Kermit Gordon
1916–1976

IN ENDING his remarks about Kermit Gordon at the memorial service here at Brookings on June 30, Charlie Schultze epitomized his tribute with the words, "Kermit Gordon made a difference." And because the Brookings Panel on Economic Activity represents, above all, an effort to transform good economics into good policy, let me take Charlie's closing words as the main theme of my tribute to Kermit and call to mind some key instances in which Kermit indeed did make the critical difference in economic policy.

But before indulging in economic nostalgia, one ought to ponder a moment what made Kermit so effective as an economist and as a human being.

In part it was the force of a crystal-clear and uncluttered mind. If anyone's thinking, speaking, and writing in economics deserve the term "incandescent"—in the sense of shedding light, not heat—Kermit's did. Out of sheer logic and finely honed wit and prose he fashioned some of the most persuasive policy statements of our time.

Indeed, one vividly remembers that when Kermit spoke—whether at the White House, or Brookings, or Ditchley—no one dared *not* to listen. For who would want to miss such bon mots as "hard-hitting, forthright evasion," or "love thine enemy; it will drive him crazy"? And who could afford to miss the words that would illuminate the issues, sharpen the focus, and set the tone for the ensuing discussion?

Combining the spice of the jocular with an unerring but kindly sense of the jugular, he always made a difference, and he usually carried the day on the field of economic battle.

And as that word "kindly" implies, one of his most winning weapons was warmth and gentility. As for those enemies, if he had any—listed or unlisted—I surely know of none, and even more surely he deserved none.

But to say that he fought his battles while ever remaining a gentle man is not to suggest that he ducked the tough ones. He clearly had civil courage. Witness his answer in 1963 when Senator Harry Byrd, Sr., asked him, as Director of the U.S. Budget Bureau, what balancing the budget would do for the country: "It probably would add about 2.5 million people to the rolls of the unemployed, delay the recovery about four years, and knock 10 percent off U.S. output." Now there's an answer that will live in infamy—among fiscal troglodytes, that is. And it led to a quick demand by Byrd for Kermit's resignation—just as quickly rejected by President Johnson, who was later to say, "I inherited a lot of talent from Kennedy, but no one better than Gordon."

Less well known, perhaps, is an earlier encounter when Kermit took on LBJ, then Vice-President and gung-ho chairman of a committee for—and I mean *for*—government subsidizing of a commercial supersonic transport. LBJ had listened approvingly as Treasury Secretary Douglas Dillon assured him an American SST was vital for our balance of payments; Commerce Secretary Hodges told him it was vital for American technological leadership; FAA Chairman Jeeb Halaby said it would really fly; and so on. And then came Kermit's turn. He looked LBJ straight in the eye and said, "Mr. Vice-President, I'm all for the SST [pause] *if* it can meet the test of the marketplace. If it's as great as I hear around this table, it ought to fly without federal subsidy. Let private industry finance it."

Ten years and nearly one billion federal dollars later, the Congress and the country finally agreed with Kermit and scrubbed the American SST program—a clear case of discord making better economic sense than *Concorde*.

And those of us who worked with Kermit in the Kennedy Council of Economic Advisers won't readily forget how he almost single-handedly turned around White House policy on transportation. A misbegotten program that would have tightened the regulatory screws on trucks and water transportation was converted, mainly by Kermit's masterful marshaling of the facts and lucid logic, into one that called for bringing the cold winds of intermodal competition into the field of transportation. He made the vital difference in persuading Kennedy of the wisdom of this course. Could he help it if Kennedy—and Johnson, and Nixon, and Ford—could not persuade the Congress?

And, turning to one of his strategic, if smaller, contributions, I won't forget the day in late 1963 when LBJ gave me one hour to produce a billion dollars of additional revenues for his fiscal 1965 budget. Luckily, I recalled that Charlie Schultze had told me we could shift $800 million in revenue from fiscal 1964 to fiscal 1965 by cutting the withholding rates in the tax-cut bill from 15 percent to 14 percent in March of 1964.

But where to get the other $200 million? I called Kermit. His instantaneous response: "I was just recalculating miscellaneous revenues and by sheer chance came up with $200 million more." With the help of Kermit's instant resourcefulness we delivered the billion dollars in forty minutes (and got some of the added economic stimulus we wanted in the bargain—an economic good meeting a political need, the essence of happiness for economic advisers).

But of all the imprints Kermit left on U.S. economic policy, the wage-price guideposts stand out most clearly. In their conception, delivery, and postnatal care in 1961–62, Kermit played the crucial economic role. His foresight, craftsmanship, and battlefield judgment made the critical difference.

It all started one day in mid-1961 soon after Ted Sorensen, seeing the Gordon-Tobin-Heller Council in solemn conclave at the White House mess, had sung out for all to hear, "There they are, contemplating the dangers of an upturn." The main danger, of course, was that we would lose the President's ear. But Kermit quickly perceived a second danger: that cost-push pressures generated by big business and big labor could thwart the expansionary policies that would get the economy moving again. So Kermit put "operation price-watch" into motion in the summer of 1961, in particular keeping a jaundiced eye on that bellwether, the steel industry.

When Kennedy got the message and suggested, "Why don't we just get those steel barons (they weren't SOBs until 1962) in here and appeal to their sense of public responsibility," Kermit gently reminded him of something called the antitrust laws. So, instead, an artful presidential letter went out suggesting that, by any reasonable standard, no steel price increase was warranted.

What reasonable standard might apply, Kennedy wanted to know. Kermit, aided and abetted in particular by Bob Solow and Jim Tobin, handcrafted the tightly reasoned answer, which you can read as the last chapter in the President's January 1962 economic report: the wage-price guideposts. And if, in a Carter administration, the guideposts are born again, Jimmy Carter may not know it, but he will be deeply in Kermit's debt.

But the story doesn't end there. U.S. Steel, in April 1962, threatened to kill the infant guideposts with its $6-a-ton price increase. In the white heat of that crisis, Kermit injected a cool, calculated note of economic counsel, displaying in this case a sense, not of the jugular, but of the capillaries. While Labor Secretary Arthur Goldberg went for the jugular—U.S. Steel—Kermit's industrial-organization wisdom told him to tackle the capillaries, or at most the veins: if 15 percent of steel capacity held firm on prices, big steel could be brought to book. In the fact, when Inland Steel, Kaiser, and Armco were persuaded to hold out, the jig was up. As Kermit had predicted, the pyramid of pygmies toppled the giant. U.S. Steel caved in. The wage-price guideposts had survived their baptism of fire.

Did Kermit, then, always win? No. There were some failures, and in the interest of a fair and balanced picture, I should list a few:

- Try as he might, he could never teach Senator Byrd the difference between economy and parsimony.
- Try as he might, he could never persuade LBJ that being president of Brookings was more important than being Secretary of the Treasury.
- Try as he might, he could never convince Nixon, or the likes of Erlichman, that placing a bomb or two in this building would *not* destroy the Democratic government in exile.
- Try as he might, he could never cajole the ICC into understanding that, for the good of the country, it should self-destruct.
- Try as he might, he could never get George Meany to recognize that, in Kermit's felicitous phrase, "What labor gains in one turn of the wage-price spiral it will lose in the next."

So much for his failures. By *that* kind of failure shall ye know him!

Finally, a personal reminiscence. Last year, Kermit and I had labored at a Ditchley conference on incomes policies—with time off, of course, to poke around the beautiful Cotswold country he had grown to love as a Rhodes scholar at nearby Oxford. And then off to London and Soho—for theater, of course. Kermit had picked out the play and bought the tickets. And then we chanced on a devastating review of the play. Should we give up? No. After all, as Kermit reminded me, British theater is something like making love: when it's good, it is very, very good, and even when it's bad, it's still rather good.

How was the play? Dreadful! And as we slunk out of the theater, Kermit allowed as how this company of actors was simply a victim of G. K. Chesterton's dictum, "Anything worth doing is worth doing badly."

That dictum was the antithesis of Kermit Gordon's approach to life. Anything he did was done well—and wisely. Well enough and wisely enough, again and again, to make that critical difference.

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