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Interview of Herbert Stein

Conducted by Robert L. Hetzel

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ROBERT L. HETZEL: When you were appointed to the Council, Greenspan and Burns were working with personnel. So presumably, they appointed McCracken, and then the three of them talked it over and came up with your name?

HERBERT STEIN: Oh, I — as far as I know, McCracken came up with my name. At least, he's written about it and he's never indicated that he consulted with anybody else. Although, Greenspan — Greenspan has said that, well, when my name came up — I think when McCracken came up with my name, Greenspan was assigned to feel me out, find out whether I was interested.

He tells this story, which I remember — don't remember exactly where this happened. But he came down to Washington and had lunch with me and asked me whether I was interested in doing anything in the Nixon Administration. And I said, "Well, I'd like to be the economic minister in London." And he thinks that's very funny. We recently had a party, my 80th birthday, which he spoke and told this story, and he thought that was so peculiar, but it wasn't very peculiar. But, anyway, so then, I got the question whether I wanted to be a member of the Council of Economic Advisers.

But McCracken had said — there's a book, you know, of interviews with the former Council chairmen — which he said that he chose me because he knew there was a lot of writing to be done, and so he knew I did a lot of writing and was a good writer.

ROBERT L. HETZEL: Did you interview with Nixon at that point?

HERBERT STEIN: Well, I — on the day that he named me, I went up to The Pierre – I think it was November — I went up to The Pierre and had an interview with him. The Pierre was where he was having his transition headquarters, and we spoke for about half an hour and it was already determined by this time.

ROBERT L. HETZEL: Okay. Perhaps we could jump into monetary policy now and Bill Martin. Bill Martin was very concerned, like most Fed chairmen, I guess, about fiscal policy, and particularly about the size of the deficit. And throughout 1969, he was very reluctant to ease monetary policy without some kind of budget accord. Is that your impression?

HERBERT STEIN: Well, my impression is that he was just reluctant to ease monetary policy, period. I don't remember it being contingent on any budget accord in 1969. And he — and we were rather aggressive, you know. That is, we at the Council and the whole Nixon team were wanting to see some loosening of the monetary policy, and we were annoyed about Martin's reluctance. But I don't remember it being contingent on anything about the budget.

ROBERT L. HETZEL: The budget talks dragged on for rather a long time through December, because there was the issue about increasing the size of exemptions.

HERBERT STEIN: You know, there was a tax cut proposal.

ROBERT L. HETZEL: Right.

HERBERT STEIN: [Unintelligible 00:03:57]

ROBERT L. HETZEL: But the Nixon Administration was concerned that if they got that tax cut, then there wouldn't be money for the kinds of programs that they were concerned with, revenue sharing and so on down the line.

HERBERT STEIN: Yeah. Well, we had done that Vietnam dividends study, post-Vietnam dividend study.

ROBERT L. HETZEL: Yes.

HERBERT STEIN: And could see out in the future that we were going to be short of money. Even for the programs that were already on the books, not just — we didn't have any at that time, any very elaborate programs — plans for new programs. But we could see that there was going to be a financial squeeze, despite the end of the — presumed end of the Vietnam War. So we were reluctant to give up the money. But we had — I'm sorry I'm a little vague about all this, but we did have a choice, because we wanted to get the surcharges extended for another — into 1970, and we could not get the surcharge extended unless we agreed to the future — the later tax cuts, because the [unintelligible 00:05:24] tax cuts were phased in. They were going to be coming over a period of years [unintelligible 00:05:29].

ROBERT L. HETZEL: Was it awkward pressing the Fed for more expansionary monetary policy when you were pressing the Congress for more restrictive policy? Did that limit your ability to push on the Fed toward the end of 1970?

HERBERT STEIN: Well, we didn't have much ability to push on the Fed. And, anyway, we were going to get rid of Martin. He was going to go. For one thing, you see, he was probably going to — you know, it had been thought that Martin would go early, that he would go in the middle of 1969, because Arthur Burns was there sitting in the ODOB waiting for Martin to leave. We were surprised when McCracken, particularly, [unintelligible 00:06:16]. But McCracken and I were surprised that Burns showed up at all as a counsellor to the President in 1969, because, after all, the President had one economic advisor who was in charge of us. But Burns was just in a holding pattern until Martin was leaving, and Martin didn't leave. So —

ROBERT L. HETZEL: Yeah. So I don't know the complete story. It was understood that he would leave.

HERBERT STEIN: In the summer, it was generally thought, or something like that.

ROBERT L. HETZEL: And the story is that he didn't quite trust Nixon, I guess. That's what the story is, and that he was unwilling to leave.

HERBERT STEIN: Well, okay. He didn't have much choice but to leave.

ROBERT L. HETZEL: Yes. Yes. All right. In 1969, there was considerable internal debate over monetary policy, and initially, there was a large group of individuals within the Administration that were basically aligned with the Fed position that deficits cause inflation.

So is it fair to characterize the initial grouping of individuals as on the one side having the Treasury with Kennedy, and Walker, and Volcker, and Wingbaum, and at the Budget, Mayo and Mann; and then, on the other side, stressing money more than deficits as a weapon against inflation, you had the Council and Shultz? Is that a fair characterization?

HERBERT STEIN: Well, I think that — I think that view of Shultz and the Council — I don't feel that we had any conflict about this. It's all rather vague. I have written about it recently. Have you —

ROBERT L. HETZEL: I've read that.

HERBERT STEIN: You — you've seen my new updating of it, *The Fiscal Revolution in America*.

ROBERT L. HETZEL: Yes.

HERBERT STEIN: And I did go over some of all that stuff —

ROBERT L. HETZEL: Right.

HERBERT STEIN: — but I'm getting rather vague about it. But I don't recall a big difference about that. I think we were for budgetary restraint, all of us, and the President particularly. I mean, that was part of his ritual. I mean, that was the kind of thing he'd always been brought up to believe, that he should use budgetary restraint, and you need to balance the budget, and you need to hold down spending, and all of that. So that there wasn't any internal fight about that. There wasn't anybody who wanted to expand the economy by fiscal means at that time. As I remember, we were rather uneasy about the monetary tightening.

ROBERT L. HETZEL: Shultz was the first one to predict a recession in October, but at that time, Burns and McCracken disagreed. They weren't willing to sign on that, so Shultz was initially the one who pushed that as a concern. And only later the others signed on. I was interested partly because of this story that's been told, you know, ten thousand times about Burns predicting the recession in 1960. But it seems like if you go back and look at the memoranda, that he was not predicting a recession then.

HERBERT STEIN: No. No. He was not. None of us were. I don't — I think Shultz may have been reflecting some Friedman calculations —

ROBERT L. HETZEL: Yes.

HERBERT STEIN: — about the rate of growth —

ROBERT L. HETZEL: Sure.

HERBERT STEIN: — and the money supply. I remember there was that. But we were all at that time kind of Friedman-esque, as McCracken says, and we were for monetary expansion. I don't know about the exact dating of and leadership of that. I don't really remember.

ROBERT L. HETZEL: You don't remember anything about Martin changing his mind before — at the end of the year about lowering interest rates?

HERBERT STEIN: No.

ROBERT L. HETZEL: Okay. You've written that Nixon via Shultz early in his term sent a message to the AF of L promising to control inflation without a rise in unemployment.

HERBERT STEIN: Yeah.

ROBERT L. HETZEL: Could that have reflected anything about Shultz's position that he was very close to Nixon on that? Or was he — would he simply have been the conduit, the obvious conduit for that?

HERBERT STEIN: Well, I think he was reflecting Nixon. Nixon had came in very allergic to unemployment, and Shultz had been the messenger to George Meany. Shultz and Meany were friends. So he went there and [unintelligible 00:11:56]. That was Nixon's view, and that was all of our view, you see, that, well, it only required a little bit of monetary tightening and you just had to get the unemployment rate up to 4 percent, or something like that, you know, up to a natural rate, and the inflation would go away. So — but as I remember, we at the Council were not happy with that promise, but it wasn't very far from our view. I mean, we felt that we would have to go through some period in which the unemployment rate would have to be above the natural rate, but not very much, you know, because maybe the natural rate was 4, 4.1 would do it. That was our big mistake.

ROBERT L. HETZEL: Yeah. Well, it was everybody's big mistake. It wasn't just your mistake. Obviously, mainstream economics was not a lot of help at this time.

Let me ask you a general question. You may — you may want to object on this. But going back and looking at the memos and what was being written about monetary policy, and particularly, well, later on when Burns was chairman and when the Council felt like monetary policy was too restrictive, I get the impression that you and McCracken had a good cop/bad cop relationship with the Fed. That is, McCracken would have lunch with Burns, say, every other week and they were fairly close, but then you were the one who were the more aggressive in writing memos, particularly pointing out the importance of monetary expansion to get your objectives. Is that at all fair?

HERBERT STEIN: I don't think that's right. For one thing, we would have — the three of us, the three members of the Council used to have lunch with the members of — all the members of the board of governors who were present, who were not out playing tennis or whatever it was.

ROBERT L. HETZEL: Yeah. They were big tennis players.

HERBERT STEIN: We used to have lunch with them together. And those lunches were very inconsequential. But it was our — it was Paul who got crosswise with Burns in 1970, because he went up to New York and made a speech in which he said we needed some rate of monetary expansion. And Burns was very annoyed about it and gave him a lecture about it.

I may have been more outspoken, but I didn't feel that we — that we were at all — that McCracken and I were at all different. McCracken was even — was more of a monetarist that I was. We used to go through a forecasting exercise with The Troika, which was kind of a Keynesian method of forecasting, and then McCracken would then check it with his theory — rule about the monetary expansion, what that would [unintelligible 00:15:45]. So he was more wed to those rules than I was. But I didn't feel that we had — it's amazing what turns up in the memos. Have you been out to look at the National Archives?

ROBERT L. HETZEL: Yes.

HERBERT STEIN: There's somebody else that's been writing about this, somebody out in California.

ROBERT L. HETZEL: John Woolley has written some things about it. He's a political economist in…

HERBERT STEIN: There was T2, you know what T2 is, and there was T1 and I was a leader of T2, so — and Kennedy, when he was Secretary of the Treasury was the leader of T1. So that was a memo from T2 to T1, even though my name was probably first on the T2 list and Kennedy — and I don't even — the memo doesn't even sound like me. But, anyway, and sometime we ought to go out there to College Park and look at those archives, although I don't know why it doesn't sound like me.

ROBERT L. HETZEL: Well, let me ask you about the first point about the controversy that arose periodically over publicly chiding the Fed. I think I have the — at least, you know, one of the instances you are referring to. In *Newsweek*, September 21, 1970, it says, "Convinced that inflation's on the run, McCracken has been pushing the Federal Reserve for the past month to twist open the money tap, a move that would hasten the return to full employment. Stein explains, 'To reach full employment in the next 18 months, you would need an annual growth rate in the money supply of about 8 or 9 percent.'" And then there's an exchange between Burns.

In reading through these episodes, and there were others, I get the feeling that Burns sort of picks on you. I mean, Shultz is at times saying things publicly that are critical of the Fed, and sometimes McCracken. But somehow or other, Shultz escapes the thunder, and then you seem to be the lightening rod. Is that a fair?

HERBERT STEIN: I wasn't aware of that.

ROBERT L. HETZEL: Okay.

HERBERT STEIN: But Shultz was a kind of a Burns protégé. Shultz had worked for Burns when Burns was chairman of the Council of Economic Advisers.

ROBERT L. HETZEL: Sure.

HERBERT STEIN: But also, Shultz had a strong position in the government. But I wasn't aware — I didn't — I wasn't aware that Burns was picking on me. I think McCracken and I both had our reservations about Arthur Burns, felt that he was not really on the team, even though he was a Nixon appointee. But I'm surprised. Where do you find the evidence that Burns was picking on me?

ROBERT L. HETZEL: It's just in reading through the documents that this — there's more references — I just turned up more examples of exchanges coming out of your comments than anyone else's.

HERBERT STEIN: Well, I probably did a lot — did more talking. I loved, at that time, to make speeches, talk with the press and so on, so I may have been a little more public about it than Paul was.

ROBERT L. HETZEL: Okay. Do you remember anything about the debates or the language in the economic report of the President on monetary policy, first of all, in the

February ’70 report, where Burns would not have been chairman yet? And then, of course, in February ’71, there are just a variety of references about Fed objecting and Constitutional crises and so on. Kind of heated rhetoric. Were you talking with Holland and Partee, or were you talking directly with Burns over this language?

HERBERT STEIN: Well, I think — I mean, we used to send drafts over to include in the Federal Reserve, and we would get comments back. I don’t think the comments came back as Arthur Burns’ comment on our draft. I think it basically came from the staff [unintelligible 00:20:43]. And I will say that the best comments we got on our draft came from the Federal Reserve. But those — there was complaint over the language. I don’t remember what our proposals were, but we finally ended up with that word, “complementary.” There would be a complementary monetary policy, which, you know, I’m sure we were on to something which would say that there would be an official expanse of monetary policy to bring about this thing. I’m sure we did not have in mind any number.

ROBERT L. HETZEL: You didn’t put a number in initially?

HERBERT STEIN: Because we were among the three of us that was in the Troika, we were in disagreement about the numbers, because Shultz was in OMB and had Arthur Laffer with him.

ROBERT L. HETZEL: This was ’71?

HERBERT STEIN: This was ’71. ’70 I don’t remember at all. ’71, that was the big issue, big debate, because Shultz and Laffer really had 6 percent to give us 1065. And we didn’t believe we knew what it was. We believed we didn’t know. We were sure we didn’t know. And we had — I believe it Phil Cagan was with us then, I believe, the monetary economist. And went through these various models, you know, the St. Louis model and other models, to say what number will give us 1065. And we found that, you know, depending on which model you chose, you could get 6, 7, 8, 9. So our final agreement, the agreement we had among the three of us, among the Troika, was that we would not specify any number, but that we would support a monetary policy that would get us 1065. But I believe we wanted more of a commitment from the Federal Reserve than we got with “complementary.”

ROBERT L. HETZEL: Well, let me ask you about — let me ask you about this episode with the 1065 since we’re on it now. There was — the Council felt put on the spot initially. You had made a forecast for 1971 that was in line with what kind of standard forecasts were, which was less than 1065. And so you felt on the spot by the — initially by this number from OMB, and you wondered who this guy Arthur Laffer was.

HERBERT STEIN: No.

ROBERT L. HETZEL: No?

HERBERT STEIN: 1065 was our number.

ROBERT L. HETZEL: That was your number?

HERBERT STEIN: Yeah.

ROBERT L. HETZEL: It didn't come out of OMB?

HERBERT STEIN: No. Because we had a notion about what we were doing with it, so I still think it's correct.

ROBERT L. HETZEL: That was to get the unemployment rate to 4 1/2 percent by —

HERBERT STEIN: That was — we had this notion of the outcome of [unintelligible 00:24:08], which we had been working with all through 1970. And we said we are managing a macroeconomic policy, and so the outcome is going to depend on macroeconomic policy. We're not like somebody in Wall Street who's forecasting.

ROBERT L. HETZEL: Okay.

HERBERT STEIN: So this was our target. But I — we had the forecast, and we would achieve our target.

ROBERT L. HETZEL: Okay. Now, I just want you to comment on a quote from Maisel's book. And he was not an impartial juror of the Fed and he was jaundiced against anything that had to do with money targets.

HERBERT STEIN: Mm-hmm.

ROBERT L. HETZEL: But you can set the record straight. [00:25:00]

"The Administration's original economic forecasts for 1971 were for 7 percent GNP growth with only some moderation in inflation. That meant continued real growth below potential growth and an unemployment by year end near 6 percent. That was unacceptable. The President's economic staff was informed that the forecast for the economy for 1972 had to be higher. Overnight, the estimate for GNP growth was raised from just over 70 billion to 88 billion, to reach a level of 1065 billion. The rule of gradualism no longer satisfied George Shultz. He now is espoused an activist monetary policy. Money would determine spending. In his words, 'real juice for the expanding economy had to come from monetary policy.'"

So it didn't happen that way at all?

HERBERT STEIN: Absolutely wrong.

ROBERT L. HETZEL: Okay.

HERBERT STEIN: [Unintelligible 00:25:50] about George and activism, you know, George Shultz and activism, because he gave his famous speech about "steady as you go" in the spring —

ROBERT L. HETZEL: Right.

HERBERT STEIN: — of 1971, where he and I had a disagreement about what that meant. And I think that the Troika staff, the T3, they never liked the 1065 forecast. [Unintelligible 00:26:21] was in charge of that. And he — but it was my view, and it was kind of implicit in this whole optimum feasible path notion that we should set a path for the economy which would base our budget — it's kind of like basing the budget on the high employment — base the budget on the prediction that we would be on the outcome of optimum feasible path. And, of course we said we had to have a monetary policy that would keep us — that would get us on the optimum feasible path. And so 1065 was what we thought — was the path. Of course, we were not indifferent to the fact that this path would lead us to 4 percent unemployment before the November —

ROBERT L. HETZEL: Sure. Sure.

HERBERT STEIN: — 1972 election. But that would — but still, it did not seem to us — it seemed to us a feasible path, in which you would get this combination of growth and decelerating inflation, and so that's how we arrived at that. The President took all kinds of hell for that, which I think largely from some people who didn't understand what they were doing. But then in the — but then — but [unintelligible 00:27:52] it was George Shultz who believed that 6 percent monetary growth would give us the 1065. That came out of Laffer's little model.

ROBERT L. HETZEL: Well, it was just a regression of not seasonally adjusted —

HERBERT STEIN: Not seasonally adjusted GNP

ROBERT L. HETZEL: — not seasonally adjusted money. I was a graduate student, and I remember people scratching their heads at where that came from.

So you — so do you think Shultz really believed that? Or that was just a tactic for arguing his position on money growth, the 6 percent?

HERBERT STEIN: I think Shultz believed that. And then after — during the next few months, we saw we were not on the path. And the question arose about what do we need to do to get on the path? We need to have more expansion, more monetary expansion to get on the path. But then, of course, later we began to be supportive of more fiscal stimulus. But at that point, George Shultz [unintelligible 00:29:08] and he said that [unintelligible 00:29:12], I mean, that we should keep the policy steady. That's when he said "Steady as it goes."

But — and I guess I must — I guess, I told the story about how we kept saying, well, we needed, you know, 8 percent money growth. We looked as if we were having it 5 percent money growth, and we said we needed 8. And Arthur Burns said, "Never, never, never." And then when we got the revised statistics, it turned out it was 10 percent anyway. A very good comment on monetary policy. But, so anyway, that's my recollection of that.

ROBERT L. HETZEL: The — [00:30:00] there were also considerable disputes at this time between the Council and the Treasury. As you said, when it looked like you weren't going to get to the 1065, the Council began to talk about tax cuts. And Connally felt like anything having to do with taxes was Treasury dominion, not the Council. So it was — it wasn't the public dispute with — I mean, I'm saying this, I mean this as a question. It wasn't the public dispute between OMB and the Council over money growth that led to Nixon's making John Connally chief economic spokesman. It was, rather, Connally's concern for the Council's proposals on tax cuts.

HERBERT STEIN: I don't know about tax cuts or spending. But that was the big thing. But, you know, I guess I've quoted somewhere Connally saying that various people were conspiring against him, including me. That was so funny. But — and I don't know — in retrospect, I don't know how much of this is Connally defending his turf, or Connally the politician. Because Connally believed that fiscal prudence or trying to balance the budget or being on the side of balancing the budget was the politically saleable thing. And it was really back in 19 — later, in 1972, when Connally was preparing to leave, we had then had our little shot of fiscal stimulus. And it was Connally who took the lead in warning us all that we should not get on the bandwagon of the old-time religion of balancing the budget and so forth. And so I think he may have, just for political reasons, not wanted to — the Nixon Administration to look like old-fashioned Keynesians.

ROBERT L. HETZEL: That's true. But there must have been some of the other, too, within —

HERBERT STEIN: Oh, I'm sure. He was very political.

ROBERT L. HETZEL: There's a memo with — where Paul McCracken meets with, oh, I think, Blount and Volpe and Romney and some others, Stans maybe, on his proposal, the abuse of powers bill —

HERBERT STEIN: Yeah.

ROBERT L. HETZEL: — and he's pushing that. And Connally hears about that, and it's the same sort of thing. He says, "People are going around me."

HERBERT STEIN: Well, he's the Secretary of the Treasury, I think it is the chief economic guru. He's, you know, the chief economic policy maker in the Administration, in any administration, except for the President. And so he was entitled to be involved and he was not. And these other people, Blount and Spans and Romney, they had a certain business-oriented point of view, and they were concerned about the — what was going on with the labor unions, especially in the construction industry. And Paul trying to find some expression of that, that did not come down to an income fund.

ROBERT L. HETZEL: But, just — again, this is a question, and this is just an impression, which can't be very good from reading memos — but I get the feeling in reading through this period that particularly beginning with the end of June 1971, where Connally becomes chief economic spokesman, he continued — he continually accumulates power over economic domestic matters. And, but at the same time, he doesn't delegate, and he doesn't build [00:35:00] his own staff, so that by spring of 1972, he's basically burned out. There's too much on him, and as a personal matter, he's burned out, because he's accumulated all this decision-making authority. Yet he has — he doesn't know how to exercise it, other than personally.

HERBERT STEIN: Well, my feeling about Connally always was that he wanted the authority, but he didn't care much about the policy. As long as he was in charge of it, as long as he could say it was his, he didn't have strong views about policy. And he used to say this thing, which I later learned was a Lyndon Johnson quotation about, you know, "I can play it round, or I can play it flat. Just tell me how to play it." And he used to say that.

So he wanted to be the spokesman, he wanted to be in charge, but he didn't really care much about the policy.

ROBERT L. HETZEL: Another source of contention at this time, spring of 1971, between the Council and Treasury, was over international monetary relations. The Council wanted the Treasury to be more aggressive on international issues, and, of course, that's the premier Treasury arena. The Council —

HERBERT STEIN: The international monetary [unintelligible 00:36:33].

ROBERT L. HETZEL: Yes. After Germany floated, then the Council wanted the Treasury to take up with Japan the value of the yen. And Connally resented that.

HERBERT STEIN: Well, I don't remember that, and I was not really involved in that. That was Houthhakker.

ROBERT L. HETZEL: Right.

HERBERT STEIN: But we — all I can remember about that is that we were floaters. We were floaters, George Shutlz was a floater long before the Treasury was, and Volcker, and Volcker never was.

ROBERT L. HETZEL: Not even today.

HERBERT STEIN: I can't [unintelligible 00:37:28]… there was the Volcker group, and [unintelligible 00:37:37] or McCracken went to it. And a lot of this is still a mystery to me. That is because a lot of what went on, went on between Connally and Nixon without any of the rest of us. Never knew — never discovered when they decided on and certain contingencies emerged in regards to price and wage controls.

ROBERT L. HETZEL: We'll come back to that; okay? Kind of jumping — because there's some clues in things like the Haldeman diary. Maybe we can come back to that. We kind of jumped ahead.

Let me jump back to 1970 when Burns becomes chairman. Burns wants a strong economic recovery. There's no — you know, the stereotype is that the Fed chairman wants to restrict growth, but that's not right. I mean, he — his terms of goals, he's — there's no disagreement. But the issue is how you get it. Burns wants it on his terms. He thinks that inflation is — that the problem with the recession is the problem with inflation, and you can attack them both at the same time without a trade-off if you're willing to deal directly with inflation, Presidential leadership —

HERBERT STEIN: [Unintelligible 00:39:09]

ROBERT L. HETZEL: Right.

HERBERT STEIN: [Unintelligible 00:39:13]

ROBERT L. HETZEL: But monetary policy itself would — was a sort of a support for the central thing, which was the confidence of the businessmen, their willingness to invest, which you had to attack directly, because they were concerned about inflation and what that that would do to their profit margins and so on.

So there was never any, kind of, disagreement over, kind of, the idea that monetary policy ought to be expansionary after — once you got into the 1970s, 1970.

HERBERT STEIN: No, no. Later — later there seemed to be a difference between us [00:40:00], because Burns was always out giving speeches about inflation, and there was the thing where somebody asked him, when I was chairman, did we share his view about the danger of inflation? And I said, "Yes, but we don't talk about it."

ROBERT L. HETZEL: Is there this — I mean, you know, you both have something that the other one want, and there's this iterative of going back and forth. I mean, did you to some extent get the monetary policy you wanted because Burns got accelerated depreciation, and the size of the deficit, and, you know, input on budget?

HERBERT STEIN: No. We never got — I don't think we ever got any monetary policy out of Arthur. That is — I don't think we influenced him one bit. And I don't think that we — I didn't have the feeling that we were bargaining with him about any kind of policy because we, as a Council, were dragging our heels about income policy all the way up to the last day. So I just don't know the context in which those memos were written. And that's why I say about that one, well, that was a T2 memo. We had Maury Mann [phonetic], who was [unintelligible 00:41:20].

But, you know, we — Arthur Burns was making monetary policy. We at the Council were not making any policy. We were not in the position to give him anything. We could maybe advise the President or some, or the Treasury about something. But we couldn't give him anything in the way of either fiscal policy or income policy. And we were — you know, we were kind of involved in these negotiations. The thing that I most remember is the President's speech about economic policy sometime towards the end of 1970, which was — Bill Safire wrote the speech. It was negotiated out at great lengths, and I was very much involved. But that was kind of our representative to Bill Safire. And, in fact, he was — what was the minimum we could say about income policy that would make — that Burns would, say, sign off on? And — but it wasn't my thought that — and I still don't think that this was an exchange for something about monetary policy, but it was that — Nixon wanted in a general way. Nixon wanted to placate Burns. Burns — they had a long relationship, and also he wanted to do what he could to keep him on the team. And, you know, there's that famous thing — I guess I never quoted that — but about up there at Camp David when we had the dispute about quoting the dollar, and Arthur Burns was against it. And Nixon said, "Well, I'd rather have Burns inside the tent pissing out, than outside the tent pissing in." [Laughs.]

That's just, I guess, and old [unintelligible 00:43:45] old line anyway. But he didn't want Burns to be attacking within the Administration policy. We were all very upset about Burns' speeches that he was making about income policy at that time, and he didn't want him to be out there like a loose cannon on the deck.

So, and — but it was not only Burns. I mean, there was the whole public feeling about income policy, so we tried to get something in his speech that would show a certain willing to be accommodating. But I didn't feel that we were trading at all for monetary policy.

ROBERT L. HETZEL: Burns very much wanted to be in on all kinds of economic decision making within the Administration, and when he wasn't getting his way, that's when he went public? I mean, you mentioned the speech. This was in May of 1970, and Safire says it took two months [00:45:00] to negotiate it. And I think maybe the thing in particular you are referring to is this national commission on productivity. Burns — that was a Shultz idea, but Burns thought that that might turn into a review board, and so that was put in for him in particular, and —

HERBERT STEIN: Well, that was really a Shultz idea.

ROBERT L. HETZEL: So that was not a — Burns didn't — When you say that some parties thought that would evolve into a wage price review board, you were not referring to Burns?

HERBERT STEIN: Well, Burns may have thought that. Shultz did not intend that. Shultz intended that as a diversion. To divert the pressure and interest there was in the income policy and wage price review board into what he thought was a more constructive channel towards productivity. And so that we showed, well, we're going to work together] with all the main factors, including Connally, but we're not going to work on price control in business. We're going to work on the real problems.

ROBERT L. HETZEL: Whenever — but Burns gave his speech in —

HERBERT STEIN: I remember Burns giving a speech in December of '69 or something like that.

ROBERT L. HETZEL: No, that was the Pepperdine speech in December of '70. But he gave an earlier one in May of '70. This is the one where Burns and Friedman broke off. This was — this looks like — it looks like this was part of the speech process. It looks like when Safire, you know, gets his views together, and Burns feels like his view is not getting in enough weight. Then in May of 1970, he addressed this American Bankers Association in Washington, which would be a very public sort of forum.

HERBERT STEIN: Well, I don't remember that as being part of this negotiating of the speech. I remember drafts — innumerable drafts going back and forth, and Safire going talking to Burns, and Burns coming back and reporting to Nixon what Burns had said. I don't remember the [unintelligible 00:47:22] speech.

ROBERT L. HETZEL: But you must have felt some pique at some point, though, when Burns can go public and criticize. And yet, when you go public and criticize…

[END OF TAPE 39, SIDE A]

[BEGINNING OF TAPE 39, SIDE B]

HERBERT STEIN: … wouldn't say that because — I never felt annoyed because we knew that we were part of our team. As long as your team was sticking together — you know, well, there's that guy out there. He's doing his thing; we're doing our thing. We might come and joke about Arthur and his foibles and so on. But, of course, we do know the President was annoyed get all of this business with Charles Coulson. But I think we were almost all happy. [Laughs]

ROBERT L. HETZEL: You were?

HERBERT STEIN: We were all so happy. We were happy being there, happy doing what we were doing. Arthur Burns was the, kind of, oddity.

ROBERT L. HETZEL: After the Congressional elections in 1970, Nixon had gone out and campaigned on social issues, and that had been more or less disappointing. So that focused attention back onto the economy, and that must have been the immediate spur to the 1065 initiative, and then the departure of Kennedy.

HERBERT STEIN: Well, I think the spur to the 1065 was that we were approaching 1972. We were approaching the presidential election, and we wanted to have a program which would bring us out to, you know, the period before the election in a great economic situation. And we were worried that the — I don't connect it with the failure of the 1970 Congressional campaign. I connect it with the fact that our previous forecast — our previous expectations about the economy were not being fulfilled.

No. We had thought that by that time, we would have the inflation rate down and the economy would be rising, and it wasn't. So we said, "What is the path that we need to be on?" And then, we had all these internal discussions about what will be — what is the monetary policy that is needed to get us on that path? We could never agree about that among the three parties. And, of course, we couldn't agree with Arthur Burns about it. But we maintained the notion that this was the path, and that we were going to try — first, we would seek management of monetary policy to get us on that path. And then when we saw we weren't doing that, that's when we began to turn to fiscal expansion.

ROBERT L. HETZEL: It was key at this time that you were getting high money growth, and the unemployment rate was not responding. But the financial markets were deteriorating. You had a crisis in the foreign exchange markets. Long-term interest rates were going up. So that was pushing Burns toward a restrictive policy, and that must have been an underlying factor in pushing toward controls. At least, Burns says something to that effect to the FOMC.

HERBERT STEIN: Well, as I just said and as I recently wrote, it turned out the monetary policy was not that restrictive. We thought it was restrictive, but it turned out not to have been that restrictive and, I think, what turned Nixon to the controls. But the feeling that we were not — well, that was a whole conglomeration of things [unintelligible 00:52:26].

ROBERT L. HETZEL: Mm-hmm. Sure. Yeah.

Connally is a populist. He's telling Nixon to tell the Fed, "Just keep interest rates low." So Connally never signs on to monetary control the way the Council and the OMB view it.

HERBERT STEIN: Yeah.

ROBERT L. HETZEL: I mean, at least some things suggest he was sending alternative sorts of messages to the Fed. Namely, just, you know, don't raise interest rates.

HERBERT STEIN: Well, that's probably the way he thought about it, whether — and who — by that time, who was the economic assistant secretary of the Treasury? Was that Weidenbaum in 1971 that we're talking about? Was it Weidenbaum? Well, I think he probably had notions about the money supply also. But I — yeah, I don't think that Connally ever had any notions about that. He just wanted more [unintelligible 00:53:40].

ROBERT L. HETZEL: As of June 28, with the Camp David meeting —

HERBERT STEIN: Yeah.

ROBERT L. HETZEL: — the famous "Four Nos," Connally had come in sympathetic to waging price controls, but as of that point, he still wasn't aggressively pushing them, in particular, at that meeting. Still, within the Administration, the dominant view was George Shultz and —

HERBERT STEIN: Well, you see, but I don't know at what point. And Nixon and Connally had agreed that if the international monetary thing blew up and we went off gold, we would at the same time impose the wage and price control. So that may have been — that may have been in their minds even before June 28.

ROBERT L. HETZEL: Well, there's a Volcker plan, a briefing book, which details the strategy for what to do if there's a crisis. And that includes, you know, closing the gold window, and wage and price controls. The Treasury had always been for wage and price controls, and Volcker was strongly for wage and price controls, so that was part of the plan. And, you know, surely Nixon and Connally talked that over together probably, you know, at the time the Mark was floated, I would think.

HERBERT STEIN: So what time was that then?

ROBERT L. HETZEL: Well, actually, the Mark was floated in May, but Volcker says in his book that the briefing book wasn't finalized until June. So surely by the end of June, Nixon was aware of this Treasury plan.

HERBERT STEIN: So that would be before June 28th.

ROBERT L. HETZEL: Yes.

HERBERT STEIN: But then it was still after that that Connally issued his Four Nos.

ROBERT L. HETZEL: Right. And I understand —

HERBERT STEIN: [Unintelligible 00:55:47].

ROBERT L. HETZEL: But it's not clear at this meeting at Camp David that he was — I mean, it seems like he was kind of quiet, he didn't — he's not saying very much.

HERBERT STEIN: But when he came back, he gave the Four Nos.

ROBERT L. HETZEL: Yes. Yes. And at that point, he seems to for a while, I think that — be onboard, but —

HERBERT STEIN: Yeah. But, of course, the Volcker plan is a contingent plan to be put into effect if something happens. Then [unintelligible 00:56:27]. And so it was precipitated when the British came in [unintelligible 00:56:31].

ROBERT L. HETZEL: Okay. I want to go through that with you, kind of, because I'm not sure that's been — you know, the timings been figured out. So I want —

HERBERT STEIN: Well, I'm not either.

ROBERT L. HETZEL: Then I want to go through it with you, and maybe we can?

HERBERT STEIN: Well, I'm going to have to go to lunch in a little while.

ROBERT L. HETZEL: Okay. Well, all right. Whenever.

But so two things happen after the June 28 meeting it seems like. One is that Nixon is — well, that the Nixon Administration is not doing well in the polls at that time. There are polls showing Muskie ahead of Nixon. There's concern with this group that Jackson will run, and he'll take Nixon's silent majority away from him. So there's — you know, Nixon's looking for some strategy to be more aggressive domestically and, of course, you know, China was on the horizon then. And so Nixon kind of puts out, sort of, there's this general process of searching of how do you take the initiative domestically?

And Connally comes up — in early July, Connally comes up with a plan that does two things. He says you've got to worry about your own troops, the businessmen. They're not onboard. And the reason they're not onboard is because they think you don't — aren't concerned enough about inflation, in particular, militant labor demands. And so the wage controls, ironically, are for the businessmen. Price controls are coming along as a necessary concomitant. But you've got to do something for labor, then, and for labor, that's protectionism.

And Volcker says in his — when he's talking about the briefing book, he says that, you know, he says that this plan for closing the gold window and controls to Connally. And Connally says, you know, "I want that to go with — I want an import surcharge."

And Volcker's, you know, "That's just protectionism."

And, you know, Connally says, "Yeah, that's the idea."

So finally Volcker goes along with that.

So Connally puts together this re-election strategy, which combines something for the businessman and something for labor. We're going to do something about business' concerns about wage demand. At the same time, we're going to address labor's concerns about unemployment and jobs. So that's one thing that's going on.

HERBERT STEIN: Well, I've never seen Volcker's book.

ROBERT L. HETZEL: I don't even know if it exists, but it's just referred to — he refers to it in his — in the book he wrote with Gyohten, *Changing Fortunes*.

HERBERT STEIN: Hmm. I haven't seen the book.

ROBERT L. HETZEL: Well, it's just a briefing book, so I don't even know if copies exist[unintelligible 00:11:49].

HERBERT STEIN: No. I mean, I didn't know he's written a book.

ROBERT L. HETZEL: He wrote *Changing Fortunes* with a Japanese, Gyohten.

HERBERT STEIN: Oh, yeah. Oh, yeah. I remember that. Yeah. All right.

Well, all right. That's a very coherent story.

ROBERT L. HETZEL: And the other thing that seems to go on —

HERBERT STEIN: Yes. And, of course, the surcharge was contemporary.

Well, there was a time when Nixon called McCracken and me into his office, and I think it was not later than August 1, and said that he wanted us to work out two options. One was a comprehensive wage and price control, and the other one's the wage price review board. And —But so —And then he said as we were leaving, "Well, if I do this, I'm going to leapfrog them all. I'm going to go all the way."

And so it seems to me that he pretty much had that in mind, and that he was going to do something. And there was, as I was saying before, that — that before August 14, I mean, sometime in there that he was getting ready to do something. And I do tell a story about the article in the *Washington Post* in response to the outrage, and that was July 28, as I remember. I remember Paul and I — you know, Paul Meeks — sitting down and saying, "Well, what if the President decides in the next two weeks, you know, to do one of these things? We'll look silly." So it, evidently, was in the air that the fiscal — something like this might happen.

ROBERT L. HETZEL: Nixon comments on that. He says, I guess this was in the Haldeman diary, that, "The difference between us and Galbraith is that he wants permanent controls."

So, I mean, the way he says it is that, you know, that — they are — definitely had been thinking about controls, but that Galbraith sees it as a way of life, and that's the difference.

HERBERT STEIN: I'm only suggesting that he — it seems that he had made up his mind to make a move in this direction. At the beginning —

ROBERT L. HETZEL: Do you have any sense of Shultz' position on this? Of course, he's well known for being opposed to wage and price controls. But in an interview that he gave afterwards for a book written by A. James Reichley, Shultz says that, well, "I signed off on controls as part of a package. Given that we were going to have an expansionary policy, I accepted it was part of a package."

Did you get that feeling, that he had resigned himself to it, and that he — that, you know —

HERBERT STEIN: Well, it was clear that he had resigned himself to it. Everybody had resigned themselves to it. But he always gave the impression of being emotionally and viscerally opposed to it. And whether, you know, he was resigned to it, but the President had decided to do it. Whether he had advised the President that this was the best thing to do at that moment, I don't really know. And it was certainly not — and I don't know what, really, McCracken thought. I don't think McCracken really thought that was the best thing to do at that moment, and I didn't.

ROBERT L. HETZEL: McCracken sends a memo to Nixon at the end of June saying that we have to be willing at some point — he says, "I say this with no joy, but we have to be willing to impose wage and price controls."

So by the end of June, McCracken had at least resigned himself to the idea of controls and says so to Nixon.

HERBERT STEIN: Well, I never thought that they were. And, you know, you ask us if in retrospect was it necessary? And you know, even was it necessary for Nixon's re-election?

ROBERT L. HETZEL: You know, of course, you didn't — at that point —

HERBERT STEIN: Nobody --

ROBERT L. HETZEL: — everything was — I mean, you know, China hadn't come, and McGovern hadn't come, so it was a — sure, after the fact. Nixon himself says that in his memoirs, but at the time, that was not —

HERBERT STEIN: And I know [unintelligible 01:04:56].

ROBERT L. HETZEL: The event — the episode with Nixon and Colson and Burns, and the story about Burns' pay raise. Did Nixon back off from that because Burns threatened hearings with the Sparkman committee? Or did Burns just decide that he needed Nixon?

HERBERT STEIN: [Unintelligible 01:05:32].

ROBERT L. HETZEL: Did you —

HERBERT STEIN: When we did the price and wage controls, we didn't know what we were getting into. Even then, August 15, we didn't know what was going to happen after the 90 days.

ROBERT L. HETZEL: There's a quote in the Roland book where McCracken challenges Shultz. Shultz' — I've got it here somewhere. I can't find it right now. But Shultz — McCracken says, you know, you're — oh, yeah. "George Shultz immediately took issue with McCracken's predictions that controls would have to last a while."

So, I mean, Shultz at least — maybe he went into this thinking that, well, you could have a freeze and get out of it relatively easily?

HERBERT STEIN: Well, but I think that that's a different kind of "lasting a while," because I remember McCracken, after he left the Council, writing about this or giving a speech. He said something that let you know that we'd never get back to a free market. That is, that this was a real turning point. So when he says they last a while, I think he meant a very long time. But I think there was a kind of common feeling that, well, we do the 90 days, and then we would get back to something like Schul-- Burns' wage price reward.

ROBERT L. HETZEL: Was that your feeling as how it would work out? Or, you already started working on the —

HERBERT STEIN: We started working on it the — when we got down — back from Camp David. But when we were up there the 90 days, I would say, I just recently wrote something about that. We were just in total — I was at least, we were in a total blank about what was going to happen after the 90 days. It wasn't that we had any particular vision of it. But I don't think any of us — but we all envisioned that it would be something much less drastic than a freeze, and something much less drastic that it turned out to be.

ROBERT L. HETZEL: Shultz and Burns worked out the guidelines for the pay board and the cost of living council, and then you worked out all the details?

HERBERT STEIN: I remember Burns didn't have much to do with that. As far as I'm concerned, we — well, the question about 5 1/2 percent, that, I think, was worked out at a fairly high level with the cost of living council, Burns being for a very tight number. I don't remember what the numbers are, but —

ROBERT L. HETZEL: That's all right. Five and a half, Burns had always wanted 4 1/2, whatever was less than —

HERBERT STEIN: But we did have — we used to have very frequent meetings with the cost of living council, I'd say. But I think that was a — probably Shultz and Burns. Connally was undoubtedly involved, he wanted to know what happened.

ROBERT L. HETZEL: Do you want a break?

HERBERT STEIN: And he acquired this notion about business confidence, but he valued his connections with the business community and the feeling that he had contact with the real world that economists did not have, and that he had a feeling about what was going on. He reminded me [unintelligible 01:09:22] — who was it? — a professor I once took. He had a certain intuition about the way the economy was working. He was in a lot of contact with business people, and kind of absorbed it from them. But when I say that — but I think Arthur, he knew who his audience was and he wanted to play to them.

ROBERT L. HETZEL: Well, he liked sitting on corporate boards and thought he had this insight into the psychology of the businessman. But that goes back to the old NBER school, the old Mitchell school. That was before the discipline of where it was accepted that economics imposed a discipline that you thought about behavior in terms of profit maximization and utility maximization. What was driving things was more the psychology.

HERBERT STEIN: Yeah.

ROBERT L. HETZEL: And he thought he had an insight, a direct line into that psychology with his knowledge of — you mean, he thought he understood how the American businessman worked, and that was an insight that he had.

HERBERT STEIN: Well, I think it was part of it. But I think part of it is that he wanted to be the idol — he wanted to have a very high degree of respect in that business community and the financial community. And he wanted to say the kind of things that would strike them as wise.

ROBERT L. HETZEL: Well, he wanted to stimulate the economy —

HERBERT STEIN: Not because — not because of his effect on the economy, but because of the effect of businessmen's attitudes towards Arthur Burns.

ROBERT L. HETZEL: Well, in many ways, his ideas were — in financial policy, his ideas were the ideas of the conventional business man. His idea of what caused the deficit when he came in to be Fed chairman, he had the conventional businessman idea that it was government deficit and government spending. And after time, he began to emphasize the welfare state more often and his attitude toward labor unions. So in many ways, he was an NBER economist; but superimposed on that issue of saying was this, what was really a very sort of typical businessman view of —

HERBERT STEIN: Well, I'm referring to the question of why did he have that view? And I suggested that he had that view for -- because Arthur Burns.

ROBERT L. HETZEL: But back to my earlier point, I think there was also — he felt like he had demonstrated how to stabilize the economy as chairman of the Council in the early '50s, and he resented the Keynesians saying that, "hey, we have this new way of doing it."

He said, "Well, I've already done it."

But what he wanted to do when he became chairman of the Fed the second time around was to — the next challenge was to show how you could have prosperity without inflation. And he was going to show that you don't have to have a Philips curve trade-off. If you're willing to attack inflation directly, that'll bolster the confidence of the businessmen, you'll bring inflation rate down. At the same time, you bring output up. We can have full employment and a strong economy with low inflation. But, you know, "I'm the one that's going to show you how to do it." And that was going to be his legacy.

And, in fact, there was a Philips curve trade-off. It was not — it was going to be painful to go down from a higher to a lower inflation rate.

HERBERT STEIN: But he knew it was going to be painful, unless you had a wage price review board, which I thought was to have more effect on business confidence. It was going to effect the actual behavior and really exercise some compulsion.

Well, anyway, let's go back to our history [unintelligible 01:13:36].

ROBERT L. HETZEL: Well, this interesting. Let me just finish it.

But, you know, going back and looking at that, there's really very little there, a wage price review board, in terms of substance. You know, there was a lot of — higher is the right word. There was a lot of word spill over something which is really sort of inconsequential. But there's that element to — I mean, on the one hand, you have Burns who is extremely knowledgeable about how government works, and about how policy gets made, and can tell you when the minimum wage was raised all the way back to 1934 or whatever. But on the other hand, when it comes to markets, there's a time when there's a lack of realism in terms of what can be accomplished. In foreign exchange intervention, for example, when the dollar's under attack, he thinks, well, you know, sterilize foreign exchange intervention because that'll affect psychology. It's like he doesn't quite under — it's — his macroeconomics leave the price system out. Now, Keynesians were doing the same thing.

HERBERT STEIN: Oh, you're right. He was a great believer in manipulating psychology, confidence, and all that kind of stuff.

ROBERT L. HETZEL: You're right. His standing in the business community was important to him. He wanted to stimulate the economy, but he wanted to be the representative of the fight against inflation. He wanted it both ways, and I don't think he ever probably reconciled in his own mind the fact that he didn't — couldn't do that. It was, well, the welfare state had overwhelmed [unintelligible 01:15:20].

HERBERT STEIN: Well, on that subject, about to the welfare state, one of the most interesting things he ever said was — he was a big supporter of the idea of public service employment at a wage level just below the minimum wage. Quite a crazy idea, I mean, kind of out of character for him.

ROBERT L. HETZEL: Well, he was fiercely free market when it came to labor unions. But in other areas, entry into banking, or Regulation Q, or bailing out Lockheed, those ideas went out the window. And the only thing I can think is that what he — to a significant extent, he thought like a conservative businessman. Businessmen were free markets when it came to labor unions, but when it came to problems with business, then, you know, they didn't think that way anymore.

Was the Fed ever seriously threatened by Congress when the Administration talked loosely about reforming the Fed? Could it ever have been a problem for Burns? Or was — did Congressmen basically — Burns was very — had spent a lot of effort cultivating his relationships with Congress and congressmen, and obviously Wright Patman was something apart. But basically congressmen liked Burns, supported him, and he did a very good job of that.

HERBERT STEIN: Well, he did seem concerned about Patman. And I believe — you know, there was this big controversy about what motivated Burns in 1972, and I always thought he was really concerned about that Patman might insist on putting feelings on me. And I don't think it was ever — I don't think he was concerned about constructual [*sic*] change in the Federal Reserve System, but I think he was concerned about restraint put on them. And, you know, Patman was serious. If — we had to put in a quarterly report about why we didn't have ceilings on interest rates. And I think Burns was concerned that if interest rates went up, Patman would insist on having some legal control over it. But then, to say he — mainly, he greatly impressed the congressmen. They were very cautious about dealing with them. He cultivated that as you've said. Mrs. Burns would bring cookies. But he maintained an aura, I mean…[unintelligible 01:18:43].

ROBERT L. HETZEL: It was possible that Congress might have put limits on interest rates when it passed the economic stabilization act in December of 1971?

HERBERT STEIN: No. It was not then. It was in — oh, in December of 1971. Well, yes. It was possible. That's why there was a provision of the law that we had to report about interest rates and why ceilings were not put on interest rates. We — the Council used to write that report. And so I think that was a real possibility because, you know, what Patman's final goal actually was. So —

ROBERT L. HETZEL: What about in the — with the renewal of the authority of the economic stabilization act in April of 1973 with the discussion of the rollback of prices and [unintelligible 01:19:48]? Was that a real possibility that the Fed might have required a rollback of interest rates to —

HERBERT STEIN: Oh, I don't remember.

ROBERT L. HETZEL: Okay. You wrote a wonderful — one of the funniest things I've ever read about if we're going to rollback prices, why not back to — I don't know, was it — to the beginning of the world, to 4,000 B.C., or something. I guess that was in the *New York Times*.

But let me ask you about the competition for control over economic — international economic policy after Camp David. There was no discussion at Camp David of international monetary reform. And the Council and Shultz had very different ideas than the Treasury.

HERBERT STEIN: Well, I think we had different ideas at first about whether we were then floating or whether we were, then, on our way to a new [unintelligible 00:33:09] fixed rate, and what the new fixed rate would be. And Connally won that [unintelligible 00:33:17].

ROBERT L. HETZEL: Sure. Nixon basically delegated that decision to Connally.

HERBERT STEIN: Yeah.

ROBERT L. HETZEL: And so, then, Shultz had to go to Connally and — but Volcker basically — it was basically Shultz and Volcker trying to sway Connally, and Connally came down on the side of Volcker.

HERBERT STEIN: Yeah. [Unintelligible 01:21:36].

ROBERT L. HETZEL: Well, I think — you know, my reading of this — well, actually, some of this is in James Reston's book, and other places — but my reading of this is that initially Nixon was very happy to let Connally handle it, and Connally was very aggressive about it. And, you know, the other countries didn't want to revalue. And he was supported by Volcker because Volcker thought — and the board, because they thought that if we're going to have a devaluation in the dollar, it's got to be enough to take care of the problem. And, you know, we're not likely to get that given the attitudes of Germany and Japan and France. And Connally was getting a lot of mileage out of it, domestically, in terms of being tough saving American jobs.

But Kissinger became concerned, and the only person who could've trumped Connally was Kissinger. And Kissinger's concern was with the alliance. That is, we had —

HERBERT STEIN: We were ignoring him.

ROBERT L. HETZEL: Yeah. We were the big country, but there was this sort of agreement that, well, we wouldn't throw our weight around too much, that we would ask our allies, and we would get a — work from a consensus with our allies. And Kissinger was concerned that we had kind of overstepped that. And so the story is that Kissinger went to Nixon and said, "Look, what's more important for getting elected? I think what's most important for getting elected is your summit with the Russians and the Chinese. But to have a successful summit with them, you have to have the support of your allies. And to have the support of the allies, then we have to have this behind — this devaluation business behind us."

And when — and then, Connally realized which way things were going, that they were moving against them, and particularly after Kissinger scheduled the Azores meeting with Pompidou. And Nixon — then Connally became more willing to compromise so that the Rome meeting, I guess, at the end of November — then he and Volcker began the process of compromise. Does that sound —

HERBERT STEIN: I was out of touch with all that. You know, I had heard about it at some meetings, but I was not involved. In fact, I was still there and McCracken was still handling such matters, which were awful matters of great security and secrecy. So I remember the meeting with [unintelligible 01:24:46] were there was some and the final December discussion of all of this.

ROBERT L. HETZEL: What about the fall-off in money growth in the fall of '71? Is it — Burns was very concerned about being in on these negotiations. Burns and Kissinger were paired off against Volcker and Connally. Is it possible that Burns was reluctant to lower interest rates as long as he felt like his international views weren't getting the kind of support —

HERBERT STEIN: I never heard about that.

ROBERT L. HETZEL: Okay. Okay. Nixon sent — at this time, Nixon sent some rather strong letters to Burns when M1 growth began to fall off. Do you have any idea who would have written those? Did Nixon write his own letters? They tended to be very long and rambling, suggesting he might have dictated them himself. Would somebody like Flannigan have been involved in that?

HERBERT STEIN: I don't think Flannigan would've been involved. I think Shultz might have discussed it, but I just don't think Flannigan would've written any. In the one letter I have, it sounds as if Nixon wrote it himself, but after discussion with Shultz, maybe would be rest of the economic group.

And Shultz was — and somewhere I have here in the [unintelligible 01:26:40] — Shultz was saying to Nixon what Friedman was saying.

ROBERT L. HETZEL: Right.

HERBERT STEIN: And —

ROBERT L. HETZEL: Friedman writes this letter, "Oh, my God. Arthur, what are you doing?"

And then, Shultz says that to Nixon, and then upends the —

HERBERT STEIN: But what strikes me out of this whole argument, the reading and skimming over Woolley Papers, is that people don't ask whether this advice or insistence or request that Nixon was making of Burns was, in some way, improper from some Olympian point of view of what was good economic policy at that time. It was generally assumed that what Nixon was saying was — involved some perversion of economic policy for the sake of getting Nixon re-elected. Of course, Nixon wanted to get re-elected; but objectively, you could say it was not bad advice that he was giving or that request he was making of Arthur Burns. And, of course, we have — Friedman was not particularly concerned about getting Nixon re-elected.

But I think, quite aside from any private interests that Nixon had, you could say that the situation required more rapid monetary growth. And I was always impressed by the fact that the opposition people, like Heller and Samuelson were stepping on the brake too soon.

ROBERT L. HETZEL: Oh, sure. The unemployment rate didn't — you didn't see the fall in the unemployment until December 1972, and that's what most economists were watching. That's what mainstream economists were watching. The other thing that struck me about the Woolley paper was that what does the letter prove? He suggests it shows that there was political pressure, and that's right. But then, why did Nixon have to write a letter, a threatening letter? If Burns was trying to — was working with Nixon, there would have been no letter, you know, no threats.

HERBERT STEIN: Yeah. Well, Burns was — Burns valued his independence from Nixon. Burns regarded himself as an Eisenhower protégé, and he didn't really have very high regard for Nixon. And when [unintelligible 01:29:33]. And we would have meetings with Burns and Nixon, and the Quadriad was always — Burns was lecturing Nixon, not the other way around. But — and I never felt Burns was moved by what Nixon wanted.

ROBERT L. HETZEL: Your comment about — in the recent article referring to Burns' anecdote about Eisenhower saying he'd be a good chief of staff, Burns felt like he should've been chief of staff, more in the Nixon Administration. Nixon should've listened to him more.

HERBERT STEIN: Probably.

ROBERT L. HETZEL: Let me ask you about making the controls politically palatable to labor. I mean, basically that meant that interest rates couldn't rise much above their summer '71 levels. That was always concern.

HERBERT STEIN: I never thought of that as being a labor thing. You know, we did have a problem with the labor unions about labor. It was Meany about the degree to which the pay board would be independent of control by the cost of living council. But I never heard that trade-off between interest rates and labor being in the picture. Maybe it was, but I didn't know about that. I thought of Kaplan and the general — and Patman was not particular to labor representatives, but was generally populist view as being a problem about interest rates, insofar as they were a problem.

ROBERT L. HETZEL: Meany did walk off the pay board in spring of '72. But the question is why did he stay on so long? Was it because he was basically getting what he wanted from the pay board? Or was it because he felt like there was so much support for the program that he didn't want to be accused of sabotaging the program?

HERBERT STEIN: I think it was the latter. Well, of course, he did get a great deal of independence from the — on the pay board. And I think that I put my foot in it at one point by saying that the pay board would then eventually have to — would ultimately have to work by standards set by the cost of living council, and then he threatened to resign. And we had — Shultz had to go over there to — with a letter from the President saying, no, you are in charge of the pay board.

And — but the program was terribly popular when it started. It was amazing.

ROBERT L. HETZEL: In the — as of about June 8, 1972, you sent a letter to Nixon saying, you know, we can't — at this point, we can't alter the behavior of the economy before the election. So you basically, nearly as I can tell, kind of sign off, kind of commenting on monetary policy, which became very expansionary starting in July of that year. But somebody must've kept pressure on the Fed because, for example, in September of 1972, I've got a memo that the Fed's council sent to Burns telling Burns that, no, Nixon can only remove him for cause. He can't fire him. There are things like that which suggest that somebody was still — but you have no knowledge of communication with the Fed beyond —

HERBERT STEIN: No. And that really surprises me, because by that time George Shultz was the Secretary of the Treasury. And Shultz was really in charge of all economic thinking in the Administration. And George Shultz was not caused such a thing. I mean, you can imagine — it was like the story in the paper today about Nixon saying, well, let's torch the Brookings Institution. You know? He said things like that from time to time. You know, nobody thought it was very serious. And I don't know whether Nixon had made some dumb remark somewhere, but I never heard any about that. But we were still concerned about monetary policy in the January 1973 economic report. Didn't we for the first time have a number? 8% for monetary growth, or something like that?

[END TAPE 39, SIDE B]

[START TAPE 30, SIDE A]

[01:35:39]

Herbert Stein: So we were still talking about that. And we used to talk with Arthur about rates and monetary expansion, of course he used tell the story about how he said he believes rate and growth were important but he doesn't know whether it should be 3% or 13% or something like that.

Robert L. Hetzel: Well that's probably right. I mean, he attached a lot of weight to confidence, and confidence moved velocity around. So he had a short term kind of NBR view, leading indicators view, that you could figure out where the economy was going in the short run, and that depended upon the confidence. So what was really important was velocity, and when he got hit…

Herbert Stein: But what was he managing? Managing confidence with private speeches and lighting his pipe? No, he was doing something about interest rates. But anyway, he was very allergic to the thought, you know, numbers. Very allergic to Federal Reserve Bank of St. Louis.

Robert L. Hetzel: Yeah. Well, but he thought sharp changes in interest rates would affect confidence adversely, and he did not like that. And he kept writing Nixon letters, telling him to be a President. And the sort of tone was, the administration is mired in passivity, and you need to get out and be a leader. So I think he wanted to be the person, the Chief of Staff, who got Nixon out in front and led the country out of the wilderness. That's sort of the -- that's an Old Testament analogy again, but I think it's there, in some of the letters, at least. Okay, I promised it's not much more. Okay, jumping ahead to the decision over whether to renew authority, to control wages and prices, the expiration of the Economic Stabilization Act in April of 1973. Roland says, these are his words, "There was a bitter, internal fight among the factions within Nixon's administration, over whether to ask for renewal of that authority." Does that sound right? Was there -- this would have been in December of 1972. Was there much internal debate over whether to ask for an extension? If you don't remember that…

Herbert Stein: We thought we were on the path to de-control, but we didn't think that we were near the end.

Robert L. Hetzel: Roland was always looking for bitter, internal debates, so the fact that he wrote it doesn't mean -- and it must have bothered Nixon that Burns would call Roland -- it seems like they were pretty, they communicated…

Herbert Stein: Oh yes, Burns always referred to him for valuable information.

Robert L. Hetzel: Why didn't the administration eliminate controls completely at the beginning of '73? Was it too much of a shock to public opinion? Suddenly they're gone…

Herbert Stein: We thought we had made a big step, towards the [inaudible 00: 03:54]. And we -- I don't remember what it was -- but we did change that 5.5% rule, didn't we do something like that?

Robert L. Hetzel: No, Burns wanted it to come down to 4.5, but Schultz said that not until the CPI inflation comes down, it's too sensitive with labor to try to lower the wage guideline, and so we get more of the reductions…

Herbert Stein: …in '73, when John Dunlop was already here. Because Dunlop was not a big believer in the general rule of wage, you know, the general wage ceiling. He believed in negotiating everything out, case by case. But I thought we considered -- didn't we do something about the pre-notification?

Robert L. Hetzel: Right, there was no more pre-notification. That was the major change.

Herbert Stein: But we thought we were moving strongly towards getting out, until everything blew up in the spring.

Robert L. Hetzel: There was never any talk about raising interest rates when the dollar depreciated. You were strongly in favor of floating, and thought you should keep your eyes on the domestic objectives. There was a lot more discussion with that, of course, but Burns wasn't willing to do that, to continue that. Yeah, there's a lot of -- on this other point, about the lower wage standard -- there's a lot of, or at least a fair amount of internal FOMC discussion to the effect that, early in '73, Burns didn't want interest rates to rise sharply, while he was negotiating for a lower wage standard. He thought it would upset things if he didn't get, you know -- because he wanted to get the [inaudible 01:41:50]. Of course he wanted the extension and the stabilization, too. He was concerned that, if interest rates went up -- at least that's what he said. You never knew. Sometimes he would say things, just because, kind of, it was a way of pulling rank on the other members. I mean, he could say, you know, "Well, I can do that." You know, "I just got back from talking to five Kings and three Prime Ministers and the President, you know, who are you, who spent all week clearing checks, to tell me--" He wouldn't say that exactly, but it was sort of, in the way, the references he would make. That, you know, you knew you were taking on something…

Herbert Stein: Now you have the FOMC minutes?

Robert L. Hetzel: Yes.

Herbert Stein: That's all public now?

Robert L. Hetzel: Well, Burns stopped taking minutes in March of '76, when he thought Government in the Sunshine Act might make them public. It turns out, later on, that there are these unedited transcripts. And they're gradually being published. So, the minutes are published now, through March '76, and they've worked back to 1984. So we're gradually closing in. So it's very helpful to read these things together, because oftentimes Burns will say some things about -- he'll give you some idea of what his thinking was, and you can put that together with other things. So, you've got to read all these things kind of chronologically, otherwise they don't always make sense. Okay, I'm almost done. You get the feeling that Burns was always remained committed to the idea of an incomes policy and a Wage Price Review Board. But I get the idea from reading the FOMC minutes that when Nixon's Watergate troubles developed, he began to move away from that, and more toward conventional monetary and fiscal restraint. The idea being that the controls really didn't have a, you know -- they didn't work because there was a huge bureaucracy, they worked because the President got out in front and made it everybody's patriotic duty, and that when Nixon began to lose his ability to get out and lead on this issue, that that's when he began to kind of move toward more conventional -- does that make sense at all?

Herbert Stein: Well it all, it blew up in the spring of '73…

Robert L. Hetzel: Sure, so there was no choice…

Herbert Stein: So there was no choice, and when we had all those discussions about what to do, then, Burns was not on the side of restoring the freeze.

Robert L. Hetzel: Right.

Herbert Stein: So, you know, we went over and over about what to do, how, when food prices started rising and then wages started rising again. But I don't -- I know that Burns was not in favor of going back into the freeze, because nobody was except Nixon. And I don't remember that he proposed any kind of movement backwards, towards more control. So I think we all knew by then that it was -- that that game was over.

Robert L. Hetzel: Nixon was reluctant to re-impose the controls without somebody saying, "Yeah, this is a good idea." But people give different accounts of who finally said, "Yes, it's okay." Most people have said it was John Connally. But you've said it was Melvin Laird, is that right? And so…

Herbert Stein: Connally was not there…

Robert L. Hetzel: But didn't he come back to…

Herbert Stein: He came back as a consultant, but he was not for that either. And my -- somehow I have the impression that Mel Laird was off in the Mediterranean on an aircraft carrier or something, and Nixon talked to him. That's all I got. How I got that, [inaudible 01:46:23]. Do you work with the Haldeman Printed Diary, or you work with the…

Robert L. Hetzel: I've got the CD-ROM.

Herbert Stein: The CD-ROM. Well, anyway, that was really terrible…

Robert L. Hetzel: Well, there are other things floating around. I have a memo from Fred Buzhardt, telling Nixon that people really care about the bread and butter issues that kind of affect their own life. And if you can get out and be presidential again, and show people that you're controlling the cost of living, then they are, you know, Watergate's going to be a minor issue. So there were other political advisors that were clearly…

Herbert Stein: I remember Leonard Garment, who would, you know, the President's Council really well. You've got to find some kind of a tent strike in the economics field that he can do. But I'm sure he had something like that in mind, but none of his economic advisors wanted him to do that, because we all knew it would be a debacle, and it was.

Robert L. Hetzel: And that's when the controls began to look political, and it lost a lot of support, because it looked like they were being manipulated with the political…

Herbert Stein: Well, they were already losing support, because prices were beginning to rise again, and you were beginning to get business people who were unhappy about them. And then of course, [inaudible 01:47:52].

Robert L. Hetzel: Did you feel like you -- there was a real danger, at times, that the controls would become permanent in one form or the other? I mean, of course, they basically -- they were made semi-permanent on petroleum and healthcare. But things like rent controls -- I mean, did you feel like you were fighting a battle? I mean, so you felt…

Herbert Stein: I never felt it was going to go on forever. I felt there was a continuous struggle or disagreement about how fast to de-control, how fast to get out of this stuff. But never -- you know, we were not relenting. We were not organized as a permanent institution. Everything was jerry-built, using the IRS people and some other people, and we didn't have an institution for a permanent thing. We didn't have anybody around who wanted it to be permanent on our side. And…

Robert L. Hetzel: But there was no feeling Congress might enact the controls, and permanently spread controls, for example. You felt like that was not a problem.

Herbert Stein: No, no. Congress just wanted to embarrass us.

Robert L. Hetzel: The politics of the Federal Energy Office and the controls on oil, that came in early '73, and that must have been decided by…

Herbert Stein: I'd say about the middle of '73, and it just got more and more, after the oil embargo. But that, you know, that there was a danger of continuing for a long, long time. It did continue for a long, long time. But -- and I've written about that, the President was afraid, for political reasons, to get rid of that. And there, of course, there were questions in the spring of '74 about what to follow, you know, so you're going to have -- what did we have?

We had some kind of commission, some kind of watchdog thing, because they wanted a permanent Council of Economic Advisers surrounding [inaudible 01:50:25]

Robert L. Hetzel: Cost of living Council

Herbert Stein: Yeah, but some kind of…

Robert L. Hetzel: Yeah, I think it was watchdog something…

Herbert Stein: Watchdog, nag group. Yeah.

Robert L. Hetzel: Okay.

When we're out to lunch. Herb Stein told me one more anecdote which is not on the tape. He said that in July, late July 1971, when the Belgians talked about asking the United States for gold, Secretary Connally said, "If a Belgian Central Banker comes in here and asks for gold, I'll throw him up against the wall and knock the shit out of him."

(END OF RECORDING)