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Oral History Interview of Murray Weidenbaum

Conducted by Robert L. Hetzel

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Murray Weidenbaum: For a number of years, I was part of an informal group assembled by the American Enterprise Institute, which was advising the House Republican leadership. The group included people like Paul McCracken, Henry Wallich, Warren Nutter, and all the—that surprised me, wound up with positions in the administration.

Robert L. Hetzel: Who made the actual staffing recommendations? Was Greenspan involved in that?

Murray Weidenbaum: I don't—Arthur Burns was very much involved.

Robert L. Hetzel: Martin Anderson?

Murray Weidenbaum: Yeah. And Marty worked with, for Arthur, for and with Arthur. Yeah.

Robert L. Hetzel: Jump right into one of my interests in the staffing. Did you hear any...?

Murray Weidenbaum: Also Paul Volcker and Charlie Walker who at the very beginning of the administration were appointed to senior positions in the Treasury. Both know me very well.

Robert L. Hetzel: Oh, yeah. Charlie Walker had quite a bit to do with the staffing recommendations. Did you hear any stories about...?

Murray Weidenbaum: I also served on a transition, the Transition Task Force to plan the budget. This was not surprising. It's the same. In a different way, the process worked similarly in the Reagan administration. The people involved. And, I can from what I can see, it's worked similarly in this Bush Administration. People were involved in providing

policy guidance to the party and the candidate lined up in positions in the administration. Not always, but that's a very frequent, popular route.

Robert L. Hetzel: So you must have been involved in the very beginning from what to do about the surcharge and whether it was going to be extended. Nixon—

Murray Weidenbaum: I didn't. I didn't because I was teaching. I didn't full-time join until school was out in June. I got a part-time appointment as a consultant to the secretary. And several days a week I'd be, I had an office that people would tease me was to give away. I had one of the offices with an American flag. A flag-level offices of presidential appointees. But I wasn't a full-time. I wasn't there full-time until June because, you know, after I graded my exams.

Robert L. Hetzel: Did you go into the Tax Department?

Murray Weidenbaum: No, it's actually a new position for me. It's the Secretary for Economic Policy, which it continues to this day. I was involved in, I was given the overall responsibility for the Revenue Sharing Program. And I provided a technical guidance to the staff, the estimating staff of the Office of the Section for Tax Policy has two branches. One - lawyers and handling legislation, and two - economists making estimates of revenue effects and that sort of thing. And I was heavily involved in providing guidance to the technical staff, the economic staff. And practice during the budget season, we had to put together the budget numbers. They really informally reported to me. The Treasury in my day, the working relationships among the top people were excellent, high-level of trust and no backstabbing. So we worked together without a lot of regard of the organizational niceties.

Robert L. Hetzel: So you were, but then you were more in the Charlie Walker part than the Paul Volcker part?

Murray Weidenbaum: Oh, I reported. I nominally reported to Paul Volcker. But I also had a line to the White House. On Revenue Sharing I reported informally to John Ehrlichman, [unintelligible 00:05:38]. In fact, for a while I had an office in the White House. But—

Robert L. Hetzel: What was the last name again, Jack? You said Jack, the last name you mentioned?

Murray Weidenbaum: Oh, John Ehrlichman.

Robert L. Hetzel: Yeah, but after that.

Murray Weidenbaum: I don't know.

Robert L. Hetzel: Okay. Before we kind of jump into the other stuff, then were you also involved in the preliminary meetings on the forecasting that led to the Quadriad Meetings, the forecast that were coordinated with the Bureau of the Budget?

Murray Weidenbaum: You're referring to what we call the Troika.

Robert L. Hetzel: Yes. Right.

Murray Weidenbaum: I was TII. TI is, are the principals: the Secretary of the Treasury, the Director of the Budget, and the Chairman of the Council. TII is the macro-member of the council. That was Herb Stein; the economist of the Budget Bureau who, at least part of the time, was Art Laffer; and the Assistant Secretary of the Treasury for Economic Policy, that was me. And then the [unintelligible 00:07:07] staffs was TIII. That pretty much has been the pattern as far as I'm aware ever since. And it wasn't created then, I think. It would, it goes back at least to the Kennedy-Johnson period in terms of the formal Troika structure.

Robert L. Hetzel: Were you involved at all in the negotiations with Congress in 1969 to get the surcharge extended?

Murray Weidenbaum: No. That's the Tax Legislative part. The negotiations I was involved in was on Revenue Sharing.

Robert L. Hetzel: I'm interested in some of the economic policies, the thinking that kind of have to do with monetary policy. Did you hear any stories about Willie McChesney Martin and—

Murray Weidenbaum: Of course. Typically Wednesday, I mean, I don't know how frequently. On Wednesday the senior people in the Treasury, Paul Volcker and the key people working for him—which included me—would meet with the Federal Reserve Board. And of course Bill Martin—was there. And he would host us. Martin was not only present. He was this big chairman who would have this informal meeting.

Robert L. Hetzel: Okay. I didn't realize that staff members were included in those Wednesday meetings.

Murray Weidenbaum: Not staff.

Robert L. Hetzel: I thought it was just—

Murray Weidenbaum: I said the Federal Reserve Board.

Robert L. Hetzel: Oh, I see.

Murray Weidenbaum: And the members of the Board, and the senior, there was, Paul Volcker would be a personal quarry, myself. I'm sure there was one other person who was there, the secretary for International. I'm not sure.

Robert L. Hetzel: Did you hear any stories about Nixon's decision to reappoint Martin rather than asking him to resign? Why Martin remained?

Murray Weidenbaum: Not at all, no.

Robert L. Hetzel: There was a division of opinion in that year over monetary policy. And the Treasury and the Fed were quite close. There was a feeling that the Fed had to keep interest rates high until inflationary psychology was dissipated. That was pretty much the position of the Nixon people. George Schultz disagreed with that because of the behavior of money.

Murray Weidenbaum: Yeah. George took a very monetarist position when he—even before he became a Budget Director, even when he was Secretary of Labor he would toss his considerable weight around.

Robert L. Hetzel: At that point he had considerable weight? Or he was just one, one of the—I mean Secretary of Labor doesn't ordinarily have considerable weight.

Murray Weidenbaum: George is, he's one of my heroes, I have to confess. So I might be a bit biased. He wrote a great blurb for a book of mine a few years ago. So, you know, I say I'm not the most impartial person on the subject. But George was a strong Secretary of Labor. He was heavily involved in the Burns-Moynihan battle on Welfare Reform, which Moynihan won. And my recollection is George was on the Moynihan camp where Treasury and OMB [00:11:21] were in the Burn's Camp.

Robert L. Hetzel: Burns is very negative about the negative income tax despite the fact that—

Murray Weidenbaum: But George was not a shy, was not a table thumper, but not a shy guy. He gets his views across. And it was a significant factor.

Robert L. Hetzel: The issue of wage and price controls was in the background at this point. Schultz, of course, was vehemently opposed to them. Treasury generally favored some form of control.

Murray Weidenbaum: Here I have to confess some heavy involvement. Paul Volcker and I, we had offices near each other. And several days a week, around 5:00 or so, I'd pull up in his office and we'd have a two-man seminar. We'd spend an hour or two, whatever. We were not clock-watchers. And we were concerned about the rigidity of the

policy the Troika had accepted, it was essentially Art Laffer's [unintelligible 00:12:50] 1065 GMP forecast, if I recall. And how do you get there? I couldn't figure out how to get there in any reasonable way, given the monetary and fiscal policy combination we had. And Herb Stein developed a phrase called the Maximum Feasible Path. And it was actually pushed successfully the notion that whatever path we choose, we have the tools to align that. And I didn't see it working that way. Inflation was rising. Now, this is tricky. One of my wife's favorite [unintelligible 00:13:40] is the "Past is as uncertain as the future." And this is unfortunately a good example. The day that we were looking at inflation during 1971 has been revised so much—for good reason—that the escalation and inflation that was visible to us and that worried Volcker and me, it's no longer visible in the data, the sharp acceleration. I've read people's writing. Why do those clowns even to think about a freeze on prices. Inflation was not that serious a problem. But they're looking at today's version of yesterday's data instead of yesterday's version of yesterday's data.

Robert L. Hetzel: Yeah. For example, interest rates have been taken out of the CPI. And interest rates were going up so that the CPI figures that are not revised, if you go back and you look at CPI, kind of revised that takes out interest rates and use it as a causing cost, it looks quite different. Although a lot of the focus was on wage rates, nominal wage rates. And those were still rising very strongly, even though the economy had weakened. So I think that was a lot of the focus, although you're right. In early '71 there was some bad news on CPI inflation that may have just been kind of transitory.

Murray Weidenbaum: Oh, I recall being in Herb Stein's office, meeting a TII with Art Laffer. And then the Chief statistician of the council coming in with the newest CPI report, which was up sharply. Art Laffer was jumping up and down with joy, literally. He couldn't contain himself. 1065 was a nominal number you appreciate, not a real number. And of course Herb and I were, not only were sad, but we both looked at each other, what kind of a clown are we working with? This is bad news. It made me sad because it makes the forecast more likely.

Robert L. Hetzel: Oh, he just wanted his forecast to be validated.

Murray Weidenbaum: Yeah. And we were serious policy types. And, you know, this was bad news.

Robert L. Hetzel: Yeah. Well, he was just out of Chicago, a teacher in the business school. So he had a different, at that point, more of a technician or research assistant, I guess. Let me ask you. Let's back up a little bit before we get to 1065.

Murray Weidenbaum: But Volcker and I spent hours and hours agonizing over how would you obtain the inflation given, the policy restraints and monetary and fiscal.

That's how we backed into a phase. In fact, there were memos they were kicking around showing that we seriously considered recommending a wage price freeze, a 90-day freeze.

Robert L. Hetzel: Right. Right. Yeah, I've seen those. It's interesting that you had these informal discussions with Paul Volcker because when you ask people about Volcker, most of their, most of the people had their associations with him in intergovernmental meetings. And they always say he was the consummate bureaucrat. He always presented the view of the Treasury, but he never tipped his own hand. You never knew what he was thinking himself. So it's very rare that anybody has anything to say about Paul Volcker, other than kind of this expression, he was the consummate Treasury...

Murray Weidenbaum: Well, I learned when, when I was chairman of the Council [00:18:09], when I was Chairman of the Council and Paul was chairman of the Fed, at our regular morning breakfast, those were the good meetings because there was no one else in the room. And here were two old friends who trusted each other. He refers to that in one of his books, by the way.

Robert L. Hetzel: Yeah. Changing Fortunes, I think.

Murray Weidenbaum: Yeah. Uh-huh. So he was not a hem and haw fella. But, yes. He was, there was a feeling in the Treasury. There was an attitude in the Treasury, and certainly in the Volcker part of the House, you never got leaks out of Volcker, Bill, Bruce MacLaury or me. That's, this is, well, my point is very professional operation.

Robert L. Hetzel: But you said that given the constraints on fiscal and monetary policy you were backed into recommending—

Murray Weidenbaum: A freeze. A 90-day freeze to break inflationary expectations. That was the theory. And we didn't picture an extended period of wage and price controls in our discussions.

Robert L. Hetzel: So these discussions were after the 1065 period. And so when you talk about constraints, you're talking about the assumption that 1065.

Murray Weidenbaum: These discussions led up to the proposals that Volcker made to John Connally. And of course John was a mover and shaker. Who really had Nixon's ear.

Robert L. Hetzel: So it was really more a question of how to break the 1065 down between the real and the nominal components. The feeling that—

Murray Weidenbaum: Oh, let me put. What motivated, as my recollection, and, you know, it's a long time ago. My recollection is that what motivated Volcker and me was

escalating inflation. Which we were in the Treasury, and how do you break the inflation without breaking the economy.

Robert L. Hetzel: Yeah. So let me, the, as you said, the positions were not as bureaucratically defined then as they are now? Volcker was kind of formally in the international, but his influence was—

Murray Weidenbaum: Yeah. Volcker had responsibilities for debt management.

Robert L. Hetzel: Right. So there was more of a crossing boundary there.

Murray Weidenbaum: And I was the Assistant Secretary for Economic Policy. And I reported to him. But I also worked with Charlie Walker, and I worked directly in the White House with Ehrlichman. So it wasn't hard and fast.

Robert L. Hetzel: Charlie Walker handled things having to do with Congressional liaison?

Murray Weidenbaum: Yeah. Charlie was so well known on the Hill. And the second, not Connally, but David Kennedy, the first Nixon Treasury Secretary, so on occasion I would testify with him. He felt so uncomfortable on the Hill; and Charlie, a good old boy from Texas with a Ph.D. in economics. Was an ideal guy to deal with the Hill, he knew all these folks. [00:21:49]. When he was a lobbyist for the pres--, the staff president of the American Bankers Association.

Robert L. Hetzel: Right. Kennedy had an impressive background at Continental. Why did he?

Murray Weidenbaum: He also was chairman, which was a tribute, I think, the appointment. But he was chairman of the President's Commission on Budget Concepts under Johnson. But Johnson played so many games with the budget that there were three different ways of picking out the numbers. So finally he was pushed by George Mahon, the Chairman of the House Appropriations Committee who. was a highly regarded guy. Into setting up a commission on budget concepts that would come up with a standard budget approach. And Kennedy chaired that commission. Bob Mayo was the Staff Director who, Bob worked for him at the bank. And surprise. Bob, and but the commission, I was a minor consultants of the commission. The commission came up with what the unified budget was adopted and it was very successful. A commission, whose report wasn't followed, [00:23:09], but actually it was carried out. And there was no acrimony because Kennedy is that kind of person. Well, sounds like a good man to be Secretary of the Treasury. And Bob Mayo is the Budget Director. They

work well together. One, Kennedy had health problems. And two, he was a very distant man. And he was not an effective Secretary of the Treasury.

Robert L. Hetzel: He was cautious about making decisions is what you're saying?

Murray Weidenbaum: Well, and—

Robert L. Hetzel: Or personally diffident in his manner.

Murray Weidenbaum: He was, well, for example, we were testifying before the, I think it was the Joint Economic Committee. And I shouldn't say we. I sat next to him, but he really gave the main testimony, of course. And someone asked, "Is 4% unemployment acceptable?" And Kennedy, and I put a no fudge. And Kennedy said, "Yes." And he got crucified. No unemployment is acceptable. And in the car, in the Treasury car on the way back from the Hill, I made some comment and [00:24:46] he said, "Murray, you know I don't fudge." Well, that guy's not ideally suited. It sounds like a different version of Paul O'Neil, another old friend who doesn't, but ought to, know how to fudge before....

Robert L. Hetzel: So he basically just didn't like politics.

Murray Weidenbaum: And it wasn't his, it wasn't the environment. He built the Continental Bank and anyone that worked for David Kennedy was an admirer of Kennedy back then, I don't know many of them. And he just was a passive Secretary of Treasury. But I mean, in my own case, when I was working with Ehrlichman in the Revenue Sharing program, some question came up about it. I said, "Well, I can..." talk to the Secretary. "Don't let Kennedy know what we're doing." And Kennedy found out what we were doing when I made a presentation to the Cabinet on the Revenue Sharing Program. So I couldn't picture that under John Connally.

Robert L. Hetzel: Yeah. Oh, yeah. For sure. Since you mentioned the name, did you find Ehrlichman as professional to work with as you found your colleagues at the Treasury? Or was it?

Murray Weidenbaum: That was one smart, tough SOB. But unlike—I'll make a distinction. They're not the German twins. Haldeman was a nasty son of a bitch. You knew that you don't cross Bob Haldeman because if you did, be prepared to pack and leave. Ehrlichman relished the intellectual combat. You could [00:26:43] truly argue with Ehrlichman. But he was, you know, not one of life's loveable characters.

Robert L. Hetzel: Sure. Was that—?

Murray Weidenbaum: He had to do it, Chuck Colson was the only unruly rascal in the bunch. The others, certainly the President himself and Ehrlichman and they have a vision of where they wanted the country to go.

Robert L. Hetzel: Yeah. Chuck Colson, I think, was responsible for the July 1971. There was a leak from the White House that Arthur Burns wanted to—

Murray Weidenbaum: Oh, yeah. Oh, I could never forgive Chuck for that, knowing Arthur as well as I did. I mean that was one of the nastiest things.

Robert L. Hetzel: Why do you think, what was the point of that? What do you think?

Murray Weidenbaum: I think it cut the—undercut the--

Robert L. Hetzel: Just give him less credibility and, yeah. So he speaks less authoritatively. Yeah. Yeah. Well—

Murray Weidenbaum: But I hate to say, “Doing what comes naturally.” He’s a natural bastard. I don’t accuse anyone else in the administration. But none of my friends have gone to jail but he was a, Colson was just an SOB. But I don’t think he had any redeeming virtues. For Ehrlichman, Haldeman and a number of the others? Yeah. [00:28:31] complicated people.

Robert L. Hetzel: Well, Ehrlichman says in his diary that Nixon would make these outrageous demands at the end of the day. “Fire, you know, all the bureaucrats.” That kind of thing. And that he would just ignore them. And by the next day Nixon would have forgotten them. But Colson took them seriously and, you know, tried to do something.

Murray Weidenbaum: Well, just try to run up Ehrlichman. But that’s my interpretation.

Robert L. Hetzel: Yeah. I mean it’s, unfortunately, you know, what sort of the general public knows about this period is Nixon and Watergate. But you go back, and you look at the individuals in this administration. And, you know, a lot of them are around today, like Colin Powell and Dick Cheney and Donald Rumsfeld. And then, you know, a lot of them were around in the ‘80s, like George Schultz. It was really quite an extraordinary.

Murray Weidenbaum: Henry Kissinger.

Robert L. Hetzel: Yeah. It was really quite an extraordinary group of individuals.

Murray Weidenbaum: I have a picture when I was making my presentation on Revenue Sharing. I was at the Cabinet meeting and there was this thing around, not at the cabinet table. But around, you know, the outer circle. Pete Peterson, [00:29:55] just all sorts of, well, the future head of the EPA. It was a, people like Jim [unintelligible 00:30:06]. It was a talented bunch.

Robert L. Hetzel: So, I mean, the, the problems ultimately have to come back to Nixon. There were two things. One is that the problems that Nixon inherited were not problems you could solve on a political time schedule: that is inflation and Vietnam. You know, the solutions didn't fit neatly into some electoral cycle. And ultimately Nixon was opportunistic when it came to politics. He wanted to get re-elected. And so ultimately when Connally approached him and gave him a program for re-election in '72 that involved a wage and price controls and expansionary fiscal policy and jettisoning the idea of the balance, of the full employment and balance budget. You know, his kind of political instincts took over. Plus he would delegate.

Murray Weidenbaum: And Connally would laugh each time he came back from the White House. He'd go over there with the material that Nixon had requested, reporting on actions and different issues and all that. And he'd always come back with more assignments.

Robert L. Hetzel: But Connally—

Murray Weidenbaum: So he was far more than the questions that Nixon was tossing in. It wasn't the job purview of the Secretary of Treasury, but a broader domestic policy focus, which Connally was pleased to take on.

Robert L. Hetzel: Well, on domestic issues, Nixon tended to delegate, except at extreme cases where an important decision had to be made. And Connally accumulated power. But Connally in turn had a problem. He didn't delegate well himself. So I had the feeling, this is just an impression, that one reason he resigned in '71 is that he burned out. He kept accumulating more and more responsibility, but didn't himself delegate to a couple of people.

Murray Weidenbaum: I left before Connally did, so I can't really tell you why he left. But I'll say this. To my pleasant surprise, he did not bring in—he had one personal assistant who is not, no mover and shaker. He was just a personal assistant, literally. He used the senior management that David Kennedy brought in. He'd utilize it effectively, but a lot harder. Why he sure did, because Connally [unintelligible 00:33:01]. I had a modest amount of direct contact with Kennedy. Connally was [unintelligible 00:33:09], and I know he relied on Charlie Walker and Paul Volcker heavily. And on Jean Rosedes [phonetic] who was, head

of the legal enforcement area. He was very much involved with all of the Kennedy, David Kennedy appointees and didn't bring any of his own people in. Which maybe helps explain why he didn't delegate that much. He just wanted his people.

Robert L. Hetzel: And so that suggested he didn't intend to stay that long? That he didn't try to remake?

Murray Weidenbaum: *The Washington Post*, which was no friend of the Nixon Administration, had an article, which they said the strongest sub-cabinet group in the Nixon Administration is in the Treasury Department. So they didn't—well, I think Paul Volcker described David Kennedy as the Chairman of the Board. He presided over the Treasury. He didn't really run the Treasury. As a result, he did uniformly bring in good people and gave them full opportunities so that Connally inherited a very strong Treasury team.

Robert L. Hetzel: Volcker got along well with Connally.

Murray Weidenbaum: It took a while to develop that relationship. In fact, most of us had the [unintelligible 00:34:50]. Johnny was, we're here. Paul played the proxy. He wasn't sure whether he wanted to stay on. And Connally had to coax him.

Robert L. Hetzel: And that wasn't just strategic? I mean that's Paul Volcker. He's his own man or? I mean he could have gone back to Chase, I guess.

Murray Weidenbaum: Oh, yeah. George, I remember George Champagne [phonetic] saying that Chase lost a fine mind when Paul left. Oh, yeah. I don't know. But Paul's a man—well, everyone's got their limits. But Paul's a man of integrity.

Robert L. Hetzel: You mean he, he was a, but when, he could have gone to Chase and run the bank ultimately, but he decided to come to Washington and work for less money and less glamour. Why? Because he, it was the thing about government?

Murray Weidenbaum: I came back to the Treasury on a visit. I think it was part of it, I think consulting groups for the Secretary or something. I was there for a visit. And I stuck my head in Volcker's office. And Paul said, "Well, how you doing?" And at that point I was heavily on the lecture circuit. I found that's the neatest way, I did the same thing, frankly, when I left the Reagan Administration. You don't, if you, you know, you play it straight. You go into a hole when you're in one of those positions financially. How do you get out of the hole? Well, I found the lecture circuit the most effective way. You're not beholden to anyone, and one night stands and you can, you know, say what you feel like saying. And that was, you know, I guess talked a bit about the money. And then Paul admonished me. "Murray, all I see is dollar signs dancing in your eyes. Remember, we were trained for the public service." I never forgot that.

Robert L. Hetzel: Yeah. An unusual guy. He had a child with a handicap, too, didn't he?

Murray Weidenbaum: Yes, and a wife has since died with severe—

Robert L. Hetzel: And that was arthritis that she—

Murray Weidenbaum: But really severe. She had great, what is that, great, had great difficulty getting around. So she stayed in New York when he, I teased him about bivouacking. He had a rent control apartment in DC, the disreputable place as far as I recall. And he'd commute. And that was every week. And so that, you'd have to have yen for the public service. To give up big bucks and put yourself in that kind of position.

Robert L. Hetzel: You know, I had some indirect contact with him since he was Chairman when I was here at Richmond, although I unfortunately never saw him in an FOMC meeting. But he was personally a very unassuming person. He really didn't care about clothes and sort of flashy things.

Murray Weidenbaum: Well that's for sure. Although he had a standard uniform, which Bruce and I sort of instinctively copied. And Walker would tease us about being undertakers because he'd always come in with a black suit and black tie and black shoes. So usually Bruce and I did the same. You know Walker with a flamboyant Texas dress. But this was about the—oh, he'd come in with the undertakers.

Robert L. Hetzel: What about Connally? Connally's kind of always had his, as opposed to Kennedy, always had his eye on the political implications of issues. Apparently Nixon thought Connally would, could be the next vice president and succeeding Nixon was very taken with Connally.

Murray Weidenbaum: Well, Connally, first of all, he had a fine mind. You didn't have to explain anything to him twice. He had a close to a photographic memory. I used to use flipcharts back then. I went through a flipchart. It had some numbers on it. A week later he'd recall all of the numbers on the damn chart. He also had a gift for understanding politicians. Many times I would, sat next to him while he was testifying. One of my tasks was to make some notes and offer [unintelligible 00:40:10], make a suggestion on what to say. More often than not, he'd give a very different response and was quite clear. He wasn't responding to the formal question. He either intuitively or from other ways, he understood what was motivating the Senator or the Congressman, what was really bugging them. He'd answer them and really relate to them. That made him very effective. I wouldn't call that politics or what. I don't know. But he had a real feel for the underlying concerns of the key Congressional leaders.

Robert L. Hetzel: Yeah. Oh, he was very capable. It was a tragedy that he got involved in this milk [00:41:04] scandal and all that stuff. That was really not—

Murray Weidenbaum: Oh, well, he was fairly wealthy. He's a poor millionaire by Texas standards. He was a wealthy guy. And not only that, but he was not a chintzy guy. I had more breakfasts that he paid for than, until I got to the Reagan Administration. So, I mean, he was a very generous person. He was a very generous guy. It came as a shocker. And of course he was held [00:41:40] innocent, but he never really recovered from that.

Robert L. Hetzel: Yeah. He was on the lecture circuit before he became Secretary of Treasury. And so he had a good sense of the businessmen. And the businessmen, I can remember this period. I'm just old enough to do it. Like our directors at the bank, they were very, very much of the view that labor unions with their militant demands were forcing up costs. And something had to be done about controlling labor. And there was all the business with the construction industry and the raises. And the business community really wanted wage controls and price controls were something they were willing to accept.

Murray Weidenbaum: Oh, wait a second. I remember we had some cynical comments during that period. The unions wanted price controls and the companies wanted wage controls.

Robert L. Hetzel: Yes. But the unions also wanted protectionism because this was the time the dollar was overvalued and imports were increasing. Japanese auto imports. And so Connally put together a program, which gave the businessmen wage controls. And if you have wage controls, you've got to have price controls as an afterthought. But then he gave the, he gave labor the import surcharge, and the depreciation of the dollar, which was to stimulate exports and provide jobs. So he combined the, in a way the international situation wasn't that pressing. Other countries could always float their currencies against the U.S. and revalue if they didn't like buying all our dollars. But Connally's political genius was to take the international and domestic and package them together into one big program of apparently controlling inflation and producing jobs. You talked about, you know, making this 1065 kind of work in a way that gave you real output and growth and reduction and unemployment rather than inflation. Well, Connally did that. Not in a sustainable way, but in a way that worked for a year and that was politically dynamite.

Murray Weidenbaum: That's right. By the way, wage and price controls, I left the administration on August 15, 1971.

Robert L. Hetzel: Oh, that's not a hard date to remember. That was a Monday or a Sunday. That was the day the control.

Murray Weidenbaum: I think Sunday was the 17.

Robert L. Hetzel: Oh, okay. So 15 was the Friday.

Murray Weidenbaum: I left the Friday. As all these guys were going to Camp David, I was going to national airport. I had, that's a different story and nothing to do with the wage and price controls. My understanding is that when Schultz and Stein took over the administration, they realized that you couldn't just have a freeze. You had to follow on controls. But certainly I don't recall anything that Volcker and I, at least together, jointly wrote that talked about long-term controls. We talked about, you know, fabricated, a 90-day freeze to break inflationary expectations, period. Maybe that was too naïve.

Robert L. Hetzel: Right. Well, that was certain—I mean Schultz, as far as I can tell, Schultz was the only one who, until the end, you know, opposed the controls. But he went along with the idea that it would be a temporary freeze. But I think what happened was that they turned out to be a huge political success. Just enormous.

Murray Weidenbaum: I was cynical, the control, it's so popular to put controls on. It's also very popular to [00:45:55] get rid of them.

Robert L. Hetzel: Well, but initially then you had the problem that if you get rid of them, you have this bulge in prices. And Schultz, being the practical person he was, was always very sensitive to that. So when it did become possible to take them off, then he was, his policy was to take them off or, you know, sort of bit-by-bit so you didn't get a bulge. Ultimately you did get that bulge in 1974. But having put them on, they were very hard, they were much harder than anybody thought to take off. Partly because they were so popular politically and partly because of the, you know, you get this bulge when they come off. Yeah. Let me ask you about the 1065. That came, that came from Schultz and?

Murray Weidenbaum: Those are Art Laffer's creation. 1065.

Robert L. Hetzel: Well, the 1060—well, let me go back to the 1970 Congressional Elections. The Nixon people didn't do so well. I don't remember the details, but they did not gain control of Congress. They lost some governorships. And Nixon had campaigned primarily on social issues against descent and drugs and Vietnam War protestors and so on. And after that it became clear—

[00:47:23]

[END OF TAPE 112, SIDE A]

[BEGINNING OF TAPE 112, SIDE B]

Robert L. Hetzel: ...that would do that as long as inflation continued under control. That was the number that would give you 4.5% unemployment by summer of '72. Does that sound right?

Murray Weidenbaum: That's more detail than I recollect without checking my files, frankly.

Robert L. Hetzel: So, but that came—

Murray Weidenbaum: That sounds right. But, yeah.

Robert L. Hetzel: Yeah. Well, that number came, that came from OMB. That didn't come from the Council or from—

Murray Weidenbaum: 1065. That was Art Laffer's number.

Robert L. Hetzel: Yeah. And so, but once you had that number, then, you know, the administration was committed to do whatever it took. The emphasis was going to be on expanding up. But it ultimately, you know, especially as you say in spring and early summer of '71 when the inflation numbers were coming in badly and also bond rates were rising, Burns became very nervous about high money growth because it was clear that the financial markets thought monetary policy was expansionary. Price and wage controls were the, sort of the only way out. You were backed into that corner.

Murray Weidenbaum: That was the feeling we had. Yeah. But I would still make the distinction between the freeze and controls.

Robert L. Hetzel: Yeah. When you left, did then, the announcement, the Camp David announcement, the wage in price controls that was all a big surprise for you. You didn't—

Murray Weidenbaum: Once Connally, I submitted my resignation to the President to John. And he said, but he was very reluctant to pass it on to the President. In fact, I had to blast it in the lease saying, just, I remember saying in the memo, "The movers arrive at this date. The Weidenbaum family departs to the airport on this day." Or actually my wife had already, my wife had taken the car. "My wife and children would get in the car and drive to St. Louis on this date, and I have airline tickets for that date." And the next morning he called me and he said, "The President reluctantly accepted your resignation." I got a lovely letter from Nixon.

Robert L. Hetzel: Oh, well, he was a very unusual person. The people you talk to admire him because he was intellectual. He was a very, everybody says he was very smart. And in very small groups and one-on-one, he was comfortable.

Murray Weidenbaum: That's right. Reagan was the same man in public and in private. There were two Nixon's. There was the cheap politician in public, but there was an excellent mind in private. Although always kind of, you know, a first rate mind. But one of the smartest guys to be in the Presidency in my times, I'm convinced. I always felt that way. But there was always a devious streak so that you didn't go from A to B. You went from A to X to Y to Z to B.

Robert L. Hetzel: Well, I mean, ultimately he lacked a moral compass and that was, if he had just sort of a sense of right and wrong, then he would have still been president and he would have maybe not lost Vietnam and it would have been very different.

Murray Weidenbaum: There was another, I didn't see that side of him. Okay? But it struck me afterwards that his, and part of his undoing was he was, in a sense, when it really got down to it, a more loyal, a more considerate guy than genial Eisenhower. When Sherman Adams, who was his devoted, effective Chief of Staff got caught with gold fines [unintelligible 00:04:38] that fur coat, I fired him on the spot. He didn't feel any loyalty to Adams. He very properly understood that in the presidency loyalty only goes one way. He had, and he protected the presidency. If Nixon had fired Ehrlichman and Haldeman when he learned about the break-in, it was clear that [00:52:31] he was not involved with the break-in. Would he have saved the presidency? If he had been in, as tough and as cold, down deep Ike was cold and tough. And down deep Nixon wasn't cold and tough.

Robert L. Hetzel: Yeah. That's an interesting observation. I've heard stories about when he decided to fire Bob Mayo from Bureau of the Budget. He couldn't bear to call him and do it. So he just kind of put it off and they finally found another job for him. He became head of the Federal Reserve Bank of Chicago. But it was a, it was a difficult, it was a difficult thing for Nixon. And ordinarily you don't think of presidents, and Lyndon Johnson or whatever as real caring, having that dimension. So it's an odd—

Murray Weidenbaum: [unintelligible 00:53:36] the Lyndon Johnson Administration, I can now confess. Yeah. No. Most presidents delegate unpleasant tasks.

Robert L. Hetzel: You were in the Treasury in the Johnson Administration?

Murray Weidenbaum: No, I was Staff Director of a Presidential Commission. Completely housed in the Council of Economic Advisors. The Economic Commission, The President's Commission on the Economics of the Defense of Disarmament and—

Robert L. Hetzel: That must have been an interesting—

Murray Weidenbaum: That was a fascinating experience. But that's a different world.

Robert L. Hetzel: What years was that?

Murray Weidenbaum: Oh, that was the summer of '64, during the year election campaign. I recall someone from the [00:54:24] Johnson campaign coming into my office asking for some help on the campaign. And I told them dumbly I wouldn't do it. And he made it clear that he'd go to Heller and he'd have my job. I just shrugged my shoulders. Of course if he went to Heller, Walter never mentioned it because that would [unintelligible 00:54:52] Walter was not open to that kind of obvious political pressure, whether you agree with his views or not. Heller was just a fine person. In fact, I locked horns with John Connally at an open meeting of the Treasury. Not his daily small senior management meeting, but, like, 30, 40 people. And Walt was saying something in public about the Nixon economic program, which Connally wanted me to go and attack Heller. And I said, "No. I'm not going to do that." He said, "What's the matter? Are you scared or something?" And I said, "No. I happen think that he's technically right. So I'm not going to do that." And he glared at me I mean, you know, it was one of those times where you're obviously tested. But it got very uncomfortable and then went on to other items. By the way, Connally came into my office, didn't summon me, Connally came into my office after the meeting saying, "Gee, I guess I was too hard on you." I said, "Oh, that's okay." But it showed the kind of relationship we had. I said, "But you owe me a buck." "Oh, what do you mean?" I said, "In the old days if you could stay in the ring with the champ for a round, you got yourself a buck."

Robert L. Hetzel: That's funny.

Murray Weidenbaum: It showed the relationship that we had.

Robert L. Hetzel: Did you have any feelings at this time about what was motivating Arthur Burns over at the Fed? Did, he had a very complicated on-and-off relationship with administration before August 15.

Murray Weidenbaum: Well, first of all, you know, he and Nixon had a long relationship going back to the Eisenhower Administration. And Nixon made it clear he thought that if they had listened to Burns, the economy would have been in better shape. He might have been president sooner. I recall hearing from Arthur a time where he had a meeting with the President. And he was leaving and there was something he forgot to tell him. And he turned around and Haldeman stood in front of him and said "Your time with the President is over." He wouldn't let him go back to the Oval Office and say something. I couldn't picture Reagan operating that way. I mean he didn't just waltz into Reagan's office. But, you know, I mean, if he wanted to turn around and talk to him, he turned around and talked to him. So to treat the Chairman of the [00:58:02] Fed that way. Wow. It gave you a feeling as to how Haldeman ran the White House.

Robert L. Hetzel: But Burns thought that Nixon needed him exactly for that reason. He didn't trust Haldeman and Ehrlichman. He felt like, like Nixon continued to need him as an advisor. And that influenced, I mean that it—I don't want to say it directly influenced monetary policy. But Burns was always uncomfortable being on the outs with the Administration. When he disagreed with something he would go public and criticize the Administration. And he was the earliest, strongest advocate of incomes policy, although he was always vague about what that, what that meant. So he would go public in his criticisms. But he always, you'd get the feeling he always really wanted to kind of work with Nixon rather than, you know, independently from him.

Murray Weidenbaum: And he, well, he considered Nixon—I doubt if it was reciprocated. But he considered Nixon and old friend and he very much wanted him to succeed.

Robert L. Hetzel: Well, he thought the nation was in crisis and it needed strong leadership. And Nixon could provide it. And he thought strong leadership required a good counselor to the President, and Burns was no modest person. He thought with his experience going back to Eisenhower he could provide that advice. And so Burns' ambitions extended far beyond monetary policy. He always wanted to be involved in fiscal policy. And of course once you had the controls, Burns very much believed in the wage guidelines. And so for him it was always important to be part of the administration so he could be an influence on how the wage guidelines were set. He wanted them set, you know, consistent with no wage inflation. And he thought, and no price inflation.

Murray Weidenbaum: Let me give you, not a competing, but maybe a complementary explanation. Unlike Volcker, for example, who—or Bill Martin. Both Paul Volcker and Bill Martin were people a strong finance background. Burns really didn't have a strong finance background. And Burns, going back to Burns and Mitchell and the work at the National Bureau, this is more the real economy than the financial economy. So his, the depth of his knowledge made him greater in the non-financial area, not monetary policy area.

Robert L. Hetzel: It's interesting you should say that because a number of people have made the same point. Off the top of my head I think I talked to Raymond Saulnier and the Paul McCracken and they made the same point that all his work was on the real side of the economy.

Murray Weidenbaum: And Steve and Paul obviously [01:01:23], worked with him a lot closer than I did. Oh, I was very friendly with him when, not only during that period but especially when he went to AEI. I spent a sabbatical at AEI. So.

Robert L. Hetzel: That's interesting. Burns never, he never, he was not a modest person. I don't think he died thinking the Fed had much to do with the inflation of the 1970s. He never really thought, he always thought of himself as the country's premier inflation fighter. Would you agree with that?

Murray Weidenbaum: Yeah.

Robert L. Hetzel: It wasn't that the Fed couldn't control inflation. It's just that you'd get so much unemployment that it would be unacceptable socially. There'd be riots in the street. And so he, I think he really thought that he was, he could walk that line between allowing enough inflation.

Murray Weidenbaum: He did the best he could. Yeah.

Robert L. Hetzel: Yeah. And then he just got pushed over, you know, by all these forces. And I think you're right. That had to have come in part from, you know, a combination of things. One is that his work was always with the real sector. And also he was, he sat on lots of boards of businesses. And he thought he had, he could get into the psychology of the businessmen. And he himself, when it came to policy issues, a lot of his ideas really were sort of the ideas of the businessmen. Inflation came from cost-push or from government budget deficits. And if he could kind of get the confidence of the businessmen that his costs were going to be controlled, businessmen would invest and you'd have a boom and it would be a non-inflationary boom and—

Murray Weidenbaum: Well, you may recall the earlier debates about measurement without theory.

Robert L. Hetzel: Oh, sure. Sure.

Murray Weidenbaum: Well, Burns had a view of how the economy worked. But it wasn't based on the theoretical construct.

Robert L. Hetzel: Right. And once you got inflation, then he couldn't go back and, of course, I mean he wasn't alone. Most of the profession went with him. But his statement that the laws of economics aren't working. He, you know—

Murray Weidenbaum: I hadn't heard that in a long time. But, yeah.

Robert L. Hetzel: Well, that was in July of '71. That's what apparently kicked off the Colson thing. But he didn't have a way of, you know, he looked for some, well, you know. If these empirical regularities are no longer working then the world must have changed. Not that I've got the wrong view of the world. The world has changed and how has it changed? Well, it's changed because labor has become more militant and you've got labor

unions. And that takes place in this general environment of the welfare state where government prevents the unemployment rate from rising. And so, you know, he had sort of an ad hoc explanation for what was, you know, fundamentally his own doing. Well, I don't know how far I can or should— [1:05:11]

[END OF RECORDING]