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Earl Warren Oral History Project

CALIFORNIA STATE FINANCE IN THE 1940s

- Fred Links An Overview of the Department of Finance
- Ellis Groff Some Details of Public Revenue and
Expenditure in the 1940s
- George Killion Observations on Culbert Olson, Earl Warren,
and Money Matters in Public Affairs
- A. Alan Post Watchdog on State Spending
- Paul Leake Statement on the Board of Equalization

With an Introduction by
Stanley Scott

Interviews Conducted by
Gabrielle Morris

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EARL WARREN ORAL HISTORY PROJECT

The Earl Warren Oral History Project, a special project of the Regional Oral History Office, was inaugurated in 1969 to produce tape-recorded interviews with persons prominent in the arenas of politics, governmental administration, and criminal justice during the Warren Era in California. Focusing on the years 1925-1953, the interviews were designed not only to document the life of Chief Justice Warren but to gain new information on the social and political changes of a state in the throes of a depression, then a war, then a postwar boom.

An effort was made to document the most significant events and trends by interviews with key participants who spoke from diverse vantage points. Most were queried on the one or two topics in which they were primarily involved; a few interviewees with special continuity and breadth of experience were asked to discuss a multiplicity of subjects. While the cut-off date of the period studied was October 1953, Earl Warren's departure for the United States Supreme Court, there was no attempt to end an interview perfunctorily when the narrator's account had to go beyond that date in order to complete the topic.

The interviews have stimulated the deposit of Warreniana in the form of papers from friends, aides, and the opposition; government documents; old movie newsreels; video tapes; and photographs. This Earl Warren collection is being added to The Bancroft Library's extensive holdings on twentieth century California politics and history.

The project has been financed by four outright grants from the National Endowment for the Humanities, a one year grant from the California State Legislature through the California Heritage Preservation Commission, and by gifts from local donors which were matched by the Endowment. Contributors include the former law clerks of Chief Justice Earl Warren, the Cortez Society, many long-time supporters of "the Chief," and friends and colleagues of some of the major memoirists in the project. The Roscoe and Margaret Oakes Foundation and the San Francisco Foundation have jointly sponsored the Northern California Negro Political History Series, a unit of the Earl Warren Project.

Particular thanks are due the Friends of The Bancroft Library who were instrumental in raising local funds for matching, who served as custodian for all such funds, and who then supplemented from their own treasury all local contributions on a one-dollar-for-every-three dollars basis.

The Regional Oral History Office was established to tape record autobiographical interviews with persons prominent in the history of California and the West. The Office is under the administrative supervision of James D. Hart, Director of The Bancroft Library.

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30 June 1976
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(California, 1926-1953)

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INTERVIEW HISTORY

Fred Links was interviewed by the Earl Warren Project of the Regional Oral History Office in order to record some recollections of his 35-year career as a key person in the State Department of Finance, during which he observed and undoubtedly influenced the fiscal policies of governors from Hiram Johnson through Goodwin Knight.

Conduct of the Interview: A single interview was held, on December 6, 1971, in Mr. Links's comfortable, spacious mobile home on the eastern edge of Sacramento. Being Links's eightieth birthday, it was a good time for reminiscing; his wife's preparations for a supper party made a pleasant bustle in the background.

Still tall, rangy and fit, Links stated the classic positions of a fiscal conservative succinctly and with good humor. For example, on page 20:

That was the thing we had to fight against all the time--adding new expenditures to the state government. We could see from past experience that if they once got their foot in the door, it was almost impossible to abolish a program once it was established ... because people who were in the program didn't want to stop, and the people who were receiving the benefits didn't want to stop.

And on the governor's budget, prepared by the Department of Finance:

And [the legislature] would of course reduce many of the items that we had in the budget too. We had that problem on our hands, to support the existing requirements for governmental aid and governmental supervision ... the legislature started new programs ... that's what makes it almost impossible for a governor

to keep the expenditure that he recommends. It's always higher ... So it's a struggle between the legislative minds and the minds of those who are serving under the governor.
[p. 21]

Much of the interview concerned efforts to make the budget document more complete, detailed and accurate, starting with a constitutional amendment passed in 1922. "Before that, it was everybody for himself. And those that had the greatest influence politically, got the biggest appropriations." Then, in 1948, an annual budget was introduced. "The state was changing so rapidly that you just couldn't wait two years to get some of these things under control, or to predict accurately the requirements for the second year." With the beginning of two-year legislative sessions in 1973, it seems possible that state budgeting may return to a biennial basis.

Links reviewed the rough-edited transcript, clarified several passages, added valuable details, and noted that he was assistant director of the State Department of Finance from 1950-56. He also donated to the project a speech he made on his retirement, reviewing the entire history of state financial agencies, which is included as an appendix to the present manuscript.

Gabrielle Morris
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Regional Oral History Office

16 January 1973
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[Mr. Links died on April 15, 1973. A detailed obituary is in the Sacramento Bee, April 16, 1973. Editor.]

INTRODUCTION

This volume of interviews prepared by the Regional Oral History Office on state finances during the 1940s and 50s affords a sweeping overview of a crucial time of change in California, stretching from the Depression to the Reagan administration. The four individual memoirs herein give useful evidence to help reconstruct the evanescent, affective, emotional, valuational "fields" in which past events occurred.

During the years discussed, California was transformed from a modest-sized, rurally, agriculturally and conservatively oriented region into the nation's most populous urban giant, with at least the reputation of being one of the most progressive states. The economic changes were enormous, with war-induced industrial and aerospace growth producing a so-called Post-Industrial society that seems ill-defined but indubitably "different." Culturally also, California continued, perhaps increasingly, to be on the "cutting edge," whether the forces be progressive, retrograde, or just eccentric.

While Earl Warren was governor, real progress in government and public policy was the watchword. Governor Warren helped transform the state government from one of small budgets administered by bookkeepers and ex-taxpayer association executives into one of huge expenditures (presumably in good causes), a highly sophisticated fiscal and data bureaucracy, and increasing awareness that a modern state cannot be run effectively without a vast range of expertise.

These changes are reflected in the backgrounds of the men interviewed, and in the skills they found valuable. Fred Links, for example, could enter the government in the 1920s and, on the strength of his bookkeeping, his head for figures, and a nose for the policy of the time, rise to the top of the fiscal bureaucracy. Later, in the 1940s, comes Alan Post with a good liberal arts and economics education--partially self-administered, but including a Princeton degree. With a generalist background and a remarkable intelligence and perception, he could preside over transforming the legislative analyst's role as critic of executive spending into a more balanced and highly sophisticated policy-review enterprise. Post himself emphasizes the current need for wide-ranging expertise to deal with engineering and electronics problems, economics, transportation questions including BART, education, welfare, penology, and "human" problems in general.

In these manuscripts, one can follow the development of the state's economy and its public finance over the years. One begins with the pre-Warren period, recognizing the dominance of an able but quite conservative old guard, marked by a recurrent economy bloc. They largely defeated the efforts of the century's first Democratic governor, Culbert Olson. But the Warren years that followed saw many improvements that might have been accomplished by Olson's ill-fated New Deal for California. That New Deal was stymied on many scores: an adverse political climate and the aforesaid economy bloc, political inexperience and perhaps a basic prematurity. Some interesting sidelights of this period are touched on by George Killion, Olson's third director of finance, in his interview.

Whatever the reasons, Olson's administration split the state, whereas Warren's, with its powerful bipartisan support, pulled California together and accomplished many transformations.

Warren's great achievements lay in upgrading some of the state's basic programs. The mental hospitals were rebuilt, and the stage was set for greatly improved therapeutic practices. Penal institutions were revitalized and transformed by new policies and personnel who were then thought to be among the world's most progressive. Public and higher education were pushed vigorously; school equalization and a school building program were instituted. Highways were major projects in the Warren administration, road and freeway financing being placed on a firm foundation--too firm, some commentators would contend in the 1960s and 1970s. But freeways looked good to almost everybody in those days of narrow and congested two-lane arteries.

Other Warren programs included improved court administration and health insurance. On the latter he lost, but Warren achieved much that he wanted, primarily a new "tone" in state government. Good groundwork had been laid by highly motivated public-service proponents in the universities, and by some of the more far-sighted state and local bureaucrats. These leaders were instrumental in the growth of a contagious missionary spirit in the '30s and '40s, which emphasized the public service as a high and respected "calling" and justified the best energies of intelligent, educated, and dedicated people. This spirit, well-expressed by Ellis Groff in his interview, was an influential force, pulling many first-rate people into state and local service in California.

In other ways, too, the current of the times ran strongly in favor of many of the Warren administration's basic goals. One of the most important was the availability of money. World War II had brought great economic resources into California. Moreover, wartime limitations on state spending produced big budgetary surpluses. For a time, the state had more money than it knew what to do with.

Earl Warren capitalized on this and helped give California a running start on many of the things he considered important. The burgeoning economy continued to produce funds for rapidly expanding budgets, which hit the \$1 billion mark in 1950 and continued upward. Eventually things tightened severely, and there was a return to budget-balancing by monetary juggling and fiscal sleight of hand. But this shift came later, in the Knight administration. To Governor Brown fell the by-then inescapable task of negotiating the first real tax increase in order to balance the budget.

But the Warren administration used its substantial resources well to help reconstruct California's physical plant and upgrade its programs. It stimulated concern with "people" problems, and helped improve the quality of government and public service to a level that many considered almost unique in the United States.

On a couple of issues involving elected constitutional officials not part of the governor's function, the Warren administration looked the other way. One was trafficking in liquor licenses, a well-hidden scandal; and the other was monkey business concerning the banking of vast public money reserves. These were eventually cleaned up, largely by efforts from the legislative side.

The Warren administration deserves the credit often given for its concern for citizens and for ethical considerations in government. Still we should not forget the great black mark associated with the Warren era. Hindsight has told us since--and unprejudiced good judgement should have told us then--that the wartime incarceration and economic rip-off of citizens of Japanese ancestry was both a grievous wrong and a monumental blunder. It was essentially a federal action supposedly taken in the interest of national security, but officials of the State of California had much to do with it.

A real treat for the reader is Alan Post's 25-year synopsis of the role of his own office of legislative analyst, with which California first endowed itself when the economy bloc was fighting Governor Olson. Under Post's tutelage, it has grown from being largely a "nay-sayer" on spending, into a strong legislative staff agency for thorough and constructive policy review.

Although he is an admitted admirer of Governor Warren, Post's policy stance during the Warren years represented the conservative position on the budget. The governor was on the side of increased spending and Post spoke for the "no" side. But times and the philosophy

of his office have changed. Now, under an anti-spending administration, Post often speaks up for the pro-spending side. Post sums up the shift:

...we had this position of trying to keep pressure on dollars...leaning over backward to cut dollars...[but] we finally began to be human beings in the office. We began to think in terms of the sort of thing that Earl Warren was conscious of, of human relationships...our attitude softened over the years. I think we became more sophisticated and more...knowledgeable about the circumstances in which people live. But we opposed darned near everything in those days.

Interviews like these are obviously an important research resource. They become basic documents in their own right. Although one assumes that the serious historian will consult other sources to find or confirm sheer factual detail, these oral histories should not be discounted as information sources. Frequently the subject will provide inside information or intimate and personal detail, especially anecdotal, that may be difficult or impossible to obtain elsewhere.

Oral history seems especially useful in several ways, depending on the subjects' memory, acuity, and observational vantage points, which may vary substantially from interview to interview. At their best, memoirs provide significant, perceptive comment and interpretation. Evaluation of developments, delineation of trends, and identification of crucial events can be very revealing and informative.

These interviews also shed a light on the subject himself, affording at least glimpses and sometimes clear views of his personality, thinking processes, and value system. This is true whether the interview comes out a thoughtful essay on "what-I-believe-the-world-is-all-about," or a nostalgic tour through a treasury of remembrances of the famous.

By asking informed questions based on reasonable study of the era, and cautious, unobtrusive prompting, the interviewers have also captured what the subject thought about friends and colleagues, especially those who played important roles; and what friends and colleagues thought about each other, how they sized up each others' personalities, capabilities, and motivations. These are perhaps some of

the most important kinds of material to be found in the manuscripts, and it is irreplaceable in a culture that discourages alternative sources such as diary-keeping, memoirs, or autobiographies--except by the most eminent.

I close with the hope that this enterprise will help stimulate Alan Post to consider some writing on his own. The very least we could ask is a volume of candid memoirs, and perhaps a stream of interpretive essays might be forthcoming as well. He has a lot more to say about policy in the Golden State and hopefully he will, when he feels free to do so as an individual.

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7 February 1974
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I BUDGETS OF THE 1920s

1927 Government Reorganization

Links: The first budget for the biennial period 1923-1925, required under a new state constitutional provision, passed in 1922, was prepared by the State Board of Control for Governor Richardson. It was not a complete budget. It left out many items. It left out a good part of the special fund expenditures and state highway expenditures to keep the total of the budget down.

I recall very definitely that Nellie Brewer Pierce, who was chairman of the State Board of Control in 1922 was very close to Governor Richardson. She told Governor Richardson she would submit to him a budget no higher than \$79 million.

Morris: Because that's all the money we had?

Links: Oh, no! Richardson was just an economy-minded governor, and he wanted to keep the budget down. Well the budget, instead of being \$79 million, as I recall, turned out actually to be just under \$89 million when we got a complete budget prepared under instructions of Gilbert B. Daniels, the minority member of the Board of Control. Daniels refused to sign the transmittal letter of the State Board of Control to the governor. Daniels wouldn't go for the "phony budget" as it was called. It was a phony budget of \$79 million.

Morris: That was what Richardson had said?

Links: The budget staff had handed a budget to Mrs. Pierce, which was about \$89 million the first time, as I recall, and she threw it in the wastebasket. She said, "I said I wanted a budget not over \$79 million. Go back and prepare one for under \$79 million." So we did, by leaving out so many of the items, such as special fund expenditures and highway expenditures.

So when Governor Richardson presented his budget for 1923-25 to the legislature, Mr. G. B. Daniels submitted a minority member budget to the legislature with the correct figures, which the state constitution required. The constitution required that the budget contain a list of all the expenditures of the state. The final budget adopted by the legislature was according to the Daniel's budget as it should have been.

Our first actual complete budget was under Governor Young in 1927, when Alexander R. Heron, who was the first director of finance when the State Department of Finance was created--

Morris: Alexander Heron is one of the people who turns up again and again in state finance.

Links: Yes. He was one of the finest directors of finance that we ever had. He was a very knowledgeable man. I remember one of his expressions was that "You can't see the forest because of the trees." I believe that's the way it went. Anyway he could see through things very rapidly and come to the answer in a quicker time than any man I ever worked under.

Morris: What was his particular background? Was he an economist?

Links: Yes. He was with Governor Young at the--what's the name of that real estate firm in Berkeley?

Morris: Mason-McDuffie?

Links: Mason-McDuffie. Right. He was with Governor Young at Mason-McDuffie. He came from there.

Morris: So he would know land values and large fiscal matters?

- Links: Yes. He's a very knowledgeable man. He had a wide expanse of knowledge. And so under Governor Young we presented the first complete, detailed budget. As I recall it was about \$176 million a year.
- Morris: This was still one budget document for two years?
- Links: Yes, we were in biennial sessions of the state legislature then, so we had two-year budgets.
- Morris: That's right.
- Links: But the budget was only \$176 million a year, about. And compared to now--
- Morris: You could add several zeroes, to that, I think!
- Links: That's right. It's going to be about seven billion this year. I mean next year, 1972-1973, it's going to be almost seven billion dollars.
- Morris: Do you recall what the major items of expense were back in those late twenties?
- Links: Well, the largest item, of course, were the fixed charges. The highway expenditures and bond interest and redemption. The state's financial aid to counties and school districts and such items were very small compared to what they are today. We didn't have any welfare or Medi-Cal in those days. If you had one of the old budgets you could look at it and see what it was. I don't know where my copies are now.
- Morris: We have them all in Bancroft.
- Links: That's right, you have them all.
- Morris: Irving Martin was one of the Board of Control members then. He was a newspaper publisher.
- Links: Yes. I think he was an assistant director of finance for a while. Of course Lyman King, of the Redlands Savings and Loan Association was one the

Links: oldtimers.* A very fine man too. Governor Young did more for the state of California in his reorganization, than anyone since Hiram Johnson's time. I went to work for the state under Hiram Johnson in 1915. I was in the Division of Highways at that time, as a clerk. As an accountant in the highway department. Of course it was Governor Hiram Johnson who reorganized the state, and put it on a sound basis.

And then Governor Young completely reorganized the state government of California in 1927.

Morris: What particularly did he bring in in terms of the Department of Finance and budget procedures?

Links: The Department of Finance was given charge of all the state properties, all the finances, all the budgeting, purchasing, all fiscal matters, plus annual auditing, and the uniform systems of accounting came under the jurisdiction of the Department of Finance. Now, of course, the Department of Finance is all shot to pieces. About all it does now is prepare the budget. The Department of General Services has taken over all the other housekeeping functions.

Morris: I see. Including the financial controls?

Links: No. That is still the Department of Finance.

Morris: Now?

Links: Yes. The Department of Finance still has budgetary control.

Morris: You came in in 1915?

Links: I came into the state service in 1915, but I came into the Department of Finance in 1922.

*Lyman M. King was the second director of the State Department of Finance, January 31, 1930 to January 5, 1931, under Governor Richardson.

Morris: 1922. How did you happen to switch from the highway department to--

Links: I went from highways to become an assistant manager of the California State Fair. I was there from 1919 to 1922, and took a cut in salary of \$25 a month to get into the Department of Finance, and started there as a junior accountant. We had about seven people on the staff at that time. Now they have several hundred, or did have, when they had annual auditing and all of its other functions. But we had just seven people, and did all of the auditing and all of the budgetary work in those days.

Morris: So you came in before civil service?

Links: Yes. I came in long before civil service. Although you still had civil service in those days, but not as strongly as it is now.

Morris: Did you have to sit for an exam?

Links: Yes. I sat for an examination.

Morris: And had you a background in bookkeeping and--?

Links: I had had the accounting education so that I had bookkeeping knowledge, which enabled me to pass the examination. That's how I started in the career of financial work in the Department of Finance in 1922. I became chief of the Division of Budgets and Accounts, in the Department of Finance in February, 1931, and assistant director in August, 1949. As assistant director I had general oversight of the several divisions of the Department of Finance.

Morris: Were you California-born?

Links: I was born right here in Sacramento. I've been here for eighty years.

Morris: Were you? Oh, that's wonderful!

Links: In fact, now over eighty years. A few hours over. [laughing]

Morris: Sacramento would have been pretty much a small town.

Links: Yes. We only had about thirty thousand people in Sacramento then. About thirty thousand or forty thousand people. When I was born they only had about, I guess, twenty-five thousand. There were no paved streets beyond 10th Street when I was a boy. If you know Sacramento.

Morris: And the state capitol was the center of all the activity in town?

Links: I recall very well when, in 1927, they completed the State Library Building, and the Office Building No. 1, which is just west of the capitol. Those buildings still stand; they are monumental buildings. Alexander Heron and I stood on the third floor of the capitol, and we looked out the window at those two new buildings just completed, and we said, "Well, we're all set now for twenty or twenty-five years." [laughing] Within five years we had four more big state buildings here in Sacramento, as I recall. That's how it goes.

Morris: Yes. Well, one of the things I'd like to talk about is state construction. It seems to have been one of the problems that has caused the budget to increase--

Links: The state's ever increasing population and all of these new--the welfare thing requires expenditures that have almost ruined the state financially. There's practically no control over that welfare. Anyone can get in and get almost anything they want.

Morris: You said that back in those early budgets under Governor Young we had very small aids. When did the welfare--

Links: Welfare was only four or five years old when I retired.

Morris: The state welfare program?

Links: Yes. Medi-Cal and all those things just increased the budget tremendously.

Morris: Well, in some of the things I've read, the amount of welfare people were receiving began to increase in the late twenties, early thirties. It was federal legislation at that point, and Governor Olson was pushing for--. This was during the Depression.

Links: Yes.

Morris: In some of those budgets--I think it was about the '27 to '29 budget--they said that all the federal funds that came to California were not included in the state budget--

Links: No, they're not state expenditure. They're not a state expenditure as such. We're merely the agent of the federal government, spending that money. That's not included as part of the budget even now. You see, this is state money that we're talking about in the budget, not the federal money.

Fiscal Controls

Morris: But the state has to keep an accounting of it, don't they, and administer it? Was that much of an expense?

Links: Oh, you mean keeping account of it? Oh no, no. The accounting of it is very simple. Yes, that wasn't very expensive. It's the distribution of the welfare and the keeping of those records which are very costly.

Morris: The distribution of it.

Links: Personnel has just grown by leaps and bounds in its increase.

Morris: When you say distribution, does that mean what we call casework services to talk to people to see if they are eligible?

Links: And of course the issuing of the checks every month, and keeping the record of the amounts paid and all that. That's where the costs come. And of course

Links: the actual expenditures, the aid granted, is what causes the costs and the tremendous staff of people that are necessary to administer that program. And it doesn't get any less. Of course, it won't, as long as there are no controls on it. There is apparently very little control now. I've read in the paper on several occasions when people with plenty of money have gone in and applied for welfare grants and gotten it.

Morris: That really seems very strange, doesn't it?

Links: Oh, we just had one case here the other day. This man I think had \$12,000 in cash in his house, and he was on welfare. He had gotten over \$7,000 out of the state.

Morris: Oh my. Well, could we go back a bit? The period that we're particularly interested in is when Earl Warren was governor, and it seems like a number of things were happening.

Links: Yes. He was governor for about ten years. He was an outstanding governor.

Morris: Yes. He was elected in '42, and then took office in '43. Up until that time, there had been nonprofessional people as director of finance. Mr. Olson had had Phil Gibson, and then George Killion.

Links: Yes, Killion was a good finance adviser. Judge Phil Gibson was a lawyer, but he was a very able man and took advantage of the knowledge of other people.

Morris: That's interesting.

Links: Yes. Very definitely so. I recall, whenever a new governor came in, one of the first advices he was given was to get rid of Fred Links. [laughter]

Morris: Now, why--?

Links: Well, because I had the knowledge and knew how to exercise control. We were very careful in our controls, of course. They always got an answer,

Links: yes or no, and they didn't have to wait six months as they do now to get an answer. And because of my knowledge, and background, I knew everything that was going on. They wanted to get rid of the man that knew everything in state financing and could put roadblocks in the way.

Morris: This would be Olson's advisers?

Links: Yes, Olson. But it wasn't more than, oh, maybe three months or four months before they decided they didn't want to get rid of me.

Morris: In other words, Mr. Gibson felt that your knowledge was essential.

Links: Yes. He took advantage of it, you see. I worked with the governors. Olson's program was entirely opposite to my philosophy of the way the government should be run. I'd been a Republican all my life and he was a Democrat. But I had a job to do, and I did the job that was supposed to be done. It had to be done correctly.

I recall very definitely when Jimmy Dean came in under Governor Warren. I'd known Jimmy Dean for many, many years when he was city manager here in Sacramento. So he said to me when he came in, "Now, Fred, you make the decisions in your department, and I'll back you up. If they're wrong, we'll straighten them out. But I'll seldom go contrary to what decision you make." And he did, too. When I'd say "no" to something, he'd usually back me up. I recall quite definitely that when the State Employees Association (I'm a charter member of that organization, and still am a member of it) appealed to the State Personnel Board for coffee breaks. I went in to Jimmy Dean one day, and said "Jim, this thing is going to cost the state \$1,700,000 a year now, and it'll go to about \$5,000,000 in lost time. State employees do not need a coffee break. They don't work hard enough."

So he said, "Go and oppose it." Well, I went over and opposed it and told the Personnel Board all these facts. They said, "Well, Mr. Links, you were born thirty years too soon." And they passed

Links: it. [laughter] Now, look at what it's costing the state!

Morris: That's on the basis of employees taking twenty minutes--

Links: All our employees are entitled to take a coffee break of fifteen minutes in the morning and fifteen minutes in the afternoon. Well it turns out to be a half an hour to three quarters of an hour. They all sit around and talk. I never took a coffee break all the time I was with the state even though it was available. I just don't believe in it, and didn't need it. Although we worked long, long hours. In fact one time I worked from Wednesday noon until Saturday morning on the budget proposals. That's sixty-five straight hours.

Morris: When was that?

Links: Oh, I don't know, now. About 1945. I've been retired sixteen years. But that was required to get the budget out in time. It had to be presented to the legislature within thirty days after they convened.

Morris: Was this a particularly tough budget for some reason?

Links: Yes, it was a tough budget. Getting the decisions on the cuts and so forth were very slow in coming.

Morris: From the various departments?

Links: Yes, well, the governor, and the conferences with the departments and the governor, and trying to come to some decision as to what the governor would recommend. So we had a staff of twelve or fourteen people working those long hours. I never had my clothes off in all that time. I ate six times a day, but--!

Morris: You'd need to, to keep going.

Links: Three times during the night and three times during the day.

Morris: This sounds like it might have been one of the Warren budgets.

Links: Oh, yes, it was one of the Warren budgets. We worked many, many times two days at a time without stopping. All the proof-reading of the budget-- It went to the printer so late, everything had to be proof-read and put on a comptometer to make sure all the figures were right. It wasn't an easy task.

Morris: No. It's an incredibly detailed task.

Links: We had a couple of our boys die of heart failures or heart attacks, under that pressure.

Morris: Well, maybe we could start on how the state budget process has changed. You said that Governor Young was the first one to do a complete and proper budget.

Links: A complete budget. That's right. Under the provisions of the state constitution.

Morris: And that had required a constitutional amendment?

Links: Well, when the amendment passed. There was a constitutional amendment requirement. I think the initiative measure was sponsored, if I remember correctly now, by the Commonwealth Club of San Francisco, the requirement that there be a complete, detailed budget, showing expenditures for the current year and the proposed expenditures for the coming year. For the coming biennium, in those days. Of course now we have the yearly budget. That's when the legislature met biannually.

II DURING GOVERNOR WARREN'S ADMINISTRATION

1948: Annual Budgets Begin

- Morris: And then, in the thirties, at what point did it begin to be a problem to have a two-year budget?
- Links: Well, you see--I have forgotten the date of the constitutional amendment that provided for annual sessions.
- Morris: That was 1948.
- Links: That's right. And then of course we just had a budget every year. Before, we only had a biannual budget, which was much easier, of course.
- Morris: Verne Scoggins said that one of the problems with the two-year budget was that the second year's legislature didn't know, understand, the thinking that had gone into the making of the budget.
- Links: That's right. And the changes were so rapid in the state, that the budget became almost--oh, let's see, what is the word I want to use?
- Morris: Obsolete?
- Links: Well, more or less obsolete. Yes, you're right. It became obsolete because of the changes in the conditions, and financial requirements of it. They found out that they couldn't operate the state on a two-year budget. They just had to have an annual session. The state became so large, and the expenditures so much on an increasing basis, that they just had to look at it every year.

- Links: And that's why we have the annual sessions. Now we have almost a continuous session. [laughter]
- Morris: It sure looks like it this year!
- Links: How long has it taken them? January to December.
- Morris: And they're starting again this afternoon. And it's still the budget that's causing--
- Links: It's still the budget. They're trying to balance the budget. They need about \$310,000,000 right now.
- Morris: Yes. One of the things that has interested me is the economic forecasts that go into that budget document.
- Links: Yes. We had a very fine staff for that, and we were usually very accurate. Ralph Currie, who was our chief financial estimator, was a very bright man, and still is a very bright man. He's retired now.
- Morris: Yes. Is he still in California?
- Links: He's here. In Sacramento, yes.
- Morris: Where did he get his information?
- Links: Oh, he gathered information from business, the volume of business and population increases. We were very accurate on our population increase forecasts, too. They had a very excellent staff of researchers, who took the information that was available from business and from the United States government, the Department of Labor, Department of Commerce, and other government departments, and compiled all that. That department still is operating. That section, I mean, of the budget staff.
- Morris: So that would give you your estimate of what the state's economy was going to be.
- Links: What was required.

Morris: And this would give you indications of what revenues would be, and also what costs would be?

Links: Yes. All of that. Yes. What all the revenues would be, and what the expenditure requirements were, from the population standpoint, the increase in our institutions, mental institutions, prisons, and schools. All of that was part of their task, to predict that. Trying to predict it for two years was not an easy task. Now, it's much easier, to have only one year with which to be concerned.

Morris: Then what happens? After you've got the economic forecast and the predictions on revenues and state expenses.

Links: Then after we found out what the expenditures were, whether we had to increase revenues, or reduce expenditures to keep within the budget. It had to be a balanced budget. The governor had to submit a balanced budget. In other words, if the expenditures were greater than the revenue, he had to propose new sources of revenue. That's how our sales tax came into the picture.

Morris: That was in the thirties, wasn't it?

Links: Yes, somewhere in there. And that's going up all the time. Everything's going up.

Morris: Well, a couple of minutes ago you said that Olson's ideas were contrary to your philosophy of government. Can you give us kind of an idea of what your philosophy--

Links: Well, my philosophy always was that we should have a balanced budget, and that we should hold our expenditures down to the lowest possible amount consistent with serving the people, and giving them the service that is expected from government. Of course, Olson had sort of a "giveaway" philosophy. He had a lot of new ideas about how to spend money. He was on the liberal side, and of course I was always taught, from the very beginning, to be frugal with state expenditures, and prevent their increase.

Expenditures Mushroom

Morris: How would the State Department of Finance react when the legislature would want to expand certain services to people?

Links: Well, we would step in, and in most cases we would oppose them. Because a small amount of expenditure now would mushroom as the years went by. And that always has been true. You start something with a small expenditure, and before you know it, you've got an elephant on your back. [laughter] You carry a little kitten, you know, or a little elephant, and then he grows in a hurry.

Morris: This has been true in the construction and the highway program, too.

Links: Well, yes, of course it's been the requirement for additional freeways and highways to get the public moved from one section to another. For instance, right here on Folsom Boulevard--

Morris: That's quite a masterpiece, I think.

Links: If you had come in thirty days ago, you would have a very difficult time getting into this park, waiting for traffic. Now you can just come in and go out any time. We've got a new throughway. We've got eight lanes over there, and here we had four lanes.

Morris: There are very few people using that new piece yet.

Links: It's just amazing. Now you can run downtown in seven or eight minutes. It used to take fifteen or twenty.

Morris: Yes, you'll get your neighborhood back.

Links: Oh yes, that's right. Yes. It makes a big difference.

Morris: Once we got into annual budgets, what kind of technical developments were introduced?

Links: No difference there. It was practically the same. Only we had to make it only for one year, and we could give a much more accurate picture than we could for two years. The state was growing so rapidly that it was almost impossible to predict two years ahead. That was the reason for the annual budget, and the annual session of the legislature. The state was changing so rapidly that you just couldn't wait two years to get some of these things under control, or to predict accurately the requirements for the second year.

Morris: In the forties, when we got into World War II, one of the things that's interesting in reading those budgets is how much the revenues were ahead of the forecasts.

Links: Well, that's because the governmental expenditures, the war expenditures--that's something we didn't know about, to make the prediction.

Morris: Well, even on into '44 and '45, state revenues continued to increase.

Links: Yes. Well, the sales tax. I don't know just when that started, but the sales tax just went up by leaps and bounds as more industry came in and more people came in.

Morris: It sounds as if the people in the Department of Finance didn't really think that this was going to continue. Each year you figured it was going to level off.

Links: That's right. It never did level off. [laughter]

Morris: Did Warren agree with you on this cautious approach?

Links: Yes. Warren was a cautious governor. Off the record, he made a much better governor than he made a chief justice of the Supreme Court! [laughter] I think he's responsible for a lot of upsets on giving all the benefits to the criminal and no benefits to the victims. That's another story.

Morris: And then we have something called program budgeting and bookkeeping systems.

Links: Yes, in the old days we used to consider item by item. And then when the governor--Governor Knight?

Morris: Was this Knight or Brown?

Links: Yes. I think in the latter part of the Brown administration we came into what we called program budgeting. We figured things out on a program basis rather than on an individual employee by employee basis. The number of employees in each category or classification. They'd decide whether they wanted that program to continue or this program to expand, or this program to be diminished.

Morris: Is this any improvement?

Links: I think it has a validity, and is better budgeting. Yes. Do it by programming, and then you could understand the whole program. The legislature could decide whether that program should be expanded or contracted, or continued.

Morris: I had thought it might have come in earlier on.

Links: No. That didn't come until, I think--Governor Brown was in at the time it came in.

Relations with Administrative Departments and the Legislature

Morris: Another thing on Department of Finance procedure that I've come across--was it about 1947 that the department began to do administrative analyses of the operating departments?

Links: Yes, that was under a man by the name of Pierce Fazel. He's still here in Sacramento.

Morris: What was the reason for those?

Links: Well, that was to analyze to see whether there was an overstaffing or whether the particular project on which a state agency was working was a valid project for the state, whether or not it

Links: should be expanded or contracted or consolidated. Those were the things that our analyst staff went into.

Morris: How did the departments take this idea?

Links: Well, we were the ones that proposed it, and I hired Fazel from Los Angeles. He was in Los Angeles in the department there--

Morris: In the Department of Finance?

Links: No, the Los Angeles Taxpayers Association, as I recall. He was with the taxpayers association.

Morris: I was thinking about, say, the Department of Corrections, for instance, or the Department of Mental Hygiene. How would they react when Finance said, "We're going to come to do a study--"?

Links: Well, of course they had no alternative but to accept our services. It's just like auditing. You just walk in and say, "We're going to make an audit." And the analyst staff said, "We're coming in to study your operation." When we supported them, they were happy. If we made recommendations that they be curtailed or eliminated, sometimes they were not happy. That's a natural thing, you see.

Morris: It is a natural thing. It's nice that you can look at it in that friendly fashion.

Links: [laughing] Well, we did it for the good of government. We made many changes and recommendations. They were usually adopted. We had very little trouble getting our program over with the legislature, because we never fooled the legislature. That was one thing. We gave them the facts as they are, and they made the decisions.

Morris: You would have worked pretty closely then with the Senate Finance Committee?

Links: Oh, yes.

Morris: And the Assembly Ways and Means?

- Links: Yes, Assembly Ways and Means all the time. Senator Rich, of Chico, was one of our very staunch supporters and a very fine chairman of the finance committee.
- Morris: He was part of what they called the "Economy Bloc" that started back in '38--
- Links: Yes, that's right. He talked our language. [laughter] Yes, Senator Rich was a very stout supporter of ours.
- Morris: How much of it was fiscal solvency and how much of it was a political--
- Links: His philosophy, of course, was fiscal solvency. He's gone now, unfortunately. But he was a staunch supporter for economical government. We could always rely on him when we had a proposal before the legislature to reduce expenditures or to eliminate expenditures. He was a good supporter.
- Morris: And then he was followed by Ben Hulse, wasn't he?
- Links: Yes. Ben Hulse was another very fine chairman of finance. A very fine chairman of finance. A very able man, and a good man. Ben Hulse was a dandy man. He was from Ventura--
- Morris: Yes. He was in big agriculture, down in the South.
- Links: Yes.
- Morris: And who in the assembly? Was Wollenberg on the ways and means committee?
- Links: Yes. Wollenberg was a very fine chairman for ways and means. He worked with us very closely.
- Morris: Well, he was known to move for things like state health insurance and some of the other social programs that Warren wanted.
- Links: Yes. As I recall he did advocate some of those newer things. There've been so many of them that it's hard to remember.

Morris: Paying for them is the nut that the finance department would have to cope with. The Democrats' point of view seems to have been that as production increased, you would produce more state revenues, which could then go for social services.

Links: That's right. The Democrats proposed most of these new innovations in state support, state welfare.

Morris: And the productivity and state revenues didn't provide enough money?

Links: No, we had to increase the income tax, we had to increase the sales tax. Those are the two sources which they'll probably tap again for additional revenue to meet our present crises.

Morris: How much of this comes from pressure groups out in the community, and how much of it--

Links: New philosophies in the minds of the legislators, yes. That was the thing that we had to fight against all the time--adding new expenditures to the state government. We could see from past experience that if they once got their foot in the door, it was almost impossible to abolish a program once it was established. It's easy enough to get them started, but to ever stop them--. Because people who were in the program didn't want to stop, and the people who were receiving the benefits didn't want to stop. So we had to fight against that all the time. It was very seldom that we ever got rid of a program once it became a part of governmental activity. That's the difficulty of those things, like federal welfare, and all those programs. There are so many employees involved. They've got a lot of power in influencing legislation through themselves and their friends. That's why it's so difficult in federal government to--so difficult for any president to reduce federal expenditures.

Morris: This was one thing that interested me about the budgets in the Warren years. You would work out the budget document, and then Warren would present it to the legislature; then almost every year, the

Morris: legislature would approve other items that weren't in that budget. So that even when you were cutting the governor's budget, the final total of state expenditure would increase.

Links: Yes. And they would of course reduce many of the items that we had in the budget too. We had that problem on our hands, to support the existing requirements for governmental aid and governmental supervision. We had to fight to keep what we even recommended many, many times. Many, many times.

Morris: But then--the budget always ended up higher than your requirements--

Links: Oh, always higher, yes. In the case of appropriations, always higher. There never was an exception to that in any year.

Morris: That's very curious. How does that come about?

Links: Well, the legislature started new programs. The new programs--for instance in construction. They would get a new college started, or a new mental institution started in the author of the bill's own district. That's what makes it almost impossible for a governor to keep the expenditure that he recommends. It's always higher. Always higher. So it's a struggle between the legislative minds and the mind of those who are serving under the governor.

Morris: And pressures from within government, from various departments?

Links: That's right.

Developing a Budget

Morris: In producing the budget, would you work out the budget item, say, for the Department of Mental Hygiene, with Dr. Tallman and his staff?

Links: Yes, we always worked with the departments. They would present their requests to us, and we'd sit down and have a budget hearing with the department, and begin to pare and cut and see what they could do without, and how they could cut down. That was always our philosophy, cutting down. No governor wants to present an increased budget, as a general rule, except when they sponsored some new program of their own. Governor Warren inaugurated or recommended several new types of expenditures during his ten years. What they were in detail I don't remember, because there were so many of them.

Morris: Well, he had a big highway program, and that produced a money fight on the gas tax.

Links: The gas tax. Yes.

Morris: What would have been your recommendation on that?

Links: We would recommend additional taxes for greater highway expenditures, and show it in the budget as a proposed new expenditure. The governor was right in that, because had we not had the increased highway facilities and additional freeways, we would just simply be stuck on the roads and streets. We could see ahead that we would have to have that. So many new automobiles would be on the road in two years, or five years, or ten years ahead.

Morris: And the other thing that went on, almost throughout his administration, was a postwar construction program of state buildings--

Links: Yes. State buildings. We had a program for that laid out for years ahead--a master plan for the expansion of the buildings at the capitol. They still are paying millions of dollars in rent for rented quarters right now.

Morris: Still? And that was one of the big problems there in the early forties.

Links: Two things that were difficult to support. One was the rented facilities. The Mull Building, which used to be at Tenth and L Streets.

Morris: The Mull Building? Is that Archie Mull?

Links: Yes. It's in the Archie Mull family. We have paid millions of dollars in rent for those quarters. We could have bought the whole thing for about \$350,000 or \$400,000, before we started to rent it. And we've spent over a million dollars in rent on that place alone.

Morris: Why was the decision made to rent instead of buy?

Links: You just couldn't get approval for the expenditure of the \$400,000 to buy the building. It was too much in that year. And look at what we've paid--

Take the governor's mansion. I know that we spent over \$3,000,000 in maintenance and repairs on that building. And just look at what we would have saved if we'd bought and built a new mansion.

Morris: But the legislature would never approve it.

Links: Yes. The other thing which we always fought was attempts of state agencies to make the revenues they collected a special fund over which the legislature and the governor had no control.

Morris: You mentioned that you helped Governor Young write his budget message?

Links: Yes, we helped write it. Governor Young was an outstanding governor and it was a real privilege working with him on budgetary matters, and his message. We gave him the figures and the comparisons and so forth. We always helped the governors with their messages, because the detail was so much that no single man, who hadn't worked with it very closely, could remember all the details.

- Morris: On Warren's budgets, would Verne Scoggins sit in on those discussions? To help write them?
- Links: No, Verne was the governor's right-hand man. But the governor's staff never sat in on the budgetary processes.
- Morris: I meant on writing the budget message.
- Links: Oh, they may have. They may have done that. But not as I recall.

Postwar Construction Reserves

- Morris: On the postwar construction that Warren planned-- how did he manage to get all that money earmarked from the wartime surplus revenues? How did you put them into special reserve funds that couldn't be touched for other purposes?
- Links: Well. Perhaps they were appropriated for construction, and stayed there in the treasury until it was required. A lot of that was done under bond issues. There were some bonds on state buildings, too.
- Morris: Yes. There were about two hundred million dollars of surplus revenues in '43, '44, and those were--
- Links: Set aside in the reserve. Not by legislation, but by administrative directives.
- Morris: Administrative directives? How would that work?
- Links: Well, the governor simply said, "This money will be kept for construction work, and we won't appropriate any of it for any other purpose."
- Morris: And what would happen to those funds?
- Links: Well, they stayed in the treasury, earmarked for that.
- Morris: Were they invested?

- Links: Yes, they were invested in bonds.
- Morris: In other states' bonds?
- Links: In other governmental bonds. Mostly always in federal bonds. Yes.
- Morris: Wouldn't the legislature object to those surplus monies going into--
- Links: No, they went right along with us on that, knowing full well that we would have to have additional state-owned public facilities. In general they didn't--
- Morris: And who buys the bonds? Who handled that?
- Links: The treasurer.
- Morris: The state treasurer?
- Links: Yes. In other words he would invest it in banks and the banks would put up the bonds, in either stocks or securities or something, to protect the deposits in the banks. The banks would agree to give us a small rate of interest. I think it was two and three percent.
- Morris: Interest on those deposits?
- Links: On those deposits. Yes. But state funds were always protected by bonds.
- Morris: And then before all that postwar construction that was planned for was built, the costs started to go up. Do you recall any debates between Jimmy Dean and Alan Post, with Dean saying that "the costs are going up, we need to build it right now," and Alan Post saying, "Let's delay this construction until next year so the prices will come down on construction."
- Links: Yes. There were those occasions. When Alan Post was appointed, he would make recommendations quite contrary to the governor's recommendations for budgetary support. Elimination of agencies, reducing of agencies. That was his job. We worked very closely with Alan Post and his staff. He used

- Links: to sit in on our budgetary hearings too, to see what was going on. We kept him informed of what was in the budget so he could make his own analysis of what he wanted to recommend.
- Morris: It seems as if you were both doing the same thing.
- Links: No. He represented the legislative side of the picture. The legislators, many of them new, elected every two years, were not informed. They had no knowledge of financial procedures. Alan Post was the man who informed and advised them. He was their adviser. There were lots of times his philosophies were entirely contrary to ours or the governor's.
- Morris: He says he's a conservative, too.
- Links: Yes. He's very definitely a conservative. Very definitely a conservative. Yes, he would like to cut a lot of expenditures, and if the legislature had listened to him, we would have had a lot less expenditures for state government, too. His recommendations were on fairly good, solid grounds.
- Morris: On this postwar construction, would he have been kind of running head-on into Mr. Dean, because Mr. Dean was an architect?
- Links: Well, no. I don't think so. Mr. Dean looked at it from the state's requirements, not from an architectural standpoint. Jimmy Dean never felt that we should build buildings just to be building. He only made his recommendations on the basis of state requirements for the present and the future. A very able and a very good man.
- Morris: I'm interested that he was city manager in Sacramento, before he joined Warren's administration.
- Links: Yes. About ten years. He was also ten years, almost, with the governor.
- Morris: Yes, he was director of finance all the way through Warren's terms. Where is he now?
- Links: He has passed away.

Morris: Oh, that's too bad.

Links: Yes. He died. These men are getting old, you know! [laughter]

Morris: Well, Mr. Warren is still hale and hearty!

III ACTIVITIES AS A PRIVATE CITIZEN

Links: Yes, he's just six months older than I am. He's in his eighties now, too. It all depends on your philosophies and your activities in retirement. When you once get old, you'd better keep active and going.

Morris: It seems to be that the busier you've been in your working career, the busier and the longer you keep going when you retire.

Links: I'm still vice president of a building and loan association. I've been on the board of directors for thirty-five years. Fort Sutter Savings and Loan, here in Sacramento. I still do a lot of activities in my Presbyterian church. And of course I'm very active in music. I was a choir director in Sacramento for forty-eight years.

Morris: Were you!

Links: That was my outlet.

Morris: This kept you relaxed and sent you back into--

Links: Yes. It entirely changed my whole activity, and that's the thing that kept me going. Outside music.

Morris: That's wonderful. Is this a church choir?

Links: Yes, a church choir.

Morris: And you were the director?

- Links: Yes, I was the director for thirty-nine years with the Methodist church, and another twelve years with the Presbyterian church. The total career was forty-eight years.
- Morris: Had you studied music somewhere along the line?
- Links: Yes, I did during the early days. Singing. I did a lot of soloing.
- Morris: In other words, you were a soloist yourself.
- Links: And all that without salary.
- Morris: That kind of labor of love is very satisfying.
- Links: It's my avocation in life. What I call my tithing of time.
- Morris: Yes. Where did you study singing yourself?
- Links: Here in Sacramento. Pease Music Studios, and some others. I had four or five different teachers over my early career.
- Morris: Did you do any concert type of singing or theater--?
- Links: No. Nothing of that kind. Not professional. This was all amateur. I had no desire to be in the professional business at all.
- Morris: Well, there are many little theater volunteer groups.
- Links: Yes. No, I never did that. We did a lot of acting in those days, too. In theatricals. But that was all amateur theatrical. We put on a lot of programs.

We had a 45-voice choir with a waiting list, all the time. I was a very strict director, you see. I didn't get any more pay than they did, and I could demand the same thing from the members of the choir that I was giving. I let many a member of the choir go who was absent three times. His seat wasn't filled, and I said, "There are people who want to sit in that seat, so if you can't do it, somebody else will take it." Directing was lots of fun.

Morris: Did any of those members join state service?

Links: Yes. There were a lot of state service members there. Fred Taylor was one of my choir members. He was at one time director of the Department of Professional and Vocational Standards. Earl Chapman, who was the administrator for the state retirement system was a member of my choir. Oh, lots of women and men throughout the state service. John Handsaker, who was deputy directory for Veterans Affairs, was a member of my choir. The choir. It wasn't my choir, it was the choir. [laughter]

Morris: Well, you develop kind of a fatherly feeling towards them, I would think.

Links: Yes. I've had a lot of them in there in the old days. Yes. We used to have lots of fun.

Morris: I would think so. I would think so. Singing groups are very satisfying.

Links: We had about 93% attendance, year in and year out. And the choir members appreciated it, too. They got the discipline, and yet they had a lot of fun with it. We used to have annual dinners, prizes for attendance, and all those little gimmicks. It all helped.

Morris: Yes. They really do. One of the big state expenses, coming back to that, was in 1947 when the state took a big jump into school financing. The school equalization bill. This was for construction, wasn't it, and also for operating support?

IV OTHER STATE MONEY MATTERS

Fiscal Officers

- Links: Yes. That's what we call a.d.a. The average daily attendance. They got so much per unit, of average daily attendance at the schools.
- Morris: That was the origin, then, of the a.d.a.?
- Links: Yes. Of course, now the state supreme court has said that property tax is not the way to finance schools. It should be a general tax, rather than a tax only on real property.
- Morris: Don't a.d.a. funds come out of state income tax revenues?
- Links: No, it comes from revenues that are paid into the General Fund.
- Morris: Was this something that the Department of Finance went along with?
- Links: Oh, I think it was a result of many conferences and suggestions as to how schools should be supported. Many of these things arise from those types of considerations--
- Morris: Several years' worth of discussions with local people--
- Links: Yes. They don't just pop right out of the sky. It's the final consensus of opinion of those who are interested in how these things should be financed.

Morris: Probably because it says "school equalization aid," I've wondered was that administered by the Board of Equalization?

Links: No, the Board of Equalization was only interested in the raising of the money. That's all. And liquor, of course, in the early days. They had control of the liquor. Before they created the Alcoholic Beverage Control board. The Board of Equalization had liquor--. That's where Bonelli got into trouble, you know.

Morris: How did he get into trouble?

Links: Well, he was accused in Los Angeles of accepting bribes for liquor licenses. They were very scarce in those days. We had so many per population, so many per city. He was accused of taking bribes, and getting licenses for people. He died as a fugitive from justice in California. He died in Mexico. Now his widow is suing to get all his back retirement pay due him during those years. It's quite a mess.

Morris: How does the Board of Equalization affect the raising of revenues? They wouldn't say, "The sales tax is going to go up one percent" would they?

Links: No. They had nothing to do with that. All they would do would be to equalize the value of property upon which the tax was levied. They make recommendations for counties, and also they would fix the rates of taxation for utilities, corporations, banks. Things of that kind.

Morris: That would seem to be a very sensitive area.

Links: Oh, it is. A lot of politics in that, you see. On evaluations. Assessment valuations. It was their responsibility to see that there was an equal assessment throughout the state for the various types of properties and businesses. That was their function. Still is.

Morris: They're an elected board, and to equalize the value of properties all over the state--this would require a staff.

Links: Oh, they have a staff of analysts and appraisers.

Morris: This was an issue too, wasn't it? Wasn't this one of the things that Mr. Post objected to? That they were not earning their keep?

Links: Yes. There were a lot of questions on that. A lot of questions on whether or not they were doing their job. Post is still there, too, by the way.

Morris: Alan Post? Yes, I've been interviewing him--

Links: Vandegrift was the first one they had.

Morris: Yes. Did you work for Vandegrift?

Links: Yes. Roland Vandegrift. He was director of finance too, you know.

Morris: Yes. It's a remarkable list of men who've been director of finance.

Links: Yes. He was the first legislative analyst. After he was director of finance he became the legislative analyst. Then he died, and they got Post in as--

Morris: Post had worked under Vandegrift for a couple of years.

Links: He did, yes. He was his assistant.

Morris: And Vandegrift as director of finance was under Frank Merriam, wasn't he?

Links: Yes. Under Frank Merriam.

Morris: And what were his ideas on how the Department of Finance should function?

Links: He came from the taxpayers' association, too, you know.

Morris: That's right.

Links: Roland Vandegrift did. Roland A Vandegrift, without a period. A was the name for him. [laughter] He never put a period after his A.

Morris: Did it stand for anything?

Links: No. I don't think it stood for anything.

Morris: No middle name?

Links: No. It wasn't an initial. "A" was just it.
Roland A Vandegrift.

Morris: You mentioned that Alexander Heron was director of finance. Somewhere someone told me that he had also been in the Department of Education.

Links: I know he had something to do with education, but I don't recall, frankly--

Morris: He started some of the ideas on how the Department of Education should be funded and how schools should be funded.

Links: When C.C. Young was elected we went down to Mason-McDuffie in Berkeley and did all of our budget consultations down there with Alexander Heron and the governor, before the governor actually took office. It was necessary for him, as the governor, to present a budget right after he took office.

Morris: That must be a hard job, that first budget, for any governor.

Links: Oh, it is. Yes. For any governor in those days.

Morris: Particularly when coming in from outside of state service.

Links: We would always have to confer with the governors and work with them.

Morris: On that first budget, are governors in general more likely to rely upon the Department of Finance figures?

Links: Yes. Definitely so. Because they have no knowledge, as a general rule, not having been in government-- Take Ronald Reagan, for instance. He had no knowledge of the government as such, and all of the fiscal intricacies of budgeting at all. So he had to rely on the budget staff for a good part of his first

Links: budget.

Morris: So the director of finance must be one of the first appointments a governor makes.

Links: That's right.

Morris: Again, on Warren, before Jimmy Dean, Jack Hassler--

Links: Jack Hassler. Yes. I remember Jack very well, yes.

Morris: He was a city manager, too.

Links: Yes, he was a city manager of Oakland.

Morris: Had you known him by any chance?

Links: No, not ahead of time. I worked very closely with him afterwards. Lyman King was his deputy at that time.

Morris: Didn't he stay in the Department of Finance?

Links: Yes, he became director of finance in January, 1930, until January, 1931. After he finished state work, Lyman King went back to Redlands Savings and Loan Association in Redlands, California.

Morris: So he had a professional banking background.

Links: Yes. He had a professional financial background. But not in state government as such, till he came into state service.

Morris: He'd been in a bank, and then came to the government and then went back to the bank.

Links: Savings and loan. Yes.

Morris: Yes. I have to remind myself that savings and loans aren't really like a bank. [laughing]

Links: Yes. They're not like a bank, exactly. They have a little different function.

Morris: One other financial officer I've wondered about is the state controller.

Links: Yes. An elected official.

Morris: He's elected, and again, how much influence do the controller and the Department of Finance have on each other?

Links: The controller has no control over expenditures. He merely disburses the money which the legislature has appropriated. He also collects inheritance assessments. Of course, he sits on several other boards. On the Board of Control, and the Board of Equalization. I don't know now. There have been so many changes that I haven't even kept up with them. But you can get that from his office, as to what boards he sits on.

Morris: Yes. Well, that was Tom Kuchel, who was Warren's--

Links: No. Tom Kuchel, who was controller for so long, was an elected official. Under Governor Warren and Jimmy Dean, our staff had advocated a merit award board.

Morris: What's a merit award?

Links: Where state employees make suggestions for state savings, and then the employee gets a cash award. There's one of them now for \$68,000 where one suggestion is going to save the state nearly \$680,000 a year. The rule adopted by the board was to give the employee ten percent of the first year's savings. I served as the first chairman of the State Merit Award from December 1950 to July 5, 1956, when I retired.

Morris: Had Tom Kuchel suggested some of these?

Links: No. He became a member of the state Board of Control. He was a member of that board. If the award was over \$150, the Board of Control had to pass on it and make recommendations to the state legislature.

Morris: Oh, I see.

Links: In the old days the principals had to sit on the boards of which they were members. Later the law

- Links: was amended so that a deputy can sit for the principal.
- Morris: Oh. That kind of changes things somewhat, doesn't it?
- Links: Yes, it did quite a little. Now the deputy state controller sits for the controller, as a general rule, on some of those boards.
- Morris: One of those that was formed during the war was the state Allocations Board. I think the controller was on there, and Mr. Dean.
- Links: Yes. The director of finance and the state controller.
- Morris: That must have been pretty powerful.
- Links: Well, it made the allocations for the---. It's still in operation. I think they call it the Public Works Board now.
- Morris: I was wondering. I was looking for the Public Works Board back through the years, and I ran into the Allocations Board. So it's the same.
- Links: It's the Allocation Board. Yes. It makes allocations for construction.
- Morris: In other words, it would have to approve the plans--
- Links: The expenditures. Yes. Plans. They have to approve the general idea of what was to be built. Of course the Division of Architecture prepared the plans in those days. That is a division that's going down and down and down. Much of our state work goes to private enterprises, which costs us more money now than when we had the state staff of architects.
- Morris: Didn't that come about because there were so many things to be built that the state architects couldn't handle it all?
- Links: Of course, the colleges got out from under the Division of Architecture.

Morris: You mean the building of state colleges?

Links: But it's costing us more money, there's no doubt about that.

Morris: Looking back over the years, what were the issues and the happenings in the Department of Finance that you recall as having yourself had the greatest satisfaction out of, or felt were the greatest steps forward?

Links: The first step forward was the requirement for a detailed budget. That was passed by the people and advocated by the Commonwealth Club of San Francisco. I think that was one of the biggest steps we had. Then the legislature was informed in detail of what the expenditures were. Before that, it was everybody for himself. And those that had the greatest influence politically, got the biggest appropriations. Often more than they required, legitimately, or could justify legitimately. That was our biggest step forward.

Then the annual budget was the next step, I think, as a definite improvement in fiscal affairs. The state has become so large that you just simply cannot predict two years in advance what's going to happen.

And the many improvements in the form of the budget document were significant steps forward in presenting the information to the legislature.

Morris: What would some of those be?

Links: Well, the number of employees per classification. There were many new improvements. Charts, and graphs, and detail that was added to the budget as the years went by were definite improvements, in permitting a better understanding of the budget requirements. The fiscal requirements.

Morris: Would one of these be the breaking the budget down into capital and fixed charges and the local assistance--?

Links: No, we had that from the very beginning. 1927 we had fixed charges all separated from other expenditures. The legislature has control only of about 25% of the budget--when I left. I don't know--it's probably lower now. But they have nothing to do with welfare, they have nothing to do to control certain school requirements, and of course bond issue redemption is not under their control.

Highway Expenditures

Links: Highway expenditures are no longer controlled by the legislature. It's all fixed. Fish and Game revenues are fixed by constitutional amendment, and you can't use that money for anything but Fish and Game expenditures. Of course the legislature does control expenditures, but not on highways. That's controlled and allocated by the state Highway Commission.

Morris: The highway budget is not part of your budget document?

Links: Oh, it's part of the budget, but it's not a part of the requirement to be appropriated. It's all appropriated by a constitutional provision. That is, allocation is made by the Highway Commission.

Morris: How did that come about?

Links: Well, the people who were interested in highway construction got that fixed exclusively for highway development--so that the legislature can't do anything with it.

Morris: So that it's just the Highway Commission that has control?

Links: They can decide what's going to be built, how much is going to be spent, and all of that.

Morris: But then the legislature has to appropriate the money?

Links: No, it's all appropriated.

Morris: It all comes in from the gas tax and the motor vehicle revenues?

Links: Yes. Motor vehicle revenues are part of it, too.

Morris: Is that sound, from a financial point of view?

Links: Well. Unless you had it that way, you'd have pork barrel appropriations. Every legislator who had a lot of political power and control, control of committees, could get much more for his district than the ordinary legislator who's not on an important committee.

Morris: There are fewer highway commissioners than there are legislators.

Links: I think there are only five on the commission. Maybe seven now. I'm not sure. That of course is a matter of record as to just how many members there are now.

Morris: Yes. I would think that that would be one of the areas that people would question.

Links: No. They have some pretty good data upon which to make their decisions: the need for increased transportation over the years. Population changes and movements, and--. The mess out here in front of our mobile home park was terrible. At 4:30 PM cars were lined up for miles along the old Highway 50. Now, with the new 50 freeway you just go sailing along. Get downtown in seven minutes, where it used to take fifteen to twenty minutes. It makes a big difference.

These are the things the Highway Commission has approved from their studies. They have the information necessary to make the allocation, for timing and the width and length, that highways should be built. They're planning for ten years from now. Not now. They've had to rebuild so many highways in San Francisco now.

Morris: The Highway Commission, then, you feel has more information than, say, the Senate Transportation Committee?

Links: Yes. They don't have the staff. This requires tremendous research. You see these things on the highways, these little traffic counter things. Thinking way ahead. They've got those all over the state, to determine what is the traffic requirement. Even on this brand new highway, they've got the traffic counters there already. The Highway 50 was a lifesaver. When they get that all the way up to Lake Tahoe-- I remember when we used to go to Lake Tahoe; it would take us four hours.

Morris: It was an all-day trip.

Links: Yes. Now it's an hour and forty-five minutes.

Morris: Oh my. Well, there are a couple of places up there I don't think they're going to be able to broaden it out by much. Going up that slope to Myers' Summit at the south shore.

Links: Oh, Myers' Grade. No, they're going to tunnel that. They're going right through the mountain. That's in the offing. They'll be starting that before too long. Go right in at the Echo Summit and come out way down at Myers. All underground.

Morris: I hope the top of the mountain doesn't fall in.
[laughter]

Links: An all-new highway.

Controlling Public Costs

Morris: Well, let's see. We were on the highlights of progress in the budget process over the years. The thing that you have commented on several times is that expenditures continue to rise, and the operations become more complex. As a lifetime economist and finance planner, do you see any way to simplify or resolve public finance complexities?

- Links: No, not unless you change some of these fixed expenditures, like the welfare--. Of course the bond redemption can't be changed. That's fixed by the constitution by amendments over which the legislature has no control at all. But I recall very vividly when our federal budget reached a billion dollars. I was astounded. A billion dollars! Now, what is it? \$232 billion, I think. Just unbelievable. The same with the state budget. \$176 million a year in 1927 has gone to almost seven billion a year. It will be next year, about seven billion dollars.
- Morris: Was it a red-letter day when the state budget hit a billion? That was about '48, '49.
- Links: Well, it was just horrifying. [laughter] Just horrifying.
- Morris: Yes, I can imagine. How far ahead could you see it coming?
- Links: Well, you couldn't see it coming. Welfare wasn't even in the picture then. And Medi-Cal wasn't in the picture in those days. Our prison population is way down, of course. It dropped a third, I think, as I recall. Our institutional population is down. Welfare has had a lot to do with that.
- Morris: Oh, I see.
- Links: A lot of people go on--mentally deficient, because of the needs that they had in living. The requirements to get food, and the cost of living. As those pressures were taken away, the mental processes now don't deteriorate so fast.
- Morris: People can then function on their own. Well, I remember fifteen years ago, the idea was that it would be cheaper for the state, and therefore for the taxpayers, if you could take care of a mental patient or a juvenile offender--
- Links: Yes. Outside the prisons.
- Morris: Outside of a state institution.

- Links: And that's true. The same thing is true with prisoners. So many more are going on parole. They're not sending nearly so many people to prison as they used to.
- Morris: Then how can we explain the fact that the total cost of state government goes up?
- Links: The point is, so many more come in under the rules, than would normally come under control of institutions. That's what is happening.
- Morris: I see.
- Links: Everybody gets on welfare now. Not everybody, I mean, but a great many people are on welfare now who wouldn't even get to first base if it wasn't so liberal. The work requirement is the thing that sticks in my craw. These people are getting all this without giving any service whatever for it. I'm absolutely with the governor on a work requirement for able-bodied persons, men who can work, and women without children, who can work. At least give some service for what they're getting. I think it's better for them.
- Morris: How can you do this at a time like now, 1971, when there are fewer jobs than there have been?
- Links: Well, the point then is let them give service to the state, or the city or the county, for work that can be done which is not being done because the money isn't available to do it.
- Morris: On a sort of a volunteer basis?
- Links: Well, on a requirement basis for them to earn, probably, on a regular minimum salary requirement, the amount that they get. We then would get something out of it. It's not, I wouldn't say, a WPA program, or something that's unnecessary a lot of times. But there are many things that can be done, that would help the environment, help in clerical work, and things of that kind that are not being done, because the money isn't there to employ the people to do it.

Morris: I see. One question that occurred to me on some of these technical areas like highway planning: does the University, their institutes and staff, offer advice or consultation to the Department of Finance?

Links: Yes. They present their budget and we have hearings with them, too.

Morris: Yes. As the whole university. I was thinking of the Bureau of Public Administration, or Institute of Governmental Studies.

Links: No. They do that themselves. We don't have anything to do with that. They have it in their budget requests for that.

Morris: Yes, but when the Department of Finance has a new problem or a tricky area that they're trying to work out, do you ever go to the University for technical advice and ideas? Consultation?

Links: Oh, you mean on prediction of revenues and things like that? They have a staff there too. We work together. If they have a population studies group, we work with them. We get all the information we can. We work with the Chambers of Commerce. We work with the Taxpayers' Association. All those different bodies, to obtain and acquire all of the information we can get.

Morris: Do you contact them and say, "We're now starting a budget. What kind of information have you got?"

Links: Well, for instance our budget analyst's staff and the financial research staff would consult those people to see if they have made any predictions, and to see how near their predictions are to ours. We work closely with them. We obtain any information we can, anywhere. Then we'll make our own analysis from the information that they have that we've gathered. Out of that will come the final decisions as to whether our revenues are going to be up, or down, or stay steady.

Morris: If your projections are, for instance, that sales are going up, how fast is that reflected in the

Morris: actual revenues of the state?

Links: Well, that depends on how the economics changes. It can change from month to month. From the employment, from business, from manufacturing, from all that, we can make our prediction.

Morris: So that within a few months, the business picture can change? And then you have to cut that into your--

Links: Yes, but not now as drastically as when we had to make a biannual prediction. It's pretty logical, although sometimes economics changes, or war conditions, or something, and upsets the whole program. As a general rule we're fairly accurate. We've been noted to come very close to our estimates.

Morris: And then, if you predict or see a drop happening, in state economic conditions, how fast will that be reflected in the actual income that the state is receiving?

Links: It depends upon the type of revenue that we're going to get. Income tax you'd have to predict coming in the following year. Sales tax is affected immediately.

Morris: Is that paid monthly?

Links: Yes. We keep a monthly record of that. And then, if the revenues are dropping, we have to start curtailing budgetary expenditures. You say, "Here, you can't start that now, because there's a change in conditions." Or, "You'd better curtail expenditures so that we can balance our budget." Because we've got to keep a balanced budget.

Morris: In other words, during a year, during a given year, you've got a budget document that was passed the previous year--you'll make changes in things that you approve or disapprove, department by department?

Links: That's right. The mere fact that the legislature has made the appropriation--the Department of Finance still has control of those expenditures, and can say, "No, you can't do it."

Morris: "The money hasn't come in."

Links: "The money hasn't come in." Or, just like the president has done--in many instances, billions and billions of dollars have been appropriated for various things, but he hasn't permitted it to be expended because of the economy. If the economy's going down, or revenues are going down, or he wants to hold down inflation, he'll just stop expenditures.

Morris: Can the Department of Finance do that in California?

Links: Oh yes.

Morris: Without consulting with the governor?

Links: No. The governor--of course we work with the governor all the time. The governor's the boss. We would consult with him. We have his power behind us.

Morris: The reason I say this is, in talking with people in various departments, I've heard, "Those guys in Finance wouldn't let us spend a nickel" and "we had a terrible time being allowed to do this, that, or the other thing."

Links: That's exactly right.

Morris: And it was very definitely the Department of Finance. Not the governor. [laughing] It was "those guys in Finance"!

Links: The law says the Department of Finance can do it. It doesn't say the governor can do it. But the governor is the boss. It's his budget, and if he wants expenditures cut, the Department of Finance has to put that policy into effect.

Morris: This would depend probably on the amount of the item, too.

Links: That's right.

Morris: The smaller items you could--

Links: The construction of certain buildings--. We could ask the Allocation Board not to approve, or not to allocate. New employees, we'd say, "Now, you've appropriations for so many new employees. You simply are not going to put those on. We're not going to approve the positions, even though they've been budgeted, because of the drop in revenues." We had complete control of that. The Department of Finance was very powerful. Very powerful.

Morris: Yes, I can see this--

Links: We had to have it in order to keep the fiscal balance between revenues and expenditures. In our days, we had an answer for them on some contract or request for approval within three or four weeks. Nowadays they tell me it takes about six months. They go through so many different authorities in order to get an expenditure approved. And the controls, I've been told, everybody's afraid to say yes or no under the present administration. Everything seems to have to go back to the governor or one of his staff members to get final approval.

Morris: Well, this has been absolutely delightful, and a great unexpected bonus. I didn't realize that I was going to get to hear about Young and Alexander Heron, and some of those fine men--

Links: Oh, they were fine men. There were fine men as directors of finance. Judge Gibson made a very fine director of finance, because he relied upon his people under him. I recall very definitely one time I brought a letter to him for his signature. It was a page long. "I haven't got time to read a letter like that. It's too long. Put in about three paragraphs." After that he got all his correspondence in just a couple of paragraphs.

Morris: One last question: how did Governor Knight differ from Warren in his ideas and policies on state finance?

Links: Governor Knight was a sort of middle-of-the-road advocate on state expenditures. During a ten year term Governor Warren proposed many new programs for increased expenditures.

Morris: How did John Pierce differ from Jim Dean as director of finance? Was Dean ready to retire, or were there differences of opinion with Knight?

Links: John Pierce came from the California Taxpayers Association in Los Angeles and was quite familiar with governmental and state expenditures. He was a qualified tax man. Jim Dean's background was city financing.

One day a few months before I retired, Governor Knight called director of finance, John Pierce, and told him he would like to have a governor's official seal. Mr. Pierce asked me if I could get one designed. I told him I would work on it, so I designed one myself and took it into Director Pierce. He took it to the governor and the governor was delighted. The design was adopted by the state legislature and it is now the official seal for all governors. Full description and information regarding the seal is found on page 22 of the 1967 California Blue Book. I prepared the legislation for the seal and it was passed by the legislature on June 8, 1957, after I retired.*

*There is also a Great Seal of California which appears on "all commissions, pardons and other public instruments to which the signature of the Governor of California is required." Its history may be found in the California Blue Book, 1958, p. 636-650. The Governor's Seal appears in Appendix C.

Transcriber: Jane West
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STATEMENT OF APPROPRIATIONS AND FIXED CHARGES

FOR THE

73d and 74th Fiscal Years

ENDING JUNE 30, 1923

AND

BUDGET REQUESTS AND RECOMMENDATIONS

FOR THE

75th and 76th Fiscal Years

ENDING JUNE 30, 1925

SUBMITTED BY

THE STATE BOARD OF CONTROL

BY

G. B. DANIELS

Chairman



A Century of Financial Administration

Speech by Fred W. Links
before State Men's Club
Monday, June 18, 1936

The development of the State Department of Finance dates back almost one century to the creation of a Board of Examiners by a statute of 1853.

The Board of Examiners, at the time of its abolishment in 1911, consisted of the Governor, the Secretary of State, the Attorney General, and the Secretary of the Board, who was an ex officio member to act only in the absence from the State Capitol of any one of the other members of the Board.

The Board held semi monthly meetings on the 1st and 3rd Mondays of each month. It was its duty to pass upon claims against the State for which an appropriation had been made.

With the exception of claims upon the contingent funds of either house of the Legislature, the Controller could not draw his warrant for any claim unless it had been approved by the Board of Examiners.

If a claim was presented, for which no appropriation had been made, the Board considered the same and, if the claim was approved, it was submitted to the Legislature for an appropriation to pay the claim.

This, then, was actually the beginning also of the present State Board of Control which has among its duties today this same function.

It was the duty of the Board to count the money in the Treasury at least once a month. It also examined the books of the State Controller and State Treasurer as often as it deemed necessary.

It also invested money in the School Land Fund whenever there was an accumulation of \$10,000 or more in the fund.

In 1911, upon recommendation of Governor Hiram Johnson, the Legislature abolished the Board of Examiners and created a State Board of Control.

The new Board consisted of three members appointed by the Governor and holding office at his pleasure.

Each member of the Board was required to devote his entire time to his office and no member of the Board was privileged to engage in any private business requiring his attention between the hours of nine and five o'clock on business days.

The terms of the act creating the State Board of Control contained the following provision:

"The Board shall have general powers of supervision over all matters concerning the financial and business policies of the State, and shall, whenever they deem it necessary, or at the instance of the Governor, institute or cause the institution of such investigations and proceedings as they may deem proper to conserve the rights and interests of the State."

For 45 years, therefore, this has been the duty and responsibility placed upon the State Department of Finance and its predecessor, the State Board of Control.

The first biennial report of the Board of Control reveals that, at the time it took office, dishonesty, extravagance, waste, and incompetence existed in many of the State departments and institutions.

One of the most glaring inefficiencies was the matter of purchasing materials and supplies by these agencies.

For years, rings of contractors had throttled legitimate competition for the State's business. Inferior goods at exorbitant prices were supplied the State. Contracts had been awarded in payment of political service.

Delay in the payment of just claims, which discouraged reputable firms from doing business with the State, was another practice which the new Board of Control abolished.

The first task of the original Board of Control was to place the business of the State on a sound basis, free from dishonesty and incompetence.

Under the new statute, all contracts entered into by any State agency for the purchase of supplies and materials required the approval of the Board of Control before the contracts were valid.

This still is the provision of law, with few exceptions, under duties transferred to the Department of Finance.

In 1915, again upon the recommendation of Governor Hiram Johnson, the Legislature created the State Purchasing Department in charge of an officer known as the State Purchasing Agent. This occurred one month after I entered State service with the Division of Highways.

I know well the first State Purchasing Agent, W. G. McMillen, who was a personal friend of mine. He served in that capacity for 15 years, when Fred Mispley, his Assistant, became the State Purchasing Agent and served for twenty years, until March 1st, 1930. Lawrence Hobart became Purchasing Agent until January 1st, 1936, when our present State Purchasing Agent, B. R. Cheyney, was appointed to the position.

In the 41 years of its existence, there have been four State Purchasing Agents.

The Purchasing Agent was given full authority and it was made his duty, upon approval of the State Board of Control, to contract for and purchase all supplies of whatever nature necessary for the use of every State agency except the University of California. This is still the present provision of law.

In 1921, under the leadership of Governor William Stephens, the Legislature began the program of placing related functions in single departments and created five new State departments, among which was the State Department of Finance.

The Department was divided into six divisions, known as the Division of Claims and Disbursements, the Division of Budgets and Accounts, the Division of Purchases and Custody, the Division of Printing, the Division of Motor Vehicles, and the Division of Libraries.

One member of the Board, as designated by the Governor, was the Chief of the Division of Budgets and Accounts, one member, Chief of the Division of Purchases and Custody, and one member, Chief of the Division of Claims and Disbursements.

To this new Department of Finance was transferred all the duties, powers, purposes, and responsibilities of the State Board of Control, Department of Public Accounting, Children's Agents, State Purchasing Department, Superintendent of Capitol Buildings and Grounds, fairs, historical landmarks, Superintendent of State Printing, Motor Vehicle Department, Board of Trustees of the State Library, and the State Librarian.

The Department of Finance, as created in 1915, continued in existence until 1927, when, under the leadership of Governor C. C. Young, there was a complete reorganization of State government. Twelve major departments were created in harnessing together under one departmental head the related functions of State government.

In 1927, the State Department was thus reorganized and the then existing Board of Control abolished as the governing body thereof.

The new act provided for a Director of the Department to be appointed by and to hold office at the pleasure of the Governor.

By the provisions of the 1927 statute, the Department was divided into three divisions, to be known as the Division of Budgets and Accounts, the Division of Service and Supply, and the Division of Motor Vehicles.

The Chief of the Division of Service and Supply was to be appointed by and hold office at the pleasure of the Governor. A provision was included permitting the Director of Finance also to be the Chief of the Division of Budgets and Accounts without additional compensation.

In 1927, the Legislature transferred to the Department of Social Welfare the Children's Agents activities which previously had been

administered by the Department of Finance. The State Library and other Library functions were transferred to the Department of Education.

In 1927, the Legislature created a new State Board of Control, to consist of the Director of Finance, the Chief of the Division of Service and Supply of the Department of Finance and the State Controller, all acting ex officio.

In 1935 the Legislature abolished the office of Chief of the Division of Service and Supply as an appointee of the Governor, and authorized the Governor to appoint the third member to the State Board of Control. The first member so appointed was Arthur F. Henning of the Retail Credit Association, Inc., of Sacramento, who was succeeded by J. P. Kehoe, retired, of Sacramento, on September 7, 1954.

To this new Board, were assigned two specific duties which still are the duties of this Board: First, to adopt rules and regulations governing the presentation and audit of claims against the State, and the State Controller was required to audit his claims in accordance with such rules and regulations.

The second duty of the State Board of Control was and is that of acting as a Board of Claims to consider claims in equity against the State for which no appropriation has been made.

One additional provision was added to the law. If the claim was rejected by the Board of Control, the claimant could, within 6 months, file a suit against the State and prosecute such suit to final judgment.

In 1927, the Legislature also abolished the practice of pre-auditing of claims by the previous State Board of Control and its predecessor, the Board of Examiners.

With the establishment of the detailed budget system in 1923, made necessary by a Constitutional Amendment, it was found unnecessary to have claims pre-audited by the Department of Finance before they were presented to the State Controller for payment. Material saving was effected by the elimination of this delegation and the responsibility for the correctness of claims was placed upon the State Controller.

In 1929, upon Governor Young's recommendation, the Legislature transferred the Division of Motor Vehicles from the Department of Finance to the Department of Public Works on the theory that the matter of regulating traffic on highways fundamentally should be under the control of the State agency which has jurisdiction over the building and maintenance of highways.

In 1929, the Legislature added additional functions to the Department of Finance. These functions included duties previously performed by the

Surveyor-General dealing with the administration of State school lands and State tidelands; the functions of the California State Fair and the various district fairs; the functions of the State Civil Service Commission which, to a certain degree, were expanded into those of the Division of Personnel and Organization in the Department of Finance; and the State Reclamation Board, in so far as necessary for the Department of Finance to report the work of the Board to the Governor's Council, was made an agency within the Department of Finance, with the Director of Finance the Executive Officer of the Board.

In 1929, also, there was created a Bureau of Commerce in the Department of Finance which was abolished in 1935.

In 1929, the Division of Exhibits was created which in 1941 was re-named the Division of Fairs and Expositions. In this year, also, the Division of State Lands was created as the result of the recommendation in 1926 of W. S. Kingsbury who had been the elected Surveyor-General of the State since 1906. In 1927, Kingsbury made a recommendation to the Legislature that his elective position of Surveyor-General be abolished. He felt there no longer was a need for such a constitutional officer. The Legislature therefore abolished the office in 1929. On August 14, 1929, Kingsbury became the first Chief of the Division of State Lands and he retired August 2, 1934, after 26 years of service.

In 1931, a Bureau of Documents was created by law in the Department of Finance. In 1933, the function was transferred to the State Printing Plant, and the bureau as such abolished.

One of the important and interesting legislative enactments occurred in 1933 when the Legislature required agencies supported from special funds to pay their pro-rata share of the overhead cost of government, such as disbursing by the State Controller, the recruiting of personnel by the State Personnel Board, the auditing of State agencies, the purchasing by the Purchasing Division, legal services by the Attorney General, and other miscellaneous overhead costs.

The Department of Finance had introduced a bill in the Senate to provide for this charge. It was opposed vigorously by the Division of Highways and some of the other special fund agencies, such as Fish and Game. The fight against the bill was led by Morgan Keaton who represented the Department of Public Works on legislative matters. He succeeded in getting the bill tabled in the Senate committee which heard arguments for and against the bill.

When the committee had adjourned, Morgan told me he was sorry we had lost our bill but he had to oppose it. I said to him, "I'll have that bill before the session is over. I am warning you ahead of time so that you may watch me closely."

Morgan Laughed and replied, "You haven't a Chinaman's chance to

get that bill through this Legislature." I made no further comment. We had another bill which provided that whenever a general fund agency rendered special service to an agency supported from a special fund, the special fund agency was to pay for such service. There was no opposition to this measure.

This bill passed the Senate and in the mad rush of that 1933 session the bill did not get out of the Assembly committee and on to the Assembly floor until May 10. It was on the third reading calendar for five days, the calendar being jammed with bills, many of which were highly controversial, delaying action on measures which were at the end of the file.

Both houses of the Legislature had passed a resolution to recess on May 12 and to return July 17, following a special election to be held June 27, 1933, to authorize return of public utility property to local government for taxation.

On the ballot, also, was a twenty million dollar unemployment relief bond issue, the legalizing of horse racing in California, a fifty-five million dollar bond issue to refinance irrigation and reclamation districts by purchasing and canceling their outstanding bonds, and the transfer from gas tax revenues to the general fund the amount necessary to reimburse the general fund for payments therefor for payment of the 1909, 1915, and 1919 highway bond issues totaling seventy-three million dollars.

This last measure was defeated, but the general fund is now receiving reimbursement from the Motor Transportation License Tax in 1933 and the in-lieu tax collection enacted in 1935 requiring payment to the State of the personal property tax on automobiles.

Authorization to transfer to local government utility property for taxation, if adopted by the people, would require legislation and it was for this reason the Legislature recessed for the first and only time during the latter half of a legislative session for longer than three days.

The measure was adopted and the Legislature returned July 17, 1933, adjourning finally on July 26, 1933.

Although both houses of the Legislature had concurred to recess at midnight May 12, there was no legal obstacle to stopping the clock within the chambers of the session. In so far as the members of the Legislature were concerned, it remained May 12 until the clock was again put in motion.

On May 13, 14, and 15, the bill I previously mentioned, requiring special fund agencies to reimburse the general fund for special services rendered to them, was within one or two places on the calendar for consideration when the Legislature, at 3:00, 4:00, or 5:00 a.m., recessed

for "five minutes." This period of "five minutes" lasted as long as eight to ten hours while the legislators went home to sleep.

I had prepared an amendment to incorporate in the bill, which was on third reading, the provisions for the pro-rata charges which were in the bill tabled by the Senate Committee. Assemblyman Zion had this amendment at his desk. I explained to him the reason why the provision should be enacted by the Legislature, that special funds were enjoying a free ride at the expense of the general fund. He concurred in the principle set forth in the amendment.

At 2:25 a. m. on the morning of May 16, when only a half dozen matters still remained on third reading to be considered by the Legislature, Morgan Keaton came to me and said, "I don't see anything else on the calendar of interest to me, so I think I will go home and get some sleep."

Both of us had been up long hours on previous nights when the Legislature worked until four or five a. m. I replied, "I am going to stay around until the Legislature finishes."

Within thirty minutes after Morgan had left the chambers, the Senate bill in which I was interested was taken up for consideration. Assemblyman Zion presented his amendment which was read aloud verbatim by the clerk of the Assembly. The amendment was adopted. Mr. Zion then moved that the bill be taken up without reference to print or file and there being no dissent, the roll was called. The amended bill passed unanimously.

The Legislature then recessed at 4:40 a.m., on May 16, 84½ hours after the adjournment date of July 12 shown in the official journals of the Assembly and Senate.

The Printing Plant, being jammed with printing of legislation enacted during the last 84½ hours of the session, actually did not have available for distribution copies of amended bills until a week following the recess of the Legislature.

It was not until the amended bill had reached the Governor's Office that the Department of Public Works woke up to the fact the provisions of the bill which they had succeeded in having tabled in the Senate was now before the Governor for his approval.

That Department used every possible argument to persuade Governor Rolph to veto the bill. Holland Vandegrift, the Director of Finance, and I argued just as vigorously for approval of the bill. The Governor decided for us and signed it.

As a result, this year over \$2,135,000 will be reimbursed to the general fund for overhead costs of general government furnished special

fund agencies because the representative of the Department of Public Works decided to go home early to get some sleep.

Had he remained, he could have had a member of the Assembly object to final consideration of the bill until it had been reprinted with the amendment, giving him time to get enough votes to defeat it.

To indicate to you the high tension under which the Legislature was operating in attempting to finish its business and recess by May 12, the Senate adopted a house resolution barring everyone from the floor of the Senate, except the members and attaches of that body, denying also the privilege of the floor to the members of the Assembly.

The Assembly retaliated immediately by introducing a resolution barring the Senators from the Assembly floor. Assemblyman Clifford Cottrell, in commenting upon the resolution of the Senate, said, "They think they are the House of Lords. Don't disturb them, they have been sleeping ever since the session started."

In 1938, during the special session of the Legislature, the Division of State Lands was created, taking that function from the responsibility of the Director of Finance. A State Lands Commission, consisting of the Lieutenant Governor, the State Controller, and the Director of Finance, became administrators of the Division.

In 1947, Sutter's Fort was transferred from the State Department of Finance to the Department of Natural Resources as a part of the State Park system.

In 1949, the Legislature created a unit of traffic management in the Department of Finance to give special consideration to all of the traffic problems relating to the movement of goods and personnel of the State.

In 1949, the Legislature authorized the adoption of the State Employees Merit Award Program and placed upon the State Board of Control the obligation to adopt rules and regulations to place the program into effect.

In 1954, the sale of the Napa State Farm was authorized. It took 27 years to get this bill through the Legislature. The Farm was purchased in 1913 and consisted of 2713 acres on which to establish a reformatory. There was so much opposition in the County of Napa to occupancy of the property for that purpose that the proposal was abandoned. In 1917 the property was turned over to the State Board of Control for the purpose of establishing a livestock farm for the slaughter and sale of meat to San Quentin Prison, the Veterans Home, and mental hospitals. The operation of the Farm became uneconomical and a bill was introduced in 1927 to authorize the sale of the property.

I recall clearly a telephone call from Hiram Johnson, Senior Senator from California, to Alexander Heron, in which Senator Johnson told the Director of Finance he wanted that bill dropped. It was dropped.

We were told by other members of the Legislature no authorization would get through the Legislature authorizing the sale of the property until Owen Duffy, the manager of the Farm, had retired. This prediction came true.

It was not until Owen Duffy had passed away that we succeeded in getting a bill through the Legislature to authorize its sale, although many attempts had been made during the years to obtain such authorization.

In 1955, there was created in the Department of Finance a Division of Organization and Cost Control, to be in charge of a chief to report directly to the Director of Finance.

THE BUDGET OF THE STATE OF CALIFORNIA

In 1922, under the sponsorship of the Commonwealth Club of California, a Constitutional amendment was presented to the people to require the Governor to present to the Legislature a biennial budget setting forth a complete plan and itemized statement of all proposed expenditures of the State provided by existing law or recommended by him for all State agencies, and of all estimated revenues for each fiscal year of the ensuing biennial period, together with a comparison as to each item of revenue and expenditure with the actual revenues and expenditures for the first fiscal year of the existing period and the actual and estimated revenues and expenditures for the second year thereof.

Governor Frank Richardson was in office when the provisions of this Constitutional amendment became operative. He had appointed to the State Board of Control, which then administered the Department of Finance, Nellie Brewer Pierce, an attorney at law, and George G. Radcliffe, and continued in office Gilbert G. Daniels, who previously had been appointed by Governor Stephens.

Mrs. Pierce had informed Governor Richardson, when she was appointed to the Board, she would present to him a budget which would not exceed \$79,000,000.

The Division of Budgets and Accounts, which had a staff of only 15 employees, labored for long hours over a period of many weeks to prepare the first budget required by the Constitution to be submitted to the Legislature.

The budget as prepared included all of the expenditures and totaled \$88,927,551. When this document was presented to Mrs. Pierce, she said,

"What is the total?" He gave her the total and she very indignantly said, "I told you I wanted a budget not to exceed \$79,000,000." She thereupon took the document which had been presented to her and threw it into the waste basket.

She said, "Now, prepare me a budget not to exceed \$79,000,000." Following her instructions, a new budget was prepared, deducting from the proposed expenditures the estimated revenues to be collected by self-supporting boards, commissions, and institutions, thus leaving a net budget.

To accomplish the \$79,000,000 budget Governor Richardson made no provision for the Immigration and Housing Commission nor the Mining Bureau, recommending these agencies be abolished. He also wrecked the Division of Forestry and the Industrial Welfare Commission by reducing their budgets so drastically that had the reductions prevailed these agencies would have been unable to carry out the functions which the Legislature had delegated to them.

In order to balance the budget the surplus funds of self-supporting boards and commissions were included in the revenue estimates as available for general fund expenditures.

In commenting upon the budget after it was presented to the Legislature, Mrs. Pierce said, "The Budget Act requires by implication that all surplus funds of self-supporting agencies be turned into the general fund for the operation of the State government." But to be on the safe side, she said she was preparing to introduce bills directing that all such surplus funds revert to the general fund.

At that time, newspaper accounts indicated eminent legal authorities disagreed with Mrs. Pierce, holding that the funds of these self-supporting agencies, such as Fish and Game, Real Estate, and Banking, were raised for enforcement purposes and could not be transferred to the general fund.

Subsequently, court cases held these moneys could not be used for general governmental expenditures.

State Board of Control member Daniels refused to sign the letter of transmittal for the \$79,000,000 budget, but had us prepare an additional document, a so-called minority budget of the Board, which totaled \$33,000,000.

This was presented to Senator Jack Inman, who obtained permission from the Senate to have copies of it printed so it might be available to all members of the Legislature for comparative purposes.

PROGRESS OF IMPROVEMENTS
IN PREPARATION
OF BUDGET DOCUMENTS

The first complete budget as was intended by the provisions of

the Constitution was submitted to the Legislature by Governor C. C. Young in 1927. Immediately after the general election of November when Governor Young was elected, he announced that Alexander Heron would become his Director of Finance. Governor-elect Young and Heron arranged with Governor Richardson to have the entire budget staff of the Department of Finance, and all of the documents relating to the budget, transferred to an office in Berkeley, where budget hearings were held by the incoming Governor, and most of the budget had been prepared by the time the Governor took office in January.

In 1931, the budget first included separate listing of all new positions provided for in the budget.

In 1935, the budget was prepared by the offset method of printing, each page being printed separately and then bound in a single volume. Prior to this the budget had been set in monotype, a process wherein each letter and figure is compiled with individual pieces of type. The process was costly and required tremendous overtime work on the part of the printing office. This process permitted the inclusion of photographs of State institutions and various activities of State agencies without the necessity of having expensive cuts made. "Illustrated budgets" were used only twice - the 1935-37 and 1937-39 budgets. Subsequent budgets, until 1945, were printed by the offset method but in intervening years large new offset presses had been manufactured, permitting the budget to be printed many pages at a time in a manner similar to that when printed with type.

I recall in 1945 a 69 hour work day, beginning on a Wednesday morning at 9:00 a. m. and it was not until Saturday morning at 10:00 a. m. that I had any sleep nor had changed my clothes. We ate six times a day during the period and this long "day" was necessary to furnish the printer with the budget copy by the deadline of Saturday noon, in order that it might be ready for distribution to the Legislature on Monday morning.

In 1947, the first annual budget was prepared and it was the first year when the budget was set by linotype method, thereby reducing the tremendous labor problem in having each page typed by a typist before it was photographed for printing.

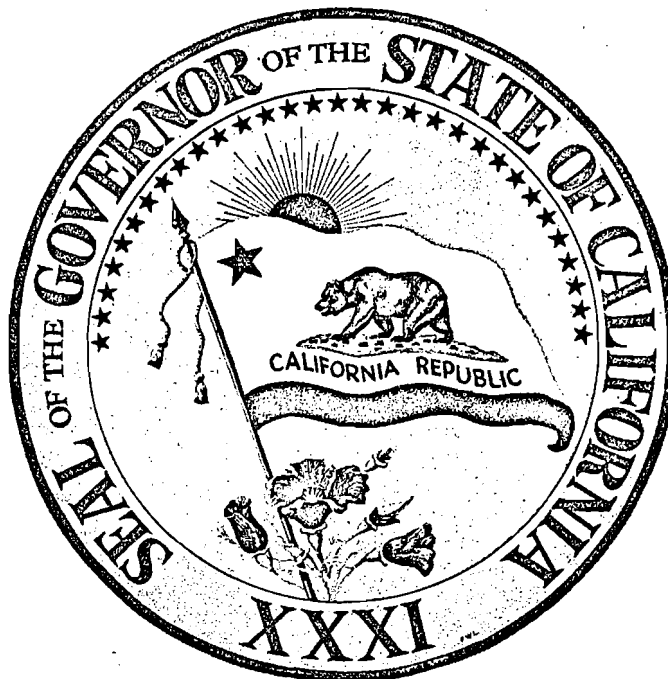
The last budget for which I directed preparation was for the fiscal year 1962-63. In this budget, we added an additional improvement to provide line designations on the left-hand column of each page. This made reference to any particular item in the budget much more simple by referring to page and line number.

The format of California's budget document is one of the finest in the United States, giving each member of the Legislature, and the public, a clear and concise review of the expenditure and revenue transactions for the previous fiscal year, the current year, and the ensuing year period, with charts and graphs and texts explaining expenditure items and revenue estimates.

Appendix C

GOVERNOR'S SEAL

The general design and the details of the Seal of the Governor of the State of California, excluding colors, shall correspond substantially with the following representation thereof:



The roman numerals shall designate the sequence in office of the Governor. *Government Code*, Section 426.

In the center of the Governor's Seal is a replica of the State Flag of California. Above the flag is the rising sun as portrayed on the Great Seal of the Governor's Flag. Below the flag are California Poppies, the State's official flower. The 31 stars above the flag relate to the fact that California was the thirty-first state to enter the Union.

The Governor's Seal was designed, at the instance of the Governor's Office, by Fred W. Links, Assistant Director of Finance, and adopted by Governor Goodwin J. Knight. It became an official emblem for California Governors by legislative action approved June 8, 1957. *Cal. Stats.* (1957), 2203.

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The Bancroft Library University of California/Berkeley
 Regional Oral History Office
Earl Warren Oral History Project

Ellis Groff

SOME DETAILS OF PUBLIC REVENUE AND
EXPENDITURE IN THE 1940S

An Interview Conducted by
Gabrielle Morris

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INTERVIEW HISTORY

Ellis J. Groff was interviewed by the Regional Oral History Office in order to preserve his observations as a career civil servant of the workings of the State Department of Finance in relation both to the preparation of the governor's budget and supervision of the expenditures of administrative departments in the 1930s and 1940s.

Conduct

of the
Interview:

Interviews were recorded on February 17, March 2, 9, 23, and April 6, 1972, shortly after Mr. Groff retired as Contracts Officer for the University of California, for which he left the Department of Finance in 1949. Long familiar with the Berkeley campus, Groff seemed to enjoy meeting in the odd, vacant rooms in the Doe Library in which these sessions were held.

Describing his boyhood in California's Sacramento Valley, he conveys the sense of the state's agricultural heritage and its reliance on transportation and water that he acquired in accompanying his father on engineering trips. Alexander Heron, family friend and longtime Republican theoretician, turned the young man's eyes to the promise of then-new ideas of expansion and improvement in state services and brought Groff into the Department of Finance fresh from his studies at Stanford. Heron is an interesting supporting player in the drama of state government, having served with distinction and some controversy in the administrations of Governors Young, Merriam, and Warren.

Groff recounts the difficulties of coping with state finances during the years of the Great Depression. He then goes on to detail, budget by budget, the growth during Earl Warren's governorship of state expenditures and some of the technological and administrative changes entailed, including descriptions of the major special funds and their rationales.

Particularly interesting are his comments on interaction between the finance department and the

legislature, as the senate and assembly increased their own administrative staffs. In the position of chief of division of budgets and accounts, he seems to have had ample opportunity for development of fiscal administrative techniques, and to have been aware of, but not involved in, the more political aspects of the department's work.

He refers only briefly to what one suspects were his considerable activities in the early stages of professional public administration societies. The scope of the present study also did not permit continuing the memoir with discussion of Groff's work with federal grants for the University in the years of their greatest flow. Hopefully, a future interviewer will remedy this lack.

A trim spare man, remarkably youthful in retirement, Groff was affable and responsive in working through the many topics covered, and patient in explaining their more intricate aspects. His patience was put to the test by recurring malfunction of tape recorders. This seriously affected the first interview, which is reconstructed from notes. He went over the rough-edited transcript with care, verifying statistics and making minor revisions. His official governmental style of capitalization has been followed in typing the interview.

In the Warren Archives are press releases on state budgets and finances from the governor's offices for 1951, 1952, and 1953, giving further data on the years following Groff's departure for Berkeley and an indication of Governor Earl Warren's own views.

Unfortunately, budget limitations prevented interviews with other knowledgeable officials of the Department of Finance who were still available in the early 1970s.

Gabrielle Morris
Interviewer-Editor
Regional Oral History Office

11 December 1973
The Bancroft Library
University of California/Berkeley

I PERSONAL BACKGROUND
(Date of Interview: February 17, 1972)

Morris: We like to start with a bit about your family background, education, and other influences which affected your ideas, and then your decision to go into state service.

Groff: I was born in San Francisco, in 1906, in April, at St. Francis Hospital.

Morris: You were an earthquake baby!

Groff: That's right. And then for about a year, at the age of five, we lived in Nevada and Utah, where my father was a construction engineer for Southern Pacific. They were double-tracking the railroad then, and our living quarters were in a reconstructed boxcar. In 1912 we moved to Sacramento, where my father worked as a civil engineer for the Natomas Company.

Morris: Was Natomas then dredging for gold along the American River?

Groff: No, this was reclamation and development of land north of Sacramento that had been flooded regularly by the overflow of the Sacramento and American River. Most of it was sold off for farming. In 1917, my father transferred to the Natomas Water Company and we moved out to Folsom. It was quite a small town in those days.

Morris: What about school?

Groff: I went to San Juan Union High School for three years. We rode school busses from Folsom to Fair Oaks, about twelve miles.

Morris: Did you mind moving out into the country, leaving your school friends?

Groff: Not particularly. I used to go along with my father when he made inspection trips around the water system, which supplied water to the town of Folsom, the Natomas gold dredgers and for the farmers from Salmon Falls to Mills.

Morris: What were your father's interests?

Groff: Oh, largely practical engineering and farming. I remember helping him when he was working on the Salmon Falls diversion system. Natomas was still doing a good deal of gold dredging then and even a little placer mining of gravel was to be seen in the back country.

Morris: That must have been fascinating. Did you ever find a nugget?

Groff: There wasn't any of that left, to speak of. The dredgers worked mostly on flake and fine grain gold.

Morris: And then where did you complete your education?

Groff: I transferred to Sacramento High School for my senior year, then went to Sacramento Junior College for two years. That would be from 1923 to 1926.

Morris: I didn't realize junior colleges went back that far.

Groff: This was an early one. It was ably administered.

Morris: What kind of curriculum did it offer?

Groff: It was purely academic, and it was under the local board of education.

Morris: How about brothers and sisters?

Groff: Three. I was the eldest. Then there was my brother who is six years younger and two sisters. In 1926, I transferred to Stanford University from which I graduated in 1928.

Morris: Had your father gone there?

Groff: No, my father went to the University of Nebraska and my mother went to the University of Kansas.

Morris: And what did you study at Stanford?

Groff: I majored in economics, took a lot of accounting.

Morris: How about extra-curricular activities?

Groff: Well, I was in the glee club, with several people I already knew.

Morris: Friends had come to Stanford with you?

Groff: Yes, there were eleven or twelve of us who transferred from Sacramento J.C. to Stanford together and most of us lived in Sequoia Hall.

Morris: Was this a fraternity?

Groff: No, the majority of us were non-fraternity.

Morris: Who do you recall particularly from the faculty during your years?

Groff: Well, let's see. There was Harley L. Lutz, professor of economic history, and in accounting, J. Hugh Jackson, who later became the dean of the School of Business. And, of course, Dr. Ray Lyman Wilbur, who was then president of Stanford, and David Starr Jordan, president emeritus. All of these were standouts in my recollections of Stanford.

Morris: How did you become interested in state service?

Groff: I'd say primarily through Alexander Heron, who was a friend of the family's in Sacramento. He was really a missionary spirit in state government at that time and impressed me very much as a young man with the opportunities in state service for college-trained people.

Morris: I should imagine so! He is one of the people who interest me on into the Warren years. What, in general, were his ideas?

Groff: Primarily, he was anti the policies of the close-fisted Friend Richardson era. And he believed in upgrading state service throughout. He saw that government was expanding rapidly and that new methods needed to be introduced in many areas. Much of his thinking went back to the reforms that Hiram Johnson had begun.

Morris: How had Heron started in the government?

Groff: I believe he started as an accountant or auditor for the State Board of Control, which superintended financial and business affairs before the Department of Finance was created. Then he interrupted that service to become deputy superintendent of public instruction under Will C. Wood, who was the superintendent during Governor Richardson's term. It was there that he became convinced that penury practiced did nothing but harm to state government, particularly in education.

He had become well-known in state fiscal and administrative circles, and this gave him a base of knowledge from which he was able to prepare financial material for C. C. Young when he ran for governor in 1926. Then Mr. Heron was appointed director of finance when Young was elected.

Morris: I've seen Mr. Heron's name on budgets drawn up by the Board of Control and wondered how it related to the Department of Finance.

Groff: It predated the department. From 1911 to 1927, the Board of Control was the central financial administration of the state. It supervised all the accounting, and was the agency for preparation of the budget on a biennial basis.

Morris: So the Department of Finance was relatively new when you joined it?

Groff: Yes, I had graduated from Stanford in 1928, and Mr. Heron took me right onto his staff.

Morris: How long was Mr. Heron your chief?

Groff: He left the department in 1929, and was succeeded by Lyman King.

Morris: Is that when he joined Crown Zellerbach?

Groff: Yes. He had made many banking and financial contacts in the course of his State duties and, of course, the Zellerbach firm had a California origin. I believe he was controller and vice president.

Morris: We've been interested in Mr. Heron's role later on during World War II, when Governor Warren succeeded in

Morris: getting the military to let him come back to California to head the Reconstruction and Reemployment Commission.

Groff: That was in about 1943. He was rather a senior statesman as a chairman of that commission. A very striking man in appearance; in his 60s then, and he was prematurely white-haired.

II DEPARTMENT OF FINANCE ORGANIZATION
(Date of Interview: March 2, 1972)

- Morris: Kenyon Scudder, while talking about developing the program at Chino, referred to another young Stanford graduate, Robert Harkness, whom he said had been a big help to him in the finance unit of the Department of Institutions. Did you know him?
- Groff: Yes, he and I had been friends and classmates at Sacramento J.C. and Stanford, and he started work at the Department of Institutions immediately upon graduation from Stanford, almost the same day I went to work for the Department of Finance. Three or four years later, I managed to recruit him for the Division of Budgets and Accounts staff as my principal assistant. He took my place when I left the Department of Finance and subsequently became chief of the division and then Assistant Director of Finance. Governor Brown later appointed him as Director of the Department of General Services.
- Morris: So he was the first Director of the Department of General Services?
- Groff: I think he was.
- Morris: At one point there was a Division of General Services in the Department of Finance.
- Groff: There had been a Division of Service and Supply in the Department of Finance.
- Morris: And how does a Department of General Services differ from the function it had within the Department of Finance?
- Groff: Well, the new department was broader. In the Department

Groff: of Finance Division of Service and Supply, purchasing and printing were the two principal functions.

Morris: Printing?

Groff: Yes. The state printing plant had been under the Department of Finance ever since the department's organization and remained there until the Department of General Services was established.

Morris: And this is the state printing plant that prints all of the bills of the legislature?

Groff: That's right; and also forms and other institutional printing for state agencies. Its other principal function is, you know, the printing of state text books.

Morris: Text books -- yes, that was my next question. I thought at some point, and maybe it was before your years, there had been some kind of a problem in the state printing operation.

Groff: There were a succession of problems with the state printing plant at various times, some technical and some having to do with management.

Then, of course, there was constant opposition to the state printing plant as a competitor of private industry; continual effort on the part of the printing industry and others to abolish the state printing plant and have the State's printing done by contract, especially the publication of text books.

Morris: Yes, I can imagine this would be a lobby. Would this be national publishers?

Groff: Yes, and local. The national publishers were principally concerned with the text book situation, and the local publishers were concerned with the routine job printing business.

Morris: If I remember correctly, for a while the State bought the textbook plates from their publishers.

Groff: Yes, yes, that's right. I believe they leased the plates from the publishers and the state printing plant then did the actual printing and the binding.

- Morris: Were there any comparative studies made, as to whether there were any differences in costs?
- Groff: Yes, there were a number of studies made at various times by legislative committees and by various administrative agencies.
- Morris: What kind of conclusions did they come to?
- Groff: Well, as I recall it, the studies usually showed that the State did save money on the printing of text books. It was alleged -- with some truth to it -- that the saving was accompanied by a certain amount of inadequacy and delay in distribution of the books to the schools. There were complaints from school people on that score, but as to how serious they were, I wasn't in a position to evaluate. There was much debate about the merits of it.
- Morris: You were talking earlier about when you joined the department, that there was a missionary spirit in the state service, and that Alexander Heron, particularly, personified that missionary spirit.
- Groff: It was present in other areas of state government too, but of course as a very young person starting out I wasn't as well-informed in those areas. It was present in the Civil Service Commission, the recruiting for state service was quite impressive.
- Morris: Who was in charge of the civil service? This is the Personnel Board?
- Groff: What has since become the Personnel Board. It's called the Civil Service Commission these days, and in those times it was an independent agency. Nova J. Beal was the chief examiner for the Civil Service Commission in those days.
- Morris: He interviewed everyone applying for a state job?
- Groff: It was a lady. No, her staff prepared the civil service examinations, and the Civil Service Commission, along with the state agency concerned, interviewed the appointee before he was actually appointed. So, as a result of the civil service examinations, the commission set up eligible lists with the applicants' ranking in the examinations and oral interviews.

- Groff: I'm just trying to think. There was a J. C. Whitman -- I don't remember exactly -- I think his title was executive secretary of the Civil Service Commission. He was the administrator statewide.
- Morris: You said you felt that the Department of Finance was at the forefront of the new ideas in state government, and that the role of the Department of Finance was as the business manager for state affairs, and I wondered if you could sketch in what some of these new directions were, and what the new status meant.
- Groff: I think the principal area where the Department of Finance was in leadership was in the development of the state budget. Their role was one of implementing and of developing the actual operation of the budget. The idea of a comprehensive, unified state budget came about gradually. It was embodied in the constitution by the constitutional amendment of 1921 which was sponsored by the Commonwealth Club. It was an initiative measure. But the development of the budget and its improvement came about largely through the efforts of Mr. Heron and the staff in the Division of Budgets and Accounts.
- Morris: I'm interested in the title being Budgets and Accounts -- you think of a budget as being a document which says "we're going to have so much money and we're going to spend it in these ways: A, B, and C." There's more to it than that, isn't there?
- Groff: Oh yes, yes. I think I mentioned last time the fact that the staff of the Division of Budgets and Accounts is responsible for post-auditing of state agencies, in addition to doing staff work in preparation of the governor's budget. They are also responsible for prescribing and developing the accounting system that is used by all state departments.

Now, in order to have a single budget -- a unified budget -- for an operation as large and as complex as the state of California, you have to have the same accounting system, the same definition of terms, and the same way of handling financial transactions in effect in all departments and agencies across the board. There has to be a common nomenclature and usage in department finances. Part of its mission for

Groff: developing accounting systems incorporated in that accounting system these common definitions which then could be used in relation to the budget. The budget, of course, is dependent upon the financial information, statements of expenditure and revenues, produced by the various state agencies.

Morris: Before this unified budget began, had departments had different categories and different terminologies for their expenditures?

Groff: Yes and no. They were unified to an extent, to the extent that they had to report to the State Controller, who is chief disbursing officer of the State, and who maintained the State's central accounts, and made annual state financial reports. But those are just in large, overall categories. The minutiae of accounts maintained by the several operating agencies were quite disparate, although they had been evolving into a more unified system through the efforts of the State Board of Control, exerted a more persistent effort, and more successful effort in devising and establishing what they called the "uniform system of accounts" for state agencies.

Morris: Does the "accounts" part of it mean that after the budget has been developed by all the various agencies within the Department of Finance and approved by the legislature, then the Department of Finance keeps an accounting of those various budget areas and says, "you can spend some more, or you can't spend some more?"

Groff: No, the Department of Finance did not maintain accounts itself, but it supervised the accounts that were maintained at the separate agencies which recorded and incorporated for each particular agency, and kept track of expenditures, and served as the basis for determining that the expenditures kept within the amounts appropriated in the budget. The accounting systems maintained by the separate agencies were the means by which the budget was kept under control after appropriations were made.

And also, those same accounts provided the information as to what exactly had been spent and what was likely to be spent in the current year, and served as the basis, then, for making the estimates as to what would be necessary for the ensuing year. There was a budgetary cycle there that depended very heavily on the information

Groff: gleaned from the agencies' accounts.

Morris: Was the Department of Finance able to say to an operating department, "you've overdrawn your account, you can't spend any more for this year," or was there any kind of a relationship administratively?

Groff: Yes, if the agency constantly kept track of how much it was spending and what it had to spend, when it reached a point of overdrawing its appropriated funds it had to come to the Department of Finance for permission to transfer funds from some other category within the appropriation so that it wouldn't be overdrawing as a whole. And the Department of Finance, exercising that control, was able to influence and control the operation of the budget.

III UPS AND DOWNS OF STATE REVENUE

Depression Budgets

Morris: The year you joined the department was the beginning of the Great Depression.

Groff: The stock market depression, but it hadn't reached the level of actual extensive unemployment. The consequences hadn't manifested themselves to any great extent then. It was 1928, actually, and that was just before -- as a matter of fact, everything was considered quite rosy at that time.

Morris: State revenues were considered to be adequate at that time?

Groff: That's right. At that time, in the '29-'31 budget, there was projected a thirty million dollar surplus and that had been building up over several years. It was considered a generous and substantial surplus. It was something that people were very proud of. It was so large it actually began to be a problem to conserve it so it wouldn't be wasted.

Morris: Why was it maintained as a surplus? Were there not agencies hollering for program expansion?

Groff: Yes, but it was thought advisable to maintain a surplus against contingencies that might occur. The state was growing quite rapidly at that time and it was felt that the surplus would be necessary to help meet the consequences of that growth.

Morris: But it was kept as a surplus rather than in the kind of earmarked reserve that Warren used later?

- Groff: Yes, it was an unearmarked surplus, that's right. It wasn't dedicated to any particular kind of purpose.
- Morris: And the governor and the legislature hadn't worked out how it should be spent?
- Groff: No, no.
- Morris: That was wise in view of what happened, wasn't it?
- Groff: Yes, I should say so. It proved to be a very wise move and very useful when the Depression actually struck. The succeeding budget, '31-'33, was the one where the revenues actually did fall off very markedly.
- Morris: I'd like to sketch these budgets in just briefly before we tackle the details of the Warren years. The '31-'33 budget really absorbed the whole surplus within a two year period?
- Groff: Yes, '33 actually ended with an eleven million dollar deficit.
- Morris: Was this all due to direct relief payments?
- Groff: I don't think the state relief payments in any volume started until 1933-'35. The first thing that happened was that the State's revenues fell off very markedly, substantially below the estimates.
- Morris: So the previous biennium surplus would have gone into plain state operating, absorbing the --
- Groff: Absorbed the diminution in current state revenues.
- Morris: Without any shift in state activities that you recall.
- Groff: Nothing of consequence until 1933, under the Riley-Stewart plan.
- Morris: That was the sales tax, wasn't it?
- Groff: Yes, that was the advent of the sales tax and the return of public utility property to local governments for taxation. Until that time utilities had been taxed exclusively by the state for state purposes on a gross receipts basis. That system was abandoned by the state in 1933 and the public utility properties became

Groff: part of the tax base for local governments, cities and counties.

At the same time, the county portion of the public schools' support -- the counties and state had each put up one half of the statutory state school support -- was taken over by the State. Thus, the counties no longer were responsible for school support and the State took over the whole responsibility for supporting the statutory program which was designed to provide the minimum acceptable standard of public education.

Morris: You don't happen to recall what the minimum standard for public education was conceived to be in those days?

Groff: I think it was thirty dollars for ADA* for elementary and sixty dollars for high schools.

Morris: And then this burden assumed by the State was to be paid out of funds collected from the sales tax.

Groff: Yes, in effect the sales tax took the place of the gross receipts tax on the public utilities and also took up the added burden of financing the schools.

Morris: That's an interesting kind of musical chairs. When you say the local governments retrieved the public utility property for a tax base, that would be largely the counties?

Groff: Counties and cities because public utilities property then became a part of their local tax base.

Morris: What costs did the counties assume? Did the counties take over any costs that the state had borne?

Groff: No, this was a form of property tax relief. The same cries for relief of the property taxpayer were heard in those days that have been voiced several different times since then.

Morris: The sales tax was a new kind of a revenue device at that time. Did the Department of Finance have any

*Average Daily Attendance.

- Morris: position on what a sales tax could do?
- Groff: Yes, they were involved in it although it was largely a legislative matter. The Governor and the Director of Finance were very substantially concerned in the determination of the legislation at that time.
- Morris: In other words, did they support it in the process of getting it passed?
- Groff: As I recall, they did.
- Morris: And Mr. Riley and Mr. Stewart were the legislators?
- Groff: No, Mr. Riley was State Controller, and Mr. Stewart was chairman of the State Board of Equalization, both constitutional officers. The State Controller was an ex officio member of the State Board of Equalization at that time. But they were the prime movers on this thing.
- Morris: And were responsible for getting the bill introduced and --
- Groff: Yes, yes.
- Morris: That's an interesting kind of a procedure and one that we're not familiar with at the moment. The names almost always mean the men who were in the Legislature.
- Groff: This was a movement that was originated by the state's tax people.
- Morris: As a separate entity concerned with state money matters from the Department of Finance.
- Groff: Yes, that's right. The State Board of Equalization administered the gross receipts tax on public utilities, and they also had the function of equalizing property assessments for tax purposes, primarily between the utilities and other property.
- Morris: The Board of Equalization became such a sticky issue that we haven't really talked to anybody about that, and Mr. Bonelli isn't around anymore to talk to about it.
- Groff: Dixwell Pierce is gone, too. He was the secretary of the State Board of Equalization and was their top administrator.

Morris: Back as far as the Riley-Stewart bill?

Groff: He was secretary at the time it was passed, I'm pretty sure.

Morris: On this equalization aspect, was there a sense among the public utilities that they would get a lower overall tax burden if their property was taxed by the counties rather than if their gross receipts were taxed by the state? The gross receipts, presumably, would continue to rise as they laid more railroad tracks and built more power plants.

Groff: By the same token, as they expanded their physical plant, their base for local property taxes would increase, also.

Morris: That would mean they would be dealing with fifty-eight boards of supervisors and county assessment boards.

Gross: Yes. I can't remember now what the position of the public utilities was on this question.

Morris: Mary Ellen Leary recalled that the Riley-Stewart Act only provided enough money for that base support of public education for one two-year period. Again, I wondered if it might have been a matter of revenues not being as big as was expected, or was it a matter of the programs of the Department of Education suddenly mushrooming --

Groff: I can't remember the chronology, but there was an amendment to the constitutional provision for state support of public schools that increased very markedly the amount of that support. I can't remember the exact timing of it, whether it came, say, in '35,* and by reason of that, the state's public school support increased substantially and outran the revenues from the sales tax, or whether there was only the rapid growth in school enrollments. That growth may have outpaced to some extent the growth of the sales tax collections.

Morris: Was this growth in population the migration west of

*See California Constitution, Art. XI, Sec. 20, adopted June 27, 1933.

Morris: people looking for jobs, or was this older people looking for retirement homes, or was it the people who were already here raising another generation?

Groff: Well, the state growth has come largely from migration.

Morris: In those years it was what -- one or two percent per year, something along that line? A little later, by 1943, population rose to three to five percent. And it had been going on that way for some time.

Groff: Yes, the growth continued even during the Depression, my recollection is that the growth continued contrary to expectations. It was thought the Depression would stop the growth from migration, but it continued.

Morris: Would this be the migrants from the middle west who'd been wiped out by the drought there?

Groff: Let's see, the in-migration of the so-called Okies and Arkies came still later, I think, in '37 or '38.

Morris: Now, the next budget would be 1933-35.

Groff: 1933-'35 was the last Rolph budget. Merriam succeeded Governor Rolph, who died in office around a year before the end of his term and Lieutenant Governor Merriam succeeded him.

Morris: Was there a continuity of ideas from Governor Rolph as far as budget? Did Merriam have any new ideas either for state services or for --

Groff: I'm trying to think. Yes, Governor Rolph tended to be more socially minded. His own inclination tended to be liberal in the expenditure of funds and in recognizing the need for state services. However, his Director of Finance was Rolland A Vandegrift, a former director --

Morris: -- of the taxpayers association.

Groff: Yes, executive director of the California Taxpayers' Association, who was quite tight-fisted and conservative as far as expenditures were concerned. A very sound, intelligent man who didn't institute his economies in an arbitrary way. Rather, he analyzed, and weighed, the problems quite carefully. He was given wide responsibility

Groff: and a rather free hand by Governor Rolph in managing the financial aspects of state government. So he acted as sort of a check on Governor Rolph's spending tendencies.

Governor Merriam, on the other hand, was himself conservative, especially in state fiscal matters. So, there was a significant change in the philosophy of the chief executive.

Morris: Plus the fact that Merriam would have inherited a deficit which continued to be troublesome.

Groff: Yes, it continued to get worse in Merriam's administration.

Registered Warrants

Morris: Was it in his administration that the State at one time issued warrants? They finally ran out of money.

Groff: Yes, they ran out of cash in the General Fund. I'll have to look up just when the issuance of registered warrants actually came. I'm inclined to think it was during the Rolph administration, in fact, I know it was. I remember coming along as a detail, resource person with Governor Rolph and Vandegrift on an occasion when they paid a call on A. P. Giannini of the Bank of America to seek his help in arranging for acceptance of these registered warrants.

Morris: In other words, for the warrants to work the banks had to --

Groff: They had to accept them.

Morris: As legal tender.

Groff: They had to be willing to cash them, so to speak. They were used in the manner of checks -- given in payment of state bills, and state salaries. They were drawn on the state treasury, and the registered aspect of them denoted the fact that there was no money in the treasury to pay them. They were checks drawn by the State Controller on the state treasury, and when they were then presented to the State Treasurer for payment, there was no money in the fund, therefore he registered that

- Groff: warrant as an obligation of the state. And the warrant then drew interest from the date of registration. The interest was six percent.
- Morris: And the registration in the State Treasurer's office also included the name of the bank or the person --
- Groff: The person who received a registered warrant would take it to his bank for deposit. And the initial effort of the state financial people had to be toward getting the banks to accept these warrants notwithstanding that there wasn't any money -- that is on faith, that the State would eventually pay them. The registered warrants were called for payment as monies became available in the General Fund. A mechanism was worked out so that the banks actually held the warrants until the money came in.
- Morris: Like short-term --
- Groff: They became short-term obligations, so to speak.
- Morris: On a time basis? As the monies came in the warrants out longest would be paid first?
- Groff: That's right. They were called and retired in the order of their registration.
- Morris: Would the state contact all the holders of warrants and say, now we have money to pay them?
- Groff: Yes. They'd issue a notice.
- Morris: By mail or in the press?
- Groff: By mail and also in the press.
- Morris: I've heard that Mr. Giannini was a pretty tough bird on money matters. How did he receive this delegation?
- Groff: As I remember it, he was quite cooperative at that time. He was tough, but he did cooperate. As I say, I was in a very subordinate capacity, and while I recall some of the conversation afterward, I didn't actually participate in the negotiations.
- Morris: Were similar negotiations carried on with other

- Morris: bankers, or was Giannini important enough then so that if he agreed to something, the other banks would, too?
- Groff: Negotiations were carried out with representatives of the other banks, also.
- Morris: Was six percent a pretty good interest rate then?
- Groff: It was the statutory interest rate. Later, however, more sophisticated arrangements were worked out for the handling of these registered warrants in volume, without putting them actually in circulation. Instead of issuing individual warrants payable to the person to whom the state owed money, they set up a revolving fund mechanism whereby the State's creditors were paid by checks drawn on the revolving fund, which was then reimbursed by registered warrants of large amounts drawn on the General Fund. These lump sum registered warrants were then sold to the banks on the basis of the lowest interest rate bid.
- Morris: I'm interested in the development of more sophisticated arrangements for handling the warrants in large amounts. I wondered if this use of warrants was in any way a forerunner of the kind of credit arrangements that have become the custom. In other words, nowadays very few people actually use cash and businesses, by and large, seem to work on the basis of massive transfers, as you say, or paper obligations rather than actual transfer of assets.
- Groff: This actually represented the use of checks, rather than warrants, for the payment of bills before the more complicated transfers of credit. The registered warrant mechanism was one that was provided for in the statutes at a much earlier time.
- Morris: It was an already existing mechanism --
- Groff: That's right, coming out of the early history of the State, as I recall. The State had no authority to issue bonds and it was impossible to print money, of course, so there was no mechanism for the State to borrow money to meet current bills. The State's power to incur indebtedness without vote of the people was limited by constitutional provision to three hundred thousand dollars.
- Morris: I remember that, yes.

Groff: So that the only thing that was open to the State was to issue these warrants and then register them for lack of funds.

Morris: Before this time, had the clerk or secretary working for one of the state departments received her pay in actual money?

Groff: No, she received her pay by a warrant -- actually a check drawn on the state treasury was issued by the State Controller, after he audited the payroll, and sent to the individual.

Morris: Did things ever reach a sufficiently bad condition that those warrants would be discounted?

Groff: Yes, that was the great fear at the time, that these warrants would be cashable only at a substantial discount. A good deal of the effort in negotiations between the State and the banking community was to persuade the banks to accept these warrants at face value without discount.

Morris: Someone recalled that they did get paid in warrants up north and that they were discounted. Did she remember accurately?

Groff: I think at the very outset, with the uncertainty and fears that were felt at the time, that there was a period of time (the length of which I cannot recall, but I don't think it was very long) when the warrants were discounted in some localities by some banks. I think very soon the banks agreed to accept them at face value. In not too long a period they were able to work out arrangements for handling the warrants in bulk, without issuing them to individuals and/or employees.

Morris: Did anybody ever become reluctant to deliver goods to the State?

Groff: At the outset there was some indication of that, too, before they got the situation stabilized.

Governor Olson's Fiscal Difficulties

- Morris: At what point did things begin to turn the corner, wasn't that the phrase? Had things begun to improve by the time Olson took office?
- Groff: No, not really. Governor Olson inherited a very serious financial situation.
- Morris: All Merriam's efforts hadn't --
- Groff: No -- let's see -- at the end of '33, when Rolph succeeded Young, the actual General Fund deficit was about eleven million dollars. In '35 it had risen to nineteen million dollars, and in '37, it dropped to about twelve million, six hundred thousand. In Merriam's first budget, 1935-37, he had proposed a hundred seven million dollars worth of new taxes to balance the budget.
- Morris: It passed?
- Groff: I haven't been able to check that out. By 1939, the end of Merriam's administration, the deficit had risen to thirty-six million, five hundred thousand. By that time in the Merriam administration, the State expenditures for relief, through the State Relief Administration, had become rather substantial. Actual expenditures in the '35-'37 biennium were forty-seven million, six hundred thousand.
- Morris: Plus some federal money?
- Groff: Yes, a very substantial amount of federal money.
- Morris: That's a remarkable sum. This is, again, in addition to previous level of state services.
- Groff: The first impact of unemployment through State expenditures for unemployment relief was met by bond issues amounting to \$20 million in 1933 and \$24 million in 1934. The problem soon became so substantial, however, they realized they'd have to fund it out of current revenues.
- Morris: Were these bond issues within the Legislature's ability to authorize?
- Groff: No, it must have gone to a vote of the people.

- Morris: And voters passed it. That's interesting. I suppose everybody who was unemployed would have voted for it with enthusiasm.
- Groff: [Laughter] Sure.
- Morris: You said that at the end of Merriam's administration, he had a deficit of thirty-six million, five hundred thousand.
- Groff: That's right.
- Morris: Now, in the budget analysis that I read for the 1939-41 biennium, I have a note that Olson inherited the previous administration's deficit totaling forty-five million dollars. When you're talking in millions, that's not all that much, but it's still an interesting discrepancy.
- Groff: I think that figure was partially estimated -- an estimate of the situation that would obtain at the end of the 1937-39 period. It was worked out in December, 1938, six months in advance, you see. The actual deficit turned out to be thirty-six million, five hundred thousand.
- Morris: A variation of ten million in a gross figure of forty-five million -- does that alarm a professional finance person?
- Groff: No, because the forty-five million is really a ten million variation on the total volume of General Fund receipts and expenditures, which produce the surplus or deficit. The variation is really very small in terms of the total amount of income and expenditure involved.
- Morris: This question occurred to me a number of times in reading about the mid-1940s when there were vast surpluses. I was curious if from a financial wizard's view this kind of variation of ten million plus or minus really upset the planning.
- Groff: Well, it did. It was very disconcerting, and it was the subject of many attacks on the administration, on the Governor, on the Director of Finance, on the Department of Finance, for having overestimated or underestimated that much. But actually, when you put the amount of the variation against the total amounts that actually were

Groff: involved, it was a rather small variation in accuracy. The estimates were rather accurate against the entire background.

Morris: Were you attacked on this in years of surplus as well as years of deficit?

Groff: Yes, it worked both ways. In years of surplus you are attacked because, on the one hand, people who are interested in expenditures and services say, "You held us down. You wouldn't let us spend this money and you vetoed our bills because you said you didn't have the money, and here you had the money all the time. We could have done this, that and the other thing we were interested in."

On the other hand, we faced the argument from the more conservative point of view, that here the State had extracted unnecessary funds from the taxpaying public. The taxpayers, they said, could have used that money to much greater advantage if they'd been allowed to retain it in their own hands.

Morris: That's a very common reaction on an individual level.

Groff: That's right.

Morris: So Mr. Olson came in as governor with this tremendous deficit and both he and Mr. Gibson were pretty much dedicated to meeting social needs. How did they cope -- how did they propose to meet new social needs in a time of very reduced revenues?

Groff: In the first place, I should say that Governor Olson and his Director of Finance addressed themselves very vigorously at the outset to understanding and coping with the budget situation. The Governor attended all the budget hearings in the fall of 1938, right after his election -- between, that is, his election and his taking office. When the budget was in preparation he was not Governor, but, as you know, the incoming governor has the right to call upon the Department of Finance and the agencies for any information and service necessary for him to prepare his budget. Actually, Governor Olson and his Director of Finance, Phil Gibson, moved right into the Department of Finance offices, and conducted hearings with state agencies from morning until way into the night. Day in, and night after night. And Governor Olson actually sat in on

- Groff: most of them himself. No governor had done that before and few governors since.
- Morris: Olson had been in the legislature; where had Mr. Gibson been?
- Groff: He was an attorney and he had a practice in Los Angeles, as I recall it, and also taught on the faculty of a law school.
- Morris: Was he a tax attorney, particularly?
- Groff: No, not that I recall. He was active in Governor Olson's campaign -- as was George Killion, who headed up Olson's public relations staff during the campaign.
- Morris: Killion was in the Department of Finance, also, wasn't he?
- Groff: Not at first, no, he came in as, I think it was, executive secretary to the Governor, and had handled public relations for the governor's office. Mr. Gibson initially didn't have much information on State affairs other than that he was very close to the governor in his campaign, and associated with him in earlier days. He proved to be a very astute man, however. We were all amazed at the facility with which he picked up an appreciation of the problems of state agencies and the intricacies of state finances.
- Morris: Yes, it's such a technical subject that it's curious the number of people without a particularly fiscal background who were directors of finance.
- Groff: That's right. The job essentially calls more for general good judgement and the exercise of astute common sense, rather than the detailed knowledge of the technical aspects of state finances.
- Morris: Because there is a career staff?
- Groff: There is a career staff to do the technical work. It's amazing, you indicated, the range of background of the various directors of finance.
- Morris: And yet they're very key people, too, to any governor. Are there ever times when the technical side disagrees with, you might say, the political side?

Groff: Yes, almost constantly. Most directors of finance instructed the technical staff to express themselves freely from their own technical, professional viewpoint, and appreciated the clash of opinion that resulted -- the clash between the professional point of view, the career point of view, and the political point of view. That sharpened up the decisions, actually.

Morris: Did this work in the Olson case? The legislative end of things seems to have been rather resistant to Olson as governor. He had strong opposition to his spending policies in the Legislature from the beginning. You feel he was sound financially, even though he wanted to spend a lot of money?

Groff: I think he was for the most part sound. There were several large issues on which he had strong opinions, where he went off the deep end, but on the whole, in his basic approach, he was usually quite sound. He gave much more weight to sound advice that he received from professionals than had been expected on the basis of what most of us knew of him before then.

Relief Expenditures

Morris: In the budget document, the statement was made that in order to balance the budget and cut the deficit, Olson would have to move either to reduce pensions and categorical relief aids, because only in these large areas could sizeable reductions be made, or to propose additional tax programs. I wondered how Olson and Gibson reacted to the suggestion that they cut the categorical aids and expenditures for the public schools. That must have been a hard nut.

Groff: I think Governor Olson was not actually advocating those courses or those measures, but was pointing them out as unacceptable alternatives to increased tax programs which he was recommending. He was saying that the alternative to this tax increase is to cut expenditure programs, and the only place to cut the budget is in those places where the large expenditures occur. In the areas of welfare, public schools, and so forth.

Morris: And what success did he have? The budget he proposed was five hundred and fifty-seven million dollars, and what

Morris: was finally approved by the Legislature?

Groff: First, it should be noted that seventy-three million, six hundred thousand of that total was for unemployment relief.

Morris: This is one of those notes that is startling, looking at it thirty years later. It was said that the cash doles were running at twenty percent of the General Fund expenditures but that only half of the unemployed in California were receiving any aid. That seems a remarkable thing. Did people not apply for the relief?

Groff: Yes, they did, but there was rather strict administration. They were denied relief in lots of cases. And, of course, the federal government was meeting part of the problem with its programs.

Morris: So that possibly what this means is that although the State was only making payments to half of the unemployed, that didn't mean that the other half were getting no aid, they might have been getting federal aid?

Groff: They might have been getting federal aid. Many of them didn't get any aid. They just stumbled on without relief.

Morris: You said earlier that one of the things that was impressive when you joined the state government, was that the civil service was upgrading itself. Yet ten years later, when Olson was governor, there was continual criticism that he apparently tried to circumvent the civil service, particularly in civil defense and in the relief administration. Was Olson really asking to have his political supporters hired regardless of their qualifications?

Groff: As I recall it, I think the criticisms came mostly in the area of the State Relief Administration, which was set up as an emergency agency. It developed very rapidly, and due to the emergency situation, there wasn't always time to go through all the civil service procedures. There was probably some truth to the allegations that the administration took advantage of the emergency situation to put its friends and cohorts in these relief jobs. But this is quite natural, and the thing which always happens when you have an emergency agency set up outside of civil service.

Morris: You want to staff it --

Groff: You want to staff it right now. Naturally, you staff it with the people who come to you and they tend to be your political cohorts. So, both because of the emergency and because of some politics, the performance of SRA wasn't always as good as it should have been. There was a lot of criticism. It was a thankless job, anyway.

Morris: Yes, it must have been.

Groff: Solomon-like decisions were called for and it was just an impossible situation to administer.

Morris: And there was a turnover also, wasn't there, in the directors of the relief administration? Merriam had two or three and Olson had two or three, and philosophically they sounded like a wide range of individuals, to put it mildly.

Groff: Yes, they were. [Laughter] They'd get a liberally-minded person in there and SRA would become too liberal in their interpretation of the regulations and the policies. That would bring down criticism on them, so that person would be fired and a conservative type would be put in to bring order out of chaos, you know, then they would get criticised by the other side. Thus, politics would enter into it, inevitably.

Morris: Your feeling is that there was more sound and fury around it than actual substance?

Groff: I think political considerations entered into it unduly and political decisions were made, undoubtedly. However, considering the problems they had to deal with, I don't feel they did too badly.

Morris: One other point on this '39-'41 budget, the comment was made that one thing that contributed to the deficit was that debt service was up twenty-five percent due to the financing policies of State Treasurer Charles Johnson. Was there a question that early about his policies in depositing state funds in banks and selling bonds?

Groff: There was criticism of State Treasurer Johnson from time to time for his handling of the deposit of state funds in banks, over-large deposits in accounts on which the banks did not pay any interest, and allegations of favoritism. The timing of those I can't quite recall.

Morris: This was a note from that '39 to '41 budget. It was about 1949, I think, that he finally resigned under some pressure on these later points.

Groff: I don't recall what the 1939-41 budget had reference to.

Morris: The later incident was the discovery that he was depositing long term funds as demand deposits and not getting any interest from banks for holding the reserve funds, you know, the wartime surpluses, but on this earlier one it was debt service that was referred to.

Groff: I think I recall a little glimmering of that. You see, Olson had recommended tax increases justified partly on the unemployment relief requirements. I think I remember that Gus Johnson advocated the use of bonds instead of taxes to finance unemployment relief. Johnson opposed the Governor on that policy question, and I think that the legislature may have followed Johnson's lead and voted to submit a bond issue to the people for unemployment relief instead of voting new taxes. Of course, legislatures are always reluctant to vote tax increases -- that's the hardest thing they do -- and so Gus Johnson, with ostensible authority, you see, gave them an out in suggesting a bond issue.

Morris: Which has to be decided by the citizens so that the burden of decision could be passed to them.

Groff: The debt service on those bonds, while it added some to the deficit, was such a small outlay in those days, that increase of even twenty-five percent would not have been all that major.

Health Care Proposal

Morris: Did you recall in this Olson budget an item for a medical clinic program? He proposed about a hundred thousand dollars, which wasn't very much, but he was concerned about health care for the working man, and he proposed clinics. This was a new program in the middle of this dreadful financial bind.

Groff: Yes, he proposed to the legislature some kind of a state health care plan. I can't remember now if the clinic program was actually a pilot program toward a

- Groff: state health care plan, or whether it was a program designed for other purposes connected with the relief situation. In any event, I think it was outvoted.
- Morris: It was deleted.
- Groff: I think one of the arguments that forced deletion was to couple it with "socialized medicine."
- Morris: It kind of signals what was to come with Warren and health insurance, which is one of the major issues for study in Warren's administration. Also from the Department of Finance's point of view, if they had talked it over with the Governor with great care, how could he have proposed a new program such as this in a time of financial stringency?
- Groff: I can't remember. My guess would be that it was one of those items that the Governor made his own decision upon without reference to the Department of Finance.
- Morris: At Governor Warren's suggestion, I checked even further back on health insurance legislation, and in 1935, there was a very complex, comprehensive bill introduced by Senator Tickle, from Carmel; he was chairman of the Senate Finance Committee, which makes him a very powerful senator, doesn't it?
- Groff: That would be during Merriam's administration.
- Morris: The advice we have is that the 1935 bill, introduced by Senator Tickle and a couple of other Republicans on the Banking Committee, was put together at the request of the medical association. I wondered if you recall the Department of Finance testifying on it or being aware of it?
- Groff: I doubt we did. That rings a very faint bell, but I can't recall any specifics on it. Kind of incongruous, the association of Senator Tickle and the medical association with a health plan.
- Morris: Yes. It was sort of right where we're at now. It set up a provision for health insurance for everybody who was not covered by a private plan, and it set up standards for fees, quality of care, and supervision of medical professionals, and provided some state diagnostic services for people needing to be put in various categories of this plan. The legislation could be considered a model bill. It could be presented right

Morris: now, but it seems to have dropped without a ripple. We wouldn't have tracked it down if Warren had not pointed it out and said his bills were not the first.

The original draft, as introduced, set up a state advisory board which explicitly included a member of the executive council of the California Medical Association. That vanished in the first amendment.

Groff: Weren't they getting their Blue Cross established about that time?

Morris: In '37 it was authorized and in '38 it was founded.

Groff: I'm astounded that Senator Tickle would lend his name to it. He was a conservative of conservatives.

Morris: Well, he's there. My general assumption is that the chairman of the Finance Committee is conservative.

Groff: Tended to be -- in those days, especially. Ed Tickle was conservative in matters other than financial, as I recall him.

Morris: This was before the days of the legislative analyst. Did this mean that Finance people worked more closely with the Legislature in those days?

Groff: Yes, that's right. The department would be called on to make analyses and provide information to the legislative committees. On a professional and somewhat impartial basis, the staff considered itself obligated to serve the Legislature as well as the Governor when called upon.

Morris: Were you surprised when the Legislative Analyst position was created?

Groff: Yes, yes we were. I think the staff tended to be in opposition to the concept of it. However, the Director was in the position of having to maintain good relations with the Legislature and the concerns of the Governor for his legislation program made it impolitic for the Administration to oppose the concept.

Morris: And then the first Legislative Analyst was a former Director of Finance.

Groff: Yes, well, the clash between the former and the current Directors of Finance became part of the larger battle between Governor Olson and the Legislature.

Economy Bloc

Morris: Was the Economy Bloc a visible, recognizable force at that time?

Groff: Yes, it was. I have a little trouble distinguishing between that economy bloc and an earlier one. I think the term economy bloc was first applied to those who were in opposition to Rolph's spending during the Depression.

Morris: That's only a ten year span, and some of the same people were probably still around.

Groff: Yes. I think this was kind of a revival of the earlier economy bloc.

Morris: It's unclear whether their concern was over finance or whether it was philosophical disagreement with the way the particular governor was spending money.

Groff: I think both factors entered in.

Wartime Recovery

Morris: Going on with our state budget highlights, 1941-3 overlapped the Olson and Warren administrations, and also the turnaround from a deficit to a wartime surplus. In 1941, California income was the record high for the pre-war years, and 1942 was the first year of budget surplus, and then --

Groff: That is, since '29-'31, with the famous thirty million dollar surplus, which evaporated during the depression.

Morris: Yes. This 1942 surplus was the first of five years of surpluses. So, as soon as Warren came in he proposed a tax reduction.

Groff: That was very peculiar and very significant because it followed so closely on Governor Olson's proposal of a rather large tax increase.

Morris: Olson had proposed an increase for '41-'43?

Groff: That's right.

Morris: And did he get very far with that?

Groff: Not far, he got some, but not anywhere near all of his tax increases. Before the proposal could be renewed, the war-inflated economy came about and started generating increased revenues from existing sources. This eliminated the need for increased taxes.

Morris: Right away.

Groff: Almost right away, and then, as you say, in Governor Warren's first year he was in a position to recommend a reduction in state taxes.

Morris: Was there a change in the federal tax structure at that point. Did the federal government increase taxes to develop revenues for war materiel?

Groff: Yes, they did. There was a rather sharp increase in income tax rates. New excises were imposed on telephones, automobiles, entertainment, and a lot of other things. War economies were put into operation. In fact, it became kind of a patriotic thing to reduce state taxes in order to enable people better to pay the wartime increases in federal taxes.

Morris: In that immediate budget before Warren took office, was Mr. Killion working for tighter budget controls?

Groff: In a twelve month period we shifted entirely away from a really drastic deficit and huge demand for state funds for unemployment.

Morris: It must have been a strange time to be working with finance.

Groff: You had to shift gears suddenly from a chronic deficit situation and feeling of desperate need for additional taxes and for stringent economy, to a situation where the money began to roll in, and you weren't able to increase state expenditures. There were wartime

Groff: constraints, shortages in materials and people and everything else. And, of course, not only were there shortages, but it was just unpatriotic to greatly expand services, except those that were feeling the direct impact of the war. There were a number of these latter areas that had to be expanded.

Morris: What would those be?

Groff: Various kinds of training activities in the Department of Education, and the universities and state colleges, although these were more than absorbed by the very drastic decrease in enrollments due to people going into wartime service.

Morris: Did the increase in revenues happen in 1941? In other words, had this begun before December 7th?

Groff: Yes, because the stimulation came with the defense preparations, which preceded by a year or so our actual entry into the war -- the gearing up of our own defenses, and the growing supply of the Allies. Even before we entered the war, the Roosevelt policy of lend-lease started stimulating the national economy and California, of course, was directly benefitted.

Morris: Did we lag behind the rest of the nation?

Groff: No, as I recall, right from the beginning we became one of the centers for war production, for various kinds of defense production. The aircraft industry at that time was pretty firmly established in Southern California, and I think was the beneficiary of wartime expansion.

IV SPECIAL FUNDS

(Date of Interview: March 9, 1972)

Horse Racing and Agricultural Fairs

Morris: Today, I'd like to ask you about the state budget and special funds. One of the ones I looked up specifically is the horse racing revenues, and I wondered if you could recall how much of this is a political issue and new legislation, and what was the economic and fiscal policy? The figures that I picked up were that in 1945-46, the revenues were twenty-two million dollars, approximately, and that the following year, in '46-'47, the revenues were twenty million dollars, and that in the following year, '47-'48, the projected revenues were down to just under sixteen million dollars.

Groff: In respect to the former, I don't recall any effective reform or constraints on horse racing that were enacted during that period. There were surges of agitation against horse racing from time to time, but it's my recollection that it never eventuated into any really restrictive legislation. My guess would be that some kind of economic constraints probably produced that result.

Morris: Economic constraints in terms of fewer people going to the race tracks, or --

Groff: Yes, general economic conditions, although I think that time, let's see, that was immediately after the war, wasn't it?

Morris: Those three years were the last year of the war and then the postwar era.

Groff: During the war, horse-racing ranked as a relatively

Groff: non-essential activity, and I think there were various national constraints put on it, that probably resulted in reduced volume of wagering, although I don't have any vivid recollection on that point.

I see in the second Warren budget covering the biennium 1945-47, they state actual state revenues from horse racing at two million, seven hundred eighty one thousand for the 1941-43 biennium, an estimated six and a half million for 1943-45, and six million, nine hundred thousand from 1945-47.

Morris: Those are the actual revenue?

Groff: The first figure was actual, the other two figures were both estimated.

Morris: Is this from all of the race tracks in the state?

Groff: That was the State's share. In other words, the state license fees imposed on the tracks for the privilege of conducting betting.

Morris: The county fairs -- do they all have a racing activity, too?

Groff: Only the larger ones, I think. Pomona, the Los Angeles County Fair, and some of the larger agricultural counties like Fresno and the State Fair. But they were relatively unimportant as revenue producers. The great bulk of state revenue came from the large racing tracks: Santa Anita, Hollywood Park, Golden Gate Fields, Tanforan, Bay Meadows.

Morris: One point that I came across in my reading was that there was some push and haul here with the state people concerned about keeping the activity good at the county fairs and State Fair, and that there was some pressure from the fair boards who didn't want the private tracks to get too much of the action. That there was this kind of a rivalry situation that would --

Groff: I can't recall that being a very effective determiner of state policy as far as overall regulation, and control, of --

Morris: My figures must be the revenues of the tracks.

Groff: That's probably it.

Morris: So the state revenues stayed within a million dollars of each other over those years you mentioned.

Groff: They were down rather markedly during the war years. [Looks through papers] Yes, two million, eight hundred thousand in '41-'43, as against six and a half million and six million, nine hundred thousand for the next two bienniums. Which indicate, you see, that they fell off about half during the war.

Morris: Well, this would be explained, as you mentioned by gas rationing, and of all those people who go to the race track being either in the service or a war plant.

Groff: That's right.

Morris: But then the track's own revenue dropped markedly in those years right after the war, from twenty-two million in '45-'46, to fifteen million nine hundred thousand in 1947-1948.

Groff: Now, it well may be that these expectations, budget estimates were not actually realized, I don't happen to have figures right at hand showing the actual revenues in subsequent years --

Morris: Now, did the revenues from the taxes on horse racing go into the General Fund, or are they earmarked into a special fund?

Groff: The bulk of them went into special funds, and the General Fund shared revenues over a certain amount. I can't recall now exactly what the formula was, but the General Fund shared in the revenue. I think it was a kind of skimming the cream when revenues at the larger tracks reached a certain point.

Morris: I think the fact that there was a formula is an interesting aspect of the special funds. Now, what was the special fund for?

Groff: The special fund was used to provide state assistance to state and county agricultural affairs, and, at least in the earlier days, for the support of California Polytechnic College.

Morris: Is that the school at San Luis Obispo?

Groff: That's right, although their original campus was in San Luis Obispo, they later established a second campus near Pomona, the former Kellogg horse ranch, which was given to the State.

Morris: Is this primarily for livestock breeding?

Groff: No. I think there were some courses in animal husbandry but it provided a second campus to extend that particular kind of vocational education to a more southern California area.

Morris: So that part of the racing revenues that went into the special fund could only be used for agricultural fairs, and the agricultural fairs could spend all that money.

Groff: Yes, there was an allocation formula set up in the act that gave each fair a certain percentage return based on the amount of premiums that they offered to exhibitors at those agricultural fairs.

Morris: I see, so that the higher prizes you awarded to the best cattle, and so on --

Groff: The more you got back from the state.

Morris: That's interesting. This whole business of the state and county fairs came under some attack from the legislators, as I recall.

Groff: Yes, it seemed to many, especially those interested in the overall state financial picture, that the state and county fairs were reaping a kind of bonanza, especially in the more parlous times for State finances. Because as horse racing revenues came pouring in, they were automatically channeled to these fairs, which to many did not represent a very high priority of state expenditure. To agricultural interests and others, however, they were very, very important, and apparently enough legislators agreed, so that the laws stayed on the books

Groff: and the assistance has continued.

Of course, they financed a local activity that was run by local boards composed of local citizens, and they had quite a lot of influence.

Morris: Did the Department of Finance take a position in this?

Groff: No, not really, because it was more a matter of public policy than it was fiscal policy. It depended how much the state wanted to assist this particular activity. There were private opinions --

Morris: Yes, I was thinking of it in terms of your comment about overall state priorities. One of the specific challenges, as I recall, was that horse racing revenues should be directed toward education. Did that kind of a recommendation come out of the Department of Finance?

Groff: I can't remember, specifically, but I think I remember the tenor of thinking was toward channeling more of those revenues into the General Fund of the treasury as general revenue of the State, rather than dedicating it to other particular purposes. The general thinking of the department has been historically in the direction of avoiding the dedication of particular revenues to specific purposes, especially by formula, and in favor of directing virtually all of the state revenues into the General Fund for budgeting and evaluation and appropriation by the Legislature.

Highway Bonds and User Taxes

Morris: Another big area in terms of dollars is the highway funds. They're a whole separate accounting and disbursing body.

Groff: That's right.

Morris: How did that come to be and how does this fit into a smoothly functioning State Department of Finance?

Groff: Of course, the original state highway system was financed by a series of bond issues.

Morris: This would be World War One-ish?

Groff: Oh, sometime before that. Let's see what the date of those highway bond issues were. [Checks document] Yes, the first highway bonds were authorized in 1909, and the second issue in 1915, and the third issue in 1919. Those were for eighteen million, fifteen million, and forty million, respectively. And those bonds were serviced by the general revenues of the State, and charged upon the General Fund for interest and redemption.

Morris: Serviced by the State. That means --

Groff: I mean the interest and redemption on them were a charge against general revenues of the State. They were general obligation bonds of the state.

Morris: And they were charged to the State's General Fund?

Groff: That's right. They were, in most cases, forty year bonds, and they were paid off finally in 1965, the last of them.

Morris: Oh, you do come to the end of forty year bonds!
[Laughter]

Groff: [Laughter] Yes, it finally runs out. So these bonds financed the initial state highway system. Then, later, the gasoline tax was established and devoted to the financing of state highway construction and maintainance, and to county roads. Still later, a portion went to city streets. These gasoline tax monies are deposited in the State Highway Fund, a special fund, dedicated to and restricted to a particular purpose, namely highways.

Morris: And, if I remember correctly, it's the State Highway Commission which authorizes the expenditure of the funds on the specific project.

Groff: That's right.

Morris: Again, from the point of view of statewide finance practice, was this questioned at all by the Department of Finance?

Groff: I don't think so -- not strongly, because --

Morris: Did you have an auditing function over those funds at all?

Groff: Yes, the State Department of Finance post-audit included the State Department of Public Works and the Division of Highways, which expended those monies. Then, of course, the actual disbursement of these monies was pre-audited by the State Controller before they were paid out. But the issue arose around the fiscal wisdom of setting aside specific revenues, and these gasoline tax monies in particular, for highway purposes without any ability on the part of the State's executive and legislative authorities to evaluate those expenditures over and against its other expenditures, especially those advanced from General Fund sources.

The question arose, inevitably, in times of shortage of state funds when the State was in tough fiscal condition, as to whether or not those gasoline taxes should be tapped for general state purposes. There were frequent debates on that score.

Morris: Who were the legislators who would raise this issue?

Groff: Well, I think they tended to be the urban area legislators.

Morris: If the gas tax from the beginning has been earmarked to the State Highway Fund, could this ever be diverted? Could the State Legislature ever say "We're going to continue to collect the gas tax, but it's not going to go into highways, it's going to go into the General Fund, and then the Legislature each year will make the determination as to how much will go to highways and how much to schools or hospitals?"

Groff: The original provisions for the State Highway Fund and the dedication of gasoline tax revenues to those purposes were statutory, and could have been changed by the Legislature. However, in 1938 there was a constitutional amendment passed which dedicated these highway user revenues to the construction and maintenance of highways and related purposes -- it was quite restrictive.

So, after that time, the highway user revenues could be diverted to general purposes only by an amendment of the constitution.

Morris: And highway user is a very broad term.

Groff: Yes, it includes gasoline taxes, the motor vehicle registration fees, and --

Morris: And aren't there over the road taxes on trucks and commercial vehicles?

Groff: Yes, that's right. It included those imposed on truck usage; those imposed on trucks as property, however, are not restricted. Likewise the in lieu tax on motor vehicles -- the state tax in lieu of local property taxes -- those are not restricted. Those monies go back to the cities and counties.

Morris: Again for road purposes, locally?

Groff: No, for general purposes. They are state-collected, locally-shared revenue.

Morris: You said that the challenges to the use of gas taxes for highway and street purposes came from the urban areas. Is the other side of it that the highway proponents were generally the rural people? I think of George Hatfield as being a name associated with highways. He led the 1947 gas tax legislation in the Senate.

Groff: Yes. And the more recent leader of state highway forces has been Senator Randolph Collier from Siskiyou County. However, my statement, I concede, is contradicted by the fact that the early leader of forces in favor of state highways, and the pioneer missionary in that field, was Senator Breed, Senior, from Alameda County.

Morris: When Senator Breed, Senior, was making his highway studies in the 1920s, southern Alameda County was fruit orchards and farms.

Groff: True, I don't know what motivated Senator Breed at that time. He was popularly denominated as the father of the state highway system, and was active in enacting the gasoline tax method of financing highways.

Morris: That was in 1921 -- and then in 1947 George Hatfield wanted a gasoline tax increase?

Groff: Yes, there were several increases in the rate of gasoline tax from time to time. There were several successive studies made, all of which seemed to indicate that there were deficiencies developing in the state

Groff: highway system, that they were not keeping up with the needs in time with the very rapid growth in number of vehicles and trucks using the highways. On the basis of those studies then, the tax rate was increased from time to time. I think Senator Hatfield led one or maybe several of those fights for increased highway revenues.

Morris: Governor Warren also was for this. Why did it develop into such a major battle if both the governor and leading legislators were for it? Would the Department of Finance have become involved; your people testify to legislative committees?

Groff: The oil companies were usually opposed to such increases in the price of their product. The Department of Finance did not become involved, because the Administration was represented by the Division of Highways, which had its own fiscal expertise.

Morris: Randolph Collier was from the northern counties. Any particular strong men in this area from southern counties?

Groff: Senator Ben Hulse from Imperial County comes to mind. If I remember correctly he was active.

Morris: He was the Caterpillar Tractor man in his private business life, wasn't he?

Groff: He may have been the Caterpillar dealer in Imperial Valley. I think he was a farmer there, too.

Morris: That's interesting. I've heard him spoken of as a very hard-working legislator, who studied every bill.

Groff: He was. He was a very well-informed man and he was a very able man. He was also hard-fisted and tough-minded, let's say, but studied the issues very carefully. He was chairman of the Senate Finance Committee, for quite some time.

Morris: Would he have turned up in the finance department to question and suggest?

Groff: Yes, he was chairman of the Senate Finance Committee before whom the state budget was heard -- the committee before whom the administration had to defend its budget proposals -- and obviously was in frequent contact with the Director of Finance.

Business Taxes and Regulatory Fees

Morris: On special funds, do insurance company and other business revenues go into the General Fund or do they go into the special funds?

Groff: Well, the gross premiums tax on insurance companies goes into the General Fund, as a general purpose State tax on those companies.

Morris: How does that differ from the general business, corporate tax?

Groff: The general corporations and the banks are taxed now on a net income basis, the so-called bank and corporation franchise tax. But that tax does not apply to insurance companies, which are taxed instead on this separate, special basis, on their gross premiums.

Morris: That is what they do business in.

Groff: That's right. It represents sort of a gross income tax rather than a net income tax. The general corporations and banks are taxed on a net income basis, after expenses, you see.

Morris: And the insurance companies don't have any expenses?

Groff: Well, they have expenses, but they're not taken into account in the tax except by the lower rate of tax. I don't know what it is now, but something like four and a quarter percent.

Morris: That's a layman's question, but some of the terms are confusing. The gas taxes and the horse racing revenues are the special funds most thought of. What other categories of special funds are there?

Groff: Our other large category, not so much in terms of dollars involved, but in the widespread nature of the activities, would be the so-called professional and vocational regulatory boards -- those set up for licensing physicians, dentists, chiropractors, so on and so forth. The costs of those regulatory boards are defrayed by license fees collected from the people regulated.

Morris: Is the intent to make them self-supporting?

- Groff: Self-supporting, that's right. The general intent is to finance the costs by fees levied upon the profession or vocation being regulated. The same is true of the general investment fields such as building and loan, banks --
- Morris: Stock brokers?
- Groff: Stock brokers, yes, they are regulated and financed in the same way, by fees levied upon the industry. Now those monies -- each category of them -- are deposited in a separate special fund, whose revenues are continuously appropriated by law for the support of those boards, commissions or governmental agencies, who are concerned with the regulation of those industries.
- Morris: Is the idea that these are being regulated in the public interest?
- Groff: In the public interest, yes, but that the cost should not be borne by the public generally, but by the profession being regulated. Of course these license fees become an expense of doing business, and are passed on to the general public in that form, but not as general taxes.
- Morris: And these professional and vocational regulatory boards have increased over the years, in this last twenty-five years?
- Groff: Yes, rather steadily.

Questions of Policy

- Morris: I was thinking of a particular instance: cannery inspection fees. I wonder if you could comment on this. I was talking to people in the Department of Public Health, who said in the public interest the canneries were routinely inspected, and then if there was any kind of a question from year to year they would make additional inspection of the canneries. Originally this cost was borne by canners.
- Groff: That's right, there was the Cannery Inspection Fund, into which those fees went.

Morris: The larger canneries paid a larger fee, and then in the '40s, this charge was shifted little by little over the Department of Public Health. I wondered if you recalled how this process came about, and how did the canners -- I shouldn't put it that way. [Laughter] If it was a matter of the public interest, how did it cease to be borne by the canners who, after all, in their own interest (they couldn't sell to the public if there was any question about the canned goods) would not want their economic position damaged. How did they manage to shift this fairly hefty fee over to the State Department of Public Health? This apparently was gone into each time around with the people from the Department of Finance. I wondered if you recalled this specific --

Groff: The State hasn't been entirely consistent in this matter of assessing the costs of these regulatory functions directly against the industry regulated. Even when the costs are assessed against the industry, in a minority of cases, they've deposited these fee revenues in the General Fund of the State and made appropriations from the General Fund for the support of the regulatory function. The endeavor has been, at least in the long run, to keep the fees assessed against the industry in line with the costs of performing the regulatory function. This alternative procedure is mainly a matter of mechanics, and results in the revenues and expenditures, in this latter case, showing up in the General Fund rather than as a special fund transaction.

It becomes a matter of policy sometimes as to whether or not you assess regulatory costs directly against the industry or profession, or whether you let the cost be borne by general revenues of the State, which although paid in part by industry, are not assessed on a quid pro quo basis.

Morris: Is this the kind of policy decision that's made within the Department of Finance?

Groff: No, the decision is made by the Legislature. The Department of Finance might have a recommendation to make to the Governor and to the Legislature on the matter. The Department of Finance policy, at least in the days when I was with it, was these costs should be borne in the first instance by the industry regulated. But, number two, that for fiscal flexibility it would be better that these monies be deposited in the General Fund of the State. Nevertheless, it was often a rather

Groff: narrow decision, because as a practical matter we recognized the danger was that the fees would not be increased commensurate with changes in the costs of performing the regulation, and that the temptation would be to shift those costs to the general taxpayer.

That tendency is more difficult to combat if those monies are put in the General Fund. Or, put the other way around, if those fees are segregated in a special fund and the expenditures for regulation are limited to monies in that fund, there's an automatic regulator effect, you see. They can only spend what they take in. If the costs of regulation aren't being met, then there's a built in necessity for increasing the fees.

Morris: Either that or reducing the amount of regulatory service.

Groff: That's right. [Laughter]

Morris: That's a very interesting aspect of special funds I hadn't thought of, particularly since you hear so much nowadays of the regulatory function serving the profession or the industry originally intended to be regulated. This cannery one was I thought an interesting case in point, since agriculture has been for so long and still is a major part of the California tax base.

Groff: That's right. It's kind of a borderline area, all right. Where there's a general public interest akin to the public health function of the state, the Department of Public Health is in general supported out of general tax funds. But this particular aspect of the public health is being assessed against the industry involved. The question would be: whether it was a more general public health problem, therefore supported like other public health functions out of general tax revenues, or whether it was a specific aspect of the general health which ought to be assessed against the industry giving rise for the problem.

Morris: Which was in business to make money. Yes, that sounds like it might well have been the way the discussion went.

Groff: Of course, in general, no matter which way you do it, the costs end up being paid out of the consumer's pocket book.

Liquor Taxes and Licensing

- Morris: This is true, in the long run. One of the other areas that came in for considerable controversy was liquor. Now, is this a special fund?
- Groff: Well, yes and no. The costs of state activities involved in the regulation and policing of the industry and its licensing are borne by license fees levied on liquor stores and dispensers, both wholesale and retail. However, the industry has traditionally been a source of general state revenue, also, with the excise taxes levied on the liquors sold. Such excise taxes go into the General Fund of the State. As a state tax levied on luxuries, it is a source of general state revenue, in the same category as the cigarette tax.
- Morris: And because it's considered a luxury, this is why it's so easy to look to them when we need more revenue?
- Groff: That's right. [Laughter] It's sort of a fat cat when it comes to --
- Morris: In the later years of the Warren administration they were referred to as "sin" taxes, and horse racing and tobacco and liquor were all lumped together. Is the business in these three areas sufficient to bring in a sizeable amount of revenue if you add a penny to the tax?
- Groff: Yes, the volume is so great that a small rate of tax raises a considerable amount of money. Again, I don't know what the current consumption figures are, but I do remember, and it's true increasingly now with the rise in population of the state, that the liquor taxes could produce quite a considerable amount of money.
- Morris: When the state is looking for more money, they're usually looking for large quantities?
- Groff: Liquor taxes weren't one of the largest. In the perspective of the whole state budget, they couldn't take care of a deficit situation on their own; they could make a significant contribution to state revenues. In 1941-43, actual receipts from the distilled spirits excise tax, beer and wine excise tax and liquor license fees, was about forty million dollars. [Checks budget statistical page.]

- Morris: So the volume of those sin taxes could be used to start a new program or to expand a program, but they really couldn't carry a whole program?
- Groff: I don't recall their ever being linked up to particular programs. I always thought of them more as being instituted in response, and most of the changes in the rate of levy as geared, to general state financial conditions rather than particular programs. They were looked to for general financing.
- Morris: At one point when there was one of the recurring crises in education, the thought was that a good way to finance education would be to penalize the drinkers and get another penny on the liquor tax -- but again, it sounds like that is more of a legislative maneuver than a sound fiscal policy.
- Groff: I think so.
- Morris: While we're on the subject of liquor, did your department get involved at all in the Artie Samish lobbying investigations that started in the '30s and were still going on in the '50s?
- Groff: Not in any substantial way that I recall. However, whenever there was the necessity for a tax program that might involve or did involve the taxes on the liquor industry, of course Artie Samish was right there on the job to oppose any such increased levy. In that sense a representative of the Governor arguing for a tax program that he recommended would be in opposition to Art Samish and would encounter, so to speak, his wiles and his efforts to maintain his point of view for his industry. And in a number of those encounters, Samish was considered to be the *bête noir* of the situation, even going back to Mr. Heron's day. I can't remember what the issue was -- as I recall it, it wasn't liquor in those days.
- Morris: Samish was also a representative of the trucking industry.
- Groff: Truck taxes -- that was it.
- Morris: According to his own reports, he was a lobbyist for a half a dozen groups including, I think, a couple of employees' associations?
- Groff: Yes. County employees or something like that.

Morris: He always seems to have had strong ties in Los Angeles. There's also a lot of concern expressed that he influenced the legislative process in general, and his connections permeated and had an unethical effect on many aspects of state government.

Groff: I don't know if Fred Links mentioned anything about Artie Samish or not, but I recall Mr. Links telling of several incidents or encounters with Samish where Samish was in opposition to something that Mr. Links was advocating and trying to put over on behalf of the administration on the Department of Finance.

On a couple of occasions Fred Links took him into camp, and bested him.

Morris: Is it true that Samish, himself, never appeared before a legislative committee? Did it all through lieutenants?

Groff: That was my understanding, my impression at the time.

Morris: That's a marvelous picture of Mr. Links maneuvering at his end and Mr. Samish maneuvering at the Senator Hotel.

Groff: [Laughter] Yes.

V OTHER FISCAL AUTHORITIES

Board of Equalization

- Morris: Another piece of this is, of course, the Board of Equalization. Although Mr. Bonelli came to a sad end, apparently when he first was on the Board of Equalization, he was fairly strong and outspoken in saying "there's a possibility of trouble in the liquor license administration, and we need to be on the lookout for corruption." And I wondered if the Department of Finance was concerned about this over the years and had any thoughts about how Mr. Bonelli got from being a good guy to being a bad guy?
- Groff: I don't think at my level we had other than our personal reactions. Maybe Mr. Links or the directors of finance would have had opportunity to observe Mr. Bonelli at close range.
- Morris: The Board of Equalization is another piece of state administration having to do with money coming in, and the Controller's Office controls money going out. And where does the Department of Finance sit in relationship to these other financial bodies?
- Groff: Well, taking the Board of Equalization first. The Board of Equalization administers in a ministerial way the levy and collection of certain taxes. Its mission in that respect has varied over the years. From the early days of the state gross receipts taxes to the present day it has been the principal tax collector of the state, in terms of dollars.

Its influence on policy has varied from time to time with the stature and aggressiveness of the people

Groff: making up its membership. It also varies, of course, with the kind of tax being administered. Some are much more ministerial and routine in nature and call for few if any policy decisions to be made. Others involve more discretion and exercise of influence on policy.

As a constitutional body elected directly by the people, they were independent of the Governor's office and frequently tended to be at odds with the administration in terms of tax policy.

Morris: Then their staff director, Dixwell Pierce, on an organizational chart would be at about the same level of influence and authority as the director of the State Department of Finance?

Groff: On paper, yes, but I think the actual scope of the functions of the Director of Finance are much wider. Not only the revenue and tax collection aspects of state government, which would be the concern of Dixwell Pierce, and the Board of Equalization, but the whole expenditure side of state government, as well, was the concern and province of the State Department of Finance as the chief fiscal officer of the Governor.

Morris: For instance, in the case of Mr. Pierce and James Dean, was it important for these two to work closely together?

Groff: Oh, I think it would be an advantage, but I don't think it's of any great importance. I think, again, the Board of Equalization functions, especially nowadays, are much more ministerial. I think in recent years they haven't even bothered themselves much in the area of state tax policy.

Morris: That's interesting, because, as you say, they are seen as sort of ministerial and removed, and yet they can exert a very important function if they choose to.

Groff: Yes, although -- as I say -- it's varied from time to time. Some members of the Board of Equalization are willing to go out on a limb and recommend to the Legislature in regard to State policy. But it seems to me that increasingly in recent years they've been less and less influential in shaping State tax policy.

Morris: To what extent does the Board of Equalization serve as an appeals body? In other words, to me, the concept of equalization means that somebody in Alameda County, or

Morris: that Alameda County in general, should bear a similar tax burden to Imperial County. And if someone's assessment in Alameda County or a tax rate in Alameda County seems to be unfair, it could be appealed to the State Board of Equalization. Is this so, and if so, how much is this appeals function used?

Groff: You see, a property tax rate is the resultant of the amount to be expended, divided by the assessed value of the property subject to tax. The Board of Equalization has jurisdiction only on the second, that is, on the assessed value of the particular property to be taxed. So it doesn't concern itself at all with the level of county expenditures, but only as to whether or not the local level of assessment of property for taxation is relatively equal with the levels at which similar properties are assessed in other counties of the State.

I think in earlier times, the original functions of the Board of Equalization were more heavily concerned with this equalization matter. In recent times, they've only been concerned with seeing to it that the general level of assessments made by counties were on a reasonably similar basis.

Ex Officio Responsibilities of Constitutional Officers

Morris: Then where does tax policy evolve?

Groff: Well, it comes partly from the Board of Equalization, and partly from the Franchise Tax Board.

Morris: Is that under the Board of Equalization?

Groff: That's a separate state agency. It is now the Franchise Tax Board.

Morris: Is that an ex officio board?

Groff: An ex officio board, yes. I believe it consists of the chairman of the State Board of Equalization, the State Controller, and the State Director of Finance. I'm not positive. They administer the personal income tax, and the bank corporation franchise tax. The State Controller

Groff: administers the state inheritance tax.

Morris: He doesn't have an ex officio board?

Groff: No, he does that by himself.

Morris: It may be light-minded for me to say so, but it's a marvel the number of ex-officio boards involving the same people that supervise the various pieces of the state financial operation.

I assume that this is because it has grown over the years and pieces were added here and added there, but I wonder to what extent they do check and balance on each other, and how much is just total confusion? How can the Director of Finance sit on all of these boards?

Groff: Actually, in terms of time, the Director of Finance couldn't do it all. It's made possible by the fact that the Director of Finance will assign a deputy to sit in for him on certain occasions, so that he himself doesn't have to. Even on the more important boards, not all of the meetings are important. The Director of Finance will tend to attend the important meetings and send his deputy to the more routine ones, and that's the way it works out. And most of these boards are concerned with only occasional policy or semi-judicial functions -- the day-to-day administrative matters can be handled by the deputy.

Morris: But when you're talking about the disposition of millions of dollars in state revenue, this has never been questioned?

Groff: Let's see -- not many ex-officio boards are concerned with disposition.

Morris: I think of highway funds, because again this is another of those ex-officio things --

Groff: No, the State Highway Commission is appointed by the Governor. I don't think there are any ex-officio.

Morris: During Warren's years, after, I think, about '46, '47, there was an Allocations Board. This was the Director of Finance, the Controller and the Director of Public Works. They apparently operated fairly independently of the Legislature -- was their function to approve contracts, or to say "the highway will go here,

Morris: will go north and south, rather than east and west?"

Groff: That was the Public Works Board. It was not concerned with highways, but rather with the allocation of the postwar employment reserves for construction of buildings and structures for State agencies. The State Allocation Board was the one that was concerned with the allocation of a state bond issue for school buildings. These bond funds were augmented by an allocation from one of the postwar employment reserves. When that money ran out, there were additional state bond issues, which that board allocated to individual school districts for individual projects. That judgmental function was the one that was exercised by this ex officio board.

Morris: It may be that, as you say, they have primarily a sort of judicial review function. From outside, it looks like they have potentially a great deal of power in terms of decisions on expenditures.

Groff: Yes, those were important decision-making functions they exercised, all right.

Formation of Tax Policy

Morris: That was a side issue from my original question of "where does tax policy evolve from," and we started with the Franchise Tax Board and the Board of Equalization.

Groff: The Franchise Tax Board and the Board of Equalization, yes. But the Governor and, advising him, the Department of Finance, exercise a very important policy-making role through the medium of the budget. And then, of course, there is the policy-generating role played by the Legislature itself, in both its regular committees and its interim committees operating between sessions, and sometimes through special commissions appointed by the Legislature. I should have mentioned, in reference to the executive branch, the Governor has from time to time on his own initiative appointed blue ribbon commissions to study the State's tax or fiscal situation and bring in recommendations.

Morris: Usually we've got to overhaul the State tax structure.

Morris: Isn't that the way the newspapers report the recommendations --

Groff: [laughter] Yes, that's right.

Morris: Why is this so difficult to do, to "overhaul the state tax structure?"

Groff: You've got tremendously important interests involved, interests concerned with who bears the burden of State taxes and to what degree. And those interests have to be composed and satisfied or overcome through legislative or political force, you might say. The stakes are quite high, also, to the State government. From the basic standpoint of adequate support alone, the issues are very important.

Morris: From the point of view of the ongoing State government.

Groff: -- the fiscal soundness of State government, that's right. It must see that its tax resources are going to be stable, but even more than being stable nowadays, with the inflationary situation that obtains, it must make sure that State tax yields will expand with inflation, and will expand commensurate with the growth of the State, too. They must not be regressive, you see, or lag behind population growth or inflation in the economy.

Morris: Is there another part to expansion -- is it higher expectations of the citizens for service, or is it the development of the various arts of government to provide more elaborate services?

Groff: Well, both of those factors operate, but in terms of the revenue of the State, hopefully, the tax system can expand at least commensurate with the growth of the economy and ideally, it would be hoped to expand at a somewhat higher rate. In some taxes, a five percent growth in the general economy might well produce a ten percent rise in revenue. Especially if you have a tax measure related to profits.

Morris: That would be your business taxes?

Groff: Yes, very frequently a five percent growth in the volume of sales will produce a more than commensurate increase in profits, therefore, at a given rate schedule,

Groff: will yield a larger than five percent increase in State taxes from corporations. In personal incomes, too, the rate structure is progressive, so that with larger income, you pay not only a larger tax, but a progressively larger tax.

Morris: I'm painfully aware of that.

Groff: [Laughter] Yes, that's right. So, those are some of the considerations that go to make problems with the State tax structure.

Morris: If tied to the level of the general economy and the amount of revenues, both expected and needed, it must be an ongoing process. There must be a need for constant review of tax policies?

Groff: Yes, I think there is, in the abstract, a need for constant review of that. It almost comes about because of the frequent swings in the state of the economy, the pulse of the economy. You almost always have either too much or too little revenue. Seldom do you have just enough. If you have too much revenue, then there is a demand on the part of taxpaying groups and organizations generally representative of taxpaying groups, to reduce State taxes, and that brings about a certain amount of review of your tax structure. The questions then become how much reduction, in which taxes; will there be a general reduction in all State taxes, or which taxes will get the benefit. So, the interplay of those forces seems to bring about a certain amount of continual review of the State tax structure -- not every year to be sure, but every two or three years an examination of the situation seems to be required.

Morris: Next time we meet, I'd like to ask you in some detail about Mr. Warren's role in state finances.

VI EARL WARREN AND FISCAL POLICY
(Date of Interview: March 23, 1972)

Issues with Governor Olson

Morris: Warren was Attorney General in that four year period that Olson was Governor. Would he as Attorney General have had any comments on budget matters, or any opportunity to develop his ideas in State finance?

Groff: Not to my recollection, other than in regard to budgeting for his own office. I don't recall any comments or any influence that he had on the overall State budget picture prior to his entering the gubernatorial campaign.

Morris: In his budget message in 1943, he commented on several reorganization studies that were already underway. They were civil defense, the Department of Public Health, the State Guard, which was being studied by the Adjutant General, and the Division of Forestry.

I wonder if you recall what the problems in Forestry and the State Guard were that indicated the need for a review of costs? These sounded like things that were already underway before Warren took over.

Groff: I don't recall specifically, but I do recall that there were differences of opinion between Olson and Warren as to the operation of the State Guard.

You see, Governor Warren got into the defense picture early, as Attorney General. And I gather, from skimming through Robert Burke's book on Olson's administration, that one of the earliest differences between Governor Olson and Earl Warren arose over the matters

- Groff: of defense.* The split got pretty wide towards the end of the Olson administration and it became a campaign issue, yes.
- Morris: Well, part of that was the cost factor, too, wasn't it? The amount of money for salaries?
- Groff: Yes, but I can't remember the details of that situation..
- Morris: Mr. Killion was the Finance Director in those years and was from Oakland.
- Groff: Yes, about the last two years of the Olson administration, after John R. Richards resigned. Olson's first Director of Finance was Phil Gibson, and he served oh, less than a year until the Fall of '39, when Olson appointed him to the State Supreme Court. The directorship then was filled by John R. Richards.
- Morris: Had Warren and Killion known each other in office? In other words, when they were working together on that '43 budget, were they already familiar with each other?
- Groff: Yes. I don't know what their personal or previous contacts were of course, but they had grown to know each other to some extent, when Warren was Attorney General, over budget matters and that sort of thing. And even earlier, Killion had occasion to contact the Attorney General's office from time to time. So, that there was that relationship with Warren as Attorney General.
- Morris: What would the Department of Finance go to the Attorney General's office on -- what kinds of business?
- Groff: Oh, legal matters involving State finances. There were frequent matters arising of a legal nature, involving interpretation of tax laws, appropriation acts and other aspects of State fiscal affairs.
- Morris: Like on the order of -- 'Is this a bill that we can pay?'

*Olson's New Deal for California, Robert E. Burke, University of California Press, 1953.

Groff: Well, not as much that as, for example, 'Would this method of handling registered warrants be legal?' or matters of authority over expenditures -- such as, 'Would it be legal for the Department of Finance to tell Department X that they can't spend the money that the Legislature appropriated to them for this, that or the other function?'

Morris: And what kind of answers would Warren have?

Groff: Well, he or his office would just analyze the question and give a legal ruling. Sometimes it would be a written request for opinion and other times it would be a matter of oral consultation with the Attorney General's Office. Usually, not with the Attorney General, himself, but with one of his deputies. The other point of contact was, of course, the analyses, hearings and recommendations to the Governor on the Attorney General's own office budget.

Mr. Warren was a vigorous administrator and was pressing for ways and means for doing his job better and for new things. Of course, that required expanding the budget for his office and that would involve hearings and conferences with the Department of Finance and the Governor.

Morris: They would turn down some of his budget items?

Groff: Yes, I think the Governor held down his requests, somewhat. Not very vigorously, because Governor Olson seemed to feel that the Attorney General and the other elective officers were entitled to a little more independence in the formulation of their own budget requests than the state departments directly under the control of the Governor.

Naturally, in a period where the Governor was trying to effect economies in the budget, the elective officers couldn't be permitted to be overly generous in their departmental expenditure demands.

Morris: Out of proportion to the other --

Groff: Out of proportion, that's right. They couldn't get out of phase with the general tone of the governor's fiscal policies.

Morris: Well, the attorney general's office and budget had taken

- Morris: quite a sharp jump, hadn't it? There had been a constitutional amendment to expand the AG's office in '34?
- Groff: Yes, I think that's due to formally designating the attorney general as the chief law enforcement officer of the State, and giving him general supervisory powers over local law enforcement officers.
- Morris: Warren had worked for that through the various law enforcement associations.
- Groff: Yes, that's right. He had been district attorney in Alameda County and was active in the organizations for district attorneys and the administration of justice. So Mr. Warren as Attorney General pressed for implementation of that constitutional amendment through additional budgetary provisions.
- Morris: You say that you often dealt with a deputy on routine matters when you wanted a legal opinion on something for the Department of Finance. Was there an attorney general's office in Sacramento?
- Groff: Yes. There were several assistants and deputies headquartered in Sacramento.
- Morris: How did it happen that the Attorney General was based in San Francisco?
- Groff: It's quite historical, as I understand the matter, and part of the same reasoning that led the supreme court to establish its offices and seat of action in San Francisco.

The Attorney General, as far as I know, had always been headquartered in San Francisco. I think there was recognition of the fact that San Francisco had been the principal place where the legal business in the State was transacted, at least in the early days before the growth and development of Los Angeles. Since the supreme court was headquartered there, the Attorney General's office wanted to be headquartered there, too.

Of course, it was a better situation, also, because more important business and more banking and financial headquarters were there. This resulted in a higher caliber of legal work being carried on there than in

Groff: Sacramento, the State Capitol.

Morris: Did it cost noticeably more to have the supreme court and Attorney General in San Francisco, rather than near the Governor's office in Sacramento?

Groff: Well, that was a matter of debate and controversy that arose from time to time when proposals were made to bring the headquarters of all the departments and agencies to Sacramento. It probably was, on balance, somewhat more expensive, but not significantly. There were other considerations that could very well outweigh the rather small amount of additional costs involved.

Morris: What other departments had their primary headquarters away from Sacramento?

Groff: The Department of Public Health in the early days was headquartered in San Francisco, but about 1940, at the outbreak of the war, they moved to Berkeley. The Department of Industrial Relations, the State Banking Department, Building and Loans, Insurance were the principal departments, as I recall. The State Compensation Insurance Fund, also.

Morris: Was there ever a temptation for the Department of Finance to move to San Francisco where all the other -- ?

Groff: No, that would have been probably the last state department to relocate out of Sacramento, as long as the Governor's office and the Legislature were in the state capitol of Sacramento. They all had a close relationship with the Governor.

Morris: It's probably less of a concern now that transportation is so much speedier, but it must have slowed down the processes of government --

Governor Warren's First Budget

Morris: Back to the budget processes -- When Warren was elected as Governor, George Killion from Oakland was Director of Finance.

Groff: Olson's Director of Finance.

Morris: Yes. And Warren brought in with him, Jack Hassler, also from Oakland.

Groff: Jack Hassler had been city manager of Oakland.

Morris: Yes. And I wondered what sort of --

Groff: There was some overlap there. One of the first things Governor Warren had to do immediately upon his election was to start formulating his own budget, and he had to have it ready for the Legislature by January. To do that, he had to make an early appointment of his Director of Finance designate. I don't remember just when Mr. Hassler reported --

Morris: It was December of '42. We've got some clippings on it.

Groff: Yes, December, that's it. In the meantime, the Department of Finance and the outgoing Director of Finance, Mr. Killion, went ahead with getting the budget requests in from the departments and giving them a preliminary review.

Many of the actions needed were relatively routine and non-policy. The facts could be established and the analysis made, and matters prepared for decision on the part of the new Governor and his designated Director of Finance. That would be under Mr. Killion, of course.

When Mr. Hassler was appointed, and even before that time, I recall that there were numerous conferences between George Killion and Governor Warren to provide a preliminary review of the situation.

Morris: We talked a bit about Mr. Killion's background and how he ended up in Finance. I wondered if Mr. Hassler had a particular reputation amongst city managers and official civil servants as a financial expert.

Groff: Yes, he was considered a very able city manager in city managers' circles. I don't think that he had had any particular contact or experience in the wider affairs of state government, however. His area of operation and competence lay almost entirely in the field of city and local government.

Morris: Would he have been a recommendation of the League of California Cities?

Groff: I don't know, he could have been. I would imagine that it grew more out of the fact that Mr. Hassler was the city manager of Oakland, where Mr. Warren was a resident.

I don't know whether he knew Hassler personally or not, but he certainly knew him by reputation.

Morris: Had he been city manager for some time?

Groff: Yes, for some time. I can't recall how long.

Morris: That was the time of the great expansion of the city manager form of government, wasn't it?

Groff: It was active at that time, yes. The city managership was growing in importance and in professionalism and the city managers were considered to be for the most part an able group of men doing a good job in running their cities. So, the city managers had a fine reputation for competence at that time.

And there was an assumption that the city manager of a city the size of Oakland would have some competence and some experience that would qualify him --

Morris: Professional methods of governmental work.

Groff: Yes. Furthermore, Governor Merriam's Director of Finance, Arlin Stockburger, had been a city manager. So yes, there was some precedent in that respect for selecting a city manager as Director of Finance.

Morris: I'm looking for a line on what kind of a person he was and how comfortable he felt in state government.

Groff: He was sort of an abrupt person. Not many words, and a man with rather fixed opinions. I think Mr. Hassler's handicap was that he found it difficult to translate his local experience into the wider sphere of State government activity. Also, he wasn't as flexible in meeting the new situations as he might have been.

Morris: The new situations being the change in the revenue picture and the demands on the State government?

Groff: The whole picture -- the greater involvement of social matters and the wider impact of policy in the State government was something he wasn't able, quite, to contend with as he might have. Inflexibility made it

- Groff: difficult for him to make that adjustment. At that time cities were not involved with social matters of wider import as much as they have since become.
- Morris: Well, one of the issues that goes back and forth is the city interests versus the rural interests. We've talked about that a little bit and I wondered if a city manager, given a choice, would opt for an urban solution taken for an urban area or whether he could be statewide and impartial.
- Groff: I don't recall anything that would give a clue to the operation of that factor.
- Morris: He again, was director of finance for about a year?
- Groff: Yes. Quite a short time.
- Morris: Did he leave by mutual consent, do you recall?
- Groff: I just can't remember all the circumstances now. He seemed quite unhappy in the job, but I don't know what finally determined the decision.
- Morris: There wasn't really any record of him; all of a sudden there's Mr. Dean in his place.
- Groff: Yes. Mr. Dean had been Deputy Director under Hassler. Mr. Dean was another city manager and was personally and professionally acquainted with Mr. Hassler.
- Morris: We've talked with Richard Graves, too, and he told us quite a bit about the growth of influence of the California League of Cities in about that same period. And of course, the League was an advocate of city manager government. I didn't think to ask him if the League had a role in the selection of two of their shining lights.
- Groff: I rather imagine that it was the personal influence of Dick Graves and perhaps some of his directors and officers, rather than the League as such. Dick Graves got to be quite a notable person in his own right in State affairs because of his position and because of his growing experience and ability.
- I recall that Dick, himself, was mentioned from time to time, as a prospect for Director of Finance.
- Morris: He would have been quite a colorful Director of Finance.

Groff: Yes, I agree.

Morris: That's an interesting speculation. He had been the head of the civil defense for a while, as administrative head.

Groff: That would have been during the latter part of Olson's administration, before the outbreak of the war, I guess.

Morris: He was the administrative head of Civil Defense for Olson and then he became concerned about the administration of the civil defense program; so he left. Then he came back on a temporary basis for Governor Warren and had the job of firing all of the civil defense staff that had been declared surplus. So that he must have been very much a presence in Sacramento.

Groff: Yes, he was.

Morris: And concerned with new ideas in government procedures.

Early Studies by UC Interns

Groff: My recollection of Dick Graves goes quite a ways back, to when he was an intern in the Bureau of Public Administration at U.C. and came up to Sacramento to make studies of SRA and the social welfare agencies.

Morris: That's right. Were these well received?

Groff: I think on the whole that depended upon the individual. Some of the old established administrators resented these young kids coming in with their bright ideas, but some of we younger people in the professional side of State government rather welcomed them -- found them kind of 'kindred spirits,' so to speak. They were a good influence. Dick Graves and Milt Chernin, "Hump" Campbell, Malcolm Davisson and Frank Kidner were young instructors, or assistant professors, I think, and they came to Sacramento, as experts, to do various tax surveys and administration studies.

Morris: Do you recall a little more about the tax studies?

Groff: There have been so many of them, I can't focus on which

Groff: ones Malcolm Davisson and Frank Kidner were working on.

I think they were made for the Legislature and my guess would be that they were for a special revenue and tax committee chairmanned by Senator Hulse.

Morris: This was Sam May's Bureau of Public Administration. How did he sell this idea to the Legislature?

Groff: Well, one of his early efforts was to interest the Legislature in using the Bureau of Public Administration to make research studies on problems of interest and concern to the Legislature, as a means of making the University in general, and the Bureau of Public Administration, in particular, useful, and valuable to the State. It was a mutually beneficial proposition because it provided opportunities for the bureau and graduate students in public administration and political science to make meaningful research studies in their areas of interest. And also, it provided research findings and analysis of use and benefit to the State.

After Dr. May had done a number of these studies for the Legislature, his bureau became well understood in Sacramento as a resource available to the Legislature and to other departments and offices of the State government and also as a place where people from the University could be secured to work on some of the State's problems.

Morris: And would most of them just come and do a specific study and then when they graduated go off into another line of work, or did many of them come into the State government?

Groff: Some of them did come. In the days of unemployment relief, there were several people from the University who assisted the Legislature and the State government in researching problems in that area, which, of course, were quite acute. There was a dearth of expertise in these matters and the State turned to the University for help.

And people from the University, graduate students and others who worked on some of those problems, afterwards came to work for the State in the State Relief Administration and the Department of Social Welfare.

Morris: Would this have been the research that then came back to the campus and involved a number of publications on social policy? I'm thinking of Emily Huntington.

Groff: Yes. She was involved, too. I've concentrated on Dr. May and the Bureau of Public Administration, maybe, because I knew them best; but they were not the only elements of the University involved in this research.

As a matter of fact, I recall now that Frank Kidner and Malcolm Davisson probably were not with the Bureau of Public Administration, but rather with what is now the Institute of Business and Economic Research.

And Miss Huntington, the people from the law school, and others from time to time, contributed much in the same ways that their counterparts get involved now. But these were some of the early beginnings.

Morris: You might call it a 1940's effort in relevant education? Was it planned that way?

Groff: You'd have to ask someone who was more familiar with the University side of it; however, the initiative came from the University, I think --

Morris: Professor May had some very strong ideas, it seems, that he really wanted a chance to get across in a meaningful way to the Legislature.

Groff: That's right. In '35, or '37, around in there, there was this development of management research in government. It started in local government, growing out of the city manager movement, but it was spreading to state government circles, too. Professor May interested himself in that movement in an early stage. As a matter of fact, in 1937, he organized the Western Governmental Research Association and gathered together people engaged in institutional research activity within government and within the universities and colleges.

Morris: Were you a member of this?

Groff: Yes, I was a charter member of WGRA.

Morris: And what kinds of activities did it undertake?

Groff: It was a professional association of governmental researchers and fostered the presentation, publication and exchange

Groff: of research, reports and the communication of current ideas and developments among practitioners in this developing field.

And I think this involvement of the University in broad problems of state government was part of that general movement.

Morris: Do you feel that this movement, and the specific work of the interns, did have some positive effect on bringing new ideas into the administration?

Groff: Oh yes, definitely. Because of the ability of these knowledgeable people to spend time focusing on a particular problem, without the interruptions of day-to-day administrative work, enabled a more fertile analysis of the problem and better-based solutions to come out.

Morris: That's a good point. Do you think it hastened the expansion of the State's role in providing additional services?

Groff: Yes, I think in some cases that was true. Some of these studies were made by the bureau at UC, but similar organizations at the University of Southern California and at UCLA were also prominent and active at the time.

Those studies, I think, in some cases led to the expansion and development of State government activity in certain lines. I can't remember any of the specifics but a run-down of the list of studies of those two organizations would seem to indicate that the State had subsequently moved into areas those studies recognized.

Morris: I remember the first major project that Mr. Graves recalled from Sam May's shop was correctional reform, and Emily Huntington's work was closely related to social insurance.

Groff: Yes.

Further Details of the 1943-5 Budget

Morris: Which are maybe two areas in which there's been tremendous

Morris: expansion in state cost and service.

Let's get back to the budget documents, and some of the specific questions they bring up. Warren noted that the Social Welfare budget for people needing relief had dropped considerably, but that there was no comparable decrease in administrative expense, so that although the caseloads were down, the Department of Social Welfare budget was still quite high. I was interested that a drop in case loads should not reduce the administrative expense, proportionately. Would that have been something that was questioned by the Department of Finance?

Groff: I'm sure it was, although I can't remember the particular circumstances. Very frequently what happened in that kind of situation was that the department would use that circumstance as an occasion for insisting that a better degree of supervision over its operations was necessary -- as it probably had been contending for some time. Many times the argument would run that they hadn't been doing as good a job as they should have been doing, and that the investment of more effort in supervision of caseload would yield results in terms either of better service or more economical service.

Morris: Did you have any kind of guidelines for how you could judge the quality of supervision? This must have been a kind of thing you had to ask a number of departments.

Groff: Yes, that's right. Well, it was mainly a matter of testing the soundness of the grounds advanced by the department, the thoroughness of the thinking that lay back of their requests. However, in some areas objective standards and comparisons had been developed by the departments, by our own management analyses, or by other agencies.

When a department was not impressed by our counter proposals, often the first retort would be that the Department of Finance was out of sympathy with the administration's policies in that department. When that question arose, of course, the matter became one for the Director of Finance to resolve on the policy level -- either directly with the director of the department concerned or with the Governor, or both.

The staff was concerned with raising relevant, frequently skeptical questions, not with making the policy decisions.

Morris: That's a good point. Were any departments particularly feeling put-upon by the Department of Finance?

Groff: Oh, it varied with the times and with the individuals concerned. There was always a bete noir or two among the departments from the view of the Department of Finance -- those whose requests seemed to be out of line, for one reason or another, and those who appeared to be inefficiently run. There were the good boys and the bad boys, but their characters would change from time to time with individuals and with the times.

Bond Sinking Funds

Morris: One further question, there is a note that there was a bond sinking fund established in '43. Was this Warren's doing?

Groff: That was one means of disposing of the war-swollen surplus that was developing at that time.

There was a considerable sum of general obligation bonds that had been outstanding for some time and it seemed like one of the first things that should be done with the surplus funds would be to pay off that debt. It wasn't possible to pay off the bonds directly since they had a statutory period to run, so the goal was to establish a sinking fund that would provide the money in hand to pay them off as they became due.

Morris: A bond cannot be paid off early?

Groff: Not unless, by its specific terms, it is made callable -- with a non-call bond, you have to wait for it to mature before you can pay it. These State bonds, at that time at least, were non-callable.

Morris: Was this something that developed in the Department of Finance that Warren concurred with?

Groff: Probably. The Department of Finance, for some time, had that in mind.

Morris: As soon as you saw that the surplus was beginning to develop?

Groff: Yes, that's right. A part of that debt consisted of the old, so-called funded debt bonds of 1870-73, of which there was \$2,277,500.00 outstanding which the Legislature had voted not to pay off but to keep paying interest at 6 percent. Most of them were being held by the University Endowment Fund as an investment.

Morris: Does that mean that at one point the University had loaned money to the State government?

Groff: No. Let's see. I'm going to read from the footnote on the bond statement -- "These bonds are held for the School Fund and the University Fund. They matured in 1892, but the people voted not to redeem them. By Chapter 65, Statutes of 1893, interest was continued on the bond and Chapter 533, Statutes of 1931, provided that they be redeemed out of any money received in payment of the war claims of the State of California against the United States. Chapter 606, Statutes of 1943, appropriated \$2,277,500.00 to be used upon direction of the Director of Finance on or after July 1, 1945, for the retirement of this funded debt, provided it is not liquidated from other sources prior thereto.

It's a long and complicated story, those bonds, but it's better told elsewhere.

Morris: I found one item in the sinking fund that was several thousands of dollars, but nobody had ever presented the bond to be paid.

Groff: Yes, those were Indian War Bonds of 1857-1860 in the amount of four thousand dollars that had never been presented for payment. Although barred by the statute of limitations, if they were presented, the Legislature was willing to pay them.

Then, there was an additional fourteen and a half million dollars that was appropriated to the bond sinking fund of 1943, by Chapter 611 of the Statutes of 1943, for the purpose of paying the principal and interest which matured in the next four years, on the general obligation bonds, which had not otherwise been provided for, including the building bonds of 1913 and 1915 for state and university buildings, and the park bonds of 1927.

Morris: And then there were two big issues for state relief?

- Groff: Yes. The issues of '33 and '34, of twenty million dollars and twenty-four million dollars, respectively. The unemployment relief issue of 1934 was included in the sinking fund, but not the issue of 1933, which was to be repaid by the counties.
- Morris: That four year period wouldn't have paid all of those bonds, would it?
- Groff: No.
- Morris: It was just a prepayment plan.
- Groff: Prepayment, yes, for four years only. That fund was increased to cover the whole remaining indebtedness later -- probably in 1945, or thereabouts -- as part of the further development of the post war reserves.

Surplus Wartime Funds

- Morris: There's a question that puzzles me: there's the postwar unemployment reserves and then there's the postwar construction reserves. The sums were almost the same. Was the thinking that postwar construction would provide WPA-like employment for people who couldn't find other jobs?
- Groff: That was part of the thinking, yes. To alleviate what was anticipated then to be a potential unemployment relief problem after the war, by providing public works employment. The thought was that the State's accumulated need for capital outlay projects would provide at least part of this public works employment. It was anticipated that public works alone probably would not be enough, but that it would be wise, also, to set aside a fund that might possibly be used for unemployment relief. As a matter of fact, it was at first proposed as a disaster relief reserve.
- Morris: Warren had that as another separate item.
- Groff: Yes, that was one of the reserves, alright. The idea on that was that during the war it would serve as a fund from which the cost of any war-caused disaster might be met, but then, if not needed for that purpose, it provided a fund that could be used after the war,

Groff: in meeting possible needs for unemployment relief.

Morris: Is that what has come down in the textbooks as the Rainy Day Fund?

Groff: Yes. Still another reserve was set up to help meet the needs of local government after the war, representing a sort of sharing of the State's surplus with the cities and counties.

Morris: That was the Christmas Tree Bill, which became sort of a contentious matter between Governor Warren and Mr. Graves.

Groff: Right, it also became a grab bag.

Morris: That was a ninety million dollar item. Was the idea to put in a safe place all revenues that were coming in so that they wouldn't be frittered away?

Groff: Yes. That surplus funds wouldn't be frittered away.

Morris: The assumption seems to have been that this wouldn't go on forever and that lean times would come again, probably sooner than later?

Groff: Yes, that's right.

Morris: The assumption on that 1943-45 budget was that the war would continue through the biennium and then, reading the '45-'47 narrative material on the budget, the assumption was that the war would be over within that two year period and that it would be time to redirect that state's economy.

Groff: That's right.

Table I: Growth of California State Budget and Expenditures¹

Year	Budget	Actual Expenditures	Population*
1935-1937	\$ 347,313,000	\$ 425,345,000	(1930) 5,677,251
1937-1939	446,467,000	528,228,000	
1939-1941	557,163,000	562,248,000	(1940) 6,907,387
1941-1943	552,570,000**	510,229,000**	
1943-1945	463,947,005	443,256,000	
1945-1947	683,711,000	811,855,000	
1947-1948***	641,599,026	657,726,000	
1948-1949	919,943,000	883,325,000	
1949-1950	1,060,187,939	1,054,838,000	(1950) 10,586,223
1950-1951	971,615,944	1,006,339,000	
1951-1952	1,016,883,002	1,068,072,000	
1952-1953	1,185,397,270	1,176,719,000	
1953-54	1,326,851,805	1,381,400,000	
--	--	--	(1960) 15,863,000
1960-1961	2,477,121,574	2,525,394,024****	
--	--	--	(1970) 20,025,000
1970-1971	4,796,888,577	4,876,239,613	

¹From budget documents.

*Statistical Abstract of the U.S.

**The 1941-43 biennium included \$38,706,000 budgeted for unemployment relief and \$1,897,000 actual expenditures for this purpose. State relief ended by the conclusion of this period.

***First annual budget. With the legislature's shift to a two-year session in 1973, it will be interesting to see if the state returns to a two-year budget period.

****Plus \$1,543,133,949 expenditures from special funds, which are included in earlier totals.

VII POSTWAR ISSUES

1945-47: Postwar Reserve Plans

- Groff: I think the Germans were pretty much in retreat at that time and the Norman invasion was going pretty well. The thought was that the European war would be over within a year, and the Japanese war in the following year.
- Morris: Yes. I'm impressed. From hindsight, that was right on the nose. [Laughter] I could see that the Department of Finance could be right there with economic prediction of expansion of physical industrial plants, or growth of population and crop yields. But to be right on target with a global military prediction, I find very impressive.
- Groff: That was done in consultation with people who had a much better appraisal of the overall conditions than did Department of Finance people. Mr. Currie, Mr. Dean, and others in the department were in frequent touch with people in the national government and other people in a position to know.
- Morris: Were there federal regulations on how the State monies were spent?
- Groff: No, I don't think so, except for the general price and other economic controls which were in operation then. I don't recall that they had any specific control on state governments.
- Morris: But that wouldn't affect the Department of Finance.
- Groff: No, no. However, the federal government was so much in control of affairs at that time, that you could hardly

- Groff: operate if you were a business or a large government entity of any kind, without gearing your activities into the war effort.
- Morris: This was a new departure during the war years. There hadn't been that much contact with Washington earlier on?
- Groff: Well, I think it was greatly intensified. In that overall respect, it was a new development.
- Morris: What federal agencies were the contacts with?
- Groff: I can't remember now, which ones they were. They were made mostly by the Director of Finance, Mr. Dean. He left shortly after Earl Warren went to the Supreme Court, And then Governor Knight appointed John Pierce as Director of Finance.

1945-47 Budget

- Morris: In the '45-'47 budget, there is an interesting discussion on the level of revenues under the different wartime conditions and the relation of state revenues to spendable income. That led me to wonder, what happens physically to the revenue receipts as they come in? Do the businesses pay in the sales tax monthly, quarterly?
- Groff: Quarterly, as a general rule.
- Morris: Quarterly. And the income tax comes in annually.
- Groff: That came in annually in those days.
- Morris: Then the other kinds of revenues, the motor vehicles --
- Groff: Well, the gasoline tax, I think, was paid monthly, but it may have been quarterly. The motor vehicle registration fees were paid annually.
- Morris: And then the business and franchise taxes --
- Groff: The bank and corporation franchise tax, which is the State's corporate income tax, was paid annually, I think. They may have changed these times of payment now to even up the flow of cash into the treasury.

Morris: Yes, I'm aware of this concern with cash flow. In the Forties that would have been very erratic kind of a thing. The revenues would come in on a --

Groff: Seasonal and rather an uneven basis.

Morris: Was this part of your responsibility, to keep track of this money as it came in so it was where it needed to be when the State needed to pay it out?

Groff: It was primarily up to the State Controller and the State Treasurer to regulate that cash flow. To meet the problem, the Controller and the Director of Finance and the State Treasurer were authorized to temporarily borrow monies from the State's special funds to meet shortages of cash in the General Fund.

Administratively that was handled by the State Controller and the Treasurer, although the Director of Finance was required to approve such borrowings and therefore the department monitored the whole thing.

Morris: Was this mostly a bookkeeping thing, most of the receipts already in the Forties came in checks of various kinds --?

Groff: It didn't affect the actual disposition of monies as they came in the treasury, rather it required certain transfers between funds, bookkeeping transfers.

Morris: Just bookkeeping, I think, would cover a very complex accounting procedure, wouldn't it?

Groff: Well, it wasn't particularly complex. The borrowing among funds was a matter of making a bookkeeping entry debiting one and crediting another. It didn't involve any transfer of cash or securities or anything like that.

Morris: Because this would all go through the Controller and Treasurer and then into banks.

Groff: The treasury cash was actually kept in banks or invested in short term government bonds or treasury notes. But the business of having money doesn't mean a large fund of cash, but rather having what is needed at the right time. These cash resources were managed primarily by the State Treasury with the Controller keeping the accounts and doing the administrative work involved in making the entries on the books.

Groff: The Department of Finance, as I think I mentioned before, maintained no books, or records of account. That was all done by the State Controller. The Department's job was one of management over finances.

Morris: And not even of the physical fact of disbursing.

Groff: That was all done by the Controller. The Controller drew the checks and the Treasurer paid them.

Morris: Going back to this continued great revenue surge in 1945-47, I was interested that the rise in revenues, based on facts as the department saw them, could be from four hundred and twenty to six hundred million dollars, depending on the way events developed. And I wondered why an immediate or sooner cessation of the war would mean a more violent economic reaction?

Concerns for the Economy

Groff: Well, the assumption was, of course, that there would be an immediate shutdown of the defense activity; the unknown had to do with the extent to which the accumulated consumer needs and pentup demand for consumer products would take up the slack, or what the hiatus would be for retooling and redirection and that sort of thing, the demobilization of the armed forces and the ability with which jobs could be secured for them. There was a lot of speculation at the time as to what the effect of all these would be.

Morris: Originally the prediction had been that as many as a million people would have to find new jobs, different from wartime industry or, of course, from the military. Apparently that did not materialize in '46-'47; did it come along a year or two later?

Groff: Well, there were some recessions from time to time after the war, but I can't remember their timing. As I recall, they didn't occur in enough depth to have an adverse impact on State finances, at least not until after the Korean war. By that time, I was out of the picture and Ralph Currie would be a better source of information.

Morris: Another concern was that there might be a rapid use of

Morris: savings which would cause an immediate inflation. Was this one of the reasons for getting slowly started on the postwar construction? That seems to have started with about a thirteen million dollar item for the '46-'47 year.

Groff: The postwar inflation was rather substantially underestimated, as I remember it, in the early forecasts.

The postwar construction reserves were inadequate for their job because of the rapid rise in costs of construction. At the same time, of course, the very inflation which produced those increased costs was producing even greater postwar revenues than had been anticipated. So they were able to augment the postwar reserves out of surplus postwar revenues.

Morris: If you got bigger revenues but had to augment your planned costs, was there any net gain in the State financial picture?

Groff: Well, I don't think there was, because not only did the costs of the postwar construction program rise, but the costs for the ordinary operations of the State governments, for salaries and everything, went up tremendously with that inflation.

There wasn't very much net gain, but I do think that as far as the State government finances are concerned, there tends to be a small net gain in an inflationary situation. Prices go up and the immediate effect is that State revenues go up; but State cost increases tend to lag somewhat behind the revenues because so many of these costs, such as school apportionments, welfare payments, debt service, etc., are fixed, at least for the short term.

Morris: Well, there was also a comment that the use of the reserves might require refinancing once the reserves were used up; that some things in the State government would have to be refinanced. I assume the implication was at a higher level of interest.

Groff: Aren't they referring there, perhaps, to the building program?

Morris: I suspect so. This was the biggest dollar item. This was in the revenue estimate in '45-'47. It's related to rapid use of savings.

- Groff: "Rapid and disorderly liquidation of savings would affect these forecasts materially, principally because that development would almost certainly cause inflation due to the necessary refinancing by the government" -- the federal government, that means.
- Morris: I see.
- Groff: " -- and to the competitive bidding by individuals for a limited volume of goods and property."
- Morris: But production continued high.
- Groff: Yes. If savings you see, became liquidated rapidly, then it would mean that people would be selling treasury notes and government bonds and that sort of thing.
- Morris: And then the government would have to sell more at current rates.
- Groff: Yes, refinance. With savings becoming scarcer, the interest rates would rise and the government would have to refinance at higher interest costs.
- Morris: Their own notes for current cash flow.
- Groff: The government would be in the market trying to buy a lot of money and that would tend to drive the interest costs up, you see.
- Morris: And this would eventually have an effect on State funds.
- Groff: Yes. Inflationary.
- Morris: Now, in the things that Warren was concerned about, in addition to getting the reserve funds moving out to the postwar construction, he commented that if he were going to undertake this big postwar building program, the State should set up a fire and earthquake reserve because the State is prohibited by law from carrying insurance on these. I wondered if you had a comment as to how this came to be and how the State solved the problem of what -- self-insurance? Because it's become a big issue again today.
- Groff: Well, the thought there was that since the State was self-insuring for these hazards, it would be wise and prudent to set up a specific reserve of a considerable amount for that purpose.
- Morris: Why was the State not allowed to insure?

- Groff: Well, it was felt that the State in such a large operation it can more economically insure itself. If it loses a hospital or building or two by fire, it will appropriate the money to replace them.
- Morris: That's a fairly contemporary idea.
- Groff: Yes. Self-insurance was to be accompanied at that time by at least some reasonable reserve against the contingencies involved.
- Morris: On an actuarial basis -- we have so many buildings throughout the state and we're likely to have some fall down, et cetera?
- Groff: Even the replacement of large buildings wouldn't have too great an impact on State finance in any one year. Money could be readily appropriated by the Legislature for an individual building or so lost by fire or earthquake damage. Of course, if the disaster was general or widespread, it would present a problem; but then it would be difficult to insure against that anyway.
- Morris: Is this related to a planned replacement of all of the physical plant for the State?
- Groff: No, this was entirely a contingency reserve.
- Morris: In the Department of Finance you had begun to have a feeling that the State was not maintaining an adequate reserve to provide for this kind of hazard?
- Groff: The proposition was discussed from time to time judged to be a prudent use of surplus funds. Usually, in ordinary times, it's difficult to get the money to set up a reserve in the first place. It's the kind of thing you'd like to do, but it has too low a priority actually to be funded. But when you're in a surplus situation, it seemed a very good means of sterilizing part of that surplus and preventing it's being frittered away on other purposes.

The existence of a surplus situation is somewhat singular in State finances. The usual background is one of scarcity of funds. But to have an actual surplus, an abundance of funds, puts a whole new light on the concepts and the thinking about State finances.

Morris: I should think it would stimulate ideas.

Groff: It tends in that direction and it's for that reason that taxpaying groups and other conservatively-minded individuals and organizations are very loathe to see, or allow, a surplus situation to develop in government. It's much healthier and more realistic, from their standpoint, for the State to be in a condition of fund scarcity.

Morris: As a chronic condition, it must also have it's effect on thinking and planning?

Groff: Yes, it does.

[Date of Interview: April 6, 1972]

1948: Annual Budgets Introduced

Morris: Two weeks ago, when we finished up, we were talking about the '45-'47 budget which covered the end of the war period, the wartime economy.

I'd like to go on through the final two or three budgets that you worked on under Governor Warren. Then I've got a couple of general questions on some ideas that run across individual budgets.

The first annual budget was for 1947-48.

Groff: Right.

Morris: Now, how did this come to be?

Groff: It was a constitutional amendment proposed by the legislature, I think, and adopted by the people.

Morris: This is something that the Department of Finance had been leaning towards?

Groff: Yes, they had been advocating that change. I think Mr. Links probably covered that pretty well in his interview.

Morris: Only that it was a sound finance measure. I wondered if

Morris: the legislative process of getting it on the ballot and the election campaign, if that produced any controversy or discussion?

Groff: My recollection was that there wasn't much controversy or extended discussion of what had been pretty well accepted by the Legislature. It was endorsed by the Legislative Auditor at that time, with the backing and advocacy of the Governor and the Director of Finance; it was well accepted in the Legislature and to my knowledge, it received rather overwhelming voter approval.

Morris: So, that would have been approved in what, 1946?

Groff: Yes, it was. It would have been in the November, '46 election, I would think.

Morris: How did this affect the preparation of the budget?

Groff: I think we had prepared a two year budget, but then it had to be converted to a one year budget. Of course, practically all of the budget requests were regularly prepared on a single year basis, with a total of the two yearly periods constituting the biennial budget. So, it wasn't too much of a job to recast the budget into a single fiscal year basis.

Morris: I'd like to check your figures against the figures that I got from the Governor's budget message on the switch from the two year budget to the one year budget.

The figure I got for '45-'45 was that Warren's budget request was \$684 million dollars plus or minus --

Groff: That's right, yes.

Morris: Then for 1947-48, the first one-year budget, the figure I've got is \$641 million dollars?

Groff: That's right.

Morris: That I find really startling. I wonder if you could tell me how this came to be, because that '47-'48 figure for a one-year budget is within ten per cent of the previous two-year budget. That seems an incredible jump in spending in one year. In other words, the economy-minded Legislature pushed for that size budget for two years.

Groff: A part of the increase had occurred in the '45-'47 period so that when the expenditures were finally reported for the two fiscal years of '45-'47, they totaled \$811 million, 800 thousand, as compared to the original budget recommendations of \$684 million, you see.

Morris: In other words, expenditures ran over in that '45-'47 first budget.

Groff: Yes.

Morris: And what did the actual expenditures run for '47-'48?

Groff: The actual expenditures in '47-'48 ran \$657 million, 700 thousand, which is only \$16 million more than the Governor's budget. That was pretty close.

It still represented about a two hundred million dollar increase over the actual expenditures of the preceding fiscal year, '46-'47.

Morris: Yes, about a one-third increase.

Groff: Yes, from \$470 million to \$658 million.

Morris: Was this inflation in the costs or was this -- ?

Groff: It was partly the usual growth in State population and numbers to be served and partly inflation, but there must have been some rather large new areas of State expenditure that counted for the bulk of the increase.

The governor's budget itself, as proposed (the \$641 million dollar budget), represented a \$154 million dollar increase over the expenditures for the preceding year as then estimated.

Morris: And some of it was not new money, it was some of the post-war reserves being activated.

Groff: Yes. The Governor pointed out three areas of principal increase accounting for the \$154 million dollar increase that he had projected.

First, an \$85 million dollar increase in payments to local government. This included a \$53 million increase for public schools resulting from the initiative measures adopted by the voters in November of '46, which made a rather substantial increase in the statutory

Groff: amounts of State school support.

Morris: For operating expenses, or for capital?

Groff: This was for the regular State apportionment on per pupil basis. I don't remember the exact figures now, but it was a very substantial increase, resulting from an initiative measure sponsored by the California Teachers' Association.

The second major area of increase that the Governor mentioned was a thirty-nine and a-half million dollar increase in capital outlay expenditures, representing the appropriation of the first of the post-war construction reserve funds. And, third, he mentions \$27 million, 800 thousand in operating expenses for higher costs and resumption of normal peacetime activities and expanded services necessitated by an increased population and necessary replacement of worn out equipment that was heretofore unobtainable.

Salary Increases

Morris: And were there salary increases at that point?

Groff: Yes, there were significant salary increases involved in that postwar period.

Morris: Were there any breakdowns in those years of what percentage of the budget was going for salaries?

Groff: In the paragraph in regard to cost factors he points out that there had been several recent increases in salaries of State employees to keep the State pay scales on a par with those prevailing in private industries, which had been rising rather rapidly during and after the war.

And he pointed out that of the \$122 million dollars budgeted for salaries and wages during the ensuing fiscal year, \$28 and a half million could be traced to the salary increases granted since the beginning of the war period.

Morris: When was the decision made to make government salaries

Morris: competitive with private industry?

Groff: This has always been the guiding principle in State salary-setting. In the Governor's '49-'50 budget message, he refers to House Resolution #80 of the 1948 Legislature; he apparently requested the Personnel Board to make a detailed comparison of State salaries with those paid by private industry and other governmental agencies.

I think that there was a subsequent statutory enactment requiring the Personnel Board to report annually to the Legislature as to the amount required to make the State salaries competitive with those being paid by private industry and other governmental agencies, but that came along later.

Morris: Would this mark the beginning of a noticeable increase in the budget for salaries?

Groff: Well, I think it took place all during the war and the immediate postwar period. It wasn't parallel, lagged about a year behind private industries because first, the Personnel Board had to survey the outside salaries and once the comparable State salary levels were ascertained then the Personnel Board had to seek money from the Legislature to make the necessary salary increases. So the State salaries always were a bit behind those of industry and other governmental agencies. Nevertheless, the same basic rise took place in State salaries and represented a very material increase in the cost of conducting State government.

Morris: Would increases in State salaries then tend to push up comparable salaries in industries?

Groff: Actually, State salaries followed those of private industry and other governmental agencies. I think, perhaps, its most noticeable effect was on agencies of local government, the small ones. They may have waited for the State to raise its pay.

Morris: In other words, you'd be competing with county and municipal government agencies?

Groff: Actually, the big counties and cities -- Los Angeles City, Los Angeles County, San Francisco City and County,

- Groff: San Diego -- were among the entities that were used for comparative purposes in setting State salaries.
- Morris: Was this to please the California State Employees Association -- to establish the fact that you were annually reviewing salaries?
- Groff: Yes. This pleased them although it didn't satisfy them. They would advocate the State making an estimate of what the course of private salaries would be in the next fiscal period and appropriating the money accordingly, so that the money would be there to keep State salaries actually current with those of private industries. The Personnel Board could then act on the basis of the actual developments of the salary picture and increase State salaries rather immediately.
- Morris: The employees association was growing in importance as a bargaining agency in those years.
- Groff: Yes.

Fiscal Controls

- Morris: The main thing that I noticed about the budget of '48-'49 is that inflation is the thing that begins to be commented about. This is from the budget document. That year the budget estimate was up again, to \$920 million dollars in the Governor's message. And what was the actual expenditure?
- Groff: The actual expenditures turned out to be \$883 million dollars. About \$36 million dollars less. Probably due to not having expended all that was budgeted for construction.
- Morris: Do you recall a particular effort from the Department of Finance to hold down expenditures? Because that year and the year before, you had less actual expenditure than budgeted.
- Groff: There was a constant effort on the part of the Department of Finance in exercising it's current budget control over State agencies to eliminate any items of unnecessary

Groff: expenditure and hold the level down to minimum proportions, even though appropriations of larger amounts had been made. Because, very frequently, especially in the case of newly expanded services, the programs can't be gotten underway immediately and the effort of the Department of Finance is to see that the expenditures are not pyramided -- that is, that the savings accruing from the lag are not plowed into an increased level of expenditures that require further addition to appropriations in subsequent years.

Morris: Do you have any kind of working estimates of what the percentages are going to be of jobs actually filled from new authorizations?

Groff: They've run studies of that and accumulated experience as to what kind of savings are made in provisions for salaries through not filling jobs.

There are two factors operating here. First there's this matter of lag that I speak of, where new positions needed for new services, or just for growth, are provided in the budget for the full year but are not filled until later, thus producing savings. Second, additional savings result from normal turnover in positions -- resignations, retirements and things like that. The people coming in are at lower levels -- and there's frequently a time lapse between the vacancy of a position and its refilling. All those factors tend to produce a savings within budgeted funds for salaries.

All these factors are anticipated to some extent in the budget through provision for what they call salary savings, which is a negative amount, a lump sum deduction so to speak, introduced into the budget as an offset against the aggregate of the detailed provisions for full salaries, which otherwise would be excessive.

Morris: I was aware of that in recent budgets. When was the concept introduced and -- ?

Groff: I just can't remember.

Morris: Was it your innovation?

Groff: Well, I was part of it. I wasn't primarily responsible, but this kind of evolved through actual experience and was put in gradually, I think, and refined and elaborated upon in later years.

- Groff: The purpose was merely to remove from the budget the inherent excess provision for salaries because of the factors I mentioned. These excess funds are always a temptation to an agency to use for unplanned purposes, or pet projects, so to speak.
- Morris: I have heard that this salary savings procedure produced a response in the departments in that they would allow for your salary savings factor but overstate their requests in order to provide a cushion for just what you're talking about -- the emergency needs of the agency or to provide a cushion for an experimental program.
- Groff: That endeavor is constantly being made by operating agencies. It is countered by the Department of Finance by means of examining which jobs are filled during the year and if the jobs were vacant for an extended period of time, the budget makers might propose that the positions be eliminated from the list of authorized positions.
- It was intended that the authorized positions, the table of organization, would reflect only positions that would actually be used to conduct the budgeted level of operations of the agency.
- Morris: Would these factors of turnover and personnel increments vary from department to department?
- Groff: Oh, yes. They would also vary from period to period, depending upon whether the agency was an expanding one, a stable one or experiencing a contraction.
- Morris: Were there agencies that were contracting?
- Groff: Not very many -- very few in such a period of overall growth. There were parts of agencies and a few agencies themselves where workload was contracting. But, as you indicate, it was very, very unusual.
- Morris: That's interesting. Which kind of departments do you recall as having been pretty stable in your experience?
- Groff: Oh, maybe certain special fund agencies like Banking, Insurance and Building and Loan tended to grow rather gradually over the years. Some of the other regulatory agencies didn't experience the same kind of rapid growth as the other agencies. There were variations in the pattern, however.

Morris: I'm thinking of Highway and Mental Hygiene and Public Health and the Youth Authority as being ones, in terms of service, that were really expanding postwar.

Groff: Yes. They constantly expanded postwar. The Division of Highways was an entity unto itself as far as the budget was concerned. They were controlled only in gross totals as far as their budget was concerned. They were governed primarily by the volume of highway user revenues that came in.

Morris: But they had control over their own spending?

Groff: That's right. They were controlled internally, primarily.

Morris: That seems unusual, given the volume of money that went through the highway budget.

Groff: Still, it was basically money that was collected from the users of the services and savings there didn't revert to the benefit of the State's General Fund where the State's overall financial problem lay. Furthermore, they had constitutional and statutory control over their own expenditures.

Morris: This wasn't questioned by Department of Finance people?

Groff: Oh, yes. We had periodic spirited discussions [laughter] with the Highway people over that.

Morris: Who were their finance people?

Groff: Well, Roy Higgins, a former Department of Finance auditor, was their controller during the years. And a succession of directors of public works and State highway engineers.

Morris: It was Charles Purcell, wasn't it, during Warren's years?

Groff: Yes, Charles Purcell, a former State Highway Engineer, was the director.

Morris: What was the nature of your spirited discussions?

Highways and Other Construction

Groff: Well, it amounted to a general debate over the extent to which the highway expenditures should be subjected to current budgetary control by the Department of Finance.

They took the position that their mission was to building highways and to maintain them, that the funds for that purpose were levied against the highway users, and that the monies collected were intended to be spent; thus, there was no point in holding back on highway expenditures.

Morris: If we have the money, we should spend it -- ?

Groff: It wasn't quite as crass as that.

Morris: Sorry.

Groff: They were always able to point to studies, which were continually being made, as to the highway's needs and those studies always came out with a rather substantial deficiency of resources in relation to the established need. They maintained that this large excess of need in relation to finances meant that everything that could be saved through more efficient operation, construction and maintenance of our highways was needed to meet their deficiency. There was a built-in and inherent incentive for highway people to conduct their operations efficiently, they agreed. And their other main point was that those operations were of a very specialized character and required the expertise of the highway engineers and economists -- to put it in the popular phrase, to evaluate -- and that the Department of Finance couldn't possibly understand or deal with the problems inherent to their operations.

Morris: Was the question of the overall burden on the taxpayers ever raised?

Groff: Yes, that was raised. But again, it was answered in the minds of highway people by these studies of the needs.

Morris: Who did the studies of the highway needs?

Groff: Well, there was usually an interim committee of the

Groff: Legislature. But the Highway Commission itself, staffed from the Division of Highways, made in-house studies, too. The overall evaluations were usually made by interim committees of the Legislature.

Morris: Members of the Transportation Committee?

Groff: Usually, yes. But, sometimes by citizen's committees, selected by the Legislature.

Morris: You never offered to do any of these studies, yourself?

Groff: No. From the standpoint of the overall concerns of the Department of Finance, it was a rather peripheral issue, actually. But we did battle from time to time to try to get a more specific and detailed picture of the highway expenditure program embodied in the budget document. That was our more immediate concern.

We felt that it was sort of a useless battle to carry on, to argue the inherent matter of control of expenditures. We concentrated more on trying to get Highways to give a more specific and more enlightening picture of what their program was for inclusion in the budget.

That was a hard enough task because, there again, they said their plans weren't developed to any great degree of specificity at the time we had to prepare the Governor's budget. They pointed out that their plans, after all, weren't reviewed by the Legislature, they were reviewed and decided upon by the Highway Commission, under the law.

Morris: It's very curious. Did you have the same kind of reaction from the Department of Public Works? Wouldn't that department have been under the Department of Finance control?

Groff: Theoretically, yes. But the Department of Public Works was overwhelmingly the Division of Highways and tended to be overborne by the highway considerations, even during the accelerated postwar construction of state institutions and such.

Morris: The dollar amount was actually more in highways?

Groff: Oh, yes.

Morris: And all the commissions and review boards had sort of an overlapping personnel, didn't they?

Groff: Within Highways?

Morris: Highways and the Public Works and some of the allocation boards. Mr. Purcell's name turns up on many of them.

Groff: Yes. It was overlapping as far as the top management of the Department of Public Works was concerned, but not below that level.

The Division of Highway personnel seldom was called upon to participate in the decision-making on the State public works program. The Director of Public Works, because he was the Governor's appointee in the whole area of public works, architecture and water resources, as well as highways -- he, and perhaps his immediate deputies and assistant directors were the only ones that participated in the policy-making on State public works.

Morris: I read the other day that because the level of our postwar construction in California was so great, a number of out-of-state contractors came in, looking for some of the business. Was California ready to go sooner than other states on the postwar catching up, do you recall?

Groff: I would expect that they were because of our intensive postwar planning effort. I don't recall any definite figures in that regard, although the general proposition of setting up postwar construction reserves, I think, was rather widely discussed among state government circles in those days. And California wasn't entirely elite at that time; other states did the same thing. How extensive it was, I don't recall.

Morris: Were you travelling around, going to interstate meetings on that?

Groff: To some extent, yes. I attended some of the meetings that were held in association with other state budget officers -- the National Association of State Budget Officers.

Morris: The top men!

Groff: Yes. We met annually and there was discussion in that

Groff: group on the general wisdom of sterilizing some of the wartime surpluses for postwar construction purposes.

Inflation

Morris: Getting back to the '48-'49 budget, by that time we were already getting indications that costs were going up. The thing that interested me most is that, I guess it was Mr. Currie, doing the revenue estimate, raised the question as to whether these price levels were going to be a permanent factor, resulting from new scales of values. And I thought that was a very perceptive remark to come at that stage when revenues were so high and I wondered if this caused some consternation in the Department of Finance? What was meant by the new scales of value and what was the thinking as to what you could do about it?

Groff: Well, the question annually recurred as to what levels to anticipate in the way of prices for the next fiscal period. We relied on Mr. Currie to advise us in that respect, plus input from the Division of Purchasing, as to what the probable course of prices might be.

Morris: They would be buying things on a long-term future delivery basis?

Groff: Not very much. It was a matter of getting their judgment and other judgments that Mr. Currie assembled and evaluated -- and from the literature from businessmen and from reviews by other economists with whom he was in contact -- as to what the course of prices might be.

We usually tried not to venture too far in these assumptions. We tried to make them quite conservative and, especially in the detailed budgets of the agencies themselves, we usually budgeted on the basis of current conditions and then set up a lump sum provision in the budget for probable price increases if the outlook was for increased prices. You'll notice in several of the Governor's budgets items, from a million to two or three million dollars, for price increases.

You might notice, also, that in several years the amounts provided for price increases were not sufficient.

Morris: They were wiped out.

Groff: They were wiped out and had to augment later by deficiency appropriations from the legislature. It was very difficult to estimate the course of prices, at that time.

Right at the end of the war, we didn't know what course prices would take, although everybody recognized that during the war there'd been a certain amount of temporary inflation, but held in check by governmental price controls.

Morris: Which kept the prices down.

Groff: That's right. That was operating; yet, in spite of those controls, there was a terrific pressure upon prices during the war and immediately after. And there was a demand for relaxation of those controls, of course, at the end of the war.

So, there was a good deal of difference of opinion as to what the course of economic activity would be -- whether there would be a severe and prolonged contraction or whether the pent-up demand to fill in the wartime gap rather rapidly would result in the driving of prices up rather sharply.

That whole matter of timing was very difficult to foresee. So, there was a good deal of uncertainty.

Morris: I can see uncertainty in '46 and '47, but now we're talking about '48 and '49 and prices continued high. What do you think were the reasons that we ended at a permanently higher level of prices, and one which has continued to increase over the years?

Groff: Well, that really requires a much greater depth of economic perception than I have, but my own feeling has been that it is primarily because the political and governmental machinery has not been willing to take the hard decisions necessary to actually control inflation.

Such decisions have just been potentially too ruinous, from the political standpoint, to make it feasible to exercise effective governmental controls. On one hand government has not been able to refrain from participating in the economic decisions, therefore the governmental influences were quite important and

- Groff: quite significant. Yet in making the judgments that they did make in the economic sphere, the political considerations have forced some decisions that were not sound, economically, at least from a long range point of view.
- Morris: Would this be a case of not listening to all the advice? Persistently, in California, there's been a very hard-headed bunch of legislators, who did not wish to increase taxes and increase State spending and reach into new areas of service.
- Groff: Well, I was really referring to the national scene, because state decisions have a very small influence in shaping the course of basic economic conditions, in my opinion.
- Morris: You're thinking of the national scene in terms of things like interest rates and -- ?
- Groff: Interest rates, yes. Even wage rates, the banking and currency situation, the level of governmental spending, and all those national determinants of the economic state of affairs.
- Morris: These have to do with the money supply, availability and cost of money. I was thinking of something that Warren referred to over and over again in his administration: the pressure from "the people" for expanded services as an inflationary factor and, in his case, a wish to use the resources of the State for what he saw as human needs.
- Groff: What was your question?
- Morris: Would this be why the costs continue to rise, that the political decisions were in favor of expanded services. If you only have X amount of money coming in, and you're going to spend more than that, like Mr. Micawber, you're going to get into financial trouble.
- Groff: Yes. The constantly expanding demands on the part of "the people" for governmental services is a long term factor that operates, of course, to increase governmental spending and, to that extent, may influence inflation.
- Morris: We both use "the people" in quotes. Does that indicate that there is some thinking that some public services are not needed or expand too rapidly both in relationship

Morris: to need and the relationship of the ability to pay for them?

Groff: Well, I agree that it's the old question of just who are "the people?" In the long run, the aggregation of individuals in their homes and businesses are effective, I believe, in determining the level of public services; but the rate at which they become effective is influenced very greatly by organized groups. "The people's" effectiveness is stimulated or inhibited by efforts of organized special interest groups, so that not always, over a short period of time, is it the desires of the individual citizens (or their agonies) which are in the direction of these expanded services, but rather the efforts that are made by the organized groups. Such groups are very frequently in the minority, but are very effective in selling given programs and expansions of programs to the Legislature and to the people.

Morris: These organized small groups were operative in the postwar years?

Groff: Well, they were always operative. This is a continuing situation.

Welfare Costs

Morris: I was thinking about Proposition 4, on the 1948 ballot, which produced a big change in State social welfare organization -- and Myrtle Williams came in as the director in 1949.

Groff: Yes. That's right. Her proposition transferred welfare costs and welfare administration from the counties to the State and at the same time increased the level of those payments rather substantially.

Morris: This was primarily to elderly people?

Groff: Yes, aged and blind, and dependent children, too, I think. So, that whole expenditure was transferred to State responsibility. There was quite a large expenditure difference in the '49-'50 budget.

Morris: Yes, the '49-'50 budget was a jump. You mentioned that

Morris: the federal social security payments were also increasing in those days, weren't they, in categorical aid?

Groff: Yes. They exercised an upward influence in expenditures in that area, too. But Proposition 4 proved to be just a temporary aberration in the course of welfare; it was reversed in the next election.

Morris: Why was it an aberration? The principle of providing public funds for the blind, the aged and the needy children had been established, and has continued to be the law of the land.

Groff: That's right. The aberration was in the direction and the nature and the history of welfare, which had been continually increasing in scope and amount and scale of systems, accompanied by a greater and greater financial participation on the part of the State, and the federal government and a smaller and smaller financial participation, at least proportionately, on the part of the counties.

But that more gradual trend was significantly interrupted by Proposition 4, which took all of the remainder of local costs and administrative responsibility and transferred them immediately to the State, at the same time substantially increasing the individual payments.

When the correction was made in the next general election, the administration and division of financial responsibility returned to about where they were. However, the higher level of payments established in Proposition 4 was retained; they didn't dare reduce those levels to the previous point.

Morris: I find it puzzling that this was considered alarming, in view of what happened over the years. You say the State increased their amount of money in it, but the control and administration was shifted to the county. Now, this is what we have come to in Mental Hygiene community services and the Youth Authority probation subsidy program. The early discussion of both of these began in the Forties, to shift the control of services back to the community to provide better services to people, with the idea that the State would increase its subventions in order to provide better and cheaper service.

Groff: Of course, most of the welfare programs started locally, with the county governments and were administered and paid for locally, almost entirely.

When Old Age Assistance came along there was equal financial participation by the State and by the county. Soon, eligibility standards were broadened and payments increased to the point where greatly larger numbers of people became eligible and the burden became too large for the counties to bear.

Then, State participation was increased and broadened constantly. At first, local administration was retained, but with the advent of State participation came establishment of statewide standards, statewide regulations, statewide policies, which had to be enforced upon the local government; that meant State supervision and state review of administration.

Morris: The Department of Finance would be pushing for these things, wouldn't it? For the supervision and standards?

Groff: Well, yes, in a gross sort of a way. The specifics, of course, were worked out by the State Department of Social Welfare.

Morris: So, that you feel that in the '49-'50 budget (that was the first billion dollar budget) a good sum of the increase was due to this additional expense from Proposition 4?

Groff: Yes, As a matter of fact, the Governor pointed out in his message that the budget total included \$153 million dollars of increased expenditure for school and social welfare, traceable to initiative measures approved in the last three years. School apportionment increases went back to the general election of '46 and welfare to the election of '48. He pointed out that some \$88 million, seven hundred thousand additional expenditures for old age and blind assistance were added as a result of Proposition 4 in the 1948 election. In addition there was about \$29 million dollars required to operate the program between January 1st and June 30th of '49.

Morris: In other words, Proposition 4 became operative immediately?

Groff: Yes. It was voted on November of '48 and became operative in January 1st of '49, apparently.

Morris: That must have been a remarkable piece of initiative legislation; most legislation doesn't take effect that fast.

Groff: No, not usually.

First Billion Dollar Budget: 1949

Morris: I have \$1 billion, 60 million for the Governor's request in 1949. What was actually spent?

Groff: Well, it was very close again. \$1 billion, 54 million was actually expended in that year, with a six million dollar difference. Which is practically right on the button.

Morris: It's phenomenal, I should think. Your accounting and predicting machinery must have been improving over the years.

Groff: That may have been more accidental than intended.

Morris: Two years in a row?

Groff: Well, it got better, yes. That period worked out very closely.

Morris: Did this cause noticeable anguish or was it a matter of pride to have the State budget arrive at such a sum?

Groff: Well, it was a matter of pride and a goal on the part of the Department of Finance and the Governor, of course. The aim was always to make the budget as inclusive as possible and to plan in an orderly and balanced way the direction of the State expenditure program. The aim was to have a workable and viable budget plan.

The thrust in the Department of Finance was to hold to the Governor's budget plan. The plan was, in their opinion, well thought out and should be adhered to -- recognizing at the same time that there were contingencies that couldn't be foreseen which had to be met.

Then there was always the unprovided-for area of

- Groff: legislative special appropriations, or new programs not foreseen in the budget. Those circumstances were also recognized and accepted as a part of fiscal reality.
- Morris: This budget notes that the days of surplus are ending. Did this mean that revenues were beginning to drop off?
- Groff: Well, they weren't increasing so dramatically as they were immediately after the war. The accumulated needs were beginning to be met and the enhanced growth factors weren't as significant in the overall picture.

The surpluses, over and beyond those which were set aside in various postwar reserves, were beginning to be used up. And expenditures were catching up with revenue.

- Morris: In those first postwar budgets, there was both a postwar construction reserve and a postwar employment reserve. I find no record of a postwar unemployment program; was the employment reserve used up in the rising costs for construction?
- Groff: Well, there were three principal postwar reserves: the postwar employment reserve, the so-called Christmas Tree Bill, and the so-called Rainy-Day Fund reserve. The postwar employment reserve was the one recommended by the Governor and established by the Legislature to take care of the postwar construction program, and to alleviate anticipated unemployment.
- Morris: With a dual purpose to provide buildings the State needed and also jobs for unemployed veterans.
- Groff: Yes. Here [refers to papers], the Postwar Unemployment and Construction Fund of \$90 million was one that was established by the Legislature -- the so-called Christmas Tree Bill -- primarily for counties and the cities. That was Dick Graves' great adventure.
- Morris: Then there was also \$75 million dollars --
- Groff: That was the catastrophe, or Rainy Day, reserve recommended by the Governor in his '47-'48 budget message, as a revenue deficiency reserve in case of a decline of business activity. In the Governor's words:

"Ten years of deficit finance of state government which preceded the war provide a costly illustration for thinking in terms of financial preparedness.

- Groff: I consider it to be only a matter of elementary prudence to create a reserve for the rainy day which will come if history repeats itself."
- Morris: Warren was ridiculed for this, apparently. I think it's a charming, sensible, thrifty, American expression.
- Groff: That's right. It was opposed -- as I indicated in one of our earlier interviews -- by those taxpayer groups and others of that turn of mind, who felt that any kind of surplus in the hands of State government was a dangerous thing and would be likely to lead to extravagances, and ill-considered projects, you see. So, from that point of view, this was not a wise recommendation. They would have far preferred to see that money retained in the pockets of the taxpayers by reducing taxes, rather than being sterilized in a reserve.

Changing Tax Rates

- Morris: This was what Warren had attempted, had he not, in tax reduction in the earlier years?
- Groff: Yes. Well, the Governor recommended and pushed a program of tax reduction at that time.
- Morris: And still got this kind of reaction.
- Groff: That's right. The taxpayer turn of mind would have advocated still deeper tax cuts to eliminate all these reserves.
- Morris: Well, that would presuppose a magical amount of predictive ability as to what the income levels were going to be for various revenues. But by '49 the surplus had ceased to accumulate.
- Groff: Yes.
- Morris: And in fact, that was the first Warren year that there were requests for additional taxes.
- Groff: Yes. Primarily the recission of the tax reductions and return to the prewar rates of taxation.

Morris: In that budget message, again, the revenue section says "To meet that billion dollar budget, present revenues would be \$85 million dollars short."

Groff: Yes, but some \$64 million of that shortage, he proposed to be made up by returning to prewar tax rates, terminating the temporary reductions in the sales, corporation, and personal income tax rates. Now, that closed most of the gap, but not all of it, and to raise the rest of the revenue he proposed rather minor increases in the distilled spirits excise tax and the parimutuel horse racing tax, together with a new tax on cigarettes.

Morris: Who referred to them as "sin taxes?" Was this the press or was this the Legislature?

Groff: [Chuckles] Sounds like an appellation devised by the press but I can't remember where it came from. As the Governor characterized the three sources, ". . . all of these taxes rest upon luxury items which enjoy a comparative advantage under California tax law."

Morris: The crime commissions were active in those years and I wondered if it was possibly a crime commission recommendation to get at some of the illegal activities by increasing taxation on them and tightening up the taxation regulations?

Groff: I don't think that this was a very significant aspect of these recommendations.

Morris: This would be the last budget that you worked on, wouldn't it?

Groff: Yes. I left the department in June of 1949.

Morris: Had the budget been approved by then, or -- ?

Groff: Yes, I think so.

VIII INFLUENCE OF THE DEPARTMENT OF FINANCE

Technical Developments

Morris: Was your job with the State primarily with disbursements and keeping the accounts accurate and making sure that people didn't overspend?

Groff: Well, all except the matter of keeping the accounts accurate; I had nothing to do with keeping the accounts. That was done by the State Controller as far as central accounts were concerned, and by the various State agencies, according to the accounting system prescribed by the Department of Finance, as regards the day-to-day operating accounts.

Morris: Did this mean that you worked closely with the counties?

Groff: No, not really. I did have a brief experience back in about '38-'40, when I was assigned to help a man in the Department of Finance who worked with the county auditors in revising the system of county budget-making.

An early provision of law designated the State Board of Control and later the Department of Finance as the agency to prescribe the forms on which the counties would prepare their annual budgets, as a means of establishing a certain amount of uniformity and comparability among the counties in that respect. The Department of Finance did the staff work on those forms. And I assisted in that work for a year or so, but it was a temporary thing.

Morris: I'm interested in the counties' interaction with State government. You said that in setting up salary projections and possible increases, some influence came from some of the larger counties.

Groff: From the larger counties, only because they were among the larger employers whose salary rates were surveyed by the State Personnel Board as the basis for determining what the State salaries ought to be.

Morris: But, again, as the larger recipients of the funds that the State was either disbursing or passing along from Washington, I wondered if procedures in some of the larger counties were used to establish guidelines or did they develop procedures that influenced the Department of Finance in developing its techniques? Or if it went the other way?

Groff: In two general areas, there was interaction. First, in the specific areas in which State assistance to counties and other agencies of local government took place, there was a necessity for establishing reporting and auditing procedures that would both serve as a basis of information on which the State could act, and insure the integrity of the State funds which were being expended by the cities and counties.

The primary responsibility for such supervision of local fiscal procedures was exercised by the agencies which were administering these forms of State assistance, like the State Department of Social Welfare, for example, the State Department of Education in the area of school finance, and the State Division of Highways in the area of local expenditures for streets and highways. The Department of Finance didn't have much direct participation in that kind of supervision: we were concerned at budget hearings, to see that adequate provision was made for such supervision and the setting of standards, but we didn't get into the supervisory process itself.

Then, second, the cities and counties, especially the larger ones, as rather significant units of government themselves, were constantly innovating and making improvements in methods and procedures. We, in the Department of Finance, because of our general interest in the improvement of State fiscal procedures, were interested in what cities and large counties were doing. In our professional association, we were made aware of what other governmental entities were doing and tried to profit from their innovations, and so forth.

Morris: What were the outstanding developments in the art of

Morris: public finance, would you say, in the postwar years?

Groff: I think a significant development was in the direction of utilizing larger functions for comparison and larger units for budget decision-making rather than such detailed and finely divided units. The tendency was to deal with larger and larger units of organization and larger and larger functional comparisons depending more on the operating departments for the finer detail of decision-making.

Morris: On how they actually used funds --

Groff: Yes. In other words, a certain amount of decentralization was taking place in those years and has continued since.

It was a constant process of improving the caliber and methodology of the department managements. And an accompanying greater reliance on the departments for control of their own affairs, rather than finely detailed decision-making on the part of the Department of Finance.

Morris: Did many of your people go out to other operating agencies and become their finance officers?

Groff: Yes, that was a continuing process. Professional and technical staff people from the Department of Finance were recruited by operating departments to fill fiscal and budget administrative positions and, to a lesser extent, we recruited personnel from their staffs, especially for our middle level staff.

Morris: So that you can have people within the Department of Finance who have had experience in Public Health or Agriculture or -- ?

Groff: That's right. And if they had people who had experience in the Department of Finance, it furthered on their part a larger outlook on State government.

Morris: In other words, do I hear that some of the operating departments did not have budget departments in earlier years?

Groff: That's right. The budget-making was done as part of the operating function of their accounting office. Gradually, as the budget requirements grew more important and the size and complexity of the agencies themselves grew and

- Groff: developed, budget-making came to be a specialty. At first, a sub-specialty in the larger accounting departments and then, in some cases, it was taken out of the accounting departments entirely and placed in the director's office or as part of the management and control unit for the department.
- Morris: Did this come about through the introduction of computers?
- Groff: No, this actually preceded the introduction of computers, but was enhanced by the availability of the kind of information that computers could develop in the field of budget-making.
- Morris: When did computers first become available for governmental use?
- Groff: About '55 or '60, as I recall. Of course, the punch card and tabulating kind of machines came in much earlier than that. They came into rather wide use right after the war.
- Morris: Did they make any considerable contribution?
- Groff: They provided a quantum jump, you might say, in the technical resources for fiscal operation and budget-making and budget control.
- Morris: For accuracy and --
- Groff: And comprehension. The main thing that they contributed was the ability to handle, economically, large volumes of data, so that you could get the budget picture -- its aggregations and its analyses -- in more meaningful form.

Executive Departments' Spending

- Morris: I've got a couple of global things you might want to comment on. One of them has to do with the position of Finance in relation to other departments. A number of people that we have interviewed in this project have commented that elected officials and legislators come and go fairly rapidly, while the career staff stays on, and therefore, through day-to-day operations, the Finance staff could, and they felt did, control agency

Morris: spending that the Finance Department staff felt was unwise.

Is that a fair judgment? Do you recall occasions back in the Forties when the Department of Finance felt that maybe the Legislature had moved too generously in expanding an agency program?

Groff: Well, the first part of your question as to the extended control exercised by the Department of Finance -- that was a matter of interaction between Department of Finance administration and operating personnel on one hand and the operating personnel of the agencies and the administrative hierarchy of the agencies on the other hand.

Now, those interactions were both intradepartmental, within the department, the management on the one hand and the operating agencies on the other, and a bridge between the Department of Finance and the operating agencies. The Department of Finance operating staff did make recommendations in areas of relatively minor importance.

I think there was some influence and decision-making on the part of the staff, but more importantly and more typically, there were recommendations for decisions generated by the staff, but conveyed to the administrative level of the Department of Finance -- first to the Director of the Division of Finance himself and through him, of course, to the Governor's level, if need be.

The Department of Finance had a lot of influence along that administrative and hierarchal line, but there weren't very many decisions of real significance that were made by the Department of Finance staff itself, at the staff level. It was mostly recommendations to these higher divisions who then took the decision on their own responsibility or went up to a higher level, clear to the top, to the Governor, if necessary. Frequently, because the operating personnel of the agencies affected by these decisions knew the origin of the recommendations, the decisions were ascribed to the Department of Finance staff, when actually the decision was made by the higher and more responsible echelons of State government. But it was very convenient, always, for an agency head who was aggrieved by these decisions to ascribe them to those pencil pushers in the Finance staff. We were the scapegoats, very often.

Morris: Were there occasions when Governor Warren would overrule or decline to accept the recommendations?

Groff: Oh, certainly. We were constantly battling up to the Director of Finance and to the Governor recommendations and ideas that were shot down, and properly so, because they weren't feasible, politically or philosophically or operationally. Lord knows, the Department of Finance certainly wasn't the repository of all wisdom. And we didn't consider ourselves so, although being in the position that we were, as sort of a managing and controlling agency, probably we were more opinionated than the usual operating agencies.

Morris: Do you recall any particular instances where Warren either violently disagreed or heartily responded to a position the department took?

Groff: I can't recall any particular instances, no. I found Governor Warren, always, very considerate of the Department of Finance staff and I thought he gave greater weight than most governors to our recommendations. However, in the larger context that he had to keep in mind, his philosophical orientation was often in a direction away from that which may have motivated the Department of Finance and his greater concern for humanitarian issues frequently led him counter to the Department's recommendations.

Morris: As a family or an individual preparing a budget, you make choices, and the first law of economics is that there is never enough of whatever it is to go around, so you make choices. But what seems to have been operating in California State government in those years was more construction of buildings and also more in the way of services for people: education, welfare and health. And even from Warren, I don't see this making of choices; it seemed to be more a matter of trying to provide both, to keep moving on all fronts at the same time. Do these basic economic considerations like supply and demand -- we have to do something this year so we'll postpone something else until next year -- do those apply in public finance?

Groff: Oh yes. Definitely. And choices were made. Of course, the choices weren't quite as agonizing as they have been subsequently, and had been previously during periods when revenues were relatively smaller and less adequate. Because Warren had the great good fortune to be

Groff: Governor when, for the most part, the State finances were in very good shape. The State economy was in high gear, and therefore was producing a rather large amount of revenue, so that he was able to make these choices in the direction of both goods and services -- facilities and functions.

That isn't to say that many difficult choices were not involved in that process because it's also a law of economics that there's hardly any limit to the wants of the individual. That is true of the society, corporately, also. So, choices were made and reason and restraint were applied to the decision-making in most cases.

It was a pleasant surprise to the Department of Finance people to see the balanced viewpoint which Governor Warren brought to bear upon these humanitarian measures and activities that we knew he had a very great personal and philosophical interest in. On many occasions, he exercised very admirable restraint in implementing these desires and causes that we knew he was personally sympathetic with.

Morris: Was the Department of Finance located in the capitol building when you were there?

Groff: Yes, continually.

Morris: Which means that, physically, Mr. Dean would have been able to have daily informal contacts with the Governor if need be? Was this the atmosphere in the capitol in those years? The Governor would drop in occasionally, if he had a question, or call?

Groff: Occasionally, but usually it was the other way. He would ask the Director of Finance and finance people to come down.

Morris: How much of State government was housed in the capitol in the Forties?

Groff: Well, it was a constantly declining percentage. [Laughter] They were continually moving offices out of the State capitol building into other office space. The construction we mentioned -- a lot of it was office buildings -- a tremendous expansion of space.

When I first came to work for the State, a very

Groff: substantial portion of State offices were housed in the State capitol itself, and that was the original capitol building, you know, before the addition of the huge annex, constructed, as I recall, during Governor Warren's administration.

Morris: I think so, because Pop Small talks of walking around the construction and getting dust on his feet. So that, when you were in State government, the Department of Finance was always housed there in that building?

Groff: Right. I think we were in the same location on the third floor at the southwest corner virtually the whole time of my service. We expanded to cover almost the whole third floor. For many years our offices were right outside the Senate gallery.

Morris: This is where Alan Post's office is now?*

Groff: Yes, that's right.

Morris: Would you say that the Department of Finance has become stronger in its influence on State policy and its supervision of other agencies over the years?

Legislative Committees

Groff: I don't know. Relative to the total size and complexity of the State government, I think its position from Governor Young's time forward has been relatively constant.

As a matter of fact, taking into account the legislative aspect of State government in regard to the budget, I think perhaps it's relative influence has probably declined somewhat since the advent of the Legislative Analyst.

Morris: That's interesting, that you feel the Legislature has moved in to exert greater influence.

Groff: Yes, definitely. The advent and the very existence of the Legislative Analyst's office, the Joint Legislative Budget Committee, with their facilities and the staff -- they have moved into the executive area of State government,

*In 1973 many state offices moved out of the old capital due to earthquake hazard.

Groff: operations, to a much greater extent than the Legislature ever did in earlier days, prior to the Legislative Analyst's creation.

At first, there was very little encroachment upon the executive function of the government. But as the office became established and its influence grew, there was more and more exercise of direction and control and more influencing of executive decisions.

Morris: Within various agencies?

Groff: Yes, but encroachment, also, upon control functions and management decision-making theretofore exercised by the Department of Finance and the Governor.

Morris: Is this through the recommendations and conclusions of the Legislative Analyst's studies, or is this through the Legislature actually making more specific and detailed legislation?

Groff: Both. But also through a more subtle involvement of the Legislative Analyst and his staff directly with the operating agencies and the Department of Finance. They are in frequent contact and exert a current influence on day-to-day operations of the agencies which is a subtle, but very powerful, force.

Morris: They're actually present in various agencies?

Groff: They're looking over the operating agencies' shoulders, so to speak, while operating decisions are being made and there is a certain amount of intimidation involved, since you know they're going to carry back to the Legislature everything and anything they can find out.

Morris: In a way that the Department of Finance management studies don't do?

Groff: Well, the methodology is somewhat the same, but the force behind the conclusions resulting from that methodology is much greater when practiced by the Legislature than when the Department of Finance engages in it.

Morris: Because it sides with the legislature?

Groff: Because of the legislative function. After all, when the chips are down, final control over expenditures rests

Groff: with the Legislature.

The result has been, over the years, more detailed restriction on the expenditure of funds and more burdensome control over decision-making embodied in fiscal legislation.

Morris: That's interesting in view of what you said a little while ago, that the Department of Finance had developed techniques whereby decisions could be made on the larger units of function and expense.

Groff: Well, this growth of the influence of the Legislature in general, and the Legislative Analyst in particular, on decision-making has taken place alongside of this other development and trend towards decentralization and toward the conduct of operations in larger units.

Morris: Did the Legislature do this intentionally or was it something that just evolved?

Groff: It has evolved, although the legislatures generally have had a built-in tendency to encroach on the executive branch to the extent that they can.

They have been hindered in the past, partly by the lack of supporting staffing units of various kinds, fiscal and otherwise. Prior to their advent, legislatures were inhibited to a considerable degree by a lack of detailed knowledge, they just couldn't be effective except in isolated instances.

But now, they're providing themselves with these staff agencies who furnish them with detailed and current information and act as an on-site arm of the Legislature which meanders out into the operating agencies --

Morris: That's interesting because the idea of providing staff to the Legislature originated as a way for legislators to do their job better and --

Groff: That's right, a sound development from that standpoint. But like other sound developments, it can be perverted.

Thoughts on Reorganization

Morris: Dick Graves said that at one point -- I don't know whether

Morris: it was he personally or one of the League of California Cities studies -- he recommended the whole machinery of the State government be reorganized to put the Department of Finance on an organizational level above the operating agencies with the intent that the Department of Finance could then speak with greater authority as the voice of the Governor on fiscal matters. I wondered if this idea had been discussed at all in State government and within the department and what happened to it?

Groff: Yes. Well, that represents the "state manager" concept of the role of the Department of Finance -- being kind of a superagency. There's a good deal of soundness in the concept, in my opinion. The Department of Finance in its present and historic function has been more than the ordinary department because it's been in the position of exercising a certain amount of control and management supervision over the other departments; and yet structurally, it has been on the same level as those departments, so that it represented a matter of one department telling another co-equal department what to do, in respect to its financial and business affairs.

The concept has been that the Department of Finance, insofar as it is telling other departments how to operate, is actually acting for and in the name of the Governor.

And it's been the support and the power of the Governor that has made those supervisory activities of the Department of Finance viable and practical. But there is this structural handicap, you might say, upon the Department of Finance through being just one among the State agencies.

Morris: Did the League of California Cities ever make this as a public suggestion?

Groff: I think that it has, although probably the suggestion was made by that organization as part of a larger study in which the League of Cities had been one of a number of organizations called upon to render advice and consultation, along with the County Supervisors Association, the State Chamber of Commerce and similar groups.

Morris: Yes, they do work rather closely together.

Groff: There have been frequent examinations of State government in which such organizations have been called upon

Groff: to give recommendations.

Morris: Who are they called by?

Groff: Sometimes the Governor, but more usually either a committee of the Legislature or a commission appointed either by the Governor or jointly by the Governor and the Legislature. A number of these State government reorganization efforts have been made from time to time, over the years.

Morris: We did come to superagencies, but I don't recall ever hearing, in recent years, this idea of the Department of Finance as an umbrella kind of agency. Was there ever any movement to bring this into being?

Groff: There've been a number of these recommendations in which the Department of Finance has been variously reconstituted. In some cases it's been a matter of making the Governor more the political, ceremonial and titular head of the government and delegating the management aspect of the executive function to a state manager who would take over the control functions of the Department of Finance. The Department of Finance would then become staff agency to that State manager. That would fundamentally change the character of the office of Governor. It would take the day-to-day administrative functions away and he could be more concerned with the policy making and "head of state" concerns. It amounts to application of the "city manager" concept to State government.

Morris: There would probably be political objects to that.

Groff: Yes, that's right. The other main line of reorganization proposed has been to transfer the budget and management analysis functions of the Department of Finance to the Governor, to be exercised as a direct arm of the Governor's office. This would be something like the relationship that exists in the federal government, where the Bureau of the Budget, now called the Office of Management and Budget, is part and parcel of the President's office.

Of course, most of the operating functions of the Department of Finance now have been transferred away from it. The control over purchasing, printing and office space and all those other housekeeping activities and

Groff: functions, formerly part of the Department of Finance, have been reassigned to the Department of General Services. The Department of Finance is left in the position of being concerned with the functions of budget-making, management studies and management audit. The post-audit function was also taken away from the Department of Finance some years ago and recaptured by the Legislature, where it is exercised by the Legislative Auditor.

The Department of Finance was thus left with only the internal audit function, usually considered to be a proper responsibility of the executive branch. That function has since been transferred to the Department of General Services.

Morris: When was the Department of General Services established as a separate entity?

Groff: Oh, during Governor Brown's administration.

Morris: So, it sounds as if there had been various attempts to keep the Department of Finance from becoming too efficient.

Groff: Well, from becoming all-powerful and all-pervasive. It was felt that it was difficult for the director of finance to be at once the operator of extensive house-keeping services and at the same time be responsible for planning and managing the financial and business concerns of State government.

Morris: It emerges as kind of live organism growing and contracting in responsibilities. How did you happen to leave the Department of Finance and come to the University? Had you a life master plan?*

Groff: Not really. It seemed to be an interesting and challenging opportunity at the time. I'd been responsible, when I was on the budget staff, for the education budget, including University and state colleges.

Morris: So, you were already familiar with academic finance?

Groff: Yes. I always have had a substantial interest in that side of governmental affairs. The opportunity of working for President Sproul and with Jim Corley appealed to me. The other, more personal consideration was that the constant pressure of the State budget was getting rather overwhelming and it was what I thought to be an opportunity

*Mr. Groff joined the University of California staff in 1949.

- Groff: to get into a more cloistered sphere of activity [laughter]. University life rather appealed to me from that standpoint. It proved to be quite a delusion on my part, as events turned out.
- Morris: On the State budget pressure, this gives me an image that you no sooner get one budget passed by the Legislature, than you have to start the preliminary work for the next, and that each year got more complicated.
- Groff: Yes. And actually it got to be almost an overlap, working on a couple of budgets at the same time -- the period of preparation got to be so long and the period of legislative consideration so extended --
- Morris: That hasn't changed!
- Groff: It's gotten worse, actually. [Laughter] In the case of this last budget, by the time they'd prepared the budget, and had to go to press, they didn't have all the final legislative decisions. Couldn't even give a complete record of what the Legislature had appropriated. They've had to put through supplements to the Governor's budget to take into account those final decisions.
- Morris: That's interesting. You wonder if it's possible to, at some point, begin a reverse swing of the pendulum, when things become so involved that you can't complete one task before the next one is upon you. Which in a way is the Legislature's problem.
- Groff: Yes. It has been a prime offender in recent years in that area. They've gotten farther and farther behind and seem to require a more and more extended period of time before they arrive at a budget decision
- Morris: Is it possible, do you suppose, to bring about any major turnaround in a public agency or in public operations?
- Groff: Theoretically, yes. But practically, perhaps, very difficult. It should be possible, goodness knows, for the Legislature to make a decision on the budget long before the end of the current fiscal year. But they don't seem to be able to do that; the more they have become fulltime, the more staff and facilities are provided to them, the more difficult it becomes, seemingly, for them to arrive at decisions.

- Morris: I hope we'll be able to talk about your work at the University at a later date. It would be something of value to our University history archives. Your title here was contracts officer?
- Groff: Yes. I was Assistant to the Director of Contracts and Grants when I retired.
- Morris: So, this would tie you again into what was happening at the federal level in terms of higher education.
- Groff: Yes, although my service in that area has been too recent to furnish any historical perceptions.

[End of Interview]

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 Regional Oral History Office

Earl Warren Oral History Project

George Killion.

OBSERVATIONS ON CULBERT OLSON, EARL WARREN,
AND MONEY MATTERS IN PUBLIC AFFAIRS

An Interview Conducted by
Gabrielle Morris.

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INTERVIEW HISTORY

George Killion was interviewed in order to document the transition from Culbert Olson's administration to Earl Warren's leadership for the Regional Oral History Office's study of California state government in the 1940s and 1950s.

Conduct of

the Interview: A single interview was held on March 1, 1973, in Mr. Killion's airy contemporary office high in the Bank of America building with a sweeping view of San Francisco Bay and the city's financial district.

As Democrat Olson's director of finance, Killion supervised the preparation of the biennial state budget presented by Republican Warren only days after being sworn in as governor of California in 1943. This dualistic position is characteristic of Killion's long business and public career and enables him to take a pragmatic view of shifts in economic and political conditions.

Looking back from this vantage point, he recalls effective cooperation with District Attorney Warren on a county bond issue as a young publicist in Oakland. While representing Oakland-based Safeway Stores, he became acquainted with then-senator Olson during a controversy over milk pricing policy between cooperative and corporate marketers, later working on Olson's gubernatorial campaign and then becoming the governor's press secretary.

Killion became Olson's third director of finance in 1940, after a series of well-reported, abrasive incidents involving the governor, the legislature,

and the State Relief Administration. Attractive, agreeable and diligent, Killion seems to have been a welcome buffer between some of Olson's more outspoken associates and the established legislative leadership. Not only did he win the approval of such Republican powers as Senate Finance Committee chairman Edward Tickle, but also the heartfelt thanks of Warren staff persons for involving them in the budget process to an extent they refer to as beyond the call of duty.

He is one of the few individuals interviewed in this series to speak directly of power as a factor in public life. Asked about the impact of his tenure as director of finance, he replied:

For the first time, I was able to see the public with different eyes because I had the power to do something about it. In life, if you're going to accomplish anything which you hope is for the good, you must have the power to do it. Either the power of public office or the power of money.

Although the Olson administration was the center of much dissension in California, its national credentials were such that Killion served as assistant treasurer and treasurer of the Democratic National Committee in 1944-1947. The interesting development of government-sponsored corporations during World War II led to his appointment as president of American President Lines, a post he filled with vigor and satisfaction until 1966, contributing a significant chapter, as yet incompletely documented, to the history of the Bay Area shipping industry.

In 1954 and 1958, when California Democrats were recouping from long years of Republican victories, there was considerable interest in Killion running for governor. A selection of materials on his candidacy appears in the appendix. Returning to national affairs, he assisted President Kennedy in the early 1960s. His listing in Who's Who contains considerable other corporate and public service activity, much of it related to communication, which he underlines as vital to the successful outcome of human affairs. He has continued to be at ease in bipartisan situations,

serving as chairman of Democrats for Nixon in 1972.

Mr. Killion reviewed the edited transcript, making various revisions that show the hand of a trained reporter conscious of digression or possible misinterpretation. At a further meeting on September 29, 1973, he went through his desk file to select photographs of significant events in his and the nation's life for use as illustrations. Chatting about events of the day, he decided to add a brief statement, which appears at the end of the present manuscript, summarizing his concern for the need for reform in the judicial system and political fund-raising, and for greater responsibility of the news media.

Gabrielle Morris
Interviewer-Editor

29 November 1973
Regional Oral History Office
487 The Bancroft Library
University of California at Berkeley

Reprinted from Who's Who in America, 1972-73:

KILLION, GEORGE LEONARD, steamship exec.; b. Steamboat Springs, Colo., Apr. 15, 1901; s. James Abraham and Lydia Jane (Harris) K.; student U. So. Cal., 1920-21, U. Cal., 1921-22; m. Grace Ludora Harris, Dec. 25, 1922 (dec.); 1 son, James L.; m. 2d, Margaretha Rhaneberg. Mem. editorial staff various West Coast newspapers, 1925-30; pub. relations, financial cons., Oakland, Cal., 1930-35; pub. relations, legislative cons. Safeway Stores, Oakland, 1935-39; commr. Golden Gate Internat. Expdn., 1939; dir. of finance, State Cal., 1940-43; asst. to petroleum adminstra. for war, Washington, 1943; chmn. bd. Metro-Goldwyn-Mayer, 1957-63, 63-69, 70—, vice chmn., 1969-70, dir., mem. exec. com., 1963—, past pres. Am. President Lines, Ltd., San Francisco, now dir., cons.; chmn. Prentice Electronics, 1967—; dir. World Airways, Communications Satellite Corp.; dir. First Western Bank. Ambassador U.S. Mission to UN, 1966-67. Asst. to treas., Dem. Nat. Com., 1944, treas., 1945-47; Bd. dirs. San Francisco Internat. Film Festival, San Francisco chpt. Am. Cancer Soc., Japan Inter-Christian U. Fund, Cal. Council Meals for Millions; trustee San Francisco Maritime Mus., John F. Kennedy Library Corp., Eleanor Roosevelt Cancer Found., Am. Freedom from Hunger Found., United Seamen's Service; mem. adv. bd., dir. Pacific Am. S.S. Assn.; mem. San Francisco World Trade Center Authority; chmn. 11 western states March of Dimes, National Found.; mem. nat. council Eleanor Roosevelt Meml. Found.; adv. council Am. Korean Found.; sponsor, nat. council United Negro Coll. Fund. Served as maj. AUS, Staff of Allied Mil. Gov't., 1943. Mem. Am. Bur. Shipping (bd. mgrs.), Nat. Def. Transp. Assn. (life), Nat. Conf. Christians and Jews (bd. advisers), Greater San Francisco C. of C. (dir.). Democrat. Clubs: Bohemian, Olympic, World Trade (pres. 1957-66), Stock Exchange (San Francisco); Eldorado Country (Palm Desert, Cal.). Home: 1090 Chestnut St San Francisco CA 94104 Office: Bank of America Center San Francisco CA 94104

Private Services Held For George Killion



GEORGE KILLION
Former shipping executive

George Killion, a former shipping executive, died Sunday at Stanford Hospital.

Mr. Killion was president of the San Francisco-based shipping firm from 1947 to 1966. He was chairman of the board and a member of the executive committee of the Goldwyn Mayer from 1957.

Mr. Killion began his career as a reporter, working for various newspapers in San Diego, Long Beach and Sacramento. He claimed credit for breaking the first story on Charles Lindbergh's intention to fly solo from New York to Paris in 1927.

"Lindy and I became good friends. In fact, I loaned him my wristwatch because he didn't have one," Mr. Killion said in a 1972 interview. "Before he left on the historic flight, I told him, 'Slim, this is no indication of my lack of faith in you, but I'd like my watch back because it's the only one I own.'"

In the same interview, Mr. Killion looked back on his success and described himself as a boy in his native Steamboat Springs, Colo., who would sit under a tree on his father's ranch and read poetry and Shakespeare.

"I've come a long way since

then," he said. "But I've always believed what Shakespeare wrote: 'The will is the current when it serves, and with the will will go on.'"

In 1935, he opened one of the first public relations firms in San Francisco. Mr. Killion's political career began in 1939, when he was appointed secretary to Governor John Olson. He was later named by Olson to be state director of finance. Under his administration, the state budget was balanced for the first time in 40 years.

From 1944 to 1947, he was treasurer of the Democratic National Committee and was an active fund-raiser for President Harry Truman.

Mr. Killion declined offers to run for governor in 1954, and was later offered and declined ambassadorships to the Philippines and Iceland.

In 1968, he was one of the organizers of the Communications Satellite Corp. and served on the company's board of directors.

In 1969, President Lyndon Johnson appointed him an alternate representative to the United Nations with the rank of ambassador. He represented the United States on the United Nations Economic and Administrative and budgetary committee.

Mr. Killion was one of several leading Democrats to endorse the re-election of Republican Governor Ronald Reagan in 1970, and two years later he endorsed Republican President Richard Nixon for re-

election.

Mr. Killion was a long-time president of the San Francisco Yacht Club. He was also a long-time fundraiser for cancer research and several times was director of the annual March of Dimes campaign.

At the time of his death, Mr. Killion was a resident of Menlo Park. He was a past member of the board of directors of World Airways and World American Investor Corp. and was a consultant to the president of American Airlines. He also served on the advisory board and was a director of the Graduate School of Business at the University of Santa Clara.

He is survived by his wife, Margaret, two sons, John and Alan Wens, and Dr. Eric Killion, of Fountain Valley, and three grandchildren.

I PERSONAL BACKGROUND
[Date of Interview: March 1, 1973.]

Colorado Boyhood

Morris: Let's start with your childhood years, your move to California and how you began your interest in the varied political and business achievements which have marked your career. Who's Who says you were born in Colorado.

Killion: I was born in Steamboat Springs, Colorado, which is roughly eighty miles northwest of Denver. My father had the pioneering spirit as a young man. He crossed the plains from Springfield, Illinois, decided to stay in Steamboat Springs, and began his Western career as a cowboy. Later he bought a ranch outside of Steamboat Springs, and at the same time opened a drugstore in town. His partner in the store was Dr. Benjamin Jefferson.

Dr. Jefferson was the physician who brought me into this world. He was a cousin of President Woodrow Wilson. When he was nominated to be minister to Nicaragua, he and my father, of course, dissolved the partnership in the store.

As a youngster, I spent most of my time on the ranch. I fished and rode and punched cattle.

Morris: What a wonderful life for a young man!

Killion: It was, and often over the years I have wondered if I used good judgment in leaving the ranch. But, as you know, events and their influence on us really shape our ultimate destiny, and there isn't much you can or perhaps should do about it. That's what life is really all about.

Killion: Spending my youth on a ranch certainly has given me physical endurance and a mental serenity which have helped me in difficult times, and given me a joy in living life to the full no matter whether the going becomes difficult or easy.

You know, we had a trout stream on the ranch, and there were grouse and sage hen -- all kinds of game. I had a good life as a boy, and I've had a good life ever since, certainly a life which has been and continues to be filled with challenges, and that I like.

Morris: How did you happen to leave Colorado?

Killion: My mother's health was not good, and my father decided she would be helped by a more equitable climate. He chose San Diego, and there we went.

I had my primary schooling in Colorado, and when we came to San Diego I wasn't sure whether I wanted to go to work or college.

I attended the University of California in Berkeley for a time and then the University of Southern California in Los Angeles. I met a friend who was city editor of The San Diego Sun. He asked me, "Why don't you go to work on a newspaper?" I saw this as an opportunity to continue my education, to learn about people, to learn how they succeed and why they fail, and how they adjust to either victory or defeat. So I went to work for The San Diego Sun, and for the next ten or twelve years I was a newspaper reporter.

Reporting Lindbergh's Paris Flight

Killion: As I look back on that period in my life, the highlight was covering the take-off of Charles Lindbergh for his historic flight to Paris.

Morris: How exciting! I had forgotten he began the flight in San Diego.

Killion: Yes, he did. Newspaper salaries in those days were not as high as they are now; I was given permission by the paper to augment my salary by taking public relations jobs.

Killion: One of these jobs involved the Ryan-Mahoney Aircraft Corporation. One day T. Claude Ryan, head of the firm, received a telegram from Captain Charles A. Lindbergh asking him if the company was capable of constructing a plane with a gasoline capacity sufficient for a non-stop flight from New York to Paris -- specifically from Roosevelt Field, Long Island, to the French capital. Mr. Ryan replied in the affirmative, and Lindberg came to San Diego to supervise construction of the ship, "The Spirit of St. Louis," which now hangs from the roof in the Smithsonian Institution in Washington.

Morris: He must have been a remarkable man.

Killion: He was, and he still is. Although I have not seen him in many years, the whole world has followed his career as the innovator of transoceanic flying, and as a scientist in other fields.

Morris: Did he actually design "The Spirit of St. Louis?"

Killion: He was at the plant every hour of every day while the plane was being built. The frame of the fuselage rested on two wooden horses. Lindbergh, or "Slim," as everyone called him, would walk around the skeleton of the ship, inspect it in detail, make suggestions, and confer with the engineers. He did considerable flying in other planes at San Diego while he was waiting for his own to be completed. We became close friends, and I often flew with him.

He was a dare-devil pilot but an unusually capable one. There is an old saying that pilots of Lindbergh's ability flew by the seat of their pants, meaning they knew precisely the capabilities of their aircraft, the stress it could take and never pushed it beyond that point.

I remember one time he borrowed a small Hamilton watch which I had bought for \$60 on a \$25-a-week salary. Just before he flew out of San Diego, I said to him, "Slim, I have complete faith in your ability to cross the Atlantic, but could I have my watch back?" [Laughter] He handed me the watch and shortly thereafter began the first leg of the air journey which was to bring him non-stop across the Atlantic. I have the watch at home. Now I wish I had waited until his triumphant return to this country before asking for its return.

Morris: It would have been quite a souvenir -- the first watch to have been carried by air, non-stop from New York to Paris.

Killion: True -- but I have many splendid memories of my relationship with Lindbergh at that critical period in his career.

Various Forms of Public Relations

Morris: What brought you to the Bay Area?

Killion: While I was in San Diego, I became associated with a public relations firm which handled the Community Chest. My job consisted of working with a team to plan and execute the fund-raising program for the Chest. I enjoyed raising money for the Chest, and still enjoy raising money for charitable causes or persons seeking public office whose programs are in line with my beliefs.

The public relations firm in San Diego expanded its Community Chest activities to Long Beach and Oakland. I was offered the job of head of the Oakland office, and I accepted. I left Oakland to become city editor of The Sacramento Union. I might point out that nothing in the newspaper business is quite so challenging, quite so valuable an experience as working in the capital city of any state, with the legislature and the governor and the whole machinery of government to be observed, appraised and written about. Subsequently I decided to return to Oakland where I opened my own public relations office, operated it successfully for several years, and then accepted a job offer from the J. Walter Thompson advertising agency.

If I had to pick one major turning point in my life, it would be my association with this agency, for it was during that period of employment that I met the president of Safeway Stores.

Morris: Who was the company president at that time?

Killion: Mr. L. A. Warren. He still lives at his home in Hillsborough. Mr. Warren and I met frequently in the course of business. He asked me to join the Safeway organization, and I was glad to accept a position as one of his assistants. Among other duties, I was assigned to handle the company's legislative affairs in Sacramento.

The first piece of legislation with which I was concerned involved the price consumers had to pay for milk. Safeway felt that persons who went to a grocery store, paid cash and carried their milk home, should be the beneficiaries of the saving to the seller of delivery and credit costs. As I recall, we estimated the differential at between five and ten cents a quart. That would be a sizeable saving to the consumer even in these days.

I would remind you that milk prices in California are fixed by a state board. Hence a real legislative battle ensued. In the course of the controversy, I became acquainted with Governor Olson, then a state senator.

Olson agreed with the chain store reasoning in favor of the consumer and became a strong advocate of the legislation. I admired his stand, wholly apart from my own position as a paid advocate, and we became close friends. Incidentally, I still feel the housewife who pays cash and is her own grocery boy deserves a price break.

Well, one day Olson told me he would be the next Democratic candidate for governor. I assured him he could count on my support, and that I would be able to work in his campaign with Safeway's approval. I had had the experience of raising money for the Community Chest, and I went out and raised a considerable amount of money to help defray the cost of Olson's campaign.

You know, there is only one way to raise money for a cause or a candidate, and that is to ask for it.

Morris: And people will give it to you?

Killion: They certainly did in the Olson campaign. The voters give money in a campaign for a variety of reasons. They sincerely believe their candidate is the best man for the job, and for the state or nation, as the case may

Killion: be; they act from a deep conviction and not in the hope of receiving favors. Then there are those who give because they want those favors. And there are others who contribute as a sort of status symbol. They like to tell their friends they were instrumental in electing a person to high office.

Morris: Then your campaign fund-raising for Olson was a success?

Killion: It was. A major factor which helped was that I think the people were ready for a change at Sacramento, and they were in the mood to bring that change about by contributing to the campaign.

Olson had established a record as a state senator of fighting effectively for what the people wanted. He was a forceful speaker, and a handsome man with a shock of gray hair. Here is his picture in this book.*

Morris: With your candidate elected governor, did you continue to be active politically?

Killion: The governor-elect asked me to come to Sacramento to have lunch with him. In the course of our discussion that day, Olson asked me if I would prepare a draft of an inaugural address for him. I told him I would be glad to.

I secured copies of all of the inaugural speeches I could find -- those of Hiram Johnson, Frank Merriam, C. C. Young, and Friend W. Richardson. I read them all and took off for Pebble Beach where I would not be interrupted. Keeping in mind his philosophy of what state government should be, I wrote and rewrote, and finally turned out an address which I felt reflected the man and his ideas.

As I listened to the new governor make his inaugural speech, I was gratified to find that although he had made many changes in the draft I had prepared, he left untouched most of my phraseology and the policy

*Who's Who In The National Democratic Party. Compiled by V. E. Thurman. Published by the National Democratic Historical Society. 1940.

Killion: thrust of my manuscript. My work must have pleased the governor, for he asked me to be his secretary. I thought over the offer for a time, and accepted. I decided being the governor's secretary would be more stimulating than remaining in the chain store business.

Before I gave Governor Olson my answer, I talked it over with President Warren of Safeway. I told him what I wanted to do, and he said to me, "Well, George, if you want a leave of absence to be the governor's secretary, you have my blessing." That was in 1939 and, as a matter of fact, I'm still on leave.

Morris: You never formally severed your relationship with Safeway?

Killion: No [laughter]. I mentioned the fact one time to Quentin Reynolds, who was then president and board chairman of Safeway, and he said, "Why don't you drop by the office and see if we owe you any money?"

II EARL WARREN AS DISTRICT ATTORNEY

Morris: Going back to your early days in Oakland, did you have any contact with Earl Warren, then Alameda County District Attorney?

Killion: Yes, considerable contact. For example, there was agitation among Warren, the judges, and the business community for a new courthouse. The old one in which they worked -- it was located on lower Broadway -- had been built twelve or fifteen years after the Civil War. It was a completely outmoded structure. A proposal to build a new one was voted down principally because it was one of many expenditure proposals placed before the people and, as you probably know, when the voters have too long a ballot, many a worthy cause is lost simply because of the length of the ballot.

Well, Warren and a man by the name of Sherwood Swan, who still has a department store in Oakland called Swan's, asked me if I would conduct a campaign for a special election with just the new courthouse proposal on the ballot.

I told them, "Right -- I'll do it." I prepared the language for a petition and hired a number of solicitors to collect the required number of signatures for such an election. I've forgotten the exact number needed, but say the figure was a hundred and fifty thousand. When we had obtained all the signatures we needed to give the board of supervisors authority to call a special election, Mr. Swan and I bundled up the petitions, went to Warren's office, and placed them on his desk. Mr. Swan, a remarkable man in many ways and a person of unquestioned integrity, said to Warren, "Here are the required 150,000 signatures. And more, too. If you want to, you may count them, but we swear

Killion: there are a minimum of 150,000."

Warren looked at the bundle, smiled, and said,
"I'll take your word for it."

Morris: I assume the newspapermen were present.

Killion: They were. As a matter of fact, the newspapers supported the proposal for a new court house to be financed by a bond issue. The Oakland Tribune, the Berkeley Gazette, the Alameda Times-Star -- all the papers were with us, an essential asset in any campaign. Warren, Mr. Swan, and I made speeches all over the county, and so did many others whose opinions were highly influential in the community. And we won the bond issue proposal going away, as they say in horse races.

Morris: I have seen the courthouse many times. It is a handsome structure in the classical manner. I am glad to know the story of its origin. Did the merchants contribute to the cost of the campaign?

Killion: With the methods we employed, there was little difficulty in obtaining money to take care of the campaign costs.

Morris: Was Mr. Swan a contributor?

Killion: The merchants were among the large contributors. As I recall, Earl Warren was a contributor, and so was the late Joseph Knowland, publisher of The Oakland Tribune.

III WORKING WITH CULBERT OLSON

New Deal Concepts

Morris: Going on with your work with Governor Olson -- before I turned on the tape recorder, you were telling me your observations of the differences between our two major parties.

Killion: During the Olson period, it was clear that the Democratic party was more oriented than the Republican party to the social needs of the country. The Republican party was regarded as the party of big business.

It was Governor Olson, for example, who brought the New Deal to California. He was an intimate of President Franklin D. Roosevelt, and during his administration he made numerous trips to Washington to confer with the President. Like Roosevelt, Olson espoused the cause of what we are accustomed to call the little man, the man who has no one to speak for him. But with the passing of time, both major parties are in tune with the social and economic needs of the people, and both parties seek to improve these conditions.

Morris: Were Roosevelt and Olson acquaintances in political campaigns?

Killion: Definitely. Olson backed the programs of Roosevelt when he, Olson, was a state senator. I believe it was when Roosevelt was nominated for a third term that considerable support developed for Olson as his running mate.

I was a delegate to that 1940 Democratic National Convention in Chicago. I remember going back on the train, there were a number of congressmen on board --

- Killion: Helen Gahagan Douglas and her husband Melvyn Douglas -- and they were all for getting Governor Olson on the ticket. But when we got to Chicago, the Eastern wing of the party applied overwhelming pressure, and they succeeded in nominating Henry Wallace for Vice-President.
- Morris: Was this because they did not think a candidate from the Far West would help the ticket?
- Killion: That was part of it. Governor Olson was a relative newcomer in a title role on the political stage in California, and thus in the nation.
- Morris: As I read about the Olson administration in California, one phase I find historically interesting is the rise and fall of his program of cooperatives. Would you explain that to me?
- Killion: Certainly. California was and is the largest state in the production of agricultural goods -- all the way from raw products such as lettuce and grapes to processed food, which appears in our larders in canned and packaged forms.

You will recall, I told you Governor Olson brought the New Deal of President Roosevelt to California. The one thing he wanted to avoid was the dole -- a huge, self-defeating bureaucratic welfare program. So the governor went ahead with the agricultural co-ops -- a sound and very much needed program at the time of its inception. The problem came when the co-ops grew like Topsy and began competing with private business. This was economically unsound then just as it would be now and always will be. The private industry sector of our economy invariably does a better job than the government. Someone once said the business of the government is business, meaning that private industry -- risk capital, private ingenuity -- provides jobs. Jobs provide purchasing power, and thus we have a healthy economy.

To take one phase of these co-ops, they grew to a point where they were competing with Foremost and Borden for the consumer dollar which was spent for milk. For another example, they began selling hogs and beef on the open market to the chain stores.

Morris: What assistance did the state give these co-ops?

Killion: Well, suppose you were going into the dairy business. The state would give you a few cows and a bull. Soon you had more cows and a steer, and before long, you were beyond the self-help status and competing with private enterprise and its ability to provide much-needed jobs.

When I became state director of finance in the Olson administration I ordered an all-out investigation of these co-ops, and came up with evidence that they were no longer co-ops but big business. So it became my onerous job to shut down these co-ops. Then came the question of what to do with the surplus. By "surplus" I mean (sticking to the cow and beef example) the large herds of cows and steers which existed long after the co-ops had been given a start with the taxpayers' money, and progressed to the point where they were prosperous ranchers. I contended the people of California were entitled to this surplus. There was a long and bitter fight in the legislature, and we won.

Morris: Do you recall the names of some of those who led the co-op groups?

Killion: State Senator Ralph Swing was one. He led the co-op movement in Southern California. The individual participants I do not recall. There were several thousand persons involved.

Morris: Did Governor Olson have other depression help programs, such as public works construction programs?

Killion: Yes, he did. They served their purpose but when times improved, the Republican-controlled state senate regarded them as a pure dole. They had their inception, and very properly so, in order to get persons off the dole, and this they did. Simply put, a man had a job and his self respect, and not a handout.

Governor Olson was a man who maintained his inborn concern for the unfortunate and yet never ignored the practicalities of sound government. I admired him, and I revere his memory. Among his many fine qualities was his concern for the health of the people. He was the one who was responsible for the famous Langley Porter Clinic here in San Francisco.

The Governor's Staff

Morris: Those must have been exciting days in state government with so many interesting men hoping to try out new ideas. Did you have much contact with Earl Warren when you were on Olson's staff?

Killion: Yes, it was. Earl Warren was attorney general. Stanley Mosk, now an associate justice of the state supreme court, occupied a desk alongside mine. He, too, was one of Governor Olson's secretaries. Phil Gibson, who became chief justice of the state supreme court, was state director of finance.

Gibson asked me one day if I would like to move up to the third floor of the capitol and be his chief deputy. Money and its proper management has always intrigued me, so I accepted. While I was Gibson's chief deputy, a vacancy occurred on the state supreme court bench. Gibson asked me if I would back him if he sought appointment by the governor. I said I certainly would, he was eminently qualified.

In addition to being Gibson's chief deputy, I continued to take numerous trips around California with Governor Olson. We were in San Francisco on one of these trips, staying at the Park Lane Apartments on Nob Hill.

We had breakfast together in our suite. When it came time for us to go down the hill to the state office building, I helped Olson on with his coat. And I said to him, "Governor, you're under a lot of pressure on that supreme court nomination. The longer you delay, the more enemies you will make, and in the end you'll only make one friend."

Morris: The man who got the appointment?

Killion: Exactly. I went on talking to the Governor and said, "I have the necessary appointment papers here for your signature, and I would suggest if you like Phil Gibson -- he's loyal to you, he's an able man, he's a good lawyer -- that you name him to the bench."

Olson replied, "Let me have the papers," and he

Killion: signed them standing there in his coat in the foyer of the suite. Phil Gibson was in the city that day in his office on the top floor of the state building.

I telephoned him and said, "You have just been named to the supreme court."

Phil came down to the Governor's office to thank him. He walked in, and there were tears in his eyes, and he couldn't speak. I excused myself and left him alone with the Governor.

Morris: It meant that much to him?

Killion: It did, and he became an excellent associate justice and later an equally fine chief justice. He worked hard. He never lost his temper no matter how aggressive the attorneys before the bench might be. And his opinions were written with sound legal judgment, with a unique grasp of the problem and in line with his philosophy, which was similar to that of President Roosevelt and Governor Olson. Despite the heavy responsibilities of being chief justice, Phil Gibson had a quiet, pleasant way about him which made him thousands of friends. He was the kind of chief justice no one could hate whether they won or lost a case.

John R. Richards, a Los Angeles investment banker, was named to succeed Gibson as finance director, and I remained on as chief deputy.

Morris: Richards was rather a contrast to Gibson, wasn't he? Wasn't Gibson considered quite a radical in financial matters?

Killion: All New Dealers were considered radicals in the 1930s. I seemed to escape that brand because I was a conservative at heart. To continue, Richards got in a row with Governor Olson and quit after a few weeks.

The Governor asked me to take the top job. I felt honored and accepted at once. I remember the day of my appointment very well. It was a dramatic one in World War II.

The marauding and effective German battleship,

Killion: Bismarck, was located on its evasive escape course off the coast of Ireland. It had just sunk the British aircraft carrier, Hood, the pride of the fleet. Churchill had sent word to the fleet to track down the Bismarck and send her to the bottom at all costs.

I was following this exciting and pivotal chase on the radio. I was at the State Fair with Paul Peek, then secretary of state, with one ear glued to the radio when word came that the Bismarck had been sunk. I returned to the capitol and formally took office as state director of finance. It was a big day for me -- two wins in a matter of hours.

Morris: Which event overwhelmed you the most?

As Director of Finance

Killion: That's a difficult question. I wanted them to sink the Bismarck, but I suppose self-interest prevails with most persons and I guess it did that day.

In those early days of World War II we followed the events of the conflict with a sense of remoteness. Of course, we were pulling for the courageous British against the fanatic Hitler. Incidentally, the war could have been prevented if the Allies had stood up to Hitler at the Rhineland.

No person or country can compromise with a ruthless, power-mad rabble rouser. Hitler never should have been treated as a human being. He was inhuman -- from house painter to dictator to his inevitable suicide in the underground bunker, now a mini-park in East Germany with a grill through which you can look into his sub-surface living quarters.

Morris: That was a fascinating digression from the story of your appointment as director of finance.

Killion: That night I was sworn in as director of finance and proceeded to work on the 1941-1943 budget. It was Governor Olson's second budget.

I can well remember going before the senate for a hearing. The state senate recessed and then reconvened

Killion: as a committee of the whole. The senate follows this procedure when it wants to take up a particular matter not related to legislation. They wanted to question me on my qualifications. You will remember I had been chief deputy in the office of the director of finance but when the senate sent for me, I had only been director three days.

I decided to be completely frank with the members of the upper house. I determined to answer questions when I knew the answers, and when I didn't know, say so. I walked down the center aisle of the chamber and up the steps to the podium where the lieutenant governor normally presides. I told the senators, among other things, I would do the best job for the people of California I could. I said I would cooperate with the lawmakers to the full extent. I told them all budget hearings would be open to press and public.

When the session was over, I received a standing ovation. It was one of the most moving experiences of my life.

Morris: It must have been. Did this honeymoon last?

Killion: Believe it or not, it did. State Senator Edward Tickle of Carmel, a staunch Republican and the chairman of the Senate Banking Committee, became one of my strongest supporters when budgetary matters were before the legislature. The same was true of Senator Bill Rich of Marysville. As I recall, he was chairman of the Finance Committee. Senator Rich had a helpful habit of passing me little notes when I was being questioned about budget items by the members of the legislature.

Those were certainly interesting days for me. I remember at the end of the 1941-1943 two-year fiscal period we wound up with a surplus in the state treasury of around \$40 million -- the first such surplus in nearly forty years.

Morris: How did you manage to do that? That is quite an accomplishment.

Killion: As you undoubtedly know, approximately 70% of the state budget is in fixed expenditures. These are funds the

Killion: state is mandated to pay either by the legislature or by referendums which the voters have passed. The remaining 30% is the only place where economies can be effected.

My first move as state director of finance was to pick a number of governmental functions in this 30% category which had outlived their usefulness to the people, or were of such small value to the taxpayers that they should have been stricken from the budget. In striking out these items, I had the full support of the governor and the legislature. They believed my selection of bureaus and other subdivisions of the state government which I proposed be eliminated was wholly warranted.

Then the war industries were moving along on the West Coast at a rapid pace. Employment was soaring, and the state's share of that industrial growth was appreciable. These two factors -- the economies and the industrial growth -- brought in the \$40 million surplus.

Morris: This net surplus exceeded even your hoped-for projections, did it not?

Killion: That's right.

State Relief Administration

Morris: Was the budget deficit with which Governor Olson had to cope with in his first two years in office primarily due to relief expenditures?

Killion: Well, I would say the relief expenditures were a major factor in the deficit.

Morris: How did you, as state director of finance, regard the State Relief Administration?

Killion: The relief program was a very muddled affair, Mrs. Morris. When I first examined the operation, and the system for dispensing funds, I was amazed. A man by the name of Walter Chambers was the relief administrator.

Morris: Wasn't there quite a turnover in relief administrators? I remember Dewey Anderson was one.

Killion: Yes, turnovers in relief administrators added to the problem. Sam Yorty, then in the legislature, recently defeated as mayor of Los Angeles, headed a committee to investigate relief procedures.

Yorty was sincere in wanting to end the chaos or, failing in that, bring an end to the State Relief Administration. Incidentally, you recall Sam Yorty's political career. He served several terms in the Congress prior to becoming mayor of Los Angeles. He made several campaigns to become governor, and even ran for the presidency of the United States. [Laughter]

Morris: I've been told he just plain loves politics.

Killion: That is true. He has a very winning personality even though he sometimes sets his political goals too high.

Morris: Wasn't he involved in investigating communists in California?

Killion: Yes, he was a little Senator McCarthy. He saw a communist under every bed.

Morris: Was the charge made that there were communists in the State Relief Administration?

Killion: Yes. Yorty thought there were communists in the SRA. The difficulty is you can never be absolutely sure about charges of this kind. Perhaps there were a few communists involved in the program. I know there were Democrats and Republicans and people without party affiliations, just people of good will, who were involved in the relief administration.

Among the beneficiaries of the program were people who were fighting just to exist, and then there were those who didn't want to work and wanted the state to support them. Naturally, there were all types of persons in the act. You know I've been around quite a bit in my lifetime, and I am satisfied that the great majority of the people in this state and nation are basically good.

The attitude and comments of the returning POWS, and the very moving effect it has had on the American

Killion: people is a case in point.*

I shall never forget the remarks of the first POW to arrive at Travis Air Force Base. I was deeply impressed when he said, "We are thankful to the American people and our Commander-in-Chief for this day." And then, you will recall, he continued, "It was a privilege to have been of service to this country under difficult circumstances. God bless America!"

If the remarks of that first returning POW do not reflect the basic principles of Americanism, I don't know what does or could. I was glad President Nixon took a tough stand on the POW issue, and that it paid off.

Civil Defense

Morris: When you were with the Olson Administration, you had the beginnings of hostilities for the U.S. in the Second World War to cope with. It is difficult, I think for persons living in this decade to imagine the sense of urgency there was in California in 1941 -- the fear that there would be attacks on our coastline. Tell me about Governor Olson and civil defense.

Killion: The Governor was deeply concerned about the possibility of war, and organized a state militia.

Morris: Was it the Governor's opinion and yours that we would be engaged in hostilities within a fairly short time?

Killion: Yes. It seemed to us inevitable. Just as in the case of World War I, we were told we would not become involved, but our involvement was inevitable just as it was in World War II. And the reason for this

*This interview was recorded at the time of the return of the first U.S. prisoners of war from Vietnam.

Killion: inability to stay neutral was that foreign powers were threatening Western freedom and democracy. Governor Olson was concerned about the worsening situation. He was in almost constant telephonic touch with President Roosevelt. And I had the opportunity to audit these conversations in conference calls between Sacramento and Washington. As I recall the organization of the state militia, the army loaned the governor the services of Brigadier General Ray Hays.

I had numerous conferences with General Hays about organizing the state militia and in making it not a paper organization but a viable organization for the protection of people, state buildings and installations in this rapidly ending interim period. And as state director of finance, I handled the finances of the militia, seeing there was no waste, and that each dollar of the taxpayer's money gave him a dollar's worth of protection.

After the Pearl Harbor catastrophe and our entering the war, I had an interesting and, to a young man, a dramatic evening. The Assembly Ways and Means Committee had asked me to appear before them at a night meeting. They had a number of questions they wanted to ask me on a variety of subjects. I went home for dinner and on the way back to the capitol, I heard a news report that a Japanese submarine was at that moment shelling an oil refinery at Goleta, which is near Santa Barbara. This was pretty serious business. When I went before the Ways and Means Committee, they began to quiz me about the money being expended for the state militia.

They had apparently not heard the broadcast, so I said to them, "Gentlemen, the Japanese are shelling us at this moment at a refinery on the coast south of San Francisco. I think we are quibbling over insignificant matters." I went on to say, "It is evident we need a strong state militia." There was a hush and no more rambling questions about money for the militia. Governor Olson had heard the broadcast and had prepared a strong statement which I read to the committee. The day was won.

The Governor was always in tune with what was going on. For example, to keep physically fit, he and I played golf usually two or three times a week. If

Killion: something of importance occurred at his office in the capitol, a messenger would ride out to the course, locate us and hand the Governor a note. He would read it, write what he wanted done about the subject matter, send the messenger back to the capitol and continue with the game.

Before I became state director of finance, and when I was still secretary to Governor Olson, one of my duties was to take formal messages from the governor to the state senate. The procedure was, and still is, that I would go to the senate chamber, stand at the rear of the center aisle, wait to be recognized by the presiding officer, and declare, "I have the honor to present a message from the governor." Then I would walk to the rostrum and hand the message to the clerk of the senate, who would pass it up to the presiding officer.

You might be interested to know that when I was in the governor's office, one of the secretaries was a woman by the name of Ann Rasich. She returned to San Francisco when Earl Warren became governor, and is now secretary to Mayor Alioto.

Warren Becomes Governor

Morris: When Warren became governor, who succeeded you as state director of finance?

Killion: Jack Hassler, who at the time of his appointment was the city manager of Oakland. As a matter of fact, he was a very good friend of mine. We were both members of the Athens Athletic Club across the Bay.

Morris: Was there any thought of your continuing as state finance director under Warren?

Killion: The filling of that office is the top appointive position at a governor's disposal. A new governor invariably picks his own man to be finance director. Of course, there must be a carry-over by the incumbent director in order to make the operation of the state government fiscally sound. For example, I prepared

Killion: for Governor Warren his '43-'45 biennial budget.* I conducted the usual departmental and public hearings, and prepared the document which became the new governor's first budget.

I remember he came into my office one day and said "I'd like to keep you on as state director of finance. You have been extremely co-operative with me, but I have decided to name Jack Hassler to succeed you." Of course, I knew that as soon as I got the budget prepared, in the normal course of events Warren would name another director. So I told the governor-elect his decision to name Hassler was fine, and on January 3, I was on my way.

Morris: Were you active in the 1942 campaign when Olson ran for re-election against Warren?

Killion: I certainly was. I made platform speeches and radio addresses, and worked at various other activities in an effort to re-elect the governor. You notice I said radio addresses. We didn't have television in those days. No other factor in this century, has changed campaigning and the outcome of elections as has TV. It's strange to recall that in 1896, William McKinley conducted his successful campaign for the presidency from the front porch of his house.

Morris: Why didn't Governor Olson cross-file so he would be on both the Republican and Democratic tickets when Warren did this?

Killion: I'm glad you asked me that question. The decision not to cross-file was indicative of Governor Olson's high ideals and strong principles. He believed that cross-filing was a deception. He was a Democrat, not a Republican.

I and others around Olson pleaded with him to file on both tickets because we knew that a large number of Republicans would vote for him. But his answer

*See Appendix A, guidelines for preparation of 1943-45 budget, dated September 28, 1942, while Governor Olson was still in office.

Killion: was always the same -- "No, to cross-file would be deceptive, and I won't do it."

Morris: What effect do you believe Olson's failure to cross-file when Warren did, have on the outcome of the election?

Killion: It had a very substantial effect. There is no question about that. To put the campaign and Warren's candidacy in proper perspective, let me give you a bit of history. Then-Attorney General Warren asked Governor Olson for a very large increase in the attorney general's staff. The Governor and I discussed the request for what we regarded as too large an increase in deputies for Warren, and the Governor told me to take the request out of the budget, which I did.

Olson said to me, "I don't think this increase in personnel for the attorney general is necessary. The legislature has accused me of spending too much money, and I intend to economize wherever I can without impairing the proper functioning of state government."

I telephoned Warren at his main office in San Francisco and said, "I'm deleting from the budget the line items for the number of new deputies you have requested. I am doing this at the direction of the Governor." Warren came to Sacramento and pleaded with the Governor for the restoration of his staff increases to the budget.

The Governor flatly told him, "I don't think your desired staff increases are necessary. I am attempting to economize and the increases will not go back into the budget." And that was that.

Years later, Earl Warren told me that turndown by Olson for economy reasons convinced him he should run for governor. He said, "When the Governor would not give me a staff increase and would not accede to my personal request in our confrontation, I decided to be a candidate against him."

Morris: They also disagreed on the size and purpose of the state militia, didn't they?

Killion: Yes, they did. They had two completely opposite

Killion: conceptions of what a state militia should be. Olson felt very strongly that the militia should be of sufficient size to defend only those installations which the state -- any state -- normally protects -- bridges, dams, electric power plants, and so forth.

The big job of defending the coast line against an enemy lies with the Army and Navy and, in those days, their air components. Warren thought the state militia should be of sufficient size to do the whole job. His reasoning on this matter escaped me and always has. Olson was on sound ground in the stand he took.

Morris: Richard Graves name comes to mind in connection with the defense of the state from invasion. He was head of civil defense for Olson, and later for Warren. He must have been in a difficult spot with the two men holding opposing positions.

Killion: I would think so.

Morris: So you knew and worked with Dick Graves.

Killion: Yes, I did.

Morris: Did you have any contacts with him when he later became executive director of the League of California Cities?

Killion: Yes, I did but only to the extent that Mr. Graves was interested in state budgetary matters.

IV FINANCIAL THINKING

State Budget Decisions

Killion: You know the State Department of Finance, through its director and his staff, is the most powerful office in the state, second only to the governor. I'm speaking now of those departments which come under the governor. The finance department is responsible for the amount of money paid state employees, for the monetary promotions or demotions of these employees, for the budget of the University of California and the state universities and for all fiscal matters -- the manner in which the taxpayer's dollar is spent. I remember, for example, that at the beginning of the war, I cut the budget of the University of California, a budget which was supposed to be sacrosanct, by a million dollars.

Morris: Why did you do that?

Killion: First, I studied the enrollment figures of the university after the United States entered World War I. It was clear to me that with World War II, because of the draft, thousands of young men would be called into the armed services, and there would be a drastic reduction in college enrollments.

A. P. Giannini, then president of the Bank of America, was a member of the board of regents of UC. He came to Sacramento and asked me to restore the million dollar cut to the budget, I re-studied the figures I had drawn up, and replied, "Mr. Giannini, I would like to grant your request but the

Killion: figures do not justify it. My job is to reduce the budget consistent with the actual needs of the state. If it later develops the University needs more money, the funds can be obtained from the governor's contingency fund."

We had quite an argument but my answer remained, "No." Later, believe it or not, A. P. Giannini offered me a position as vice-president of the bank.

Morris: Because of your ability to say no and stick with it?

Killion: Could be. At any rate, I accepted the bank job only to turn it down before I got on the payroll. It was another turning point in my life. The reason I reversed myself was that President Roosevelt and Ed Pauley of Los Angeles, asked me to assist in Roosevelt's election to a fourth term with then Senator Harry Truman as Vice President. I became the finance director of the national campaign, and after the re-election of Roosevelt and Truman, treasurer of the Democratic National Committee.

It was a very rewarding job. Of course, I had known the President from the Olson days, and I had known Harry Truman back when he was a U.S. Senator from Missouri and chairman of the Senate committee which investigated war expenditures. You recall that the excellent job Truman did as chairman of that important committee had a great deal to do with Roosevelt selecting him as his running mate.

The President made an excellent choice in Truman. As history has proven, Truman was an intelligent, gutsy person and when President Roosevelt died and Truman had the full burden of the presidency thrust upon him, he showed his inner strength and his lifetime knowledge of people and how they were thinking. So you see, in the thick of life, paths suddenly open up to greater things. My conviction is that when these paths appear, a person should strike out and follow them and not look back. I suppose the old saying, "He who hesitates is lost," simplistic though it may seem, says it all.

Morris: You have been a fund raiser and dealt with money most of your life. I'm interested in your views on

Morris: fiscal matters versus political necessities. Let's go back to your incumbency as state director of finance during the Olson Administration. Did you think of the job in terms of career skills or were you primarily conscious of being a political appointee of the governor?

Killion: I never thought of the job of finance director in terms of politics. To have approached the job from that point of view would have been fatal not only to the economy of the state but to me and certainly to the Governor. I had a tremendous responsibility, and I made every effort to do the best job I could. I had a very fine career staff of civil service employees, and I geared in with them and kept politics in the background. This was the best service I could give the people of California and the Governor.

If the Governor asked me to make a speech on some program of his, I would if it was a program I felt was sound, otherwise I would not have made the speech and probably would have left the administration.

In any public office, a person must ask himself what is politics and what is government. Webster defines politics as the science of government. Therefore, a true politician is a person who is skilled in the art and science of government. I think too often the term, "politician" is misunderstood. Don't you?

World War II Priorities

Morris: The word can have many meanings, but I agree with you. Let me go back a bit to a subject which has always interested me. One of the decisions which has plagued Earl Warren over the years has been the internment of Japanese-Americans in California in 1941. What was Olson's position on that issue?

Killion: Well, as you know, the Attorney General of the United States is the person who ordered the construction of the detention camps. His feeling was that since

Killion: we were at war with Japan, the Japanese in this coastal state presented a real and present danger. Certainly there were thousands of loyal American-born Japanese who should never have been put in these camps. My wife and I have a little Japanese maid who has been with us eighteen years. She was just as loyal to this country as you or I, but she and her husband were put in a camp. Her husband died there of tuberculosis.

I think you have to be extremely careful in determining a person is disloyal to the United States and a menace-at-large. This is a picture you cannot paint with a broad brush. Senator McCarthy tried that, and we all know the results. These decisions become ineradicable errors in the history books.

Morris: Did you discuss with Governor Olson how you felt about the federal government building these detention camps?

Killion: My recollection on that point is not too clear. I know the Governor created the state militia to protect the state's resources -- highways, bridges and electrical plants. But we both felt it was the responsibility of the federal government to protect the state and the people.

A sidelight comes to mind. I was designated by the Army to issue travel priorities. One guaranteed you a plane seat. The second gave you a seat if space was available. And the third let you aboard if you did not replace military personnel. I didn't want the job but since it was assigned to me, I went through with it. The day-to-day routine, of course, was handled by a member of my staff.

I was invited by President Roosevelt to be a member of one of the small groups he liked to have in the oval office when he was making one of his famous fireside chats. I got a plane out of Sacramento but I got bumped at Albuquerque, New Mexico. I whipped out one of the top priority forms, filled it in and gave it to the boarding agent. He called it a fraud, and there was much running around and general confusion.

I said, "All you have to do is call the San Francisco Presidio and verify my credentials." They did and I wasn't bumped. But I was embarrassed at the time, and I still am. [Laughter]

Relations with the Federal Government

- Morris: While we have been talking, I have been glancing over the Olson budget you prepared as state director of finance. I see the economic picture was based in part on ten percent of federal defense contracts being in or coming to California. Was this due to the aggressiveness of California's congressional delegation?
- Killion: I'd say it was the combined efforts of Governor Olson and the delegation.
- Morris: Which members of Congress would you say were closest to the Governor?
- Killion: One was Representative Jerry Voorhis. You remember he was defeated by Richard Nixon in the President's first political campaign. Another was Representative Harry Shepherd. Actually, the Governor was close to all the members of the delegation and, as I have said, to the President.
- Morris: After Governor Olson left office, did he ever comment on some of the programs Governor Warren introduced, programs which were similar to those Governor Olson had attempted to get approved by the legislature?
- Killion: I think there was a feeling on the part of Governor Olson that Governor Warren was imitating him to a great extent. I maintained a close relationship with Olson for many years, and he spoke of this fact many times. Warren did become a liberal governor much to the surprise of many people. Then he became a liberal as Chief Justice of the United States.
- Morris: I know this was a surprise to many Republicans. Was it also a surprise to Democrats?
- Killion: I remember Governor Olson speaking at a luncheon in Los Angeles during Warren's second term. Olson spoke about Warren not following his earlier principles of conservatism.
- Morris: What do you feel was the impact of your work with state government?

Killion: Of course, we're all a product of our environment. It depends on your capacity to understand the impacts of environment.

My position in the state government did have a great impact on my life. For the first time I was able to see the public with different eyes because I had the power to do something about it.

In life, if you're going to accomplish anything which you hope is for the good, you must have the power to do it. Either the power of public office or the power of money. That position did have an impact, and I enjoyed it.

V LATER VENTURES

American President Lines

Morris: How did you become president of the American President Lines?

Killion: I was talking with President Truman in Washington one day when I was treasurer of the Democratic National Committee, and in the course of the conversation, I said, "Mr. President, if I had my choice, I would like to get back into private business." He had offered me the job of Secretary of the Navy, and this was by way of reply.

The President continued, "I've been talking with the Attorney General about that, and there is a position open as president of the General Aniline and Film Corporation. If you want the job, you may have it." General Aniline was a German firm which had been seized by the Alien Property Custodian. I felt the firm would either be returned to post-war Germany or become an American institution. So I said to the President, "I would like to make a suggestion for your consideration. You have just appointed Dr. Henry F. Grady, the president of American President Lines, your ambassador to India" -- he'd also been with the University of California at one time -- "I would prefer to succeed Dr. Grady as head of the steamship company."*

*Dr. Grady was a lecturer at UC from 1921 to 1928; professor of international trade and dean of the College of Commerce, 1928 to 1937.

Killion: Without a moment's hesitation, the President replied, "You have the job." And that is how I became president of APL, and managed to run it successfully for twenty years.

Morris: How did APL happen to be the property of the government?

Killion: The company was created as the result of the inability of R. Stanley Dollar to pay his debts to the federal government. Prior to the war, Mr. Dollar built several ships at a cost of about \$7.5 million. At that time, the government largely financed American merchant ships which travelled so-called defense routes. These were ships which would become vital to American protection in time of war.

The company had to repay a portion of these subsidies, and Mr. Dollar could not pay the government. So the government stepped in, took over the corporate structure of the Dollar Line, and changed the name to American President Lines.

The late Joseph Kennedy, father of President Kennedy, was then chairman of the National Maritime Commission. William Gibbs McAdoo was an early president of APL. He was followed by Dr. Grady.

Morris: That's very interesting. McAdoo, Dr. Grady, and you are all men who understood finance and business and who have been very much involved in the political life of our country.

Killion: I had a deep personal affection and regard for Dr. Grady, and his extraordinarily capable and charming wife, Lucretia del Valle Grady. Sometime after I became president of APL, Dr. Grady's health began to fail. I met him at a party, and he told me he was not feeling up to par. So I said to him, "Henry, why don't you take a trip and rest? I'll let you and your wife have the largest suite on either the President Cleveland or the President Wilson" -- the two flagships of the line I built. They sailed on the President Wilson and my wife and I went down to the pier to see them off. During the voyage, Dr. Grady died at sea. We brought him home for burial here.

Legal Issues

Morris: When you showed me the scrapbook on American President Lines, I noticed that there was considerable litigation with Mr. Dollar; he attempted to regain control of APL in 1951?

Killion: Let me summarize the case for you.

The government had taken over the line shortly before I became its president. By 1947, we operated APL in such a manner that it showed a considerable profit. And Mr. Dollar's debts to the government were paid. At that time, he said, "My debts are paid and I want my steamship line back."

Morris: I suppose he would make that point.

Killion: But the debts were not paid by Mr. Dollar. They were paid by the steamship line operated under government control. And I was the government-appointed president. So Mr. Dollar took the issue to court. The federal district court in Washington, D.C., found against Dollar. He appealed to the U.S. Court of Appeals, and that tribunal reversed the lower court and ordered me to turn over the company stock to Stanley Dollar.

I said, "I will not until this case is appealed to the U.S. Supreme Court. The Supreme Court refused to grant the writ we sought, and I, the U.S. Attorney General, and the Secretary of Commerce were all held in contempt of court.

Finally, at the suggestion of L. M. Giannini, who succeeded his father as president of the Bank of America, we entered into a compromise. Under the terms of the compromise, the company was sold under sealed bid in Washington for \$18,360,000. Half of the money went to Dollar and half to the government. And I became a member of the syndicate which bought the line from the government.

Morris: A transaction such as you have just summarized is so complex to the average person, it is easy for him to think some kind of political maneuvering went on.

Killion: You are touching on something which at that time caused

Killion: me considerable concern. I spent many a sleepless night trying to figure out a way to bid on the line myself, a way that would be ethical. I had enough money and free funds of the company to use, and dividends to pay back the free funds. But I always came back to the same conviction that if I, as president of American President Lines, headed a group which bought the line from the government, I could be accused of having inside information. So I joined the syndicate headed by Ralph Davies and Sam Moser of Signal Oil and several other men. And instead of winding up with 51 percent of the company, I came out with a minority interest. I built the line from a handful of ships to one of the greatest fleets in the world. I am still a member of the board of APL.

Communications Satellite Corporation

Morris: Tell me about the Communications Satellite Corporation and your part in it.

Killion: I think we are all agreed that rapid and accurate worldwide communication is essential as a means of preventing war, as an instrument by which people of one land can come to know the people of another, and for enhancing our ability to keep up with events in this fast-paced world in which we live. President Kennedy, of course, was a space pioneer. He asked me to help put together Comsat, which operates the global communications satellites.

Morris: Those are the satellites that send messages around the world?

Killion: Yes. If you watch TV any night, you'll see below the picture the words "via satellite." That's Comsat, of which I was one of the incorporators. On August 27, 1962, Congress completed passage of the Communications Satellite Act, which set forth a national policy for the establishment of a satellite system in cooperation with other nations. The Satellite Act authorized a new, private company to be formed to represent the United States in the satellite system. That company is Comsat.

The Satellite Act became law on August 31, 1962,

Killion: when the bill was signed by President Kennedy at a White House ceremony. The President and the executive department of the government were given special responsibilities for overseeing the implementation of the national policy set forth in the act. Congress provided that the President report to the membership annually on the activities and accomplishments of the new law. The President gave recess appointments to the incorporators, invested them with the responsibility for directing the initial activities of Comsat. I think it would be of interest to you to know who these original directors were. I was one, and the others were --

Beardsley Graham, president, Spindletom Research, Inc.
 Philip L. Graham, president, The Washington Post
 John T. Connor, president, Merck & Co.
 George T. Feldman, vice president & counsel,
 Mastan Co.
 Sam Harris, attorney, New York
 Edgar F. Kaiser, president, Kaiser Industries
 Corporation
 David M. Kennedy, chairman, Continental Illinois
 National Bank & Trust Company of Chicago
 Byrne Litschgi, attorney, Tampa
 Leonard H. Marks, attorney, Washington, D.C.
 Bruce G. Sundlun, attorney, Providence, R.I.
 & Washington, D.C.
 Sidney J. Weinberg, partner, Goldman, Sachs & Co.
 Leonard Woodcock, vice president, UAW-CIO

The incorporators set up the necessary technical and office staffs to bring the communications satellite into being, and proceeded to put together a \$200 million stock issue. The initial stock issue was oversubscribed the first day.

On April 16, 1964, Comsat awarded its first hardware contract to Hughes Aircraft Company for an experimental, operational satellite, to test the feasibility of synchronous orbits for commercial communications satellites. The first satellite was named "Early Bird" and later designated "Intelsat I." So, you see, Comsat is a private corporation like P G & E or the American Telephone and Telegraph Company, or

Killion: any other corporation. Like other electronic media, it is subject to government regulation. In addition, the President appoints three of the directors.

The stockholders appoint the rest, and I am one of those. This communication satellite is of extreme importance. Most wars are unnecessary and could have been prevented had there been better communications between nations. The Guns of August -- I'm sure you have read it -- points out there was great difficulty in communicating with Kaiser Wilhelm after the assassination of Archduke Ferdinand in Sarajevo. And there was difficulty in communicating with Prime Minister David Lloyd George. It took hours to code a cablegram at one end of the line, and hours to decode it on the other. So we had a war. Prior to World War II, there was delay and compromise as well. Hitler should have been stopped when he began reoccupying the Rhineland.

Then Chamberlain went to Munich with his furled umbrella and returned to England to utter a tragic and totally incorrect prophecy with a phrase pilfered from the Anglican Book of Common Prayer -- "peace in our time" -- and we had another war. The series of summit conferences with other countries, I am satisfied, is paving the way for a peaceful world. The fact that there is a hot-line telephone to Moscow on the President's desk is a most valuable means of keeping the peace.

United Nations

Morris: You were close, were you not, to President Johnson?

Killion: Yes, we were very good friends, and in 1966 he appointed me a delegate to the Twenty-First General Assembly of the United Nations. He subsequently honored me with the rank of ambassador. As you can well imagine, this was an extremely fascinating job because the people with whom I was associated were from countries all over the world -- countries with a variety of problems, interests, and loyalties.

The United Nations is an organization which gives the people of the United States a unique insight into the political, economic, and social attitudes around the world.

Killion: While I was serving as a member of the delegation to the United Nations, I was a member of the finance committee and the economic committee. I was particularly interested in the finance committee. As you know, there has always been a strong feeling among the people of the United States that the other nations of the world should pay their fair share of the cost of maintaining the United Nations and its peace-keeping facilities, instead of the American taxpayer bearing an inordinate share of that bill. I fought strenuously for this position because I saw no reason why we should pay so much of the bill. As you know, the UN came into being here in San Francisco when President Truman and representatives of the other nations signed the original charter at a colorful ceremony in our Opera House.

VI BIPARTISAN FRIENDSHIPS

Hoover, Truman, and Others

Morris: You have worked with some of our country's most distinguished men.

Killion: Life has brought me many fine friendships, and it is an ongoing experience. One name that occurs to me at the moment is Adlai Stevenson. He would have made a great President. He had a most distinguished career as the United States Ambassador to the United Nations, for example. Another man I admired greatly and whose friendship I enjoyed was Herbert Hoover. When I was president of APL, I bought for the company a Panamanian ship called the S.S. Panama. We remodelled it, and I changed the vessel's name to the President Hoover. I read that Mr. Hoover was about to come to California to attend the annual summer encampment of the Bohemian Club on the Russian River.

The S. S. President Hoover was in port at Mission Rock so I called Mr. Hoover at the Waldorf-Astoria in New York, and said I would like to give a luncheon party for him and his longtime friend, Joe Knowland, aboard the ship. Mr. Hoover replied, "I'd love it." I invited the former President to make up the guest list and he included in it a number of his former associates at Stanford University. It was a grand affair. Goodwin Knight, George Christopher, and a host of other prominent persons were there.

I remember an earlier party I gave for Mr. Hoover. During the luncheon I took out of my pocket a book he had written when he was Secretary of Commerce. It is called American Individualism. I showed it to him and tears came to his eyes. He said, "George, you are the only person I've met in recent years who has a copy of this book."

- Killion: Later I was asked to record my relationship with the former President for the Hoover Library at West Branch, Iowa, where Mr. Hoover was born in the summer of 1874. I was delighted to do so.*
- Morris: While I have been listening to you, Mr. Killion, I happened to notice a carving on your desk. What is a long-time Democrat doing with an elephant on his desk?
- Killion: When I was president of APL, I thought it would be nice to give each round-the-world passenger a memento of his or her trip. We selected these carved elephants, and on the side we had a plate with their name inscribed on it, and above the name the eagle, which is the insignia of American President Lines. I can assure you the elephant has nothing to do with politics.
- Morris: I was interested in your supporting the re-election of President Nixon in 1972 and the active role you played nationally and in California as a prominent Democrat for Nixon.
- Killion: I just didn't think McGovern had the capability to run our government. I made my decision to speak out in favor of President Nixon right here in this office. And I wrote a statement saying I was remaining a Democrat but that I would vote for and work for the re-election of Richard Nixon. I said, in the course of that statement, that the re-election of the President was in the best interest of the national welfare. I sent word to the President that I was releasing this statement to the media, and he called me several days later in Palm Springs to thank me for my support.
- Morris: I notice you have a billfold in your hand.
- Killion: Let me read you the inscription on it, "To George from his friend, Harry Truman."
- Morris: I would say that is a very special billfold, one you wouldn't want to carry around with you for fear the

*A copy of Mr. Killion's reminiscences of Mr. Hoover is in the Bancroft Library.

Morris: inscription might become blurred. One of my favorite stories is the one about Truman saying that Earl Warren is a Democrat, but he doesn't know it.

Killion: That is interesting that you remember that. We used to have a birthday party for the former President annually in Kansas City after his retirement. When the President died, we formed a committee to memorialize Mr. Truman on the date of his birth, and to name an outstanding citizen to be the recipient of the Harry Truman Award. The first recipient was Earl Warren.

Support for Killion for Governor

Morris: With all your experience in politics and your incumbency in state office, did you ever consider running for office yourself?

Killion: Yes, I did. In 1953, I thought very seriously about running for the Democratic nomination for governor in 1954.* What made me think about it was that a group of state senators and congressmen wanted me to make the run. They appointed the late Senator George Miller as their spokesman. We had lunch at the Stock Exchange Club and Senator Miller, who never beat around the bush said, "We want you to be the Democratic candidate for governor next year," and he listed practically the entire Democratic bloc in the upper house.

Morris: Richard Graves was the nominee in 1954, wasn't he?

Killion: That's is right.

Morris: Having decided not to run, how did you feel about Mr. Graves' candidacy?

Killion: Dick Graves was then a young and very capable individual but what he lacked was the proper foundation for his candidacy. I remember the late Lou Lurie and former Mayor George Christopher said they would organize Republicans for Killion if I would run. George

*See Appendix for contemporary press clippings.

Killion: Christopher frequently shakes his head when he sees me even at this late date, meaning, "You should have run." I thought about running for governor again in 1958, and probably would have been the nominee if Pat Brown hadn't jumped the gun on me.

Morris: When Dick Graves became the Democratic nominee for governor in 1954 did you regret your decision not to run?

Killion: I will always have mingled emotions about that decision. I would have had to take a leave of absence as president of APL but that could have been arranged. I think to have been elected governor of California at that time in history would not only have been a challenge, but who can say what might have later developed. But, like all decisions we make, you have to learn to live with it, not dwell on the past but go on to something else which is stimulating and productive.

Morris: Frequently that is something which is easier said than done, but you certainly didn't let it keep you from going on to many other accomplishments.

Killion: Let me wind up this very pleasant interview with an anecdote which I think may be of interest to your Warren researchers.

We had brought Crown Prince Akihito of Japan, across the Pacific on the President Wilson. He was en route to the coronation of Queen Elizabeth. On his way home, he stopped off in San Francisco before he sailed for Japan. I was then the president of the Japan Society. I reserved the Venetian Room at the Fairmont and gave him a huge party. I remember the room was decorated with live trees and chrysanthemums.

Governor Warren was supposed to be present but the day before President Eisenhower had named Warren Chief Justice of the United States. Goodwin Knight, the lieutenant governor, automatically became governor so he was there in Warren's place. Also at the luncheon was Mrs. Ambrose Diehl, the widow of a steel executive and the official State Department hostess for dignitaries passing through San Francisco. She had the same position now held by Mrs. Bernice Behrens, the wife of Earl Behrens, political editor of The Chronicle. Well, after the luncheon, Governor

Killion: Knight and Mrs. Diehl and I were standing together, and Mrs. Diehl said to me, "George, if you run for governor, I'll support you."

Morris: Did the Democrats feel Knight was not a strong enough man to be governor?

Killion: Yes, that was the feeling among leading Democrats. When you think of the training that resulted from Richard Nixon's many campaigns and his service in the House, the Senate, and the Vice-Presidency, you know he has to be strong, experienced and knowledgeable about government.

Morris: I see you have a picture there of you and President Nixon when he was a much younger man.

Killion: Yes, the ship in the background is the S.S. Hope. I put it in service for APL. As Vice-President, he came to San Francisco to dedicate with me that ship of mercy.

[When Mr. Killion returned his revised transcript to the interviewer, September 29, 1973, he mentioned that there were several things about political life that he would like to add by way of summary.]

Killion: Three areas face our nation for reform, issues that are pressing for solution by the American people. Not necessarily in order of priority, they are: reform of our nation's judicial system, and reform of political fund-raising operations of all parties and at all levels -- national, state, city and municipality. We must also find some solution toward ensuring the responsibility of the news media without resorting to censorship. I believe in freedom of the press, but there must be some answer to this complex problem.

Morris: As a former newsman yourself, do you have any suggestions regarding the media question?

Killion: I've thought about that a long, long time. I have concluded that the concept of a free press does not mean the freedom to suppress or distort a story as an individual editor or reporter sees fit. The media has a definite responsibility, to the public for accuracy, responsibility and accountability.

Killion: As it is now, they can come out with any wild story about an individual, and he has no recourse except a libel suit.

Morris: That relates to access to the media, doesn't it?

Killion: To a certain extent. I've noticed that recently some TV stations are giving a little bit of time to private citizens or groups who want to express themselves on some topic.

But that kind of free speech thing is not the answer to people with the audience and ratings of Cronkite, Howard K. Smith, or Buckley. They can say what they wish -- and what chance does a private citizen or public official have to answer or correct them?

In regard to our judicial system, we must have reform of the courts so that people accused of a crime will be brought to trial within a specified time -- procedural reforms. I was playing golf in Washington a while back, at the Comsat Tournament (I was playing with H. A. Johnson and Dean Burch) and I said to Secretary Johnson, "What do you think is the greatest problem facing our country?"

Without hesitation he said, "Reform of the judicial system." Why, I've read in the papers about people who have been in jail as long as eight years and still haven't come to trial.

Morris: And fund-raising for political campaigns -- what changes do you think might be for the better?

Killion: Well, again, there are so many ideas around: I don't know that we have the answer yet. Perhaps to do away with all private contributions and have those who wish to contribute designate a certain amount on their tax return. Another way might be to set up a fund from public money, based on so much for each person who voted in the last election and then divide that among the candidates.

Morris: You've zeroed in on issues that have become especially significant in regard to the present crises in Washington. What kind of changes do you think will result from the hearings and court actions now going on?

Killion: Doubtless reform of political financing will emerge

Killion: from the present Washington investigations. But any improvements of our judicial system will undoubtedly await further study and action by proper government agencies. The "freedom of the press" issue will slowly unfold as articulate groups, including the news media itself, come to realize more and more that responsibility, accuracy and accountability are essential if the ideals and objectives of our founding fathers are to be safeguarded in the interest of all the people. It is the touchstone of all freedom.

END OF INTERVIEW

Transcriber: Marilyn Fernandez
Final Typist: Gloria Dolan

APPENDIX A

Warren Offers Plan to Cut Taxes 17 Millions

State financing of old age pension costs in order to permit reduction of local county tax rates was advocated today by Attorney General Earl Warren as a part of his tax reduction program in his campaign for governor.

Warren announced that if elected he will seek immediate action by the Legislature to have the State take over the counties' share of old age pension costs, thereby enabling the counties to reduce property tax rates an average of 24 cents per \$100 of assessed valuation.

State financing of the old age pensions would make possible a tax saving of more than \$17,000,000 a year for California home owners, farmers and other common property taxpayers, Warren said.

REPEAL INCOME TAX

In his first tax reduction statement several days ago, Attorney General Warren announced that he favored repeal of the State personal income tax. The saving to income taxpayers—roughly \$20,000,000 a year—coupled with the \$17,000,000 saved in property taxes proposed in his statement today would make possible a total tax reduction of \$37,000,000 a year.

The non-partisan candidate for governor, in his statement today, again charged the Olson Administration with reckless waste of public funds and declared that "if Governor Olson was dealing fairly with the people, he would call a special session of the State Legislature immediately and have the State take over the counties' share of old age pension costs at once, so that the saving could be reflected in the new tax rates which are now being determined."

WARREN STATEMENT

Warren's statement follows:

"Due to business and industrial expansion resulting from the war, State tax revenues exceeded State expenditures during the fiscal year just ended by nearly \$70,000,000, according to the State Controller's report. During the current fiscal year, it is probable that the excess of income over outgo will be as great as \$100,000,000.

"This condition makes it both feasible and desirable that some measure of relief be accorded our taxpayers by reductions in State and local taxes which will serve as a partial offset to the drastic increases in Federal taxes which have been occasioned by the war.

"I have previously stated that I favor repeal of the State personal income tax, which will reduce the State tax load more than \$20,000,000 a year. As a second step in this program of tax reduction, I shall recommend to the Legislature next, January, if I am elected governor, that the State take over the coun-

ties' share of the cost of old age pensions. This would accomplish a saving of more than \$17,000,000 a year in local taxes and would make it possible for the counties to reduce property tax rates an average of 24 cents per \$100 of assessed valuation.

RELIEF 'VETOED'

"The Legislature recognized the need for some such relief to local taxpayers as early as the 1939 session, when it passed Assembly Bill 2870, which proposed to appropriate \$8,700,000 to relieve the counties of approximately half of their share of the cost of old age pensions during that fiscal year. Governor Olson, however, whose creed seems to be 'Never give the taxpayer a break,' pocket-vetoed the bill.

"Again at the 1941 session, the Legislature passed Senate Bill 133

which would have transferred administration of unemployment relief to the counties, including generous State financial aid. This bill also would have increased the State's share of old age pension costs from one-half to two-thirds of the State and local cost remaining after the Federal contribution. But this bill was likewise vetoed by Governor Olson.

"Now, I understand, Governor Olson has indicated that he favors the State taking over the counties' share of old age pension costs, but his acts belie his words. If the Governor is sincere in that stand, he should call the Legislature into special session and have the necessary legislation enacted at once, so that the counties could pass the saving along to their taxpayers now while new tax rates are being

Oakland Tribune, August 7, 1942

APPENDIX B



C. E. COOPER
DEPUTY CHIEF

STATE OF CALIFORNIA

Department of Finance

DIVISION OF BUDGETS AND ACCOUNTS
SACRAMENTO

September 28, 1942

TO: ALL STATE DEPARTMENTS, BOARDS, COMMISSIONS INSTITUTIONS,
COLLEGES, AND SPECIAL SCHOOLS

SUBJECT: BUDGET REQUESTS FOR 1943-1945 BIENNIUM
(95th & 96th FISCAL YEARS)

The Governor has requested the Department of Finance to prepare the executive budget for the 1943-1945 biennium. Since the Constitution requires that the budget be presented to the Legislature within the first thirty days of the regular session and prior to its recess, each State agency should prepare its budget requests and estimates immediately and forward them to the Department of Finance not later than October 25, 1942. In the preparation of your request, consideration should be given to the policies, procedures, and statements set forth herein.

POLICY

Our nation's all-out war effort demands that every resource and every energy be dedicated to the high purpose of victory at the earliest possible moment. To achieve that goal further drastic changes in the normal operations of government, as well as in the private lives of its citizens, are required. Governmental luxuries must go! This is a war not only of Armies and Navies, but of peoples and all of their governmental political subdivisions. In order to gear the budget program of the State of California to the stern realities and necessities of war, each agency will be guided by the following policies in compiling its requests for 1943-1945:

- (1) Requests should be based upon the assumption that the war will continue through out the next biennium,
- (2) Activities which are made necessary by the war effort or which contribute directly to the prosecution of the war should be provided for to the full extent required for their effectiveness.

- (3) All other activities and functions, however, must be examined critically as to their necessity under war time conditions and every expenditure which does not distinctly serve an essential need in war time must be eliminated.
- (4) Arbitrary reduction in the quality or quantity of services rendered is necessary. The public will accept war-time standards of services and expects the State of California to adjust its activities to changing conditions.
- (5) Those agencies which have assumed additional responsibilities as a result of the war should continue to make every effort to finance the new expenditures within the agency by curtailment or elimination of the functions not essential to the war program.
- (6) Special items connected with the war effort should be clearly indicated in the request, if distinguishable from regular activities. Such items should be provided for on an emergency basis only and are not to be treated as a permanent activity of the agency.
- (7) No construction or improvement items should be requested, except those which are so essential that they cannot be delayed and which can clearly qualify for priorities under government restrictions. A 10-year building program has already been submitted by the State agencies and is now being formulated into a post-war construction program, therefore, there is no need to make further requests at this time. Equipment items should likewise be limited to those obtainable under present regulations. Budget allowances will be limited to such items.
- (8) Your budget should be compiled on the basis of presently existing prices, with no allowance for further increases. It is assumed that the Federal government will exercise a control of both wages and prices to an extent sufficient to preclude insurmountable increases in the general level of prices.
- (9) To offset the fact that normal replacement of State-owned equipment will not be possible, every maintenance process should be fully provided for and utilized so as to extend the useful life of existing facilities.
- (10) Every effort should be made to effect operating economies. This department offers its cooperation in an advisory capacity to all agencies on administrative changes that may be made. Illustrative of steps which may be taken to curtail expenses are:
 - (a) Every position which is now vacant or will become vacant should be evaluated in light of changing conditions before any attempt is made to refill.
 - (b) Necessary replacement of employees now leaving the service to go to the armed forces or into private employment should be made, wherever possible, by transfer from one administrative unit to another.

- (c) Non-essential publications and documents must be discontinued to save paper and printing costs.
 - (d) The amount of travel must be curtailed and the use of automobiles must be reduced to a minimum.
 - (e) Use of long distance telephone, telegraph, or teletype must be reduced.
 - (f) Equipment such as desks, chairs, tables, typewriters, adding machines, etc., should be refinished and rebuilt in lieu of replacement.
- (11) Budget requests should not anticipate the adjustments which will be necessary upon the cessation of hostilities, such as return of employees from military leave, the termination of war emergency activities and the resumption of normal functions which may have been suspended for the duration of the war. These adjustments are so extensive and unpredictable as to render impractical any advance preparation therefore in the budget, and will inevitably require administrative and legislative action based upon the conditions then existing.

BUDGET PROCEDURES

Several major changes have been made in the composition of the 1943-1945 budget schedules in order to simplify the work of preparation. These include the consolidation of service, expense, materials and supplies into one category of operating expenses; also the elimination of the itemization of prior year expenditures under the category "Salaries & Wages" and the substitution therefore of the ranges of pay. A full explanation of these changes will be forwarded to your accounting officer with the instructions.

Provision for salaries and wages should include the recent 15% emergency salary adjustment extended through the next biennium, since appropriations will be requested of the Legislature to finance the increases from February 1, 1943, thenceforward.

Institutions, schools and other agencies whose budgets are based upon population, enrollment or similar measurable units of work load should confer with this department as to their estimate of such work load before finally completing and submitting their budgets.

STATEMENT OF JUSTIFICATION

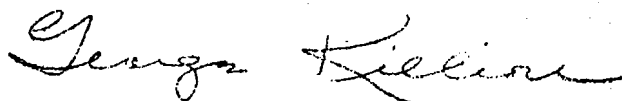
A statement of justification in triplicate, and on letter size paper, is to be submitted to the Director of Finance, together with the budget requests. This statement should contain a general summary of the work program of the agency as reflected by the budget request: what has been included; what changes from the last biennial budget in terms of program; and the reasons for those changes.

Please state the reasons for your requests. A mere description of budget items and the amount of money involved is not sufficient.

Your statement should include work load data, comparative personnel information, and like material which illustrates the character of your budget. In addition, there should be set forth a description of the economies effected during the current biennium and the further economies proposed in the budget requests. This material will be extremely valuable in the analysis and the presentation of your budget to the Governor.

An opportunity will be given every State agency to discuss thoroughly with the Director of Finance or his representative the budget requests for the next biennium, should the agency desire such a hearing. As the time available for completing the mechanical preparation of the budget to place it in final form for the printer is exceedingly short, each agency is asked to make every effort to submit its budget requests as early, as possible before October 25.

Yours very truly,



George L. Killion
Director of Finance

WARREN RUSHES HIS POLITICAL CLEAN-UP, MAKES APPOINTMENT

Stormy Sessions of Legislature Awaited as Mismanagement Charges Seen

SACRAMENTO, Dec. 5 (U.P.)—Governor-Elect Earl Warren and two inquisitive state budget groups today delved into assorted charges of mismanagement, politics and unnecessary expenditures, indicating some hot sessions when the legislature reconvenes next month.

The joint legislative committee on budgets and Warren's budget hearings conducted by Finance Director George Killion, met again today to sift the startling accusations.

Here were some week-end highlights:

1. Legislative Auditor Rolland Vandegrift told the joint legislative group that the State Guards' affairs were "hopelessly confused" through inefficiency, politics and mismanagement. The proposed 1943-45 budget item by the State Guard for \$37,994,096, was an increase of \$26,783,834 over the current biennium.

2. Vandegrift accused state officials in charge of the Cliff Hotel in San Francisco with operating a politicians' paradise, with free penthouse and room accommodations and, bar privileges for favored persons. The hotel is included in Pacific Savings and Loan Association properties which are under operation by the state building and loan commissioner. Vandegrift said the \$22,000 annual income of the hotel was "unbelievable."

3. Vandegrift revealed plans of the adjutant general's office for a proposed reorganized State Guard setup of 10,000 instead of the present 7000, calling for enrolling of youths between 16 and 18. Abandonment of the State Militia was foreseen, since there was no appropriation asked for the next biennium.

4. The State Department of Public Health requested a budget increase of \$775,000, chiefly for establishment of a southern California branch of its laboratories.

5. Vandegrift criticized too many high salaries in the State Council of Defense setup.

6. Warren and the legislators revealed a close harmony on comparing budget notes before the final document goes to the legislature, with resultant economics and minimum of public bickering. All officials hammered unceasingly in hearings for strict curtailment of state activities to all but wartime necessities.

Oakland City Manager New Finance Chief

SACRAMENTO, Dec. 5 (U.P.)—Governor-Elect Earl Warren today appointed John F. Hassler, city manager of Oakland, to the key position of director of finance for the new administration beginning next month.

Hassler will receive \$10,000 per year. It was Warren's first choice in his cabinet.

Warren and Hassler have been life-long friends. The new director is 51, was born in Oakland, and was a long-time cashier of the Central National Bank of Oakland before becoming city manager in 1933, a position he has held since that time.

Hassler is a Republican and once served on the State Athletic Commission during the Rolph administration.

Warren said the new director would come to Sacramento next week to participate in the budget hearings now under way. He will be in charge of the half-billion dollar bequest which goes to the legislature in January.

Warren praised George Killion, finance director for retiring Governor Culbert L. Olson, for carrying on the budget hearings until he could choose from a large field for the important post.

Hassler and Killion will cooperate in preparation of the budget, Warren said.

Oakland Tribune, December 5, 1942

APPENDIX D

Oakland Tribune, December 6, 1942

EDITORIALS

Budget Conflicts

There is a conflict between spending habits in various departments of the State Government and the demand for economy on the part of Governor-elect Earl Warren and the new Legislature which may yet produce some fireworks before the new administration gets fully under way. First indication of the brewing trouble is in the budget hearings now going on in Sacramento as a prelude to the legislative session commencing January 4th. Warren has repeatedly stated that the budget of expenses which he will ask the Legislature to approve will contain only necessary activities of Government. Department heads are asked to eliminate all expansions and increases of functions unless they are directly connected with the war effort. Legislators, too, have indicated in pre-session statements that they will insist upon strict economies, and many of them are clamoring for cutting out "deadwood" in State offices. In spite of these appeals, most of the department heads have submitted budgets of proposed expenditures which call for more money. Even the horse racing board is asking for more money,

although racing in California is now confined to one track and may be discontinued at any time by the Army authorities. Many departments are asking for the creation of more jobs even though many jobs are unfilled now because employees are leaving the State service to join the armed forces. It seems that bureau chiefs refuse to recognize the war effort and the necessity for restricted spending, and want to carry on as usual. The net result of such an attitude is little confidence will be placed in departmental requests, and more attention will be paid to the budget committee set up by the Assembly and the Senate. This committee, headed by Senator William P. Rich of Marysville, will submit recommendations independent of the finance director, and it seems likely that Warren will lean more heavily upon this committee's work than upon the usual departmental requests. It will be welcome news for taxpayers to learn that the days of padded expense programs have ended.

GEORGE KILLION
DIRECTOR OF FINANCE



CULBERT L. OLSON 52
GOVERNOR

STATE OF CALIFORNIA
Department of Finance
SACRAMENTO

December 21, 1942

Mr. Aubrey Drury, Administrative Secretary
Save the Redwoods League
114 Sansome Street
San Francisco, California

Dear Mr. Drury:

Governor-elect Earl Warran has indicated his approval of an item of \$102,222 to be included in the next biennial budget for the continuation of the acquisition of additional land in the Avenue of the Giants, Humboldt County, and the purchase of additional land in the Mill Creek Redwoods Forest, Del Norte County.

This is the reply to your letter of December 2, 1942.

Yours very truly

A handwritten signature in cursive script, appearing to read "George Killion".

George Killion
Director of Finance

Killion Undecided on Governor Race

S. F. CALL-BULLETIN ☆☆☆ Sat., Sept. 12, 1953 3

APL'S KILLION WEIGHS RACE FOR GOVERNOR

Democratic Leader
'Studies Situation';
Decision Pending

By C. LYN FOX

Call-Bulletin Political Editor

George Killion, president of the American President Lines and for years a Democratic party leader in California, is approaching a decision on whether to run for governor next year.

That Killion was seriously weighing the advantages and disadvantages of entering the gubernatorial race was first disclosed exclusively in The Call-Bulletin.

In a formal statement today he said he will further study the situation upon his return from vacation next week and "may have" something more to say on the subject.

OFFERS OF SUPPORT

The nationally known Democratic leader said he had been requested repeatedly to clarify his position by influential leaders in both the Democratic and Republican parties. He has had offers of strong support from these leaders, he added, and continued:

"As one who has already served the people of California as state director of finance and in other official capacities, such as chairman of the board of control, member of the California Toll Bridge Authority and the State Water Authority, I am appreciative of and impressed by the bipartisan tenders of help which have come from sincere interest in surprising volume.

"In the most rapidly growing state of the union, confronted by grave tax, school, health and transportation problems, leadership must be provided that is experienced in governmental, financial and business affairs, and at the same time is alert and progressive in all matters af-

AGREES WITH WARREN

Killion emphasized "this leadership must be provided irrespective of what party or what man is involved."

He said he agrees with Governor Warren that periodic changes in administration are essential to the health of representative government.

"But I also feel," he added, "that the voters of California should have an opportunity to vote for a complete change in Sacramento, now that Governor Warren will not seek re-election. I feel that the voters will be ready for such a change in 1954."

Killion paid tribute to the service rendered by Governor Warren.

KNIGHT SEES TWO-PARTY NOMINATION

LOS ANGELES, Sept. 12 (INS).—California's Lieutenant Governor Goodwin J. Knight, formally announcing his candidacy for the governorship today, said he would seek both the Republican and Democratic nominations.

The Republican said that almost half "of tens of thousands of pledge cards" he has received have come from Democrats.

Knight also had a word on state governmental expenses. He said:

"My years of experience in Sacramento convinces me that the cost of government can be cut without jeopardizing services essential to the people."

APL Head Has Offers of Support

Thinks Democrats
Should Take Over

George Killion, president of American President Lines and active in the Democratic Party, said today he hasn't made up his mind on running for governor of California.

His name has been mentioned many times, with increasing emphasis since Governor Warren announced he would not seek re-election.

Killion, former state director of finance, noted his own position in these words:

"Repeated requests have been made by leaders of the Democratic Party in California, and by many persons of influence in the Republican Party also, that I clarify publicly my position regarding the possibility of becoming a candidate for governor."

Support Offered

He said he's received "offers of definite and strong support" from both parties, and noted that in California "leadership must be provided that is experienced in governmental and business affairs, and at the same time is alert and progressive in all matters affecting the public interest — irrespective of what party or what man is involved."

He made it clear he feels a Democratic administration is needed, pointing out that he agrees with Governor Warren that periodic changes in administration are essential, and adding that "voters should have an opportunity to vote for a complete change in Sacramento."

Likes Present Job

Killion said he would be "extremely reluctant" to quit his job as head of the steamship line "unless there was sufficient reason to believe there were far wider opportunities for public service — opportunities which would make it possible for me to work constructively for the further development of our state and the welfare of its people.

"I know something of the challenge demanded by public service," Killion continued, "but no one can remain indifferent to an honest opportunity to serve his country or his state."

Killion said he would make up his mind after talking over the situation with "friends and associates" on returning from his

San Francisco Examiner 3
 Sunday, Sept. 13, 1953 ★ CCCC**

KILLION ISSUES ALMOST A 'YES' ON 1954 RACE

Promises Definite Stand On Governorship Soon

George L. Killion, president of the American President Lines and a power for many years in Democratic politics, almost tossed his hat in the ring as a candidate for Governor of California yesterday.

In a formal statement issued by a public relations firm which he has retained, Killion stopped just short of making an announcement of candidacy.

URGED TO RUN.

He said that leaders in the Democratic Party, as well as influential Republicans, have been urging him to run for Governor. Killion thanked them for their good will, and promised:

"Upon my return from a brief vacation, I shall discuss the situation in detail with friends and associates, and later may have a further and more definite statement to make."

Killion has been vacationing and sounding out political sentiment in southern California for a week, and is expected to return to San Francisco in a few days.

KNIGHT OPPONENT.

If he decides to run, the big fight in 1954 will be between Lieutenant Governor Goodwin Knight, who long since announced he would seek the Republican nomination, and Killion, a Democrat.

In his statement of yesterday, Killion said he has received repeated requests by leaders of the Democratic Party in California, and by many persons of influence in the Republican Party also, "for clarification of my position regarding the possibility of becoming a candidate for Governor."

PRESSURE GROWS.

Killion declared that the pressure on him to make the race has increased heavily since Governor Earl Warren announced he will not seek re-election. New offers of "definite and strong support have been received, and from both political parties."

Killion pointed out that he has had considerable experience in public affairs. He served former Governor Olson as State Director of Finance and in other posts, and has been both assistant treasurer and treasurer of the Democrat National Committee.

ON LEADERSHIP.

"Leadership must be provided that is experienced in governmental, financing and business affairs, and at the same time is alert and progressive in all matters affecting the public interest," Killion's statement said. "It must be provided—irrespective of what a party or what man is involved."

"I agree with Governor Warren that periodic changes in administration are essential to the health of representative government."

"But I also feel that the voters of California should have an opportunity to vote for a complete change in Sacramento, now that Governor Warren will not seek re-election. I feel that the voters will be ready for a change in 1954."

Killion said he would be reluctant to leave the "challenging and absorbing position as president of a steamship line," unless there was sufficient reason to believe there were far wider opportunities for public service—"opportunities which would make it possible for me to work constructively for the further development of our State and the welfare of its people."

South Boosts Killion for Governor

By EARL C. BEHRENS
 Political Editor, The Chronicle

Southern California Democratic bigwigs are beginning to boost George L. Killion of San Francisco, president of American President Lines, as the best bet of their party for Governor next year.

The newest development, according to an informed source from Los Angeles, is that the Democrats are becoming cognizant of the fact that Lieutenant Governor Goodwin J. Knight is beginning to concentrate on the Democratic vote for Governor at the June, 1954, primaries. The Democrats want to get a candidate in the field soon to block Knight at their primary.

Southern California Democratic leaders believe Attorney General Edmund G. Brown will seek re-election to his present post when the chips are down, rather than run for Governor.

So they are beginning to talk up a Killion candidacy.

LEAVE OF ABSENCE

Killion, a former treasurer of the Democratic National Committee, is understood to be in a position to secure a leave of absence from his present job as head of APL to run for Governor.

The job of the Democrats would be to get his name known to the members of their party before next June 3.

The Democrats also are talking of either Dan Kimball, former Navy Secretary, or possibly Rex Nicholson of Berkeley, as possible candidates against U. S. Senator Thomas H. Kuchel.

Kuchel may face the opposition of Superior Judge Fred F. Houser of Los Angeles county. Houser, a former Lieutenant Governor, ran for Senator once before.

SPEAKING TOUR

Kuchel is making a swing about the State in the interest of his candidacy for election next year. He will speak in Madera Saturday and in Santa Cruz Sunday. On Monday the Senator will address a county-wide Santa Clara meeting in Palo Alto and on Tuesday he will make a non-political talk to the San Francisco Rotary Club.

Lieutenant Governor Knight will be back in Northern California next week also. He will speak in Richmond at a luncheon day.

Killion May Yet Lead Demos

APL President Says "It Is Possible"

(EXCLUSIVE)

GEORGE KILLION, president of American President Lines, still has his hat in the ring—conditionally—as Democratic candidate for Governor of California next fall.

Asked by an ARGONAUT reporter to clarify his statement early this week that he "will not now seek the nomination," Mr. Killion admitted that circumstances might cause him to change his mind.

"I don't think of anything plausible or practical that will make me change my mind," he said, adding "I have no intention of being a candidate, but it is possible."

Mr. Killion, up to the time of his announcement this week, was generally felt to be the strongest candidate for the Democratic nomination.

According to political observers, his statement that he would not now seek the nomination was a body blow to Democratic hopes, particularly since he is known to have a strong appeal to the more liberal Republicans, and thus, as candidate, would have much the same effect on the Republicans that Warren had on the Democrats.

In view of the Democratic victories across the country in this week's elections, observers feel that Mr. Killion is the logical man to be drafted as Democratic standard bearer for this pivotal state in the crucial election of next fall.

Though Paul R. Leake, newspaper publisher and member of the State Board of Equalization, is likewise a strong candidate, Killion's background is held to be better, newspaper publishers being singularly unsuccessful in seeking elective office.

Attorney General Brown is the strongest of the other Democratic candidate material. But though he is the official head of the party in the state, it appears unlikely that he will make a strong bid for nomination.

British, German Autos Lowest Priced in S. F.

British automobiles, with West German as a close second, will apparently continue to underprice American cars in the San Francisco market despite any price reductions in 1954 models.

A local car market check this week revealed the following as the lowest priced new cars in San Francisco today (figures do not include tax, license, radio, heater, unless otherwise specified):

Morris Minor (British conv't.)	\$1,515
Volkswagen (German sedan)	1,595
Henry J (Kaiser coupe)	1,695
Austin (British sedan)	1,795
Chevrolet (business coupe)	1,795
Ford (business coupe)	1,933
MG (British roadster)	1,995
Plymouth (business coupe)	2,000

No substantial price reductions were expected for the '54 models with the exception of Nash, which is said to be coming out with a car at around \$1,800.

Recent reductions in British car prices are in line with a statement made here this week by Austen Albu, British MP and business expert, who said British policy will continue to be one of selling goods on the American market on a quantity basis in direct price competition.

The Argonaut.

The Pacific Coast's Famous Weekly Paper

San Francisco Street Edition

NOVEMBER 6, 1953

PRICE 20 CENTS

Failure of Railway Bond Issues May Cause Munny Fare Hike

FAILURE of Propositions A and B at the polls this week increases the possibility of a new fare increase for the Municipal Railway when preparation of the annual budget is undertaken by the Board of Supervisors.

The fare increase will be considered because of higher maintenance costs of old equipment, a downward trend in passenger revenue, and the near certainty that employees will get a wage increase when adjustment-of-wage time comes July 1.

Also, the Public Utilities Commission estimates, the budget for the coming fiscal year will be upped 10 per cent to meet the situation.

James H. Turner, manager of utilities, told THE ARGONAUT that he is now undertaking preparation of a modified Proposition A and B ballot measure which may

be submitted to electors in the June primaries. It might beneficially affect the situation if passed. It would avoid those items which caused the AFL-Carmen's Union to oppose Proposition A and the CIO to oppose both A and B.

Meanwhile it was learned that the PUC estimates the budget for the fiscal year will be increased a substantial percentage to meet increased operation and maintenance costs. The total Municipal Railway budget for the current fiscal year is \$22,000,000.

The general problem facing street car operations in the United States is one of steadily declining revenue volume since 1947. In line with that decline San Francisco had 18,750,000 revenue passengers in 1947 and by July 1953 this had dropped to 13,500,000 revenue passengers.

A total of 26,000,000 miles were operated in 1947, and this dropped only to 25,500,000 miles for the year ending in 1953.

Wages here in 1947 were \$1.24 an hour. They now are \$1.894 an hour.

Gov. Knight Has Opportunity To Cripple State's Dope Traffic

ONE of the most important fronts on which Governor Goodwin Knight, or any other man in the gubernatorial office, can work for the benefit of all California is that of combatting the dope traffic.

For years, in this swiftly growing state, newspapers have carried reports on the steadily mounting toll which dope racketeers have been exacting from the people. They have talked about it constantly, but nothing constructive has been done.

The amount of effort that has been exerted by official California in combating the tide of hideous crime and corruption that comes from the dope traffic has been negligible, as effective as a popgun would be against a murderer.

Whatever Governor does succeed in putting an end to the dope rackets is virtually assured of any office he wants at the hands of a grateful people.

To see what Governor Knight can do, if he wants to, turn to page 3 and read "What Will Knight Do About the Dope Traffic."

CHIEF GAFFEY, CIVIL SERVICE IN ROW

A tug-of-war has developed between the Mayor's office and the Civil Service Commission over the urgent request for approval of an additional forty-five traffic officers made by the San Francisco Police Commission.

This was precipitated by a recent Civil Service report indicating approval of only thirty-five new traffic policemen. It contends too many policemen are assigned to clerical jobs, finger-printing and the like which should be held by civilian employees—with the result that these men could be transferred to traffic.

Mayor Robinson is standing pat for the 45, holding that this is an emergency

measure of utmost importance for alleviating the increasing congestion in the downtown area.

When asked his reaction to the Civil Service report, Chief Gaffey said it showed a lack of understanding of police work generally as well as of certain specific operational security needs. For instance, the majority of policemen holding desk jobs are disability cases, having been injured in line of duty.

As yet, the report has not been received by the Board of Supervisors. After it reaches them it will have a preliminary reading and then be referred to the proper committee for study and an open hearing.

S.F.'s "B Girl Mess" "All Cleaned Up" —But Is It?

IT IS a long time between "B girl" accusations against local tavern owners and determination of guilt and possible revocation of license.

The case of Clifford Crouch, operator of an establishment at 590 Pacific Avenue, is one in point. An accusation filed against him late last spring was first heard on June 18. It was then continued to June 24 and continued again to November 19.

Less extraordinary—possibly because it is so much younger—is that of Gordon Baney, operator of a place at 80 Turk Street. A "B girl" accusation was filed against him on October 14 and is to come up for hearing on November 20. It is the only one filed in San Francisco since August.

In view of the tremendous hullabaloo about the "B girl" situation, and considering the ponderousness of the Board of Equalization set-up, it would seem strange if the "B girl" crisis were really safely passed—despite a board official having told THE ARGONAUT this week that "B girls" are no longer a problem.

Earlier this week it was revealed that District Attorney Lynch has made a written request for revocation of a tenderloin liquor license, describing the place as "littering more than a hangout for procurers and prostitutes."

On October 3, as reported in the *Examiner*, Board Member Paul R. Leake accused the San Francisco Police Department of laxity in enforcing the liquor laws. The local press has raised no hue and cry about "B girls" since that date, and so one may safely assume that police activity on that score has been at its usual minimum.

If so, that means that "greedy bar owners" have as their chief fear only the Board of Equalization agents—not much of a hazard in view of the cumbersome manner in which the board moves.

Its cumbersome, furthermore, is not limited to the gap between accusation and hearing. The hearing officer's findings are not final, they are only a recommendation on which the State Board may act when and as it sees fit.

Why the Slowness On "B Girl" Hearings?

Why is the State Board of Equalization so painfully slow on hearings concerning "B girls" and other accusations against tavern owners?

The question is interesting, especially in view of a *Call-Bulletin* editorial for October 1 which quoted the Attorney General as saying there is "plenty of law" at hand if the Board only wants to use it.

But if there is plenty of law, there is not plenty of hearing officers.

Ivores Dains, San Francisco attorney who hears most cases originating locally, is hearing officer for an area extending from Crescent City to San Luis Obispo.

Dains, scheduled to hear the cases of Baney and Crouch, told an ARGONAUT reporter that press of business and the distances he needed to cover prevent closing the gap between accusations and hearings.

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Earl Warren Oral History Project

A. Alan Post

WATCHDOG ON STATE SPENDING

An Interview Conducted by
Gabrielle Morris

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INTERVIEW HISTORY

Alan Post was interviewed by the Earl Warren Project of the Regional Oral History Office in order to preserve his observations on developments in state finance during the years, beginning in 1946, that he served as technical staff to the Joint Legislative Budget Committee.

Conduct of the Interview: Interviews were held on June 11, September 14 and December 6, 1971, in Mr. Post's handsome high-ceilinged office in the old state capitol building. Tall windows, walls of celadon green and Post's own soft-wash watercolor landscapes were a quiet background for the sometimes turbulent state budget process which required the legislative analyst's advice and counsel at several points during these interviews.

A serene, scholarly man, slender and self-assured, Post talked easily and thoughtfully, commenting that he enjoyed thinking back over the past. Although he insisted on his own political naivete, one judges that his strategic skill is excellent. Mary Ellen Leary, adviser to the Warren Project and longtime Sacramento reporter for the San Francisco News, has spoken of him as "the one man with continuity from that time to this, with the greatest insight and the most objective viewpoint and the greatest reputation for candor ... hired by the legislature to dissect and improve on the governor's budget ... an interviewee par excellence."

In discussing his youth, he offered a glimpse of the great land development projects which swept California in the 1920s, and the discovery of his own intellectual and creative gifts while he was working and studying in Southern California and at Princeton University.

Post joined the Office of the Legislative Analyst in its infancy [1946], a time of new ideas and strong men in government, and describes how its

methods and functions have grown over the years. In 1973, his office not only kept a steady evaluative pressure on the present budget, but also was preparing analytical material on issues that his judgement indicated were developing. As Post serves the legislature, so the Department of Finance serves the governor in supervising the expenditure of public revenues, the taxes people pay for services rendered by the state. In this interview and Ellis Groff's memoir about his years in the Department of Finance, one gets a good sense of the dynamics of interaction between the two branches of government.

Post was one of the few public servants interviewed in this project who was willing to discuss possible shortcomings of the Warren administration. His interview provides some new insights into irregularities in lobbying and liquor administration, and raises a question on banking of state funds that seems to have been largely overlooked by students of the period.

He reviewed the rough-edited transcript of these interviews, deleting short portions he found repetitive or irrelevant and clarifying certain points. He also was generous in providing written answers to questions on the transcript, including a lengthy summary statement at the conclusion of the manuscript. As an example of his thinking on more recent concerns in public finance, an address he gave in 1971 is included as an appendix.

One hopes that, when he retires to Spain to paint, he will find a vantage point from which to do a full and thoughtful account of the course of state government in mid-century, using California as rich illustrative material.

Gabrielle Morris
Interviewer-Editor
Regional Oral History Office

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I FAMILY AND CHILDHOOD

Morris: Why don't we go back to the beginning, and start out with where you were born, and what your family was like, what you were like as a youngster.

Post: All right. Well, I was born in Alhambra, California in 1914. My father was a land developer, farm land. He came from a family from Iowa, of some distinction. His father had been offered the position of secretary of agriculture in a Republican administration way back when. A very brilliant man, who was apparently an extraordinary farmer. He had one of the largest, if not the largest, binder twine businesses in the country. He was a person who took great interest in farming, and apparently dominated the Iowa state fair at a time when Iowa was the great farm center of America. President of the local bank. A man of great integrity, who was killed in an automobile accident at the age of 65. Interestingly enough, my father was also killed in an automobile accident at the age of 65.

That was my grandfather. His name was August Post, and so that's where I got my first name of August Alan Post.

Morris: That's what the first "A" stands for.

Post: That's right. It's not for "Anonymous," it's for August. [laughter] My mother came from an English family, the Stickneys. My parents were both born in the same little Iowa town of Moulton. My father went to the University of Chicago and to Stanford University. He was always a very enterprising sort of person, a tremendous salesman. He went into the

Post: land development and selling business. He came out west and went to Stanford, and wanted to make his career out here. He borrowed some money from his father and bought some land, and was very successful as a young man. He developed large agricultural tracts. He was always in agricultural land development.

Western Land Development

Post: We moved all over the state, Orland, Marysville. We lived in Berkeley, all over the southern part of the state; in Washington and Arizona. He started the Cortero project in Tucson with some 30,000 acres of desert land south of Tucson, which was put into agriculture and became one of the major agricultural developments of the west, but lost that in the land crash of about 1920.

So, it was a period of ups and downs, with great successes and failures and then starting over again.

Morris: Would this be bringing in water to --

Post: This would be putting water on virgin land, and then selling it. He used to bring people in by carloads from Idaho and that sort of thing. He built camps and large houses in Arizona, for example, where they brought prospective buyers in and sold thousands of acres of agricultural land. It was bare land, and my father invested, in Arizona, between a million and two million dollars in water development, so it was put under irrigation. Then he sold this to farmers.

So this was his life, moving around, developing the tracts of agricultural land. He developed land finally in Palmdale and Lancaster. This is where he actually ended his life in 1949, when he was killed. The family still are in Lancaster. We still own land, which is now within the city. It's been developed into urban development. I have a relatively small interest in it, but with my mother's death a couple of years ago, I inherited some portion of that.

Post: I left. My brother stayed with it, and my sister continued to live in Lancaster, but I'm the one who left home. I wanted to go on to graduate school and be an economist. I didn't want to be related to the agricultural industry.

So we, as I say, lived all over the state of California, in innumerable cities. We always rented. We spent most of our lives in the South Pasadena area. I went to grammar school and high school in South Pasadena. I went to college at Occidental, as did my two brothers and my sister.

Morris: Are you the eldest?

Post: I'm the second. The others are presently living in Southern California. My interests were primarily artistic--as my family's were. I came from a musical and artistic family. My mother was a musician. My brother is an artist, although he retired from the farm business, but he's also a painter. He has retired in Santa Barbara, where he paints full time. My sister was a musician, and her children are musicians. In fact, music runs very deeply in the family. Two of us are painters, as heavy second interests, very heavy.

I went to Chouinard Institute of Art part time, while I was going to Occidental College. I was an art minor. I also went to all kinds of art schools at night when I was working in Southern California while I was going to school.

We had a hard time in the depression. My father lost everything he had in about 1930-31, and lived essentially off his very substantial insurance equities, because the real estate business was just dead for a number of years there. He went out and tried to create business, but it wasn't very successful. So I dropped out of school and went to work after my sophomore year in college, which was in 1933. I worked between 1933 and 1936 in the Security First National Bank. All of us, the children, were out working at some point in that time.

Morris: Would that be down in Santa Barbara?

Post: That was in Los Angeles. I was in the head office of the Security First National Bank. I started as a runner, and then a teller, at \$65 a month. Worked up to \$85 a month in three years.

Morris: For those days that was quite a respectable salary.

Post: Well, it was not too respectable. It was better than it would have been except for NRA. They were required to hire one person when the country went to the forty or forty-five hour week, and I got that job. It was the base, bottom salary, I think, you could be paid. But in those days, any job was a good job.

So I worked there during that period, and read incessantly. I went to night school a good deal. I first started painting very seriously by going to all the night art schools, and also taking a lot of other courses, at the banking schools, and some University of California extension courses, and that sort of thing, for those three years. It was a very productive three years for me, perhaps as productive as any three years I've ever had.

Morris: That's a remarkably full schedule. Was this the origin of your interest in economics?

Family Cultural Interests

Post: No, I wanted to be a doctor at that time, and I read very extensively in medicine. I had no interest in economics at that time at all. My main interest in those days was to become educated. I came from a family that was extremely interested in cultural matters. Up to this time however I had not been very interested in reading, frankly. On the other hand my sister and brother were either valedictorian or salutatorian of their classes. My sister and Glenn Dumke chased each other, one, two, all the way through college.

Morris: This is Glenn Dumke of the state college system?

Post: That's right. He was generally number one, and she was number two. She worked her way through college while she was doing that, and is an extraordinary woman, who is not only trained as a musician but was, in fact, a geology major. She was a reader in economics on the basis of taking one course of economics for a later president of the college, Arthur Coons, who insisted that she be his reader in advanced economics, which was a kind of an insult to me, I always thought! I don't know if she knew anything about economics, but he thought she was a whiz on the basis of a course she took with him. She's a very practical, intelligent gal. She took enough economics that she has taught economics in a junior college since. She also taught drama although she primarily taught music. She also helped the dean of the college write a history of the college, while she was going through.

That was the historian who was the dean of the faculty--Robert Glass Cleland, a California historian. She assisted him to write a history of the college. So she had her hand in all kinds of things.

Morris: What was her name?

Post: Priscilla Parker. Her husband was assistant superintendent of schools in the Lancaster district. He's been professor at the junior college there, chairman of the academic senate. They've lived there since.

My other brother, Rudd, which was my father's mother's family name, was also a very excellent student in high school. He dropped out of college at the end of the sophomore year because of the depression, went back one year at UCLA and never finished. But he's the brain in the family really, and is pretty good at everything. An inventor and a good musician, and a good painter. A very intelligent man. He's retired, lives in Santa Barbara with his wife, who was also an Occidental girl, Phi Beta Kappa, musician. They have three small girls.

My other brother is Stuart, who lives in Lancaster, and has been involved in some of the activities up there. He's not married.

Morris: It must have been quite a bunch to grow up with.

Post: It was an interesting life. We had a family quartet. We traveled a great deal. They would take us out of school to travel at the drop of a hat, because my mother, who was a school teacher, felt that she could teach us and it would be good experience. My father was always traveling in this big old Cadillac of ours. We would get in the car, and we would have family skull sessions all the way up and down the state. There was so much intellectual interest on the part of my older brother and sister, particularly, that it was a constant struggle for me. Because I really wasn't that interested in it. I was the poor student of the family.

My interests were primarily in athletics in high school although I was still small and no star. I was four feet eight, when I graduated from high school, and grew about ten inches my first year in college. I was a four year track man, in Class C, if you know what that "C" was. That was the little boys. So I was always a peanut, but terribly interested in sports.

I studied and made real progress as a violinist. Was always interested in art. But I was almost a non-reader. It was only when I went to work in the bank that I became an absolutely avid reader. Primarily out of ambition to make up for lost ground, because I at that point became very ambitious, for some reason, for the first time in my life. I was going to do something with myself.

Banking, College and Painting

Morris: Were you living by yourself?

Post: No, I was living with my family. We lived in Eagle Rock, and then in Arcadia. During that period of time, I listened to a great deal of music. I worked at night in the bank downtown a good part of the time, and that made it possible for me to listen to

Post: these marvelous music programs all morning, with the guides that the gas company gives you. You know, over the radio. I would follow those programs with books to get to know all about music. In addition I had a very careful program of reading that would cover the waterfront, on literature and medicine, and things of that kind to repair my deficiencies. I really learned an extraordinary amount in those three years, by just working day and night, and enjoying it thoroughly, for the first time in my life.

Morris: Did you make up your own reading guides?

Post: Yes. Interestingly enough, I used some guides, but I became interested in Spengler's, Decline of the West, which is so full of so many references that out of that, by spending about a year or a year and a half going methodically through that book, and trying to identify every one of the references that he used in it to the Faustian and other cultures, you know. He would talk about Pythagoras and so on, so I would get books and keep looking up all of these references till I could understand what he was talking about. It was an awfully backward way of doing it, but it was one that sustained my interest. So when I finished Spengler's Decline of the West, I had covered a lot of territory.

We had a county library nearby in Arcadia, and I would walk over there with my dog in the morning and take back an armful of books. I went on the Big Red streetcar line to work every day, which was good for reading. In the summers we'd go to Long Beach because we were renting and free to move and I would ride those red cars to Los Angeles to work. This gave me a chance to swim, which I became very much interested in, and later was on the swimming team at Occidental. And then I would also read the forty-five minutes to an hour at lunch; I always read. I just did an enormous amount of reading, and had a real ball out of it.

Then I also went to some night schools in art during that period of time.

Morris: Where were these offered? Was this part of the college?

Post: The first one I ever took was a little class that was run by the former art editor of the Los Angeles Times, who lived in Sierra Madre, and who had a class up there. It must have been some adult education class, because I didn't have to pay anything particularly. He was a man who put us to drawing in charcoal all kinds of common objects. I remember especially drawing a cello. The old disciplined type of training. It was fascinating. He was a man who represented the old school, beard and all, you know. Marvelous old gentleman.

Morris: [laughing] New school.

Post: That's right. But he was the old world artist. From there I went to all kinds of schools when I returned to college. By that time, I was so smitten with art that I took it as a minor.

Oh, I also went to Los Angeles Junior College for about one year while I was working in the bank. That was excellent. The teachers were lousy. No, one of them was lousy, and one of them was excellent. But it was a good class, the first time I ever had a nude model, so that this was an excellent life class. One of my associates--I never knew who he was at the time--turned out to be Jack Burroughs, who was the son of Edgar Rice Burroughs. He later became a professional painter. He was a charming person, and he never told me who his father was. I learned it only several years later. That's one thing I remember well about that class.

So then after 1936, things improved enough that I was able to go back to Occidental. I'd already spent two years there as a freshman and a sophomore. My father had negotiated with his usual capable salesmanship half scholarships for me and my brother. I rode in on my brother's academic reputation.

Morris: Two college educations for the price of one?

Post: For the price of one. They were very generous. They even loaned us the other half, as it turned out, so we got by by the skin of our teeth. We had dropped out and I worked the three years in the bank. My brother went back to Chicago and tried to sell real

Post: estate with my father to get a development going back there. Then I went back to school in 1936, after three years in the bank, --

Morris: Did they let you pick up as a junior?

Post: Yes. I had finished two years. I started as a junior then, and with my background it was very easy for me. From that point on I had practically straight A's and was able to turn what was a mediocre academic record into Phi Beta Kappa.

Morris: In two years.

Post: In two years. I was a good student when I went back. I also worked during that time. I had almost all the good jobs that were around. I was the auditor for the student union, and was a checker at the restaurant. I was the reader for the chairman of the economics department. I sold Saturday Evening Posts. I was the treasurer for my fraternity, for which I got my board and room.

Morris: That was a very good job.

Post: Yes, it was. I was a gardener for the school, and I was a janitor and swept the chapel and other buildings after work. I was--oh, let's see. All kinds of things like that. Oh, I was the assistant to the graduate manager, handled all the tickets and that sort of thing for all the football games.

Morris: How did you find time to go to classes?

Post: Well, as I say, I was pretty well prepared by that time with this reading I had done. I was talked out of going into medical school, which is what I had gone back to school thinking I wanted to do, because I was told that I really couldn't afford it, to carry that kind of load and still make up all the deficiencies that I had in chemistry and physics and so on, because I had no science background at all.

Since my father was a businessman, and I had worked in the bank and had found the financial world

Post: to be quite interesting, I went into economics. I was a major in economics --

Morris: Who talked you out of going into medical school?

Post: Dr. Selle, who was the chairman of the physics department, I guess it was. He was the advisor on pre-medical education. He seemed to think that it was too much of a burden for me to undertake. It might well have been. As it turned out I was grateful that I did what I did. But I was very much interested in art, and I took a lot of that too.

Morris: Who do you remember from the art department?

Post: Well, there was Kurt Baer Von Weisslingen who was a German, who later went to UC Santa Barbara. He was a very interesting man who was personally acquainted with Neutra and the German school. He was very good in music as well as design. To me, this was absolutely fascinating, because he developed the cultural relationships between the German expressionists and modern music and painting, and did it in a way that excited my imagination. I found him very interesting.

On the painting side, we had extraordinarily capable people. We had a water-colorist who was one of the finest in California, named Tom Craig. He was of the Millard Sheets, Milford Zorne group, and was about twenty-eight years old at the time, dynamic, vigorous. I worked with him a good deal thereafter. We'd go to night classes after school wherever we could get a nude model, to paint from the figure. We couldn't do that at Occidental. We had life drawing, but it wasn't nude. This was more difficult, you know. A clothed model is not nearly so good to work from as a nude model. We'd go up to Glendale, or Muir Tech, or anyplace we could find a model--mainly up to Glendale. I guess it was generally at the community college level where you could get these. Craig thought I was talented, and gave me the only A++ I ever got in any subject, in painting.

Morris: Oh, that's marvelous.

Post: He was a tremendously exciting and interesting man. He died just about a year ago. He had showed regularly. He had works in the Metropolitan Museum, and at that time was one of the very bright young painters in California.

The other painter who was very influential was the life class man, Onestes Uzzell, who had studied at the Art Students League in New York. He was a student of Robert Henri, and had an extraordinarily well-disciplined approach to painting, and it was from him that I derived, I think, the best instruction I ever got from anybody. The Henri approach through the Art Students League is in my view an extraordinarily good method.

II NEW WORLDS TO CONQUER

Post: So, Occidental offered, for a small school, what in my opinion was an unusual program in music and art. When I went back to Princeton as a graduate student at the end of my Occidental career--I graduated in 1938--I found none of that same kind of dynamic, active art role being played by Princeton. Princeton was primarily oriented toward art history. It had a fine museum on campus--and they were close to New York, so that I was able by bumming rides with the faculty to get in and out of New York a great deal. This was a tremendous experience to me in the two years that I spent at Princeton in the graduate school of economics.

I painted then outside of class, to the extent that one or two of my professors were somewhat critical of the fact that I wasn't studying all the time in economics. I simply could not have survived if I hadn't done that. I used to go into New York, where I would go to the little gallery that showed John Marin, and Georgia O'Keefe, and Dove, and which was run by the great photographer Alfred Steiglitz. Steiglitz, as you know, was the husband of Georgia O'Keefe.

Morris: And he was running an art gallery?

Post: He had the art gallery originally called an American Place, but which when I was there had moved over to Madison Avenue. It was a very delightful gallery. It had its own group, which is a very famous group, Arthur Dove, John Marin, Georgia O'Keefe,--oh, Marsden Hartley. That was about it. And of course they all became greats in American art. I used to go

Post: in there as a graduate student, and a very nice young man would let me pore over all of the un-matted watercolors of John Marin which they had in stacks. And of course, here I was, a watercolorist who had studied from Tom Craig, and addicted to watercolor. I was able to literally just run through the works of the master there, who was the great master, of course, of our time, in watercolor.

I was constantly dickering with the gallery to buy a Marin cheap. But in fact I had absolutely no money when I was in Princeton. I went there without a cent to my name, really. I had sold real estate that first summer in San Bernardino, going around house to house trying to sell beach lots in that hellish climate of San Bernardino. That's where I really learned to have doors slammed in your face, and how to be artful about a lot of things that I've since regretted that I have become acquainted with-- such as, when you come to a door and a black person came to the door, you always asked where you could find something rather than tell them you were selling real estate, because you couldn't sell to a black person. Because these were beach lots in Balboa, you see. It always galled me, and made me come to appreciate in a way that I never had before, the other side of life in America.

In the school that I had gone to, in South Pasadena, there was no such thing as a black person. I had never had any real contact with a black person, except in Arizona where we had a Negro cook, who had a little child who ran around with my sister all the time, when they were very small children. She was the pickaninny, and that was all you knew about the blacks. But this selling experience opened my eyes to some of those things, and I think really colored my attitude in a very significant way.

Morris: [Question added to rough transcript sent to Post for review.] How did this selling experience affect your attitude toward blacks?

Post: [Written reply.]

1. It made me realize how totally unfair and built-in our discrimination is.

- Post:
2. It made me understand how difficult it would be to eradicate it.
 3. I began also to realize how white persons accept the discrimination and that moral judgements are not made. White people are not consciously evil in accepting discrimination. They must be made to see the evilness of it.
 4. I have tried in every instance when this issue was apparent to assist in promoting factors which would establish equality of opportunity. This has been particularly true in recent years when the issue became clearer, in the education field and in social welfare and Medi-Cal. These issues are involved in many pieces of legislation and I merely tried to give appropriate credit to the minority need and claim for equal treatment.

Graduate Studies at Princeton

Post: So I went back to Princeton with one land sale under my belt that was supposed to produce \$750 in commission. We were selling lots at that time in San Bernardino because at this point we had moved there. My father was selling land which had been foreclosed under a bond issue, and so as we lived there, selling those lots that were outside of San Bernardino in the Cajon Pass, we built our own home, largely out of trading commissions on land sales for materials for our house, and for labor. So we built ourselves a very nice, large adobe house on top of a hill outside of town, which my brother designed and constructed, actually.

In the meantime he--I mentioned that he was inventive--had started building tilt-up concrete buildings by a method which he had worked out himself.

Morris: This would be in the thirties?

Post: This was in 1934, '35, and '36. He went down to the railroad yards and got miscellaneous gears and developed cranes so he could lift up the concrete walls, that were laid on the ground with reinforcing--crank them up in place. He sold the houses for \$750, to start with. We did nothing but lose money, because they were too cheap. He gradually got the price up to several thousand, I think, for the larger houses, but it never was a very good economic venture. It was successful from a technical standpoint, but he really didn't know enough about costs, I guess, to come out very well on it. But in that way we survived during those years.

I, in the meantime, was going to Princeton. I would come home during the summer, and help work with him, digging septic tanks, and holding strings, doing all that sort of stuff. I had absolutely no interest whatsoever in it, it was just a kind of a chore.

Morris: Where had your brother gotten this idea for tilt-up construction? Was anybody else yet trying it -- ?

Post: He always was inventing things. He invented a new baler--we had pick-up balers in Lancaster, and he developed a torque kind of device that milled the hay at the same time it picked it up, and blew it into trailers that came along. I was told that International Harvester came along and picked it up, and patented it and developed it. He was always working at things, ever since he was a small child, inventing things. If he ever came up having to do anything, he always redesigned the wheel himself, you know.

No, I think he just thought it would be a good idea. I never knew of anybody else who did it before that. During the early war years, when agricultural prices started jumping, we decided we could do better to farm the land that my father was trying to sell at Lancaster than to go on trying to sell it--they moved up there. That was in 1941, I think, '40 or '41. He had his own machine shop then and he was constantly inventing everything that went on the farm, to keep that alfalfa going day and night. Because that's what ran alfalfa, the mechanical side side of it, you know.

Morris: Because the crops grow so fast.

Post: You run the water day and night. The pumps went constantly. He'd get up every two hours all night long to change the water. When a ditch went out, you'd get up and fight it, because at times it would break through those sand banks, and you'd have to go out and repair the break. You kept going from one line to another.

You run in the water by gravity down these large channels. You have little rises of earth between the grain rows that channel it. Checks, they call it. The water came from a ditch that ran at the highest point along the top, and then you'd flood one, and then you would put a half circle metal damming device down and cut off the water and go on to the next one. And of course when the sand bank went out, why, then you'd stand there and slug yourself sick trying--by throwing earth in, so you didn't have to shut down the pumps--to fill the break. And this ultimately gave him a heart condition that caused him to have to retire.

For example, he invented a machine that used two water barrels, that automatically, as you went along, leveled the land. In other words, the water leveled so that the blade would conform to any tilt of the water as the land would tilt. The water would always keep the blade level, geared to the water.

Morris: To plow land?

Post: No, this was for levelling the land when you develop it, new. When you put it in alfalfa you had to have it very level, so the water would run in a very level manner down the check. The first job in alfalfa land development was to level the land. Well, rather than going out and having people put all of these little stakes in, he decided that he could build a large blade, and using the principle that water would always seek its own level, he devised some basis where the blade would adjust to the level of water, so that he could take this thing and just run it along, and it would always maintain a level without using instrumentation of any kind.

Morris: Did it work?

Post: It worked very well. I never forgot that, so when I built my swimming pool here in Sacramento and being no kind of a construction man myself--(I did some digging, partly for exercise, using a Paddock plan some twenty years ago)--when I came to level it up, I used the rainwater that had filled up the bottom and measured up an equal distance from the water that had in the meantime filled it, remembering his experience. I used water was a level. That way I didn't have to go out and get the instruments they usually use. It worked beautifully. So I never forgot that.

Anyway, I went back to Princeton. I was there two years. I was in a class of about five people. It was a marvelous experience. The East was a tremendously exciting place to me. Princeton was beautiful, absolutely marvelous. We were a select group. I was the only one who came directly from college. All the others had had at least one year of graduate work, so it was hard for me to keep up. But I took my doctoral exams, the general exams, at the end of the second year, and passed them. At that time I was a junior fellow, which made life easier than the first year, when I almost starved to death. I literally ate one organized meal a day, which was my breakfast and which came with the room. I think I paid \$5 a week, and for that I got breakfast with the family, who were very kind to me. For lunch I had an ice cream cone, and for dinner I had, for I think seven or eight months, [laughing] the same supper, which was a banana and two slices of bread with a piece of cheese in between. And a glass of water. That went on for about six or seven months until I began to get kind of ill, and then began to get some other food.

I mentioned that I made \$750 as a starting point, to start school, but unfortunately that deal fell through after I got back to Princeton, so I really then was living off the charity of my family who would send me whatever money they could manage to scrape together from time to time on land sales. And I borrowed. I borrowed from the school, and I also

Post: borrowed from my mother's cousins who I found living back there. They were wonderful Quaker people, and to my great interest I found that I was remotely related to the Cadwalladers of Philadelphia and Yardley, which is, you know, a very prominent family like the Cabots and the Lodges in New England. The Cadwalladers seem to occupy that same role in Philadelphia. I first found that out when I went to the Princeton theater, McCarter Theater, and we saw the Philadelphia Story. One of the characters in it was a Cadwallader, and I turned to the man next to me, who was one of my five classmates in graduate school, and said, "Hey, I'm related to that family." He turned to me and said, "Is that right? Well, I'm impressed!" Incidentally, that person is now the treasurer of the Ford Motorcar Company.

Morris: He was a classmate in the Princeton graduate school?

Post: Yes.

Morris: What were the particular economic theories you were studying?

Post: Well, I was always a little more conservative than most of the others, because I came from a very conservative, Republican family, who always schooled you on conservative economics. And I had, you know, worked up through the bank, and had that kind of conservative background. I always found that I was somewhat more conservative in economics than most of my associates.

I was primarily interested in banking and international economics. I wanted to go back and be president of Security First National, or chairman of the Federal Reserve Board, or something like that. Nothing small.

Morris: Was Princeton particularly noted for banking?

Post: No. It was good, but this is the kind of thing that happens to you in a school like Occidental. My mentor there was the chairman of the department, who was John Parke Young. He was a distinguished economist. He and Arthur Coons differed over where I should go after I graduated. Coons wanted me to

Post: go to Harvard, and Young wanted me to go to Princeton, where he had come from.

Well, I was very close to John Young. He was chairman of the department, and I was his reader. So I decided to go to Princeton. He told me it would be a small, very distinguished institution and department, and I believed him. That's the way it turned out. So with his good aid I was able to get in. And that's why I went there, frankly. Also, Princeton was a school that was good for fellowships. If you could get in, everything was endowed. The milk on the table was endowed. Everything was endowed.

Morris: The fellowship did provide you with some -- ?

Post: The second year. The first year I went back there-- as I say, I had come directly from college, and the rest had been at least one year in Harvard or some other fine school. Some of them had been out two years. So they were able to get fellowships. Even though I had good recommendations and good grades, they also had them. They were able to get fellowships, and I was not. So the first year, as I say, I literally got along with nothing.

Morris: Bananas and ice cream.

Post: That's right! I borrowed what money I had to to pay my tuition. In those days tuition to graduate school was \$200 a year or a semester. It was very small, because that was the kind of endowment situation you had with that very small graduate school. After all, there were only five of us admitted that year in my class.

Morris: To the whole graduate school, or to the graduate program in economics?

Post: To the economics program. There were two hundred and fifty in the graduate school. The second year, I was on a fellowship and I lived in the grad school, and I wore a gown, and I lived the life of Riley. I ate well, and I enjoyed life much more.

Morris: Princeton has a very fine academic tradition. Do they treat their scholars well?

Post: It's a wonderful school. The classes were small. The largest class I had had seven in it. In the smallest, there were three. There were very close interpersonal relationships between the faculty members and the students. I still retained my love of athletics, and used to play football every day with the faculty and graduate students. We had interesting people there. Ken Galbraith was there at the time, people of that calibre.

Morris: Where was Galbraith in his career at that point?

Post: He was an assistant professor, I believe, at Princeton, then. He spent a great deal of his time going to Washington. I never had a class from him. I just ate at the same dinner table from time to time at the graduate school, and got to know him slightly there. He was disgusted with me for wanting to go back to California. Interestingly enough, he got his degree, Ph.D., from the University of California at Berkeley. And yet when I said I was going back to California, he looked kind of disgusted, and he said, "For the climate?" Because he really is an Eastern Seaboard man in every sense of the word.

My understanding is that he was one of Henry Wallace's bright young men when Wallace was secretary of agriculture and vice-president under Roosevelt. After the war started, Galbraith became one of the deputy price administrators under Leon Henderson. My sister-in-law's husband, John Hamm, was chief deputy, so I got to know Ken Galbraith better in Washington, D.C., when we stayed briefly with the Hamms before I went into the Navy in February, 1943.

Am I telling you what you want in relation to the legislative analyst's office?

Morris: Very much. Your youth in California when much of the land was being opened up for development is very much a part of how you got to be this kind of man, and how the land has been developed has determined

Morris: to a great extent what happens with the government of this state.

Post: Actually, you know, in this business, one of the first things that Mr. Vandegrift talked to me about was the fact that he liked people who had a disciplined training, so that they could deal broadly with any subject, but who also had many contact points with the problems and interests of society. In this sense I had a great many experiences. The kinds of work, what I did as a young man, my father bouncing all around California--touched almost every area of California. We traveled extraordinarily.

Morris: How far north did you get in this process?

Post: Oh, my father even investigated land up at Grass Valley. I remember back in the old days where we used to travel back through the mountains, it was all one lane. You had to back uphill, it seemed like miles, whenever you met a car. We went into the most remote kind of country. We lived briefly in Marysville in the late 1920's. We lived in Orland. My father was involved in projects all over the state of California. My brother was born in Spokane. We lived for a while also in Seattle, and then again in Arizona. We were living and traveling all up and down the coast. My father was president of a corporation that handled land development, and as I say, was really very successful when times were good, and then because he was kind of a plunger, would lose everything when things went bad.

At one time we lived in a beautiful old estate up in Red Bluff, where I recall we had a dancing pavilion under the black oak trees. We swam in the stream, we fished. We'd go up the Yuba River and swim in that beautiful clear water with the marvelous huge rocks and deep chasm; it was just so transparent and beautiful. We were constantly going out into the country, into the mountains, into the orchards. This really became a great part of what brought me back to California, the desire to touch base with the natural beauty of California.

When we lived in Southern California we spent much of our time swimming at Balboa and Laguna Beach.

Post: We were never fishermen or hunters or anything of that kind, but we were always outdoors. My father was always traveling or selling outdoors, and we had to wait on him a great deal of the time while he would go in and try to corral a prospect. So we would wander around the orchards, and you'd get the feel of agriculture in your veins that way.

Later when the depression arrived I had the set of experiences that came with having to work for a living, something I had never experienced at all up to that time--going out and fighting for all the odd jobs, which, as I say, were so numerous and diverse, at the same time that we were pursuing these cultural interests. My folks insisted on studying with good people. We studied with the Zoellner Quartet, which was one of the famous fine quartets in Los Angeles.

I was very much interested in dramatics in high school, and was in plays in Pasadena Community Playhouse. I had a hard decision as to whether I would pursue drama or go into art when I went to work at the bank and had time on my hands, and decided I could move out into night school. I went down to LA JC and I had to make a decision whether to join up in drama or join up in art. I decided I would rather go into art, so I went that direction. But all those things sort of opened up contact points in Southern California.

When we lived in the San Bernardino area, as I say, I went out to Riverside, went out to Colton, painted out in the country, all around there. We used to take painting trips. My brother and I used to go all up Highway 1 to Point Arena and through that country, painting day and night, living on the beach. We had wonderful experiences driving an old Ford car. No money, but actually using every resource we had. I remember coming back the last time--I had wanted all my life to have a leather jacket, and I could never afford it. Finally the Broadway Department Store had a sale on them, and we went down and bought one. That was a dream come true!

Post: I wore it for a number of years, and when we got up to Point Arena on one of our painting trips and started on back, down through Elk--we were going to drop over the mountains to come inland to come home--we had a flat tire on this old car. And I used up that leather jacket making boots to get that car home. Piece by piece by piece, we wore out that old leather jacket, putting it in the hole until we got back to San Bernardino without two cents in our pockets. Marvelous trip. Coming down out of the mountains we coasted wherever we could coast, really. We had one breakdown--we spent one night in Santa Rosa under a bridge fixing the car. Just a marvelous experience.

We came back with just a whole battery of water-colors, some of which occasionally I still see, because people in Sacramento have bought them. I still have some of them at home.

Cross-Country Experiences

Post: And then when I went East it was a whole new experience. The Princeton experience in the East was so different from California. I rode the bus five days and five nights to get back there. The first cigaret I ever smoked, the first prostitute I ever saw, were during that trip. The first art gallery that had anything like Cezanne or Matisse--because the little gallery in Denver where I got off for a few hours had a marvelous collection of contemporary painting. That's where I really got my first taste of the school of Paris. Took a shower there, I remember at the YMCA. Saw the gallery and got back on the bus again. There was a two or three-hour layover. Kept on going.

We arrived in the East in the hurricane of 1938.

Morris: I was in Connecticut at that time; that hurricane was a major event of my youth.

Post: That's right. This was the hurricane of 1938, and I said, "Lord, I heard that the weather was terrible

Post: in the East, but I had no idea it was going to be like this!"

Morris: That was an exceptionally bad year!

Post: Oh, it turned out to be that way. And the bus driver was late. He would only stop to let us go to the bathroom. We had nothing to eat, as I recall, that whole last day. We went on and on and on, just driving through this horrible storm. We got to Princeton about two or three o'clock in the morning. I went and found that little hotel on Nassau Street, Frenchy somebody's. Went upstairs and went to bed. Got up the next morning and went down and asked for breakfast. She said, "My dear, it's four o'clock in the afternoon!" I had really conked out. As you know, on a bus like that, after a while, you just sleep off and on and off and on, but you really are pretty well worn out.

So I went out, and oh, it was marvelous. There were the corn fields, and there were the crows. There was a lovely old Quaker church. I painted furiously until school started. And then the snow came, the first time I'd ever seen snow. Princeton in the snow is just absolutely delicious. I remember running along the street and thinking, "Isn't this great to run in!" I came to a place where somebody had swept off their driveway, and I leaped across it, lit on the other side, and went sliding on my tail about thirty feet down the street, embarrassed to tears. That was my first experience in how not to behave in snow. But it was really a marvelous experience.

Then here were all those exciting Easterners. To begin with, however, nobody would talk to you. Here I had gone to a small Western school where I had been the checker, as I say, at the cafeteria. I knew everybody who came through, because I told them what they owed. I had been deeply involved in all kinds of things. But at Princeton, nobody talked to you. The Easterners were very arch. This was a great blow to me. The only person who really showed any personal interest in me, in Princeton as such, other than the five students or so that were with my class in the graduate school, was a Jewish boy, George

Post: Shaskan, whose father owned a seat in the stock exchange, and who was a very brilliant young man. He was an undergraduate who was permitted to take graduate courses and read in the graduate office that they had down in the basement of the library. So I used to go down there and read a lot, and that's where I got acquainted with him. He was very hospitable.

He also belonged to one of the eating clubs. I discovered later that it was the Jewish eating club. There weren't too many Jews permitted in Princeton, and all of the members of his club were Jewish, I believe. It was my first introduction also into the Jewish world, because although I had gone to school with a Jewish boy, I never knew he was a Jew. Jews, as such, just didn't exist in our life--we had no bias in our background as to Catholics or Jews.

Morris: No contacts?

Post: Well, we had some contact, but we never thought of it that way. My folks never talked about Jews as such. I never knew there was such a thing as a Jew, really, until I suddenly was immersed in a real Jewish family. George insisted that I go to Long Island with him. This was a great baronial mansion owned by his family on the beach at Long Island. His mother was one of these wonderful Jewish mothers that my son talks about with such relish, because all his roommates in college seem to be Jews, and he loves them.

She mothered me and the father wanted me to come into the firm. It was just a wonderful, delightful, but different experience for me. All these things have some real impact on you as you think back on it.

But then there were, as I say, these exciting contacts with Washington, exciting contacts with New York. The foreigners who came to Princeton, like Oskar Morgenstern, who had just come from Austria where he wrote one of the world's definitive mathematical economics books with John Maynard Keynes.

Contemporary Economic Theories

Morris: Wasn't this about the time that Keynes theories were coming --

Post: That's right. Keynes was big. Actually, before that, we studied Keynes at Occidental. Keynes at that point just had become part of the literature. I remember I had an awful time with Keynes because I had no real mathematical background. It was terribly frustrating to me to have to work my way through equations to understand economic matters that I could understand very clearly if you used the English language. But when you moved over into equations, that was baffling to me.

I remember standing down in that library reading room and for personal satisfaction taking the General Theory of Keynes, and throwing it the full length of that room just to get it out of my system and tell him what I thought of him for doing that to people like me.

Yes. That was a time when he was really very, very important. As he still is, of course.

But part of Princeton's advantages were that they brought in famous people. We met brilliant economists from all over the world. We met them in small circles and had a chance to really talk to them. It was the kind of experience that you could only, I suppose, duplicate in those days at Berkeley.

Morris: In the west.

Post: In the west. That was commonplace to those associates of mine in the east who had done undergraduate work at Harvard, where they knew Schumpeter, and Haberler and other very distinguished economists. In fact, one of the five members of my class had spent one year on a fellowship in which he traveled all around Europe, meeting Keynes and economists of the Cambridge school. He came back as the most "savvy" member in the class, because he had had graduate work and had gone to Harvard and had this exposure. He knew everybody. I was just flabbergasted, because I knew

Post: none of these names. I remember one of the professors one time asking me about so-and-so. I explained what he had said. Well, he said, "Now, who wrote that?" I said, "I don't know."

He said, "I guess that isn't important to you, is it?" You know, very sarcastically. And I realized that you had to not only master the logic of economics, but you had to know who said it. It was Pigou. I had never been through this kind of training like they had, in terms of identifying people with ideas. Somewhere along the line, I had simply gone through the ideas, and could work my way through them. In fact, I was pretty good at that. I could sometimes get answers to problems that others in the class couldn't. And yet I couldn't explain it. The professor would say, "Well, you've got the right answer. How did you come to it." I would say, "I don't know. If you think about this thing, the thing sort of opens up and it's perfectly clear how you add these things together, and this is the way it is." He said, "That's absolutely right. But you don't know how you logically come to that." I would say, "No, I don't. It's just a kind of--it's just as though your mind opens up, and there it is, clear as a bell. And I can't explain it." This happened time and time again. I couldn't trace back who said it. In some cases it was because I didn't have the mathematics. I couldn't explain the mathematical progression to come to that answer. It was always kind of baffling to me to work through that.

Marriage and Career Exploration

Post: Then--I met my wife-to-be at Princeton. She was there visiting her sister. Her sister had married a very bright young Princeton man who was working in New York with the Russell Sage Foundation, named John Hamm. He later became the chief deputy in the Office of Price Administration during the war. He was Ken Galbraith's boss and the number two man in OPA. They lived in a little farm in Princeton, and that's where I met my wife-to-be, Helen, who was called "La Belle Wills"--her name was Helen Wills, like the tennis

Post: player, who was a remote relative. The graduate students called her "La Belle Wills" because she was a beautiful girl. She worked in the bursar's office, and everybody used to admire her carriage as she strode to work in the morning.

I met her through one of my associates in the graduate school when we went to visit the Hamms one night. We got married after I came back to work in Southern California and earned enough money to send for her.

Morris: That's a nice Victorian tradition! It really is.

Post: Yes. We became acquainted, and then I didn't see her for several months. I had very little money, even though I was then a fellow. Outside spending money was small so I didn't do any dating. However, she had an operation for appendicitis, and I heard about it, so I went to visit her at the hospital and brought her a book that I had bought on art, at a book sale in the Princeton book store. It was so heavy she said that every time she picked it up it hurt her. So this was the way we began our romance [laughing] on a painful note! But we then became better acquainted.

I came back west in 1940, after I finished my generals. I decided not to take another fellowship and do the dissertation, partly because I was sick and tired of school. It had been a long haul for me, seven years undergraduate and through graduate school. I didn't want to teach, and so I thought I might as well get on back to the world of merchants. I came back and applied to work for the Security First National Bank, who took one look at me and said, "We could never keep you in a million years," which I thought was a dismal appraisal of banking. They sent me down to Schwabacher and Company, which was an investment house, which I found incredibly dull and stupid and illogical. People reacted on the basis of what they felt, or what they thought was the state of the war, or anything other than a logical economic appraisal of the circumstances. So it seemed to me. Money ran scared every time somebody said something. After about, oh, I don't know, seven or eight months in that, John Parke Young came forward

Post: and asked me if I wanted to teach a class at Occidental College.

In the meantime I had gotten married, and we lived in a little place up on the hill overlooking Silver Lake in Los Angeles. I went to work at Occidental on a half-time basis, and worked with another brokerage house in downtown Los Angeles. Which I still found very dull. But since the war was breaking out at that time--this was 1940, '41-- John Young was called to Washington to go in the state department and I took over his classes full time at Occidental. From that time on, then, I was out of the banking business, and was in the academic world.

Morris: That's interesting, because you had decided you didn't want to teach when you were leaving Princeton. How did you like it when you --

Post: I loved it. I loved teaching. As you can see, I like to talk. When I went to teaching at Occidental, I found it fascinating. I enjoyed it immensely, and probably would have continued, at least for some time, had the war not intervened. As I said, I resigned and went to Sacramento in 1941. I found myself liking what I found here in Sacramento. I liked the legislature. I liked the debate before committees. I disagreed violently with Rolland Vandegrift on the first issue that I had to handle. This is what happens to people.

First Assignment for California's Legislative Analyst

Post: He assigned me the job of researching extramural care in the mental hospitals, which was then a new thing. I went over to the predecessor of the Department of Mental Hygiene, which was then under Dr. Rosanoff, who was the first real fresh air I think in that agency.*

*The designation Department of Mental Hygiene was first used in September, 1945, following a major reorganization of staff, program and responsibilities of the former Department of Institutions.

Post: (It was a relatively new approach to mental hygiene as a matter of fact.) I should say probably it was the first fresh air in the mental hospitals as such. The first constructive thinking which was later to be associated with the major reforms in the Warren administration.

I went over there and became sold on the concept of extramural care. I came back over here to the capital. We prepared for some meetings with our committee, and I was given the opportunity to present this subject. There was a series of papers on different subjects. Mine was on extramural care. After I started I could see that Mr. Vandegrift was upset with what I was saying, because it was obvious that he, being very economy-minded, had decided that extramural care was not a good idea. He took the ball away from me, and started to talk in quite an opposite manner from which I had concluded, and what we had agreed on, and what I had written in the paper, which was that this, in its European application, was a very effective transition between institutions and accommodation in the community.

I remember very distinctly sitting there and devising ways in which I could get the ball away from him again, which I did by answering a couple of questions from a member and then swinging right back into my old theme, and never letting him get in again. Vandegrift was a good guy. He saw what I was about, and although he obviously didn't want them to think that he was going to increase the budget of the state of California, he let me go on through. I had one member of the committee who was also sold on the idea. It was Senator Tickle who helped me get back on the track. Between the two of us, we kept that thing going until I finished it. I thought afterwards, "He's going to fire me, and that's the last experience I'll have in the state of California."

But Rolland Vandegrift wasn't that way. He admired, apparently, my determination to say my piece, and we became extremely good friends. When I left, shortly thereafter, he said, "If you ever want a job, come back." In fact, he used to write me letters asking my opinion on things when I was in

Post: the service and in the state department. Then he called me up one day in 1945, when I was still in the state department in Washington and talked me into coming back out West to be the first research director for the new Utah Foundation, in Salt Lake. He had been called over there as a consultant to set up this taxpayers' association. Rolland Vandegrift had had taxpayer association background.

Morris: He was head of that before he was state --

Utah Taxpayers' Problems

Post: Director of finance. He was the first secretary of the California Taxpayers' Association. He was a brilliant and able man, articulate, dynamic, imaginative, ingenious, tough. Really a first-rate, tough guy, when it came to facts and figures. He was also a wonderful man to work with. A lot of courage, a lot of enthusiasm. And controversial.

So he was involved in the Utah Foundation and he got me in it. I went there directly from Washington. I knew nothing about what I was to do. Gosh, it was a bum deal for them. I really, as they say, invented the wheel on that job. Because I had never had any contact with state government, how it was organized, taxpayers' problems, highway funds. All of these things were kind of in a mess, apparently, they thought. They thought they were getting somebody who was going to start taking the place of the old taxpayers' association, which had been discredited.

Utah had a great number of very wealthy industrial firms, in Salt Lake, many of which were from outside the state, mining, and smelting, for example. They wanted to keep taxes low in Utah. The taxpayers' association had been run by a cantankerous old guy who was discredited because he just said "no" to everything. They wanted to give the organization a new look. So they set up a new taxpayers' association, and called it the Utah Foundation, and kept the old taxpayers' association in the background.

Post: I had thought this was to be a research outfit, because this is what Vandegrift had told me. We were going to make a tax survey and so on in Utah. Then when I got through I would come over to California. But when I got there I found that it was really just another taxpayers' association, in a different guise. I just wasn't equipped to do that sort of thing.

We started out to do certain projects, and wrote some reports. I had associated with me a man who was the general director. He was the old manufacturers' association representative. His idea was to get impact. I was the research director and my idea of it was to be scientifically accurate, you know, as an economist. We had real rows.

Morris: That's quite a contradiction in point of view!

Post: Well -- . I liked him. He was a nice old gentleman, but I simply would not give my approval to the reports as he had changed them, because I said that what he had done was simply not factual. He had made some substantive changes in them. So we were locked up in complete disagreement. So they fired me. They came in and said, "You know, this won't do. You're the one that will have to go." I said, "That's fine," and so I came over here and joined Vandegrift.

III OFFICE OF THE LEGISLATIVE ANALYST

Early Days Under Rolland Vandegrift

Post: That was in March or April of 1946. That's really when I started on this job. I was his number two man. We had a relatively small staff. He built it up quite rapidly in the three years that he lived and there were fifteen people in the office when I succeeded him on his death. Most of the patterns of how we were to operate had by that time been set, such as the design of the "Budget Analysis" and much of the way in which you go about things.

Morris: This was by you and Vandegrift in those three years?

Post: With others, yes. But he was the one who really set the pattern. He had great confidence and faith in me. He also would get pretty excited sometimes at hearings, and call for me to come in and cool people down. Because he was so dynamic he really got carried away on occasion. I remember he would call and have his secretary bring a message in and pretend it was a phone call, and get up and charge out to take the phone call, and say "I'll let Mr. Post carry on while I'm gone." It was simply that he felt things were getting out of hand, because he'd been going at people in such vigorous fashion that some of the members of the committee were a little bit upset--they didn't like to see people get taken on, or perhaps because he might be blasting vested interests; in his vigor to get done what he thought was right, he was stepping on people's toes. He was marvelous that way. But he also would get to the point where the situation was almost out of hand.

Post: | I was much more bland about things --

Morris: It sounds like he didn't wish to embarrass the committee members.

Post: Well, that's true. It was a delicate balance of pushing hard on issues, and yet not making them too antagonistic. This is part of the work. You push your points. You have to play it like an orchestra, and know when you're getting too far in, and reaction is setting in. Then you go back and try to smooth things out and then push ahead again. It's the sort of thing that one who's good at this dialog learns very early. It's a fatal flaw to get somebody so mad that he's on your back too hard. At the same time, you have to pursue your point with undiminished vigor and purpose.

Morris: Did Mr. Vandegrift ever talk with you about how the office came to be in the first place?

Post: Yes. The office grew out of an internal fight between the Economy Bloc and Governor Olson. Actually, a number of members of the legislature had been thinking about an office of this kind for some time. There were some resolutions which had been introduced in the past to set up an independent audit group.

You see, in those days the audit was under the Department of Finance, and it was not an independent audit. You had a situation where members of the legislature felt that they were completely dependent on the administration. You had a good solid economy bloc in the legislature, which was not happy under-- certainly under Governor Olson, who had the first Democratic administration in California--in this century, I guess.

What really precipitated the office was that when Olson came in he soon became a very unpopular governor in many ways.

Morris: With the legislature?

Post: With the legislature, even though he had been a member of the legislature. He got himself into all kinds of hot water. He was not, in the opinion of

Post: people with whom I've discussed the subject, a good governor--his appointments were often poor, his judgement was not good on matters. Some of them say he was a good legislator, but a poor governor. He was in constant hot water.

So this Economy Bloc was really militant. They were going to cut the budget and do a lot of things. Vandegrift had been the director of finance under Governor Rolph. He selected Rolland Vandegrift as his director of finance. People say that Rolland Vandegrift really ran the state, and Rolph was not a strong governor. Vandegrift was a strong man.

Rolph died in office. Soon after, his lieutenant governor, Frank Merriam, became governor and, Vandegrift went out of state service, and went into other activities. He went into the newspaper business and didn't do very well. I don't know what happened, but it wasn't too profitable for him.

Morris: He was down in Oakland.

Post: Later he was in Oakland. He and his wife were interested in antiques, Californiana, because he was an historian, a California history professor at USC previous to becoming the first taxpayers' association executive secretary. He was interested in Spanish California history, really a very knowledgeable, really dynamic historian. He had done research work in Valencia on the Spanish --

Morris: Origins of the Spanish families in California?

Post: I don't know. All I know is that it was in the archives in Valencia. I have become interested in that, because we now own a house close to Valencia, where I spend a good part of my vacations and where I hope to spend more time in the future.

Morris: You're talking about Valencia, Spain?

Post: I'm talking about Valencia, Spain.

Morris: Oh my, the world is really --

Post: Small, these days.

But that's where he had done his research into the archives.

So then when this group decided that they were going to set up an office of this kind, they put a bill in, and Governor Olson, on the advice of the Department of Finance, vetoed it, saying that this was usurping the authority of the administration.

The Bloc decided, well, if they couldn't do it that way, they'd do it by concurrent resolution. So they took their own funds, and established a committee by a concurrent resolution. They then re-established it every other year by resolution and with legislative funds. They appointed Vandegrift as the first legislative auditor, as it was then called because it had an audit function for the legislature.

The war was just starting, and this led to many of the things that the office became deeply involved in. Like a cut-back in state spending, because of the war, and investigations into some of the activities that were related to the military situation like the State Guard--in unemployment programs that were instituted during the Olson administration. Commodity and food distribution activities. Things were pretty sloppy, and they were just the kind of thing that Vandegrift could tear apart. There was a scandal in the state printing plant where the state printer was buying paper and apparently selling it outside and pocketing the money, or something like that. He was investigated and either went to the penitentiary or resigned. I think he went to prison. I don't recall.

But anyway, that was the sort of thing that Vandegrift was extremely good at, along with his skill in the budget, having been director of finance.

Morris: So he knew the other side of the coin, in other words.

Post: Yes and he knew investigation. He had the kind of mind that was good for investigation, and he hired good investigators. We had retired investigators

Post: from the postal department on a part-time basis who would come in. He had lots of part-time employees in those days, because it was hard to get professional employees. The war was on. This office was a new kind of thing. So you kind of picked up people who would come in and then float out. That was true of all the legislative business in those days. There were few professional positions.

Vandegrift and the office of legislative counsel, a bill-drafting agency, were the only real professional jobs around. There were as many committees as there were members of the legislature and they had little pockets of money they could spend one way or another. They hired employees who were flotsam and jetsam and generally not professionally qualified. It was a very poor excuse for a legislative process.

So this office had to bring in part-time people for a number of years. I was one of the first full-time professionals. Vandegrift wanted to get me, because I did represent that point of departure, someone who was interested and who also had professional qualifications, and whom he liked and trusted. After I came in, he hired a number of others of the same kind, some of whom are still with us. My chief deputy, Gilbert Lentz, a former college professor and director of Hawaii's Legislative Reference Bureau, is one. One retired this year, Wallace Kelso, who came in from War Assets, when it was dissolved after the war. Vandegrift hired a number of those who had been suddenly dislocated from War Assets, men who had good professional qualifications. They formed the nucleus of the office under Vandegrift.

Investigative Studies

Morris: When you say that there were people around who were good investigators,--I have a picture of someone whose role is going around and talking to people, questioning them, "Where were you on the night that disappeared?"

Post: That's exactly right. That's right. One of the first he hired was a man who had been an investigator for General Motors Acceptance Corporation, credit and that sort of thing. Another was an investigator for the U.S. Postal Service which carries on investigations regularly. So Vandegrift was constantly probing into all kinds of business. We had a whole series of investigations, as I say, in the printing plant, the disposal of commodities, the travel of the Board of Equalization, and some other shady situations.

Later on, when I took over, we suddenly became involved in the Samish activities, and then we really used these investigators. Although it was something in which I had no qualifications at all, I was suddenly involved in an investigation of the state treasurer, because we had been critical of his investment of funds and one thing led to another including the fact that he and the governor got in a big flap. That was in the Knight administration. We used investigators in that.

During the Warren administration, there was the Samish investigation, in which we had no part. Following that, the liquor administration, in which we were very deeply involved. We did the research, working for Caspar Weinberger, who was chairman of a subcommittee of Government Organization that made a study of the State Board of Equalization and reorganized that. Took liquor administration out of it, and put it in the Department of Alcoholic Beverage Control. That was really the major step in the dissolution of the Samish empire within the state, which involved members of the legislature, members of the administration, and many lobbyists. It was a very complex and major enterprise. There we used investigators with very telling effect, in getting data on illegal transfers of liquor licenses. You see, we had to develop a scandal basis for shaking this thing loose. There's only one way you can reorganize things sometimes, and that's to really demonstrate that you have a scandalous affair.

Governor Warren and other politicians lived with this situation. It was only when Caspar Weinberger I think almost stumbled on it, the same way that I know

Post: I stumbled on it--quite inadvertently, because I was so naive--that the legislature moved and really did the job of breaking up this unholy situation in California. This was an accomplishment of Caspar Weinberger and a few members of the legislature, one member of the Board of Equalization, Paul Leake, with help from Professor Dean McHenry and nobody else.

Morris: Was this the time that one of the members of the Board of Equalization finally left the country?

Post: That was Bill Bonelli. He was the chairman of the Board of Equalization, and he was the worst of the lot. He was the real bad man. The others tolerated him, but he was the one who was the mainspring in it. His district in Southern California was where the expansion in licenses took place. You see, the problem arose largely from the fact that there is a limitation in the number of licenses that you can have--I think there was one per fifteen hundred population. The number of liquor licenses, therefore, was limited, and ownership of one permitted you to tap an area in a very lucrative way. These licenses were very valuable, particularly in the Los Angeles area. That was where the great expansion in population was taking place, so this was where you had most of the new licenses. So Bonelli was able to permit the sale of these licenses, which were worth as much as sixty some thousand dollars apiece, in the market, even though there was a relatively small amount to the state. That was where he could demand a cut and skim off some of the money that changed hands.

In other words, supposing I paid \$50,000 for my license in the open market. When I sold that right to do business, I get \$50,000 or something like that from somebody else who wants to own that right. But I also would pay under the table, presumably, an amount of money to get that. The same applied when a new license became available through population growth. That's where the corruption took place.

What you had to prove was that there were transfers which were illegal, which were done in various illegal ways, and make enough of a scandal out of it that you got people to act.

Post: Anyway, that's how we used our investigators. We tracked these license seekers and owners. We used all the standard investigative techniques. We really had good staff in the office. I have very little to do with that part of it, because I don't know those techniques. But I was working in other areas of it. We did the staff work for Mr. Weinberger in that enterprise, all the way through. We wrote his reports in collaboration with him, since he was really active. We appeared as witnesses. We got some help from Paul Leake, as a member of the Board of Equalization, who I understand was appointed with the admonition from Governor Warren that he should do something about this under-the-counter business in liquor licenses.

I inadvertently stumbled on all this in a budget study. There were some figures on workload that didn't make sense and I said to a committee that something didn't meet the eye. The newspapermen picked this up and went right over to Warren -- "Hey, Post says there's something going on in the Board of Equalization. What about that?"

I didn't realize this was anything that the governor was trying to do something about. I didn't even know who Samish was at that point, but I did before it was all over. Interesting thing, my brother-in-law, John Hamm, after he was in OPA, was with the Biow Company, an advertising firm which handled the Schenley account. That was the one that finally got Samish into trouble. Just the other night, John Hamm and I talked about the whole thing-- he told me all about it, and the Schenley side was entirely different from the way good old honest Artie tells it in that new book of his.* The way it worked was that they'd send checks to Artie's secretary and relations and friends in payment for services to Artie, and Artie would cash them and pocket the money. Biow said he asked for it to be handled that way as a convenience to those people; he said in his

*The Secret Boss of California, by Arthur H. Samish and Bob Thomas, Crown Publishing, New York, 1971.

Post: book he never could understand why the checks came that way, but that Blow wanted to do it that way. And it was those checks that IRS finally got him on.

One time we had a Samish man in the office; that was really a surprise to me when I found out. He was also the speaker's brother and I didn't know how I was going to handle it.

Morris: This was when Sam Collins was speaker of the assembly?

Post: Yes, and this was his brother John--he told me he had been hired by Vandegrift to keep an eye on the assembly and I told him that wasn't the way we did things any more. I didn't know what to do with him--a senator member of my committee said John was the speaker's brother, and we should take care of him.

So I sent him out to inspect the purchasing requests in the budgets for institutions. He was fine on that, could tell you whether things were worth the money, take a look at them and tell you whether they'd do what they were supposed to. But I didn't really have enough of this kind of work to keep him busy full time--and he kept wanting to go over to the assembly floor and make sure the assemblymen were staying in line. Then I was asked to administer the registration of lobbyists when that bill passed, and I decided this was a good spot, ministerial in nature, to put him in. They'd just come in and fill out the forms and nobody could object to him there.

Well, Jack Tenney got up on the floor of the senate and made a big speech about putting this man in this job was like putting a fox in charge of the hen house. The meaning was clear--John Collins was a Samish man, and of course, so was his brother.

Morris: What was considered to be the connection between Sam Collins and Samish--and how did you finally separate John from your office?

Post: Some time later it came to my attention that he had bought and sold liquor licenses. I had asked him, at the time of our liquor investigation, due to Sam Collins' alleged involvement in that, whether he had

Morris: at any time had anything to do with liquor licenses. He said he had not. So when the transfer documents were later brought to me by my own investigators I confronted him with it and he admitted he had been involved. I severed his employment at that point. It caused me some serious problems because Sam Collins still had influence and was at that time a lobbyist for one of the major oil companies. Some of the latter were trying to get greater influence in my office and I was not in very good graces with them since I was resisting these attempts. It was reported to me that they had said I would "have to go." It was about this time that the Democrats (with Governor Brown) came into control of the legislature and the newspapers carried stories that I was on my way out.

Joint Budget Committee

Morris: I thought today we might start with your relationship with the legislature and with Governor Warren, and the other pieces of the executive structure the office of legislature analyst relates to.

Post: All right.

Morris: Who is your boss?

Post: (Points to photographs on wall.) That's Senator Teale, the man on the end. George Miller before that, Arthur Breed before that, then Ben Hulse and Bill Rich.

Morris: That takes it right down to --

Post: To the beginning. Those are the five chairmen of the joint budget committee since its inception in 1941.

Bill Rich was chairman of the Senate Finance Committee. Ben Hulse was also chairman of the Senate Finance Committee. Arthur Breed was not chairman of the Senate Finance Committee; Miller was

Post: chairman of the finance committee, and Teale is vice chairman.

Morris: So that's usually a senator.

Post: It has always been a senator. There has been some feeling that there should be an assemblyman. Jess Unruh pushed pretty hard on that, but the chairman of the joint audit committee has always been an assemblyman. This is the deal they made. They were really unwilling to give up this plum --

Morris: The assembly?

Post: The senate. So they traded another position, the chairman of the joint audit committee, which was established in 1955. That was to be an assemblyman. And the vice chairman of my committee is an assemblyman.

Morris: Now, is this by agreement with the legislature, or is this part of the legislation?

Post: The committee selects its own chairman. It was just a matter of agreement that was settled among themselves, that's all. The senate wanted the chairmanship. They have always considered the budget committee to sort of be their package, in the sense that it was originated by the more conservatively oriented senators. The Economy Bloc created it initially. It's always been located physically over on their side of the capitol. There's always around here a scramble for space in the capitol, and the senate was always willing to allocate from their allotted space to take care of the budget committee. Then when they set up the assembly hegemony over the audit committee, they gave the assembly the responsibility for supplying the space out of the assembly allocation. Because they really allocate this building into two geographical areas. The committees take care of their own allocations for staff space and for committee chairmen and so forth. It's split down the middle, sort of, with the assembly creeping over a little bit, because they've got twice as many members, and they're taking more floors now in the new building.

Post: People used to think that the budget committee was in function a senate committee. But in fact it has never been that way, since I've been here. We do as much work for assemblymen as we do for senators. We do a tremendous amount of work for them.

Morris: In general, do you see your role as initiating plans and issues that the committee should consider, or do they come to you with their issues pretty well formulated?

Post: Well, it's both. It's a mix. Individual members come with proposals. They come with an idea, with a proposal fairly well jelled, and want us to go over it, or else develop it. The legislature by resolution also asks us to make studies, so we get a full-blown request of that kind. Our requests cover the water-front, covering every stage of the development of a proposal, and from every kind of source that is legislative. Nothing executive, but anything that is legislative is likely to come through here, either by resolution, or by an individual or a committee asking that we develop it for them.

Morris: That's quite a broad spectrum.

Post: Yes, it is a broad spectrum.

Morris: [Additional question, submitted with transcript.] You mentioned the Joint Audit Committee which was established in 1955. That was the same year your title was changed from legislative auditor to legislative analyst. How did this come about?

Post: [Written reply] We recommended, and the Senate Committee on Government Organization recommended, an independent auditor--independent of the administration. This was good theory and is the trend today. A bill was introduced to create the Auditor General, under a Joint Legislative Audit Committee. It was opposed by some members and the controller (unless I was willing to be both positions, which I felt was not a good idea because of the difference in functions and size of the operation--I may have been wrong in retrospect), but it was passed and signed by the governor. Then because of the confusion over titles, Assemblyman Tom McBride agreed to sponsor legislation to change my title.

Morris: Could we go back a minute and talk about Mr. Rich and Mr. Hulse particularly, as to what their picture of state finance would be, and what their particular concerns were.

Post: Senator Rich, as the first chairman, was a rural senator, an autocratic, charming, witty, really very delightful individual. He scared people to death because he had a very rough exterior. But inside he was really a very charming and pixie kind of guy.

Morris: The picture on your wall reflects that.

Post: Yes, it does. He had great wit. He was a very easy man, as far as I was concerned, to live with. He left you alone. He represented a small district. He came from Marysville, and he used to say, "The people in my district send me up here, and tell me to use my good judgement and leave them alone." He can do almost anything he wants. They don't bug him at all. And he was that way. He was a strong chairman of a strong finance committee. You had originally very strong men. Men like Ralph Swing, of San Bernardino, a real canny type, you know, men who were resourceful and tough and knew where they were going. Their interests very often were ones which were of a personal nature, or certainly a parochial nature, rather than broad state interests. They looked after the interests within their districts to a high degree. They constituted a tough, strong, rural and conservative finance committee. Rich was their leader, a man of personal integrity, without any question in my mind--of a cut, frankly, considerably above some of the other members of the committee, in that sense.

Morris: When you say that personal interests, or regional ones, were --

Post: Oh, they were looking after--Ralph Swing looked after the Orange Show, and business people, and interests in his own district. He looked after certain lobbyists. He was one of those that was accused of being closely linked with some of the more powerful lobbyists within the state. There was more of that in those days than there is today. There's a much greater degree of independence on the part of legislators now than there was in those early days.

Post: The legislator came up here for a hundred dollars a month, and he was to a considerable extent more subservient to these third house interests than are people who get the kind of salaries that they pay now. There's no question in my mind about that.

Morris: You said he was also a man of integrity. Didn't the regional issues get in the way of some of the more --

Post: Bill Rich wasn't interested much in regional issues. He wasn't a man who was fighting for things in his district. He was a real independent character. He got his power, in a sense, I think, by his free-wheeling objectivity with respect to all kinds of matters, including money matters. He was conservative, and concerned with rural issues--as most everybody was in those days. But he wasn't out fighting for his own highway, or for his own college, or for his own parochial interests in the business community. He was an independent soul. There wasn't any question in my mind about that. He was a conservative, farm-oriented legislator. He sincerely believed that not-much-government was good government, and that you should get as much mileage out of the dollar as you could. He came representing a relatively small-time, modest income, conservative constituency, and he represented them cleanly and faithfully.

Morris: And did Ben Hulse carry on this kind of -- ?

Post: Yes. He was a different kind of person. Bill Rich was a self-made lawyer, a man who studied at home and took the bar, and went through that route, and was a member of a small law firm up in Marysville. He represented some of the substantial interests in that general area.

Ben Hulse, on the other hand, was a man who had grown up as a machinist. He built one of the first Caterpillar tractors, which had their origin in Stockton. He became a very wealthy man because he moved to the Imperial Valley, where he had the franchise for Caterpillar Tractor, which of course became a tremendous economic enterprise in that area. He accumulated vast holdings of land; oil was struck on part of that. He was a multi-millionaire. He was

Post: a strong, very broad gauge man. He had his feet in budgets and taxes, where he was an authority. He had more grasp of the total budget than any man in the state. He was an extraordinary student. He would spend all week-end up here, just poring over and reading all the reports. I used to come down here Saturday mornings almost every week-end at his request, and we would go over all these matters that were on the calendar. He'd want to talk about things, and then we would go to lunch together and that would end the Saturday morning. In that respect, he was thorough.

So he was a strong leader who knew a great deal about total state interests--despite the fact that he came from El Centro. Despite the fact that he was farm-oriented and came from really a small population center, he had more contacts with the major industrial leaders of the state, because he was a wealthy oil man, and because he was a big businessman. He also owned a franchise in El Centro for motor vehicles, including the Jeep. So he really touched an awful lot of bases. He was extraordinarily interested in everything that went on, politically, in the state. He was a man who was talked about as being a logical candidate for governor. He never really had the political base, nor the political appeal, because of his conservative rural affiliations, to quite pull it off. But he was a man who was voted by the correspondents in the capital as being the most knowledgeable senator in the senate, at a time when the senate was a very strong senate, with people like George Hatfield and that ilk, who were very strong.

So that he was a somewhat different breed than Senator Rich, although he also was rural.

Morris: It sounds like he would be an early example of one of the leaders in agriculture as a big business.

Post: That's right. He was agribusiness all the way. That's true.

Morris: And this would be as early as 1940, or earlier than that?

Post: He came up in the forties I guess. I can't be sure.* He was here when I came here in 1946, but he hadn't been here very long, as I recall. He became chairman of the committee about 1952. At that point, he had made his niche. He was the recognized authority on taxation and on budgets. He later became chairman of the rules committee, as President Pro Tem and was chairman of the joint tax committee.

He was the real power in the senate after George Hatfield died.** George Hatfield and he were very close. Senator Hatfield was the acknowledged brains of the senate. He was one of the smartest men that's ever been in the legislature. Astute, canny, far-sighted, a brilliant lawyer, a man with a tremendous grasp of politics. This small group of individuals really ran the senate.

It was only when the old guard was displaced, largely by the growth of the cities and the move to partisan politics, and the development of pressures for reapportionment, that they were kind of swept out.

Even then, there was a new kind of old guard. The new guard, the George Miller type, who were liberals, Democrats, took over and became in time the old guard. The people that I've been talking about were the old guard Republicans, you see. But once you establish yourself as the power in the legislature, then gradually you become a guard, because there will be a relatively small number of you, who really run things, and you become entrenched in that power position, and you don't give it up easily. So in that sense, you are old guard.

Now, these gentlemen, Rich and Hulse, were the first two chairmen of the budget committee. Senator Breed who was the third chairman never was really quite

*Ben Hulse first served in the state senate in 1933-36. He returned to the senate in 1945 and served through 1956.

**Died in office November 15, 1953.

- Post: a part of that group, because he had a kind of an independent posture. He wasn't the clannish sort of person that they were--not a part of the club that the leadership of the senate seems to be. A wonderful fine man--still is.
- Morris: Is Arthur Breed still around?
- Post: He lives in Oakland, in the real estate business. His father had been president pro tempore of the senate for many, many years. The latter was a very astute and successful politician. Arthur Breed, Junior, didn't have that same political touch. He was a man who just didn't quite fit the senate club easily.
- Morris: That's interesting. Was it father or son, who was involved in an early study of highway needs in California?
- Post: That would have been the father. The Breed formula, you're speaking of. That was the older --
- Morris: This would be in the twenties, because it was referred to when the Collier highway bill was being discussed.
- Post: That's right. That would have been his father. That was the formula that existed before the Collier-Burns act. The "Breed formula."
- Morris: You mentioned that Ben Hulse was talked about for governor at one point. Would this have been about the time that Warren himself was a candidate for governor?
- Post: No, really, it was more in relation to Knight, who followed Warren. He was building up a following. Some people would have liked to have Hulse as the conservative candidate against Governor Warren. But this never jelled, because he was a good team man, and he never pushed that at all. It was later on, when things got a little shaky around here among the Republicans that there were papers that kept sort of boosting him for governor --
- Morris: Newspapers?

Post: Newspapers like the Sacramento Union and small rural papers. And Ben Hulse, I think, had a little touch of the fever, but he never pushed it at all.

IV INTERACTION WITH EXECUTIVE DEPARTMENTS OF STATE GOVERNMENT

Morris: In general, how did Senators Rich and Hulse feel about Warren?

Post: They regarded him as being somewhat liberal, a practical politician. Senator Rich's attitude was, "You know a guy has to be a practical politician or he doesn't get to the point where he can get things done," and so he guessed that was okay. But it galled him a good bit to have Governor Warren as liberal as he was on money matters and on social welfare particularly, yet they went along with most of the things, it seemed to me, that Governor Warren was pushing at. They were perfectly agreeable to rebuilding the state's mental hospitals, although they found it a little difficult to understand some of the therapeutic approaches that were being taken. That came only slowly, because there was always a great deal of mystery about mental hygiene, which was a very big issue at the time.

Prison Reforms

Post: They were perfectly agreeable to upgrading and reorganizing and strengthening the penal structure under new management, with Richard McGee, so long as he didn't spend too much money and go too fast in setting -- You see, what McGee did when he came in, was to clean up a fairly unholy situation in which each of the prisons was run as a provincial empire by individual administrators, some of them in almost

Post: a scandalous way. And under a board that was relatively ineffective.

So Warren reconstructed the system under the act in 1943 and '44 as I recall, of his administration--completely redid the prison structure. Richard McGee came in as a real professional administrator who ran the whole show and dominated the individual wardens. He set up a central structure that governed, and moved in on certain principles that had not been applied before--primarily the employing of so-called "free men"--men who were not felons--to do the work that had been previously done by felons.

Morris: Kitchen work and --

Post: All kinds of things. Handling the records -- The sort of thing that McGee contended would permit one felon to own another felon. It's very difficult for felons to not come under the domination of other felons in a penitentiary. There are sexual and all kinds of dominating-personality kinds of problems of personal intercourse of that kind in a penal institution. It's a very difficult thing at best.

What he inherited was what he labeled a sort of "kangaroo court" sort of system, in which the most sensitive records of a man's history were within the jurisdiction of other prisoners, and they could find out all about you, and they could bring pressure to bear on family and associates to get things done in their own behalf, using you as a tool, that should never have happened. So one of the real issues we had during those days, was the gradual increased costs of prisons, as a result of McGee's determination to create through staffing by free men of these sensitive functions within the penal system, to make it truly controlled by the establishment and not controlled by the felons.

He also wanted to restructure the prisons in order to eliminate the double-celling as one of the things that create the personal frictions, the sexual frictions, that are such tremendous basic problems in any prison.

Morris: I don't understand the term "double-celling"?

Post: Double-celling means that you put two felons in the same cell and this of course leads to all kinds of problems. We still have a lot of that. We're still debating that issue, interestingly enough. My office has been on record within the last couple of years as saying to this administration "You really ought to get rid of all this double-celling, because it's nothing but trouble," and yet if you don't expand facilities enough, why you're just forced back into it again. Like double sessions in elementary school. This is the worst of all possible situations, really.

Morris: It's interesting that you comment about Corrections bringing in a professional administrator, and working on cost abuses of one kind and another. These were also part of the problem in state hospitals, wasn't it?

Mental Hospital Budget Standards

Post: State hospitals followed a somewhat similar pattern. When I first came here, they had a very strong man as head of the mental hospitals. This was in 1941, before Earl Warren. They had Dr. Rosanoff, who was a private practitioner, who ran a private hospital, and who was really a very fine man. But the system was not up to date. What Warren set about doing with the money that came in because of the war--he really had at his disposition the tremendous advantage of having money accruing in excess of any established requirements, so that he was able to provide tax relief and at the same time have huge surpluses, and initiate an extraordinary expansion in the state budget.

Now, he set about rebuilding physically the state institutions, including not only the prisons, but the mental hospitals. The director was a woman, Dora Shaw Heffner, who was not a psychiatrist but an attorney, who was the wife of one of his--as I understand it--political benefactors, but who was an intelligent and sensitive, progressive woman. She was the director of the hospitals when I came back after the war. She was attacked rather vigorously by

Post: my predecessor in this position to the point that the governor on one occasion chided Mr. Vandegrift by saying that he thought it was somewhat ungallant for him to be taking on a woman, especially when she was ill.

Well, the truth of the matter was that she was not a sufficiently strong individual to run that system right. She was sympathetic, very sympathetic, but she didn't meet the test of the tough breed of legislator who felt that there should be stronger control. Following that, we had a series of qualified psychiatrists running the system. Through that period of time they completely revamped the physical facilities; they very substantially upgraded the therapeutic standards in the mental hospitals. They segregated the wards into acute and chronic. They set up pilot projects to see what you could do with the deteriorated patients. They adopted as budget standards the American Psychiatric Association's standards.

What we did from the standpoint of budgeting was to move by percentage increments up to a hundred percent of the APA standards. Now these standards, in the meantime, were also not static. They were also moving up, because we were at a time in which there was a revolution in mental hygiene from the "snakepit," so-called, era, to a therapeutic type of approach using many therapists, using group therapy in many ways. Finally having the introduction of drugs. But even preceding these so-called "magic" drugs which are still largely relied on as a means of getting better control, getting the patient more amenable to psychotherapy, we had the introduction in those times of the other kind of therapy.

We had shock therapy with both insulin and electric shock. The facilities to do that. We had the hot baths and the other sedative type of things to get these wild, extreme procedures out of the way. Then we had the continuing problem of trying to finance, from a very narrow, limited field, enough professional people to actually put in there. From the old "attendants" as they were called, they reclassified these positions and called them psychiatric technicians, and professionalized them, upgraded them,

Post: increased their pay. The turnover was very great previously, because you just pulled people in and they rolled right out again. Now you developed a cadre of professional people who would stay there. We had a continuing battle to get psychiatrists and various types of para-professional personnel in there. Music therapists, you know, all kinds of therapists.

Morris: Occupational therapists.

Post: Occupational therapists, and so on. All of this was a little difficult for the legislature to understand. They couldn't quite see why you had to have all of these fancy things. At the same time, you had an upgrading of the physical status of the patients, as for example, during the term of Dr. Lawrence Kolb as director. He was a psychiatrist who told me he was not primarily a Freudian psychotherapist, but was one who felt (on the basis of his experience with the Veterans' Administration previously) that you could do a great deal by simply improving the physical being, correcting physical ailments, and a reasonable program of psychotherapy and related therapies.

So you had increasing numbers of people to look after the physical well-being of these people. People who would look after your feet, because there were many old, senile patients. By the way, one of the real problems we had was that about twenty percent of your total hospital population was purely a senile group. They were not capable of benefiting by this new change in therapeutic approaches. They simply overburdened the institution with housekeeping problems. So one of the missions of the Warren administration was to set up ways in which these people could either be moved out, or not put into the institution to burden its primary mission.

So all of these things were going on. We were putting in places to make people look more beautiful--beautician shops and so on. The upgrading of the morale. The chiropodists, the physical therapists, the things to make them comfortable and give them the decent, comfortable life that a person has to have from a physical standpoint, if you're going to do anything for him mentally. And in any case, you

Post: ought to, they said, take care of his physical comfort. If you're going to take him out of society, and in effect incarcerate him, you've got to give him a decent environment in which to live. So there was the physical upgrading of the institution; the upgrading of the personnel to take care of their physical needs, recreational and other facilities to make life more pleasant; and then setting up a classification basis for those patients who would be receiving acute treatment and those who would be receiving chronic care.

We had goals of giving everyone good initial physical examinations when they came in, so you'd have good diagnostic bases from which to work. There was a constant battle to get the professional people to fill these jobs. A constant battle to see that the bulk of the employees, who were the attendants, or the psychiatric technicians, wouldn't just be turning over and learning the job on the patients all the time. All these things were going on at one time.

The costs were mounting. There was a certain restlessness on the part of the legislature. We were critical of some of it--oh, I think rather short-sighted from that standpoint, again, suffering the same kind of thing that I think most laymen suffer from--not really understanding the importance of moving as fast as we did move in the direction of upgrading all of these facilities. By and large we would go along, sometimes with the whole program. But we were "nitsing and liceing" I guess you might call it, at little things all the time. Chipping here and chipping there. Sometimes we were certainly right, I think. In their desire to get ahead, they sometimes did things that they couldn't fully justify, and you kind of nibbled at it. But they were relatively small nibblings and not always right.

Morris: Portia Bell Hume recalls working with you on the preparation of budgets. How does this work?

Post: Well, Portia had responsibility for the extra-mural care program, the clinical program. She was located, of course, in Berkeley, and she was the deputy director in charge of those facilities which were outside the institution. Now one of the things that I hadn't mentioned was this growing capacity outside

Post: the institutions to take care of patients as they left the hospitals, or to keep them from coming in at all by simply having the capacity to take acute cases in the clinic outside the institution and hopefully divert them from institutionalization, which was generally considered (and I think quite rightfully so) to be a kind of catastrophe. The idea was to keep him in the environment from which he came if you possibly could.

Federal Funds

Post: And so the clinics were started by a federal grant. They started in Berkeley, and then we had five more. Then we used them as the models from which we set up what ultimately became a far-reaching system of community facilities. We reached that by a number of roads, but this was the first one.

Portia was in charge of that. We used to work with her to some extent in several areas. She was an important figure in relation to the growing source of federal funds from the National Mental Health Act. These were used for experimental approaches which really were very good, for developing the state of the art within the institutional setting. She had a lot to do with setting up projects for evaluation of alternative approaches to handling mental disease. These approaches not only included the institutional type of thing, but they were also separate studies of individuals, from which they could learn about how to treat psychiatric illnesses in hospital settings. Because, as Dr. Kolb used to say, we're still in the Middle Ages in some respects. We work empirically. We know certain things have certain results, but we really don't know why. We don't know whether it's chemical, whether it's psychotherapeutic. We just don't know these things with certainty.

They were playing with all kinds of approaches, and the federal funds were important in permitting Langley Porter Clinic, as the original source of our research within the system, to carry on about as much work as they could handle. It was a legislative

Post: attitude, supported by us, that anything that Langley Porter Clinic wanted, the Langley Porter Clinic got.

Morris: Was there state money going into Langley Porter too?

Post: Oh, yes. It was a state institution. It was a joint enterprise between the university and the mental hospital system. The university used it as its training center. The mental hospital system used it as a retraining system. Both benefitted by the research that was done, in kind of a joint venture. The actual director was--for many years--Karl Bowman, followed by Alexander Simon. He wore two hats, really. He had a salary from the university and he had a salary from the state mental hospital system, you see.

So that was our source of research until later they began to put in a relatively small, but growing, source of funding for research within the institutions, so that it would upgrade the attitudes and the capacities of the professional people within these institutions. The feeling being that otherwise they simply became involved in what was unfortunately to a very great extent the physical features of the system.

You had people brought in there with all kinds of problems. Physical--that they had inherited through a life of neglect, and so on, that came with mental disease. And so most of the people were really looking after bodies. The people you put in there were to a considerable extent doctors who didn't make it in psychiatry, and many of them didn't have psychiatric degrees. They were simply physicians looking after the physical well-being of large numbers of people who were in bad shape. And so a great deal of the energy of these institutions was just keeping body and soul alive for a great number of unfortunates who were ill-equipped to look after themselves, and who sat on the wards and did nothing, and deteriorated.

Farm System

Post: So we ran hospitals in the traditional sense, for a stable population. Then we ran a mental institution, on the margins, almost, with those patients that they felt they could reach. You had institutions like Stockton that had a farm where many patients simply sat and did almost nothing. Many, of course, worked in farm operations. We had a farm system at this time in most of the hospitals, that was abandoned later on in the middle fifties. Early and middle fifties. We began to shear off the institutional, supportive activities. This was a debatable issue with the legislature. One of the things that the public used to take great pleasure in kind of poking fun at, was the fact that the legislators on the joint agriculture and livestock problems committee would go out and approve the expenditures for capital outlay on all the institutions and never venture near the wards, they would say. You'd go out there because a resolution authored by Senator Hatfield, and religiously passed every other year, required that the committee approve the appropriations for agricultural facilities in these institutions before they could spend the money.

So I used to go out with them. This is how I really learned about the institutions. We did go quickly through the institutions it is true. But the main thrust of the visit was to go with a bunch of agriculturalists and look at the dairy barn and look at the hog farm and other agricultural operations. They would approve expenditures for the development of the dairy and other supporting activities.

Well, this is perfectly legitimate, because these hospitals were total cities. They were cities that were supported in part by funds to buy medical services, but they were also made more economical in operation by having good producing dairies and other agricultural support activities. And they used many of these deteriorated patients as milkers and farmers in the field and the supporting activities. Canneries, et cetera. So like our system of prison industries, there were hospital industries, and they were supportive.

Post: They provided what was generally in those days regarded as a bona fide therapeutic activity. The argument was that a busy body meant a busy mind, and that was a good thing. Rather than having these people sitting around deteriorating, it was thought far better that they get hustled out in the morning into the fresh air and pick vegetables, and do farm work, and go back. In fact, many of them had so deteriorated that it really probably wasn't all that bad. It sounds awfully short sighted, and I'm sure there were better ways.

But the state of the art in those days was such that they really didn't know much about what to do until the Kansas experiments, the Menningers, people like that, began to revolutionize mental care and demonstrate the effectiveness of mental therapy in an institutional setting as against simply running farms.

Morris: I wonder if also, being an agricultural state, many of the patients would have come from farms.

Post: Yes, they did. There was no question about it. Many of them were not bright, we'll say. They weren't all casualties of stress and strain. Many of them were kind of not-bright persons. Quite a number of them had environmental occupations, or had occupations that fitted that kind of environment. So, as a milker--this was what they'd done before they came, they were perfectly content to milk or work in the fields.

You know, California was so beautiful, that it was a pleasant thing, frankly, to be able to go out and go through the beautiful farms. These members of the legislature were proud of the farms. The patients cultivated them. They made them beautiful and pleasant places, because this was their life. And really, under the circumstances of their malady, if a person didn't have any hope of doing anything else--many of these people would go out in the field and maybe that was the best part of the day. When they went back into the institutions with the mass feeding and the stress and strain of the wards and all that, it was a terribly miserable thing.

Post: But you could get a fairly decent picture of life if you'd see them out there puttering around in the open fields under the beautiful skies at the lovely sites that we had for institutions. And so I think the members of the legislature, and I, got a pretty--perhaps distorted view, of the pleasant kind of situation that you were creating for mental patients, on the grounds of the institution.

When you went in the institutions, you really saw what a different kind of life it was. Governor Warren certainly has to have a lot of credit for having persistently upgraded the institutions with, certainly, good support from the legislature, but also with a lot of pressure to not go so fast, and spend so much money, and with us harping all the time that you couldn't demonstrate that you were proving anything.

Morris: What convinced the legislators to continue to approve increased budgets? Was the federal funding --

Post: No, I just think it was the decency of legislators as human beings, that this ought to be upgraded. The fact that these were unfortunates who ought to have their lot improved. There were also some strong administrators who could make a good case, with the leadership of the Warren administration, that you should follow the professionally established psychiatric standards. A general acceptance on our part too, that this was the current state of the art, and that it was appropriate that the state should at least try to buy the highest state of the art that we knew of, and to push for more approaches to effective therapies versus what was professionally regarded as less effective.

There were a lot of things that were done that were bad, and I think some of us did some good in pointing out that there were areas of hospital administration where improvements could be made.

The Governor's Office Under Earl Warren

Morris: You feel administration was the area in which Warren made his greatest contributions?

Post: Yes, I think that Governor Warren's dedication to upgrading the quality of state government, its administration, its facilities, its programs, was probably the most important contribution that he made. He was an astute politician and he always was aware of the areas that would keep him politically secure.

But looking at it from where I sat, working for a budget committee, and working within the budget process--writing reports that were an appraisal of administration, it was my feeling that his biggest contribution was his recognition of the need to upgrade the basic programs within the state. That means education, it means mental hospitals, penal institutions, the court system, the whole level of quality of the programs of the state--along with an ethical consideration that dominated his thinking, concerning regulatory and other issues. When the chips were down, you could really count on the governor knowing what was right and what was wrong.

He played politics, and made decisions of that kind, but he did it within the context of integrity. This is something that really made him a leader, in every sense of the word.

But the budgetary issues of the legislature were very largely determined by the fact that we had great financial resources that really flowed out of the war, the fact that we had all this growth in the state, growth in the economy, along with a limitation on spending because of the war, which left us with large reserves. Warren was able to use these reserves to get a good running start on all the programs that he thought were important: upgrading the university, pushing ahead in the state college system, expanding the community colleges, and to some extent increasing the state support for them, although they were still largely locally financed. Upgrading completely the penal and mental hospital systems, strengthening the courts by careful and good appointments to the bench,

Post: at every level. Generally creating a tone of government that was almost unique in state government in America.

Postwar Reserves

Morris: This is a point that I think we've had confirmed by everybody, his concern with administration, and his appointments. You mentioned the great resources coming in from the war. In reading the budget documents put out by the Department of Finance, I get a sense that in those early years, '42, '43, '44, there was a feeling that these funds were not going to continue, that nobody ever expected to have this kind of state revenues.

Post: Yes, that's true. We set up these reconstruction funds--everybody thought when the war came to an end, there would be tremendous problems of unemployment, and so you should have these reserves set up for construction and reemployment. Two things conspired against that. Number one, you can't keep a reserve around too long, because people want to get ahold of it and spend it for one reason or another. So they used them. Number two, you really didn't have the kind of a situation develop which required unemployment spending. California became a dynamic state. The population flowed in, with, as we all know, the greatest land migration, I guess, in the history of mankind. The economy went from a rural, agricultural economy to a growing industrial, metropolitan area economy. Even agriculture became agribusiness. The country prospered generally, and California prospered extraordinarily, so that by virtue of all of these growth factors, we found that money continued to flow in, in unanticipated amounts. The governor had to realign his position from time to time. He had first had tax relief: we had lowered the sales tax, and we had lowered the income tax. We had made that temporary, so they went back to the old levels. And then gradually he had to come in and ask for some "sin taxes." He wanted to raise the taxes on tobacco, and on horse racing, and on liquor in 1953,

Post: as I recall, in order to maintain the expenditures that had been built up on the basis of these surpluses.

It was at this point that the pressures began to mount a little bit. Some of the members felt that the governor was being a little wild, that social welfare costs were growing too much, and state government costs were growing too much.* This is where we suddenly found ourselves in the business of recommending what in those days were thought to be just fantastic budget cuts, like forty million dollars, you know, in a budget. This was chipping away at all kinds of things. And the legislature paid attention to us. They did cut the budget.

Most of it was in delayed capital outlay, which is not really cutting government costs, it's simply deferring expansion of facilities. Some of that wasn't all bad either, because although it was deferred, at the same time I think it sharpened up some of our evaluative processes over what was necessary and important.

We really began to get into trouble at the end of the Warren period and in the Knight administration.

But the governor did come in for some tax increases, and the legislature was beginning to chip away at--

Morris: By '49 and '50, the state was up to the first billion dollar budget.

Post: I remember--the 1950 newspapers show that the governor sent a proposed '50-'51 state spending program of a billion dollars. \$970,000,000 was the budget. So we're at a billion dollars. And then it went up steadily from there on, and Governor Knight inherited

*Senator Ben Hulse proclaimed, "The economic tide of the last ten years has gone out and we have the sands of the beaches to scratch for any more money. We also have to consider that fellow, the little taxpayer, who has been crying in the wilderness." San Francisco Examiner, September 17, 1953.

Post: the problem of trying to juggle the tax system and speed up revenue receipts and do everything he could to avoid a tax increase. And then, really, Governor Brown got the problem of the first big tax increase.

Morris: And the first real deficit.

Post: In 1959, I guess it was.

Morris: In those years when you were recommending delayed capital outlay, there was kind of a continual dialog between you and James Dean, wasn't there? Dean argued that construction would cost more the longer it was delayed.*

Post: Yes. We were very close to James Dean. We were very friendly. I've never been as close to another director of finance, in a way. Now, Dean was an architect and he was interested particularly in the reconstruction of the physical facilities, institutions, of the state. At the same time, he was a man who kept a good eye on the total picture. But his real forte was in this reconstruction --

Morris: That's a connection I hadn't made before. Of course.

Post: And he was deeply involved in building budgets, and in following up on how they carried through with this rebuilding of the prisons and the mental hospitals and parks, and so on. We had very close working relationships with him, and met with him frequently to work out details of how to proceed on these projects. He was chairman of the Public Works Board, and he was a very strong chairman. But we still were looking for places to balance the budget, and cutting buildings was easier than reducing personnel. So we bumped head-on.

*By 1950, Post was reporting that the 1946 postwar construction program had grown from \$154 million to \$418 million, plus additional building requests. (S.F. Examiner, July 15, 1950) Debates with Finance Director Dean are reported in the Examiner for February 23, 1950, February 13, 1952, and January 23, 1953.

School Funding

Post: At the same time, Governor Warren had introduced the concept that the state should be responsible for the funding of school construction at the local level. This was a new program. The State Allocations Board was set up to allocate these bond funds, and some other funds that were out of the General Fund, for meeting the local school needs. Here we had this great population increase. The local school districts were ill-equipped to build the schools to keep pace. So the state got in the business of establishing a program basically conceived around the idea that the local district would first "impoverish itself" by exhausting its resources up to within five percent of its total bonding capacity. At that point, it would be eligible to receive state funds. It had to dedicate a certain tax rate--I remember originally it was a thirty cent tax rate, and give the proceeds of that rate to the state. Beyond that, the state would pay the debt service.

This then became the standard system of the state. We had many debates about what was the proper unit appropriation amount, what was the right size of the classroom, for example the thousand square foot standard for the classroom, what facilities should be given along with that: multi-purpose rooms, for other activities -- Because we found ourselves in the business of actually building whole schools, as a result of the fact that a district would have come into the program only after exhausting itself, and then all the new schools really in fact came right within the jurisdiction of the State Allocations Board, and we were building the whole school. So we had to decide what was the proper package. How many classrooms, what size of classrooms, what supporting facilities, how much credit did you give for inheriting a system that was oversized for our standards. Supposing you had over-built classrooms previously. Did you have to wait until you had washed out the over-building before you got new ones, or could you write off some portion of that. All these kinds of problems came into focus because it was a new fundamental role for the state.

Morris: So that you and the Department of Finance would discuss these details?

Post: Oh, yes. We worked on the legislation continuously. It was constantly being brought in. We prepared any number of reports. My staff met regularly with the Allocations Board. It had really a great deal to do with revising many of the criteria that they used for the design of the program. The staff of the Allocations Board knew what was right, but they often didn't have the guts to say so, in terms of the conservative approach. The school people had never had it so good. It was kind of free money as far as they were concerned. They would push for everything, so the state was constantly fighting to keep the reins tight, and the Allocations Board had both administrators and legislators on it. So the allocations staff people would keep throwing us ideas about how to do it, and we had the nerve to go in and fight to keep expenditures down.*

Morris: To the legislature?

Post: To the Allocations Board. And also to writing letters, reports to the legislative members, which in fact became the letter to the whole board. We still do that, on the Public Works Board and the Allocations Board. We have legislative members. We write an evaluative report on the Public Works Board, and send it to the legislative members, but in fact, it goes to every member of the board, and they use it as an independent critique of whether or not the project should be approved or trimmed.

*At one point, Post reported to the State Allocations Board that fourteen of thirty-four school districts seeking state construction aid had enrollment declines since applying. The board instructed Post and Dr. Charles W. Bursch, chief of school planning for the Department of Education, to seek a more realistic formula for qualifying for funds. A legislator commented that school people seemed to be working to get as much money as possible. (S.F. Examiner, December 21, 1950)

Construction Program Legislation

Morris: You also indicated that sometimes the results of your studies end up as part of legislation.

Post: In legislation, because the program standards were defined in legislation. The guidelines for the Allocations Board as to what they could allocate for projects, how you actually dealt with the consideration of existing facilities, unit amounts-- all of that is the law. Then implemented by the determinations made by the Allocations Board. So that we would get involved in recommending to the legislature that you set certain statutory constraints, that you change certain procedures, and so forth.

We've always been involved in a dual role, of working within the area of legislation governing administration, at the same time that we write a critique of administration. As a result of writing that critique, we generally end up making quite a number of recommendations for changes in the laws, where it's appropriate. The governor might come in with some basic program of new legislation, but not be concerned as much as we were with, perhaps, changes in pieces of legislation. Governor Warren did not seem to use his personal position of governor to intervene, except as to vetoes. He worked in another way, in that respect. He would have his legislative lieutenants bring in bills, or the departments would submit bills. They would be changing the laws all the time. It was only under Governor Brown that you had a strong central control over legislation, from departments, where it had to go through the governor's office and be approved. Prior to that, departments would bring in their own legislation.

But the force of the governor's office through his veto power, through the fact that he had a strong staff, was great. Beach Vasey, now a judge, was a very strong legislative secretary under Governor Warren. He did a fine job of advising the governor on legislation, so that since the governor had the last whack at it, he had a sort of control that went full circle. Even though he didn't have approval

Post: over legislation to be introduced formally coming through the office, he had such a strong control over review of legislation that it sort of worked that way.

Morris: A number of people have commented on his use of the governor's council, in that the executive branch was strong enough that he could meet monthly with all executive department heads, and then get from them informally what legislation they had in mind.

Post: I'm sure it worked that way. Of course I wasn't familiar with it, in any direct sense. I never was in the governor's office the whole time that Governor Warren was in office --

Morris: That's interesting.

Post: I never was in the governor's office until Governor Knight. And then only because I once commented to Governor Knight, who was really a very good friend, that I had never been in the governor's office, and he couldn't wait to see that I saw what it was like.

But there was a very impersonal relationship between the governor's office, Governor Warren, and my office.

Morris: Did his office object to the function of the legislative --

Post: No, he supported it, in principle, very strongly. He often spoke warmly about the assistance it gave to him in evaluating bills. We used to write letters to the governor, even after bills were passed, recommending whether he should sign them or not. I finally decided that that was usurping the prerogative of the legislature, that if I had anything to say about a bill, I should say it before a committee and not tell the governor to thwart the efforts of the legislature. I really felt that this was out of my scope, and we abandoned that. We went on then to strengthen our role before the committee.

That's why I still appear before Ways and Means and Senate Finance committees, and our reports are sent to the policy committees to let them have

Post: our recommendations there, when they make the decision, rather than waiting, and then going in to the governor, and saying, "This is a bad bill."

Morris: When do you date that change in policy in your office?

Post: I think it took place probably during the Knight administration. I inherited it. My predecessor had written very strong letters, and I carried on much of what he did without any significant change until finally I concluded that it was a bum idea. But I didn't do it until, as I recall, the end of the Warren administration.

In part, it may have been because the administration changed somewhat, too. With Governor Warren, you were dealing with a very tight ship, and he did such a good job on that. I think I felt a little bit differently about some of the changes in office personnel and so on, with the new governor. As I remember, my real concerns were later on.

In principle, I began increasingly to think that it was a poor way to do things, but I never really had much of a concern, as I recall, until a later administration.

Morris: Could we go back a minute to the education scene? You were involved in the state money for school construction. Wasn't there also in the late forties, new legislation on support of the schools, for the instructional programs?

Post: Oh yes. We had increasing amounts for local school support continuously. When I first came in, there was much more of an emphasis on unit amounts for schools without consideration of the sophisticated equalization program that equated out the differences in assessed valuation among districts. And without as much concern for individual programs, such as the transportation requirement of crippled children, including building classrooms for them. They just fell out of the system, until Senator McBride came along and really plumped hard for including in the bonds and in schoolroom construction something for the child who was really not fully educable. One who either went to an institution or if he wasn't so

Post: defective as to go into an institution simply remained in the house as a fall-out from the system.

Morris: This would be the origin of the program for mentally retarded?

Post: Yes. When we had the school bond program, Senator McBride finally got them to dedicate funds (not to exceed three percent of the school bond funds) for construction of the facilities for children who were not normal. It required initially a higher pay-back rate. At first state funds were matched on a fifty-fifty basis, and then that led to introduction of a sharing device incorporated into the school formula. Only this year, on our recommendation, has the legislature finally moved to take that three percent limitation off. A bill is going through that says let the Allocations Board determine what the needs really are. But that's been a long road, going to equal status for that type of facility versus the facility dedicated solely to fully normal educable children.

Morris: There's also been the running debate on how much the state should pay towards the cost of operating the schools.

Post: That's right. We had many issues of that kind. The Strayer Report (Professor George Strayer of Columbia University) established a basis for equalization aid that really revolutionized school finance. For many years, we had efforts made by the school districts to get more money. Annual debates over how the funds should be allocated, and the total amounts required. The districts were under continuing pressure, because of the growth of the school population. We had about a seven percent annual increase in school population, starting in the fifties. This was very difficult to keep up with, because it was compounded by the need to devote a great deal of money to school facilities as well as to keep up with the problem of growing class sizes.

We had the problem of double sessions with us for all those years. We had a growing concern, late in the fifties, with the growing class sizes. The adoption of a standard of somewhere in the neighborhood

Post: of thirty-five or less. That was between thirty and thirty-five per classroom. And trying to reach those goals.

But there were always major issues of getting enough money for the schools, and always the school bill was one of the final issues of the session. It always came late. It came after you settled the rest of the budget. Then the school bill would move, and we'd have an issue of big money with trade-offs as to how to fund these growing school budgets.

Morris: When you say "trade-off" --

Post: Oh, I mean how you could work it out with all the other needs of the state. Tax increases versus expenditures. School expenditures, budget expenditures, construction needs. Just the whole problem of how you could fit in a big school program. The school people were very big. They were strong. There was a good deal of talk in those days about the school lobby. You had the CTA which was very powerful. They were always a factor to be reckoned with.

School Lobby

Morris: Where did the state Department of Education fit in?

Post: The state Department of Education was rather a neutral force. The superintendent of public instruction dominated the school board. He was a good professional administrator. Roy Simpson had come up through the South Pasadena school system, and was a good educator, a fine, decent school man. Not a strong and dynamic individual, but a good, stable sort of person. He told, with his professionals, the state board what things ought to be. They pretty much endorsed everything he said. He was a factor in the development of school legislation, but he really wasn't in my opinion a very strong factor. He never really did deal as vigorously as he might have with the problem of equalization, but he always gave his blessing to it. He was always on the right side, but

Post: the school people in his department were primarily an aggregation of consultants who went around to the school districts and helped advise in many ways, including institutes and conferences. In this way they touched a lot of bases, but the real powers within the state were the large school district superintendents, Los Angeles, the San Francisco schools, San Diego--and you know, the growing metropolitan areas. It seemed to me that this is where the power really lay. These districts were aggressive. The basic aid (wealthy) districts, like San Francisco and originally Los Angeles, held up any real progress on equalization until Los Angeles got its nose under the tent for equalization aid. Prior to that, since it was a relatively wealthy district, it got basic aid only. It didn't get any equalization aid. So it would have no part of equalization until it came within the formula. Then Los Angeles got on board, and has been a force moving in the direction of improving and adding to equalization funds since. San Francisco never has, and they still fight any equalization aid. San Diego was a relatively wealthy district, too, as I recall. So that some of your big, most rapidly growing districts, were relatively wealthy because of their growth in industrial base, and so they held back the equalization aid.

Moreover, it seems to me that some of the districts that might have benefitted most were kind of "cow county" and didn't have the sophistication to press their cases in the same effective way as those big hot-shot superintendents from the big centers. Because they were really sophisticated individuals, with their battery of supporting forces. This may not be entirely true. It's kind of a theory, I guess, that I'm developing.

Morris: You're suggesting a kind of a working relationship between the big cities' superintendents of schools and the California Teachers' Association?

Post: Yes.

Morris: That's interesting.

Post: I think so.

Growth of Urban Problems

Morris: Were there any citizens groups?

Post: Well, you see, the citizens were taking their cues from their superintendents, and the superintendents came from basic aid, wealthy districts, and they weren't about to share the wealth. This is what's held a lot of it back. You don't permit things to happen until it does you some good.

Morris: That's a logical point of view for any given locality.

Post: This is why you had rapid expansion perhaps of the Youth Authority program and the rapid expansion of the mental hygiene clinics, because the metropolitan areas stood to gain by it. They were pushing the rural areas out of shape in those cases. The mental hygiene problem was to a very considerable extent an urban problem, we were told, the pressures of city life, in part, but also, and perhaps to a greater extent, the economic dependency that is a product of an urban society. A person falls out for mental reasons from the mainstream, and he's caught, in an urban environment, in a position where he has to go into an institution. Out on the farm, if a person becomes insane or is mentally slow, they often just kept them there in the farm environment, and they were tolerated. They lived a reasonably comfortable life. But the economic structure of urban society meant that--as in the case of welfare today--when the person falls off, he falls hard, and there's no place to go. And so the institutions of the state have to pick up the burden.

So that the cities were welcoming the development of urban facilities, of mental hygiene clinics, of acute facilities with also facilities for overnight domiciliary, short-term domiciliary care. They were also willing to have a rapid expansion of the state public health budget, and they were eager to see the development of the state supported Youth Authority facilities, which again were an innovation of the Warren administration, separating youthful offenders

Post: from the adult offenders. The state by law took up the burden of accepting admissions only to the extent of the capacity, the physical capacity to do so, within the Youth Authority facilities. It was a limited responsibility. By law, we didn't have to take any more people than we could, than we were willing to accept, because this was an innovative approach. Heretofore, you'd had primarily only local youth facilities, the juvenile halls, and the local jails that took care of these youthful offenders. So when the state got into the business of establishing these Youth Authority facilities it was logical that they should accept only to the limit of their capacity to do so.

Morris: This would be based on the actual spaces--beds, and so on?

Post: Right. And as fast as we could build facilities, we would accept cases from local communities. The metropolitan areas of course, were willing to support programs at the state level that would permit them to be relieved of the local responsibility of taking care of these youthful offenders. So, here's a program that was supported on a broad base. I'm simply contrasting this with the unwillingness, in many ways, of the local communities in metropolitan areas, to support equalization of educational apportionments. But when it came to equalizing the burden with the state accepting people in mental hygiene clinics, and accepting people in youth authority facilities, it seems to me, that the metropolitan areas lent their support, and their legislators supported legislation and appropriations for expanding those kinds of facilities.

Senators and Reapportionment

Post: Interestingly enough, rural legislators (primarily maybe because of philosophical, or ideological reasons) were leaders in establishing those programs. This became an interesting facet of our review of the issue of reapportionment. Members of the senate had asked us to look at the record, the track record of

Post: the senate versus the assembly, in respect to legislation that affected urban areas. Because the rural senate (which of course it was, a rural senate) was resisting reapportionment, to protect their own position, they wanted to know how good a job they could say they had done in supporting urban area problems.

And interestingly enough, when we looked at the record, we found that it was very good with respect to the senate. In fact, it was better than the record of the assembly, which was the house where you would have expected urban problems to have been dealt with during that period. The truth of the matter--well, we approached it this way--

We went to UCLA where they had an urban affairs orientation in their institute of government down there. Berkeley, under Sam May and his successors, was primarily concerned with problems other than local government problems.* But at UCLA they had been oriented toward municipal, local government, research and problems. So we went to them and said, "Will you identify for us the issues that you regard as being the most significant local issues over a period of recent years, and then we will look at the bills that have been introduced on those subjects, see who the authors were, see what happened to them. We want to determine the track record in the assembly and the senate with respect to bills which attempted to deal with problems that you consider especially urban problems." So we did that.

Then we took another approach. I thought it would be desirable if we simply took the bills which were introduced by urban legislators and see what kind of bills they were, and what happened to them.

*To the question on the transcript as to what were the significant contributions of UC/Berkeley to the legislature, Post replied: regular reports on state issues, fine library at Berkeley, but overall not enough output--largely because the legislature didn't ask for more help. UC not geared to the legislative time frame and need for spot help.

Post: Did the senate give serious and favorable consideration to those issues which the urban legislators felt were important, as well as dealing with the issues which an outside authority (UCLA) thought were important to the urban community.

And on both grounds, we found that the senate had an excellent record. I think this was because, to get back to my earlier point, some of the members of the senate, because of their having come up through the assembly and going to the upper house, were sophisticated, and had a very broad view of many of the problems of the state. They were also conscious of the need to do something to maintain their political strength, and consequently had been quite fair in dealing with these kinds of problems.

Anyway. I just throw that in, because it was a kind of interesting experiment in the role of the two houses in relation to the emerging responsibilities and problems of the state of California, and the fact that the senate was a reasonably sophisticated, and far-sighted group of individuals, in many areas. People like George Hatfield and Ben Hulse who came to have reasonably progressive ideas about welfare, and the Short-Doyle program. Senator Short was particularly concerned with mental hygiene.

Morris: Is Assemblyman Doyle still in the legislature?

Post: No. There were two Doyles. There was old Tom Doyle,* and then there was Don Doyle.** Don Doyle is now a vice president of one of the large insurance companies in the Bay Area, in San Francisco, as I recall, and Oakland. He was a pretty progressive Republican. Yes, it was the Assemblyman Don Doyle who carried the community mental health legislation.

But Senator Short was really the one who pushed it most, in my view. I remember he took me down to lunch on a couple of occasions, and battered at me

*Thomas J. Doyle (D), Los Angeles, 1939-57.

**Donald D. Doyle (R), Contra Costa, 1953-58.

Post: with experts to point out the real problem. It was very illuminating and very effective. He was a fellow that went out of his way to see that you learned something about programs in which he had an interest. We went to Stockton with him to look at the programs at the community level for the children who are--what we used to call, I guess, Point Two. They're trainable retarded. That's where they started the program, in Stockton. He's been very much instrumental in establishing increased numbers of those programs and strengthening them. They've grown. He asked me to go down there with him, and we spent all one day observing that.

Morris: You're telling me that the legislators lobby you!

Post: Some of them. There aren't many, but he's one of them that always did, when he felt that there was an important program. He tried to get everybody to see it better. There weren't very many that did that, interestingly enough. He's one of the few who did. I've had some of them lobby me a little on other matters.

As a matter of fact, they really have left us pretty much alone. This was an education process. My chairman, Senator Hulse, used to be awfully interested in getting a state college in El Centro, and we never would concede that there was any case for that. He was awfully decent about it. He would just ask that we keep looking at it. We'd keep looking at it, and come back with, "It just doesn't belong there. We need a good junior college down there."

League of California Cities

Morris: On the business of the senate, and its role, a couple of people have suggested that the League of California Cities, when Dick Graves was director, really did an educational job on the senate --

Post: Of course they did.

Morris: And interested them, or got them turned in the direction, of city and county problems.

Post: Yes. I think Dick Graves was a very important influence in California. He was a protege of Earl Warren, and a first-rate, strong individual. As a matter of fact, in my opinion, the League of California Cities has been outstanding in its state representation. I would put Bud Carpenter in that same league. One of the truly outstanding people, educated and thoughtful. Representing, in the finest sense, the interests of the communities. They've had a program of upgrading city government in California which has been exemplary throughout the country, I think, based substantially on Dick Graves' early leadership, followed by Bud Carpenter.

Morris: And you feel that they've contributed to the improvement of city government?

Post: City government and the relationships between state and city government. Oh, yes. It's been an in-house upgrading, and their representation up here has always been thoughtful and appropriate, educational, and very beneficial in that sense. Graves was an arch, intellectual, articulate, sort of guy, who could tell you the way it ought to be. But he did it right! He told you the way it really ought to be.

He used to antagonize some of the people, because he did have kind of an arch way about him, but he knew what he was talking about. He was forceful. He was a real leader. He would have been a good governor, no question about it.

Morris: It's interesting that Graves himself finally took a shot at the governorship.

Post: Yes, he ran under very difficult circumstances. And he really didn't have the warmth, the political moxie, to quite cut it. He had an intellectual approach to the governorship at a time when other forces were stronger.

Morris: You said he could tell you the way it ought to be. How did he feel state government, for instance, should be?

- Post: Well, I think really I was thinking about describing the problems of cities in terms of the fiscal relationships between state and local government. The kinds of formulas that would be productive of good equalized efforts, basic concepts of what kinds of functions, and kinds of programs, and kinds of people, should be involved. He was a pro, and when he got up to speak on a bill, he spoke, as I say, in kind of an arch way, laying it down with accuracy and forcefulness, that this was the way it ought to be, and this is the way it was. And he was accurate about it. That's all I mean. I don't have any particular examples. I just remember seeing him get before a committee, making a very accurate and informed, and enlightened presentation of the interests of cities, with his eye on the ball and what kind of city government we ought to have in California. If there were subventions to local government, there were good ways of doing it, and bad ways of doing it. He was, in my view, on the side of the right way to do it.
- Morris: In other words, his thinking about fiscal relationships and administration would conform to your ideas?
- Post: Yes, it would. He wasn't so much concerned with school legislation, it didn't seem to me, because they had Bob McKay and others who spoke for the CTA who were more influential. It was primarily in other municipal functions that, it seems to me, I used to hear him more often.
- Morris: The Christmas Tree bill was the famous one, on what to do with the governor's Rainy Day Fund. That was sewers largely, wasn't it?
- Post: Well, it was all kinds of facilities. There were sewers, and there were other facilities. I came in, really, just after that issue was resolved. Senator Hatfield and other senators held up the whole procedure and bargained with the governor because they felt that he had structured the program to reflect the view that the needs would be found to exist in the growing urban areas. They, on the other hand, wanted some of this surplus money to go out to the small communities they represented.

Post: Because the governor also had a functional state construction program that would go to the upgrading of state facilities, they assumed that this meant the state facilities would be in urban areas where the people were, and they wanted some facilities in other areas of the state. They made the case that he needed to have a broader grant of funds that would upgrade these local community facilities. They got the so-called Christmas Tree Bill, by simply holding up his total program, so he gave in on the local portion.

Water Planning Issues

Morris: What was the influence of federal funding on state government during Warren's administration? Highways and water have been mentioned as the big dollar amounts.

Post: Federal funding didn't have too much influence then. Highways were big in the Warren administration. Water became a big issue in the Knight administration. Then Brown came in, and really--coming down into the legislative halls and getting some real experts to work on it--resolved that issue by might and main, for which I give Governor Brown a lot of credit. Whether you agree or disagree with the water plan, it simply wouldn't have happened if Governor Brown hadn't felt that he had to get this thing off dead center.

In the Knight administration, we just wound up with North-South fights, over and over and over again. During the Warren administration, there was a planning effort, the development of the state water plan. Now, this was something that had to be done, and it was done by the then Division of Water Resources. But it was a planning and design organization. We never dealt, in the Warren administration, with the issue of where were we to put our money, or what kinds of things were necessary in order to get in the business of really merchandising water.

Post: Now, the first real issue that I was ever engaged in, in the field of water, was when I came to the conclusion that the state was mis-spending its resources by trying to buy out the Central Valley Project. The big farm interests in California wanted to buy out the federal interest, with the use of state funds, so that we wouldn't be plagued with the acreage limitation of federal legislation. There was federal money in the project, and so we were governed by reclamation law. This was counter to the agribusiness interests. Their proposed solution was to simply buy out CVP, make it a state project, then we could run it as we darned pleased. I opposed that. I remember people said at the time that George Hatfield would be twirling in his grave if he'd known that I was recommending against it.

Interestingly enough, many people said that after I said that they knew the proposal to buy was dead. It was the first time in my own experience that I ever felt, and I didn't realize it at the time, that something I had said had that kind of impact. The fact that the legislative analyst would come out and objectively say this was a bum deal for the state, apparently, according to many of the experts in the Bureau of Reclamation and elsewhere, sealed the idea's doom.

Defining Economic Factors

Post: From that point on, we were concerned with the problem of where to go next in investing our money in developing and implementing the state water plan--in exporting water from the North to the South. We were concerned with how to set up economic conditions for pricing the water, determining what the cost-benefit ratio should be, and who should pay for it, and what project benefits are, using the pattern of federal legislation, or conforming it more to some of our own experience, and perhaps improving on it. It was at that point that we hired ourselves a very bright young man from Washington, an economist who had had some experience with Bonneville. He came south and had, I think, a tremendous influence in the state of California (that

Post: was Don Benedict), in shaping a whole new approach to determining the economic interests, as opposed to the engineering and planning features, of water in California.

He worked closely as an advisor to the senate and assembly committees, with Carley Porter,* and members in the senate. With his basic background I think he helped instruct them in the general area of how to approach these problems in a way that was entirely different from what we had experienced in the past.

Morris: You're speaking now of the activities of the Water Resources Board established in November, 1945. We're very interested in this period before water resources became a separate agency in 1956.

Post: I remember distinctly during those years the work that was done by Charlie Weber of Stockton,** who had hired with his own personal resources a set of experts who dealt with the whole problem of a water plan for California. You had the experimentation and the discussions with the Reber plan, how to handle the Bay Area, how much water had to be released, studies of ways in which to guarantee that there would be no saline intrusion in that area, of the development of a policy of sharing costs with local governments in developing aquifers and protecting them, and of stopping saline intrusion in many areas. We saw the development of programs to encourage the use of atomic energy for purification of water. There were arguments and debates as to sources of power for the state water project.

*D, Los Angeles, 1950-1972, Assembly Water Committee (ch), Agriculture, Ways & Means.

**Ind, R, D, San Joaquin, 1935-1950, chairman, Assembly Conservation, Planning and Public Works Committees; Ways and Means Comm.; civil engineer: Don Pedro Dam, Carquinez Bridge.

Post: I remember going, at the request of Assemblyman Beaver, to meet with the president of the university, Bob Sproul, and talk about getting their experts to help us develop a new approach to saline water conversion. We wrote reports for a subcommittee that Jack Beaver chaired in that area, sent our people back to Washington with him, and did a lot of work in that area.

I'm overlooking the fact that there was a great deal of debate associated with the planning that went on. When they finally got to the point of deciding how they were going to handle the state water plan, we were involved in that. For example, I was asked to set up the basis for having a joint committee review of the Feather River Project. Knowing nothing about it, I went to the Bureau of Reclamation and others, and got my guidelines as to the kinds of things that you had to have in such a review, such as the best high dam man in the country, a Jack Savage, or somebody of that calibre. You had to have the best geologists in the world, because we had the most difficult geological problems related to our canals. You had the power plant problem of going over the Tehachapis, which in that area represented the most difficult engineering problem of its kind the world had ever tackled. Everything was in ultimates. By that I mean it was the most difficult project in every feature. They helped identify these particular issues for me.

I was supposed to lay out a program to get bids from all these engineering firms, bring it before the committee, and have them make an intelligent decision in selecting the firm to evaluate the work that had been done by our own state division people. Their feeling was, "Before we can launch ourselves in this twelve billion, or whatever it may be, dollar project, we've got to have some outside evaluation by qualified people who say, 'This is sound. It'll work.' And then we'll commit ourselves to it."

So, I interviewed people like Harza and Bechtel, and Porter, and the whole bunch of the engineering fraternity. And on the basis of the assistance that I got from the Division of Water

Post: Resources, and the Bureau of Reclamation, and others, we set up a kind of master plan, a group of specifications, and sent them out to all these experts. They were to come in with their proposals. It was to include identification of the individuals who would be assigned specifically to every one of these project review elements. They would tell me, "You've got to know you're going to get a specific person who has qualifications. You want to know who."

So we had a very fascinating hearing on this. Interestingly enough, what they did is what you might have (what I might have) expected beforehand, but was too unsophisticated to realize--they picked Kaiser, because it was a local firm. As a matter of fact, they had a pretty good bid, and they had competent people, and I have no reason to feel that they didn't do a good job.

But you had entirely different approaches being thrown out. Harza, for example, wanted to forget about the large dams here in the North, and have a kind of water exchange program, in which you would take the water we already had in the high Sierras and which we were sending down into the lower San Joaquin Valley and send it down into Southern California, and then we would keep the North's water in the northern part of the state--that is to say north of the Tehachapies. There were real issues about the quality of water that would be involved in an exchange of that sort. These kinds of issues were ones that were debated all through that period.

As I say, Charlie Weber kept banging away at his proposals to avoid a large Oroville Dam. We had studies financed to determine the best way of handling the quality of water in the Delta. Alternate sources of water to go into the state system. Relationships with the federal government in their dam-building projects. Because they were big with the Bureau of Reclamation all through this period. How did we relate to them? What should we build, and what should we leave to them? What were the differences in timing that would be involved? The trading that went on between the interests of the North and getting water to develop versus exporting water to the South so they could maintain their rapid development.

Post: The difference in economic interests between the sportsmen and agriculture in the North versus the value of the water to manufacturing and population consumption requirements of the South.

Morris: The recreation issue is a fairly recent one, isn't it?

Post: No, they had studies of that quite a way back, because northern people were concerned about giving up their water, and knew that there were more possibilities, it seemed to me, for development of recreation in many of those areas, than anything else. More money to develop those rights than any other thing that was foreseeable, big business, and orderly development of that kind. So you had Assemblywoman Pauline Davis of Portola fighting for retaining small dams up there that were primarily recreational.

Again, they used all these new, sophisticated devices of building in benefit factors that would make the project economically feasible. The State Department of Water Resources funded special studies for allocating benefits for recreation and putting it in the formula in a way that would make these small dams, like Davis Dam, Antelope Dam, feasible. They also fought for a broad, multi-purpose system that would incorporate development of these small projects--along with the development of the major water export functions. These things were part of the total battle.

There were battles over how to fund it, the use of state resources from different sources versus bond financing. The use of the reserves. Their dedication to a special water fund. The use of some federal funds, and general fund monies. All of these were issues that were going on at this time. No question about it.

Morris: Who were the strong men in the legislature on these continual discussions on water?

Post: Well, the people like Hatfield were strong. Let's see. Cobey. James Cobey, of Merced, later on. This wasn't in the Warren administration, really. This was later on. In the early years--I can't tell you

Post: who they were, but they would be the Valley senators. I really wasn't too much involved in it until later on.

These issues really didn't emerge in those years. We simply had regular financing of a state water plan. This was the work of the Division of Water Resources, under Edmonston, and his predecessor, Hyatt, Edward Hyatt, who did the planning for it. You didn't get these issues articulated until you reached the point of "Now, really, what are we going to do about all this? Are we really going to use this plan? Are we really going to take the water from the north and ship it south?"

Because one of the things that they incorporated in their early planning, as I understand it, and recall it, was that you were going to husband these water resources in the north and have a lot of dams retaining water for local purposes. This would be very beneficial to the north.

From Porterville, Howard Williams was very important in this, because he was chairman of the joint water committee. He obviously represented major customers for water, because he came from Porterville, in the Valley, where there were agricultural interests. This is what they would be needing, so he was a key figure. He came up through kind of the old school of Valley interests. It was really only, I guess, late in his career, that he became involved in some of these other more sophisticated issues.

Morris: The early issue on the Central Valley Project seems to have been whether it was going to happen at all. The state couldn't fund it, and then they appealed to Washington.

Post: That's right. You see, because originally they wanted to use what money they had on hand to buy themselves out of the acreage limitation. That didn't leave any money for development of the state water plan.

Merchandising Water

Morris: I see. For the additional parts of it.

Post: Right. And then we still hadn't dealt with the economic issues of how you get money for a project of this magnitude. We still were thinking about the state funding the project. I mentioned the fact that we hadn't really dealt with merchandising water. By that I mean deciding who pays for what and on what basis? How do you divide it up between industrial uses and agricultural uses? How do you calculate the revenues that come from electric power versus irrigation? All these things.

These were issues that the Division of Water Resources hadn't really tackled. They didn't have a single economist in those days.

Morris: The idea was that merchandising the water would then produce the money to build the system?

Post: That's right. It meant, how do you spread this over the years? How do you put it out on a bonding basis to give you the capital, and pay that off from the revenues that are produced? How do you set the price for water? How do you set the price for power? How do you allocate between the two equitably? How do you determine which pieces of it are feasible in terms of anticipated revenues? Because you've got to anticipate what these will be, and you've got to allocate it to a multi-purpose project. How much of this will be federal money for flood control, and fish and wildlife preservation, and how much of it will be--in other words, what kind of storage do you reserve for that, and how much will the federal government pay for? Beyond that, what can you sell? and to whom do you sell it? and under what kinds of contracts? and who's responsible for the distribution system locally, after you get the water down there? All these sorts of things really had to be hammered out.

There were new public policies, really, that had never been dealt with in California, fully. We didn't have the people to really deal with it, until

Post: later on. This didn't happen in the Warren administration. It happened later. But the planning work, the engineering work, was done largely during the Warren administration. And the first skirmishes over how you use your money for what public policies, expansion versus the buying off of the federal government--that generated during the Warren administration.

Morris: The 160-acre limitation debate is what reverberates down the years.

Post: That's right. This was the first big issue we dealt with. Until we disposed of that, we weren't really in any position to move on with the problem. So that was the first thing that kind of had to fall.

Morris: [Additional question submitted with transcript.] From your point of view, what were the merits of the 160-acre limitation? How was the issue settled?

Post: [Written reply.] The 160-acre limitation was basic federal law to not give, at public expense, an unearned increment to large landowners. While the small farm was not an economical unit in California, by and large, it was federal policy to encourage it, and in any case there was no reason to not require the large agricultural interests to pay for water development. The 160-acre limit probably wasn't the right solution for California, but reimbursement contracts did seem to be justified, after deductions for flood control.

When the state entered the water development picture it used contracts intended to provide adequate and equitable reimbursement, as I recall for "surplus" water not claimed by the smaller farmers.

Morris: I should think that private business, like Pacific Gas and Electric, and some of the big California banks, would have been very much interested in all this policy development.

Post: They were. I'm not sophisticated enough to know exactly how. All I know is that there was great concern when I did the staff work for that review by the joint committee about what PG&E would be

Post: involved in. One of the real arguments that went on before the committee during its hearing was that Kaiser engineers were also PG&E engineers, and they therefore had a conflict of interest. Some of the members of the committee felt very strongly that you ought to get somebody who wasn't doing PG&E work, because it meant that we would be dictated to by PG&E on the policies that would be approved for the state of California, for appraisal of the feasibility of the project.

Others said that that really isn't a significant factor. They persuaded them that it wasn't, but I do remember that PG&E was very large in those considerations. But I really wasn't sophisticated enough to know that much about it.

Morris: When did you do this study?

Post: I don't remember exactly. It was in the Knight administration, as I recall, which would be somewhere around '55 and '56, maybe.

Morris: He took over in October, '53. And was re-elected in '56.

Post: We had those big issues on the water plan, the North-South battle during his administration. It was about that time, I would say. It must have been 1955 or '56.

Morris: You wouldn't happen to have the title of it handy, would you? Your study?

Post: Oh. We didn't make the study. It was the Bechtel Corporation that made the study. All I was asked to do was to design for the joint water problems committee the basis for the solicitation and presentation of proposals for review of the Feather River Project. This was in the Knight administration where that issue became big. I think about 1956.

Impact of Federal Funding

Morris: We started on water when I asked you about federal funding. You said that in the Warren years there wasn't all that much federal funding. Wasn't this the beginning of public health, mental health?

Post: Well, yes, there were many smaller federal items. In terms of total dollars it was relatively small, but in terms of its influence, I think it was pretty substantial. I mentioned the fact that the community mental health program was pushed along rapidly by federal financing of the local clinics, and there was federal financing of numerous research projects, which they would gradually drop, and expect the state to pick up. In the field of public health, this was also true. They would move in with funding of epidemiology and morbidity studies, things of that kind. They would try to upgrade the role of state and local government in tackling problems that they hadn't really tackled before. Making statewide studies that would reflect the incidence of some of these problems, and setting up matching programs of one kind or another.

So that was very influential. It was also one of the things that many of the members of the legislature used to get pretty unhappy about. In fact, our office reached a point where we proposed, and they did adopt, a limitation on the amount of money that could flow in, and be used, on the grounds that it simply was luring us into areas where we finally felt there were marginal returns. But this was very much later.

So it was real influence money. There wasn't any question about it. Particularly in those areas of public health and mental hygiene. Then there was growing federal money in public schools, but that came pretty much later on. It came with the acts that were to strengthen the administration of the school system.

Morris: That's interesting. What effect did the California state government have, in turn, on the federal government?

Post: I don't think we had very much. They used to come out and talk with some of our more sophisticated people in social welfare--of course, federal funds were also flowing in to the relief, the welfare program, at this time. We had key people who went back there. There was considerable influence, I think in that area.

Morris: Who would those --

Post: Well, the director--let's see. In the Warren administration, the last man of real influence was the attorney who went back to Brandeis University as a professor of social welfare. I can't think of his name.

Morris: Charles Schottland.

Post: Yes. He was quite influential. It's hard for me to assess what the influences on the federal government were, because I really don't know. It seems to me we've always had a rather remote connection, or relationship, with our legislative group in the Congress. There has never been a dialog between the California legislature and the congressional representatives of California.

I think that in many respects, California under the Warren administration became kind of a model of how to do things. People did look to California. A number of our people did go back there. Also the members of the legislature who went back there as members of Congress exerted influence, because there were quite a number of them.

Morris: Does your office exist in other state governments?

Post: Oh, yes. No state has the size or sophistication, but most of the states now have an office or a man who performs this kind of function. It's done in many different ways. A characteristic of legislative organization is that you fit these new things into the legislative services that you have. There was, in the thirties and forties, a legislative council or research movement, which started in Kansas, in the Midwest, and spread out. Many states set up these general research councils and then only very

Post: much later had the fiscal review fitted into them.

California, on the other hand, never did establish a legislative council, despite the desire of Professor Harris and Sam May, at UC, and others, to go that route, but instead set up a fiscally oriented office, which became in fact a legislative reference bureau, meeting many broad assignments. Doing the reference service for members of committees, not only fiscal issues, but many other issues, although never really being the kind of general legislative research council that you had in Kansas, Oklahoma, Illinois, and other states where they went into a much broader group of legislative policy areas.

Morris: My ear isn't good enough to hear whether that's "counsel" or "council"?

Post: "c-i-l". In California it's a legal counsel, but the council was a legislative group, like my budget committee, that appointed the staff and in the case of Oklahoma, it included every member of the legislature. Less members in some states where it became a very select group. The council selected the subject and they would research everything, from reapportionment, resource development, et cetera. The whole battery of things.

But we were the first in the country to have a fiscal staff of this kind, and we are still numero uno, by any standards, that you could find. Generally regarded to be.

Developments in State Budget Process

Morris: We've mentioned the state of the art and its developments in a number of executive departments in Warren's years. I wondered if there are any technical advances, either in economic theory, or fiscal management, that have affected the course of government.

Post: Well, I think it was just a slow accretion of degrees of sophistication. You didn't have a budget system, or a PBBS,* anything of that kind. Governor Warren came in with the constitutional authority that he had when he left. The governor was responsible for developing the budget, and had all the resources of state government at his command to implement it. He didn't change the total structure of government very much. In other words, you still had the battery of constitutional officers with a certain degree of independence. He did of course, internally, strengthen many of his executive departments.

So that he came in with a strong budget mechanism. I think he improved that significantly by having a strong budget director. But he inherited a good staff, and he built up that budget staff, and they did a very professional job, and improved that job. No question about that, during his term in office.

But there wasn't any, as I recall, any real significant change in how you did things. My office sat in on the hearings of the agencies, all through the Warren administration. There was no change in that procedure. They would meet in this room, and the director of finance would sit here, and the agency people would go down the side of the table, and the legislative analyst would sit down at the end of the table. The staff would ask questions, and they would submit their analytical data, and they would have a discussion of the policies that the agencies were asking to be implemented. Then the budget staff would take that material and make it into a budget.

When the budget came along, then Vandegrift's staff, or my staff, would review it. That was the procedure throughout all of the Warren administration.

Morris: Your review was based on this single budget that had been prepared by the Department of Finance?

*Program Budgeting and Bookkeeping System.

V GROWTH OF LEGISLATIVE ANALYST FUNCTION

Program Evaluation

Post: That's right. It was a line-item budget, with reasonable program descriptions. One of the things that did happen during this period--and people in the Department of Finance have often said this--our report, as it expanded in size and depth, as the staff grew in their sophistication, incorporated the kind of information that had never been present in the governor's budget. So that from a budget of schedules, of people, and amounts, and items, it began to develop descriptive material telling what the program was all about.

Most of this was input data, not output data. In other words they described what they were putting into the program, and why they were putting it in. The budget still isn't too good on saying, "Now from this we have gotten these kinds of results," because it's very difficult to measure results, and very often, you don't like to talk too much, really, about it, because there aren't always those results in tangible evidence.

The budget document did improve. It grew substantially in size, and it grew in sophistication and in content. I think we had a good deal to do with that, because we were writing a textual description of programs. We didn't have to be concerned with all this business of laying out all the line items that would then be administered by the agencies in an administered budget. We could talk about the thing, the program evaluation. And they found that

Post: this was desirable to put into their budgets, for one reason, because they didn't like to have us steal all their thunder. If the members would fail to look at the budget and instead only use our book, it seemed like an idle act on their part to go to all this work. Many of them were constantly thinking how can we write the budget so that it becomes the document for legislative use, rather than just that little book produced by the legislative analyst? We constantly were trying to make our product better so that they would still use our book, because if they used our book, we're more productive. We're more persuasive if they can see our story and not just use their story.

We always had the power of the governor and his political force to combat anyway. When the chips were down, he had tremendous pressure. We have very little pressure. So we had to write an awfully good book in order to be persuasive.

Morris: That sounds like a healthy competitive situation!

Post: It was a healthy competitive situation, and I really think it was productive of good things. Governor Warren used to say in public addresses every once in a while, "The state of California does a good job, because you've got different people looking at things critically. When we have our legislation, it has to be looked at by the legislative analyst, who submits his comments on it. This means that it's better legislation."

I was always grateful, towards the end of his terms, that he would have given that kind of recognition to what we had been doing for a number of years.

Morris: During the late forties, the Department of Finance began to do administrative reviews of departments. Did that come about because of the kind of analyses you had been doing --

Post: No, I think this was traditional for them, but I think that we helped spur it on. There was some issue at that time as to whether or not we were

Post: duplicative of efforts. We were making studies and they were making studies. We at that time attempted to get better communication, so we knew what they were studying with their management staff, and they knew what we were studying.

The point I would always make was that our studies were independent of their studies. They were reflecting the point of view of the departments and the point of view of the administration. We were reflecting an independent point of view. At the same time, it would be foolish for us to duplicate the factual data that we could agree on. We ought to join our efforts so that we could extract from the same body of information, but give a different interpretation and treatment in terms of optional approaches, and supplement it maybe with new data. That sort of thing.

So we worked very closely with Pierce Fazel and his staff of people in Finance. Now he was not in the budget stream. He was really a management specialist--they had a management analysis staff over there under Pierce Fazel and Bob Smith. They did independent studies which we read and used, and they read ours. In those days we had monthly meetings with the budget committee, and we gave them a group of reports almost every time they met. We would have public hearings, and I would go through the reports and explain them. They became rather important documents in the way of management analysis.

In those days we spent so much time sitting in on budget hearings that we didn't do as much as we now do in writing up management reviews in the budget analysis. When we were cut off from attending these hearings, in the Brown administration, we used that time to make an independent evaluation of the administration, and instead of doing it in a series of reports, which we had previously made monthly to the budget committee, we incorporated that in summary form in a series of reports that we sent to the budget committee and the whole legislature, or doing it that way in part, and then summarizing it in part and putting it in the analysis as an annual report on administration and budget. In our budget review we talk not only about what the governor is asking

Post: for, but also about what did they do with the money in the current year. Where do we stand in terms of progress on problems? Where do we stand on the higher education master plan? Where do we stand on the water program?

Morris: Incredible.

Post: So that's why the book has grown to a thousand pages. There are, for example, a couple of hundred pages on education. Because we discuss every conceivable issue in education. Copies of our book go to the university, every regent, every member of the board of trustees of the state colleges. I understand from my conversation with them, they find it extremely helpful as an overview of critical issues that are of public and legislative concern, and somewhat different from what they might get looking at the issues from their narrower point of view.

Staffing to Keep Ahead of the Issues

Morris: I should think so. It leads me to ask, where do you get your staff? What kinds of background and training?

Post: We hire them from universities and colleges on a non-civil service basis. On the basis of personnel reviews. Many of them come from foundations. Some of them come through internship programs. We have a young man, for example, from Princeton here this summer. We had that internship program last year also. We hope once in a while one of these fellows will come and work for us. We recruit through the University of California and through Stanford. We go down there and talk to their people, and they give us the references and we interview them. Some of them come on their own initiative, simply because of interest. I took one in today, a young lady who is magna cum laude at Smith, an absolutely sensational young lady. She's finished her master's degree. Most of them have bachelor's degrees. Almost all of them will have had at least one or two years in some kind of a post graduate program. The one man at Princeton,

Post: for example, will have finished one year in the Woodrow Wilson School of Public and International Affairs. He'll go back for his second year. We had two such men last year. We put them on a specific assignment, and simply let them work. We get our money's worth out of them on a project basis, and they get a chance to see us and some of these days we pick one of them up.

We have a man from Davis who has been working this summer on environmental and ecological problems, a man who's working on the agricultural impact-- agricultural industry, and the use of chemicals. He happens to be specializing in that, so we went to Davis, and will probably have an intern in that area. I think he may stay with us, after he finishes. He's very much interested.

Morris: You set the guidelines within which this variety of people --

Post: That's right. I do all the hiring and all the firing. The committee simply says, "You can have so much money." We ask for certain money like everybody else, and they approve it. But they let me run the staff with a completely free hand. We set up the classifications and we decide where we need to put the people in terms of the demands on the office and the problems as we see it.

That's why I went to Bonneville to get me an economist on water, because we needed to have somebody in the field of water. I discussed it with the chairman, and he said, "Well, water is a very dangerous area." I said, "I know, but it's terribly important. My friends in the bureau simply say the state of California is missing the boat." He said, "Well, go ahead. It's a tough time, but -- " We hired ourselves an extraordinary man and he's still with us and doing an extraordinary job.

We decided that we needed to do something in transportation, because I felt that the transportation lobby, frankly, was excluding adequate legislative consideration of forms of transportation other than highways, so about five or six or seven years ago, I asked the committee if they would permit me to

Post: establish a unit, even though the highway budget is not in the budget bill. I felt there were areas for surveillance of highway programs that would be valuable for the legislature to consider in terms of how much are we spending and what are we spending it for, going in that way. I didn't really talk about mass transit, but I sure had it in the back of my mind. So we went out and hired ourselves, with their approval, a young highway engineer. We no sooner got him trained than the state of New Jersey hired him as their deputy administrator for transportation, so we went out and hired another bright young man. BART hired him within a few years as their director of planning, and he's now the number two man in that organization from the administrative standpoint, under Bill Stokes. Now we got ourselves another man. But the point is that we're in the transportation field, and this has been invaluable to the members.

When we got into the BART problems and when we got into the mass transit transportation issues, we had people in the office who knew what they were talking about, and they have been used extensively by both sides, both houses, both parties. It's been a very gratifying development.

This attitude on the part of the committee offers us an opportunity to look ahead, see what we think we really need. For example, we're concerned now with getting people who are trained in ecological approaches, whatever that means. We've sent people over to Davis. I've gone over and talked to them because they have a specialty there. They have Dr. Kenneth Watt, and his whole battery of experts, his whole bank of data that's supposed to be the best in the state. We went over there and tried to set up a basis for doing two things: One, clueing in to some of the things that they're producing so we can feed it through our evaluation of proposals. And also, trying to set up a basis for actually referring bills to them to see whether they can respond within, say, a week or two, and give us some guidelines on the kinds of things that ought to be looked at, the factors that don't meet the naked eye of the layman.

Post: A bill comes along that might have tremendous implications ecologically. The Davis people say they have the bank of data over there that can pull out these factors, and together maybe we can work it out so we can put those considerations in the bill analysis. This is a very hazardous and difficult kind of thing, for me to put something in that will louse up a bill, or kill it, merely because we say, "Oh yes, this is all in apple-pie order, except it is ecologically unsound." You can see the problems that creates. So, feeling that somehow this ought to be brought into the picture, but not really knowing how it should be done, we've been seeking expert advice from Davis.

That's one reason why we've had a couple of youngsters come over here and be interns, hoping that maybe we can develop better communication channels. They need to understand how we have to deal with matters here in relation to what they do there. Maybe after we run this through one or two years, we can start getting some people that will develop a procedure that is viable for us, from a staff standpoint, that's politically viable, that we can live with. Because these are not tangible, easily defined issues. We can put a price tag on a bill, because a department says it costs so much to administer. We can identify certain management problems or certain principles of organization that we think should be mentioned. But it's much more difficult for me to say that the implications ecologically of doing it this way, versus doing it some other way, can be described and pinpointed and put into balance on a bill. We have no ecological committee. We have no guidelines. We have no real standards. And yet we're told that this is a matter of life and death, to do this thing right.

Morris: [Question added to transcript.] You mentioned that the highway budget is not in the budget bill. How did this come about? Are there hazards to this from your point of view? Does the legislature have any powers of review?

Post: [Written reply.] The Collier-Burns Act of 1947 gave the Highway Commission authority over the highway budget. The governor must put it in the budget as presented, and retains only certain approval power over any changes

Post: in it proposed later by the Highway Commission. The legislature cannot change it. The funds, by state and federal law, are also earmarked. The legislature could change the Collier-Burns Act, but it chooses not to do so, to avoid log rolling on highways.

VI A NOTE ON BUDGET DIRECTOR FRED LINKS

Morris: When I interviewed Fred Links this morning about the Department of Finance, he mentioned that he had worked with you a good deal.

Post: Well, when I came to work for the state, Fred Links was thought of as the man who ran the state of California. He was the civil servant who had been here forever. He grew up through the low ranks clear to the top civil service job, really, in the state Department of Finance, which ran the show. And he knew more about how to get things done than anybody in the business. He ran the budget process, and he had ways of doing things for people that was remarkable.

He had the so-called Fred Links Fund, which bought me my desk and my chair, when I first came in here, and when we found out about it, we promptly convinced the legislature to take it away from him, which was an ungrateful thing to do, but the Links Fund wasn't in our opinion the right way to handle such business. It was a form of special privilege that the Department of Finance would hand to people for small political favors, and in my judgement this was just wrong. It was really not the right way to do things. If you deserved a desk, you should get a desk, but you shouldn't have to go hat in hand to get a robe for the chief justice. All the little things you couldn't get in the budget, would be gotten out of the so-called Fred Links Fund. And that kind of patronage, we felt, I felt, was not right.

Morris: When it's the chief civil servant in the Department of Finance, I can see where it's extra-questionable, but don't most departments have a "slush fund" of some kind?

Post: No. No.

Morris: That's the general opinion of the public.

Post: No, they really don't. And this was all centralized in the hands of one man.

But anyway, he was my neighbor and he was a delightful man. He went before the committees on finance, and ways and means. He was the expert on bills. He largely handled the governor's and the Department of Finance's position on bills. He just knew more about state operations than anybody.

I can remember seeing him as we both were going home after work. He would go along in that little car of his, zipping like you'd expect him to, and, of all things, reading bills as he drove. Every time he'd come to an intersection, and I often thought in between intersections, he was reading those bills. He would look at them, see what they were, and throw them out the window if he didn't want them, or if he knew all he needed to know about it. We could almost follow him home by the bills sailing out the window of the car as he read his homework going home, at about sixty miles an hour. A remarkable man. He really was smart as a whip, knowledgeable, just a ball of fire. I was very fond of him. I am very fond of him. He was the man that I always kind of thought I would like to be, the one who had his finger on everything. Everybody thought of him as Mr. Know-it-all.

Morris: That's interesting. I thought of your enjoyment of painting this morning when he was telling me about his years and years of work with the Boys' Choir. This was his avocation, and the music took his mind off the details of finance.

Post: Yes, he did. He also built the chandeliers for the church, and he was a man of many talents. He was a great home-builder and gardener. Did a lot to build

Post: his home himself, and everything around his home. Very, very much oriented to do-it-yourself, you know. He was also an institution. We have never really had anyone in the administration who has been able to take his place.

VII TROUBLE SPOTS IN STATE FISCAL CONTROLS

Morris: I was much impressed. Well, I'd like to talk a bit more about your comment that two big issues in Warren's years as governor were liquor and the state treasurer.

Post: Well, in some respects that's a mis-statement. The problems accumulated, certainly, during his administration. They actually came out into the open later, one of them at the very tail-end of his administration, to be resolved under Governor Knight, and the other with the state treasurer very early in Governor Knight's administration. The latter was finally straightened around, but it was something that should have been taken care of in Warren's administration, but wasn't. Both of them, really, should have been taken care of in the Warren administration, but they were pushed off. It fell to those who came along afterwards to do it. Governor Knight was willing to tackle it, and signed the bills--although he really didn't have too much to do with the liquor investigation. But he got himself involved quite innocently in the treasurer squabble and wound up throwing that issue, on his own initiative, to the Joint Budget Committee, which made the investigation. It ended up reforming the whole investment structure system of the state, causing the state treasurer to eventually resign.

The liquor investigation, was really an almost cancerous situation at the time. It persisted throughout Governor Warren's administration. I don't personally know what he did to attempt to solve it.

Liquor Licensing

Morris: Was it related to Artie Samish, in a way?

Post: It was related to Artie Samish, and Artie Samish in a sense blew the whole thing up by popping off one day that he owned the capitol, and ran the legislature. The press then pushed the governor for a response. Warren said, "Well, it's true that in matters that relate to his constituency, he is more powerful than the governor of California." And that, of course, in time took care of Mr. Samish, because he'd embarrassed everybody. IRS had looked into his affairs.

So that he went to prison, and the legislature enacted a lobby law, which we got involved in, because my office was named as the repository of the registration filing, that they established under Assemblyman Collier's bill. Samish was the representative of the liquor interests, and the real liquor problem, as far as state government was concerned was in the administration of liquor licenses. That was in the division of alcoholic beverage control, or whatever it was then called, within the State Board of Equalization. The real problem was that we had limitations on the number of licenses that could be issued, related to population, as a morality factor. In other words, too many licenses contributed to immorality. So public policy said, therefore you limited the number of licenses.

This meant that they had a monopoly price attached to them. We also had a law which didn't re-issue the licenses each time it was transferred, as though it was a new license. They became a property value that you bought, and you could transfer it, and receive money for it, from the person who bought that opportunity, that franchise, to sell in that particular area. These had prices on them that went up to sixty, seventy, eighty thousand dollars, per license. This meant that there was great economic interest in the transfer of those licenses. It was here that Mr. Bonelli, as a member of the State Board of Equalization, and those who were associated with him in controlling this, ran into

Post: trouble. He ran into trouble because, frankly, he was dishonest. Because the major population growth in California was in his district, in Southern California, new licenses were available for issuance. Therefore the opportunity developed for him to reach out and exact a price (under the table) for the issuance of new licenses. And also the value was very high in the metropolitan areas for those licenses that were already in existence and available for transfer.

My involvement with this came from the work that we did investigating it for Mr. Weinberger, who was chairman of a subcommittee of the legislature looking into government organization. It was through this device that Bonelli and his associates were able to skim off some underground pay-offs. This is the problem that existed.

I stumbled onto it, speaking from my old point of view, quite innocently. We had hired ourselves a certified public accountant who was a former employee of the State Board of Equalization, and he set up an elaborate and quite sophisticated system developing workload standards for the Board of Equalization. He did this with respect to audits, and he did it also with respect to liquor administration. In the last years of the Warren administration, he presented us data that showed there was no proper balance between the numbers of people that were being requested and assigned, and the actual workload of the Board of Equalization. There was very little enforcement, for example, in Los Angeles.

So I remember going to a hearing and presenting this data, which was in our analysis of the budget bill, and making the comment, quite innocently, that there was something that didn't meet the eye in the Board of Equalization. The newspapermen, who knew exactly what didn't meet the eye, because they were sophisticated and knew the liquor mess that really existed, went in, so I was told by one of them, to talk to the governor about it, and they asked him if he had any comment on Alan Post's comment that there was something in liquor administration that didn't meet the eye. I'm told that he said he recognized that there was something rotten over there.

Post:

But then from that point, there was a jump in my own knowledge of the situation arising out of Mr. Weinberger's appointment as chairman of a subcommittee of the legislature to look into the organization of the State Board of Equalization. The whole operation and its structure. We wrote a report in January of 1953, I believe it was, on the organization of the Board of Equalization, and were highly critical of it.* Let me back up a moment. When I first came up here, in about 1950, the assembly had created a committee on organization of state government. They asked me and my staff to submit to them a list of topics that should be studied. We put at the top of the list the State Board of Equalization and the whole state organization for tax administration--because this was a can of worms. We took our proposal to that meeting, and they said, "No, we're not doing anything with that.

Well this made us somewhat curious as to why that should be. But it was just something that nobody touched. Then when things kind of broke a little bit--and for reasons that I don't fully understand partly aided and abetted, obviously, by the Samish affair, there was a joint committee on organization set up, with a subcommittee on organization of the Board of Equalization, and Caspar Weinberger, who was a young assemblyman, was put in charge of it. He was a remarkable young man in the way he took hold of that subject. At his request we acted as staff for him. We also did considerable investigative work on the transfer of licenses. There was no responsibility in that agency to any single individual, certainly not the governor, because you see, he didn't run the board, and yet he in a sense

*The San Francisco Examiner reported that this study showed, among other things, that San Francisco and San Diego averaged less than one arrest per year per staff investigator. In 1951, the legislative budget committee had authorized a study of the Board of Equalization regarding the high percentage of time spent on non-productive sales tax audits; and Governor Warren had asked for more investigators for the Franchise Tax Board, instituted in 1950 to administer personal income tax and bank and corporation franchise taxes.

Post: was responsible for the quality of administration in all of state government.

We tried to develop a pattern of how this liquor administration really worked. And to make a long story short, with the genius of Caspar Weinberger, who is a brilliant person, tenacious, and who did his homework, and thus was able to stand up to the senators and other assemblymen who were bent on wrecking this investigation, we licked them, that's all. He just was remarkable. As a result of that, in the Knight administration, they reorganized the State Board of Equalization, and put liquor under separate control. It really wasn't an accomplishment of the Warren administration. In my view, really, being perfectly candid about it, it was something that Governor Warren should have taken care of. But he didn't take care of it, because it was just too big a mess, perhaps in his opinion, to tackle.

It had many ramifications. It ran through the legislature. There were members of the legislature who were involved in it. Some of them were indicted. Some of them went to prison, at least one or two. Some who had been members of the legislature were involved in it and went to prison later. Some in the very highest positions, you know, like the speaker, Sam Collins, were indicted. Charles Lyons, who had been speaker, went to the penitentiary, involved in matters related to it. One small time assemblyman who was involved went to the penitentiary. But in this system of payoffs for licenses the key figure was Bonelli, who fled to Mexico and never came back.

Morris: Do you think Warren realized all of these ramifications throughout the legislature?

Post: Yes, I do. In fact, when I first got started on this, I had at least one call from one of the highest positions in the state, who was very close to him, who told me that I was getting in over my head, and he always looked the other way, because it was dangerous. But, you know, I was a young man. I didn't worry about that. We had a situation that we felt needed correction, and we didn't give it second thought. We were employed by somebody who was really

Post: going after it, and it didn't bother us a bit.

In fact, this warning that I refer to took place before that investigation of Weinberger's started. It actually took place when we first began to criticize the board for the way in which they were handling their affairs. And the man was just making a friendly warning, that, you know, this was a can of worms. So Governor Warren must have known about it, because he certainly was as knowledgeable a man as anybody that's ever held that position. He is just a remarkable man and deserves great admiration. But I really do feel that there were two situations that existed in his administration that, for political reasons, everybody kept their hands off of. This was one of them. The other was the monkey business that the state treasurer was involved in.

Banking State Funds

Post: The moment we got into that, we found that it was quite bad, and nobody really wanted to touch that, either. That was cleaned up under Knight's administration, because of prodding, frankly, that came out of my office. We criticized the fact that the state treasurer was putting millions of dollars in bank accounts, labeling them as demand accounts, interest free. And they were in fact time accounts, that never moved, and he had agreements apparently with the banks that he wouldn't touch the money. We were talking about hundreds of millions of dollars.

Morris: This would be those wartime reserves?

Post: That's right. We had great reserves in those days. And rather than getting any kind of an investment return from them, the state treasurer was feathering his own political nest by putting these in banks at his choosing. Although it was supposed to be decided on by a board, an investment board, on which the controller and the director of finance also were members, they stated that they just left it up to the treasurer. So we had kind of an argument then

Post: with all of them. For example, Bob Kirkwood was one of the people that I was very close to, and tremendously fond of, and who I admired greatly. But I got into a real battle that hurt him politically on that issue, because it was my position that he had a responsibility for it, since he was required to approve these investments. He said approval was just pro forma. My position was, it's never pro forma. It's a function of approval that means, "I approve. I agree. I oversee."

Morris: "I know what the details are."

Post: That's right. And you can't delegate this. If you're given an approval power, you can't logically and legitimately give that to somebody else and absolve yourself of any responsibility. So, the documentation will show that we claimed that he and the director of finance carried a responsibility, and they ought to have done something about it.

That really wasn't what we were after, but you can't get into these things without having to pin responsibility on somebody. In fact the treasurer used to come in here and practically cry, because he was an old man, and he was upset about it. He claimed that we were in affect accusing him of being dishonest. I simply had to say to him that, well, the record would stand for itself on this. I said that he had put millions of dollars in banks, and we knew that he was not getting any interest for the state, because they were demand accounts. But we also knew, from the record, that they in fact were stable accounts. So we pursued this, and we found, for example, that although one of the banks had written off a ten thousand dollar note that he owned, the deposits could be the only reason. Well, memoranda in the bank's files said in effect, "This Mr. Johnson has been very good to us, and we ought to cancel this ten thousand dollar note."

It was things like this that we were able to dig up by sending our investigator out into the banks and actually going through the files.

Morris: The banks in turn could loan out those state funds. That would be part of their reserves?

Post: Oh yes. Of course. As a demand account, interest free, they had this money to loan. But they also knew that it was going to remain there, and not be subject to effective demand so they were able to make substantial earnings off of it as though it were a time deposit--earnings that the state should be getting. The reason that it got into the open, other than our criticism in the analysis, was that the treasurer got so uptight about it that he accused, in a moment of panic, Governor Knight of doing this. He said the governor was playing favorites with bank accounts. And then Governor Knight turned around and said, "We ought to have an investigation to see who's been playing with these bank accounts."

I had just come home from my vacation, and they met me at the plane and said, "Get down to El Centro. Senator Hulse has agreed to take on the investigation of the state treasurer."

Morris: You said "they" told you to get down to El Centro. The newspapers or your staff? Or both?

Post: My staff. Before this final blowup and as a result of our earlier investment criticisms, we also developed in cooperation with the controller, a new pooled money investment procedure. It was placed in a new law, which was enacted as a Joint Legislative Budget Committee bill, sponsored by all the members of my budget committee. It set up the investment of state funds on a sound basis that's been working well ever since.

Morris: Did this new bill involve the controller and the director of finance? Actively?

Post: Yes, they're on the pooled money investment board. So that it is a board activity, but it set up along with it a procedure that determines exactly how much money should be paid to the banks for the services they render in handling our checks and deposits, on a unit basis. I remember that very distinctly because I had to argue that point with the economists for some of the banks.

Fortunately I had been a bank clerk who used to set up those charges, the other way around, to the

Post: customers, on the basis of so much per check and so much per deposit. We would calculate what the return on their average bank balance was, and we would charge them what they owed us--if they cost us more money to handle their checks and their deposits than we received, on the basis of an interest rate computation that we applied to their average bank balance. Because we knew what we earned off of that, and we knew what it cost them. If it cost us more than we earned, we assessed them the difference.

And I said to the economists, "You know, I've done that with banks, and you know it's legitimate, and you do it all the time. Let's turn it around. We will pay you whatever we owe you on the basis of an interest computation, only--we will only put enough money in the bank, sufficient on the basis of a guaranteed interest rate, to pay the cost that you bill us for handling the checks and the deposits at a prearranged unit figure. And this is the way that the system now works. We keep a compensating balance, it's called, sufficient to compensate them for these services. The rest of the money is invested under a state policy that dictates that it shall be at the highest rate that can be earned to the advantage of the state.

Morris: The prevailing interest rate.

Post: That's right. So it goes not only into deposits, time deposits, but it also is placed by the pooled money investment fund in short-term government bonds and other notes for an interest rate.

Morris: Does this legislation have any formula for how the state funds should be allocated among the banks?

Post: No. Mr. Button, who came in, appointed by Knight, to follow Gus Johnson (who was the treasurer who resigned, the party I've been talking about), set up a systematic basis for doing this. He was a fine treasurer. He dedicated himself to trying to set up a system that would function properly. He set up a reasonable apportionment basis. I can't remember exactly how it worked, but it was a reasonable basis for doing it objectively and not on a political basis.

Political Constituencies

Morris: I would think he'd be under quite a lot of pressure from the banks.

Post: The treasurer is under pressure from the banks. That is something that you have to watch all the time, practically. But Mr. Button was a well-to-do, independent, honorable man. He didn't give a hoot about that sort of thing.

But it is true that the political constituency, to a considerable extent, of the state treasurer is the banks. Just like the inheritance tax appraisers were always the prime political constituency of the controller, who appointed them. And they were influential. They contributed to his campaign, and they were political figures. It was always a problem with us in dealing with the controller's function. We opposed the appointment of the inheritance tax appraisers. It has been a continuing issue with us and only Flournoy agreed to our position. The banks on the other hand are the problem with respect to the treasurer. They're closely aligned to him, and this was a real problem in those days. I think this system, as it's now set up under this model act-- this is really a fine act--has minimized the influence of the banks on the treasurer. The treasurer now tends to run politically on the basis of how well he managed the investments, plus how well they were able to sell government bonds, persuade people to buy state bonds, and so on.

Morris: To sell government, state bonds, you need the help of the banks.

Post: Yes, you do. That's right. And they've always said, "You should do something for us as a favor for that." My office (which has got involved in this on numerous occasions and is, in fact, at the moment) has always said, "No, you're in the business of loaning money deposited with you, and we're just a piece of that action. To the extent that we could optimize the earnings to the state, we reduce the taxes of individuals, corporations, banks, and everybody else. That's the only right policy, not favoritism to any

Post: particular segment because they're doing us favors. "They do us favors," we always said, "because it's good for them. And when the chips are down, and it is not in your best interest to buy our bonds, you won't do so." And that's exactly what happened. When the chips were down, and there was better money to be made somewhere else, we had trouble selling our bonds. We've been saying this lately. We've had to talk to the banks lately in that language. And they have been good about it. But nevertheless, we expected them to act in their best economic interest, and we expect the state to act in its best economic interest. And we ought to pay whatever price is necessary to do legitimate business with banks. But we ought to do it on a businesslike basis.

We feel very strongly about this. I've had to, as I say, make that little speech on a number of occasions, because the banks brought in amendments to the investment act that I've been talking about which would have given them a preferred position, it would have said explicitly that you do not optimize the return to the state, but that under special circumstances you can have preferential rates for other factors than the income to the state. Now, we said, "What are those other factors?" "Well, the fact that we buy your bonds, things like that." "Well," we said to the legislature, "don't ever give that discretion to the treasurer, because this is how we got in trouble before." And I went through and explained how we had gotten in trouble before. I was accused of making a cause celebre out of it. But my feeling was that once you depart from that standard, then you're into a never-never land of putting pressure on an individual to determine what is the state's interest. And I said, here we have a sound economic basis for it that could be determined. We ought to stay with it. This proposed amendment happened about two years ago, and the committee killed the bill.

Morris: Is there a banker's lobby?

Post: Oh yes. For many years it was Edward Landels, who is an attorney, a very brilliant attorney. And then

Post: subsequently, his firm--Landels, Ripley, Gregory and Diamond, in San Francisco--handled it for a long time. Then Phil Gregory lost it, and it's now being handled by Ratcliff.

Morris: The bank association selected a lawyer as a lobbyist rather than appointing one of their own.

Post: He was an attorney. Yes. He was not a banker. He was an attorney who understood the system very well. He was extremely effective in handling their affairs. As a matter of fact, they had done awfully well for themselves for many years with Landels, but Dick Ratcliff is the person who handles their interests now. The California Bankers' Association. And he was the one who brought in this last amendment--on the grounds that they did favors for the state, and we ought to do something better by them. It happened at a time when there was a shortage of capital and interest rates were high. And so every additional dollar you could get was obviously one that they could make a great deal off of.

As you know, the investment income of banks in the last few years has increased greatly, so they were very eager to loosen up the state's investment funds. I may have gone overboard in making the case as strongly as I did to the legislature, using history as a basis for my concern. But we felt very strongly that once you left this standard in the law, you left a sound criterion for determining what was in the state's best interests.

Thoughts on Organized Crime

Morris: There was an issue where Warren did act to resolve trouble in state government--the investigations of suspected criminal activities around his attorney general, Fred Howser. Was this something that your office got involved in?

Post: No, it wasn't. As a matter of fact, this was a case in which the governor took an end run around Howser by establishing special crime commissions, and he used

Post: some very fine people to try and deal with these issues. People like Warren Olney and Arthur Sherry at the University of California. But we didn't have anything to do with that.

I remember well going to budget hearings and having some arguments with Howser, and being astonished that a man who could speak so forthrightly as he did could apparently be as dishonest as informed people said he was. Because to hear him talk, you would think, "This guy is just absolutely solid." And yet people were telling me that he was corrupt. One of my very closest friends, who was in the cigar business at that time, told me at some length about the crookedness that went on in the numbers business by Howser and his associates. There was no question in my friend's mind that it was just as corrupt as it could be. And the governor presumably knew about that. But again, it's a problem of how to deal with it. You don't attack, you know, your political henchmen openly. You run around them as best you can. It's the old problem of not denouncing him publicly.

Morris: Is this why there was a commission on organized crime talking about organized crime coming into California? Was this to avoid directly attacking Howser?

Post: Well, Howser was, on a small scale, engaged in organized crime. Apparently there was a good bit of it in Long Beach, and the way he operated was organized crime. There is no question, as I understand it, and believe it, that there is a great deal of organized crime in California. I frankly couldn't quite understand some of Governor Brown's statements that it wasn't here, when from what we were able to see in our liquor investigations there was the nucleus of a certain amount of it then, and it was growing. In the analysis this year, we have criticized the Department of Justice for using its organized crime unit for other purposes rather than, in our opinion, dealing forthrightly with that issue. Because it is a sticky and tough issue.

In my opinion, from whatever I've been able to gather talking to people who I think are knowledgeable, it is a real problem in the state of California.

Post: But I don't know how much of it existed at that time. I certainly didn't know much about it then. I was a fairly naive person, actually on many California matters. I came in from an outside field. I didn't even know who Samish was, you see. I was teased for going into a hearing and sitting down next to his chief lieutenant at a hearing. When I came out everybody said, "What were you and "Porky" Jacobson doing together?" I said, "I don't know what you're talking about." I actually never saw Samish. I was busy, as a young man doing my thing here, and it was only, as I say, quite innocently, that we ever developed anything on the State Board of Equalization. And then people began to call me and ask me, "You know what you're getting into?"

And then little by little, I became aware of the ramifications of this. I even found out that I had a Samish man on my own payroll, who had, frankly, been involved in liquor licenses. It was only when that was documented to me that I was able to see what a problem it really was. I fired him, but I risked my own appointment in doing so, because he was so high up in the hierarchy. I did it only on the basis of the knowledge that he had bought and sold liquor licenses at one time. He was the brother to the former speaker, and was on the staff when I came in here. I was told by my chairman to hang onto him. But the moment I found that out, I fired him.

But, you know, this is the kind of thing that you just don't know about when you take on a new job.

Morris: Was Samish involved also in the sale of liquor licenses?

Post: He must have had something to do with it. It never came out. He was only indicted because of activities that related to lobbying, but he was the liquor lobbyist. I don't know that he ever was implicated in any direct way with the machinery--you see, that was the state machinery that we were talking about. He was outside of the state government. Bonelli was apparently the kingpin in the state machinery for issuing licenses. That's where that kind of money flowed.

Post: There was a tightly knit political fabric that existed here.

Morris: That's the sense you get. That's why I'm asking the specific question. I had never heard Bonelli and Samish connected in print anywhere.

Post: I never have seen it either, but I assume that there was some connection. There was such political power in the activities of Samish. He controlled so many political lives, if you read his recent book, which in very grandiose terms tells how he ran things. We had the feeling that he largely controlled the machinery over in the State Board of Equalization, and people either were with him, or didn't do anything about it. Kept away from it, you know. Looked the other way, as this political figure told me.

Legislative License and Tax Audits

Morris: Was it at this time or later that you appeared in print on sales tax audits? You were concerned about the sales tax?

Post: We have materials on the State Board of Equalization in this analysis in 1954. Yes.

Morris: Was this the same continuing investigation?

Post: No. We hired this young man, and he started doing the job of evaluating the State Board of Equalization in 1953. This analysis came out in December of 1954. For example, in looking at the enforcement activities in the State Board of Equalization, we found that there was 1.31 arrests per officer in Los Angeles, for a whole year.

Morris: This is on sales tax?

Post: No, this is on liquor. In some of the earlier analyses, as I recall, we went into the sales tax audit on the basis that we did later of income tax. We helped develop a system of weighting them to reflect dollars of audit recovery per dollar of audit cost, so the

- Post: agency can spend its time in a way that is most efficient. But actually, in 1953, the Board of Equalization budget analysis deals almost entirely with liquor. And in that case we had gone into it on the basis, as we say, that there ought to be a critical examination of the function by the legislature because we simply could not understand how they were spending their time on enforcement versus time spent on licensing functions.
- Morris: In other words, there is a procedure by which someone is checked out before he's granted a license, regardless of how much money he paid for it? And then there is a routine check about whether or not he's serving liquor to minors, and that sort of thing?
- Post: That's right. That's the regular ongoing enforcement. "B" girls and so forth. Yes. So there was this question of how much time do they spend on enforcement versus the licensing function. And why would they need six more people? We just couldn't understand this. And so we just sort of fell into the issue of corruption in liquor license administration.

VIII CHANGING TIMES

A New Breed in Sacramento

Morris: Could we talk a bit about Weinberger's role in this investigation?

Post: Weinberger was able to stand up and to debate with Bonelli and others, and make his case. There was a lot of work that went into that investigation. We had to use every weapon at our disposal to show that we were not undermining the administration of liquor by giving it to the governor. There was great resistance to the idea of giving such power to the governor. We finally had to go along with the compromise of creating a Liquor Control Appeals Board, that would let some of the final authority over licensing go to someone other than the director appointed by the governor.

Morris: But didn't they give the governor the power of appointing the Alcoholic Beverage Control Agency director?

Post: That's right.

Morris: Was that where it ended up? The governor now appoints it?

Post: That's right. The governor appoints it and runs it just like a department activity, but there was great resistance to that idea. Probably in part because many didn't want it to get out from under the board where it was, for a lot of reasons. And the other reason for opposition was that there has always been

BIOGRAPHY OF GEORGE R. REILLY

George R. Reilly was born in the Mission District of San Francisco, educated in the public schools, and completed a course of studies at Sacred Heart College. He is the father of three children, two married daughters, Carolyn and Georgina, and a son, James J., a prominent attorney in San Francisco.

He was first elected to the Board of Equalization in 1938, and re-elected every four years thereafter with an outstanding popular vote. In the 1958 and 1962 elections he was returned to office without opposition and is now the Dean of elected state officials. Upon completion of this term, he will have served 36 years in his present elective position.

He represents the First Equalization District, comprised of the following counties: Alpine, Amador, Calaveras, El Dorado, Inyo, Los Angeles (northern portion), Madera, Mariposa, Merced, Mono, Monterey, Placer, San Benito, San Francisco, San Luis Obispo, San Mateo, Santa Barbara, Santa Cruz, Stanislaus, Tuolumne, and Ventura. He is presently Chairman of the Assessment Equalization and Standards Committee of the State Board of Equalization.

Mr. Reilly is a licensed real estate broker in California, and was in the real estate and property appraisal business for many years.

Mr. Reilly is past Vice President of the San Francisco branch of the American Society of Appraisers; member of the Executive Committee, Western States Association of Tax Administrators; member of the California State Association of County Assessors; Director of the Civic League of Improvement Clubs and Associations of San Francisco, one of California's most esteemed, civic-minded organizations; past National President, Ancient Order of Hibernians and past Supreme Governor of the World, Loyal Order of Moose.

WILLIAM G. BONELLI
CHAIRMANDIXWELL L. PIERCE
SECRETARYGEORGE R. REILLY
FIRST DISTRICT, SAN FRANCISCOJAMES H. QUINN
SECOND DISTRICT, OAKLANDJERROLD L. SEAWELL
THIRD DISTRICT, ROSEVILLEWILLIAM G. BONELLI
FOURTH DISTRICT, LOS ANGELESTHOMAS H. KUCHEL, CONTROLLER
SACRAMENTO

OFFICE OF

STATE BOARD OF EQUALIZATION
STATE OF CALIFORNIA357 S. Hill St., Los Angeles 13
December 3, 1948

*Phone L12
Angeleno*

Mrs. Harriet Von Breton, Member
Democratic State Central Committee
3506 Carnation Avenue
Los Angeles 26, California

Dear Mrs. Von Breton:

I am enclosing a copy of Resolution proposing a constitutional amendment to transfer liquor control to a non-political board, which I hope will be introduced and approved for submission to the people at the coming session of the Legislature.

Consideration of this Resolution by the State Board of Equalization is set for December 16. In view of your active public interest in social and political problems, I would appreciate it if you would give me your personal reactions to the proposal.

Trusting you have recovered from your reading of the recent election results, and hoping to hear from you in the near future, I am

Sincerely yours,

WM. G. BONELLI
Chairman
State Board of Equalization

WGB:ja
encl

Gabrielle Morris

B.A. in economics, Connecticut College, New London; independent study in journalism, creative writing.

Historian, U.S. Air Force in England, covering Berlin Air Lift, military agreements, personnel studies, 1951-52.

Chief of radio, TV, public relations, major New England department store; copy chief, network radio and TV station in Hartford, Connecticut; freelance theatrical publicity and historical articles, 1953-55.

Research, interviewing, editing, community planning in child guidance, mental health, school planning, civic unrest, for University of California, Berkeley Unified School District, Bay Area Social Planning Council, League of Women Voters, 1956-70.

Research, interviewing, editing on state administration, civic affairs, and industry, Regional Oral History Office, The Bancroft Library, University of California at Berkeley, 1970-present.