

*Murray Weidenbaum Center on the Economy,
Government, and Public Policy*

**ADVISING REAGAN:
Making Economic Policy, 1981-82**

by Murray Weidenbaum



A Memoir

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Washington University in St. Louis

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The Murray Weidenbaum Center on the Economy, Government, and Public Policy is a research center at Washington University in St. Louis that supports scholarly research, public programs, and other activities in public affairs. The Center sponsors both in-depth discussions of important policy issues and leading edge research in economics, political science, and public affairs. Funding for the Center (a 501(c)(3) organization) comes from foundations, businesses, private citizens, and its endowment. For more information on supporting the Center, contact Melinda Warren, Director of the Weidenbaum Center Forum.

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Forward

Murray Weidenbaum is one of America's treasures. He is a great friend. He also is a model for me and many others. Murray has dedicated himself to articulating and applying sound economic principles in both scholarly and governmental arenas. He always has done so with unmatched expertise, clarity, and grace.

Murray has written a beautiful memoir of his years in the administration of President Ronald Reagan. Murray served as President Reagan's first chairman of the Council of Economic Advisers and, after leaving that post in 1982, continued to serve on the President's Economic Policy Advisory Board. This is a wonderful personal account of his experience, one that shows Murray's commitment to public service and his great sense of humor.

This memoir hardly exhausts the story of Murray's public service. Throughout his career, Murray has advised presidents and other policy makers. Highlights include service as Assistant Secretary of the Treasury for Economic Policy in the Nixon administration, fiscal economist at the Bureau of the Budget in the Truman administration, and chair of the U.S. Trade Deficit Review Commission. Murray's talents have placed him in demand for the boards of corporations and think tanks and for speaking and writing on a wide range of public policy problems.

Moreover, Murray's public service extends to his written work. His insights fill the pages of eight books and hundreds of articles. His text, *Business and Government in the Global Marketplace*, is now in its seventh edition. *The Bamboo Network* was a finalist for the 1996 global business book of the year and *Small Wars, Big Defense* was the outstanding economics book of 1992. This body of work will inform students of public policy for decades to come.

For Murray and the Center, I thank Martin Anderson, his colleague from the Nixon and Reagan administrations and now at the Hoover Institution, for urging Murray to write this memoir. We also thank Christine Moseley of the Center staff for managing the project.

It is an honor to direct the research center created, nurtured, and now named after Murray. It is a special pleasure to play a small role in publishing this memoir.

Steven S. Smith, Director,
Weidenbaum Center on the Economy, Government, and Public Policy
and Kate M. Gregg Professor of Social Sciences
Washington University in St. Louis

ADVISING REAGAN: Making Economic Policy, 1981-82

by Murray Weidenbaum

Ronald Reagan was fond of quoting Thomas Carlyle, the 19th century British writer, who referred to economics as “the dismal science.” I have a picture with the President and Mrs. Reagan on which he added a teasing note thanking me for “explaining the ‘dismal science’ to Nancy.” Working for President Reagan turned out to be anything but dismal. This memoir on my White House experiences will substantiate that.

I write this with the clear knowledge that few if any decisions in government policy — be they labeled economic or social or foreign affairs — are made solely or even primarily on the basis of economic analysis or information from economists. Yet I also came away with the experience that most questions of governmental policymaking — especially those labeled “non-economic” — do contain important economic aspects and can involve economists in their solution.

As the old saying put it, “Economics is what economists do.” Based on my service as chairman of President Reagan’s Council of Economic Advisers from January 1981 to August 1982, I would conclude that the role varies substantially over time and that it is a changing blend of participation in policymaking and preaching economic doctrine, both within the government and to the public.

It would be pleasant to report that those who disagreed with me were generally wrong. If pressed, I might be willing to provide some

Murray Weidenbaum holds the Mallinckrodt Distinguished University Professorship at Washington University in St. Louis, where he also serves as honorary chairman of the Murray Weidenbaum Center on the Economy, Government, and Public Policy. He is indebted to Dr. Martin Anderson of the Hoover Institution of Stanford University for goading him into writing this memoir and for providing helpful comments on an early draft. Professor Michael Boskin of Stanford University also provided useful suggestions.

factual buttressing for that position. Nevertheless, such self-serving statements would not be helpful to the reader. Instead, I have tried — albeit likely not with total success — to avoid writing the modern day equivalent of “An Impartial History of the Civil War as Reported by William Tecumseh Sherman.”

One procedural note: I kept no diary at the time and sent my official papers to the National Archives. As a result, what follows relies heavily on my memory as well as contemporaneous newspaper accounts, public documents, and the published writings of other participants.

In early January 1981, when rumors were circulating about my pending appointment as chairman of President Reagan’s Council of Economic Advisers, I described myself as “an applied, policy-oriented economist” who advocated a three-pronged approach to dealing with the economy’s problems: tax cuts, spending cuts, and regulatory reform.¹ That turned out to be one of my better forecasts of future public policy (as well as my own role).

I expected that I might be asked to serve in the new administration in some capacity. I had had an active role in both the 1980 presidential election campaign and in the transition period between the November election and the President’s inauguration.

As a practical matter, I expected that I might be asked to serve in the new administration in some capacity. I had had an active role in both the 1980 presidential election campaign and in the transition period between the November election and the President’s inauguration on January 21, 1981. During the campaign, I chaired a small advisory committee on regulatory reform that provided ideas and advice and I also did some chores including answering a bit of the voluminous correspondence the candidate was receiving. During the period between the November election and the January inauguration, I chaired a larger and more influential transition task force on government regulation. That was a high-powered group. Members included future Supreme Court Justice Antonin Scalia, future budget director James Miller, future Solicitor General Charles Fried, future Nobel laureate James Buchanan,

and two members who would serve on the Council of Economic Advisers — William Niskanen and Thomas Moore. Many of our recommendations were implemented by the incoming administration.²

I also participated in the key policy group, the Coordinating Committee on Economic Policy (chaired by former Secretary of the Treasury — and future Secretary of State — George Shultz).

Soon after the 1980 election, the Coordinating Committee met in Los Angeles for three days (November 14-16) to put together a comprehensive economic strategy for consideration by the President-elect. The committee report covered budget, tax, regulatory, monetary, and energy policies.³ To my pleasant surprise, Governor Reagan spent the full third day with us going over the details of our recommendations (I had expected that, after thanking us for our work, he would hand the two big loose-leaf books to an assistant and leave the meeting). Each member of the committee had the opportunity to interact directly with the President-elect. In this first encounter, I quickly realized that, in addition to being a well-known movie actor, for eight years Mr. Reagan had been the successful governor of the nation's most populous state.

During a break in the three-day meeting, a member of the transition team told me that they would like me to join the incoming administration. Having already served in Washington on several previous occasions, I replied that the election of Ronald Reagan was itself adequate reward for my endeavors. When he persisted, I indicated that I would be interested in being chairman of the Council of Economic Advisers (CEA). The response was to mention several openings of "real power" such as Deputy Secretary of several key departments. When it became clear that I "just" wanted the CEA slot, he said OK and I returned to the meeting. After that, I was in close touch with an old friend who had been heavily involved in the campaign, Martin Anderson. He kept me informed of developments on the personnel front.

On the day before the inauguration, I met with Ronald Reagan in the Blair House (he was using the facility located across the street from the White House for distinguished visitors). He offered me the CEA post and I quickly accepted.

Joining the Reagan Administration

On the morning of January 23, President Reagan formally presented me to the Cabinet and, as I would in the future, I took a chair next to now domestic policy adviser Martin Anderson (see photo). Later that morning, the President introduced me to the Washington press corps as his CEA chairman. He went on to say, “He’s one of the country’s most distinguished economists . . . he had advised me economically for over five years. Now, a good share of that time he didn’t know he was advising me, but I was following his writings and his utterances and many times referred to them in my own weekly radio broadcasts . . . I’m looking forward with great eagerness to having him now as my chief Economic Adviser and the Chairman of the Economic Council.”⁴

It was a great way for someone who started as a peon in the Truman Budget Bureau to return to Washington. It particularly was an exciting time to join the President’s staff. As one experienced Washington reporter wrote, “Economic Problems Dominate Activities of New President.”⁵

Later that day, I joined the President and other key administration officials in lunching with Paul Volcker, the chairman of the Federal Reserve System. Much of the initial discussion was social, focusing especially on Volcker’s love of fishing. After a while, I broke the ice by saying something like, “I hope it’s OK to talk a bit about monetary policy.”

As an old Washington hand, I had learned how to entertain tricky questions, rather than directly answering them.

There was no formal agenda. However, I helped steer the discussion to cover the notion that the independence of the Federal Reserve System was important to the administration. I felt impelled to do that to end what the *New York Times* called “. . . a long period of political sniping between Mr. Volcker and the Reagan camp.”⁶

In the early afternoon, I held my first White House press conference. Early on, I was asked about the meeting with Volcker. Using standard Washington jargon, I described it as “a very useful, constructive undertaking in which the President reaffirmed his strong commit-



Courtesy Ronald Reagan Library

President Reagan presenting his CEA chairman to the Cabinet.

ment to the independence of the Federal Reserve System.” I took pains to underscore the positive nature of the meeting. I also reported that the meeting produced “a strong concurrence of viewpoints on the need for expenditure restraint to reduce underlying inflation.”⁷

As an old Washington hand, I had learned how to entertain tricky questions, rather than directly answering them (prior to my first Washington press conference in 1969, a veteran D.C. journalist advised me that there were no presumptuous questions, only presumptuous answers). When asked about any discussion of interest rates, I responded, “I wouldn’t want to bore you with those details.” Experienced Washington reporters did not expect me to provide a more specific answer, but there is no harm in their trying.

In response to an implicit criticism of President Reagan for not being able to find his own checkbook, I got a laugh by stating (quite accurately) that I personally delegated the task to my wife. Later during the press session, I was asked why my appointment was not made earlier. I used a response suggested by press secretary James Brady: it took a considerable amount of time for the President to select handsome Republican economists (the official transcript follows

with the word “laughter”).

When pressed for details about the impending budget cuts, I quoted President Harry Truman, “There isn’t a budget that can’t be cut,” and noted that the Carter Administration bequeathed a budget that surely could be cut. I concluded the press conference with a statement that turned out to be a fairly good description of my agenda for the period ahead:

This Administration is truly embarked on a long-term effort to reduce the size and burden of government in this country in all of its dimensions — taxes, expenditures, and regulation — and that will free up the energies of the private sector to once again become the major engine of economic growth and progress.⁸

I believe that I spent most of the rest of the day at a meeting on developing the administration’s economic forecast (more about that a little later). The next day, January 24, the White House announced a “high level” three-man Budget Working Group to develop major reductions in federal spending. This was clearly going to be an important part of the Reagan Administration’s early activity. I was appointed to the group along with Martin Anderson and budget director David Stockman (who served as chairman). As someone whose initial Washington experience was with the old Budget Bureau, this new assignment was literally a labor of love.

The meetings of the Budget Working Group and our recommendations to the President were often the occasion for making key decisions on many issues facing the new administration. The agenda ranged from the size of military appropriations to the magnitude of foreign aid to the composition of business subsidies. Marty and I quickly hit it off with Dave, who later on wrote, “Marty Anderson and Murray Weidenbaum had been splendid and constant allies in the cutting room. They knew an unjustified and wasteful economic subsidy when they saw one.”⁹

In my public description of our effort, I frequently cited the statement of a former budget director, “Good budgeting is the uniform distribution of dissatisfaction.” Anderson, in turn, referred to the working group as “a hanging jury” and he meant it as a compliment.¹⁰ About that time, the *New York Times* quoted me as saying that I was “a dues-paying member of the Dave Stockman fan club.”¹¹



Courtesy Ronald Reagan Library

The Economic Team: (l to r) Murray Weidenbaum, President Ronald Reagan, Donald Regan, and David Stockman in 1981.

The Reagan Administration maintained a fast pace in establishing the institutions for policymaking. On January 27, a special six-member task force on the problems facing the automobile industry was set up. The Secretary of Transportation, Drew Lewis, served as chairman. Along with Secretary of the Treasury Donald Regan and three other department heads, I was appointed a member. Despite the chairman's initial statement about ours being a free trade administration, the task force was the occasion for an early and tough battle on protectionism.

I made no bones — in public or in private — about my firm opposition to restraints on imports, automobile or otherwise. When *Barron's* asked me for an alternative approach, I took a hard line:

It's not the government's fault that the productivity in the Japanese auto industry is much higher than in the American auto industry. That's a problem to be faced by the industry.¹²

The former business executives on the committee responded that they shared my views on free trade but that the situation did not justify a

“do nothing” response. Thus, we free traders did not really prevail. The outcome was a form of kabuki dance at the end of which the Japanese adopted “voluntary” restraints on imports to the United States by the major Japanese auto manufacturers. However, I used the deliberations of the task force to push successfully for giving special emphasis to reducing the regulatory burdens imposed on the automobile industry. This was a common high ground that obtained unanimous support and a variety of regulatory reforms ensued.

The next day, January 28, nearly 200 “midnight regulations” promulgated by the outgoing Carter Administration were suspended for 60 days. A one-year moratorium on new regulations was a key recommendation of our transition task force on regulatory reform and this was a gratifying initial response. To review these and other regulatory issues, the President created a new task force on regulatory relief, chaired by Vice President George H. W. Bush; the CEA chairman was an active member (see photo). The staff director was James Miller whom I had recommended to the transition staff when I indicated that I did not want to be the regulatory czar.

On the same day, the first formal briefing on the new Reagan budget took place in the Oval Office with President Reagan, Dave Stockman, Treasury Secretary Don Regan, Marty Anderson, and me. The pace was hectic but, to put it mildly, exhilarating.

Developing the Administration’s Economic Forecast

No members of any presidential administration are always of one mind. From the outset, I seemed to be locked in combat with a combination of supply-siders and monetarists who had been working on developing the economic assumptions that would underlie the President’s new economic proposals. They were advocating a set of economic forecasts that I considered to be internally inconsistent as well as too optimistic. This was taken by them as my failure to believe in the President’s program. However, I did not view the issue in such theological terms.

OMB Director David Stockman described my entrance into the deliberations on the economic assumptions somewhat colorfully: “Weidenbaum was the picture of the rumpled economist. He had one virtue extremely uncommon among his breed: he spoke in short, English



Informal meeting with Vice President George Bush and Chief of Staff James Baker.

sentences.”¹³ Stockman also noted my initial reaction to the supply-side/monetarist consensus: “We’ll be the laughing stock of the world.”¹⁴ As he described the process, thus began a one-week march toward realism.

The administration’s supply-siders, at the Treasury and OMB, advocated forecasts of strong real growth — to show that the administration’s tax cuts were working. Simultaneously, the monetarists, mainly at Treasury, projected low inflation — to demonstrate the effectiveness of monetary restraint. In a strange alliance, the combined group agreed on projections of simultaneously very rapid growth and low inflation. In my view, the necessary monetary restraint was likely to generate a short decline in the economy before the economic benefits of the tax cuts became effective.

The driving force for a decision on the economic assumptions was the need to base the new budget proposals on an administration economic forecast. To break the deadlock, on February 7 Stockman and I jointly agreed on a set of numbers that we could live with but which pleased none of us. We made what Stockman later described — fairly and accurately — as “the worst possible bargain.”¹⁵

I agreed to keep the real growth rate “reasonably high” and he

went along with my relatively high inflation forecast; such a combination would minimize future budget deficits. When we subsequently presented the results to the forecasting group, I was quickly challenged about the model used. My response was to slap my belly and say, "It came right out of here." In Stockman's words, "Eventually it would become the belly-slap that was heard around the world"¹⁶ — a bit of overstatement, of course, but the point held.

Technically, one shortcoming of our numbers was apparent to careful analysts: the combination of high growth and high inflation implied an unusually large increase in velocity (the link between the money supply and the level of economic activity). I typically responded by attempting to finesse the question. Actually, the velocity of the money supply did rise during this period, but more modestly than was implied in our projections.

The record shows that the Federal Reserve's policy of monetary restraint — which the administration repeatedly endorsed — reduced inflation more rapidly than we had projected. Using the price index associated with the gross domestic product, the inflation rate declined from 9-1/2 percent in 1981 to 6 percent in 1982 and to 4 percent in 1983 (our original forecast for 1983 inflation was 6 percent). Real economic growth declined from 2-1/2 percent in 1981 to a negative 2 percent in 1982 before rebounding to 4-1/2 percent in 1983 (compared to our estimate of 5 percent for that year). Hindsight tells us that our forecasts were in the right direction, but won no awards for pinpoint accuracy (to state the matter rather generously).

Presentations, Testimony, and Speechifying

My various assignments from the President left little time to prepare for my testimony before the Senate Banking Committee, which was charged with recommending to the Senate whether or not I should be confirmed. Following standard procedures, I made a number of "courtesy" calls on members of the committee, giving them an opportunity to quiz me informally prior to the formal hearing. Because of my past activities in Washington, I frequently wound up introducing to the Senators the White House liaison who was assigned to squire me around Capitol Hill.

The pace of other activities prevented me from making the elabo-

rate preparations that customarily preceded the actual testimony. Nevertheless, the hearing was off to a good start because of very generous opening statements by the two Senators from Missouri. Democrat Thomas Eagleton began by describing me as “one of the stellar economists of our age.” Republican John Danforth responded by describing me as “a first-rate person, a first-rate mind.”¹⁷

I presented no opening statement and attended the February 5 hearing without staff or a pile of backup documents. I decided to live off the intellectual capital I had generated over the years. Then again, I may have been impelled to do so by the modest staff the CEA had available.

I truly believed that, if I did not know more about the details of economic policy than the members of the committee, I was the wrong person for the job. Not being distracted by a pile of papers on the table, I simply looked directly at each Senator as they took turns questioning me. Judging by the 95-0 vote confirming me, this relatively relaxed approach worked, at least for me.

I opposed both formal wage and price controls as well as government “jawboning” on wage and price decisions.

I used the occasion to make some basic points on public policy. The *Washington Post* noted that I linked the proposed tax cuts “more forcefully” with spending cuts than other administration economic officials. For me, it was not an either/or issue. The *Post* quoted me — quite accurately — as saying, “I see the compelling need for large across-the-board tax cuts . . . accompanied by a vigorous program of expenditure cuts.”¹⁸

Trying to avoid taking doctrinaire positions, I made it clear that I opposed restraints on international trade. Yet I warned that “free trade can’t be a one-way street.” I called attention to the trade barriers erected by other countries: “I don’t think we can blithely follow a position of free trade without encouraging our trading partners to do the same.”¹⁹

In addition, I opposed both formal wage and price controls as well as government “jawboning” on wage and price decisions. Concerning the idea of using jawboning, I noted that Samson was the last person to use that instrument with any effectiveness — but stopping short of my usual wisecrack that he used the jawbone of an ass. February 5 was

just the first of what seemed to be an endless array of appearances before a wide variety of House and Senate committees and subcommittees.²⁰

Not all of my presentations, public or private, were resounding successes. My talk the next day to the convention of the Consumer Federation of America, according to the *Washington Star*, “was received with less than overwhelming enthusiasm.” My opening gambit of addressing the audience as My Fellow Consumers brought “mostly stony silence.”²¹ I did receive a “little applause” when I assured the group that the Occupational Safety and Health Administration would not be dismantled.

As an indication of the hectic pace I was following, the CEA staff hosted a birthday party for me on February 11. The notice stated that my birthday actually was the previous day “*but he didn’t have time to celebrate!*” As I recall, the icing on the cake showed me on roller skates shuttling between the White House and the adjacent Executive Office Building (where the CEA was housed).

February 12, 1981 was another important day in the development of the Reagan economic program. The President, in a speech about the economy on February 5, had referred to a comprehensive audit of the nation’s economic condition. That assignment was a bit too political for the staff of the CEA (the economists were mainly academics appointed by my predecessor and were on temporary assignment finishing their terms of service). Under the circumstances, I did the audit myself. On February 12, the President released the *Audit of the U.S. Economy* in a record brief press conference of four minutes and then turned the podium over to me (see photo).

The *Audit* report took the form primarily of a historical chart book showing rising federal taxes as well as increasing government spending per household, growing business failures, expanding regulatory agencies, and the shift from a merchandise trade surplus to a deficit. The report noted that it had become convenient to blame the nation’s economic failings on factors beyond our control, such as world oil prices and poor harvests. I did not mince words: “Such assessments are deceiving. The basic source of most of our economic [problems] is the past misguided policies of government itself.”²²

The *Audit* concluded that the economic difficulties facing the na-



Courtesy Ronald Reagan Library

President Reagan presenting Weidenbaum to the press.

tion would become dramatically worse without “profound — even drastic — changes in Federal economic policies.” I was pleased that, in writing up the *Audit* report, the *New York Times* reported that it “bore a strong resemblance” to the President’s speech.²³ The *Audit* report was initially controversial but the controversy evaporated when attention shifted within a week to the President’s policy proposals.

In my opening statement at the February 12 press conference, I said that, although the economy in the past had suffered spells of high inflation or high unemployment, the unique aspect of the current situation was the simultaneous presence of both high inflation and high unemployment. Thus, a comprehensive solution aimed at the entire range of economic ills facing the nation was required. My intent was to set the groundwork for the President’s unveiling of his economic program the following week.

The reporters, of course, used the occasion of the press conference to try to get an advance reading of the economic forecasts that would accompany the President’s forthcoming economic message. A variety of rumors and numbers had surfaced while we were preparing the materials. The record shows that I engaged in a bit of verbal fencing:

“If I interpret the question as ‘Shall I scoop the President?’ I will frankly decline that opportunity.” I repeatedly stated that, when the numbers were officially released, the press would have adequate opportunity “at me.” That surely turned out to be the case.

On February 13, I had a rare disagreement with Dave Stockman, with whom I otherwise was working closely on the package of budget cuts. While I was preparing the basic economic section of the written version of the President’s economic program, he independently commissioned George Gilder, a well-known supply-side enthusiast, to write the introduction to the economic statement. I considered Gilder’s draft, which I dismissed as “just a supply-side primer,” not relevant to our effort.

The “White Paper” elaborated on what I was to call repeatedly the Four Pillars of President Reagan’s economic program: tax cuts, spending cuts, regulatory reform, and monetary restraint.

In its place, I wrote an explanation and justification of the Reagan economic program. The time remaining was short and I appreciated the assistance of then economic consultant Alan Greenspan in the effort (Greenspan had served as CEA chair in the Ford Administration). CEA consultant Nicholas Filippello and James Burnham, Assistant to the CEA chairman, also ably assisted in the task. We drew upon the preparatory work of George Shultz’s Coordinating Committee on Economic Policy. The resultant “White Paper” earned a compliment from Presidential Counselor Edwin Meese — to the effect that it was an outstanding work of economic advocacy. That, of course, was precisely my aim: not to give the nation a lesson in economics, but to advance the economic program of the President. Nevertheless, I was needled by columnists Rowland Evans and Robert Novak for eliminating any reference to the term “supply side.”²⁴

The “White Paper” elaborated on what I was to call repeatedly the Four Pillars of President Reagan’s economic program: tax cuts, spending cuts, regulatory reform, and monetary restraint. The four mechanisms were interrelated. The tax cuts were basic to achieving strong long-term economic growth; the spending cuts would help to offset any

inflationary consequences of the tax cuts; regulatory reform would aid in increasing the efficiency and productivity of the American economy while also helping to curtail costs. Monetary restraint was fundamental to squeezing out the escalating inflation that the nation was experiencing. The combination surely constituted an ambitious economic program and I was pleased that the CEA would be an active participant in the effort to carry out the President's program.

The process of preparing the speech that President Reagan was to give on February 18, unveiling his Economic Recovery Program, provided a keen insight into his working habits and relationships. To begin the process, the President gathered his speech writers, key White House assistants, and policy advisers. As a group, we discussed back and forth the key themes that he would cover. When he was satisfied that the basic points had been developed, the speech writers were charged with developing a rough draft. It was circulated for comment by the other members of the group — except for the President.

The revised draft was sent to the President for his review, with the understanding that, if he was not pleased with the product, the group would be reassembled to start over. However, his response was positive — in the form of a rewrite in the President's own handwriting. The typed version was reviewed at a session the President held in his private quarters (he loved to say he lived above the store).

President Reagan held the master copy and the group went over it paragraph by paragraph. On several occasions I questioned the accuracy of a statement. He never pulled rank. His response consistently was, "How do I make my point accurately?" This turned out to be one example of many of why Ronald Reagan did not have to command loyalty; he inspired it.

During this period, a quiet but important set of weekly policy meetings began. Following the custom in recent previous administrations of both parties, the "economic Troika" became active. During the Reagan Administration, the traditional threesome of the Treasury secretary, the OMB director, and the CEA chairman was joined by the President's domestic affairs adviser (initially, Martin Anderson, a professional economist).

As Anderson subsequently wrote, during the first year of the Reagan Administration, little happened in terms of economic policy that the Troika

plus one did not know and approve of. “Every major aspect of economic policy — taxes, spending, deficits, deregulation, economic forecasts, monetary policy — was discussed here before it went to the President.”²⁵ After the Troika meetings, Marty and I usually walked over together to the morning senior staff meeting in the White House, invariably arriving late.

The daily gathering of the White House senior staff constituted another strategic set of meetings. These sessions were an important communication device, providing a ready opportunity to raise issues and policy questions and to push along specific matters. For example, an administration position paper on trade policy had been drafted at one point, emphasizing a strong free trade orientation. Although substantive agreement had been reached by all relevant parties, the document itself was stuck in the White House paperflow. My merely noting the delay led to an on-the-spot decision to release this important document.

On a very different matter, one day the senior staff took up the congressional resolution to honor the late Raoul Wallenberg by conferring on him honorary U.S. citizenship. This was a rare action; the previous recipient, if I recall correctly, had been Winston Churchill. During World War II, Wallenberg was a Swedish representative to Hungary and, in that capacity, saved thousands of Jews from the death camps. For unexplained reasons, he subsequently disappeared in the Soviet prison system. James Baker, the chief of staff, who presided at the senior staff meetings, looked my way (I was the most senior member of the administration of the Jewish faith). I quickly nodded my agreement with the resolution and Baker announced that the President would be urged to sign the legislation — which he did.

On the evening of February 18, the President gave a major televised address unveiling his economic program. Simultaneously, the White House released our “White Paper” providing the rationale and backup numbers. During that period, Stockman, Regan, and I met with the President who gave us our marching orders: “OK, fellows, we’ve developed the program, now we have to go out and sell it.” The three of us spent the next several days briefing press, interest groups, senior members of Congress, and the nation’s governors (who happened to be meeting in Washington at the time).

For example, earlier in the day I gave a briefing at the State De-

partment to the ambassadors of the major industrialized nations. Most of the questions centered on the international effects of the President's proposals. I noted that a stronger U.S. economy, in addition to generally benefiting our trading partners, would make it easier to resist protectionist pressure. Judging by the internal departmental report on the meeting, the briefing was a success.

At a breakfast meeting in the White House the next day, Regan, Stockman, and I briefed the White House and economics press corps on the details of the President's economic program. Skepticism about the internal consistency of the economic projections was evident at that early stage of the public debate.

In retrospect, many of my briefings in the White House to various interest groups followed a fascinating if not humorous pattern (they did not strike me as funny at the time). Typically, I would make a short presentation to people representing business, labor, minorities, or local governments, etc. This was followed by often vigorous and occasionally hostile questions. At some point the President would join us. The tone of the meeting quickly changed. When he asked for questions, the typical response was to thank him for the visit and to toss a real softball. However, as soon as he left, the group would resume its tough questioning of me!

The most effective marketing of the Reagan economic program was performed by President Reagan himself.

The Times of London reported on one of my public press sessions at the time: "Under intense questioning, he admitted that he knew of no country where such a dramatic change in economic conditions had been achieved . . . 'Nobody has tried this supply-side approach this way. We are breaking new ground in the policy arena.'"²⁶ I described 1981 as the year when Americans have to take the "'rough medicine' of spending cuts and tight money and that, as the cuts went ahead, the economy would grow . . . We are breaking the back of inflationary expectations."²⁷

The most effective marketing of the Reagan economic program was performed by President Reagan himself. The lead editorial of the *Washington Star* on February 23, 1981 opened by quoting me as

describing the President as “The nation’s number one economic communicator.”²⁸ Indeed, he was — and that description quickly caught on.

Yet, far more fundamentally, Ronald Reagan and his ideas were the primary force in the Reagan Administration and constantly dominated our thoughts. My wife, Phyllis, provided a dramatic example in a contemporaneous interview:

Murray got out of the car, he had just come back from getting his yearly physical and his face was white. I thought, oh God, the doctor’s found something wrong and then I realized he’d heard about Reagan being shot.²⁹

Looking back, the President’s response to that unfortunate episode was a defining moment. When he was quoted as saying to Mrs. Reagan, “Sorry, honey, I forgot to duck,” he did more to reassure a shocked nation than all of the medical reports. In view of the seriousness of the event, Ronald Reagan surely demonstrated grace under the greatest of pressure.

The Day-to-Day Routine³⁰

Simultaneously with the development of a host of government policies, important structural changes were taking place inside the administration. Most of these actions reflected the collegial nature adopted by the Reagan White House. Some did not favor this approach. For example, former Secretary of the Treasury Donald Regan complained in his book, “To this day I never had so much as one minute alone with Ronald Reagan.”³¹ (When Regan subsequently became Chief of Staff to the President, that situation quickly changed. In retrospect, however, that was not a happy time for Don.) Personally, I liked a process whereby the President was presented with a variety of views, minimizing the likelihood of end runs by my colleagues in the administration (see photo). I also thought that the meetings at which Don Regan and I both briefed the President went quite well.

A key example of the collegiate nature of decisionmaking was the institution of Cabinet Councils to replace the host of interagency committees that typically had been organized by the White House in the past. Presidential counselor Edwin Meese was the guiding spirit for the establishment of these councils. The CEA chairman was an active member of three of those cabinet-level groups — Economic Affairs, Com-



Courtesy Ronald Reagan Library

President Reagan at a meeting with his economic policy officers.

merce and Trade, and Natural Resources and Environment. When my schedule permitted, I also attended the meetings of the other councils (Human Resources, Food and Agriculture, and Legal Policy). Members of the CEA and our senior staff served on the working groups and task forces set up by the various councils.

The Cabinet Council system ensured that the CEA was represented in the decision making apparatus that handled a host of issues — social security, foreign trade, regulation of financial institutions, transportation, environment, energy, agriculture, and many other areas. At key points, the President attended a Cabinet Council meeting and, at times, made a decision on the spot. At least in my time, the key role of the CEA was not to develop additional new programs, but to operate what my CEA colleague William Niskanen labeled “a damage limitation mechanism.” Thus, the CEA was expected to, and predictably did, oppose every proposal to subsidize some segment of the economy, or to shield a specific industry from competition. At times, a Cabinet member proposing an additional form of government intervention in the economy would start off by saying, “Mr. President, Murray will probably give you a different view, but . . .”

The effectiveness of the CEA on any specific issue depended on the cogency of our analysis, but only in part. For example, we won the battle to eliminate import restrictions on shoes, but lost the struggle to contain restrictions on imports of textiles. Was it coincidental that the Congressional delegation to the White House successfully urging textile quotas was led by Senator Strom Thurmond, chairman of the Judiciary Committee, who was diligently working for the approval of the President's nominations to the courts? In contrast, the unsuccessful shoe delegation was chaired by a prominent Northeastern liberal Democrat, Senator Edward Kennedy.

The CEA did not win all the battles, but the proponents of additional governmental involvement in the private sector knew that they would have to do battle. In certain instances — autos and maritime, for example — I was hampered by Presidential campaign commitments to aid those two sectors of the economy. However, I found myself grudgingly admiring a sitting President who took his campaign oratory seriously.

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The Cabinet Council on Economic Affairs was a forum in which I presented analyses of economic developments. Frequently, the President and Vice President attended, and my presentation would set off an informal discussion on economic policy generally. One administration wag parodied a presentation of mine in the form of a fictitious memo from “Murray Weidenbomber,” who talked about a “slowing up of the slowdown” and an “upturn of the downturn.” I like to believe, however, that my use of “economicese” was not quite as arcane as this parody might lead people to believe. But, then again . . .

Meetings, of course, are the basis, and bane, of a bureaucrat's existence (see table for an illustration). Surely, a major part of the CEA chairman's time is taken up by participating in meetings with other Cabinet-level officials. Some sessions were of vital importance. Defense spending furnished a good example of mixed results.

A Typical Washington Workday

- 7:45 a.m. Meet with CEA staff director on day's agenda.
- 8:00 a.m. Daily meeting of White House senior staff. Announce morning CPI release and answer questions on the economy.
- 8:45 a.m. Semi-weekly meeting of Cabinet Council on Economic Affairs (President attending). Make presentation on economic outlook. Answer questions on forecasts and policy. Comment on Treasury Department presentation on monetary policy.
- 9:50 a.m. Car to Capitol Hill. Review likely Congressional questions with CEA staff economist.
- 10:00 a.m. Testify on administration's economic policy before Senate Banking Committee. Afterwards, tape brief remarks for TV.
- 11:50 a.m. Car to next meeting. Return call from White House.
- 12:00 p.m. Address lunch meeting of National Convention of Financial Institutions. Hold impromptu press conference. Continue interview walking back to office.
- 2:00 p.m. Return urgent calls from press and interest groups. Review and sign key documents. Brief meeting with representatives of Hispanic groups.
- 3:00 p.m. Make presentation at the White House on administration's economic policy to delegation of local governmental officials. The President makes a brief appearance.
- 4:00 p.m. Meet at CEA with delegates of real estate and housing industry officials expressing concern over high interest rates (at request of Chairman of Senate Finance Committee).
- 4:40 p.m. Return urgent phone calls.
- 5:00 p.m. Meet with Economic Minister of Germany.
- 5:30 p.m. Edit memo to President on tomorrow's release on housing starts. Call Regan, Stockman, Volcker to alert them and discuss implications.
- 6:00 p.m. Chair meeting of Council of Economic Advisers to review work agenda and early planning of *Economic Report*.
- 6:30 p.m. Return remaining telephone calls. Talk with CEA staff director on way to next meeting.
- 7:00 p.m. Address dinner meeting of NAM Board of Directors.
- 10:00 p.m. Return to residence. Read cables and papers for tomorrow's meetings.

I quickly found myself waging a two-front war on the subject of military spending. Within the administration, I was consistently on the side of moderating the planned rapid growth of the military budget, notably sticking to the 5 percent annual real increase advocated by Governor Reagan in the 1980 campaign (of course, there were no doves in Ronald Reagan's administration). But — when faced with higher numbers from the Department of Defense — the President regularly took the position that he would never sacrifice national security for economic considerations. He tended to see the issue in either/or terms.

In public, I defended the non-inflationary nature of the military spending increases projected by the administration. I relied on the tight money policy of the Federal Reserve System (the Fed) to offset any adverse effects on the overall price level.³² This was a very controversial point among my fellow economists, especially those in the private sector. A bit of irony was involved. During the Vietnam War buildup in the 1960s, I earned some notoriety for identifying the inflationary impact of that rapid increase in military outlays. That inflationary impact was encouraged by the easy money policy that President Lyndon Johnson had urged upon the Federal Reserve. As I noted repeatedly in 1981, the difference this time was that the administration strongly supported the Fed's policy of monetary restraint.

In early May, I responded to critics by also noting that the 90 percent capacity utilization rate in 1965 was a sharp contrast to the more modest 80 percent then prevailing. Similarly, the 7 percent unemployment rate in 1981 was a vivid contrast to the 4-1/2 percent rate in 1965.³³ Modesty should prevent me — but it won't — from saying that I was correct both in 1965 and 1981.

As I frequently am fond of saying, issues of public policy are usually too complicated for a bumper sticker. For example, in one area of military policy I found myself strongly on the side of the Secretary of Defense. In 1981, the military services were experiencing considerable difficulty in meeting their personnel requirements. Questions were raised publicly about the return of the draft. In response, the President appointed a special Task Force on Military Manpower, chaired by Secretary Caspar Weinberger. As a member of the committee, I endorsed enthusiastically the proposals to maintain a voluntary military establishment by improving the compensation and living

conditions of the members of the armed forces. Indeed, the President approved our recommendations and Congress quickly enacted them.

Helped by an upturn in the economy in late 1982, the recruiting and retention problems of the military establishment quickly were solved. Although we had some tough disagreements, Cap Weinberger and I always maintained a very cordial relationship. Many years later he served — very constructively — on a think tank task force on the defense industry that I co-chaired. I cite this experience to my students as an example of the need to focus on issues, not personalities, in public policy disputes.

From the outset Paul Volcker and I strongly agreed on the need to tighten monetary policy as the main weapon against inflation, which was running at double digits at the beginning of the Reagan Administration.

There were other important dimensions to economic policy, notably monetary policy. For example, I regularly had a private breakfast meeting with Paul Volcker, the Fed chairman, and we were in touch on many other occasions. During the Nixon Administration, we had worked together at the Treasury (I formally reported to him), so there was a large amount of mutual trust and understanding.

From the outset we strongly agreed on the need to tighten monetary policy as the main weapon against inflation, which was running at double digits at the beginning of the Reagan Administration. Volcker and I worked up together the key monetary policy language in the February 18 economic white paper issued by the White House:

... the economic scenario [of the Reagan Administration] assumes that the growth rates of money and credit are steadily reduced from the 1980 levels to one-half of those levels by 1986.³⁴

The close relationship between monetary and fiscal policy was evident in those breakfast meetings. Paul would often begin by asking about the progress in cutting government spending. On occasion, he also would inquire about reforming burdensome government regulation. Invariably, we would discuss current monetary policy with the implicit

understanding that I would use my judgment in briefing the White House. In leak-prone Washington, the details of my meetings with Volcker were never leaked.

My public statements were strongly supportive of the Fed's actions. In early May 1981, the financial press reported "Wall Street jitters" in view of the tight money policy and impending tax cuts. My response was clear: "We support the [Federal Reserve] system's perseverance in restraining excessive money supply growth, notwithstanding any short-term repercussions on interest rates as financial markets adapt to the new policy environment."³⁵

The international aspects of economic policymaking can also be vital. A wide array of ambassadors and economic and finance ministers from other nations frequently came by my office for discussions ranging from the courtesy call to the substantive. On rare occasion, I would take the lead and contact an ambassador on an issue of mutual interest, notably in the trade area.

As chairman of the U.S. delegation to the Economic Policy Committee (EPC) of the Organization for Economic Cooperation and Development (OECD), I carried at times a significant representational load for what was a rather controversial set of policies. After I was elected chairman of the Economic Policy Committee, I had the opportunity to work with my counterparts in other countries to develop positions and draft communiqués with which we felt comfortable and which other nations would accept. Much of that material was used to prepare for the U.S. participation in the annual economic summit meetings of the heads of the major industrial nations.

Informally, the EPC chairmanship enabled me at key points to unruffle the feathers of foreign officials who had been upset by earlier visits by "harder line" American representatives. I recall specifically a meeting with Jacques Delors, the economics and finance minister of the new Mitterand Administration. I was asked by our embassy to do that because an earlier meeting with a senior U.S. government official apparently was too stiff and formal, with the American relying heavily on an interpreter. Under the circumstances, I began, in truly fractured French, by remarking how much I enjoyed meeting the representative of the French socialists in this magnificent palace of royalty (we met in his office at the Louvre). Laughing, he responded in equally fractured English

and we hit it off!

While I was in Paris for the OECD meetings, I took advantage of the opportunity to explain the Reagan economic program to European audiences. In a June 2, 1981 speech to the Institute Francais de Relations International (the equivalent of our Council on Foreign Relations), I presented the basic philosophy underlying our efforts:

If there is a consistent, overriding theme that is common to all of these proposals it is the compelling need to reduce the intrusion and power of government in the private sector of the economy . . . That, in turn, will enable the United States once again to rely . . . on the private sector as the primary engine of economic growth and progress.

At home, like virtually every other CEA chairman, I believed that it was vitally important to instruct policymakers as well as the public on the desirability of free and open trade. In a July 9, 1981 testimony to the Senate Banking Committee, I noted that the CEA had no particular constituency to represent — other than American consumers. I emphasized the point that any trade restraint to help a specific industry was a transfer of income and wealth from U.S. consumers — and also from U.S. workers and owners of businesses that would be harmed by higher costs and foreign retaliation.

By far some of the most dramatic meetings occurred when I testified before congressional committees, which was a frequent occurrence. It reached a point where the staff of the congressional Joint Economic Committee would tease me about the regularity of my appearances (of course, I never volunteered). On one such occasion I tried to position the administration above the continuing battle of monetarists, supply-siders, and traditional Keynesians: “To update Thomas Jefferson, we are all supply-siders, we are all monetarists. However, I went on to quote the great English neoclassical economist Alfred Marshall who taught us that there were two blades of the economic scissors: ‘supply and demand.’”³⁶

I developed that theme in more detail in other public presentations. For example, my June 9, 1981 address to the Gerald Loeb Awards Dinner (an occasion to honor economic journalists) described the economic foundation of the Reagan program as a “carefully designed blend” of several strands of contemporary conservative economic thinking. The

tax program was especially influenced by a supply-side approach; the monetary policy was couched essentially in monetarist terms, and the budgetary restraint effort was a mainstream conservative economic doctrine.

I took consistently strong positions supporting the administration's tax cut proposals as well as its advocacy of tough monetary restraint.

Such statements upset both the monetarists and the supply-siders who felt — with some justification — that my views were not firmly planted in either school of thought. Nevertheless, I took consistently strong positions supporting the administration's tax cut proposals as well as its advocacy of tough monetary restraint. On one occasion, I bluntly reiterated our commitment to multi-year tax reductions by stating that I would urge the President to veto a mere one-year tax cut.³⁷

Briefing the President

Of course, the direct contacts with the President are of very special importance. Because I took the role of trusted advisor very seriously, there are some matters that I will pass over. However, I will never forget my meeting with President Reagan on my first day on the job, when he reminded me that he had been an economics major at Eureka College. I recalled that incident frequently when he exercised his independent judgment on specific economic issues.

I also recall discussing the subject of gold with the President on several occasions. He did not hesitate to remind me that this was a matter that he had studied at some length. Indeed, during the campaign and earlier, he had indicated strong interest in restoring the gold standard. As a member of the Gold Commission (set up under a 1980 law), I told him that I would pursue the matter with an open mind. Subsequently, I reported to him that the majority of the Commission opposed a return to gold (see photo with President Reagan and President Assistant Michael Deaver). That disposed of the matter; he made no effort to overrule our decision. I see that episode as another example of the CEA's damage-limitation function or the avoidance of economic harm.

Another private conversation with the President did not relate to economics, but it gave me great insight into the character of this unusual man. He described to me a recent meeting with then-Israeli Prime Minister Menachim Begin. The Prime Minister assured the President that, in his forthcoming public appearances in the United States, he would not try to put pressure on the President to change his position on a specific matter. With evident sadness and some anger, the President told me how Begin failed to keep his promise. However, the incident did nothing to weaken President Reagan's support for the Jewish state. As in many other instances, the President was not deflected from his principled positions by personal pique — but he obviously had to get the matter off his chest!

Another important function of the CEA is to keep the President abreast of current economic developments. In addition to sending out a regular flow of analytic reports, the CEA chairman alerts the President to impending releases of economic news. Thus, the evening before the consumer price index for a given month is issued, the President has on his desk a memo from the chairman setting forth the highlights. At times he would call for amplification. We had a pleasant — but spirited and extended — difference of views on the matter of seasonally adjusted versus unadjusted reports on employment and unemployment. We ultimately resolved this matter by my providing him both sets of data, together with suitable caveats.

An insight into my approach to my job related to that less-than-momentous issue. After hearing me out fully, the President decided that he would use the unadjusted data in a speech. I then suggested a sentence to explain his position: “We do not live in a seasonally adjusted world.” He promptly inserted it into his speech.

Perhaps one of the most useful briefings was the one I gave the President as he was preparing for his first Economic Summit with foreign leaders. My presentation consisted solely of a series of flip charts on economic issues and accompanying oral commentary. (Other excellent presentations were made by Secretary of State Al Haig on foreign policy and Treasury Secretary Don Regan on international finance.) Despite the concerns of some observers as to the President's skimpy background on foreign affairs, his performance at the meetings received virtually universal praise. Of course, I was pleased at how things went.



Courtesy Ronald Reagan Library

Briefing the President on the work of the gold commission.

This was in striking contrast to the approach apparently followed sometime after I left the administration. It was reported that the President received two big fat briefing books to prepare him for a later Economic Summit. Apparently, he put them aside and watched some old movies. The press, of course, reported this in a manner adverse to the President. My reaction, in contrast, was anger toward the advisers who did not know how to communicate effectively with the President of the United States.

The CEA and Its Staff

As is customary with any change of administration, the incoming CEA chair inherits the professional people selected by his predecessors (the statistical and supporting staff are career employees). Those professionals are typically academics on an academic year leave of absence from a university or research institute. Thus, their appointments typically extend to the middle of the first year of the new administration. Although my predecessor Charles Schultze was a Democratic appointee, he also was an old friend and was helpful in the transition. Also assisting me was his staff director, Susan Irving, who stayed on for a short time to help me

settle in office.

In any event, I found without exception all of the “holdover” staff to be fine professional economists and ever-loyal secretaries, and as dedicated to the work of the Council as the new people that we brought in — which was a high standard. In a few cases, I extended their appointments beyond mid-year. As for the career staff, I had worked with some of them when I was a full-time consultant to the council in the summer of 1964, working especially with CEA member Gardner Ackley.

Early on I asked Dr. James Burnham, then an officer of Mellon Bank in Pittsburgh, to join me as the staff director and assistant to the chairman. Jim was a fine economist who received his Ph.D. at Washington University and who had suffered through at least one of my courses. Jim served from early February 1981 until the summer of 1982 when he was appointed as the U.S. Executive Director of the World Bank. I leaned heavily on Jim for advice as well as assistance.

Because of the delay in recruiting the other two members of the three-member CEA (a point to which I will return), I asked Dr. Nicholas Filippello, the chief economist of St. Louis-based Monsanto Company, to join me as an informal pinch-hit member of the council. At the outset we agreed that, to avoid any possible conflict of interest, he would deal exclusively with macroeconomic issues and scrupulously avoid any involvement in matters affecting any specific sector of business. Dr. Filippello served during February and March 1981. He helped to deal with the macroeconomic staffs of OMB and Treasury and many other issues. When his appointment ended, I asked Dr. James Smith of Union Carbide, another experienced business economist, to join the CEA staff temporarily and he performed similar functions. Both of these fine economists were extremely helpful at a time when I felt that I was virtually a one-man band.

My understanding with the White House on the selection of the two members of the CEA was clear. I was the recruiter and, of course, the White House would make the final determination because these were presidential appointments. Given my hectic schedule, it took a while for me to focus on this essential action. I proposed Dr. William Niskanen, an economics professor at UCLA and former Ford Motor Company chief economist, to be the “micro” member of the CEA. Bill had served on my transition task force on regulatory reform and I was well aware of

his strong analytical ability as well as professional independence and integrity (my understanding is that Ford fired him because he would not back off his free trade position). Bill was sworn in on June 12, 1981 and served until March 30, 1985.³⁸

It took a bit longer to select the “macro” member of the Council. It became clear that a monetarist-oriented economist was needed. Many of the macroeconomists that I approached did not meet this basic criterion. In the case of others, I was concerned how well we would work together. Ultimately, I proposed Professor Jerry Jordan of the University of New Mexico whom I first met when he served as senior vice president of the St. Louis Federal Reserve Bank. At the Bank, he had done some important and widely cited work in monetary economics. Jerry was sworn in on July 14, 1981 and served until July 31, 1982.

One of the most time-consuming and important parts of the Council’s work is preparing the annual Economic Report called for by the Employment Act of 1946. That is the law that established the CEA. Much of the late fall of 1981 and early winter of 1982 were devoted to that task, which involved virtually every member of the staff. There seemed to be a natural division of labor among the three members of the Council. Jerry took on the responsibility for the sections on monetary policy and international finance. Bill took the lead on the microeconomic portions and I focused on the tax, budget, and regulatory areas.

The final version, of course, was a group effort on the part of the three members of the Council, ably assisted by staff director Jim Burnham and the other members of the CEA professional staff (see appendix). I cannot report that the process was free of tension or disagreement. In retrospect, having the libertarian as well as the monetarist approaches to economic policy represented on the CEA, although it involved a fair amount of internal stress, was a key to the success in shifting national economic policy from a Keynesian to a mainstream conservative orientation.

Nevertheless, Reorganization Plan No. 1 of 1950 lodges all of the authority of the CEA in the chairman and I made some tough calls in the course of preparing the *Economic Report* which was issued in February 1982. Looking back, the 1982 *Economic Report* was a landmark in U.S. economic policy.

Several distinguished scholars commented on the *Report*. The

late Karl Brunner of the University of Rochester wrote that our report “articulated the crucial issues involving the Political Economy of Government . . .”³⁹ In a symposium published in the *Journal of Monetary Economics*, the late James Tobin of Yale and James Buchanan of George Mason University (both Nobel laureates) took very different positions on portions of the *Report*, especially Chapter 2, “Government and the Economy” (drafted by Paul Rubin, now of Emory University, under the supervision of Bill Niskanen).

In commenting on Chapter 2, Buchanan stated, “This chapter, standing alone, is of general and timeless value. It should be required reading for students in all curricula . . .”⁴⁰ In sharp contrast, Tobin found Chapter 2 “too shallow and vacuous” for anyone who has studied college economics and too turgid and opaque for anyone else.⁴¹

Tobin focused his comments on other parts of the 1982 *Report*, complimenting our CEA for maintaining the tradition of “professional competence and integrity” while criticizing especially the monetary and macro sections:

Once again the profession and the public gain by having the attention of able economists on the Council and its staff focused on pressing issues of public policy.⁴²

Tobin gave examples from the *Report* of “theoretically sound and empirically interesting analyses which let the chips fall where they may.” He cited the section of the tax chapter that reported that the administration’s tax incentives for investment were so generous in some cases that they resulted in effective tax rates that are negative. Tobin also cited the discussion of the defense buildup as “less sanguine” than usual administration statements about its economic effects.⁴³

That final point was elaborated in Emma Rothschild’s extended review of the 1982 *Report* in the *New York Review of Books*. She noted that the *Report* was “commendably outspoken in its account of military economics.”⁴⁴

Several years later, Tobin, who had served as a member of President Kennedy’s CEA, asked me to join him in putting together a volume he labeled, *Two Revolutions in Economic Policy*. As we wrote (following a Tobin draft), “The early 1960s and the early 1980s were both watersheds in federal economic policy.”⁴⁵ The bulk of the volume consisted of the CEA’s annual reports for 1962 and 1982. We each added

some notes and supplementary material, notably the economic White Paper of February 18, 1981.

The Inevitable Letdown

The heart of the Reagan economic program was adopted in 1981. The Congress enacted the President's proposed tax cuts and added an "indexing" provision to the personal income tax to eliminate the tendency of the Treasury to benefit from "inflation." The result was two-fold: to provide greater incentives and stimulus to the private sector and to reduce the future rise of federal revenues. On the spending side, Congress on balance approved the proposed increases in military spending but was a bit less responsive in approving the reductions in the growth of civilian spending. The result of the two actions was to increase the size of the budget deficits.

The most significant accomplishment in the regulatory area was so undramatic that it went unnoticed. During the Reagan presidency — and unlike other administrations in recent decades — no new regulatory agency was established nor was any major regulatory program substantially expanded. It was reminiscent of the Sherlock Holmes tale where the most significant clue was not action at all, but the fact that the dog did not bark.

During the Reagan presidency — and unlike other administrations in recent decades — no new regulatory agency was established nor was any major regulatory program substantially expanded.

Until the Mexican financial crisis in the summer of 1982, the Federal Reserve maintained the position of monetary restraint that the administration urged. In practice, the Fed's monetary policy was tighter than we had assumed because of the concern over the potential inflationary impacts of the rising budget deficit.

On balance, many of the changes in economic policy that I had hoped to see made were put into motion.

However, I devoted much of 1982 to a basically unsuccessful effort to achieve a key premise underlying the February 18, 1981 economic White Paper: to match the tax cuts with spending cuts. It had

been obvious from the outset that the President's heart was with cutting taxes. He did not need any lectures on the negative effects of high bracket income taxation. In our discussions, he would recall vividly the role of taxes in his Hollywood days. Sometime in the fall of the year, their accountants would tell the movie stars when they were hitting the top bracket (then over 90 percent). That was the signal not to take on any more assignments for the year. Thus President Reagan had a deep personal understanding of the disincentive effects of higher tax rates!

His attitude was not quite the same in the case of controlling government spending. As a general proposition, of course, he wanted smaller government and many reductions were achieved. However, for example, when the Secretary of the Interior appealed the reductions we were recommending in the department's public works projects (in olden times, they were referred to as the "pork barrel"), the President sided with him. I do not recall the precise words, but he said something like "Everybody's picking on Jim Watt. I've got to show Jim my support."

Similarly, when the Secretary of Commerce appealed the reductions in business subsidies, the President responded, "Mac is such a nice guy. Let's give him most of what he wants." The late Mac Baldrige was one of the finest persons I ever met. Moreover, presidents often overrule the tough budget recommendations presented to them. Nevertheless, I found responses such as these to much of our budget cutting efforts very discouraging.

Knowing that I would be expected to defend the President's budget when it was released — and that I would feel impelled to do so if I stayed in office — I decided during this period to quietly leave the administration.⁴⁶ I timed my departure so that I would be on campus in the fall of 1982 for the beginning of the 1982-83 academic year. It turned out that my departure was not as quiet as I had hoped.

When he accepted my resignation, the President asked me to make no public announcement until he could line up a successor. Of course, I agreed. However, it turned out that the President himself prematurely and unintentionally leaked the news to the press. During an off-camera break in a TV interview in St. Louis, he told the reporter (Julius Hunter) that I soon would be returning to the campus. That off-hand comment by the President generated a flurry of inquiries from the Washington press corps. That evening I received a call from Mike Deaver who

asked me not to talk to reporters until a 10 a.m. press conference that was quickly scheduled for me the next morning.

Complying with Mike's request was harder than I anticipated. At the time, my wife and I lived in a high rise apartment building. While I was getting dressed the next morning, she looked out the window and observed a wild scene below. A large number of journalists had assembled in the courtyard, together with an array of broadcasting and transmitting equipment. I quickly realized that I would be besieged by questioning reporters if I tried to drive out of the building.

Instead, I went down to the basement that led to the Giant supermarket next door and then to the metro. I took the train to a nearby hotel where I read the morning paper in the lobby until the coast was clear for me to go to the office. Despite the hectic events, I am grateful to the President for making it clear that the decision to leave was mine.

As the President said as I was leaving the White House, "we part as friends" (see accompanying photo). I am especially proud of the fact that I was the only departing member of the CEA during his eight years in office that he appointed to the President's Economic Policy Advisory Board (the outside advisers who met with the President quarterly). As a board member, I had numerous occasions to return to the White House during the remainder of his presidency and to present him with my views.

Looking back, it seems clear that, on balance, "Reaganomics" was a success. Certainly, the President's policies had injected a new sense of realism into the decision making in the private sector. The government no longer was expected to rush in to aid the losers in the continuing competition in the marketplace. Management and workers alike became more concerned with controlling costs and increasing productivity in order to maintain competitiveness.

Looking back, it seems clear that, on balance, "Reaganomics" was a success.

The specific results, very frankly, showed a variety of paradoxes and even some contradictions: lower inflation and higher budget deficits; lower tax rates and higher levels of government spending (especially for the military); less unemployment and bigger trade deficits; the deepest recession in half a century (but quite short); and a longer peace-



Weidenbaum departing the Oval Office after his resignation as chairman of the Council of Economic Advisers in 1982.

time recovery than had ever been achieved previously.

Surely Reaganomics did not work painlessly. Recession occurred during the transition from rapid inflation and price stability. Overall, the benefits outweighed the costs. Certainly, the Reagan economic program provided a model for much of the rest of the world. Witness the simultaneous spread of free-market economics to many parts of the globe, including former communist economies. Warts and all, the Reagan presidency was a higher watermark for the American economy.

Certainly the U.S. economy was in better shape when President Reagan left office than when he first was sworn into the presidency. In 1980 (President Carter's last year), the gross domestic product declined by one-half of 1 percent; it rose 4 percent in 1988. The consumer price index rose 13 percent in 1980 and only 4 percent in 1988. The prime rate dropped from 15 percent in 1980 to 9 percent in 1988. Unemployment declined from 7 percent to 5.4 percent.

On the other hand, the budget deficit rose from \$74 billion to \$155

billion and the trade deficit from \$15 billion to \$129 billion. However, real national wealth rose from \$12 trillion to \$14 trillion in the same period. And, to the surprise of many, the portion of the population below the poverty line was stable — 13 percent in both years.

Some Personal Thoughts

For a teacher, the rewards of serving the President were considerable. One give-and-take session on national television gave me the chance to explain aspects of the economy to a far larger audience than a college professor normally can generate in a lifetime. The opportunities to do so were numerous, including appearances on *Face the Nation*, *Good Morning America*, *McNeil-Lehrer Newshour*, *Wall Street Week*, and *Nightline* (see accompanying photograph).

If the presidency is a bully pulpit, the CEA chairmanship is a most elevated lectureship. As I look back on my experiences in that office, I find that I used the position to develop four themes: (1) economic freedom is closely intertwined with personal liberty, (2) business-government relations should be characterized by less intervention by government, (3) free trade is the international combination of these two themes, and (4) it is necessary, from time to time, to take a swipe at business's pleas for special privileges.

A particularly memorable occasion occurred on April 1, 1982. Each year the folks on Wall Street issue an April Fool's edition of the *Wall Street Journal*. The front page of the 1982 edition reported that Nancy Reagan had resigned as first lady after admitting that she had accepted a \$1,000 fee from *Forbes* magazine "to use her influence to gain access to Murray Weidenbaum's boudoir."

There also were opportunities to present serious professional analyses to broad audiences. For example, in a June 25, 1981 presentation to the American Association for the Advancement of Science, I reported an important but overlooked crossover: the shift from government to private sector dominance in the funding of research and development in the United States.

This is a point that I continued to make after I returned to the private sector. The shift in the source of sponsorship of R&D was likely, I maintained, to result in a future increase in the flow of new products and improved production processes. This has been the case. The pri-



Weidenbaum appearing on "Face the Nation" in March 1982.

vate sector now finances about 70 percent of all R&D and recent rates of productivity growth have been substantially above historical averages.

In the course of my frequent congressional testimonies, I had the opportunity to get a lot "off my chest." In June 1982, I told the Joint Economic Committee that I dismissed as "merely wishful thinking" the notion that cutting taxes is the easiest way to cut spending. I also stated that the term "demand" is not obscene. All this did nothing to endear me to my supply-side colleagues.

Those were heady times. In 1981, *U.S. News and World Report* included me in a list of the 30 most influential Americans⁴⁷ and again in 1982. To put the matter in perspective, when I was back at Washington University in 1983, I was quickly dropped from the list. In a similar fashion, just a few weeks after I returned to St. Louis in late 1982, I was visiting Washington for a meeting. In the lobby of the hotel in which I was staying a lady stopped me to ask, "Didn't you

used to be somebody?" I don't recall my answer.

On the subject of humor, perhaps my most lasting legacy was to introduce the term "rosy scenario." As I recall, the first time that phrase was used in 1981 was not in connection with the administration's optimistic economic forecast. Rather, it occurred at a breakfast meeting with two reporters for the *Wall Street Journal* who wondered what progress I was making in recruiting the other two members of the CEA. My flip response was something like, "Contrary to rumor, the next CEA member was not going to be an affirmative action hire known as Rosy Scenario."

Perhaps my most lasting legacy was to introduce the term "rosy scenario."

Another perhaps unfortunate example of my attempt to defuse a difficult situation with a wisecrack was an interview with the legendary James (Scotty) Reston, the chief Washington correspondent of the *New York Times*. I provided a juicy comment about the administration's economic program: "I'm not pessimistic. I'm not optimistic. I'm a mystic." Reston went on to note, "He was kidding, of course." Nevertheless, the headline read, "Mystics on the Potomac."⁴⁸ The subsequent needling from my colleagues was well deserved.

Another attempt at humor was more ephemeral. One pleasant day (June 11, 1981), the President invited political adviser Lyn Nofziger and me to join him for lunch in the Rose Garden. There was no special agenda. I believe the President just wanted to thank us for our hard work. While we were waiting for the food to be served, I made a wisecrack (whose substance I cannot recall). Lyn topped me with a real zinger. The President quickly responded with one of his own.

In the presence of two professionals, I then observed a delightful oral ping-pong match. In the course of the lunch, the President regaled us with stories in which he used his Irish brogue as well as other ethnic humor, including a fine Italian accent. It was a delightful break from an otherwise arduous schedule.

Another great memory was my wife Phyllis and I being invited to the family theatre in the White House. That evening we joined other staff members as well as social friends of the Reagans. I forget the

movie that was shown, but I have an indelible memory of the President entering with James Cagney and Nancy wheeling in Pat O'Brien!

* * *

Although I leave the evaluation of my performance to others, it is quite clear that I fell somewhat short of the best of my predecessors — and successors — but I truly gave the job my all. The *Washington Post* provided the following appraisal:

Weidenbaum is less dynamic an outside salesman than the superconfident Stockman. He is more earnest, a bit more professorial [only a bit?] and less given to cosmic rhetoric. "At first," says a Treasury official, "Murray sort of underwhelms you. But he always outperforms the initial impression."⁴⁹

I returned to the private sector with no grand lessons. I came away grateful to President Reagan for the opportunity to speak my mind and to know that decision makers in government were listening to at least one economist before making up their minds. It was a great experience to work with an outstanding array of Executive and Legislative Branch leaders. I am impelled to cite, among many, Secretary of State George Shultz, Trade Representative William Brock, and Senators Bob Dole and Howard Baker.

I take some considerable pride in the success of the Reagan presidency.

Whether justified or not, I take some considerable pride in the success of the Reagan presidency and, of course, I am ready to take my full share of blame for any shortcomings. The last word, however, properly should go to President Reagan. I treasure his generous response to my letter of resignation:

It is with deep regret that I honor your request and accept your resignation . . . I shall always appreciate the extraordinary contributions you have made to the formulation, advocacy, and refinement of all elements of our Economic Recovery Program We will all miss you — and your

remarkable ability to combine clarity of insight about the “dismal science” with unfailing good humor.⁵⁰

Epilogue

In February 1999, on the occasion of Ronald Reagan’s 88th birthday, Nancy Reagan hosted a reunion at the Reagan Library of the friends and alumni of the Reagan presidency. I participated in a panel on the economic program along with Edwin Meese and Martin Anderson. Following the formal sessions and after the press and most of the guests had left, I took a seat on a sofa next to Mrs. Reagan and asked her how the President was doing (because of advanced Alzheimer’s, he did not attend and she had a tape of the proceedings made for him).

Not having seen her since I left the White House, I was somewhat taken aback. The strong, assertive woman that I recalled was now a soft and sad person. With tears in her eyes, she said that, at times, she felt that the nation needed his strong leadership (this was the period when President Clinton was being criticized for his sexual activities). However, she added that, most of the time, she was glad that he did not know what was going on. “You knew how much he respected the Presidency.”

Along those lines, during a break at the reunion, many had asked if we had ever seen the President in the Oval Office without his jacket and tie on. (He otherwise was an informal dresser; meetings in the private residence often found him wearing slacks and an open neck sport shirt.) None of us had ever seen Ronald Reagan in the Oval Office or at any other official function without a jacket and tie!

Through some very difficult times, Reagan was always upbeat. I once sought an explanation from a White House staff member who had worked for him in California. The response was very enlightening; Ronald Reagan, in taking a more optimistic position than those around him, was right more often than the staff!

Appendix

The U.S. Council of Economic Advisers, 1981-82

Murray L. Weidenbaum	Chairman
Jerry L. Jordan	Member
William A. Niskanen	Member
James B. Burnham	Special Assistant to the Chairman

Senior Staff Economists

Geoffrey O. Carliner	Labor and Pensions
William D. Dobson	Agriculture and Food Policy
Michele U. Fratianni	Monetary Economics and International Finance
Steven H. Hanke	Natural Resources and Environment
Laurence J. Kotlikoff	Taxation and Social Security
Michael J. McKee	Macroeconomic Analysis, Productivity, and Prices
David C. Munro	Macroeconomic Analysis, Fore- casting, and Economic Statistics
Susan C. Nelson	Public Finance, Taxes, Social Security, and Health and Welfare
Allen M. Parkman	General Microeconomics and Regulation
Paul H. Rubin	General Microeconomics and Regulation
Elinor Y. Sachse	International Trade
Adrian W. Throop	Money, Banking, and Financial Institutions
Benjamin Zycher	Energy and Microeconomics

Statistician

Catherine H. Furlong	Senior Statistician
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Junior Economists

Lawrence B. Lindsey	Public Finance
Robert G. Murphy	International Trade and Finance
Dan C. Roberts	Financial Institutions and Markets
Chris P. Varvares	Macroeconomic Analysis and Forecasting
F. Katharine Warne	Regulation

Notes

¹ Thomas W. Ottenad, "Weidenbaum Expected to Get Top Economic Job," *St. Louis Post-Dispatch*, January 15, 1981, p. 4A.

² *Reforming Government Regulation*, Report of the Task Force on Regulatory Reform, November 1, 1980.

³ *Economic Strategy for the Reagan Administration*, A Report to President-Elect Ronald Reagan from his Coordinating Committee on Economic Policy, November 16, 1980.

⁴ The White House Office of the Press Secretary, *Statement by President Ronald Reagan*, January 23, 1981.

⁵ Howell Raines, "Economic Problems Dominate Activities of New President," *New York Times*, January 24, 1981, p. 1.

⁶ *Ibid.*, p. 1.

⁷ The White House Office of the Press Secretary, *Briefing for Reporters by Murray Weidenbaum*, January 23, 1981.

⁸ *Ibid.*

⁹ David A. Stockman, *The Triumph of Politics* (New York: Harper & Row, 1986), p. 95.

¹⁰ Martin Anderson, *Revolution* (Harcourt Brace Jovanovich, 1988), p. 349.

¹¹ Steven Rattner, "Stockman, Regan Roles in Split Economic Team," *New York Times*, March 4, 1981, p. D-1.

¹² Shirley Hobbs Scheibla, "Meet Mr. Weidenbaum: Top White House Adviser Ducks No Issues," *Barron's*, March 23, 1981, p. 22.

¹³ Stockman, *Triumph of Politics*, p. 95.

¹⁴ *Ibid.*

¹⁵ *Ibid.*, p. 96.

¹⁶ *Ibid.*, p. 97. The model that the group had been using, developed by John Rutledge, was reported to consist of only six equations "with a monetarist and supply-side orientation." My associate, Nicholas Filippello, was unable to get the details because of the proprietary nature of the model.

¹⁷ U.S. Senate Committee on Banking, Housing and Urban Affairs, *Nomination of Murray L. Weidenbaum* (Washington, D.C.: U.S. Government Printing Office, 1981), pp. 1-2.

¹⁸ John M. Berry, "Weidenbaum Urges Tax, Spending Cuts," *Washington Post*, February 6, 1981, p. D-1.

¹⁹ *Ibid.*

²⁰ My testimonies included talking about the Reagan economic program, the importance of agriculture to the U.S. economy, the state of small business, tax policy and productivity, monitoring inflation, the federal budget for 1983, and the proposed constitutional amendment to balance the budget. The committees included Senate Finance, House Ways and Means, Senate Small Business, House and Senate Appropriations, House and Senate Judiciary, House and Senate Banking, Senate Government Affairs, and, of course, the Joint Economic Committee.

During the same period, I was called upon to speak to a host of private organizations including the Conference Board, the American Stock Exchange, the American Bankers Association, the Freedoms Foundation, the International Management and Development Institute, the American Association for the Advancement of Science, and a variety of colleges and universities.

²¹ Thomas Love, "CFA Gives Cool Greeting to Weidenbaum Remarks," *Washington Star*, February 7, 1981. I guess I should not have tried to copy Franklin D. Roosevelt who addressed the Daughters of the American Revolution as "My Fellow Immigrants."

²² *Audit of the U.S. Economy* (Washington, D.C.: U.S. Council of Economic Advisers), February 12, 1981.

²³ Steven Rattner, "Some Economists Dispute Premises of President's Speech on Economy," *New York Times*, February 13, 1981, p. 2.

²⁴ Rowland Evans and Robert Novak, "Sidestepping the Supply-Side," *Washington Post*, February 20, 1981, p. A-15.

²⁵ Anderson, *Revolution*, p. 237.

²⁶ Frank Vogl, "Americans Face 'Rough Medicine' of Spending Cuts," *The Times*, February 18, 1981.

²⁷ *Ibid.*

²⁸ "The Emerging Style," *Washington Star*, February 23, 1981.

²⁹ Jeanne Ansehl, "Mrs. Weidenbaum Goes to Washington," *Clayton Times*, April 15, 1981.

³⁰ This section draws on Murray Weidenbaum, *One-Armed Economist* (New Brunswick, N.J.: Transaction Press, 2004), pp. 43-48.

³¹ Donald T. Regan, *For the Record* (New York: Harcourt Brace Jovanovich, 1988), p. 142.

³² “Debate on Military Funds Rises,” *New York Times*, March 19, 1981, pp. D1-D2; I.F. Stone, “Gambling on Entrails,” *Washington Post*, March 22, 1981, pp. D1-D2.

³³ See Murray Weidenbaum, *The Economic Outlook*, An Address to the Society of American Business and Economic Writers, New York City, May 5, 1981; Hobart Rowan, “CEA Chief Defends Defense Budget,” *Washington Post*, May 1, 1981, p. E2.

³⁴ “America’s New Beginning: A Program for Economic Recovery,” in James Tobin and Murray Weidenbaum, eds., *Two Revolutions in Economic Policy* (Cambridge: MIT Press, 1988), p. 314.

³⁵ John M. Berry, “White House Praises Fed Action,” *Washington Post*, May 6, 1981, pp. B1-B2; Edward Cowan, “White House Backs Rate Move,” *New York Times*, May 6, 1981, p. D7.

³⁶ Quoted in Leonard Silk, “Clash Over Gold Standard,” *New York Times*, April 29, 1981, p. D2.

³⁷ Denise Lemot, “Weidenbaum Voices Opposition to ‘Stop-and-Go’ Tax Cut Plans,” *Journal of Commerce*, May 4, 1981; Kenneth H. Bacon, “Wall Street Jitters Won’t Deter Reagan on Economic Policy,” *Wall Street Journal*, May 6, 1981, p. 2.

³⁸ For Niskanen’s detailed views on the CEA and other aspects of Reagan economic policy, see William A. Niskanen, *Reaganomics* (New York: Oxford University Press, 1988).

³⁹ Karl Brunner, “Introduction” in *Political Economy in the Economic Report of the President* (Rochester: University of Rochester Graduate School of Management, 1982), p. 1.

⁴⁰ James M. Buchanan, “The Political Economy of Reagan Economics,” *Journal of Monetary Economics*, Vol. 10, 1982, p. 289. I am indebted to James Burnham for successfully urging me to keep Chapter 2 in the final version of the *Economic Report*.

⁴¹ James Tobin, “The 1982 Economic Report of the President,” in *Ibid.*, p. 299.

⁴² *Ibid.*, p. 298.

⁴³ *Ibid.*, p. 299.

⁴⁴ Emma Rothschild, “The Philosophy of Reaganism,” *New York Review of Books*, April 15, 1982.

⁴⁵ “Preface,” Tobin and Weidenbaum, *Two Revolutions*, p. vii.

⁴⁶ For some other details on my departure, see Jeffrey Frankel,

“What an Economic Adviser Can Do When He Disagrees With the President,” *Challenge*, May-June 2003, pp. 35, 151-52.

⁴⁷ “Who Runs America?” *U.S. News and World Report*, May 18, 1981, p. 39.

⁴⁸ James Reston, “Mystics on the Potomac,” *New York Times*, March 22, 1981, p. E19.

⁴⁹ Hobart Rowan, “Weidenbaum: Economic Scissors Has Two Blades,” *Washington Post*, March 1, 1981, p. 3. Dr. Nicholas Filippello described the various strands in the thinking of the Reagan economic officials in terms of four intersecting circles: supply-side, monetarist, rationale expectations, and a “touch of Keynesianism.” (Personal communication to the author, October 6, 2004.) For a more detailed view of various strands of the economic philosophy of Reagan Administration economists, see Henry R. Nau, *The Myth of America’s Decline* (New York: Oxford University Press, 1990), pp. 196-204).

⁵⁰ “Exchange of Letters Between the President and the Chairman of the Council of Economic Advisers Murray L. Weidenbaum,” The White House, Office of the Press Secretary, July 23, 1982.