

Timothy Naftali

Hi, I'm Timothy Naftali, Director-Designate of the Richard Nixon Presidential Library and Museum. I'm here with Secretary George Shultz. It's May 10, 2007. We're at the Hoover Institution, and we're here to participate in the Richard Nixon Oral History Program. Secretary Shultz, thank you for joining us today. When did you first meet Richard Nixon?

George Shultz

In a vague way, in 1956 when I was a senior staff economist at President Eisenhower's Council of Economic Advisors, just sitting in meetings where he was present. And then I met him and saw much more of him after the Eisenhower administration was still going on, but I had left the council and my associate at the University of Chicago, the Dean, Allen Wallace [phonetic sp], was chairman of an economic policy group that Vice President Nixon got together. And I helped on that, particularly on issues involving labor matters.

Timothy Naftali

Let's fast forward to 1968. How did you come to join the administration as secretary of labor?

George Shultz

Well, I can't tell you all the things that were in the President's mind in inviting me, but he formed a group of advisory panels, and I was asked to chair one involving wage price issues and labor relations issues of various kinds. And, the idea was that we would report after the election if he was elected with ideas about what to do. And it was public that we were doing this, so it wasn't any secret. And I was glad to do it because I supported him in the election. And when the election was over, my group got together, and we turned in what I thought was a pretty good report, and I'm told it was the first report of any of the advisory committees to come in. At any rate, I got a telephone call from Arthur Burns, who was the chairman of the council of economic advisors when I was a senior staff economist there, and my friend. And I think Arthur had orchestrated all of these advisory committees. He called to say if President-elect Nixon were to ask me to be secretary of labor, would I respond favorably? So I talked that over with my wife and said, yes, I'd be honored. So I was asked, and I accepted.

But then some interesting things happened, and they showed all kinds of aspects of President Nixon. He said, "I'm going to announce all my Cabinet at the same time, not one by one. So I've asked you and you've accepted, so that's a deal, and we'll let you know when an announcement will come, and you'll come to Washington for this announcement." So I said, "Fine," but I said that maybe we could meet face to face in the meantime. And he said, "Well, I'm going to be down in Los Angeles and why don't you come down at 10:00 Friday morning or something." So I said to myself, he knows me and I've supported him. On the other hand, I've thought about these labor issues a lot, and I know what kind of a secretary of labor I'm going to be. I'm here; I'm not going to go there. So I'll take this occasion to be sure he knows me. So I worked hard on various issues, where did I stand on them. And I went down to Los Angeles and all prepared to do that. I think he was a little afraid when I started that I was an academic who was a little leery, which wasn't true. I was all for him. Anyway, we had a very good discussion of that and it paid off later because some of the things that I said we should do as

policy, we had to do right away, and they turned out to be tough to do. Anyway, then another thing happened that was an interesting point. I was called and said, "Come, but also bring your wife and your children." And why that? "Well, because the announcement will be made in the evening and the next day you're going to be involved in meetings all day long, and your wife and your children will get a tour of Washington in a way that only a President-Elect can manage." Why that? "Because," he said, or the person who called me said, "The President knows that when you come to Washington as a Cabinet officer, you're going to work your tail off. You're going to enjoy it, but you're going to be working hard, and the whole point of this is to let your family know that they're going to be paid attention to, too, and it's going to be interesting for them, too." And it really struck me they had thought about that. As far as I know, he's the only person I've heard of who thought that through.

Timothy Naftali

Did they not do that in the Reagan administration?

George Shultz

Well, I wasn't in the beginning of it, so I don't remember. They might have.

Timothy Naftali

Tell me some of those issues that you talked about with him that later became policy.

George Shultz

One of the most important was I said I thought that the Kennedy and Johnson administrations, which were predecessors, were much too quick to intervene in labor disputes, and the result was people didn't make their final offers; they waited until they were called into the White House and the big difficult disputes. And then the President or whoever starts making the decisions, and the whole collective bargaining process and the vitality of it declines. So you have to be willing to let strikes occur and sit them out. Mediate, of course, but make the parties face up to their own problems and resolve them. And that can be hard because some of these disputes cause a lot of commotion.

Timothy Naftali

I think I remember reading that the Kennedy administration had concerns about the railroad rules issue.

George Shultz

Well, they had lots of -- there were plenty of real issues anyway. Back in July, before the election, a strike started among the longshoremen on the eastern Gulf Coast. And President Johnson, under the authority of the Taft-Hartley Act, declared it a national emergency, in which case, an injunction could issue for I think, I forget, 90 days or some period like that. This had been appealed to the Supreme Court, and the Supreme Court had upheld the President. So here we are, about to take office on January 20th, and the strike resumes about January 15th. This is a strike the former President and the Supreme Court had declared to be a national emergency. So what to do? So I went to President Nixon, and I said, "Remember that talk we had in Los Angeles? What we should do is let them strike, and

there's going to be hell to pay. They'll be inconvenienced. You'll be subjected to pressures from particularly the New York people. But if you stand up to it and don't intervene and tell them it's their problem, and we'll mediate. Don't worry, we'll mediate. It's a big message about collective bargaining. It's a strategy. We have a strategy and we have tactics." So he agreed to let me do that, and he did get all of the static. People came in to the Oval Office and, you've got to do this and that, but he stood up to it and, after a while, we got the strike settled. It sent a big message that the collective bargaining system is a system where labor and management are supposed to bargain out their issues themselves and not have constant intervention from the White House. And that basically worked. We revitalized the system of collective bargaining, and it's because he was willing to stand up to that pressure. But I think he -- we talked about it some, and I think he liked it, because President Nixon liked a strategy. Before you came in to recommend with some tactical thing, he didn't -- he'd talk about that, but if you came in and said, "There's a strategic objective here, and we can attain that by something we do in this particular instance," that appealed to him because he had a sense of strategy.

Timothy Naftali

Did you get any static from the people around him though? This was a political risk.

George Shultz

Oh, yeah, we got static, but I said, "Wait a minute. I discussed with the President, this is his decision, not my decision. It's his decision, and what are you trying to do, undermine your President? Come on." So I gave 'em hell.

Timothy Naftali

Do you remember who you said that to?

George Shultz

I don't.

Timothy Naftali

Sure, let me ask you about your relations with George Meany. That was a very important part of your job, apparently. Tell us a little bit about George Meany, why he mattered and what you did on behalf of the administration in relating to him?

George Shultz

Of course, when I had my talk with President Nixon, President-elect Nixon, about what kind of a secretary of labor I would be, I said, "I respect organized labor, and I'm going to work with organized labor. They're not the enemy for me, and it doesn't mean I agree with all their positions by a long shot. I don't. But we're going to talk to them and be friendly with them. That's me and if you don't want it that way, you don't want me." So when I was getting people signed up to be in the Department of Labor, I would check out with George Meany so he knew in advance. I didn't clear them with him, but he got a heads up, particularly on somebody who was going to be intimately involved with the labor movement, but there is an assistant secretary who has a lot to do with the labor movement. And I got

to know him very well, became good friends. And of course, the President was aware of the fact, of course, that George Meany and the labor movement were supporters of what he would want to do in Vietnam, so he was conscious of that. George Meany was a very smart politician, and he told me, he said, "Well, I'm glad to talk to you." He says, "I ain't got no chips in the White House," because he'd opposed President Nixon. But we got along and then he said to me once, "Sooner or later they'll call me, wanting something. And I'll tell them the road to me lies through you."

Timothy Naftali

That was what he said early on?

George Shultz

Yeah, so he was, in a sense, I was doing some things that he wanted, and he was building me up a little. I sat with him once, we went in to see the President, and we were waiting in the Cabinet Room. And there was a portrait of President Eisenhower there, and George started talking about President Eisenhower. He had known him when he was General Eisenhower in World War II. And he just loved the man; you could tell as he talked about him. And sometime later, President Eisenhower died and, of course, everybody wanted to come to the memorial service at the cathedral. An for some reason, Meany was not on the list, and he wanted very much to go. And he called me and said, "Could you get me a ticket?" And I knew this was not a man wanting to be seen at the funeral. This was a man who had real affection and admiration. So I worked hard -- it was not easy -- but I got him two tickets, and he really appreciated it. Sometimes when you are working with people, members of Congress or whatever, if you see something that's important to them and you can help, little things like that help you.

Timothy Naftali

Had you learned that at the University of Chicago or you just grew up understanding that?

George Shultz

Well, I think my involvement in labor relations matters, industrial relations matters, I was a mediator, an arbitrator back in those days.

Timothy Naftali

What would be a good case, if people wanted to see you before, the kind of work you did before you were labor secretary? What's a good case to look at?

George Shultz

Well, I was dean at the University of Chicago. And if you're a dean, you have a lot of responsibility and practically no authority. You've got -- and I thought it was pretty good training to be a Cabinet officer because you're a dean, you have this school you're responsible for, and the central administration, you've got to be looking over your shoulder at them all the time. You've got to have a little money in the drawer that they don't know about, so you've got flexibility. You've got students; you can't order them to learn. You have to create an environment where they learn. You've got faculty

members who are, you know, can be prima donnas, and you have to manage them. You don't -- can't tell them what to do. You've got alumni; you want them to give money but you can't order them to, you've got to persuade them to. So the whole job is exercising your responsibility by persuasion. And so I get to be secretary of labor, and there's the White House. I have to cope with those guys. There's the Congress; I have to get along with them, otherwise I get no money. And all these problems are coming at you, and that's sort of a similar kind of job. It's good training.

Timothy Naftali

You bet. Let's talk -- we don't have a lot of time and I want to cover and a number of important issues. I'd like to talk to you about the Philadelphia Plan. Can you tell me your role in shaping that plan, what your objectives were, what role the President played?

George Shultz

Well, I had a background in civil rights issues that came, to a large degree, from my involvement in something called the Armour Automation Committee. The Armour meatpacking company and the unions they dealt with created this committee, and they appropriated some money for it to deal with problems of automation, which largely involved the closing of plants and what happened after that. So I was involved in a number of these things and in -- I had an experience I'll always remember. A plant was closed in Fort Worth, so we went down to Fort Worth, myself, the person who was working with me, a management representative and the union representative, who was a very able guy, happened to be black. We go down to the hotel, and I step up and I ask for my room, and they began to say, "Well, we have a nice suite for you," and I signed up. The management guy, "Yeah, we have room for you." Labor guy steps up, and they said, "I'm sorry, we don't have any" --

Timothy Naftali

No.

George Shultz

-- "room left." And so he did something none of us had thought to do. He whipped out his confirmation of a reservation, and the clerk was a little --

Timothy Naftali

Yeah.

George Shultz

-- annoyed, so he went back, consulted with somebody and came back out again and he said, "I'm sorry, we have no reservation." And I said, "Well, you gave me a suite so that has two rooms, so there is a room. Put an extra bed in that suite, and he'll have a room." And the clerk was sort of startled, and so he registered him. That was the first time a black person had gotten registered in that hotel, and I thought to myself, you read about discrimination, but I experienced it. So I know it's real. And then of course, we saw in our work that a lot of the people that were displaced were black, and so we worked with them, and we got to know them some and their skills and their abilities. We had some very

dramatic experiences that had an impact on me. So when it came to taking action to change the situation, that felt very natural to me. And the Philadelphia Plan was about the building trades, with whom I got along fine. But the building trades, there were no blacks in the skills, and so the Philadelphia Plan said, and you don't have to quote it or anything, but it just said you've got to hire some people and you ought to have an objective and you ought to have a timetable. Get some -- that's the way you manage anything, any of that. And of course it became very controversial, and I remember there was a vote about it, and I was called up to testify. I looked up and here, the counsel that was going to question me, was a lawyer that I knew, very distinguished, powerful guy. I said, "Oh my God, what's he going to do to me?" And he said, "You're installing a quota system." I said, "No I'm not, I'm replacing one." He said, "What do you mean you're replacing one?" I said, "There's been a quota system here for a long time. The quota is zero. It's been very effective." So we're trying to dispose of a quota system, not create one. Anyway, we had the argument and we won on the Senate vote and I have over there hanging on my wall the tally sheet kept by the Republican leader of the House then, Scott, Hugh Scott. But President Nixon backed me in this. I had discussed it with him, of course, and he stood right with me.

Timothy Naftali

Is this what led you to participate in school desegregation? They put you on a special -- they gave you a special position to work on this problem.

George Shultz

Well, I had a number of assignments as secretary of labor that surprised me. I was asked to chair a Cabinet committee on the oil import quota system. I'm secretary of labor. Why me? My President of the university from which I was on leave, the University of Chicago, named Ed Levi, later became attorney general, anyway I got a note from him when I was announced. It said, "Dear George, I see you've reformed the job corps. Now you're taking on the oil import system. What would you like to teach next fall?" So these were controversial subjects. Anyway, the President decided that, come the next school season, which would have been in 1970, his decision was to insist that the schools be desegregated. This is all these years after the Brown decision, the schools in the South were still segregated. And in order to implement it, work on the implementation, he appointed a committee. Vice President Agnew was made the chairman, I was the vice chairman, and Agnew said he wouldn't touch the issue with a 10 foot pole, wouldn't have anything to do with it. So I became the chairman.

Timothy Naftali

De facto or did you actually replace him?

George Shultz

Well, I was the de facto chairman. And I worked -- Pat Moynihan was in the White House then and a man named Len Garment, who was in the White House, the three of us, along with some other people -- Don Rumsfeld was involved. He was head of the Office of Economic Opportunity. And we developed a strategy in which we identified people in each of the states. There were seven states involved, black, whites, equal numbers, and we said, let us -- we're not going to have any attention to what their politics are. What we want are real people, that is people who represent the point of view of their constituents, in a sense, and are not duty-bound to agree with each other but they are people of

significance. And so we recruited these groups, and we had on a little program. We'd invite them up to Washington, and we'd sit them down in the Roosevelt Room and open up the discussion. And the first group was from Mississippi, and of course they started arguing about whether desegregation, integration of the schools, was a good thing. By and large, the whites were saying it was not a good thing and education's perfectly adequate, and the blacks were saying no. And it was a good-spirited argument, and I'd let it go until I felt it had -- they had gotten it out of their system a little bit. Then I had John Mitchell, who was the attorney general on call, and I'd tap something and I'd invite him in. He was thought of as the tough guy who was the champion of the Southern whites. So I would say, "Well, Mr. Attorney General, when the schools open, what are you going to do?" And he said, "I'm going to enforce law," which meant insist on desegregation. I said, "Thank you very much. Go." And then I said to the group, "Well, it's been an interesting discussion about the merits, but the discussion's kind of irrelevant. The point is, it's going to happen and you may like it, you may not like it, but it's going to happen. So the question is, how can you manage it? And you're the plant manager, and you live in X town, and you have a stake in the school system and how good it is. You have a stake in stability in your community and so on. So let's not argue about whether it's a good idea. Let's have a discussion of what you're going to do to manage it."

And we had a little money to help, very flexibly applicable, and after a while people got into it, and they began to work together. And then I would send a signal in to the President, and he'd give us a word and invite us to the Oval Office, which is right across the hall from the Roosevelt Room. And President Nixon was magnificent, and he said to them, "Well, here we are in the Oval Office. Think of the decisions that have been made here, and we're involved in another great decision on our country, and I've made my decision. But in a country like ours, that's not enough. People make decisions in states and communities and neighborhoods if this is going to work. So now we're looking for you to make your decisions." And people went out of there on cloud nine, very inspired.

Timothy Naftali

Did he do this for each of the seven --

George Shultz

Well, we did it for six, and it went very well each time. One left over was Louisiana, and so I suggested and Pat and Len Garment and I suggested that instead of having the people come to Washington, we go to New Orleans, and we could have the Louisiana group in the morning, and then we can invite the co-chairman of each of the groups to come to New Orleans. And in the afternoon, we had a meeting of the co-chairmen. And this was not too long before the school year would open; it would be kind of a kick off. So Vice President Agnew said, "Mr. President, don't go. There you'll be sitting in that room, half the people will be white, half the people will be black. There's going to be blood in the streets of the South, and it's going to be blood on your hands if you go. Don't go." So the President looks at me -- he wouldn't have held the meeting if he hadn't made up his mind -- but anyway, he looks at me. "Well, what do you say?" I said, "Well, maybe the Vice President is right. I don't know. But you've met with these people who have come up here, and they're good people. You can see that. They're very well motivated; we've been working with them. And whatever happens, you're the President, so I think we should do as good as we can and going down there should help."

So down we go. And I go down the night before with Pat and Len, and we start our meeting with the Louisiana group, and I'm very confident because we've done this six times. And all of a sudden it

dawns on me: it's one thing to bring people to the White House. It's another thing to get them in a hotel room in their hometown, not the same setting. So we had a struggle. We almost got them there, but we didn't have them. And all of a sudden, I get word, the President has landed. The President is 10 minutes out; the President is five minutes out. So I adjourn, I go to the President and I say, "Mr. President," and I'm thinking of Agnew. "Always before it was all teed up, but you've got to tee it up yourself this time because we're not quite there." And he came in, and he did a wonderful job and turned them around, and it worked. And then when we had our overall meeting. It went very well, and the actual opening of the schools went very smoothly. And Len Garment went around to the main television stations and media people and he said, "Suppose a hundred schools open, and there's some violence at one of them. What is the story? If you think the story is violence, you're wrong. The story is mostly, overwhelmingly peaceful." Anyway, we didn't have any violence and it worked, and I give the President a lot of credit for standing up to that. And then particularly down in New Orleans I had a lump in my throat.

Timothy Naftali

That was risky.

George Shultz

That was risky, yeah, but it was dumb of me not to realize that it's one thing to bring people to the White House and there they are in the Oval Office. In a hotel room in New Orleans, it's not the same.

Timothy Naftali

How do you end up going to OMB in 1970?

George Shultz

Well, the President, he did a lot of thought about the organization of the government. And there was a stage that resulted in the creation of OMB. It was the Bureau of the Budget for -- later he had a much more ambitious organization that Roy Ash committee recommended, but at any rate, he recommended a re-organization and one of those was to add a management responsibility to the Bureau of the Budget. So it became called the Office of Management and Budget. And he invited me to be the first director. Again, I don't know why he'd pick me out, but anyway, I was an economist and that's a good job for an economist. And from my standpoint, it was extraordinarily interesting because you see the whole government. But I hated to give up the Labor Department. I enjoyed it, and we had things going well there. But at any rate, I remember he called me into the Oval Office and he said that "I want to make it clear that this is the President's budget." The previous budget director had been a little bit, "It's my budget," and so we're arranging a suite of offices for you in the West Wing. That's where I'd like to have you hold your office instead of the traditional Office of the Budget Director. And when you have meetings on critical budget issues, have them here. That'll get the message across. So I had an office in the West Wing of the White House and it -- so I was really a White House person, in a sense. And it worked out pretty well.

Timothy Naftali

What was your position on the --

George Shultz

He didn't really like budgeting much, President Nixon.

Timothy Naftali

He didn't?

George Shultz

He didn't. I mean, he knew how important it was, and he focused on certain things, but the -- it's a dull, in some ways, it's a big budget and a lot of decisions, and it's kind of dull in some ways unless you like it, well I liked it.

Timothy Naftali

But you can control the government that way.

George Shultz

Yeah, I know it. But anyway, so I told him once, "If you give me a couple of hours, I'll bring you 10 sort of midlevel decisions, the kind of decisions you don't want to get involved in, probably. And I'll describe them to you, and you tell me how you would decide those 10 cases and on the basis of that, I'll be able to settle a hundred. Not my way; the way you want because I've seen how you decide." And he said, "Okay, we'll try that." Then he said, "People will know this is what's going on. Suppose a Cabinet officer appeals the decision. Well, how do you think we should handle that?" I said, "Well, it's easy. A Cabinet officer will want to see you about it. Fine, give him an appointment right away. Then we can describe the decision. And then you turn on me and give me hell for being so generous and that's the last you'll hear of anything."

Timothy Naftali

You brought Cap Weinberger to OMB, didn't you?

George Shultz

Cap became my deputy. President Nixon knew him -- I don't know, just maybe from California days. He was head of the Federal Trade Commission. Brilliant lawyer, wonderful guy, and so Cap and I started out. I was the first director and he was the deputy director, and my close friend and associate, Arnold Weber, became the first "M" in OMB.

Timothy Naftali

Oh, the first manager. Because you would -- some time later, you'd have a -- you'd be debating a lot with Cap Weinberger in a different administration. In this one, you worked together closely.

George Shultz

Yeah, we worked together very closely. We worked together when we left government. We both wound up working at the Bechtel Company. I was President, he was general counsel and we worked very well together there. And actually, our disputes during the Reagan administration got a lot of publicity, but on a huge number of things, we agreed. For example, we both opposed the Iran arms sales vigorously.

Timothy Naftali

Yeah, I know. Let's talk a little bit about one of the challenges that President Nixon inherited, which was what to do about the surtax. The budget was out of balance.

George Shultz

Well, not much, and the last budget that I worked on came in, for all intents and purposes, in balance. We worked hard to bring that about.

Timothy Naftali

How did you do it?

George Shultz

By getting spending under control and I have to give Cap a lot of the credit -- he's a bear these things. When he was the budget director in California and he had the nickname "Cap the Knife," and he was tough. It was good; we worked together well.

Timothy Naftali

How did you go about evaluating Great Society programs to cut or trim?

George Shultz

Well when I was secretary of labor, I knew a lot about manpower training, and we did reform the job corps. Some people thought we should eliminate it. I thought it had a lot of good things to say for it and if it were reconfigured a little bit, it could work. So we did that, and I think we had credibility to do that. The Peace Corps, that was a good product that continued, it had been a good thing. So at least when I came across them, I didn't see the great problems.

Timothy Naftali

What do you recall your thinking about the FAP, Family Assistance Program?

George Shultz

Well, the welfare program, welfare problem, was an acute problem, I felt. And we tried to reform it. The President wanted to reform it. And I wound up working on it with Pat Moynihan. For some reason the two of us clicked, and we worked on it, Pat in the White House and I was -- I had a

legitimate role as secretary of labor, but I think Bob Finch at HEW had the main role. But I worked mainly with Pat and we -- the conceptual problem in welfare reform is how you remove welfare payments as a person earns money, the working poor, in such a way that a person never loses money as a result of earning money. And the way it was structured was, if you hit a certain point in your earnings, then your welfare disappeared and the result was, by earning more money you had less money. So we developed a way of dealing with that, which I had suggested to him and Pat labeled the Shultz Disregard, that made it possible for us to figure out how to do that. Anyway, we had -- we got this plan up; I thought it was a good plan, and it didn't take in Congress. But nevertheless, finally welfare got reformed in the 1990s. It was a Republican initiative, but President Clinton signed it, and you could see the earmarks of the family assistance plan in the concepts. Sometimes you start something, it takes a long while for it to gestate, but you get it started and you ought to have that attitude often towards these things in government.

Timothy Naftali

Your friend, Arthur Burns, was not a fan of the Family Assistance Plan, I don't think.

George Shultz

No, he wasn't a fan, but he didn't try to block it entirely.

Timothy Naftali

Let's talk about Bretton Woods. I've read that you in many ways you were President Nixon's tutor a little on Bretton Woods. At least you helped him understand the system and the problems with the system. Am I right in assuming you preferred voting rights, did you not?

George Shultz

Yes.

Timothy Naftali

Tell us your role in the Camp David meeting of August 1971.

George Shultz

Well, we inherited a problem of inflation. Not wild inflation like the Carter administration, but it was in the six to seven percent range and more than people wanted to live with, more than I wanted to live with. And also people were afraid of the big unions and their capacity to raise wages and so on. And we had a program in place, we had the budget under control, and I felt that if we could stay with it and be patient, gradually inflation would come down. And in fact, it was coming down very slowly, but it was coming down. And I made a speech that the President signed off on entitled, "Steady as You Go," and the argument was that the strategy's in place; these things take a lag. I must say, I learned that an economist's lag is a politician's nightmare. Politicians like instant results and some things take time. So it was working but John Connally came along as the new secretary of the treasury, and he was a piece of work. Fantastic guy, fun, great presence, and he was impatient about inflation, and the business community was. For reasons that escape me, they thought that you could have wage controls without

price controls. At any rate, it was an atmosphere and also it was true that over time, as the dollar was pegged to gold at \$35 an ounce, other countries would, in effect, devalue against us and we were kind of a sitting duck there. And all kinds of things were done to shore up the dollar during the Johnson period that I didn't think were very good ideas, but anyway they were there. But more and more dollars were held by other countries, and it became clear that if people started to cash their dollars for gold, we would the bank. And so people worried about that, justifiably. Of course, I thought if we got off the gold hook and went to flexible exchange rates, we'd be better off, but at any rate, John Connally came up with a combination of "close the gold window."

In other words, no longer be willing to pay \$35 an ounce for dollars, have wage and price controls, and then he kicked in a tariff, a temporary tariff. And he sold this to President Nixon. And I remember we sat in the room over in the old EOB, we used to call it. I guess it's now the Eisenhower building, three of us and President Nixon said, "Well I've decided to do this. We'll do it in September, after the Congress is back, and there are only three of us who know this. I know it, you know it, and you know it, and I'm not going to tell my wife. Don't tell anybody." So we left, I went up to a little family place we had for a vacation in the Berkshires, and I had a 10-year-old boy who was the kind of kid who went out and cut your grass and made a dollar and he never spent it. He was a saver. And we're sitting there and on the radio is some guy carrying on about the weakness of the dollar and sooner or later, it's going to be devalued. He didn't know anything about this, but anyone could see this. So my little son comes in and says, "Dad, I want my money to be worth more, don't I, not less?" I told that to President Nixon. It scared the daylights out of him. Who wants to be the President that devalues the dollar? At any rate, I think it was the British forced our hand in early August, and they came and presented claims, and so it was obvious that we had to close the gold window. And that precipitated the August 15th decision. It was earlier than he had wanted, and so we instituted wage and price controls and so on.

Timothy Naftali

But you disliked wage and price controls.

George Shultz

I argued against them, and Connally argued in favor of them on the grounds that maybe we were getting somewhere as it was. But if the dollar was worth less, then everything we imported would be worth more and the inflationary pressures had to be held in check, and that's an argument I lost.

Timothy Naftali

But my assumption is you were also against the border tax, too.

George Shultz

Absolutely. So that went away after a short while.

Timothy Naftali

But when you -- who were your allies in this debate? Once everyone knew about it, because of course in the beginning only three of you knew about it.

George Shultz

Right, well it wasn't discussed. Well, actually Arthur Burns was very -- he kept pressure on guidelines and so on, and so conceptually, he was not against the controls. But it wasn't a widely discussed matter. The Democrats had passed legislation giving the President the authority to impose wage and price controls, so it was like a dare. I mean, that was a huge amount of authority, and it was as though they were getting ready to say, if it's inflation, it's not our fault, we gave him the authority to do something about it. So it was there.

Timothy Naftali

President Nixon had some experience with price controls in OPA during World War II.

George Shultz

He knew better, and they were wildly popular at first and probably helped him win the election, but then things got worse and we were on our way out of them and he re-imposed them in 1970 --

Timothy Naftali

Three.

George Shultz

Three, over my opposition. And I said to him, "Mr. President, I'm opposed to what you've done. It's right in my area of responsibility, and I will defend your decision but then I want to leave." And he said, "Well, Mr. Brezhnev is coming in a couple of months, and won't you stay? You've been managing the economic relationships with Russia." And so I stayed through that and then after a while, I said to Al Haig once, as I remember, "Al, one of these days, I'm not going to show up for work. You'd better appoint a successor." And so they appointed my deputy, Bill Simon, as a successor.

Timothy Naftali

A couple more questions, if you could, a few more minutes, and then we'll stop. I'd like to ask you about the grain sale and the effect of this grain sale, one of the major components of the inflation of 1973 were very high food prices. To what extent did our sale of grain to the Soviets lead or help push up prices?

George Shultz

Well, of course they bought a lot of grain. They did it artfully. They're not supposed to know about markets, but they want a little here and a little here and a little here and pretty soon people woke up, and we called it the great American grain robbery. And I subsequently had a long discussion with Mr. Kosygin, who was the number two person in the Soviet Union at the time, and we worked out conceptually how a market and controlled economy could interact. And the concept led to something called the long-term grain agreement, which was a way of managing that issue. But it was a bad time.

Timothy Naftali

Let me ask you about another difficult moment, if I may. One of the things you inherited as secretary of treasury was an investigation of the Howard Hughes Corporation by the IRS, and you've written in your memoirs a bit about this and I wanted to ask you about it. You were asked to investigate Larry O'Brien's tax returns. Please, if you could tell us a bit about your reaction and Mr. Walters' reaction to this challenge.

George Shultz

Well it was an ongoing investigation, which we pursued, and there was no evidence of any problem, and somehow they wanted it continued, and we said, "No, it's over, we've done it." But then, Johnny Walters came to me and said, "John Dean, the President's counsel, has just brought me a list of I think 50 names of people and wants a full field investigation of them. That's a very unpleasant thing to have happen to you. What should I do?" And I said, "Don't do it." And he said, "Well, what shall I tell John Dean when he asks me how it's going?" I said, "Tell him that you report to me.

If he has a problem, he's got a problem with me." So they never brought it up with me although on the tapes there's discussion between the President and John Dean about who do I think I am, holding this up. But it was an improper use of the IRS, and I wouldn't do it.

Timothy Naftali

Did you actually speak with the President about this?

George Shultz

He never brought it up, so I didn't bring it up.

Timothy Naftali

I know from the tapes that you talked to Ehrlichman and Ehrlichman also put pressure on you to do an investigation of Larry O'Brien before the election.

George Shultz

Well, I'm not remembering that exactly, but at any rate, when it came to anything of that kind of where we're using the power of government, I think -- and I held that and I stuck to it -- that you've got to do it properly. And I was being asked to do something improper, and I wouldn't do it. And I think things like that had been done before, and so maybe the President thought he was just doing what others have done, but anyway, not with me.

Timothy Naftali

I wondered, because I know something about your career with President Reagan, whether your unwillingness to undertake a polygraph, which was a big issue for you as secretary of state, whether that was a product of your experiences in the Nixon White House?

George Shultz

No, I think that was a different thing entirely. This was an effort by some people in the CIA and the defense department to cause other organizations, like me in the state department, to try to manage through lie detector tests. In other words, manage through fear. And I said, that's not my way. I start out by trusting people and expect them to trust me and work positively together. And if somebody -- turns out somebody doesn't deserve the trust, we'll get rid of that person. But I'm not going to start out by telling people I don't trust them. So when I was out of the country, they got the President, Reagan, to sign something that would have required this. They waited until I wasn't there, and when I got back and I was asked about it, and they said, would I take a lie detector test, I said yes. I'll take it once and then I'm out of here because the minute I get the message the President doesn't trust me, I'm gone. And President Reagan, then President Reagan understood what had happened and he changed it. But I think that you, in any of these jobs that people go into, you can't want the job too much. And you have to stand up for what you think is right. I mean, there are all kinds of issues where you don't get your way and you can't, but on issues of deep principle, you've got to hang in.

Timothy Naftali

Could you tell us quickly the story of how you encouraged the Japanese to accept textile embargo? Apparently, you and Ehrlichman were on a trip to Tokyo.

George Shultz

We were on a trip to -- the President, when I became director of OMB, said, "Asia is the future. And while it doesn't have anything directly to do with your duties as OMB, I want you and Ehrlichman to take a trip and go to Japan and go to Hong Kong because that's where people understand China, and go to Saigon."

Timothy Naftali

This is before the opening of China.

George Shultz

Yeah, before. And there was a big hue and cry about the import of textiles from Japan and a lot of pressure on that. At any rate, we go to Japan and the ambassador had a dinner. He segregated the men from the women, and the men were only Ehrlichman and me, and the ambassador and the minister of trade and industry, who was then Kiichi Miyazawa, later became prime minister. Anyway, the ambassador started beating on him about the textile thing in a way that embarrassed me. There in Japan, they're very polite people, and at one point, Miyazawa got up and he said, "Mr. Ambassador, if you persist in talking like this, I must leave." That's -- my respect for Miyazawa went way up, because the ambassador was way out of line, and I think he thought he was showing off in front of Ehrlichman and me. So that got settled down. Then I had -- I was invited over to Tokyo University to give an economics seminar by a person I knew. The ambassador said, "I forbid you to go." I said, "What do you mean, you forbid me to go? Send a car and I'll go over there." He said, "If you go over there, you'll start a riot." I said, "You're out of your mind." And I went over there; there was no riot. The university wasn't even in session. Had a good seminar, then we were invited to meet with the Keidanren and the ambassador was out of his mind, he was so pleased he had never met with them. Can you imagine a U.S. ambassador that didn't know the Japanese business community? So I went back to Washington

and the President asked me how it went, and I said, "You've got a guy over there in Japan you've got to get rid of, he's no good." "Well, I -- who shall I replace him with?" I said, "You're better off with nobody. The DCM can handle it." And then I remembered Bob Ingersoll, who was a businessman, who was a successful businessman in Japan, and he became the ambassador, and he did a very good job. But anyway, that's that little story.

Timothy Naftali

In the Reagan administration, President Nixon, former now, former President Nixon, was uncomfortable with the INF treaty. And I notice that he met with Baker and Carlucci and the President, but not with you in 1987. Did you -- were you -- did you have any contact with President Nixon in that era?

George Shultz

Not much, but he and Henry Kissinger and Brent Scowcroft wrote an article in "Time Magazine" attacking the INF treaty and they felt that President Reagan and I were naïve, that the Soviet Union was not changing as we thought it was, and we shouldn't go forward with that treaty. They were absolutely wrong, deeply wrong, and if they had had their way, it would have been a tragedy. President Reagan was right about it. Anyway, we stuck to our guns, the treaty got ratified, and the Soviet Union changed. It's not there anymore.

Timothy Naftali

What do you think was the basis of their opposition?

George Shultz

A lot of people felt that the Soviet Union could not change. That was, in a sense, the assumption of Détente. We're here, they're there, that's life, the name of the game is peaceful coexistence. We felt, we're here, their system is inherently unstable, and it's going to change. As the President said, it's an evil empire and so, in the meantime, we'll be strong and of course we'll negotiate on arms control issues and other issues, human rights issues. First deal we made with the Soviets in the Reagan period was a human rights deal that people don't know about because the deal was, you let them out and we won't crow. And the President made no comment about it. But that's another story.

Timothy Naftali

One last question. From your experiences as treasury secretary of '73, '74, what would you have done differently, because we did have stagflation in that period, which was something that had never been experienced before in this country. What, thinking back on it, what might you have done differently?

George Shultz

Well, the wage and price controls did a lot of damage and, in the end, they proved as disastrous as every economist, me and every other economist, mostly would have predicted. And maybe I could have screamed louder, I don't know. I screamed pretty loud, and I resigned the second time around. Monetary policy was too loose during that period. There's no doubt about it, and of course you saw the

continuation of the problem, and when President Reagan came into office, inflation was in the -- way in the double digits. The prime rate was, I don't know, 13 or 14 percent, and so with Paul Volcker given the green light at the Fed, a tough monetary policy was instituted. We had a recession, but inflation was brought under control. And I can remember President Reagan saying, when people told him there would probably be a recession, he was saying, "Well, as the saying goes, if not us, who? If not now, when?" And he didn't -- Paul Volcker and Ronald Reagan did a huge service to the country. Once we got that inflation under control, we've had 25 years of more or less steady growth.

Timothy Naftali

So perhaps we should have -- there should have been a tighter monetary policy.

George Shultz

I think so, without a doubt.

Timothy Naftali

But that -- but I think President Nixon wanted a softer --

George Shultz

He had the experience when, toward the end of the Eisenhower administration, when the economy was soft and he felt that the Fed was too tight and probably cost him the election against President Kennedy. So he had that in his mind. Okay?

Timothy Naftali

Thank you very much.