entation of the business community perspective.[98] The idea introduced by Greenewalt was the notion that many large corporations were currently beset with excess capacity that might well be put to profitable use were a tax cut enacted that enlarged consumer purchasing power. And though the Kennedy administration had already introduced changes that promised to spur growth and investment with direct supply-side initiatives, it was this notion of demand-led growth and investment which seemed to captivate the President and to dovetail most favorably with the thinking of Kennedy's chief economic advisers.[99]

For the remainder of the day, the President had a series of short meetings with Under Secretary of Commerce Clarence "Dan" Martin, Dean Rusk, Larry O'Brien, George Gardner, and Senator Thomas Dodd of Connecticut. He did not tape any of them.

Friday, August 10, 1962

The press reported the morning of August 10 that the President would not make his decision on an immediate tax cut for another week. Welcoming Wilbur Mills into his office at 9:30 A.M. for the second time in four days, the President needed to put an end to this policy debate. Although he and the powerful legislative leader disagreed over the advantages of a temporary tax cut, Kennedy had reason to be grateful to Mills. The House Ways and Means Committee, which Mills chaired, had just concluded two weeks of hearings on the tax cut without issuing a statement of any kind, though Kennedy assumed the committee opposed it. This had bought the administration some time, and now Kennedy wanted to talk with Mills about what came next.

The President had likely given up on getting a quickie tax cut in 1962, but he remained committed to some kind of significant tax relief in 1963. He would need Mills's support for that. Following their 30-minute chat in the Oval Office, which Kennedy did not tape, the President invited Mills to sit in on an administration discussion in the Cabinet

98. See "Meeting on the Tax Cut Proposal," 10 August 1962.

99. The supply-side initiatives were a 7 percent investment tax credit, wending its way through Congress at this point, and the accelerated depreciation guidelines, already enacted by executive order earlier in 1962.

Room about the pros and cons of tax cuts. In the room would be Paul Samuelson of the Massachusetts Institute of Technology (MIT), one of the first and certainly among the more eloquent proponents of a tax break for the American people. Kennedy wanted Mills to hear Samuelson's views. It was also useful for the Kennedy team to listen to Mills, to sound him out on how quickly tax cuts could be enacted. The timing was important. Kennedy did not want his tax initiative to take so long that the economy slid into a recession.

After the President and Mills walked over to the Cabinet Room, the meeting began. Kennedy decided to tape it.

10:10–11:10 A.M.

Thinking about a tax cut next year, we've got a major budgetary problem because we're going to have a deficit. So we're going to have to cut taxes at the time of a deficit. As long as we don't have an inflationary problem, do you see the cutting . . . running a prospect of a two- or three-year deficit as a very serious problem?

Meeting on the Tax Cut Proposal[1]

Continuing to solicit advice on the knotty tax issue—having met just the day before with five business leaders—President Kennedy convened his domestic policy advisers to decide, finally, whether to go for an immediate, or quickie, tax cut in 1962. Uncertain of the proposal's merit and status within a jumble of strong congressional concerns, lukewarm economic numbers, and commitments to the long-range goal of tax reform, Kennedy asked his principal economic advisers to make the strongest case for or against an immediate and temporary tax cut before he killed it three days later, as he suggested he would on August 6 to Chairman Mills.

1. Including President Kennedy, Gardner Ackley, David Bell, C. Douglas Dillon, Henry Fowler, Arthur Goldberg, Kermit Gordon, Walter Heller, Luther Hodges, Wilbur Mills, Kenneth O'Donnell, Robert Roosa, Paul Samuelson, Robert Solow, Theodore Sorensen, Elmer Staats, James Tobin, and Robert Turner. Tape 10.2, John F. Kennedy Library, President's Office Files, Presidential Recordings Collection.

"Send me down some good economists," Kennedy told Harvard law professor Archibald Cox in August 1960, launching a tutorial that would continue unabated throughout his presidency. And though nagging questions remained to the very end, by the time he convened this meeting, the President was very much in tune with the logic and analysis of advisers such as CEA chair Walter Heller and MIT economist Paul Samuelson, the latter being Kennedy's first choice as the council's chair who, as this meeting will attest, remained an important outside consultant even after turning down Kennedy's offer. Chastened somewhat by his recent (April 1962) showdown with steel companies over wages and prices and by the adverse stock market reaction in May, the President still exhibited an unshaken faith in his economic advisers and a newfound confidence in his own ability to comprehend the economic prescriptions they had offered for his consideration.[2] "Throughout Kennedy's presidency," James Tobin recalled, "Walter Heller taught him economics; we others helped, but no one could match Heller's knack of making points in concise readable colorful language. The President was an apt pupil, intrigued by the subject intellectually as well as pragmatically."[3]

On June 7, 1962, at a White House press conference, President Kennedy announced his intention to seek a tax cut that was *not* revenue neutral. Four days later, in an address at Yale University, Kennedy assailed the prevailing and popular mythology that marked this type of initiative unwise or foolish, insisted that government debt and the deficit were bad things in and of themselves, and convinced many that economic cycles were natural and unavoidable. Beseeching his audience to discard these myths and others like them, he urged the Yale graduates to move beyond the "reassuring repetition of stale phrases to a new, difficult but essential confrontation with reality."[4] Called the "key manifesta-

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2. The Dow Jones industrials, for example, had plunged from approximately 740 to 560 by the end of May. With price-earnings ratios that averaged approximately 26:1 just before the drop, many saw the stock market plunge as an event that was simply waiting to happen. Walter Heller noted that, in this case, Wall Street was a victim of its own propaganda regarding a squeeze on profits, while John Kenneth Galbraith read the drop as a positive signal, suggesting that it implied public respect for the administration's inflation fighting efforts and the resulting recognition that common stocks would no longer appreciate forever for reasons of inflation [see William J. Barber, "The Kennedy Years: Purposeful Pedagogy," in *Exhortations and Controls: The Search for a Wage-Price Policy, 1945–1971,* ed. Crauford Goodwin (Washington, DC: Brookings Institution, 1975), p. 177].

3. James Tobin and Murray Weidenbaum, eds., *Two Revolutions in Economic Policy: The First Reports of Presidents Kennedy and Reagan* (Cambridge, MA: MIT Press, 1988), p. 6.

4. "Commencement Address at Yale University," *Public Papers of the Presidents, John F. Kennedy, 1962* (Washington, DC: U.S. Government Printing Office, 1963), pp. 470–75.

tion of JFK's conversion to the New Economics," by CEA economist Arthur Okun, the Yale address signaled, at the very least, that President Kennedy was now eager to transform political rhetoric into substantive economic policy change.

By the time he met with his economic policy specialists this August morning in 1962, President Kennedy believed that, given the existing circumstances, deficit spending was economically appropriate but politically uncertain, that a recession remained a distinct possibility in the coming months, that accelerating inflation was very unlikely, that increased purchasing power was what the economy needed most, and that tax reform—including new supply-side incentives—remained a feasible and perhaps necessary adjunct to tax reduction. How to succeed with Congress, when to call for the tax cut itself, and how to be certain of its medium- or long-term effectiveness were the questions foremost in the President's mind as he commenced the following discussion.

President Kennedy started recording as Walter Heller briefed the group on the latest economic figures.

Begins in midconversation.

Walter Heller: . . . you'd find in unemployment, and the rebound in total retail sales, particularly automobile sales. I guess the poorest news was the downturn in housing activity and the further decline in the factory workweek. I'd say, by and large, the July indicators confirm an outlook for a continued slow advance in the economy. They do not indicate a recession in the next few months, but it is still a possibility because the pace of advance is slow.

Now, as to some of the specific figures . . . as you know, unemployment dropped to 5.2 percent. Retail sales rose about 2 percent which brought them back to their May levels. Sales of new autos ran at about 6.9 million apace on an annual basis. The industrial production index, which won't be announced for a couple of days, will probably be up a point.

Luther Hodges: One eighteen-seven, we just got it, preliminary, through Mr. Dillon.

President Kennedy: Well, they're just . . . they're going to round it out, aren't they?

Hodges: Yeah.

President Kennedy: Say, one point?

Heller: Yeah, I agree. It rounds out as far as public information is concerned; that means a rounding up from 118 to 119. Personal income increased at a slow rate, but it increased. Nonagricultural payroll employment rose about 124,000 . . . that was equal to the average of May and June. Those are all on the plus side. On the minus side, housing activities, I'd say, declined. Factory workweek declined. And we have an advance report on the capital appropriations by manufacturers in the second quarter.

President Kennedy: That's the *Newsweek* one?

Heller: That's the *Newsweek* one; that went down 10 percent. Ones that aren't in yet are housing starts and construction contracts.

President Kennedy: When do you get those?

Heller: Those will come in next week.

President Kennedy: Yeah.

Heller: Thursday.

President Kennedy: End of the week?

Heller: But—

President Kennedy: [*Unclear.*]

Heller: —about Thursday. Building permits we got an advance notice on this morning. They're holding at about . . . holding about level with June. New orders for durable goods, inventories, and manufacturers' sales are the other three that will come in. Questions on the meaning—

C. Douglas Dillon: One question I wanted to ask you: I notice that construction, new construction, was down about $900 million, oh . . . from June to July, but the entire decline was in the governmental field.

Heller: Yep.

Dillon: And it . . . I also noticed, when I look back last year—when we were starting up like this—that the exact same thing occurred. There was a billion dollar decline in the flow of governmental [*unclear*] and it was all picked up promptly in August. So I wonder if that might be some sort of a statistical aberration or something like that?

Heller: Well, I . . . well, I don't know. I think it's important, though, to point out that it was—

Unidentified: Private construction activity.

President Kennedy: Why is that . . . oh, private not . . . why did the government decline?

Dillon: Well, as I say, it may be a statistical aberration of the way they use—

David Bell: It's news to me, Mr. President. I haven't heard about this figure before.

President Kennedy: Paul?

Bell: We'd better check it. It may well be a statistical aberration.

Heller: But that's [*unclear*] federal, state, and local, of course?

Dillon: Yes. Federal, state, and local—all of them.

Bell: The summer is the construction season, right? [*Unclear exchange.*]

Dillon: Something [*unclear*] counting last year. This is the season—

Kermit Gordon: It needs the right adjustments.

Unidentified: Seasonal adjustments.

Dillon: Seasonal adjustments.

President Kennedy: Back to the drawing board. What are the . . . maybe we could just check that.

Bell: Right.

President Kennedy: Because it is peculiar, the end of June . . .

Bell: Yeah.

President Kennedy: I guess we'd—

Arthur Goldberg: I'd like to mention something about the unemployment figure. It's not as good, actually, as it sounds. You've got about a 5.3, and rounded out, a 5.345. If it had gone up an extra five one-hundredths [*sic*] it would have been reported as 5.4 . . . see?

Unidentified: Yeah.

Goldberg: Actually, they round it out. They round . . . so it was 5 . . . it fell to 5.345.

Robert Solow: Not only that, but the whole decline in unemployment is a decline in the labor force, so there's no increase—

Goldberg: The labor force figures are absolutely . . . we're not going to show—I mentioned to Wilbur, Wilbur's committee—we're going to show a total increase in the civilian labor force this year of only 150,000.[5] That's against a progressive increase—which would include the military, of about 350,000—of over a million. So we really have had a very dramatic lack of increase in the labor force this year.

Dillon: I was talking to Stan [*unclear*] about that yesterday and he says that they didn't know whether that was a good sign or a bad sign. He said it was just . . . didn't know enough about it to know.

President Kennedy: Well, Walter Reuther says it's because they've gotten discouraged working, but I don't think that could be. . . .[6]

Goldberg: No, no . . .

President Kennedy: That can't be it.

Goldberg: That's too glib.

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5. Wilbur Mills (D-Arizona), chairman of the House Ways and Means Committee, was also present at this White House meeting. Mills had met privately with President Kennedy to discuss tax cut proposals just four days earlier ("Meeting with Wilbur Mills on the Tax Cut Proposal," 6 August 1962) and stressed both the importance of timing and his appreciation of how administration economists and business leaders differed on the desired type of tax cut (creating added purchasing power versus incentives for capital investment).

6. Walter Reuther was the president of the United Automobile Workers, 1946 to 1970.

President Kennedy: There's more to it than that.

Goldberg: It's a combination of three factors . . . we're going to develop some figures. It's a combination of three factors: one is the older people are retiring because of the improvements in Social Security.

Unidentified: Sure.

Goldberg: Second, we're making a little hay among the youngsters about staying in school . . . which is good. I mean, both of those developments are good developments. The third is probably the decline of adequate job opportunities. The women in the middle ages are not going into the labor force at the present time in the same proportions that they had been going in previously.

President Kennedy: Yet, would they be . . . I wouldn't think . . . or is this so . . . Arthur, is that the group that would find it particularly hard to get jobs?

Goldberg: No. The funny part is that even . . . I can't make it that category because the women beyond that age are going in and finding jobs—over 45. It may be a good development. It may be that the factory earnings what they are, and the workweek coming up, there's enough money in the family so they don't have to go into the labor market. It doesn't mean, necessarily, a bad development, but it's what's happening.

President Kennedy: Do we have any figures on factory earnings—

Goldberg: Yes.

President Kennedy: —In July?

Goldberg: Factory earnings in July were . . . fell 71 cents; $96.56 for average weekly factory earnings. The decline, even in this little amount, is due to the fact that the hours have dropped.

President Kennedy: By that point-three-tenths [*sic*]?

Goldberg: Point-three-tenths [*sic*] from June. Instead there are 40.4 hours. It's over 40 hours.

Heller: It should be noted on these unemployment figures that manufacturing unemployment increased, or manufacturing employment dropped. Isn't that right, Arthur? You haven't talked about June or July.

Goldberg: That's right.

President Kennedy: Did anybody . . . we got some charts of the '49 . . . '48 and '49 period, the '53–'54 period, the '57–'58 period, then '58–'59. We ought to see if the '60–'61 period, then this . . . . Is there . . . they're all . . . there isn't any general pattern, is there, that is . . . fairly foreshadows a—[7]

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7. These are all periods of economic recession.

Dillon: You mean by these indicators?

Paul Samuelson: Well, my recollection is that in the '53–'54 and the last three recessions—not the first one, the '48 . . . I don't remember that—the leading indicators went down very early, and then there's a long period of shallow, just holding on. And it looks as if that's about what's happened here. And it would have seemed surprising if we actually had the downturn in the middle of the year, as some people thought, in terms of that previous pattern, because just applying the previous methods, there's quite a lag between when the indicators first begin to go down. . . . That they cried wolf too soon, [*unclear*] too soon, some as early as the, as May of '56 they were already calling the downturn which didn't come until the summer of '57.

President Kennedy: Yeah.

Dillon: One other thing that's interesting here, remember we talked about this fallback in government expenditures, and that's been reflected now in some revised GNP figures which showed that the total federal government purchases are half a billion less than they originally thought and were only identical in the second quarter with the first quarter. There's no increased [*unclear*], and all our projections show that there will be increases after we find out who borrowed from [*unclear*] at this time. So if there will be bigger increases, then we have to expect it in the third quarter, you see?

Bell: Most of what didn't happen in the spring isn't going to happen at all, because of this . . . differences in agricultural price supports and differences in housing financial transactions. And so that there's not something pushing forward . . .

Dillon: But housing things don't come in under federal goods and services.[8]

Bell: That's what I mean.

Dillon: No, but let's say I'm talking about this divergence of federal goods and services—down—

Bell: Uh-huh.

Dillon: —about 500, not your budget figure . . . a billion [*unclear*].

Bell: Well, our figures show only about $350 million pushing forward into [*unclear*] year.

Dillon: Well, that's . . . that's it. That would compare with the 500 million or so.

Bell: But I have it less here.

8. Government loans or government-backed loans are not included in the national income accounts budget.

President Kennedy: Well there's a quarter . . . now, let's say, for this, the . . . what are our expenditures going to be—the amount of money actually going into the economy—and where is the fourth quarter compared to the first and second?

Bell: He's using a . . . Doug is using the income and product figures[9]—purchase of goods and services by government. You've got the figures there, Doug, do you?

Dillon: Yes, we have figures that we've estimated that we all agree on. Now the figures were . . . sixty-one-nine for the first quarter, sixty-two for the second quarter, sixty-two-eight estimated for the third quarter, and sixty-four for the fourth quarter.

Bell: Yeah, that's right.

Dillon: This thing is—

Bell: Yeah.

Dillon: Sixty-two and the [*unclear*].

Unidentified: [*Unclear.*]

Dillon: [*Unclear*] increase it a billion, another billion in the third quarter and another billion there. So it's roughly a billion. So it's going to be a quarter . . . well, roughly a billion every quarter right through. We go . . . we start at '62 . . . we go to roughly—

Bell: Yeah. One, two, three, four.

Dillon: —in '63, '64, '65, '66.

President Kennedy: How about other expenditures? They go . . . they go up a billion, don't they? This goes up another billion in the fourth quarter. What's the significance of the phrase "other expenditures" then?

James Tobin: Nondefense expenditures.

Bell: Nonnational . . .

President Kennedy: [*Unclear.*] It says "purchases of goods and services," and then it says "other expenditures." What's that mean, now?

Unidentified: I don't know.

President Kennedy: Why do we separate goods and services and other expenditures?

Bell: I'm not looking at the same table.

Dillon: I don't . . . I don't know what that other [*unclear*].

Goldberg: Mr. President, you asked about the unemployment figures prior to [*unclear*] periods. And it's . . . you may notice that if you'll put together the [*unclear*]—

9. Figures associated with the national income accounts budget. See the definition of this budget in note 10.

Bell: This is the other half of the other parts of the budget, Mr. President, including—

Unidentified: Salaries and trust payments.

Bell: No, salaries would be in here, because you deduct social services first, but this would be the transfer payments of various kinds.

President Kennedy: Now they're going up, aren't they?

Bell: Yes.

President Kennedy: They'll go up one billion in the third quarter . . . another billion in the fourth?

Unidentified: Roughly.

Bell: No, less than that. This is . . . these are the federal expenditures, national income base, total expenditures during the year.[10]

Goldberg: You know, if you put this little piece along with what you have—I've managed to mangle it up trying to get it out of my folder—you'll see that in the . . . all those prior periods, the unemployment rate dipped lower and started to rise later than is happening now. That's part of the problem. If you look back to '48—

President Kennedy: Yeah.

Goldberg: —and '54, and '58 [*unclear*] now. That the chart indicates [*unclear*].

President Kennedy: [*Unclear.*]

Goldberg: Also it's true that at some point they went up higher. And the recession was a deeper recession than some of the prior ones.

President Kennedy: What is the highest it has been since the . . . World War II? Is that '49?

Goldberg: Forty-nine. See, it went up past seven to—[11]

Unidentified: Oh, but that was a coal strike. That was just one—

President Kennedy: Incident.

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10. The national income accounts budget differs from the traditional administrative budget in that it (1) includes trust fund activity (Social Security, transportation, unemployment compensation, etc.), (2) records transactions on an accrual rather than on a cash basis (when liabilities are incurred rather than when cash changes hands), and (3) omits transactions in financial assets and already existing assets (loans extended by the federal government, etc.).

Because the trust fund activity was so large (approximately $25 billion for FY 1962) and because there was often a significant difference between accrued corporate tax liabilities and actual amounts rendered during a period of rising economic activity (an estimated $3 billion for FY 1962), the national income accounts budget would better reflect actual economic impact and would also produce substantially different deficit-surplus budget figures.

11. The civilian unemployment rates for 1949, 1954, and 1958, respectively, were 5.9, 5.5, and 6.8 percent. By comparison, the first two years of the Kennedy administration, 1961 and 1962, registered unemployment rates of 6.7 and 5.5 percent.

Unidentified: One incident.

Unidentified: Yeah.

Unidentified: Yeah.

Goldberg: The long coal strike?

Unidentified: Yeah, the '58 figure is, I guess, the worst in the postwar period.

Goldberg: We're talking a [*unclear*].

Unidentified: Seven and a half.

Unidentified: Seven and a half percent.

Bell: Summarizing on those government expenditures, Mr. President, I think it's accurate to say that the government outlays, the purchase of goods and services and other kinds of outlays, will be rising slowly through the next several quarters. These expectations have all been taken into account in the economic projections that have been put before you and that have been placed before the committee by these various outside economists and so on. These figures are all public and well known. Those who say that we're going to have a sidewise movement, a downturn, or a very slow upturn are all basing those judgments on figures which include these projections here.

President Kennedy: Professor Samuelson, would you care to . . . ?

Samuelson: Well, I would . . . my own summary would be that if the case for a tax cut had to rest on disaster figures in July, the issue is already resolved. The July figures are a little better than might have been expected, even better in some of the aggregates.

I think that—speaking now noneconomically—that that's quite important politically because it makes it more difficult to identify a downturn with any particular governmental action that—

President Kennedy: I heard your point. There isn't any doubt that the longer we go from the May–June stock thing . . .[12]

Samuelson: Yeah.

President Kennedy: Politically it's to some advantage. And, in addition, the more of these figures come out about the difficulty in Germany and all the rest . . . all this changes somewhat this from being a personal to being a national problem.

Samuelson: Yes, and it isn't just politically in the sense of elections, but—

President Kennedy: Yeah.

12. The precipitous decline in all stock market indices registered in the wake of Kennedy's showdown with the steel industry over wage-price agreements.

Samuelson: I never trust historians getting anything right, but they're too tempted to get things very wrong. If certain things happen very close together then they take a superficial explanation.

So I think that's a very significant indication of July's figures. It also pretty much precludes, in my mind, the notion that we've already had a downturn—which you couldn't rule out. I mean, that's your last kind.

Now the question is that it may have very great implications for the political feasibility of any action right now, maybe [*unclear*]. But I've tried to address myself to the economics of the situation just to see what difference the July figures make in my mind on that. And although a lot of the July figures are incomplete, we do have one month's more figures on even things that aren't available in July. And it's sort of a mixed bag there. It looks to me as if any initial shock of the stock market, precipitating a drop-off in the discounted . . . now on the basis of the July figures—

Goldberg: Paul, can I interrupt you for one point?

Samuelson: Yeah.

Goldberg: What would be the effect . . . I got some information which has to remain confidential, that Republic Steel—Tom Patton came in to see me the day before yesterday—he said they're going to have to announce a reduction in their dividend at their annual meeting, which may set off, in other steel companies, the same thing.[13] Their dividend is three dollars and you cut it to two on August the 22nd because they say they're not earning their dividends. [*Unclear exchange.*] I raise that as to whether we're not going to have another stock market reaction.

Dillon: Well, I think . . . the thing about other steel companies, the important thing there is that . . . the fortunate thing is that Bethlehem[14] and U.S.[15] have already taken their action. They—

Heller: This . . . this quarter.

Dillon: [*Unclear*] it was a difficult thing.

Samuelson: That was a glancer.[16]

Dillon: They don't, but there's—

Samuelson: But the real psychological danger has been averted now because U.S. Steel and Bethlehem have; even in the subsequent . . . maybe in a quarter from now—

Dillon: Yeah.

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13. Thomas F. Patton was president of Republic Steel Corporation.
14. Bethlehem Steel Corporation.
15. U.S. Steel Corporation.
16. Glancing blow.

Samuelson: —go down, but it won't be bunched up all together. . . . That's the big point.

Goldberg: See [*unclear*], I fear this—

Samuelson: Yeah.

President Kennedy: Do you think he's attempting to put it . . .

Goldberg: Well, he came in as a matter of courtesy, and he says on the basis of their earnings that they have to recommend to the executive officers that they reduce their dividend, and they will do that when they meet on August 22nd.

President Kennedy: Where would they have been if they had put in . . . with that price increase with all . . . with the difficulties?[17] What would have happened there?

Goldberg: Well, they say—

President Kennedy: What do they say now?

Goldberg: This may be a move for a price increase, Mr. President. That's what may be behind it. They may say they just can't meet their dividends and that the only way . . . and since operations—even in the last quarter—don't promise to be much better, they think they'll be improved some.

President Kennedy: But you think they probably—

Goldberg: Their only way is . . . to pay their dividends is to increase their prices.

Unidentified: [*Unclear.*]

Gordon: Well, you remember the steel companies, Mr. President, raised their dividends very sharply in 1956–57?

Goldberg: Yeah.

Gordon: Some, I think, even doubled their dividend on the basis of a rate of operations which was then around 90 percent of capacity, when they were earning, clearly earning enough to cover these higher dividends.[18] Now that they're running at about 50 percent of capacity, they simply can't . . . they closed—

Dillon: U.S. Steel is threatening to demand to cut their dividend unless we get the investment credit or unless the . . . oh, there's an indication that there's going to be some tax action and they can sort of stag-

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17. The steel price increase of 10 April 1962 was rescinded after Kennedy moved against the action he considered both unfair and in violation of an earlier unofficial agreement.

18. Kermit Gordon, among Kennedy's economic advisers, was the most familiar with the steel industry's costs and pricing strategies and was the principal figure who urged that the wage-price guideposts be applied first in the early 1962 steel industry–labor contract negotiations.

ger along for just another period, because the first half of the year they earned . . . $1.50, $1.52 and the dividend was $1.50.[19] And they've had a labor increase the 1st of July which will add to that. And, the 3rd quarter it'll be down, their production, so they'll come way short.

Goldberg: Well, Doug, they . . . let's say I think their dividend is too high, so—

Dillon: Well, that's—

Goldberg: They show . . . part of the projection that they showed me was that with the tax credit, with the depreciation allowance—which actually cuts down their profits on the surface—and with an anticipated permanent tax credit at the rate of operations, of course, that they're going in now, they can't earn their dividends at Republic with all, I guess, with all those tax features.[20]

Tobin: On the other hand, I think Inland Steel covered their year's dividend the first half of the year.

Goldberg: Oh well, Inland is sui generis. Joe . . . Joe Block did so much better than any . . .[21] But what I worry about . . . the reason that I mention that, Paul, is that knowing the way the steel industry operates—even in these days with a vigilant look on the part of Bobby at their operations—this indicates to me a movement by the steel industry to cut their dividends.[22]

Dillon: Well, U.S. Steel would have cut—

President Kennedy: Cut their dividends.

Dillon: U.S. Steel, I think, would have cut their dividends this time if they hadn't felt it would—

Tobin: Public reaction . . .

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19. The Kennedy administration had proposed both an investment tax credit (signed into law at 7 percent) and a change in IRS Bulletin F depreciation guidelines (accelerated by executive order) as a means to spur new investment and garner additional business support for the administration's overall economic strategy. At the time of this meeting the new depreciation guidelines had been enacted but the investment tax credit had not yet been signed into law.

20. Accelerated depreciation guidelines were issued in 1962 by President Kennedy's executive order. They allowed a more rapid writing off of capital investments and equipment and, as a result, larger depreciation charges on the affected company's balance sheet. This change diminished reported profits but increased corporate cash flow (by an estimated $1.5 billion for 1962).

21. Joseph L. Block was chairman of Inland Steel Company.

22. Robert "Bobby" F. Kennedy was U.S. attorney general and ostensibly the overseer of the antitrust division of the Department of Justice, headed then by Lee Loevinger. Though the Federal Trade Commission—headed then by Paul Rand Dixon, former counsel to Senator Estes Kefauver's Antitrust and Monopoly Subcommittee—had primary responsibility for the antitrust analysis of mergers and acquisitions, the Justice Department generally exercised responsibility for the policing of price-fixing and the criminal activity implied by such action.

Dillon: —cause public reaction that would upset things at this time, and they wanted to carry on just as long as they could. Blough talked to me two or three days before the meeting . . . He said, well, he didn't know what they were going to do but that they realized this was a very serious thing and that they'd look at it in the national interest and so forth.[23] I thought that meant that they were just going to keep it on. They did keep it on, but—

Goldberg: Well, I raise this because of the possibility—

Samuelson: Well, I think that . . . I think that—

Goldberg: —of a stock market reaction.

Samuelson: —in terms of simple business prudence without any politics, which is very understandable, the implication of it to me is that I believe the 2nd quarter profits are now . . . estimates are now available—which weren't yet available when we met last—and they aren't good.

They are . . . they do indicate, which is an open question, what I thought would be resolved in this way, that the fourth quarter of last year probably would have peaked more profits. So from now on there will be a lot of companies that if they don't have the increase in GNP . . . but experience shows that in order to hold profits constant you can't just hold GNP constant. At this stage of the business cycle you have to have an increase.

So the profit picture is, I think, in overall totals, I think this year is somewhat down. And Ed and Mark, will have to reckon with that; everybody who receives their list will have to reckon with that.

Goldberg: So we may not be through our stock market reaction. That's the point I wanted to make.

Bell: Hmm . . . yeah.

Goldberg: Well, now, just return to two things at this point—

Dillon: Though . . . because I think the stock market itself . . . oh, just looking at it, is on the high side of values and whether it will go forward[24] . . . but it's a . . . I would hope that any reaction that is ordinary and [*unclear*], that if it goes down that it goes down gradually and you don't have any more of these [*unclear*] in services which you . . .

President Kennedy: [*to Paul Samuelson*] Continue what you were saying.

Samuelson: Well, I would . . . I am now addressing myself to the

23. Roger M. Blough was the chairman of the board of U.S. Steel Corporation.
24. Price to earnings ratios. Secretary Dillon is reminding the meeting participants again of the relatively high ratios that prevailed before the May decline.

coward's way to the pure economics of the problem. I would say that there is nothing in the July figures that I've seen that would shake the majority viewpoint that we're in the final stages of a boom which will peter out the way booms have petered out in the postwar—not with a sharp peak and then down but just hold on, hold on, then finally go off.

And the majority opinion now that it has . . . resolved it wasn't . . . the turn didn't come midyear but probably, say, around the turn of the year. The more optimistic view would be the middle of the year . . . that the thing could go on until the middle of the year. I'm not aware that, from the pure economics of the case, that a tax reduction is affected by which of those views is right, because it's . . . Take these arguments for a tax reduction. There's, first, that the early action is the efficient and, in the end, the dollar-saving action. Well, we still can take the action while it's early if we want to do so now. It also, just in terms of the timing of the different deficits, I think, might have a politically slightly better timing. Rather than throw a big deficit into fiscal '64—which to my mind is going to be the bigger deficit—you could move a little bit into fiscal '63. Also, the total amount of the deficit, if you have early action that gives promising effect, it ought to be smaller. That part is the same.

The argument that—against too early action, in the past . . . I think a very powerful and good argument has been there's always been a danger that you'd keep up an inflationary boom and that there'd be a price increase if you acted prematurely. This time I don't know any group who argue that there's a price inflation danger from a tax reduction. I happen to think that a tax reduction, in the short run, is in line with the general direction of the intermediate run: a change in the tax structure that's needed. I speak now not in terms of qualitative change, but quantitative change.[25]

And . . . and, finally, this hanging-on period means very slow growth and justifies the tax in . . . the tax cut.

President Kennedy: Paul, I have just two questions for you.

Samuelson: Yes?

President Kennedy: First, let's say we had between a 5 and 6 billion dollar tax cut now that would put 5 or 6 billion dollars more into the economy. But would that mean that we're just going to postpone, say for six months, the downturn? Why would 6 billion dollars now give a . . .

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25. Though President Kennedy eventually separated the two issues and then dropped most large-scale efforts at tax code reform, a tax reduction and tax reform were, at this point, considered equally critical policy proposals.

enough of a thrust to keep this thing going?[26] Of course, to answer that question you'd have to . . . I'd like to ask you the question coming first: Why is it that this boom and downturn has been really so short? First—

Samuelson: Yes. Well, I . . . let me, let me an[swer] . . . try to answer that question. As far as I can see, the thing has been so short because in the private investment sector—taking into account the level of capacity, taking into account the need for cost reduction, the availability of funds, and all the rest—there just has been no . . . no plus signs working for us. There hasn't been any keenness to invest in advance. Business is pretty liquid; it promises to become more liquid if some of the things that we're going to do for it go through.[27] But the plant equipment thing has just not been like the first postwar period.

Let's take the 1948 downturn: it hasn't been at all like the '56–'57; it hasn't had that feel at any time. It would be whistling in the dark, it seems to me, to dream up that kind of buoyancy in the private economy, though. The things we do are going to help but you can't just put in a drop of water into the pump and then think the pump is going to start spilling forth things. At least there's no evidence for it . . . for that. Now, I think in the case of the tax reduction—[28]

President Kennedy: Well, let me just ask before you go on . . .

Samuelson: Yeah?

President Kennedy: In other words, what . . . the unused capacity is so great in the economy that there really isn't an incentive for more investment than modernization or technological changes require. But

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26. This was a reiteration of a question Kennedy had been asking his advisers since the 1960 presidential campaign. "You know," Kennedy asked Walter Heller in October 1960, "Paul Samuelson tells me that I can turn a $500 billion economy around with about a $5 billion tax cut. How is that possible?" [see "Walter W. Heller," in *The President and the Council of Economic Advisers: Interviews with CEA Chairmen*, ed. Erwin C. Hargrove and Samuel A. Morley (Boulder, CO: Westview Press, 1984), pp. 172–73]. Okun's law, the product of research undertaken by CEA staff economist Arthur Okun, was in part an attempt to answer this question. Underscored principally in the January 1962 *Economic Report of the President*, Okun's law estimated that an extra 3 percentage points in unemployment meant a 10 percent gap between actual and potential GNP.

27. The estimated increased cash flow to corporations resulting from administration plans to change depreciation guidelines and to introduce an investment tax credit was $2.5 to $3 billion.

28. Despite the overarching emphasis on government action in the pronouncements of the Kennedy and Johnson administrations on economic policy, both Presidents and virtually all of their key advisers labored to point out that the response to new policies and changes initiated mostly in the private sector were just as critical to economic performance.

doesn't that indicate that . . . that's the situation we're going to face all through the sixties?

Samuelson: Uhh . . .

President Kennedy: It looks rather that way?

Samuelson: Well, I would avoid long-term forecasting, but I would say for the next three or four years the burden of proof would be on somebody who turned it in the other direction.

Dillon: There's a big—

Samuelson: Yeah.

Dillon: —school of thought that thinks that we're . . . this is . . . always has thought that this is the most difficult time, up until about, I'd say, '65 when the mass of war babies—the bigger increase in population—begin to get married, go on to form homes, and become real consumers on themselves. And at that point that there would be a lifting effect.

Samuelson: And also getting the economy moving does help. You can take industry after industry—the paper industry and others—where they're growing into their capacities slowly and it's—

President Kennedy: Well, now, yesterday we had Mr. Greenewalt here.[29] He said they had the best year in their history; they're up 8 percent. But he said they're only using 80 percent of their capacity. They still have 20 percent more and while they're . . . He said they're going to put in some . . . I don't know if it's between 250 and 300 million dollars for a new . . . And yet, obviously, there's . . . for every dollar they spend, they could save that extra 20 percent. This is an industry which is having a good year.

Unidentified: I don't . . .

President Kennedy: How do you see that . . . even if, therefore you . . . if this thing has run out of gas as quickly as it is, not because I had my fight on steel, or do you . . . How important, as an economic historian, do you consider that situation—

Samuelson: Uhh . . .

President Kennedy: —with steel?[30]

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29. Crawford H. Greenewalt, chairman of E. I. DuPont de Nemours; Roger Blough, chairman of U.S. Steel; Harold Boeschenstein, president of Owens-Corning; Alan Sproul, retired president of the New York Federal Reserve Bank; and Henry Alexander, chairman of Morgan Guaranty Trust Company, met with President Kennedy and Treasury Secretary Dillon the previous afternoon to discuss the budget and the tax cut proposal.

30. Often referred to as "The Battle of Blough Run," after the President's chief adversary in this situation, Roger Blough of the U.S. Steel Corporation, President Kennedy's fight with steel involved his efforts to rescind an April 1962 steel price increase that he believed to be a

Samuelson: I try not to be partisan.

President Kennedy: Yeah.

Samuelson: But I don't think that's the significant—

President Kennedy: That might have had an effect on the vigor of the stock market decline, but not on this basic economic problem of the tax cut.

Samuelson: No, it had an effect upon the rationalization and the degree of articulation of feeling.

President Kennedy: Yes. Well, that you know—

Samuelson: Uhh . . .

President Kennedy: —that kind of [*unclear*].

Samuelson: Yeah.

President Kennedy: But as far as just looking at the basic economic problem?

Samuelson: No.

President Kennedy: Well, if the problem is the . . . what we're talking about, I don't really see how much the $8 billion tax reduction, even if we did it today . . . Wouldn't that just postpone our troubles because our troubles seem to be that we're eating up our inventories? Is that what it's coming to?

Samuelson: No. I . . . my way of interpreting the mechanics is always just the reverse. This suggests to me that what you need is a tax reduction—and I want to comment on one part if I can. Some people think that what a tax reduction does is get you something at the beginning—with the announcement effect—then that wears off, now, what's your new gimmick? That isn't what I've . . . the way I think of it. I think of it as a change in the amount of the purchasing power in the hands of people, and every month, so long as the tax . . . the rate reduction is in effect.

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double cross perpetrated by steel company executives. Kennedy believed he had been given a tacit guarantee by the steel companies that if he could convince the steelworkers to sign a new contract with wage or benefit increases less costly than the 3.2 percent figure representing average industrial productivity, then they would hold the line on prices. On 6 April 1962 the steelworker's union signed a new contract with no wage increases and only a few cents' worth of benefit increases, well below the 3.2 percent target.

The President was taken by surprise, then, when U.S. Steel announced a 3.5 percent across-the-board price increase on April 10, followed by five other companies on April 11. Kennedy remarked to Ben Bradlee, "It looks like such a double cross. I think steel made a deal with Nixon not to raise prices until after the election. Then came the recession and they didn't want to raise prices. Then, when we pulled out of the recession they said, 'Let Kennedy squeeze the unions first before we raise prices.' So I squeezed McDonald and gave him a good statesmanship leg to stand on with his workers. And they kicked us right in the balls" [quoted in Benjamin C. Bradlee, *Conversations with Kennedy* (New York: Norton, 1975), p. 76].

So, I don't look for . . . I'm not as optimistic, for example, as the secretary is on the immediate effects of these different—I think even qualitatively. I just think the '54 code had an effect upon equipment.[31] It took years to take place. I think the investment credit will have its effect, but people have to sharpen up their pencils and . . . wake up.

Dillon: What about the effect of the tax cut, immediately, on demand, though? On consumer . . . . If you cut income, personal income taxes now, doesn't that reflect pretty quickly in—

Samuelson: Yes, but it's not by pronouncement effect.[32]

Dillon: Oh, no, no . . .

Samuelson: It's not because somebody reads in the papers that Mr. Mills has given him something.

Dillon: [*as Samuelson continues, below*] No, no . . . I never said that.

Samuelson: He finds at the end of the week that—

Dillon: No, I think it's just—

Unidentified: [*Unclear.*]

Goldberg: [*Unclear*] that Mr. Mills has given anybody anything. [*Laughter.*]

Samuelson: No, I was just speaking in the subjunctive.

Goldberg: Oh. [*Unclear exchange.*]

Wilbur Mills: Mr. Samuelson?

Samuelson: Yes?

Mills: Were you talking, in response to the President's inquiry, about a permanent tax reduction or a temporary tax reduction? I think it's very important, in answer to his question—

Samuelson: Yeah.

Mills: —what you mean.

Samuelson: I was thinking about a . . . an immediate tax reduction, but that was simply bringing in *earlier* a longer-lasting rate reduction.

Mills: Which would be a permanent reduction?

Samuelson: . . . be a permanent . . . yes.

Mills: Yes, thank you.

President Kennedy: Well, now, given the state of the economy and of the Congress, aside from all the . . . would you say that what we really should anticipate . . . Thinking about a tax cut next year, we've got a major

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31. The 1954 revisions in the federal tax code included some tax cuts.
32. The psychological, or "pronouncement," effect was precisely the factor highlighted by Crawford Greenewalt in the previous day's meeting with the President and Secretary Dillon.

budgetary problem because we're going to have a deficit. So we're going to have to cut taxes at the time of a deficit. As long as we don't have an inflationary problem, do you see the cutting . . . running a prospect of a two- or three-year deficit as a very serious problem? Increasing the size of the debt, increasing . . . I mean, obviously, giving the Treasury more of a problem as far as floating bonds . . . Is that a problem to you?

Samuelson: Are you speaking now in terms of the economics of the problem?

President Kennedy: Yeah . . . yeah.

Samuelson: I would say definitely it is *not* a problem. This is . . . I've just come back from Europe . . . this is something that they just can't understand in Europe, because in Britain . . . because they don't know what the deficit is the way we measure it. And I was talking to officials and they just can't understand why we wouldn't realize that if the private investment were sluggish, that that would mean for some period of time you'd want to have lower tax rates. And that . . . that I'd say would be what the doctor ordered for this.

President Kennedy: What is their debt, national debt, do you know? In England?

Samuelson: Uhh . . . Bob?

Tobin: I think that they must have a beauty, right now.

Robert Roosa: Yeah, it's about twice their GNP.

Samuelson: Yeah, oh, it's much heavier in terms of—

Roosa: And ours was about three-fifths of the GNP.

Samuelson: Yes . . .

President Kennedy: Twice their GNP?

Samuelson: Yes. Oh, it's much—

Dillon: But they, you know, they came through the war without writing off debts. They were the only country besides ourselves that did that. And so, therefore, they're saddled with this tremendous debt. Whereas, all these other countries, oh . . . started out at what was zero. [*Unclear*] their currency . . .

Solow: But that figure includes their local debt as well. We'd have to add in our local . . . state and local debt to be comparable.

Unidentified: Yes.

Roosa: And which might be true literally, then that . . . there's a change in ratio. Our ratio, then, would be four-fifths of the GNP.

Dillon: And theirs is twice.

Roosa: And theirs is twice.

Dillon: So theirs is still way . . . way ahead of us.

President Kennedy: In other words, then, you—from an economic point of view, in fact—you'd recommend our running—

Samuelson: I would recommend . . . I recommend it, in two senses. First, there is reason to think when you actually get into the figures that if you can keep the economy from going down and growing, that you . . . that capacity is . . . we're growing into our britches and so we'd get help from the private economy.[33] So . . .

Heller: Paul, at that point, it's worth noting—

Samuelson: Yes?

Heller: —that across the board, we're at about 87 percent of capacity. That's a . . . so it doesn't take—

Samuelson: Yeah.

Heller: —many more points to push industry to expand their capacities, if they like to operate at around 90, 91 percent of capacity.

Samuelson: And when you take the estimates that have been made . . . I mean take some of the governmental estimates that I've seen or take the Eckstein and so forth, when they put in the tax reduction, they pick up something.[34] It isn't that you're giving away a dollar of revenue and then there's no effect on the economy at all.[35] But I would go farther and say that if you didn't pick up anything—as would perhaps be the case in the Great Depression, in the 1933–34 period—every extra dollar of deficit . . . There was so much excess capacity that it wouldn't get you much in the way of private investment; the economic case would be . . . wouldn't be very strong.

And, in a way, it purely is a matter of arithmetic. If you don't get the private investment, naturally, and you have more people coming in all the time, you've . . . you have the need for production. To have that filled

33. Spurred by new demand and by relatively high capacity utilization, corporations would be likely to increase their capital investment, according to this conception.

34. The "Eckstein" is most likely a reference to the "Study of Employment, Growth, and Price Levels" promulgated in January 1960 by the Joint Economic Committee (JEC). This study is commonly referred to as the "Eckstein Report," after Harvard economics professor Otto Eckstein, who served as the technical director for the JEC study. It recommended a combined fiscal and monetary policy designed to achieve 4.5 percent annual growth in the U.S. economy. Eckstein would later serve on the Council of Economic Advisers in the Johnson administration from 2 September 1964 to 1 February 1966.

35. Never under the impression that the tax cut would pay for itself, in the short term, in new revenue added by growth, President Kennedy and his advisers, nonetheless, did believe in and count on the generation of some new revenue that would partly offset the revenue lost with a general tax reduction.

in by a more expansionary governmental policy—taking out less from the economy—makes sense in terms of the arithmetic. In other words, things have to grow . . .

The tape machine stopped.

Although his most persuasive economic adviser, Paul Samuelson, was still strong for an immediate and permanent tax cut, the President had decided not to go with even a temporary tax cut in 1962.[36] The July economic figures were not bad enough for the administration to make a case to Congress that the country was on the verge of a deep recession. Kennedy had not shown his hand in the taped portion of the morning meeting; but after it had ended, the White House announced that the President would be making a special television and radio address to the nation on the economy, Monday night. It was his fourth special address since January 1961.

On August 13, in an uncharacteristically leaden presentation that he would later describe as his worst as President, Kennedy would explain the reasons for postponing a tax cut and pushing for general tax reform in 1963. In an oblique defense of the *permanent* tax cut and the deficit spending he now sought, President Kennedy declared that recessionary deficits were different and that the federal debt, relative to our nation's expanding wealth, had steadily declined since World War II. "This administration intends to cut taxes in order to build the fundamental strength of our economy," the President intoned, "to remove a serious barrier to long-term growth, to increase incentives by routing out inequities and complexities and to prevent the even greater budget deficit that a lagging economy would surely produce . . . . And the right time for that kind of bill, it now appears in the absence of an economic crisis today . . . is January 1963." Reminding his listeners that he had "not been talking about a different kind of tax cut, a quick, temporary tax cut, to prevent a new recession," Kennedy wound down his presentation by noting that "timing is of the essence" and by noting his belief in the U.S. willingness "to bear the burdens of freedom and progress, to face the facts of fiscal responsibility and to share my view that proposing

36. The President may have tipped his hand a little when he asked Samuelson to describe the effect on credit markets of asking for a tax cut in the winter of 1963, when a recession would have already worsened the federal budget deficit.

an emergency tax cut tonight, a cut which could not now be either justified or enacted, would needlessly undermine confidence both at home and abroad."[37]

Tax cuts were not the only instrument Kennedy was considering to improve the condition of the U.S. economy. At the end of his meeting with Wilbur Mills on August 6, Kennedy had let drop that he was not as worried about the state of the U.S. dollar as he had been before. But he still thought about it. Besides the worrisome 25 percent drop in the stock market in the late spring, Kennedy had observed a huge drop in U.S. gold reserves, largely due to a sale of dollars by the French. Among the many factors that a U.S. president had to consider was the strength of the dollar. If foreigners did not want to hold it, then interest rates would have to rise or imports would have to be cut, either of which would mean more price inflation. Just as thoughts of Berlin had entered into Kennedy's discussion of the politics of a domestic tax cut, so too, would the problem of European defense stand behind this discussion of the dollar overseas. Kennedy believed the Europeans were not carrying their fair share of the burden of NATO. Nothing brought that home more vividly than the amount of cash that flowed out of the country to subsidize European defense. On July 30, the under secretary of state, George W. Ball, had assured the President that he had found a way to work with Treasury on this.[38] Ball had an idea for applying the concept of European burden sharing to the U.S. balance of payments problem. For a week the President's chief domestic policy assistant, Theodore Sorensen, had been working with Ball to be sure this idea could be acceptable to Treasury.

With the departure of some of his domestic economics team, Kennedy turned immediately to a discussion of international monetary policy. Advisers who served double duty like Sorensen, Paul Samuelson, James Tobin, Walter Heller, Kermit Gordon, and, of course, Treasury Secretary Douglas Dillon, stayed for both meetings.

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37. "Radio and Television Report to the American People on the State of the National Economy," 13 August 1962, *Public Papers of the Presidents, John F. Kennedy, 1962* (Washington, DC: U.S. Government Printing Office, 1963), pp. 615, 616–17.
38. See "Meeting on Europe and General Diplomatic Matters," 30 July 1962.

11:20 A.M.–12:30 P.M.

Mr. President, we're in this situation, to put it in rather oversimplified terms, we're running an enormous business. We're running it on a demand credit basis. This is a business many times bigger than any of the biggest corporations in the United States and yet our notes can be called at a moment's notice.

Meeting on the Gold and Dollar Crisis[39]

The conventional wisdom held that the Bretton Woods monetary system functioned smoothly in the early 1960s and that the United States benefited, both economically and politically, from the advantages the system bestowed on the dollar. But this meeting and those which followed on foreign economic policy told a story somewhat at odds with that conventional view. Beginning in 1958, a whole series of factors—including the move toward current account convertibility among the Europeans—enlarged the U.S. balance of payments deficit. As the U.S. payments deficit increased, the world's central bankers became less inclined to hold surplus dollars in their reserves and began to convert them into gold instead. Many observers worried that a crisis of confidence in the dollar could spark a mass conversion into gold, rendering the dollar unusable as a reserve currency and in the process destroying a large portion of the world's liquidity. This problem had come to be known as the "Triffin Dilemma," after the Yale economist Robert Triffin published a book, *Gold and the Dollar Crisis*, in 1960 highlighting the confidence problem.[40]

The U.S. dollar and gold crisis worsened during the summer and fall of 1960. There were several causes, but the perception that the Kennedy administration would pursue looser fiscal and monetary policies in order to jump-start the economy stoked fears of inflation and even a dollar devaluation. In order to squelch such fears, Kennedy issued a statement the week before the election promising to maintain the gold convertibility

39. Including President Kennedy, George Ball, C. Douglas Dillon, Walter Heller, Kermit Gordon, Carl Kaysen, John Leddy, Robert Roosa, Paul Samuelson, Theodore Sorensen, and James Tobin. Tape 11, John F. Kennedy Library, President's Office Files, Presidential Recordings Collection.

40. Robert Triffin, *Gold and the Dollar Crisis: The Future of Convertibility* (New Haven, CT: Yale University Press, 1960).

of the dollar at $35 an ounce.[41] Not long after the April 1962 showdown with U.S. steel companies and the subsequent stock market plunge, he would reiterate this pledge with his Telstar broadcast of July 23, 1962.

Recognizing the potential dangers, political and economic, of a ballooning deficit and gold outflow, the new President immediately set out to correct the problem. A transition team issued a blue-ribbon report.[42] A stalwart and fiscally conservative Republican, Douglas Dillon, was named secretary of the Treasury. Dillon's under secretary for international monetary affairs, Robert Roosa, negotiated a whole series of innovative arrangements—the gold pool, swap arrangements, and the General Arrangements to Borrow—to ease the dollar and gold drain.[43] On the political front, the members of NATO were pressured to make offset payments, in other words, to use surplus dollars obtained as a result of U.S. military expenditures in Europe to purchase U.S.-made military hardware.

Despite the elaborate measures taken by the Kennedy administration in 1961, the balance of payments deficit did not disappear in 1962. The steel crisis and the dramatic drop in the stock market, though both crises of transitory import, appeared to signal economic problems at home. Overseas, Kennedy worried as political relations with the two countries holding the most surplus dollars—West Germany and France—became strained. In May, rumors reached the President that France—alone or with West Germany—might convert its surplus dollars into gold as a way to pressure the Kennedy administration into changing its European policies.[44]

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41. See Theodore C. Sorensen, *Kennedy* (New York: Harper & Row, 1965), p. 406. See also John Kenneth Galbraith's letter to the President from October 1960, in his *Letters to Kennedy* (Cambridge, MA: Harvard University Press, 1998), pp. 29–31.
42. "Report to the Honorable John F. Kennedy by the Task Force on the Balance of Payments," dated 27 December 1960, from file AP/SD & WNA/Report to the President on the Balance of Payments, 25 February 1963, found in the Papers of Dean Acheson, Harry S. Truman Library.
43. The gold pool refers to the London gold pool established by the United States, Belgium, Holland, Britain, France, Germany, Italy, and Switzerland to feed a supply of gold to private buyers as demand for the precious metal increased. Swap arrangements are agreements between the United States and its major trading partners to exchange U.S.-held foreign currencies for U.S. dollars held abroad to forestall demands for U.S. gold. The General Arrangements to Borrow, entered into in 1962 by the so-called Group of Ten, introduced a standby credit of $6 billion designed to accommodate nations otherwise dependent on U.S. dollars with increased international liquidity.
44. Dillon, Memo for the President, 25 May 1962, National Security Files, Departments and Agencies: Treasury, Box 289, John F. Kennedy Library. Dillon told the President that a Bank of France official made a statement "which could indicate possible difficulties ahead with France. He said that it must be realized that France's dollar holdings represented a political as well as an economic problem." See also Memo of Meeting between the President, Ambassador

The international monetary issue came to a head in July when the French finance minister, Valéry Giscard d'Estaing, visited Washington. Giscard told U.S. officials that the dollar's defenses against a speculative attack were weak and that cooperation was needed on a "grand scale."[45] Was Giscard making a threat or offering to help? Under secretary of state George Ball, concerned that Kennedy's worry over the dollar and gold problem might tempt him to pull U.S. troops from NATO, saw Giscard's statement as an opportunity to negotiate a new set of monetary arrangements with the Europeans to protect the dollar.[46] To Ball, the problem was that European central bankers did not recognize that the deficit was a political problem caused by the United States's worldwide security commitments.

Ball produced a plan whereby NATO Europe would recognize the monetary costs of U.S. protection by agreeing to hold mostly dollars instead of gold for a period of two years.[47] The Europeans and the IMF would provide temporary, large-scale financing to cover the U.S. payments deficit. In return, the United States would distribute an agreed amount of gold to the Europeans and would use the grace period to bring the U.S. balance of payments into equilibrium. At the end of the temporary arrangement, a new set of monetary agreements could be negotiated to replace the Bretton Woods structure.

The State Department supported the plan because it would remove the pressure on the President to withdraw U.S. troops from Europe. The Council of Economic Advisers—and in particular, Yale University econ-

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Hervé Alphand, M. Malraux, and McGeorge Bundy, 11 May 1962, *FRUS*, 13: 695–701, where Kennedy threatened to pull troops out of Europe if the French and/or the West Germans ever tried to use their monetary power against the United States.

45. Gavin to Rusk, 12 July 1962, "France" folder, National Security Files, John F. Kennedy Library. See also Heller, Memo to the President, 16 July 1962, President's Office Files, Council of Economic Advisers, John F. Kennedy Library.

46. Memcon, "Payments Arrangements Among the Atlantic Community," 20 July 1962, *FRUS*, 13: 733. Note Ball's descriptions of the views of central bankers as "pre–Herbert Hoover" and "reminiscent of Dr. Schacht."

47. Memo, Ball to the President, "A Fresh Approach to the Gold Problem," 24 July 1962, the Papers of George W. Ball, Box 15b, "Memorandum to the President on the Gold Problem," Seeley G. Mudd Manuscript Library, Princeton University. Note especially Ball's comment: "What we must tell our European allies is, therefore, clear enough: If we are to continue to carry our heavy share of the Free World burdens we can do so only under the conditions where our exertions in the common cause do not imperil the dollar and in fact, the whole international payments system. To create those conditions is the first and most urgent task for the Atlantic partnership." For a similar plan produced by the CEA, see James Tobin, "A Gold Agreement Proposal," 24 July 1962, Acheson Papers, State Department and White Advisory Report to the President on the Balance of Payments, 2-25-63, Harry S. Truman Library.

omist James Tobin—advocated an amended version of the plan because it would give the dollar protection while the administration jump-started the economy with tax cuts and budget deficits.[48] But Dillon and Robert Roosa from Treasury were adamantly opposed.[49] They argued that Wall Street and international capital markets would see any stand-still arrangement on dollar-gold convertibility as a declaration that the U.S. economy was in "receivership." Dillon and Roosa contended that the steps they had already taken during the first year and a half of the administration—swap arrangements, offset agreements, the gold pool operation—were adequate to protect the U.S. dollar and gold supply.

During this contentious and argumentative meeting on August 10, 1962, Ball, supported by James Tobin and Kermit Gordon of the CEA and special assistant Carl Kaysen, would argue in favor of a modified version of Ball's plan.[50] It was hoped that this plan, which would be presented by Theodore Sorensen, was something that the Treasury Department could live with. Paul Samuelson, who had just finished arguing for a tax cut and a fiscal stimulus, was brought in to help sell the modified Ball plan to Treasury.

Kennedy began taping as Sorensen outlined the compromise plan.

Theodore Sorensen: This plan not to commit themselves as to whether it would be more preferable to rely on existing efforts. Many of their concerns are, I believe, however, met by the new subcommittee's unanimous agreement on three other points. First, that the initiative for such a plan come from the Europeans and be kept highly confidential until implemented. Second, that the United States must use the two-year breathing spell to achieve a balance of payments equilibrium, which will increasingly

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48. Memo, Heller to the President, "Why We Need an Interim International Monetary Agreement," 9 August 1962, *FRUS,* 9: 139.

49. For Dillon's views, see Dillon, Memo for the President, 7 August 1962, Acheson Papers, State Department and White Advisory Report to the President on the Balance of Payments, 2-25-63, Harry S. Truman Library; for Roosa's views, see Robert Roosa, "The New Convertible Gold-Dollar System," 9 August 1962, President's Office Files, Treasury, John F. Kennedy Library; and for Treasury's argument that better NATO burden sharing was the answer to the dollar and gold problem, see (Henry) Fowler, Memo for Dillon, "The Need to Couple High Level Political Negotiations for More Equitable Burden Sharing Designed to Correct the U.S. Balance of Payments with any Political Negotiations for Interim Arrangements Designed to Defend U.S. Gold Reserves," 7 August 1962, Acheson Papers, State Department and White Advisory Report to the President on the Balance of Payments, 2-25-63, Harry S. Truman Library.

50. For an indication of Kaysen's support, see Bundy to Kaysen, 21 August 1962, Departments and Agencies: Treasury, "6/62–4/63" folder, p. 289, National Security Files, John F. Kennedy Library.

involve both tightening existing procedures and engaging in other difficult negotiations of a burden-sharing nature with Western Europe and third, negotiations for a permanent plan. We need to have some prospect for success and we need to begin early in the two-year period.[51]

President Kennedy: Where's the [*unclear*] . . .

Sorensen: Do you have a plan [*unclear*]?

President Kennedy: I've got this memorandum by Ball. I don't know what it's [*unclear*].

Unidentified: No.

George Ball: There's the plan itself. It's [*unclear*] complicated.

President Kennedy: I wonder if they made a copy of this? . . . You want to hand that . . . You've got an extra copy?

Carl Kaysen: I have an extra copy in here.

President Kennedy: OK, let's go through this. Can anyone read this outline now? Why don't we just read the thing, the line.

Kermit Gordon: You want to leave it in?

President Kennedy: Let's start with, let's start with the Secretary.

Sorensen: It is not the purpose . . .

President Kennedy: You have to be consistent with this broad objective . . .

Unidentified: [*Unclear*] disappointed in the message . . .

Sorensen: The current page is the . . . Once again, a Treasury statement that . . . they're not necessarily going into the merits of this . . . This [*unclear*]—

President Kennedy: I see.

Ball: I don't consider that they explore the answer to whether it's possible, but this is just—

Sorensen: This is the agreement that there is to be an agreement. This is the idea; this is the plan. The person has already been suggested, and the Secretary now gives you some idea of the . . .

President Kennedy: Let's read that.[52]

Sorensen: [*reading*]

> Consistent with this broad objective of reducing the current strains on the dollars and gold, the arrangements described below contemplate as an integral part of the plan the sale of up to $1 billion

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51. See Theodore Sorensen, "Report of Subcommittee on Gold and Monetary Agreement," 10 August 1962, *FRUS*, Vol. 9 (microfiche supplement), document 355.

52. Sorensen begins reading from the document, "Outline of Proposal for Interim International

U.S. gold to participating countries during the two year period of the plan, and in addition to recognize the possibility that during this period that the U.S. may have to sell as much as $500 million in gold to nonparticipating countries. And on this basis, the present U.S. gold stock of 16.1 billion would be not less than 14.5 to 15 billion at the conclusion of the interim arrangements within ’64 and our present requirements of the gold cover are approximately 12 billion. In other words, this will be a good saving [*unclear*].

Participation of the ten members of the Paris Club—that’s the U.S., U.K., France, Germany, Italy, the Netherlands, Belgium, Canada, Japan, and Sweden plus Switzerland—in connection with the IMF [*unclear*]. All participants would publicly accept certain responsibilities—10 percent of the proposal we see involving [*unclear*] . . . We envision a joint announcement that Canada and Japan, because of their own balance of payments problem, will not initially be called upon to provide additional resources.[53]

The essence of the arrangement includes two elements. First, what we call a standstill arrangement, under which the participating countries would not seek for the period of the agreement to convert into U.S. gold the official dollar balances they hold at the start of the agreement. Secondly, we would work out other financial resources to accommodate or offset accretions to their dollar balances of $10 billion, including U.S. gold sales to participants of up to $1 billion.

President Kennedy: Now does that mean that you expect that they will increase their balances by $10 billion over the next two years?

Sorensen: No . . . but outside—

C. Douglas Dillon: That means that this was set up as an outside limit much more than you would expect, that this would be a big impressive figure.

President Kennedy: What do they expect would be the increase to their dollar balances?

Monetary Arrangement,” undated, Acheson Papers, SD and WHA, Report to the President 2-25-63 on the Balance of Payments (2), Harry S. Truman Library. Much of the discussion that follows is a debate over the merits of this plan, which was a modified version of Ball’s plan.

53. The Paris Club, or the Group of Ten, were the signatories to the General Arrangements to Borrow, a large short-term borrowing facility that would allow the United States and the United Kingdom to use expanded resources from the International Monetary Fund to stabilize their currencies in the event of a speculative monetary crisis. This agreement was accepted by the IMF’s executive board on 18 December 1961.

Sorensen: How we reach the 10 billion dollars appears a little later in this paper.

President Kennedy: OK.

Sorensen: And more specifically, this breaks down into the following. First, the standstill. The other participating countries would agree that for the period of the arrangement they will not request the United States to convert into gold their existing official dollar holdings now totaling 7.9 billion. They could of course continue to be used in making international payments including the settlement of debts between the participants in their convertibility into other currencies.

Secondly, and this is . . . this will probably be the biggest, newest. The IMF would establish assured drawing rights of approximately 5 billion dollars for the use of the United States. This is making use, making more automatic, I should say, the special IMF standby . . .

Dillon: So it's activating it.

Sorensen: Activating it. I was trying to look for the right word there, which is . . . you know, we've been working on the last year in Congress. You signed the bill which Congress authorized and we're now waiting for Congress to appropriate the money, in a way. This would mean a formal commitment by the IMF to provide funds from its ordinary resources supplemented by the formal undertaking of the other participants to provide upon call resources specified in the special borrowing arrangement agreed [on] last year

President Kennedy: What is the significance of this part? What would be this 5 billion dollars? What . . . drawing rights? We would what?

Dillon: That's part of the [*unclear*].

President Kennedy: In other words we would borrow from the International Monetary Fund 5 billion dollars?

Sorensen: We would . . . That is correct. We would draw on . . .

Kaysen: We wouldn't necessarily borrow it. We would have the assurance that if we wanted to borrow it, whenever we wanted to borrow it, in the currencies which are explained on the next page, we could borrow.

Sorensen: The technical procedure for doing this requires the U.S. to request a standby accommodation after consultation with and approval of this request by the countries, and a hearing of the special IMF borrowing arrangements as well as the IMF. These resources would be available on call for specified periods required by the U.S. without further consultations. We considered but reject the idea that the U.S. withdraw the whole amount at once.

It is assumed that the IMF would need to utilize some of its gold to provide the full amount of currencies as specified below. And this 5 billion dollars is based . . . as follows. So the ordinary IMF resource would be 750 million dollars in continental European currencies, and 700 in sterling. And from the special arrangements worked out with the IMF last year [*unclear*] it to 2.550 billion in continental European currencies and another billion purchased from the IMF in gold. Canada and Japan are not being included because their currencies are under pressure. They can be used at a later stage to replace other currencies when the situation changes. The U.S. would make drawings under these standby arrangements in the amounts needed to purchase additional dollars required by the participating countries after the effective date of the standstill arrangement, whereas, as they acquire . . . They have agreed now not to use their existing dollars, and as they acquire additional dollars, they would be able to purchase those dollars if they were not being converted into our gold.

Ball: If they were offered?

Sorensen: If the . . .

Robert Roosa: Yeah, but if George is making the point they might be willing to hold them.

Ball: Yes.

Roosa: And if they are willing to hold them, then there is no problem.

Kaysen: In fact one of the purposes of the whole arrangement is to make everybody more willing to hold dollars, both central banks and private holders, and I think that's a very important qualification.

Sorensen: And, yes, once it's clear we have this big of a leeway and safeguard, there might not be as much as there would be around . . . [*tape jumps*] . . . currency of any participating country that purchased dollars from any other participating country provided they have already utilized all the currency of the latter country available to them under the standby.

Third, swaps and borrows. This is a considerable step up from and extension of what the Treasury is now doing. The U.S. now holds $800 million in foreign convertible currency, most of which had been acquired in short-term swap and borrowing arrangements. The plan contemplates that we add facilities for acquiring an additional 1.7 billion, and that both new and existing facilities would be placed on a firm basis for the two-year period of the plan. It is not done on that long-term basis now. Such foreign currencies could be used for the purchase of dollars acquired by other participants over and above of those falling under the standstill. On the other hand, it would be understood that dollars provided to other participants as a part of a swap arrangement would be held during the two-year period unless needed to settle a balance of payments deficit with the other country.[54]

Fourth, there will be a step up in the Treasury's—and I assume the Federal Reserve board, also—forward exchange operations. The Treasury would undertake a substantial increase in forward exchange operations designed to keep dollars out of foreign official reserves and thus reduce pressures on foreign central banks to gold conversion. This is the technique, as you know, by which the Treasury reaches into the dollars held by private banks and individuals and prevents them from being turned into their central banks. It is estimated that additional forward foreign exchange operations would enable the other participants to absorb as much as 1.5 billion dollars in private holdings beyond those that would voluntarily be held without assistance of this sort.

In distinction to the arrangements specified above, these forward exchange operations would be worked out bilaterally as specific needs arose that in conforming with mutual understandings arrived at [*unclear*] initially. And the plan provides up to 1 billion dollars accruing to foreign business . . . could be absorbed with the sale of the U.S. gold. Because gold sales would be undertaken in a manner to enhance the general acceptability of the plan. So the 10 billion dollars, in other words, is from our point of view, the safeguard is made up of these four sources: 5 billion dollars withdrawn by the U.S., 2.5 billion dollars in swaps, including 800 now and 1.7 new, 1.5 in new forward exchange operations and 1 billion dollars in gold sales. And the 10 billion . . . we think we may need 10 billion that's outside. That's made up of three possibilities. The net accretions to the official dollar holdings of participants as a group as a result of our balance of payments deficit or the conversion of what they already—what the private citizens already owe. The liberal estimate is 5 billion dollars and we added to that a 3.5 billion dollar cushion to make certain there is no problem of magnitude, and there would be no other supplement necessary. That gives 8.5 billion. And then the . . . added to that an allowance for further accretions of dollars by some participants as a result of deficit by other participants. One billion, and an allowance for accretions of dollars by participants from nonparticipants. Primarily because nonparticipants will be drawing from the IMF, that's half-a-billion of the total 10 billion dollars.

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54. Robert Roosa had spent much of his time in 1961 and 1962 negotiating swap arrangements with the world's major central banks. Essentially, these arrangements established short-term credits between central banks which could be used to stabilize currency markets in the event of a speculative run on a major currency.

Procedurally, it is believed that additional legislative action would not be required in any of the participating countries. If it turns out that it is, well, then we'd have to reconsider. Our thought is that after careful and quiet preparation and negotiation—and the sooner the better, possibly in connection with the fund meetings this fall—the ten participating countries would issue a joint declaration making the following points: First, they have entered into the interim arrangement in order to assure a monetary stability for a substantial period ahead during which they will explore longer term arrangements to improve the international monetary system. Secondly, they would all announce their intention not to present their existing official dollar holdings to the United States for conversion into gold during the two year period of the arrangement. Third, they would state that they decided to make available their funds under the special borrowing arrangements in the IMF. And as this was just pointed out, 2.55 billion in continental European currencies.

Fourth, they would announce the arrangements with the United States for increasing our swap and borrowing and foreign exchange operations. And five, the statement would indicate 10 billion dollars as part of the magnitude [*unclear*] and at the same time the IMF would declare that they had approved the 5 billion dollars in drawing rights.

President Kennedy: What about, how much would we . . . gold do we expect to lose in this two years if we didn't have this arrangement? We talk about selling them a billion, or a billion and a half worth of gold.

Dillon: Wouldn't make any difference . . .

President Kennedy: I see. No, I am not saying—

Dillon: The movement gives us the strength [*unclear*].

President Kennedy: —the amount of gold we'd lose.

Ball: Well, the point is that with this arrangement we would have some limits on the amount of gold for several reasons. First of all because we would have in effect a kind of funding operation. We convert what are demand liabilities into two-year liabilities.[55] Now, the, furthermore if the fund, if this scheme resulted in a feeling of confidence, which is assumed it would, then there would be less danger of speculating runs. The point is that under this scheme we have a protection against the possibility of speculating runs. Under the present situation we don't. And the estimates that we make of upside gold losses here are say 5 billion dollars. If we were to have them.

55. Demand liabilities called for immediate conversion of dollar holdings into U.S. gold at $35 per ounce.

Kaysen: And those aren't gold losses, George; they are dollar drain.

Ball: Well, I know.

Kaysen: Yeah. And, in fact, they're not—

Ball: No, Carl, it's a payments deficit. Yes, but I mean to the extent that that were converted into a gold loss—

Kaysen: Yes.

Ball: —by the refusal of the countries to continue to hold the dollar, we would be in real trouble. This simply puts a net under the situation in order . . . long enough hopefully to permit the negotiation of a longer-term agreement.

Dillon: We disagree completely on that because we think we have all that protection already. There is not a single new thing in here except the attempt to formalize what we already have. The swaps, for instance, that we are going to increase from 800 million to 2 billion-5, we don't need it at 800 million so far, there is no indication that we can't increase them and would increase them as time went on. The same thing applies to the other.

As far as the International Monetary Fund drawing, we have the right to do that, assuming our Congress appropriates the money. Everybody else and [*unclear*] people who have agreed to activate it. Now we feel that actually trying to negotiate this sort of thing, announcing it, would have the opposite effect. It would make people feel that the dollar was no longer fully convertible, that it was in a terribly powerless situation, that all the things we've done over the past two years . . . they'll lump these—swap arrangements, these international cooperative arrangements and so forth that are not workable and we're afraid that they're of no use. And that therefore it would diminish confidence that has grown among central bankers recently that we are on the way to a reasonable solution. In addition, all the people who are not involved in this arrangement, other countries, have some 3 billion dollars in official claims. Some 2.5 billion in private claims. So I feel that they would be . . . probably be influenced by any news of anything like this to turn in their money, and so we lose much more gold.

Finally, I do think that one problem of our present thing is that it hasn't been fully discussed publicly. It's been gradually built up. I think it's built up enough now so it's at a situation where it needs more public discussion both by us and by other leading ministers of finance and people of that nature, which could be done at the IMF meeting. I do think we should also . . . and we can now, using the organization of this so-called Paris Club . . . probably sit down and start to work more formally and officially on what might be another long-term arrangement, eventual arrangement. That's the one thing that isn't, that we all agree isn't totally clear, and of course isn't handled by this. We have already of course started that some six months ago with the British and we have a paper that will be, I think, jointly agreed prior to the monetary fund, on that with them. And so that there is a basis for further moving ahead in that area which we think is important and can be done.

And it's the one thing that has to be done here anyway because this interim thing you just borrow money that you have to pay back either at the end of two years or at the end of whatever the IMF standby may be and you don't; there isn't any permanent . . . any solution here. All you're doing is supposedly buying time and we don't think that announcing this or trying to negotiate this sort of thing would do that.

Finally, we don't think the thing is negotiable. But we've had enough . . . I think the difficulties we've had in moving as far as we have is getting the IMF borrowing arrangement itself, which took about six months, eight months, to work that out. To go beyond this time . . . I just don't think that the other eight countries would be prepared to accept this request, so we . . . this is open here because we agreed that we could go out in favor of a program. This has to be done, but this has to come from some European source.

Because this fundamentally is Jean Monnet's idea.[56] Never thought out in any detail but just, you know, the big idea. And I am afraid in this case it is one of his big ideas that is not a practical or workable one that probably would not be able to succeed.

President Kennedy: Can I just ask . . . we haven't seen, you know . . . two or three things first. That run on the—sort of—dollar in June which was perhaps arrested to a degree by the Telstar statement.[57] It's just an awful way to be doing business. But we have no guarantees about a very, you know, immediate provocation of that . . . any time these bankers get nervous. God knows what will make them nervous. Republic Steel passes its dividends, the stock market goes down 20 points, and they all get nervous.[58] So there'll be, that's the problem. Of how we can

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56. Jean Monnet was Europe's leading advocate of European economic integration and a European customs union or discriminatory trade bloc. This remark was probably a jab at George Ball too. Dillon knew very well, as did everyone else in the room, that Ball was a long-time colleague, friend, and coworker of Monnet.

57. On 23 July the President used his Telstar press conference, the first telecast carried live by satellite, to reassure the Europeans that the United States would maintain the value of the dollar in terms of gold.

58. The President here is repeating the concerns expressed by Arthur Goldberg, the secretary of labor, at the previous meeting on a tax cut in which he pointed out that Republic Steel had

strengthen at least our guarantees over a two-year period. By then we're going to be able to get tough about the NATO expenditures and all the rest. So that what we want to do is to prevent a really major run between . . . for the next two years. Isn't there any way we can get these countries to agree to hold dollars for this two-year period? Is that what we want? So that they will not cash in?

Dillon: This is what . . . this, we think, is the only way they could do it. We just don't think that this is really negotiable or workable. I don't think that there is any other way.

Of course, the problem on a major run, I don't think that the danger of a major run is grown people running away from you. That is the fundamental danger. It's the peril of Americans taking whatever it is, 100 million dollars and trying to run away. It gets—

President Kennedy: They might buy francs?

Dillon: They'll buy anything that they can. And that, this wouldn't stand up against . . . nothing would stand up against that. And that's the real danger; a country like Canada or England, if any of these countries get into real difficulty, it's not just foreigners running away, it's their own people running away, and that's what started in July, here. That's what made this thing a bit difficult. I do think that the July experience is not maybe as negative as it sounds because it was the aftermath of the worst stock market shake-up we've had in many, many years, at least since the postwar period. It was followed immediately by the Canadian crisis and the fact that we were able to weather that for a period of three weeks without any really major troubles in the London gold market, I think, is an indication of the strength of the arrangements that we've already built up. Because we did use this swap technique. We used it to pick up 250 million dollars from Switzerland and, in other words, let them keep it and not turn it in. We did use substantial—hundreds of millions of dollars—with Italy in the same way. We were able to keep the London gold market from getting out of hand the way it did before. So these techniques are all . . . they are all still working.

President Kennedy: Well, let me just ask you this. Isn't it easier for the French to, or the Germans to continue to hold their dollars if they think that it's part of a general plan in which maybe they're bearing a greater burden than perhaps the British, who don't have any dollars, but at least it's moderately agreed, a two-year proposal instead of saying,

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warned him of a bleak profit outlook and the need to reduce or forgo dividends to its shareholders. Goldberg was not at this international economics policy meeting.

that my god, we have to watch it because the French are going up 10 percent.[59] And that's what it seems to me would be the only advantage, but . . . it's too much—[*Unclear exchange.*]—to ask the finance minister of one country to take the burden when he sees that the French moved 10 percent in the last four or five weeks.

Roosa: I think that maybe we can do it.

Dillon: We can do that. We can work that out between the French, and the Italians and the Germans. There is a real problem with the British. The French have talked to the . . . Giscard d'Estaing . . . the French have some sort of vague agreement and not a plan like this.[60] He mainly was here, and we told him that "Sure, if you could get anything like that [*unclear*] would be fine." So he went over and talked to the British, and we haven't heard from him what happened, but the reaction came most from the British, who came in and wanted to know what this is all about, whether we'll keep the convertible dollar or not. And, so it's, the reaction in England, I guess, is not very good. And, but, nevertheless, I imagine if you can keep at them that maybe you can do something with them. They certainly didn't . . . The big dollar gainers, on balance of payments, are Italy and France. And both of those who are . . . we have arrangements with that are . . . have reasonably assured us that there won't be any very big dollar drains over the next two years. Switzerland is not a big dollar gainer except when there is a flood in the capital, and actually they're in deficit now and several months before this flight into the Canadian capital had started, they were losing money and started just selling its gold. Not that I think it can happen again.

England is fairly balanced. It is . . . everyone can expect that they won't have any very substantial gains. So all . . . The two countries that we're really worried about are France and Italy and I think that they're in pretty good shape. Actually, I think, very few people realize but we have by these overall arrangements we've done in the last two years, taken, avoided the loss of, conservatively, of over two billion dollars of gold. That's a very big amount. And this is still continuing and will continue and I think that the buildup as we're in a way really strengthening our situation. If we suddenly fly off on some new tangent here we think that the results will be catastrophic.

Ball: Mr. President, we're in this situation, to put it in rather oversimplified terms, we're running an enormous business. We're running it

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59. Increase their gold holdings as a percentage of total reserves by 10 percent.
60. Valéry Giscard d'Estaing was the French finance minister.

on a demand credit basis. This is a business many times bigger than any of the biggest corporations in the United States and yet our notes can be called at a moment's notice. We're in a position, too, where our quick assets in the form of gold are less than our total demand liabilities. Now look . . . now, all that, what the essence of any scheme of this kind . . . and this is only one of a dozen different plans that could have been drawn up. There was another plan, and we agreed on this, because this was something which the Treasury thought was a better way to do it. . . .

All that any plan of this kind attempts to do is to in effect to convert these demand liabilities into term liabilities. In this case for two years. In order to give us time to work towards equilibrium and also to develop a revision of the whole payments scheme which will prevent the kind of insecurity that exists in the world today and also take care of the longer-term liquidity needs.

Now, I find, I think we're in a position of continued danger as long as we go along on the present basis which involves, as Bob Roosa's paper has pointed out, some brilliant financial operations.[61] But these are all operations of very short term. In the most cases, 90-day operations, which give no security against the . . . a sudden speculating move against the dollar which could result from accidents in foreign policy; it could result from a wide variety of things, none of which we can foretell here today. The kind of arrangement which we contemplate, in my judgment, I see no reason why it isn't negotiable. It seems to me to follow the line of thinking which has already been manifest in Europe. This is the kind of thinking which Giscard d'Estaing expressed to me independently of his conversation with Doug Dillon. I think he told Doug much the same thing. That they . . . there should be some kind of an agreement for the restraint in the disposal of dollars for a period until something can be worked out. In England, we have this shown by this *Economist* piece which was based on a Maudling briefing on the prime minister's own concern over the state of the payments system which he expressed again to Dean Rusk when they were in Europe last year, but a month ago, as he expressed it to you last year when he was here in May.[62]

And it seems to us, I think, in this, the council and the State Department are in accord, that it's only a part of prudence to try to

61. Under Secretary Roosa's paper was an overview of current financial operations designed to improve the balance of payments and current account deficit to stanch the flow of gold exchanged for U.S. dollars held abroad.

62. Reginald Maudling was Britain's chancellor of the Exchequer.

move now towards getting a net under this tightrope on which the Treasury has been performing with such admirable dexterity.

President Kennedy: Let me ask you, what do you think about the argument of the Secretary's about the other countries feeling that it's increasing their desire to cash in?[63]

Ball: Well, you mean the countries that are not members of the Paris Club? In the first place, there are some restraints that one has on them for . . . why, political reasons.

President Kennedy: But Spain's one of the rest I—

Ball: Well we certainly have compelled . . . a good deal of moral suasion with Spain. These are countries which are recipients of aid. We . . . they're not complete free agents in this situation.

Dillon: Austria bears watching.

President Kennedy: Austria?

Ball: Now, as far as the arrangements which we have that—

President Kennedy: I suppose we could negotiate a separate agreement.

Ball: —give us security now, quite frankly I don't find them in the very long and careful paper which the Treasury prepared. I do find suggestions that all of this is based on a continued element of confidence, and confidence can be disturbed in any of a dozen different ways, none of which we can foresee with any clarity now. I don't know if you agree with this.

Dillon: Well, I don't. One thing might be interesting, here this . . . we just sent this after he got it done. He had no part in preparing it. To our executive director of the [International] Monetary Fund, Frank Southard, who has a great deal of experience, of course, for ten years there and he has contacted almost all of these different people and he wrote the bank just a brief paragraph which I think is worth reading.[64] It says [*reading*] "As I read the comments in the memorandum, which said that you . . . about the subjects of the proposal." First paragraph,

> I find it extremely difficult to comment on this memorandum when it does not deal with these important questions of the case for or against such an agreement. I assume that in some other way the answers of senior officials to that question will be presented at the

63. The President is referring to Treasury's concern that a standstill agreement would undermine confidence in the U.S. dollar and cause countries to sell dollars.

64. Frank Southard to Mr. Willis, "Proposal for Interim International Monetary Arrangement," 9 August 1962, President's Office Files, Council of Economic Advisers, John F. Kennedy Library.

> same time that the President studies the proposal. In my own opinion, a formal agreement of the sort outlined, far from deflating speculative expectations of various sorts, can only stimulate distrust of the dollar because if the agreement formally and drastically limits the convertibility of dollars into gold, it also will serve as a formal notice to the world that the United States and the other participants have decided that it is no longer reasonable to expect that monetary authorities will hold dollars, and that a credit position in the IMF is preferable to the holding of dollars. I do not believe that a scheme which intends to bring official gold holdings under control in the way proposed can fail to discourage private holdings of dollars and to accelerate efforts by them to move into other currencies. When and if the time comes for the United States to draw on the IMF on a large scale, I strongly believe the safest way to do so would be to draw without making any change in the established pattern of the dollar exchange standard, just as the United Kingdom did without seeking to change the nature of the sterling exchange standard.

Then it goes on, having said that, it has a few technical suggestions, the main one of which is that, he thinks that to ask the IMF for a two-year standby would not be practical in order to [*unclear*] renewables, since that's what we've always had.

And secondly, which we would agree with, that brings up the question whether we shouldn't do something to try to sterilize the London gold market to stop feeding that. We've had some thoughts on that, but in a way, Mr. Reierson has been over there, from the Bankers Trust company, and raised this very strongly with the British and he's going to make a speech saying that this should happen.[65]

President Kennedy: What does he suggest?

Dillon: That the central banks just [*unclear*] going in into the London gold market and just separate themselves from it and then call all transactions direct. Let the London gold market do what it wants to do.

Ball: It seems to me Mr. President, that one of our key problems is the question of how we succeed in eradicating the incentive on the part of private persons to speculate against devaluation of the dollar. Now, the

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65. Roy L. Reierson, an economist, was the author of numerous articles on international payments, including "The International Payments System: Is There a Shortage of International Liquidity?" in *International Payments Problems* (Washington, DC: American Enterprise Institute, 1966).

strategy, I think, of this proposal is essentially to demonstrate in a most impressive and formal and international way to private speculators that they can't break us. By putting behind the dollar as a line of defense against private speculation $10 billion in resources available for over two years. I think there is good reason to expect that the inference that would be drawn from private speculators is that it's of no use. The game's up; they're covered. . . .

President Kennedy: But they don't . . . their purpose in speculating is not to break us so much as to get in . . .

Ball: Well, it's . . . I think that it's essentially a speculation against the prospect of dollar devaluation which we might . . . which they think we might be forced to do if we were broken. If we lost so much gold, in such massive quantities.

President Kennedy: Is that the motive . . . is that the great reason for the speculation, or is it that they think that there is more of . . . that might . . . having gold, looking at say the next five years and losing 20 percent interest over five years that the chances of having a free movement of gold over a five-year period, other restraints on the movement of capital are such that they are better off to take . . . their gold would be worth more than the 20 percent you might get holding those interest-bearing dollars? What is the motivation to speculate? Mostly devaluation?

Ball: I think primarily speculation against devaluation. The thought that they can make money by getting into a foreign currency and after the dollar is devalued—if they hope and expect it will be—then they get the . . . into dollars and make a profit.

James Tobin: Or into gold.

Roosa: Well there is the other whole range of things that I suppose you include in devaluation broadly defined. The risk that we might suspend gold payments or that we might impose a kind of exchange control as a measure along the way. I think it's this complex . . .

Ball: On the magnitude, Mr. President, the likelihood that the announcement of an agreement of this magnitude would eradicate the speculative motivation. It's the Treasury's best estimate that even including a speculative outflow over the next two years we ought to guard against an accumulated balance of payments deficit of perhaps 5 billion dollars. This must include, perhaps, 2 or 3 billion dollars in speculative loss. In other words, without speculation it comes to something like 2 or 3 billion dollars. Now what we've set here against a prospective 2 or 3 billion dollar deficit for nonspeculative movement is 10 billion dollars in protection. And I would think that when the speculator looks at the comparison between the losses we are likely to take for nonspeculative reasons and the amount of our protection against speculation, a great many of them will think of much better ways to put their money to work into the short . . .

Tobin: And that applies to nonmembers as well as to private—

Roosa: Yeah, there is a great deal in what the others have said that can be accomplished without the risks of having to attempt to negotiate a hard-and-fast agreement. And as illustration, I think two or three points: Mr. Ball mentioned that what we have is a three-month arrangement at best. Now, I don't want to try to put it all into details but these are things that grow out of association and experience. We've now reached the stage where they've gone this far. Belgium now says they are quite happy to have six months. Switzerland has come to us and said, we're going to get legislation which will allow us to do two to three years. And, can you do two to three years? So that we are evolving in this same way. And I think what this means is that it's not a fragile confidence we are building. It's a sharing in the working of a system that we're building. And I think we're at the stage where we can get almost the same effect and perhaps even more in terms of some of the advantages of vagueness.

If at the meeting of the [International] Monetary Fund and subsequently we begin fairly frequent comments by leading financial officials in other countries, of the kind that Maxie Clay did a month ago in Switzerland, indicating the confidence of the rest of the world—or at least the leading countries—in the future prospects and present strength of the arrangements that have been developing. I think if that were done at the time of the [International] Monetary Fund meeting and something that we have been working toward and we're hoping particularly that the British come to us since they have been the source of the worst rumors against us . . . not necessarily their government but their press. This can accomplish a great deal without either the risks or the wear and tear of trying to negotiate an agreement of this much detail. I think it's very useful to have put down all of this because it shows that if you are going to do it by agreement you've got to take into the . . . a lot of detailed stuff to get ten different countries all to agree to. But if you aim at most of these same things you can probably, on the basis of the assurance we've now developed among them, and its still to be sure, partly fragile, but its growing, you can on the basis of that assurance accomplish a very large part of what is aimed at here and minimize the risks.

Tobin: Mr. President, I think there are also risks in doing it on this piecemeal, ad hoc, small day-to-day basis. And that risk is that each time you do something, a little thing, it's interpreted as a sign of weakness.

And nobody puts together . . . all the pieces together and says it really is quite impressive what is being done. And you're wasting your ammunition. Whereas if you could get it all laid out on the table, publicly known, all agreed to, recognized by the other countries, because we can't create confidence and maintain confidence alone. It has to be that everybody understands the other countries are in this with us. And you get all the benefit of the one . . . lining it all up and having it all agreed to and publicly announced, which we're not getting now, as the July episode shows. And we may even get the opposite, that people worry because we try to make efforts to avoid little losses of gold here and there.

And the other thing that I see is, I think the Europeans themselves, at least some of them, are anxious that the bilateral arrangements we've been making separately with each of them be regularized and internationalized and multilateralized so that they know what we're planning to do with each of the other ones, all together, so that it's not something where they have the suspicion that we're playing off one against the other or planning to do things with England that France doesn't know about. And it's from their side, it's not the same thing to have done it one by one as it would be to discuss it all together.

Ball: Well, this was exactly what the French finance minister said, that he wanted to remove the element of unilateral action

Roosa: I think this is perfectly right, and I would agree with everything you say except that I wouldn't feel that an immediate effort to negotiate on this kind of an arrangement is the way. It isn't consistent with the way in which we've evolved so far. I think up until now, there have been so many uncertain pieces of this pattern that had to be tried that we risked destroying our efforts if we tried to lay out the whole pattern before each piece had been tested. Now each piece has been tested. We are at the stage where we can do it. I think the evidence of that, and it's growing, is you've got on the one hand here tremendous impact from a speech by Clay. What happened after the most recent developments and following the repercussions that were in Germany, the director of the Bundesbank came out, expressing his confidence in the arrangements that the Americans have developed. We have just reached the point where this is beginning to happen. And I think we can nourish and develop it. I think if I could sanitize a version of that paper I prepared for—it's too late really for this meeting—last night—it's of course very long—but I think to the central banking people, they'd probably read it; finance people would. Some version of that which gives them a basis for seeing how it all fits together. And if we indicate, as we have no reason to avoid, that we're prepared now that the outline of the whole thing is clear, to consult as we go forward with either Working Party 3 or the Paris Club or alternatively, even some smaller group of finance ministers.[66] Or all of those. I think this will provide a kind of a system in which we could accomplish what we're after. Get them telling the world from time to time that these are sturdy, promising arrangements that have the capacity for meeting any dimension of unexpected development.

And then we've reached the point where we can take the next step, the step which is crucial in this negotiation that is proposed, and that is to deal with the long run. And I think there one important hitch in this is that people are not going to want to enter into it until . . . unless they have a little more in mind, knowledge among themselves . . . what is the long-run sketch that you think you're aiming at . . . whoever proposes this. Nobody really knows yet. I tried to put one kind of a sketch in my memorandum but it's a sketch that is so distinctly pro and unilaterally American that it isn't in a form that you can talk with others readily about yet. And yet there are prospects there. We're working on those with the British. And, I think, if we—behind the protection of more widespread approval of these present arrangements—on the basis of understanding can go ahead and perhaps even at the time of the IMF meeting have an indicator that now the new, the Paris Club, the ten countries are going to . . . since they are assured that the present arrangements are strong. They're now really going to meet together to look at the longer-run future and see what the . . . The present has now been bolstered. We now have the standby arrangements and all the rest. Now we're going to look at the future and see where we ought to go and come back with the recommendations next year at the IMF meeting for what additional steps seem to be indicated to plan for the future. I think we could, in that way, get most of what is desired here and not incur the risks.

Tobin: And meanwhile you don't have a standstill or a pause?

Roosa: That's right. And I don't think—

Tobin: Isn't that a key element?

Roosa: Well, the standstill isn't really [a] key element, Jim. I realize this is a debatable point. The key point is, how do you account for the dollars that will be moving over this period. And if you have a complex

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66. The Working Party 3 was a subcommittee set up by the Economic Policy Committee of the OECD in 1961 to review balance of payments disequilibria among member nations. The Working Party established the practice of holding its meetings at six- to eight-week intervals and consisted of finance ministry and central bank representatives from all countries in the Group of Ten minus Belgium plus Switzerland.

of arrangements which will either immobilize the new dollars or, as the dollars move, will immobilize all or most of them. And that's what we're approaching.

Tobin: But isn't it also, Bob, to change the climate so as to prevent the movement of too many of these dollars?

Roosa: It is, and I think the climate you'll influence . . . I think you have a chance at influencing the climate and getting wider understanding of what we have done. And more comment on it.

President Kennedy: May I just say one thing about . . . one of the problems is that the central bankers are those who may have some understanding of what the strengths of the dollar are, [Roy L.] Reierson's speech in Cambridge and all.[67] But these people that we're talking about, yesterday, where they said that they had moved out, this company was going to move its . . . buy some Dutch guilders because they needed it for an investment in Holland to start a company two years from now and they didn't know whether . . . what was going to happen to the dollar, what capital restraints [might follow].[68] We have got an awful lot of uninformed people, really uninformed, considering what they're dealing with, that, who feel that . . . they read the [*New York Herald*] *Tribune* and read other papers which suggest all these troubles and we get . . .[69] causes it to collapse, without . . .[70]

As the stock market proved, there are an awful lot of people who don't know very much about money and yet they're involved heavily since . . . When you think of these American bankers who go around talking about these tremendous inflationary pressures in the United States when we don't have any, you realize you're dealing not only with sophisticated central bankers, but also a lot of [unsophisticated] people who have just as much effect on the movement of the dollar. And I think that there is some general feeling that the dollar is in trouble and that you either ought to get [financial assets] out of the country or they ought to take some other action. Now how do we, we're going to have some economic difficulties next winter. Maybe the stock market dips before that. How do we prevent even the short-term movement of, what are we talking about, 2.5 billion dollars that you said that . . . over the next—?

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67. For background on Roy L. Reierson, see note 65.

68. This hypothetical case was raised by Henry Clay Alexander, the chairman of the Morgan Guaranty Trust, at the President's "Meeting with Business Leaders on the Tax Cut Proposal," 9 August 1962.

69. The President had let it be known he had canceled his subscription to this conservative newspaper.

70. *It* is the U.S. dollar.

Ball: The kind of event which could be catastrophic: What if we suddenly became involved in a major war in Southeast Asia, for example, which our European allies were not terribly sympathetic about so that they wouldn't rally around the same way as though it were over Berlin. Now, this is a situation where, against which I don't find in the Treasury's paper any—

Roosa: George, the answer to that is a very simple one. There is not a financial official in the world who will sign an agreement that will bind him to give his own currency, or to hold yours in that eventuality. And they're smart enough to know that that's an eventuality that we might be trying to suck them into. That's one of the reasons why you can't negotiate this.

Kaysen: Well, that's it [*unclear*] we go in [*unclear*] a Southeast Asian war—

Ball: [*Unclear*] this agreement [*unclear*].

Kaysen: Mr. President, may I make a point on . . . I'd like Bob and Doug of course to comment on it. I think one of the big differences in emphasis, difference I feel in reading Bob's very interesting memorandum, is the question of whether you are looking forward to a future situation in which we're still carrying most of the burden and difficulties of running the world's reserve system or not. Bob has a very convincing argument about how we can do it. And I have no doubt in my mind at all that if we're going to do it, Bob is the man to do it.

But I really had some question as to whether we want to look on the line of continuing in the future to be running, carrying a very large share of the burden of running the world's reserve system. And I think one of the big differences between facing up to these questions in the negotiations, discussions with the Europeans now, and waiting and going along the line of pointing out these informal arrangements, making them a little more multilaterally known, is the difference between making it clear that it is our view that the burdens of running the world's reserve system should be multilateralized. We're not clear how. We understand that there is a real problem of how we get from where we are to a multilateral arrangement. But by working at a formal transition, and a multilaterally negotiated one, I think we're giving notice that this is our thought.

I think the other way, really, I would . . . it is too strong to say commitment, but it pushes us in the direction of a system in which we continue and we . . . the dollar continues and we continue with all the difficulty that this has for us, to run the world's international monetary system . . . that's too strong. To pay a large share, to carry a large share of the costs and burdens and difficulties of running the word's international monetary [system]. I think this is an important part of the problem.

Roosa: Well, if its . . . I wouldn't disagree with that at all, Carl, except that I think my sense of the timing is a little different. I think we aren't going to be able to get a sharing until the whole problem of "the Six" has been moved along much further.[71] And whether that's five years or ten I don't know. What I'd like to see is an arrangement that works and that promises to be able to work for an indefinite period while that is evolving. But at the same time builds nothing in which cannot be readily shifted and adapted to the conditions we'll have when "the Six" augmented to seven or eight is a going concern on a unified basis. And that type—

Dillon: And have a common currency.

Roosa: And then have a common currency for them and then a bridge with us.

President Kennedy: That's quite a ways, isn't it?

Roosa: That's a long way.

President Kennedy: And it's not a problem, really, the next two or three years. . . . In addition, politically, we have much more political strength with them now than we'll probably have two years from now. They are much more dependent upon us militarily than they may be, if they say let's get together and they have their own common market.

Dillon: But this business about handling the burdens of the world's reserve system is . . . two sides. It's . . . there are a lot of benefits that flow from it too. Being the trade center of the world, the financial [*unclear*] if you can afford it. And I think it's ultimately a difficulty affording it—

President Kennedy: But I can see where we can get our balance of payments in balance as far as the military and so on. But the only question is what we do about that short-term flow, and number one in which, what happens to—

Dillon: You see I don't think you have one that you get the . . . but basically the reason for the—

President Kennedy: Interest rates are the problem.

Dillon: That's . . . two things: interest rates, and the other thing is the lack of confidence that we will get our balance of payments in order.

President Kennedy: Well, we can't get our balance of payments in order as long as this is added to our—

Tobin: Our uncertainty.

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71. Roosa was referring to the European Economic Community.

Dillon: Well, if you get your basic thing in order, I think that gives confidence to, to this other—

President Kennedy: Do you have any thoughts about this?

Paul Samuelson: Well, I'd like to really find out whether the Treasury's reluctance has to do with the fact that if you don't have this, maybe you'll never get it and you'll create a tremendous amount of harm in trying to get it. Or whether, or if you really had it, offered to you, whether you would really be against it.

Roosa: Well, if anybody offered it, because it . . . in under the deal, you'd be silly not to take it in terms of this being a wide-open, free offer. But you can't . . . you can't start that.

Samuelson: Well, what . . . see, if you think of the present arrangement, this would give you a 10 billion cushion against the vicissitudes of the next couple of years. Now, the present arrangement involves quite a cushion, I wouldn't know how to quantify that, but let's pose that it . . . it's of the order of magnitude of 3 or 4 billion. Hmm?

Roosa: More than that.

Samuelson: Well, that would be a relevant consideration. I think it's trying to work out what, how much additional, this is to the present amount.

Ball: There's also a standstill, Paul [*unclear*]—

Unidentified: Yeah.

Roosa: And the other important thing is, this is a declared amount, and as you say the other is difficult to declare.

Sorensen: I think that's the key, right there. If I might, Mr. President . . . if you were to go on television Tuesday night and propose this plan to the other nations and say this is going to be a substitute for what we have been doing and we don't need to worry about the balance of payments anymore or what the Treasury's been doing is not enough, then I would agree with it, though I think Secretary Dillon, all his fears and Mr. Southard's fears, and so on, are well founded.

I don't think we contemplate that at all. We think that the initiative . . . that we ought to get other countries to take the initiative. We think this is in their interest as well as in our interest and we intend to use the two-year period to go ahead and to correct our balance of payments. And in as much as what this plan essentially proposes is a formalization of what Treasury is doing now, which is . . . and I agree that what they're doing now is very good, it is sturdy and adequate and appealing, and so on. And I think it is negotiable.

Ball: There is one very important reason, it seems to me, why it is clearly, it may clearly be seen by the other countries as in their interest.

If it succeeds in eradicating or greatly weakening the speculative motivation based on the expectation or fear of dollar devaluation it will then have the effect for them of leaving them at the end of the period with fewer dollars and more gold than they would have if they didn't have the plan. Fewer dollars because it would discourage a speculative flow of dollars into their hands and more gold because the leakage of new gold into private hands which is now going on at a very high rate would diminish if the speculative motivation diminished and more gold would flow into the hands of central banks. So that I would think that the interest in eradicating the speculative, present speculative climate, would be at least as much in their interest as in ours.

Tobin: It also has the effect of relieving each central banker of his personal responsibility for holding too many dollars because his government is a party to a general agreement of which, he can't be blamed in the end for having held too much dollars. Whereas, right now he looks at the central bank in the next country and he worries about how he may be criticized if on his own he—

President Kennedy: That's what I think [*unclear*]. In other words, you think that individual, that competition between them, that extra pressure . . . do you think that . . . you're saying that in answer to Professor Samuelson that if you could get this free and clear tonight that you'd take it or you wouldn't take it?[72]

Roosa: With minor modifications.

President Kennedy: You'd take it. Now the question is whether you present them . . . whether you would . . . Your judgment is that you don't think . . . you couldn't [expect an offer] . . . that they would offer it to you that freely.

Roosa: Yes.

President Kennedy: That negotiation itself would be destructive and you're better off with what you've got.

Roosa: Yes

President Kennedy: Why wouldn't they offer it to you? Why wouldn't d'Estaing agree to let him propose it? How does this, coming to us then . . . how do we lose?

Roosa: Well, the principal fear that this would generate would be one that the other principal countries, normally would, in a sense, depend, have decided that the present arrangements are inadequate. But they also see—what the other outside commentator would magnify—some

72. A standstill agreement from the Europeans.

imminent, serious, grave risk. And consequently, they're having to get together in some way and provide a drastic new approach. And in the face of this there must be serious strains and . . .

Someone seems to enter the room and whispers to the President for almost 30 seconds.

President Kennedy: [*Unclear*] starts to go on the ticket . . . [*Laughter.*]

Ball: I'd just like to say on this that what we're talking about—

President Kennedy: [*Unclear*] starts to go on the ticket, then you can go . . .

Ball: —is the discussion with the sophisticated people and the very people who, in fact, in whom—that you've pointed out—you've built up this great reservoir of confidence? Now, they know we're not going to propose this because we see something imminent happening, about which [it] is not being disclosed to them, nor do they . . . But they believe that we were proposing this because we intended to embark on a popular course and to pay no attention to our balance of payments. I can't believe that for a moment. I mean the very fact that you have been able to build up this confidence is a basis on which you could now talk with [them], about things which they are themselves talking about. I mean Giscard d'Estaing himself said that what he was talking about was some kind of a standstill arrangement. A restraint which would be multilateralized. And which would be for a period of time while this problem could be worked out.

Dillon: I think the basic thing we're worried about, Mr. President, and this is that while this is being talked about, the press comes up and says this. . . . And this is simply what it says is, as Mr. Southard pointed out very well in one sentence, well, that this serves notice that major countries of the world no longer have confidence in the convertibility of the dollar and they'd prefer to have an IMF credit which is guaranteed in gold. That's the difference. And the fact being is when they are making the credit available to the IMF, they have in effect achieved on that portion a gold guarantee and then haven't done as well [*unclear*] spent more dollars.

President Kennedy: But isn't that really the situation you've got in any bank; I mean if everybody started to cash in at any bank, they'd wreck it. We're not willing to cash in all, everyone's chips at once. And that's what they know! Everyone knows that we can't cash in everybody's chips tomorrow. That's what causes everybody to feel that maybe I ought to get mine out. But as long as they've got more demand than we have gold, what's actually going to be written there?

Dillon: What they're saying now is that "we won't accept any more deposits unless they're backed 100 percent by gold."

President Kennedy: Well, aren't we saying really, that we're not going, that everybody looks at the amount of demand on the available gold and realizes we can't pay [*tape stops, then replays*] off if everybody asks [to convert dollars into gold]. They have no assurances that the next fellow to them won't ask. So what we're trying to do is to get them to agree that for a two-year period they're not going to ask, while we're working . . . while our balance of payments situation improves and while we work out other arrangements. I think what hangs over there is the fact they know we can't pay off. And that being true, that makes everybody feel they better get theirs [now]. We got ourselves into a position. We should have been working three or four years ago on making these arrangements while we still had enough gold to pay off, then everyone would have been willing to sign up. Now we've got ourselves where we haven't got enough gold. As long as those figures are written, 22 billion dollars in demand and 16 billion dollars in gold, how do we prevent, either individuals or countries, individual countries, deciding that they better get theirs out because there isn't enough to go around?[73] What's the answer to that?

Dillon: Well, I guess the only answer to that is that if they all try to get theirs out, the major ones, that depend on world trade, they know they'll break the system on which their own world trade is based.

President Kennedy: Yes, but that would be the argument for their accepting an arrangement such as this. I just don't know.

Dillon: Well, it's also their argument for operating under the present system.

President Kennedy: Well, only because it isn't made multilateral enough. And, because it's an individual competition between bankers, individuals, and finance ministers. If they just figured everybody was going to take a piece of the risk. Now, I don't know anything about what a swap is. But I just would think . . . what is that?

[*talking to Press Secretary Pierre Salinger?*] A. P.? What is that, part of your press conference?

Salinger: Uh-huh.

President Kennedy: Well, no matter . . . [*unclear*] to Mrs. Lincoln . . .

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73. The United States possessed $16 billion in gold in its reserves. There were at least $22 billion in demand liabilities held by either private or official holders which could be converted into U.S. gold at any time.

in that order, we'll ask Wilbur Mills, Ackley, Dave Bell, who have we kept in this room since the last meeting? [*Room breaks into laughter.*]

Well, now it's just a speculation.

Salinger: You want to go with it?

President Kennedy: I don't see that . . . I think that's all right. Let it go at 2:15.

Salinger: Right.

President Kennedy: I don't think that that . . . all we're just concerned about is we don't want to sort of depress everyone in the world, do we? Always say something about [*unclear*]. All right, well anyway, that . . . It would seem to me that they're . . . without knowing anything about any of these technical arrangements that there's a problem of these different individual bankers and countries, to prevent them from feeling that everybody's going to go. In other words, the same feeling that when the guarantee was given to the local banks in the '30s and no one felt it necessary to cash in. Now, how do we get that feeling of a general acceptance of whatever risk there is? And their realizing that if everybody will accept the risk, there isn't any risk.

Roosa: Well, Mr. President, I think we get it in the way in which I was suggesting earlier and not by attempting to—

President Kennedy: Formalize it.

Roosa: —formalize . . . formalize the arrangement now. I'm afraid that they . . . to try to get it done at the political level, without the financial people involved would be in the nature of a coup, which I don't think you could accomplish in ten countries. And that the financial people would either agree or offset.

President Kennedy: But—

Sorensen: The next one, Mr. President?

Roosa: But, and one of the . . . But short of that, and without it . . . this is the secret of how we've done everything so far. We never got anybody to sign up on the dotted line for anything. We got them to agree in principle but avoided the darn wear and tear of having to negotiate the fine print. And you get them moving along the same way, get them all saying, assuring the world publicly of this, get them into a situation where, as we're beginning to do now, they all talk with each other about how to minimize the taking of gold. Just this Monday, this week, the Swiss called up and said that we got another 50 million dollars and we don't want to take any gold and we don't know quite how to handle it—what do you suggest?

President Kennedy: Where'd they get the 50 million dollars?

Roosa: It was a continuing part of this inflow but it was not really from here. This was one of those shifts around in Europe.

President Kennedy: Let me just say before I go. Do you have any thoughts about this plan, aside from it's . . . whether it'd be acceptable and so on . . . or do you think . . . ?

Samuelson: Well, the only question I would raise is to what degree are you depending upon personal diplomacy?

Unidentified: Are you—

Samuelson: As long as Montagu Norman and a few others . . . and Governor Strong were alive and working well, things worked very well.[74] But you put . . . Governor Strong is only mortal. And conditions change. If you could nail this down . . . I don't know what the feasibility of nailing it down is, but if you do have something that doesn't depend upon the vicissitudes of everybody understanding and liking somebody else, it shouldn't—

Ball: And against . . . that this is . . . with some major event occurring which could really disturb the situation.

President Kennedy: Here's the thing. I get . . . I got to get this [*unclear*] lunch. I don't even . . . we can't settle this today, so I think what we might do is to come back on Monday or Tuesday and take another look at it. In addition we've got Gene Black coming in and we might talk to him about it . . . see what his thoughts are.[75] It's like . . . It's hard for me to make a judgment, I don't know enough about it.

Roosa: You might want to get [Federal Reserve] Chairman [William McChesney] Martin in, sometime here. This is—

President Kennedy: OK, well let's meet next week on the [*unclear*] to continue our discussion. We could, just in view of the fact that there's a very strong difference of opinion between the State [Department] and the council, and the Treasury it's a matter about which, it's a much . . . we better take another look at it the first part of next week. The committee has done a good job in giving us a proposal. Now, we'll just have to see whether it has any merit.

Meeting breaks up. Papers are shuffled; people begin leaving.

President Kennedy: As I say, I needn't reiterate how important it is that this matter be kept without any staff conversation, because—

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74. Samuelson was referring here to Governor Montagu Norman of the Bank of England and Governor Benjamin Strong of the Federal Reserve Bank of New York. Norman and Strong had a close relationship and cooperated on international monetary affairs throughout the 1920s.
75. Eugene R. Black was the president of the World Bank from 1949 until 1962.

Dillon: Yes I would like to say—

Unidentified: Here's a copy of this.

Dillon: This is already known in Europe, and some of the State Department people are talking about it.

Ball: Well, Doug, that isn't true.

Dillon: It's come back to [John] McCloy, and McCloy has—[76]

Ball: We've had nobody talking about this in Europe. Nobody in Europe knows about this.

Dillon: Well, I [*unclear*] they didn't.

President Kennedy: What do they know?

Dillon: Well, they know that there is an argument between the proposal put forward by the State Department and ourselves that's . . .

Ball: Well, John, you know, I mean, you have been in Europe, and you know as much as any of us would know about this thing.[77]

Dillon: I understand from [*unclear*], it came from our people in Paris so I can name the names if necessary, and they've been talking about it there and Monnet's been talking . . . he's been writing to McCloy about it.

Ball: I have not been in touch with Monnet. John, let me ask, I mean, we've all—[78]

John Leddy: I have . . .

President Kennedy: What? On this subject? I know we are a subject in the *Tribune* but how about, on this?[79]

Roosa: Yes. Yes, well, the subject came up because these regimented outlines of what he understood to be the debate that is going on.

President Kennedy: How accurate was it?

Roosa: Pretty accurate.

President Kennedy: Where'd he get it, did he say?

Unidentified: Who is this?

President Kennedy: John McCloy. Where'd he get it?

Roosa: Well, he got it from one of his people who had sat in on a meeting in Paris, and . . .

President Kennedy: Between the Americans?

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76. Then in private law practice, John McCloy had been chairman of the board of Chase Manhattan Bank and had extensive connections in Europe.

77. Ball was addressing John Leddy, the assistant secretary of the treasury.

78. It was well known that Ball was a great admirer and associate of Jean Monnet. Monnet had been Europe's leading advocate of economic integration for years.

79. In the *New York Herald Tribune*. The *Tribune*, no friend to the administration, had been running a steady stream of articles asserting a declining confidence in the U.S. dollar in Europe.

Roosa: Yeah, well, actually, I am sure this meeting occurred before our present group was set up, because it's part of—

President Kennedy: So in other words it occurred before our meeting two or three weeks ago? Two weeks ago?

Roosa: I think so

President Kennedy: Oh then it's not directly related to our—

Roosa: Not directly from here.

Dillon: You see what happened is this is a picking up of this idea of Monnet's that he's been having for a long time.

President Kennedy: I see. Well, in any case, let's just, we're not in any dispute because we're not . . . we haven't reached that point yet.

Unidentified: [*Unclear.*]

Roosa: I did make out all right with him on the other thing.

Dillon: I just thought [*unclear*].

President Kennedy: Oh, yeah, I know; I heard it. I got that. But as I say, let's just put it to bed right here [*unclear*].

Roosa: [*Unclear*] we ought to be able to—

President Kennedy and others leave, but Dillon and Ball remain. Their argument continues.

Ball: [*Unclear*] put a clamp on this thing. Any documents that are locked up with my safe . . . nobody knows a damn thing about it.

Cross-talking. Ball and Dillon appear to continue their argument.

Dillon: I haven't [*unclear*].

Ball: Well, they don't know enough about this. They don't know . . . we've had meetings in hotels. They don't know of any discussions.

Dillon: But they do know about . . . [*unclear*] or maybe they don't. They do know that you have agreed with the Monnet approach. And it's [*unclear*] to get it done.

Ball: This isn't the Monnet approach. [*Unclear*] this is a wholly different approach. I mean, that what he's talking about—

Dillon: The final document is a different approach. But your original document is . . .

Unclear exchange between Roosa and one other person.

Ball: Well, I mean, I am not blaming you at all. All I am saying is that we have been damn careful about this. This is . . . We put absolute top security on this thing.

Dillon: They know it exists.

Ball: Well, I mean that if they know that I have been unhappy about the fact that we haven't in my judgment come to grips with this thing, sure, I [*unclear*] think that this has gone on for years. [*Unclear exchanges.*] Yeah, well, I don't want the impression created that we're taking it up.

Dillon: [*Unclear*] or even about this whole business.
Argument fades, moves outside the Oval Office. Tape runs for almost four minutes more.
Sorensen: Did you call me?
Lincoln: Yeah, Mr. [Arthur] Schlesinger wants to talk to you.
Sorensen: Oh, . . . from his office?
Lincoln: Yeah, he's over in his office. [*Tape ends.*]

Confronted with another decision, the President discovered that the Sorensen compromise was no more acceptable to Treasury than the Ball plan had been. Dillon and Roosa refused to sign on to any negotiations that could lead to a gold standstill or gold guarantee. The President, aware of the lack of a consensus among his top economic advisers and unwilling to rule against his Secretary of the Treasury, tabled the discussion. He also took Robert Roosa's advice to seek out the opinion of the chairman of the Federal Reserve, William McChesney Martin.

The President had a lot to do before heading off to Maine for a brief campaign appearance. He planned to spend the weekend with boxing great Gene Tunney at Tunney's John's Island hideaway. The foreign news was not good this day. On behalf of the Kremlin, Soviet negotiator Valerian Zorin rejected the new U.S. test ban proposals, terming them "only a tactical maneuver." On August 6 Arthur Dean had handed an informal note to the Soviets explaining that the U.S. government envisaged the possibility of lowering the number of annual on-site inspections and was even prepared to accept the concept of national control stations, so long as they were "internationally supervised." As the British had predicted, the Soviets did not accept a proposal that fudged the nature of international participation in the national seismic monitoring stations.[80]

And there were some more worrisome signs from Germany. In an article published in *Izvestia*, Willi Stoph, the acting premier of East Germany who was visiting Khrushchev, endorsed the Soviet view that "if the Western powers stubbornly adhere to their unrealistic attitude then the peace treaty will be signed. . . ."[81] Kennedy met briefly with the incoming Army chief of staff, General Earle Wheeler, who had been unanimously confirmed by the Senate Armed Services Committee the

80. Kendrick Oliver, *Kennedy, Macmillan and the Nuclear Test-Ban Debate, 1961–1963* (London: Macmillan & Co., 1998), pp. 124–27.
81. *New York Times*, 10 August 1962.

previous day. Then he saw Dean Rusk and the White House Middle East expert, Myer Feldman. Like the morning meeting with Mills, these meetings were not taped. The President's afternoon schedule was light. After another editors' luncheon, this time with publishers and editors from Utah, the President spoke with Arthur Goldberg and AFL-CIO president George Meany, who was at the White House for the second time in two days. The President's political escorts for the Maine trip, Senators Edmund S. Muskie and Benjamin A. Smith, II, arrived next, as did Kennedy's friendly escort for the private weekend to follow, old chum Congressman Torbert Macdonald of Massachusetts.

The President, with the Maine contingent in tow, left the South Grounds at 4:50 P.M.

Wednesday, August 15, 1962

The Soviet achievement of putting two spaceships in adjacent orbits caught the world's imagination. It also signaled one more area in the space race where the Soviets seemed to be ahead. The United States did not expect to be able to pull off a similar feat until 1964, at the earliest. The Soviet challenge was particularly evident today, also, in a decision the Kennedy administration had to make about the stalled disarmament talks in Geneva. In its instructions to Arthur Dean on August 3, the State Department had indicated that if Dean found that the Soviets would not budge from their opposition to on-site inspection, he could move to table a draft partial test ban treaty, outlawing atmospheric, underwater, and outer-space tests. Late on August 14, Dean had requested permission to go ahead and present the atmospheric option to the Soviet delegation. He would get a green light.

The President attended St. Matthews Cathedral with Dave Powers and Captain Tazewell Shepard for the Mass for the Feast of the Assumption. Then he motored to the Navy Yard to address the Coast Guard cadets on the new training bark, *Eagle*. Once back at the Oval Office, the President had brief meetings with Myer Feldman and the widow of former Philippines president Ramon Magsaysay before greeting a delegation from the American Indian Chicago Conference.

In the afternoon, the President had to evaluate two different kinds of programs designed to stop the spread of Communism in the Third