and real administrative competence with strict discipline was presented, until McCone's name was suggested. I do not recall where the suggestion first came from but I supported it. McCone had several long talks with me about individual personnel and the necessity for getting a good Deputy from the Military Services and a good executive thoroughly familiar with the business. Lyman Kirkpatrick seemed to fill the latter bill and one of my former assistants in the Department of Defense, General Marshall S. Carter, was recommended by the Military and, to my surprise, accepted as Deputy Director. I dropped out of the picture thereafter.

Q. Moving now to another topic - the stock market break of May, 1962 - the record indicates that President Kennedy consulted you frequently during the period following the steel price roll-back in April, 1962 and particularly during the Stock Exchange break late in May. Will you perhaps give a brief outline of these discussions?

A. Following the steel price argument, which resulted in the price roll-back of April 9th, President Kennedy was regarded by a large section of the community and the public as being antibusiness. There was even stronger feeling directed toward some of his Cabinet and advisers on the ground that their action had been precipitate, irresponsible and amateurish and, in some instances, smacking of "a knock on the door at midnight" by F.B.I. agents. Particular criticism was directed at what

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was termed the arbitrary acts of attempted cancellation of contracts by Secretary McNamara, threats of income tax proceedings by the Attorney General, and various other forms of abuse of power. The reaction of the business community and the public was very bad and the President asked me to take soundings in the business community and let him know what such investigations turned up.

This was the start of a series of frank discussions about the relationship between government and business and the absolute essentiality of confidence by business in the fairness and impartiality of government if any economic progress was to be attained.

Q. Can you give an example of a specific incident to indicate the type of discussion?

A. I think a typical case was the discussion of the overviolent reaction by President Kennedy personally to the United States Steel price increase. I pointed out that a check with responsible people in industry before making any statement would have disclosed the fact that there was no unanimity of opinion as to the justification for a rise in prices and, on the contrary, a likelihood that a rise could not be sustained in many types of steel products. The President felt - rightly or wrongly - that he had, in effect, been double-crossed by the United States Steel in connection with the wage discussions. Even if this were so - and there was considerable doubt about this point - intemperate statements and wild-eyed over-use of government power could only do the country, the Administration and all business great harm. Having asked for an opinion, the President took such comments in good part, arguing his points persuasively and admitting that he had "got his Irish up."

Q. Didn't the break in the stock market follow this by one month?

A. Yes. A word about the background in the market may make the situation a little clearer to you. The stock market had been drifting downward from December, 1961. Prices of many issues were excessively high expressed in price earnings ratio, even after allowing for a depreciated dollar. From the beginning of 1962 the market declined in what is technically called a "trading range" and the decline accelerated following the April 9th steel price roll-back. This acceleration was, in part, a consequence of the technical position caused by a large number of small speculative investors getting frightened at the "antibusiness attitude" and the rumors of greater interference by the government in the future. All the ingredients were now present for a substantial stock market decline. This came in a severe break in market prices on May 28th.

About lunchtime on May 28th the President phoned me to ask what was happening in the market and to say that he was coming under severe pressure to have the government intervene and do something. He asked me two questions: First, what did I think was happening and, second, should he make any statement or try to do something about it through the Treasury.

As to the first question, I told him that I thought a decline in stock prices was long overdue; that confidence had been shaken, and that there was nothing more sinister in the picture than the accumulative effect of a certain amount of margin selling, always touched off by such a major decline in confidence. I told him that the banking situation and the majority of the brokerage houses were in good shape; that the borrowing on stocks was moderate, and that the situation was completely different from that of 1929.

On the second point, I urged him not to make any statements and, above all, not to try to peg the market or interfere with the normal process

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of letting it find its own level, which it would certainly do within a relatively short time - in not over a few weeks, according to our best guesses as to the pattern which might be expected in view of past market breaks. Naturally, we had been watching the situation carefully for some weeks so, as a result, the facts were pretty well in hand. The President asked me to call him later that afternoon or on receipt of any special news.

As I recall it, the market recovered a substantial portion of the decline over the next two trading periods and then resumed a normal drift downward until it hit bottom, about the third week in June. The usual rebound then took place and continued into August or September.

A few days after the first big break, the President asked me to come down to Washington again and expand some of the points covered in earlier and condensed conversations, with particular emphasis on attempting to identify the causes of the vulnerability of the market and their relationship to the economy as a whole. I remember spending Memorial Day, May 30th, writing out a brief "talking memo" and, after checking some of the points with two or three of the ablest men I knew in town, I went down on Friday, June 1st, and spent a long time with President Kennedy in discussing the considerations affecting the judgment of corporate managers on capital expenditures, the wage-price spiral, the different forms of inflation and, particularly, the very bad effect of excessive taxation on the accumulation of savings and venture capital, with special attention to the need for these elements in increasing effective production.

While discussions had taken place on tax reduction on several prior occasions, this was the first time that the subject was really explored in depth. I had prepared two examples of actual corporate cases in which excessive income taxation had adversely affected construction of additional plants, through postponement in one case and cancellation in another, to

permit accelerated automation, and one case of a recent new offering of a drilling process stock on an initial prospectus which showed a deficit for 5 preceding years and yet the speculators in the market valued the stock at 300% of the issue price on a 5-year earnings record of zero profits.

It was during these discussions that, I think, the basis of our friendship took root and flourished. In retrospect, I also have a feeling that this experience with public loss of confidence resulting from ill-advised executive action and a first-hand experience with the recuperative powers of our economy and the self-correcting capability of a free market, was important to the President in giving him a confidence in the sensitivity of the high-powered machine he was driving.

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