An Economist in Government: Views of a Presidential Adviser

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by Murray L. Weidenbaum

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Contemporary Issues Series 5
As the old saw put it, "Economics is what economists do." Judging by both my personal experience and observation of the work of others, I would state that the quotation also accurately describes the role of economists in government. But, since I am cognizant of the great variation possible in the role—and of the numerous factors determining that variation—I am content merely to describe the role of one economist during one tour in Washington.

Based on my service as Chairman of the President'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 of 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 and, if pressed, I might be willing to provide some factual buttressing for that position. Nevertheless, 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 John Tecumseh Sherman."

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I attempt to concentrate on the process by which an official economist participates in the policymaking process. Moreover, 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 knowledge that most questions of governmental policymaking—especially those labeled "non-economic"—do contain important economic influences.

Developing the Economic Program
At the outset of the Reagan Administration, for example, the major role of the CEA Chairman was to participate in the development of the President's Economic Recovery Program. The initial tax program had been set during the 1980 campaign: across-the-board personal income tax rate reductions plus liberalization of business depreciation allowances. Thus, the emphasis was on developing the initial package of budget cuts. My appointment to the three-man Budget Working Group chaired by Office of Management and Budget (OMB) Director David Stockman meant that a major part of my time and effort was devoted to reviewing proposed expenditure reductions and to convincing the department heads to go along with them. One Cabinet secretary was quoted as saying that Stockman and I constituted a "good cop—bad cop" routine. As someone who grew up in the old Budget Bureau in the 1950s it was perhaps inevitable that I played the bad cop. But that function was destined to remain with the CEA chairman in many subsequent connections. Surely, I came to advocate rather consistently much larger budget cuts than those approved.

The economic "White Paper" of February 18, 1981, entitled A Program for Economic Recovery, constituted a landmark in the development of President Reagan's economic program. That document announced the four pillars of the program—tax cuts, budget cuts, regulatory relief, and monetary restraint. It also contained the economic assumptions underlying the revenue and expenditure estimates.

As the person who took on the responsibility for the White Paper, I instantly found myself in pitched battles with both supply-siders and monetarists. Without repeating all the doctrinal disputes that occurred, I still vividly recall the fervor of those arguments, which at times bordered on the theological. In any event, I understood the role of the Chairman of the CEA not as a means of preaching supply-side economics or monetarism, but rather of helping the President develop and carry out his economic program. Thus, my insistence that a modest period of recession would accompany the imposition of monetary restraint was viewed by the supply-siders as a lack of faith in the instantaneous nature of the economy's response to the tax cuts. Similarly, my unwillingness to include, for the
guidance of the Federal Reserve System, a set of specific annual targets for monetary growth left the monetarists dismayed.

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During this period, I felt a kinship with Lewis Carroll's Alice. In *Through the Looking Glass*, Alice says, "There's no use trying, we can't believe impossible things." "I dare-say you haven't had much practice," replies the Queen. "When I was your age, I always did it for half-an-hour a day. Why, sometimes I've believed as many as six impossible things before breakfast."

Selling the Economic Program

After the release of the White Paper, the CEA chairman became one of the three major "salesmen" (along with Treasury Secretary Donald Regan, and the OMB Director) for the President's economic program—aside from the "number one communicator" himself. There followed an almost endless array of joint and individual congressional testimonies and press conferences; White House briefings to the Cabinet, other officials, and numerous visiting interest groups; and speeches, speeches, speeches to all sorts of organizations—business, consumers, agriculture, ethnic, regional, religious, etc.

I reached a point that when I was out for a meal and the waiters began to clear the dishes, I automatically got ready to stand up and speak. At first I referred to the speechifying as economic education and then marketing. Subsequently, however, I found myself using the term "forensic economics" to describe the activity. I was defending the product that I had helped to design, including the inevitable compromises that anyone would reluctantly agree to.

In addition, since there is an important international dimension to economic policy, a wide array of ambassadors and economic and finance ministers from other nations frequently came by for discussions ranging from the courtesy call to the substantive. As chairman of the U.S. delegation to the Economic Policy Committee of the Organization for Economic Cooperation and Development, I carried at times a significant representational load for what was a rather controversial set of policies. As chairman of the Economic Policy Committee, I had key opportunities to work with my counterparts in other nations to develop positions and draft communiques with which we felt comfortable and which other nations would accept. Informally, the EPC chairmanship enabled me at key points to unruffle the feathers of foreign representatives who had been upset by earlier, "harder line" American presentations.

I did not see my public role as an economic "oracle" aloof from the foibles of any sitting administration. There is no shortage of that type of expertise in the private sector.

I must admit that I felt no reluctance to play the public role the President assigned to me—to serve as a senior representative...
of his Administration at a time when the approval of his economic program by the Congress was an essential step in converting economic ideas to economic reality. Thus, I did not see my public role as an economic "oracle" aloof from the foibles of any sitting administration. After all, there is no shortage of that type of expertise in the private sector.

The Day-to-Day Routine

Simultaneously, the development of a host of detailed government programs and policies was taking place inside the Administration. An important structural change 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. The CEA chairman is an active member of three of those cabinet-level groups—Economic Affairs, Commerce and Trade, and Natural Resources and Environment—and attends the meetings of the other councils (Human Resources, Food and Agriculture, Legal Policy). Members of the CEA and its senior staff serve on the various working groups and task forces.

The CEA was expected to, and predictably did, oppose each and every proposal to subsidize some segment of the economy, or to shield a specific industry from competition.

The effectiveness of the CEA on any specific issue discussed by these groups depends in part on the cogency of its analysis. But that is not always the case. 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 urging textile quotas was led by a senior southern Republican who was diligently working for the enactment of the President's program, while the shoe delegation was chaired by a prominent Northeastern liberal Democrat?

The Cabinet Council system ensures that the CEA is represented in the decision making apparatus that handles a host of issues—social security, foreign trade, regulation of financial institutions, transportation, environment, energy, agriculture, etc. At key points, the President attends a Cabinet Council meeting and, at times, makes a decision on the spot. In this regard, the key role of the CEA was not to develop additional, brave new programs, but to operate a damage limitation mechanism. Thus, the CEA (at least in my time) was expected to, and predictably did, oppose each and every proposal to subsidize some segment of the economy, or to shield a specific industry from competition. At times, a Cabinet member proposing some additional form of government intervention in the economy would start off by saying, "Mr. President, Murray will probably give you a different view, but..."

We did not win all the protectionist battles, but each and every proponent of additional government involvement in the private sector knew that he or she would have to do battle.

In the case of protectionism, we did not win all the battles, but each proponent of additional governmental involvement in the private sector knew that he or she would have to do battle. In certain instances—autos and maritime, for example—we were hampered by Presidential campaign com-
mitments. I found myself grudgingly admiring a sitting President who took his campaign oratory seriously.

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" (see Exhibit A). I like to believe, however, that my use of "economicese" was not quite as arcane as this parody might lead one to believe.

Meetings, of course, are the basis—and bane—of a bureaucrat's existence. Surely, a major part of the CEA chairman's time is taken up by participating in meetings with other Cabinet-level officials. An important example is the Task Force on Regulatory Relief, chaired by the Vice President. Members of this group served as the chief "honchos" of regulatory reform, overseeing the operation of the executive order directing agencies to perform benefit/cost analysis for proposed regulations and assigning important review responsibilities to OMB.

The Task Force also furnished an instance of the need to establish personal priorities. Regulatory relief, for me, was a labor of love. As an academic, I had written on the subject widely. My initial tie to the President was that body of work, which he had drawn upon frequently in his radio broadcasts and columns as a private citizen. Also, I had chaired the task force on regulation during the campaign and the transition period. At key points I was expected to, and did, participate in setting regulatory policy. Yet, I knew that if I participated on a day-to-

Exhibit A
Memorandum for Cabinet Council on Economic Affairs

From: Murray Weidenbomber
Date: April 19, 1982
Re: Economic Outlook—Balance of 1982

Banking figures show an easing of the rate at which business is easing off. This can be taken as ample proof of the government's contention that there's a slowing up of the slowdown.

Now, to clarify that, it should be noted that a slowing up of the slowdown is not as good as an upturn of the downturn. On the other hand, it's a good deal better than either a speedup of the slowdown or a deepening of the downturn. Also, it suggests that the climate is about right for an adjustment of the re-adjustment to rate structures.

Now, turning specifically to rates, we find a very definite decreasing in the rate of increase. This clearly shows there should be a letting up of the letdown. Of course, if the slowdown should speed up, the decrease in the rate of increase of rates would turn into an increase in the rate of decrease.

And finally, the inflation of the recession would turn the recession into a depression, while a deflation in the rate of inflation would give the impression of a recession of the depression.

day basis, the time available for macroeconomic policy would suffer. Thus, I devoted—as does almost every CEA chairman—most of my time and efforts to macro matters.

For example, the CEA chairman—along with the Secretary of the Treasury and the Director of OMB—constitute the economic "Troika." That informal group, which has
survived through many administrations, typically meets weekly to review the economic outlook and the course of economic policy. At times, the Troika meetings are expanded to include the President and/or senior White House staff. On a few occasions, the chairman of the Federal Reserve Board attended. George Shultz, when he became Secretary of State, also attended most meetings, and the Assistant to the President for Domestic Affairs was a regular participant.

I found myself grudgingly admiring a sitting President who took his campaign oratory seriously

The Troika is the mechanism by which the Administration’s economic projections are developed. At times, key budgetary and economic policy changes go through informal mechanisms (such as that embodied in the Troika and the senior White House staff) rather than the formal Cabinet and Cabinet Council organizations.

One administrative, yet strategic, set of meetings is the daily gathering of the White House senior staff, which the CEA chairman regularly attends. This is 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 Administration’s paperflow. My merely noting the delay led to an on-the-spot decision to release this important document.

**Briefing the President**

Of course, the direct contacts with the President are of very special importance. Because I take the role of trusted advisor seriously, there are some matters that I will pass over. I do recall, however, discussing the subject of gold with him on several occasions, a matter that he had studied at some length. 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, we reported that the majority of the Commission opposed a return to gold at this time. That disposed of the matter. I see that episode as another example of the CEA’s damage-limitation function or the avoidance of economic harm.

“We do not live in a seasonally adjusted world”

Another important function 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 report for a given month is issued, the President has on his desk a memo from the CEA chairman setting forth the highlights. At times he will 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.

The Economic Report
The February 18, 1981, White Paper constituted the first major opportunity in the Reagan Administration to put specific policies in a broader economic context, but it was followed by many others. The most important, of course, is the annual Economic Report of the President. The President’s message, written by the CEA, has for many years been quite short. The great bulk of the document is technically the Annual Report of the Council of Economic Advisers. This is a joint effort of the three members of the Council and the entire staff of the Council. The Annual Report also provides some opportunity to raise new issues and to move policy along.

For example, it was widely known in Washington that I had advocated making some reductions in the rapidly expanding military budget. This was a subject area in which I had done research for over two decades. As the first economist to raise public concern about the inflationary impact of the Vietnam buildup, I believe I had raised serious questions about the economic feasibility of the Administration’s defense program

With regard to the annual Report, it is appropriate to mention the role of the CEA staff. As is customary with a change in administration, I inherited the staff recruited by my Democratic predecessor. Except for career statisticians and secretaries, the staff consisted of non-career appointees, most of whom were on leave from their respective universities. After a short period of adjustment, I found each and every one of them a loyal and dedicated professional economist. In fact, I asked several of them to stay on. In any event, both the original CEA staff and their replacements were, with very few exceptions, extremely helpful in carrying out the disparate functions of the agency. I relied very heavily on the two members of the Council, but I would probably embarrass them if I embellished upon that.

If the Presidency is a bully pulpit, the CEA chairmanship is a most elevated lectureship

The Elevated Lectureship
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’ pleas for special privileges. Clearly, these four points are closely connected.

Appropriately enough, I devoted my entire address to the Freedoms Foundation at Valley Forge on May 8, 1981, to the subject
of "Freedom and Economics." A key excerpt follows:

When the frenetic events of the day are evaluated in the more leisurely light of history, I am confident that we will find that we have been engaged in an effort far more fundamental than raising the growth rate of the real GNP or slowing the pace of the Consumer Price Index, worthy as these actions may be.

We are engaged in an unprecedented effort to shift the focus of decision-making away from the Federal government and to the many diverse and smaller organizations and institutions that better serve the individual...[This is] part of a larger task: to reduce the power and obtrusiveness of the Federal government in all of its many dimensions.

I embellished on this theme in an interview a few months later:

I am fascinated by the fact that when you take away the legal frontier between the communist sector and the capitalistic sector and you let people move, you can predict the direction in which they will move.

The CEA chairman has a national and at times international audience. Early in the Administration, in March 1981, I presented a lecture to the Woodrow Wilson Center at the Smithsonian Institution in which I sketched out the economic justification for a reduced governmental role in society. I was pleased to see the very wide distribution of this speech—including reprints of reprints—which resulted. Here is a typical excerpt:

Resort to regulation should always be the last step in dealing with a problem, not the first or second. Further, before regulating, we should be certain that the world will be in better shape with regulation than without it. Any time the government resorts to regulation, we run the risk that the market system will suffer unintended, incremental damage as a side-effect. The presumption should be in favor of private decision-making. If we cannot demonstrate that regulation will lead to a superior outcome than the present state of affairs, we should refrain from loading yet another requirement or prohibition onto the American economic system.

The international dimension of these concepts is that if you scratch an economist, you will find a free trader. In a variety of Congressional appearances and public speeches, I presented the case for free trade, speaking in a language that at times seems arcane to economists—plain English. My testimony to a joint hearing of the Senate Banking and Finance Committees on July 9, 1981, made that point:

The benefits of trade are nearly always a two-way street. Competition, whether domestic or international, fosters efficient allocation of resources into relatively more productive activities; better products, at lower prices, appear in the marketplace. Consumer choice is expanded; inflationary pressures are reduced.

It is sad to report that the general support of business executives for these free market principles is far too often overwhelmed by their advocacy of specific benefits to their industry or company—always justified, of
course, on an "exceptions" basis. I raised that point initially in a speech to the committee for Economic Development on May 21, 1981: "It is important to support, protect, and defend the private enterprise system, and sometimes you have to do that in face of the opposition of individual entrepreneurs." I subsequently spelled out my response in "The Case Against Bailouts," delivered to the Pennsylvania Bankers Association on May 25, 1982. Here is a small portion of that speech:

Bailouts send the wrong signal because they tell people—investors as well as businessmen—that they do not have to worry about investment risks and cost overruns, that the Federal government will always come to their rescue and pump up their incomes by open or hidden subsidies.

I presented the case for free trade, speaking in a language that at times seems arcane to economists—plain English.

The View from the Outside

For a teacher, the rewards of service to the President were considerable, albeit psychic. 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. Witness this excerpt from a session on Meet the Press on August 30, 1981:

Question: You’ve talked about the importance of reducing inflation. How do you think that your tight fiscal and money policies feed through to fight inflation? How do they affect wages and prices throughout the economy?

Dr. Weidenbaum: By setting in motion basic factors, the slower availability of money and credit...will restrain...the pressures for wage and price increases that can't be supported by the market.

As a result, we will see in the years ahead wage and price decisions which have a much lower inflationary potential than the actions we've seen in the past, because the basic external environment in which wages and prices are set is being changed. That is, the inflationary environment is being wound down.

All in all, I have an upbeat feeling about the state of economics. Although we often read that economics is in disarray and that economists are as predictably wrong as the economy remains unpredictable, I for one am not prepared to don sackcloth and ashes and recite from the Book of Lamentations.

Looking at the intellectual wreckage of recent years, I am impressed at how much nonsense we have unlearned and how many old and more modest but harder truths have been confirmed.

Frankly, I find it a relief that so many brave new theories—always bolstered or perhaps obscured by weighty mathematical dressing—have been discredited. My case in point is supply-side economics, especially as it was espoused in its most unequivocal—and hence most widely reported—version: cut tax rates and you simply and quickly unleash the latent strength of a dynamic economy. The sudden onrush of work, saving and investment supposedly will generate such new heights of production and income that we will no longer have to worry about
budget deficits. In fact, one of the "high priests" contended that deficits would be declining so rapidly that we would be able to expand government spending simultaneously with the reductions in tax rates!

In retrospect, spouting that sort of nonsense was a lot of fun—especially on the part of those who stayed on the sidelines and carefully avoided taking the responsibilities of office. Thus, the important kernel of truth in supply-side economics was submerged by a plethora of bombastic promises. The kernel of truth, of course, is the

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substance of traditional, conservative economics—not startlingly new, but vitally important. It may surprise those with short memories that the concern with the adverse effects of high tax rates and the need to encourage saving and investment were staples of pre-Lafferite conservative economic thought. These concerns were neither invented nor discovered on a cocktail napkin, nor on the editorial pages of a daily newspaper.

But important economic concepts regarding taxation, savings, and investment were embellished—and that is what made them, at least for a while, so saleable. Alas, the instant cure was not forthcoming. But the kernel of truth, the undramatic but fundamental underpinnings of modern conservative thought, are as pertinent as ever.

I returned to the private sector with no grand lessons. I came away grateful 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.

Typical Washington Workday

7:45 a.m.—Meet with CEA staff director on day's highlights and review today's newspaper coverage of the Administration.

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. 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 Savings and Loan Associations. 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 on Administration's economic policy for delegation of local government officials at the White House. The President makes a brief appearance.

(continued on next page)
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 West Germany.

5:30 p.m.—Review 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.

10:30 p.m.—Return to residence. Read cables and papers for tomorrow's meetings.