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STENOGRAPHIC NOTES OF CONVERSATION BETWEEN DCI, WADDELL CATCHINGS, AND DR. ED ALLEN ON 29 MAY 1958 AT 1530 HOURS.

C- "...accept no responsibility for the fact that they teach us in all our schools and classrooms and create public opinion, they accept no responsibility for having to come down here and giving advice to committees and so forth."

D- "How do you mean? What's an example of that? What is the kind of thing you're talking about?"

C- "Well, I'm talking about this--I have to give you a little background."

D- "Yes."

C- "I have been associated with Alfred Sloan now for quite a little while in connection with MIT. I thought I had it all wrapped up for Harvard but Carl Compton got away with it and got the school established at MIT--I thought I had Alfred about ready to give the five million to the Harvard Business School."

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I've been very close to them too until finally Mr. Sloan lost his interest in economics and now we don't go up there, but up to a year ago we were up there every month ... and now he's off of economics and--."

D- "Is he?"

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- C- "Oh, it's so frustrating! I'll get into--I want to answer your question specifically and then I'll come to his attitude in a moment. What I have in mind is this: in connection with MIT I have made a very very careful study of Paul Samuelson's book on economics which is by far the leading text book in the world really on economics. It sold four or five hundred thousand copies in the United States--."
- D- "Do you know it, Ed?"
- A- "Yes sir."
- C- "And I have made a--years ago when I first went up there, I made a careful study of it and reported a memorandum, in memorandum form, to Mr. Sloan. And I went over that at great length with Samuelson and I went over it at length with Carl (Con...), who was alive at the time. He thought it was a very fair criticism of Samuelson's book and so did Samuelson. Samuelson said that he thought that it was fair from a businessman's point of view. But, as I pointed out, he's teaching--preaching really much more than teaching-- the acceptance of Socialism as an American way of life, and there's no question about it. And he says to me frankly, 'Well, that's the way I see it; that's where we're going; I'm not doing anything to influence it; I'm just calling'--"

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as he keeps saying--'I'm calling the shots as I see them.'
And he has economic theories which give full support to the
point of view of the labor people in advocating wage
increases as a means of creating purchasing power. He
has full support of the endeavor of the Federal Reserve
Board to manage our economic life and is quite aware of
it that they are doing that and he endorses it thoroughly,
thinks it's a very important thing to do."

D- "Yes. Excuse me while I put my feet up and relax."

C- "Oh, yes, sure, Allen," by all means. He is a great believer
in our methods of taxation and--we are so ignorant in our
methods of taxation that the American people^{are}/thwarted in
what they want to do because they can't raise the money.
We are blindly following these damned--."

D- "I can't even make out my tax returns anymore."

C- "Well, I know but basically--."

D- "It's so damned complicated."

C- "Basically, Allen, we are following the policies that were
elaborated by Karl Marx as a means of breaking down a
free society and we do that right along. So, when we come
to a time when the American people would gladly, in my
opinion, give a half or a third of their effort to protect

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themselves from this frightful word, there's no damned way to get the money from the individual to the Government without raising hell in every respect, we don't know how to do it. Our methods of taxation are so ignorant and so haphazard, and no intelligent person could set up a system of taxation such as we have in the United States at the present time. Now you ask me these various things and I say this--I say that at the present time the economic profession does not have and does not accept any responsibility for getting it either, they do not have the knowledge to establish a system of taxation which will allow us to turn over purchasing power to the Government without seriously interfering with the action of our economy as a whole. They do not know how to have a management of money by the Government which is necessary--and it is the most important thing in the world, really, to have the Government manage our money, that's true--but a management of money without an endeavor to manage economic life as well. While the Federal Reserve doesn't parade that publicly, no one can read the basic literature--one can read (Goldmorse's) books--without realizing that there is a deliberate effort on the part of the--and it's following out Samuelson's entire belief of making use of monetary means as a method

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of accomplishing a Government direction of economic life.

Well, I don't want to spend too much time--."

D- "I'm not an economist."

C- "Well, I know but you--none of us are. And nobody can do this except--work this out--except the economists, I mean it's just--. I spent quite a little time last week talking with Art Dean and he has spent more, given more thought to this possibly than you have. And he agrees with me that the economic profession is wholly ignorant of a profit system and is not willing to make any effort to learn anything about the profit system. Now, I was saying before I came in here that one thing Mr. Sloan did at MIT was to furnish, at the time he established the Business School, a fund of a million dollars there for economic, basic economic research; his idea being that the economists would be given sums of money and they would not be told what to find but just to go and find what they would if they went at the--."

D- "Yes."

C- "See, they have this curious attitude that any factual study is regarded by an economist as ... and they speak in the most disparaging terms of anyone who engages in ... research and--well, I don't want to spend too much time on that because I--. I have no reason to come here

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except just to state to you a conviction on--. Now, I am devoting all of my time--fortunately I have a business job which enables me to have a good deal of extra time--and I'm devoting all of my time virtually to trying to find a way to arouse the economic profession to examine the money-and-profit system which is the heart of our American business system. I think it's going to be very difficult to do; Art doubts very much whether it's going to be possible to do it, he's very pessimistic. Mr. Sloan, he's fed up. In fact, I have gotten a great deal of money from him, happily on his part, for economic research. But he feels today that he's just been dumping money in a rat hole and that he--as he puts it, 'I'm fed up with putting up money for economists and getting nowhere whatsoever.' So, he's devoting all his time to cancer and you can't get him interested. He isn't going to be interested in anything more as far as I'm concerned and I don't want to do anything except with him, because we've been working so happily, unless and until I am able to devise a project which gives promise of making a real change in what we're doing. Now, how that can be done I don't know. I had a message--now that I have it in my mind I must tell you that I have warm messages to you from Paul Wolfe with whom I was just--."

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- D- "Of the Steel Corporation?"
- C- "No, no, of"
- D- "Oh, yes, that Paul Wolfe."
- C- "He is about as aware of what goes on in the world as any man that I know."
- D- "Yes."
- C- "He told me to give you his--."
- D- "Well, give him my kindest regards."
- C- "I don't know whether I'm going to be able to break through or not but I am going to do my utmost to develop a project which gives promise of breaking through. If we can get a project, I think we can get it done. But this inertia on the part of the economic profession is something that just passes belief and the complacency and the casual attitude."
- D- "Yes. One reason why I made this speech was to try to shake this out. I don't know anything about economics in this country but I know what they're doing and what they're going to be able to do in a few years."
- C- "Well, economics in this country is so illiterate and so primitive that you can't get--well, many economists I'll say, I don't like to make overall statements but the prevailing view is that a profit tax is not a sales tax."

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Now, everybody in business knows perfectly well that a profit tax is a sales tax; I mean, we live with it every day and in all our pricing mechanisms We can't get them to even start on talking about that. As I say, I don't know whether it's going to be but what I am doing at the present time, and I've been doing this a little more since I wrote you than I was before because at the time that I wrote you, I had some various appropriations since some money was provided by Pete Jones and others, that I was going to go ahead and get some economists to make some studies such as they had been making in recent years. And then I ran up against this attitude of Mr. Sloan which was very convincing to me and very important that he said, 'What's the use of doing a damned thing until you can see your way to accomplish something.' So, I have more or less made a deal with him and I'm not going to make any suggestion with regard to economics until I can devise a scheme. Now, I am visiting around--I have quite a few contacts still in business and I am just visiting around urging people to think on this problem and to try to see how it is possible in a group of very fine patriotic well-intentioned people to get them out of this dreadful self-satisfaction and complacency. At the moment, my one hope is that I can get

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some outstanding economist to have the hardihood of declaring in public what he really--most of them will admit in private when you get around to it--this dreadful ignorance on the part of the economic profession, and then to get that person to associate with himself other important economists in an effort to--."

D- "Yes."

C- "Because of the--they'll all admit that the Russians, that this planned economy is so much better suited to a Russian government than it is to our democratic government. And it may be that I can get some kind of leadership--I'm sure I can't get it outside, I'm sure that the economic profession just clams up if anybody tries to put any pressure on them, but from within. The hope is that if you can get a few of them to take the lead so that you've got some kind of a program that has an appeal to it, then they get these young fellows who are just as eager as mustard to go in and tackle these problems. But unless their efforts can be focused, they're going to run into the same kind of experience that Kaplan had down here in Brookings Institution. Alfred Sloan gave him \$250,000 and Ernest (Ware) did to study this so-called (Berlie Means) theory that big business was taking over the Government

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and unless the Government took over big business, the business would take over the Government. Well, he got the professors from eight universities to join with him and they reached an overwhelming--they all believed in the (Berlie Means) theory when they started and they convinced themselves that it was absolutely nothing to it, that taking a hundred leading corporations in 1908 only 36 of them were among the hundred leading corporations in 1948 and only two of them were of the same importance in their areas of businesses they had been--."

D- "Oh, that's interesting. From 1908 to 1958?"

C- "1948."

D- "'48."

C- "And it's a very--."

D- "Which are those two?"

C- "The two are General Electric and DuPont and both of them have changed in the cases of such competitive activity that they can hardly be said to be the same companies. Now, Kaplan who was--oh my, he was maligned by the whole economic profession, he was a prostitute, he sold out to big business, and they just made life miserable for him. While today he is going around and spending a lot of money

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sending these films which depicts the results around, they're slowly slowly getting some acceptance of what is complete convincing proof, I mean there's no answer to it, it's just a brushing aside by people. So, that's my story and that's all I came down here to tell you and I just wanted you to know that the Russians are going to lick the hell out of us unless we can find some other way because, you see, we are a wicked neighbor in the world--don't make any mistake on our economic policies. All this thing that stirred up in South America, that's perfectly natural and--."

D- "Well, Dick Nixon came home very ... about that."

C- "I know but don't you see, when--in this book that I speak of, this 'Do Economists Understand Business,' I have a chapter there on 'Exporting Unemployment.' That's exactly what we've been doing since God knows when, has been getting rid of our surplus. And it's no answer to try to put down tariffs because that doesn't do you any good, you've got to have a good inmore basic knowledge with regard to international money than we have today before we can put down our tariffs or open up free trade. That's just a fanciful idea in the state of economic knowledge today."

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D- "Well, you take a country like Uruguay. [REDACTED]

[REDACTED] we
were discussing the Communist penetration in Uruguay and
the reason for it is perfectly clear. Uruguay used to--
I don't know what it was--say 80 million or 100 million
dollars a year that they made by selling ... ore and other
things to the United States--."

C- "Yes."

D- "And now they sell nothing."

C- "Yes."

D- "And the Communists are now coming in, both the Russians
and the Chinese, and they're doing 20 or 30 million dollars
of business a year. Well, that's the answer."

C- "Of course it is and--."

D- "And what are you going to do."

C- "Well, I don't think that there is any basic difficulty
in solving these problems if these intellectual people
will only put their trained minds on working them out in
the modern world, in the world of money and of profit.
I have devoted a great part of my life to reading books
on economics and they have insisted from the beginning on,
regarding production, as the all-important factor in
economic prosperity. Even Keynes, when he blew the old

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Sage Law to pieces and demonstrated beyond peradventure that production did not create its own demand, he devoted all his thoughts to figuring out how by regulating production could you create demand and having the early part of his general theory, having destroyed the original, he spent the rest of the time trying to figure out ^{how} if you could regulate the rate of investment you could regulate demand. Nobody, as far as I know, has ever approached the discussion from a professional standpoint, from the standpoint of demand--not thinking of production, of demand. How do we get demand, what are the forces which effect a change or actual reduced demand. Take, for instance--of course, to me all this argument here about the depression is perfect nonsense. There isn't any question about the depression is over; I mean, it was over when the Federal Reserve changed its policy last November. This depression is a purely--created by monetary maneuvering and for definite purposes of regulation. Now, when--my income comes from a little investment trust that I'm writing about and if there is a--we were 90--."

D- "Is that a public one or is that a private one? Which one is that?"

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- C- "It's a little fund called the Concord Fund."
- D- "The what?"
- C- "The Concord Fund."
- D- "The Concord Fund, oh yes."
- C- "Yes, it isn't intended to be very large. It's to put into practice the conclusions that are reached by the Econometric Institute which was a creation of Charles (Roots) who was really a very distinguished economist. He died in January, unfortunately, but he knew more about the real world in which we live than any economist which ever lived. He has reached--he advises large companies on the business outlook. And we were 65% in cash last July when things broke because he thought they were going to break. So, then when the Federal Reserve changed its policy in November we then became fully invested and our results have been very satisfactory from our point of view and much better in comparison with other investment trusts.
- D- "Yes."
- C- "But there isn't any question about it. You see, the statistics you read from day to day, Allen, are the things that happened months ago. They only filter into the

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statistics, into the records, into the current recognition. But what we're interested in is what's taking place today and that won't appear in the records for months to come."

D- "Yes."

C- "I don't think there's the slightest question but that we have--we may not have reached the bottom of the stock market, you never can tell because there's so many influences in that, but as we said to our stockholders last December when we invested all our money, 'We don't know whether the market is going to go down lower or not but we do know the turn is coming because we do know that this basic influence has changed and in the course of time it is bound to have its influence,' and it has. So, that's what I came for and I don't want to take any more--."

D- "Well, that's a good--let's see, what can we do on the Russian side of things? That's our job, my job isn't the economy of the United States, I've got enough problems."

C- "Your job, Allen, if you--it may be that you could be very helpful, I don't know. The time hasn't come yet but if--."

D- "Ed Allen has quite a big shop down here and the people that are working with him--."

C- "What?"

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D- "He has quite a big shop. I don't know how many--there are working on the economy of Russia, take every phase of it."

C- "Wonderful but I'm only speaking of it that wherever you have a central body making decisions on planning, you have a much more effective machine than where you have independent bodies speaking and making decisions by compromise. It's the same thing in business. Any business that is being run, the businesses that are being run today by 40 or 50 men on an operational committee or something, they're just opening themselves or making themselves vulnerable to attack. It's the central so far as carrying out decisions is concerned. Now, I think this--I think the most effective way to counter the Russians is to (loosen up) over here. Of course, what I was talking to Paul Wolfe about is that we are steadily breaking down the personal responsibilities and the self-reliance that is basically the Christian religion. And I say to him--I don't have to tell him, he knows all about it--but I simply said, 'I want you to know what I'm doing and I want as much help from you as you can give me because I have--the only way that I can see now, somebody may suggest something else but at the moment the

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only way that I can see to get any results is to get some personality who will have the hardihood to declare what these people/^{say}to me so frequently'--just let me read to you something that I got--."

25X1 D- [redacted] is down here working on this, you know.

25X1 Do you know [redacted]

25X1 C- "Yes but he won't get anywhere on it. See, that's the
25X1 great trouble in the world, Allen, to have a man who makes
25X1 a great success [redacted]

[redacted]--and just because he does that he thinks he knows something about economics. He doesn't know any--he has no--."

D- "Do you happen to know a man named Lee Austin? Does that mean anything to you?"

C- "Lee Austin? No, I'm afraid I don't."

D- "Now, wait a minute. Lee Austin--he has just resigned as head of Jones and Lockman."

C- "No, I don't know him."

D- "And he was in the investment business, he was, that was before--."

C- "Lee Austin?"

D- "He used to be with the Guaranty Company years ago."

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C- "Well, one of the great barriers is the belief on the part of bankers and businessmen that they can think out these economic problems from the base of the little area of knowledge and experience which they have acquired."

D- "Yes."

C- "I'd just like to read you a letter which was--it finally came to nothing--but this was a letter I got from Cornell signed by the Dean of the Business School of a year ago, June 12th of last year. This is after spending Mr. Sloan's \$10,000--'After several months' discussion on the part of our faculty, we are convinced of the necessity to conduct a thorough going research program to study the invigorating and guiding forces which sustain the efficient functioning of the American system of private business enterprise.' And this is what is interesting--'This conviction on our part is based on the following interrelated points: (1) Too much in private enterprise is taken for granted; (2) In the endeavor to gain the objectives of the Employment Act of 1946, we are steadily extending Government controls. We do not know the impact of such controls upon the functioning and the virility of the private enterprise system for it is quite possible that what we're doing is threatening the continued existence of our free society. The knowledge

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we require to learn the effect of our actions can be obtained only by realistic research conducted by members of the economic profession. The Graduate School of Business and Public Administration is eager and ready to engage in a comprehensive research program directed towards obtaining this factual knowledge as soon as the necessary funds are available. If sufficient funds are provided, we will make grants to other schools and colleges for research by qualified scholars in those institutions in addition to what we do ourselves. Today, the economic profession does not have sufficient factual knowledge of business to develop a positive program for private enterprise. The research we contemplate is essentially for the formulation of such a program. This program is necessary to safeguard the self-reliance, individual freedom, and personal responsibility which are basic in our free society.' That sounds all right, it sounded fine until it got before the economic profession. The members of the economic profession, what they did to that was plenty. So, I think that if you will reflect on this that you oughtn't to look at just one side of the coin. As I said in my letter to you, it's the relation of what the Russians are doing to what we're doing over here

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which counts. I don't think that there is any question that the economic profession is farther apart from basic business facts today than 50 years ago because there are more things that are being involved in it."

D- "Yes."

C- "So, that--I told you I wouldn't take but a little of your time and--."

D- "Well, it's been very interesting. If you find anything more--they don't let me, I have no authority to deal with anything in this country. I can deal with what--."

C- "I know it. But the only thing is this, Allen, and this is what I hope and that is that you will regard the thing as of sufficient importance to put your mind on it and see what you think about it. Now, I don't know what you can do but I don't advocate the views which I have expressed myself except as a means of stimulating somebody else."

D- "Do you know Gabe Hauge, for example?"

C- "No, I do not, I don't know--but I read everything that I can ... and they don't even make a start. They are not willing to face the fundamentals. I'm sure you wouldn't bother to do it but if by any chance you should, I'd like for you to take a look at this 'Do Economists Understand Business,' which is a careful--."

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- D- "That's your book?"
- C- "Yes, prepared by Mr. Sloan and me."
- D- "You got a copy of that?"
- A- "No sir."
- C- "No, it's only--we had a thousand copies of it printed just to set forth a--."
- D- "Would you send me one?"
- C- "Well, I'd be delighted to. And I'll also send you and I want you to read the other is the careful, painstaking, page-by-page analysis of Samuelson's book. I know Samuelson's book better than he does himself. Now, that's in a book called 'Bias Against Business.' Those two are very short books and very easily read."
- D- "I'd like to see them."
- C- "But I don't want to send them to you unless you want me to."
- D- "Yes, I do."
- C- "They're--I've never sold them. No, I felt this - when you've thought a thing out, it's well to express it in orderly form."
- D- "Yes, yes."
- C- "So, I expressed this in orderly form and then I got a good writer to put it in readable form."

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D- "I know how you write, you write damned well."

C- "What?"

D- "I know you write--."

C- "No, but I got Gordon Carroll who was editor of Cornet magazine to twist the phrases--he didn't add anything, I--."

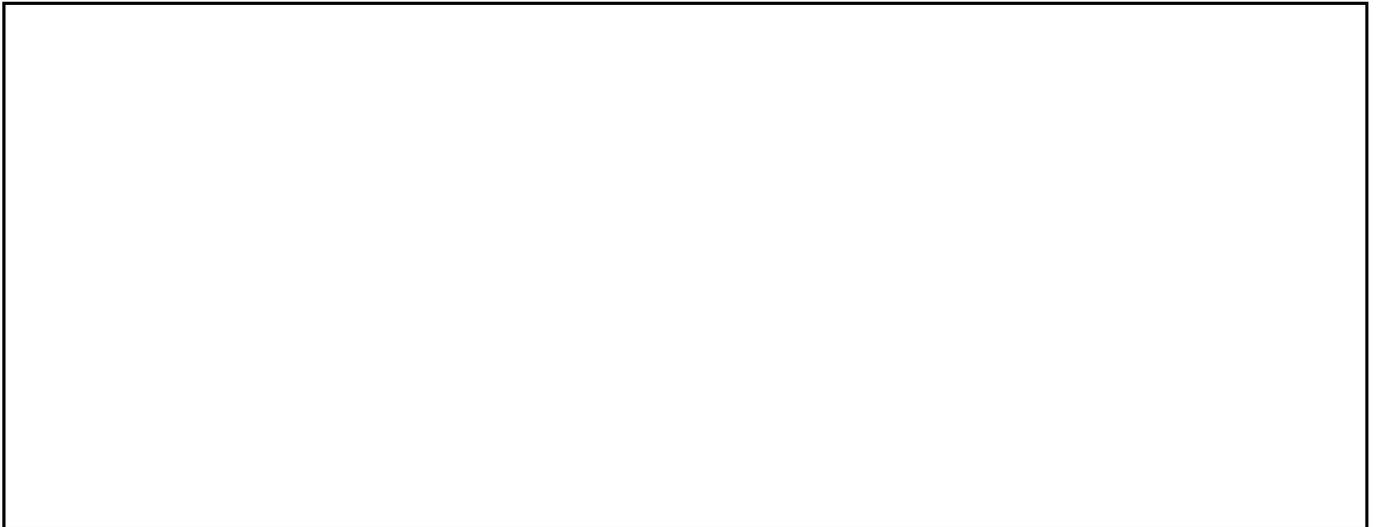
D- "I've got to make some more talks on Russia. I'm not making any right away, I'm not going to make any for two or three months but I--."

C- "Oh, I hear about them all the time but I do think in doing that that it wouldn't do the least bit of harm for you to throw out a few suggestions that we're not improving things over here."

D- "That's for Gabe Hauge to do."

C- "Eh?"

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- C- "Well, I know they are but I listen to all this--but it's all so superficial the way they treat these things."
- D- "Well, they've got to deal with the public."
- C- "Any chance of--how do I get a taxi now to get to this--."
- D- "I'll send you to the--where do you want to go?"
- C- "I want to go to the Pennsylvania Station."
- D- "All right, I'll send you."
- C- "Will you?"
- D- "Yes."
- C- "Well, that would be fine. I hope I didn't bother you too much."

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- D- "Oh, not a bit, not a bit."
- C- "And I'll send that down and I'll send--."
- D- "You send one down and I'll"

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