Advising Reagan: Making Economic Policy that Makes Sense

BY MURRAY WEIDENBAUM

As a veteran of four Administrations, the author was well-suited to serve as chairman of Pres. Ronald Reagan's Council of Economic Advisers, a group that helped launch the greatest revolution of prosperity our nation has ever experienced.

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 Pres. Reagan turned out to be anything but dismal. This recounting of 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 "noneconomic"—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 Pres. 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 generally were wrong. If pressed, I might be willing to provide some 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 Imperial 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 Pres. 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. That turned out to be one of my better forecasts of future public policy (as well as my own role).

As a practical matter, I expected that I might be asked to serve in the new Administration in some capacity. I 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 Jan. 21, 1981. During the campaign, I chaired a small advisory committee on regulatory reform that provided ideas and advice. I also performed various 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 task force with a membership that 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.

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, Nov. 14-16, to put together a comprehensive economic program for consideration by the President-elect. To my pleasant surprise, Gov. 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 okay 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 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.

On the morning of Jan. 23, Pres. 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. 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.”

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.”

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 okay to talk a bit about monetary policy.” 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 compelled to do that to end what The New York Times called “... a long period of political sniping between Mr. Volcker and the Reagan camp."

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 commitment 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.”

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 presuppositional questions, only presuppositional 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 Pres. Reagan for not being able to find his own checkbook, I got a laugh by saying (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 Pres. 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."

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, Jan. 24, the White House announced a "high level" three-man Budget Working Group to develop major reductions in Federal spending. This clearly was 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 literally was a labor of love.

The meetings of the Budget Working Group and our recommendations to the President often were 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. Anderson and I quickly hit it off with Stockman, who later went on to write, "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."

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. About that time, The New York Times quoted me as saying that I was "a dues-paying member of the Dave Stockman fan club."

The Reagan Administration maintained a fast pace in establishing the institutions for policy-making. On Jan. 27, a special six-member task force on the problems facing the automobile industry was set up. 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 our 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

force on regulatory relief, chaired by Vice President George H.W. Bush; the CEA chairman was an active member. 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 Pres. Reagan, Dave Stockman, Treasury Secretary Don Regan, Marty Anderson, and me. The pace was hectic but, to put it mildly, exhilarating.

No members of any presidential Administration always are 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.

Stockman described my entrance into the deliberations on the economic assumptions somewhat colorfully: "Weidenbaum was the picture of the ramped economist. He had one virtue extremely uncommon among his breed: he spoke in short, English sentences." Stockman also noted my initial reaction to the supply-side/mone-

tarist consensus: "We’ll be the laughing stock of the world." 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 higher 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 Feb. 7, Stockman and I 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."

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 quickly was 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"—a bit of overstatement, of course, but the point held. The record shows that the Federal Reserve’s policy of monetary restraint—which the Administration endorsed repeatedly—reduced in-

in the American auto industry. That’s a problem to be faced by the industry."

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 U.S. 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, Jan. 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

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flation substantially. Using the price index associated with the gross domestic product, the inflation rate declined from 9.5% in 1981 to six percent in 1982 and to four percent in 1983. Real economic growth declined from 2.5% in 1981 to a negative two percent in 1982 before rebounding to 4.5% in 1983. These results were not too far from the official numbers.

These and other assignments 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 to members of the committee, giving them an opportunity to quiz me informally prior to the formal hearing. The pace of other activities prevented me from making the elaborate 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."

I presented no opening statement and attended the Feb. 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 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."

"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."

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. Feb. 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.

Not all of my presentations, public or private, were resonating success. 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." 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 Feb. 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).

Feb. 12, 1981 was another important day in the development of the Reagan economic program. The President, in a Feb. 5 speech about the economy, 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 mainly were academics appointed by my predecessor and were on temporary assignment finishing their terms of service). Under the circumstances, I did the audit myself. On Feb. 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.

The Audit report primarily took the form of a historical chart book showing rising Federal tax burden 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."

The Audit concluded that the economic difficulties facing the nation 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. The Audit report was controversial initially, but the controversy evaporated when attention shifted within a week to the President's policy proposals.

In my opening statement at the Feb. 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. 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 scope the President?' I will frankly decline that opportunity." I repeatedly stated that, when the numbers were released officially, the press would have adequate opportunity "at me." That surely turned out to be the case.

On Feb. 13, I had a rare disagreement with Stockman, with whom I otherwise was working closely on the package of budget cuts. While I was writing 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 was unimpressed by Gilder's effort, which I dismissed as "just a supply-side primer."

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. Subsequently, 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.”

The “White Paper” elaborated on what I was to call repeatedly the Four Pillars of Pres. 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; and 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 Pres. Reagan was to give on Feb. 18, unveiling his Economic Recovery Program, provided a keen insight into his working habits and relationships. To begin the process, the President gathered his speechwriters, 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.)

Pres. 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 thromosome 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.” After the Troika meetings, Anderson 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 important communication devices, 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 review flow. 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 unprecedented reasons, he subsequently disappeared in the Soviet prison system. James Baker, the chief of staff, presided at the senior staff meetings and 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.

Selling Reaganomics

On the evening of Feb. 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, Reagan, and I met with the President who gave us our marching orders: “Okay, 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 instance, earlier in the day I gave a briefing at the State Department 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 (although 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 query his way. However, as soon as he left, the group would resume its tough questioning of me!

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.” 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.

The most effective marketing of the Reagan economic program was performed by the President himself. The lead editorial of the Washington Star opened by quoting me as describing the President as “the nation’s number one economic communicator.” Indeed, he was—and that description quickly caught on.

Yet, far more fundamentally, 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.” (This is the first of a two-part series that will conclude in the November 2011 issue of USA Today.)

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