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Interview of Burton Malkiel

Conducted by Robert L. Hetzel

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Robert L. Hetzel: --be appointed to the Council, there had been vacancies. Seevers and Fellner had left, and so was MacAvoy appointed to take Seever's place and you were appointed to take Fellner's place?

Burton Malkiel: That is correct.

Robert L. Hetzel: And do you know how that happened? Did Greenspan…

Burton Malkiel: What I do know is the following: that I have never been someone who was particularly political. I didn't work in campaigns. I was not certainly part of the establishment. My guess is that Alan Greenspan had, I think, liked some of the stuff that I had written and my guess is that President Ford let him choose the people he wanted.

Robert L. Hetzel: Were you appointed with an idea that you would do forecasting or Greenspan was such a dominant figure in forecasting that wasn't so important?

Burton Malkiel: No. I did chair the so-called "Troika" forecasting Committee. So then this is the one made up of OMB and Treasury and we did come up with forecasts because Alan was such a forecaster. I often checked with him and he might have made some little tweaks around the edges, but he let the group do what it was charged to do and he was always interested--one of the things the group did was we'd have things like the DI model and we would run all of those and there was a lot of give and take with Alan, who always--he was always skeptical about those things but also very interested in what they showed. So I would say probably Alan had a little more to do with it than maybe another Chair who wasn't really a forecaster at heart as, of course, Alan was in private life. But I would say in general he let us--you know, he did not take over the Troika group and, in general, the forecasts that were published by the government were ones that were done by the group, and I would say they were checked with Alan and they were also checked with Arthur Burns, who at that point was the Chairman of the Federal Reserve.

Robert L. Hetzel: Sure. OMB Director was Roy Ash.

Burton Malkiel: No. It was actually Jim Lynn.

Robert L. Hetzel: Lynn? Lynn was in. Okay.

Burton Malkiel: Roy Ash was there earlier. When I was there, Jim Lynn had taken over.

Robert L. Hetzel: Okay. Was he his own economist? Or did he use…

Burton Malkiel: No. As I recall, I think Rudy Tenner was there at OMB at that time, and Sid Jones was at Treasury.

Robert L. Hetzel: Yeah.

Burton Malkiel: But that's my recollection of the cast of characters. And the fellow that I used on the Council staff was a fellow by the name of George von Furstenberg.

Robert L. Hetzel: Yeah. He's at Indiana University, I believe.

Burton Malkiel: He's at Indiana. Exactly, yeah.

Robert L. Hetzel: So it's not really fair to ask you questions about before you came. You came in July 1975, right?

Burton Malkiel: I can't answer questions from before I came. (laughs) It's just not something I can answer.

Robert L. Hetzel: Yeah, okay. But let me ask you some general questions about Greenspan and Burns and what they were thinking. In '74 when Ford takes office, in August, inflation is the number one problem. It's double digit and there's a conference, "Whip Inflation Now."

Burton Malkiel: Whip Inflation Now. That was before I was there, but I still have--from the standpoint of historical interest I have a WIN button.

[00:04:59]

Robert L. Hetzel: Oh, you must be one of the few people. I think those probably have more monetary value among…

Burton Malkiel: I bet they do. I bet they do. I've got to keep hanging onto mine.

Robert L. Hetzel: Okay, although I think it's probably a rather select crowd…

Burton Malkiel: You're probably right.

Robert L. Hetzel: …to get a significant amount of money for it.

Burton Malkiel: Well, maybe I should advertise it on eBay and see what it brings.

Robert L. Hetzel: But for Burns and for Greenspan, inflation was always front and center in the sense that…

Burton Malkiel: No question.

Robert L. Hetzel: …they thought inflation caused recession. In somewhat different ways, Greenspan--and part of what I'm saying--this is just from my experience from his current tenure as FOMC Chairman and the way he looks at the world and extrapolating that but also reading things at the time. He and Burns--both of them, by the way, sat on corporate boards. Both of them thought that psychology of the businessman was very important.

Burton Malkiel: They did, and one of the points that Alan Greenspan used to make all the time was inflation, in his view, had a very pernicious effect on business spending because it made planning very difficult. The high levels of inflation were associated with a bigger variance of prices and included in that variance of prices was the variance between input and output prices so that it made long-term planning difficult and it would have a very deleterious effect on business planning and long-term business investments. So there's no question that that was one of the things he thought about a lot. I can't speak about Burns. I mean, I knew Burns but never had quite the same familiarity with Arthur Burns that obviously I had with Alan Greenspan. But clearly that was the case with Greenspan. I agree with that.

Robert L. Hetzel: Yeah, and he also would talk about a hurdle race every turn. That is inflation and the uncertainty of the policy.

Burton Malkiel: Inflation would raise with premiums and therefore raise hurdle rates. Exactly, yeah. And, in fact, Alan might very well have used those very words in a speech. I don't know that he did, but certainly in talking with him, I do remember that he certainly felt that very strongly.

Robert L. Hetzel: And so he and Burns also had something else in common in that neither one accepted the Phillips Curve. That is, Greenspan was, of course--and Burns, too--very skeptical of the Keynesian Phillips Curve. They both thought that if you could restore business confidence, you didn't necessarily have to have a significant rise in inflation to be the driving force behind bringing inflation back down.

Burton Malkiel: Right. Well, just on the point that we just discussed.

Robert L. Hetzel: Yeah.

Burton Malkiel: To the extent that you had higher inflation, it made planning more difficult. It made a hurdle race. It might very well go the other way.

Robert L. Hetzel: But then there's a very significant difference between Burns and Greenspan. Burns always thinks that what you really need to do is to control the psychology of the businessman. And to do that, you need to get the government deficit under control and you need some kind of leadership, incomes policies. And in the extreme, inflation price control.

Burton Malkiel: I think that probably was the difference because Alan was not an incomes policy person. Yeah, I think that's exactly--when you think back to that period, that was discussed and Alan Greenspan was far more skeptical of interfering with market forces in such a way. So then I think you're absolutely right that that was the difference.

Robert L. Hetzel: Greenspan has never been a monetarist, although he knew Milton Friedman at the time. But there's a fundamental philosophical difference. If you don't think that government should intervene in markets to control prices and inflation, then what's left? Monetary and fiscal policy, and Burns was not willing to--Burns just seemed to be interventionist by nature, even though…

Burton Malkiel: And much more than Alan, yeah.

[00:10:00]

Robert L. Hetzel: He was, yeah. And I don't know if I read too much into this, but if you look at the period where monetary policy is not inflationary, it's either restrictive or at least restrained. Pretty much in Spring of '73 until the beginning of the Carter Administration, if you think about that period, while in Spring of '73 you get Watergate in a serious way, and it's clear that Nixon can't exercise the leadership to conduct an incomes policy and then the Ford Administration won't have anything to do with it. So in this period, Burns is really—he's the one. In the earlier period and also in the Carter Administration, then there's always the possibility that government can through wage controls, incomes policies, tips policies and so on can carry the latter. See, if I don't know if I'm reading too much into that, but…

Burton Malkiel: I think there's no question that Arthur Burns was far more sympathetic to that view than Alan Greenspan.

Robert L. Hetzel: So, again, it's not quite fair to talk about '74 and '75, but still you might have some insights.

Burton Malkiel: I certainly can't talk about it firsthand, but I certainly can talk firsthand in thinking of that administration. But there's another fellow who was very interventionist and had a very different philosophy from Alan Greenspan and that was John Dunlop, who was the Secretary of Labor. And that one I do know from personal experience that Dunlop was, "Hey, listen. It's okay. I'll go in and I'll negotiate and I'll get things straightened out." And, again, it was just a view that Alan Greenspan was very skeptical about.

Robert L. Hetzel: When the wage and price controls expired April of '74, then Congress passed this Council on Wage and Price Stability. Was Dunlop the first head of that?

Burton Malkiel: I think so but, again, it's before my time there and I don't know for sure.

Robert L. Hetzel: Okay. But, anyway, what I want to ask you about '74, '75. No one predicts the recession. Not Burns and not Greenspan and the economy deteriorates very rapidly. It's just like the bottom is falling out of the world. The unemployment rate is rising very rapidly. It must have been a very scary period for people. My own feeling is that while the wage and price controls came off finally and you get a one-time surge in prices and that's what produced the fall in output. And I think Greenspan and Burns both picked up on that in the sense that they think that it's the inflation that's the problem. It's the inflation that's the underlying problem. You've got to get on top of that. So that gives them a very different perspective

Burton Malkiel: You know, I think that's quite right.

Robert L. Hetzel: But, still, it's got to have been a very scary time. And maybe this is more of a comment, but you must have seen it. Greenspan is certainly not an arrogant person, but he's got a lot of self-confidence. I think it's just amazing how much--whether it's confidence or cool or sort of self-possession or willingness to kind of make a decision and stick with it and not panic.

Burton Malkiel: But, I mean, I think you see that today.

Robert L. Hetzel: Yeah.

Burton Malkiel: I think you see precisely the same thing today. And now if you listen to his testimony, the minute we get the Iraqi situation settled, we'll probably be fine and I think he had the same kind of feeling then that there were certain things that were increasing with premiums and the world. And if we got some sense of stability, that everything would, in fact, turn out okay. So I think there's a really--I think you plan correctly a real parallel in the way he was thinking then and the way he's thinking now.

Robert L. Hetzel: And he must have been able to communicate that to Gerald Ford because Gerald Ford knew nothing of economics. He'd come out of Congress. He was very knowledgeable about the budget, congressional matters but he was not an economist. So he must have….

Burton Malkiel: Yeah, and I think something else. In terms of do you want to do something that might temporarily goof up the economy in advance of the elections? I think that Ford was the kind of guy who thought that that was quite distasteful.

[00:14:57]

Robert L. Hetzel: So was this basic philosophical convergence of views, and Ford trusted Greenspan?

Burton Malkiel: Very definitely because I think one of the things I can say--and I don't have--I've got a student who's in I've got to talk to, so I don't have a great deal of time. But I would say that the way Presidents have used the Council of Economic Advisors have been quite different over time. Presumably in the Kennedy Administration, Walter Heller had a very, very important role. In other administrations, the Council did not have an important role. I think one of the things that was clearly the case was that Ford and Greenspan got along very, very well. Ford had enormous respect for Greenspan, had enormous respect for the Council. One of the reasons--from my standpoint, it was a wonderful time to be in Washington, is that one felt one was a part of all of the decisions that had anything to do with economics, whether it's a tariff on Brazilian shoes or what have you, that you were really in the center of things. And I think that, in part, reflected the fact that Gerald Ford really liked, respected and trusted Alan Greenspan.

Robert L. Hetzel: Did you feel like you had any influence on energy policy? Or was that just something that was so political and so difficult to deal with, you just sort of had to live with it?

Burton Malkiel: I'll tell you who you probably ought to talk to, but I think the answer was yes, that it did have a good deal to do with energy policy. But the way the Council was structured, if I was the macro and international person and Paul MacAvoy was the micro person, and Paul MacAvoy had a great deal to do with energy policy--and what I just sort of remember from kind of being on the outskirts of discussions--if someone has a view that--they ought to put a huge amount of money into renewable power and nobody has any idea what in hell the money is going for and what the technology is. But there was certainly a skepticism about some of the cure-alls that were often mentioned as the solution to the problems that we had.

Robert L. Hetzel: Did you have any sense of--in making these difficult decisions about fiscal policy, the extent to which to deal with the recession through large tax cuts or where they try to balance off, like the rebates were a one-time thing? The Ford Administration was always trying to keep the long-term deficit under control and try to give some ground on the short-term stuff.

Burton Malkiel: Absolutely, and not to do the short-run things that might help for a bit. And one might even say that given how close the election was, that this may very well have had a role in his defeat.

Robert L. Hetzel: Do you have any sense of how influential Seidman and Simon were in tax policy? Or do you think…

Burton Malkiel: Yeah. I mean, this is totally off the record.

Robert L. Hetzel: Sure.

[Comment redacted at interviewee's request.]

Robert L. Hetzel: Yeah. Okay. One more question, and I hope your student's finding this interesting, too. Perhaps he is. Greenspan, as we said, had a lot of self-confidence. He wasn't the sort of person that would panic, who would make a decision and stick with it. And the economy bottomed in the first quarter of 1975 and GDP fell, but Greenspan made a strategic assessment that this was not a cumulative decline, that underlying aggregate demand would remain and once you got through the inventory correction, the economy would come back. And he was really right, but the economy stalled out before the election, starting, I suppose, in June or July.

Burton Malkiel: Yeah. Let me give you one insight on that, and I think this will be the last thing that we can do…

Robert L. Hetzel: Sure.

Burton Malkiel: …which is, that was actually very interesting. I'll tell you one thing that we missed at the Council. And I missed it and certainly Alan missed it as well. At that time--remember, GDP is G plus I plus C and G was in the beginning of the summer coming in unexpectedly too low. And people were really puzzled. That's one of the things that we missed in the forecast of the third quarter.

Robert L. Hetzel: That happened in the Nixon Administration, too. Very similar thing.

Burton Malkiel: Well, the point was--what we wondered about is--you remember that we changed the fiscal year. And the way government agencies spend money is you look toward the end of the fiscal year because you either use it or lose it. And we thought, oh it's okay. Things were slow in the second quarter. We said, "Well, that's all right. It's because the fiscal year changed. It's going to come in with a bang in September" and it didn't.

Robert L. Hetzel: Yeah.

Burton Malkiel: And I think that was, in fact, one of the forecasting errors. Now, go back to your first question of who was doing the forecasting and that was checked with Alan Greenspan and both of us were terribly wrong.

Robert L. Hetzel: Yeah.

Burton Malkiel: In fact, G remained very weak--unusually weak and much below forecast. And, you know, given how close the election was-- who knows whether if the economy had been a bit stronger whether Ford would have won or not.

Robert L. Hetzel: Yeah. Well, this is off the record, too, since it hasn't been five years. [Comment redacted at interviewer's request]

Burton Malkiel: Yeah. Well, ultimately, but that's the problem. These are statistical models that predict elections. It's kind of what did you do for me the last quarter or two?

Robert L. Hetzel: Yeah.

Burton Malkiel: And I think that was the issue.

Robert L. Hetzel: Yeah.

Burton Malkiel: Okay. Listen, I got to go.

Robert L. Hetzel: Thanks a lot.

Burton Malkiel: Okay. You're very welcome. Bye-bye.

(END OF RECORDING)