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Audio File 3

Evaluating legislative efforts to bring fiscal discipline to the federal government—Periodizing the history of debt and deficits—On efforts to reduce the debt
This is Martin Meeker interviewing Charles Schultze [sic] for—

Schultze.

Schultze. Oh, I’m sorry. I’ve been mispronouncing it the whole time.

LBJ was the only one who ever did that, to tease me.

[laughter] Charles Schultze. And today is the 6th of December 2010 and this is
the National Debt Oral History Project. Thank you for correcting me. Well,
please go ahead and give us your read on our overview document for the
project and we welcome all sorts of criticism.

[showing a graph displaying the debt to GDP ratio since World War II] Well,
my only point: the document looks as if the debt has been a big problem since
about 1970 or earlier and, in fact, it hasn’t been. The debt dropped from about
a hundred percent of GDP in World War II steadily down to about twenty
something percent. I might as well get the numbers out. I put them together in
I thought an easy way to get at. It dropped pretty steadily down to about 26
percent of GDP in 1981, so it was going down all the time. You don’t have to
balance the budget every year, even to keep the debt ratio the same, because
economic growth will do some of that. Reagan came along and that 26 percent
jumped to about forty-nine, but then it came back down again until just before
the recent trend—and that was a problem. Not so much how high it was but
the fact that it jumped so fast. And then by 2007 it was back down again to
something like 36 percent. Now we’re in a real problem. I don’t mean this
day. We could see that way ahead there was a big problem of the debt to GDP
ratio. This one only goes back to 1960 and it bulged up there in the Reagan
years, came back down, not all the way. However, we knew, starting back
maybe here that the future was going to be really bad if we didn’t do
something. But it was still well out into the future if you look at the bottom
line, which is where it was as of three or four years ago. But the big recession
and the stimulus and other things have shoved the future about twenty years
closer. So we really do have a problem. We did have somewhat of a problem
with, I think, the Reagan era debt but it’s all modest.
Meeker: So the key difference here being the CBO projection of 2007 versus the CBO projection of 2010 and how it’s related to GDP.

Schultze: Right. Just shows you how that jumped up. Now, it isn’t so much that but it pulls maybe twenty years. It pulls this line that we knew we were going to have to deal with twenty years in. So now instead of waiting ten or fifteen years to start doing something about it we’ve got to start now.

Meeker: Hence the fiscal commission [National Commission on Fiscal Responsibility and Reform] work and report.

Schultze: Yes.

Meeker: Well, with that proviso in mind, and this is something we’ve been going over in our own conversations and debates. Like I said, we originally were concerned primarily about the 1990s and then when we started doing our research we started getting a sense of the extent of the Reagan deficits and then some of the legislative innovations, such as the 1974 Budget Act, which were budget neutral, right?

Schultze: Right.

Meeker: They were still addressing the process. And so we thought that it would be prudent to go back further in the past and explore this question. Which is really why we’re sitting down today with you. And so I’d like to go back into the distant past and talk to you about your period of time as budget director for Lyndon B. Johnson.

Schultze: Right, right, right.

Meeker: And I’d like to basically just start out and ask you to give us an account of how was it you were selected for this position. You must have been a very young economist. How were you selected and what was your agenda when you began in what was then the Bureau of the Budget.

Schultze: Well, a good chunk of it was like a lot of things. Luck. Well, I had written my dissertation in 1959. I got my degree late in life. I was out about ten years
before I went back. I’m probably the last economist you’ll ever talk to who
got a PhD at night with four kids. But in any event, I wrote a piece that got a
lot of publicity. The title was “Recent Inflation in the United States,”
explaining why inflation got up so high as 3 percent in 1957. That got a lot of
publicity. Lot of people that never heard of me heard of me. A very good
friend of mine who was an assistant budget director, taught in Indiana. When
he left there kind of was an informal discussion that one of the two of us
would take the job of assistant director first, and then after a couple of years,
the other guy would do it. Assuming that the president approved and
everything. And that happened and I got in first. So I was assistant director
1962 through ’65.

Meeker: Okay. In the Kennedy Administration?

Schultze: In the Kennedy Administration. Well, in the beginning of the Johnson
Administration. And the then budget director and I became good friends and
kind of allies. And when he left he recommended me to Johnson and Johnson
picked me. It was strange because I went down for an interview with Johnson,
who obviously must have trusted my predecessor very much, because he spent
about ten minutes with me and then hired me. So I was then budget director.

Meeker: Did you have a particular agenda going into that position?

Schultze: No, just to do the job well.

Meeker: Well, what did the job entail at that point in time? What were some of the
issues confronting you as budget director in 1967?

Schultze: You think of the Budget Bureau and the Council of Economic Advisors to a
much lesser extent. Typically the budget director, the secretary of the
Treasury and the chairman of the Council of Economic Advisors—basically
the three are the major big economic problem advisors to the president. And
that’s a job which is very important. It takes some time but at least as far as
the budget director is concerned, the big bulk of his work is with the whole kit
and caboodle of two point some million people and these days a hundred
trillion dollars, two trillion dollar numbers you’re dealing with. In fact, while I
was there I presided over the first time the federal expenditures ran over a
hundred billion dollars. So that shows you we held it below a hundred, which
was a big deal. So you’ve got everything. It’s the greatest job in government,
as far as I’m concerned, because you’ve got them where their hearts and
minds will follow, in a way, and it’s a great learning experience about the federal government.

Meeker: Controlling the budget of all the agencies?

Schultze: Yeah, and all of that. I presume it still goes on. We had what’s called director’s review. And every year, each division, time was set aside. We’d have given a budget target to the various agencies. They’d send you back their request and the staff would then, division by division, bring up—they’d all sit around a big table—their recommendations. And I and a couple of system directors would query them and quiz them and push them and so on and so forth. In that process you really do learn one hell of a lot about what happens in government. It was tough but it was really an eye opener and a way to learn about the whole process of the budget and fiscal policy and all that. The biggest and most important decisions took up the least amount of time, just because you don’t normally make big tax. What kind of a budget deficit do we allow or don’t we allow? What do we do with the Congress on this side? That comes up only a limited number of times. Now, that’s not quite true because a lot of other things go through that group. But even then it’s not a big chunk of your time.

Meeker: Do you recall during your tenure as director of the bureau what some of the main issues, the pressing issues that you had to address?

Schultze: Oh, boy.

Meeker: Or that were addressed in the policy group.

Schultze: Yeah. Well, the two biggest things that stick out in my mind is handling Johnson’s very large agenda with respect to the Great Society, which really means in this case I’m thinking principally of social programs of various kinds. Each year, for example, we set up task forces, outsiders and insiders, to consider what’s next year’s legislative agenda by way of the so-called—with the poverty program, whole new federal involvement in—

Meeker: Medicare, for example.

Schultze: Well, Medicare, Medicaid, involvement with the federal government in education with the first kind of education act. Johnson used to brag about the
number of bills he signed on that. “I’ve signed more education bills than all the presidents in the United States put together, et cetera, et cetera, et cetera.”

The second problem was the Vietnam War. Completely different problem. It isn’t that actually the budget director was a really big player when the country was at war, about to go to war, but you do get involved. And, in addition, you get involved. Again, even if your influence isn’t all that big, I learned, I thought, a heck of a lot about the whole strategic business of nuclear deterrence and the complicated issues about do you MIRV this vehicle or what do you do when all the kind of RAND Corporation type of con, strategic policy and all of that. And the first big problem along those lines came, and there had been a lot of criticism of this, by the fact that Johnson, in the first year in which he sent the troops in—now, mind you, the fiscal 1967 budget is in effect written in 1966. At the beginning of 1966 you submit it to the Congress for the 1967 fiscal year. At that time the fiscal year covered June to June, not, as now, October to October. So in June of 1965 you were worrying about ahead and January of ’66 you sent the 1967 budget up. From hindsight, he downplayed the magnitude of what it was going to take to get in there [Vietnam] for three reasons. And I have my own choice of which reason was most important.

First of all, let me give you the facts. He underplayed it and didn’t really kind of come completely clean until November of that year. Now, by today’s lights, that was kind of a picayune sort of thing because the whole Afghan Iraq War has been run for nine years by supplementals.

Schultze: Yeah, sure. Emergency appropriations.

Schultze: But he got a lot of flak out of that on grounds that, well, that was big enough to maybe have affected inflation and everything else. And Congress said, “Well, if we had known that, we would have acted differently on this, that and the other thing.” So I’m right in the middle of that. It was kind of, I don’t know, antsy and difficult and wasn’t very pleasant.

Meeker: So in other words, one of the main concerns about keeping the war at that point off budget and not fully budgeted was concern about inflation?

Schultze: Well, there were three things. The first thing was we didn’t really know a lot and the problem wasn’t initially in January [1966] so much. But every month that went on it became more and more obvious you’re going to have to do more. McNamara had made a career in the Defense Department out of saying to the Joint Chief, “You don’t get a thing unless you’re very specific about what you want and have a plan.” And we didn’t have it. Now, that was one
excuse and it was partially legitimate for the first three or four months. Then it began to get a little—you got to remember, there’s also a big lead time. If you’re going to need more airplanes in 1967, you better damn sure order them a year before, year and a half.

Second reason that people gave, everybody seemed to give, he [Johnson] was afraid, correctly, that the Congress, when you got into the war situation, was going to squash his Great Society programs and that’s what was a pretty common story.

I think there was a third problem. What was needed was a tax increase and some expenditure cuts. But basically a war tax increase. Since he was trying to fight a limited war in Vietnam, he didn’t want to bomb Hanoi. He had a bunch of hawks coming at him all the time on you got to let go. He was scared of the Russians coming in. All of that thing. And he knew that in order to get a tax increase he’s going to have to say, “Boys, this is an all out war and we pushed the American people and patriotism.” All of this business and you lose control. I remember years and years ago reading a well known history book saying fighting a limited war in a democracy is hard as heck just because you lose control when you get people into that environment. And he was afraid that that’s what he’d have to do. Bring on wage and price controls. And initially people thought that’s what would happen. Well, not as much maybe as he did. But still. And I think that was a big part of his reasoning. In any event, the fact was it was a messy problem, although by today’s standard it was picayune.

01-00:17:53
Meeker: Yeah. So it sounds like this third reason. Is this the reason that you think is perhaps most convincing?

01-00:18:02
Schultze: Well, it’s hard to tell. I thought that for so long that I may have convinced myself. Well, for example, I remember in the early days of the war he was quite different than in the latter days. In the early days, he was really mainly fighting the hawks. I remember there’s one senator who had been a macho type. He wasn’t quite as bad as [General Curtis] Le May, but a general in the Air Force during World War II who said bomb them, let the rubble bounce sort of stuff. And I remember him [Johnson] just bitching and moaning that this guy wants me to go over and bomb Hanoi and the Russians will come in and that. He says, “We just can’t do that,” and he was very much that way. As the war went on, it was more, “How the heck am I going to be the first President to lose a war?” And a lot of people didn’t know much about that first part. I think it was hard to run a limited war. I think he was right for the reasons he had. And he also didn’t want to lose his Great Society programs, either. I remember testifying time and time again when they were trying to cut those back when we were coming for a tax increase, which was another story, because that was an off again/on again. It was a comedy not so much of errors
but of bad luck. And we got a tax increase too late. In the meantime, inflation had started to go up.

Meeker: Well, that’s an interesting question about the overall economy of the 1960s. And I wonder why was it that the national debt, which, as you said, was not massive at this time, actually was going through a rather steep decline during the 1960s even though government spending, the guns and butter approach of LBJ, became a much larger portion of the economy.

Schultze: Yeah, but while they’re both very closely related, when you’re at the time forty, fifty percent coming down, it’s been coming down for quite a while, that’s not even—I never even thought about the debt. It was the deficit.

Meeker: It was the deficit.

Schultze: It was kind of the Keynesian point with the other side of it, that if you got too big a boom going you’ll get inflation. So it wasn’t so much debt. It was the deficit. And even then, the deficits didn’t look large. We had an economy in a boom. To kind of get off track a little bit, LBJ, except for the business about delaying the tax increase, which then ran into further delays, wasn’t the federal budget that was, until about 1968, causing the problem. But during the years from ’65 to ’68 or nine, you started with one and a half percent inflation, two and a half, three and a half, four and a half. Most of that was not the Johnson budget, except to the sense that if you’re going to squash that you got to start doing something. It was errors of omission, rather than errors of commission, that led to that. Now, the tax increase, he did finally get one but it was a comedy of something or other. I can no longer remember the dates exactly.

Meeker: Yeah. Well, the tax increase, what you’re talking about, is the surcharge for the Vietnam War, correct?

Schultze: The surcharge. Yeah, that’s right.

Meeker: Why do you describe it as kind of a comedy of errors?

Schultze: [the following paragraph was rewritten in the editing process] Well, the President couldn’t be persuaded to ask for a general tax increase until late 1966. In September, however, because of fears that the ongoing investment boom might set off inflationary pressures, the Administration did get the Congress to suspend the investment tax credit, instituted early under the Kennedy tax cut. The President repeated his call for a general tax increase in
January 1967 – a tax surcharge on individual and personal incomes. During the spring of that year, however, we had a temporary lull in the economy as inventory building slowed substantially, and the Congress, at the President’s request, reinstated the investment tax credit. But he continued his support for the general tax surcharge. The Chairman of the Ways and Means Committee was very much annoyed with the off-again on-again business with the investment surcharge. It got so bad that he wouldn’t even talk to the CEA Chairman. The Congress didn’t pass the tax surcharge until well into 1968.

Meeker: Was that Wilbur Mills at the time?

Schultze: Yeah. Wilbur Mills was the chairman. And the President finally got his tax increase in 1968, but the budget did blow up some before then. The budget deficit, which had been running less than one percent jumped to almost three percent in 1968. Then with the tax increase it went back down to a positive. Not a surplus. There was a slight surplus, three-tenths of a percent in 1969. And that’s what I mean by a whole comedy. A.) he was late proposing it. But if we had pushed it and gotten it pretty quickly, some of this wouldn’t happen. Although then I still say the main culprit for the inflation rise we did get, which I maybe will come to later, was the first stage in about a twenty year kind of stagflation scenario. It wasn’t the big part but it kind of was the first start on it. We might not have had the worst of that but we would have had a good chunk of it anyway, just because the economy was so strong. Unless, as I say, he [Johnson] had decided to intervene even more so. So he in effect gets blamed to some extent for that inflation. By the time he got to 1969, it was up to four and a half percent, which was big numbers then. We’d gone from 1948 with one year exception through a budget deficit of less than two percent of GDP and that wasn’t much of anything.

Meeker: So you point out that the stagflation of the 1970s really begins in ’68, ’69 thereabouts, as it starts to go up slowly. What do you see as the driving forces of the kind of an upward trend in inflation?

Schultze: You didn’t see it happening. Well, everybody expected this was going to go down. Inflation didn’t come down but the budget deficits did switch to a tiny surplus and it wasn’t bad. The problem is if you have an era like we’ve had recently of persistent low inflation, as we did, as I say, from 1948 through. It was business, workers who set wages and prices. Don’t pay much attention to general inflation. It’s kind of a little noise up and down but it’s not a big thing. Workers don’t insist on every little jiggle and prices getting put back into wages. But once you get up into a higher level of inflation, then four percent begins to get you there. The emphasis on that starts to switch until you get into the wage price spiral, where prices go up. Maybe not a lot but inflation rate goes up. And you start getting pressure for more wages and the unions are
pushing and the people, one of the things I discovered in the Carter years, was that the big non-union firms are just as concerned about the wages because they got to make sure they keep up with the unions and so on and so forth. So you get the higher wage price not just higher inflation, which starts to escalate.

Meeker: Exponential, yeah.

I’m getting ahead of myself, but I can’t help it. You get big oil price increases, which are not a result of too much demand or budget excesses or any of that. They’re coming from abroad. They’re coming from the cartel. And workers are going to insist on getting recoup for that. Well, you can’t get recoup for that. That’s just the way it is. Business firms aren’t going to squeeze their profits more. So then you get an additional recessionary jolt, which starting not in the LBJ years but the ’74 and ’79, ’80 oil price increases just give this another jolt. So that makes it even worse. And those were big price increases. Combined with the fact that the oil price increase has a completely opposite effect by pulling purchasing power out of the economy and gives you a downward shove. And that causes higher unemployment. You get period of high unemployment. So it’s the beginning of the wage price spiral and a different environment in which the system works. Big oil price increases on top of that. And a third one is as hard as hell to get rid of it. I remember, particularly in the Carter Administration, which was really the devil by this, saying, “I can tell you how to get rid of it. You just be a tough enough budget and tight enough monetary policy and get the unemployment rate way up and we can solve this.” But neither me, nor Lyndon Johnson, nor Jimmy Carter, nor Ronald Reagan, nor anybody else—that’s why it’s great to have an independent Fed—that’s going to do that. And it wasn’t until Volcker came along. I remember the wholesale price index, as we called it at the time, went up by 18 percent in one month. So that all came together. And if you look at what happened, we had a 1970 recession right after Johnson and prices declined. Rate of inflation declined a little but you ended up above where you had been before. Then 1974 was the beginning of what was then a large recession. They went up first initially because the price hit them, oil price hit them, and they never came down a lot. And then finally, the 1980 [inflation spike], only after Volcker did it come down and stay down. And Volcker was very good about keeping it down. And then after a while, took a while, you got built into the system what we had. So that this time those oil price increases, which were really big, had for all practical purposes no big impact on the economy. Now, they did draw purchasing power but we were borrowing like hell anyway.

Meeker: But that’s definitely getting ahead of ourselves. I’m wondering if you can offer an explanation of why it was that oil price increases in the eighties and
nineties and today haven’t had the inflationary effect that they did in the 1970s?

Schultze: Well, I’m saying that the reason was if we had, in 2003 when they really started jumping in badly, the same kind of inflation history we had for ten years we had before the first one got started. We had that year after year. One percent, one and a half percent occasionally. One year got three percent and I wrote a dissertation about it. We had the same oil prices increases recently. It just didn’t have the same impact. And the American people a few years ago were borrowing their way through anything. It didn’t cut back much on purchases of goods and services because people were in a different mood. But the big thing is the oil increases didn’t give you this double edged inflation where it pushes inflation up and simultaneously pushes the economy down because we had a different world. And I give Volcker and then Bernanke a lot of credit for doing that.

Meeker: Well, we’ll definitely return to the inflation question, because it’s I think your central concern during Carter’s term. You had mentioned that inflation was not a huge concern during LBJ’s Presidency.

Schultze: Well, can I interject there?

Meeker: All right.

Schultze: It’s not exactly true because people don’t remember this. But the [Walter] Heller Council of Economic Advisors pushed hard for a jaw-boning policy on wages and prices as part of their attempt to lift the economy after kind of a sluggish period in ’60, ’61. How much that worked I’m not sure. But it may have had some influences. So they were concerned about inflation, trying to prevent it getting started, and laid on this fairly elaborate jaw boning policy. It may have worked a little bit then. We tried the same thing, but by the time we got there the unions wanted no part of it.

Meeker: Well, that’s actually exactly what I was getting at. If you look back to World War II, the approach to dealing with wartime inflation was fairly stringent and probably had been wage controls.

Schultze: Oh, then you had legal price and wage controls.

Meeker: Yeah. So I wonder, in the context of the Vietnam War, when there was at least a simmering concern about inflation, if wage and price controls were ever considered and why they were rejected.
Judge: Well, in the Johnson years we didn’t think inflation was a problem and we thought it was partly under control—and it was until the Vietnam War came along. But there was a real boom after the Kennedy tax cut. It wasn’t necessarily a bubble boom but it was a boom going on in the private economy and it did begin to nick inflation up a little bit. And they had their own controls on and nobody wanted to go back to wage and price control. That came up again in the Carter Administration. I remember that vividly.

Judge: So maybe the jawboning worked in the sixties because the memories of the World War II wage and price controls were still fresh?

Judge: Well, I can’t tell you now how much it worked. One of my colleagues has written a paper, this is years ago, suggesting it had some impact. I’m not sure. The big point was that the inflation, even though it was building up, was building up from virtually nothing and nobody in the LBJ years—didn’t worry about it terribly much. A lot of the opposition, criticism Johnson got about the budget was more the people who instinctively just don’t like budget deficits. I don’t mean it wasn’t thought about. But kind of the political environment wasn’t much, if I remember it, in which inflation was a big thing, even though by the time you got to the end of the Johnson era, it had gotten its way up to 4.5 percent. That’s about the best. Whereas in the Carter years you went in with 5 percent inflation, 6 percent, and it went up during our years, too. Then everybody was aware of it. We had all kind of ways. Again, I may be jumping ahead, but I remember there was a meeting. Nixon had wage and price controls and the residue was in the law. That is, you still had the authority there but it was going to expire. I remember a session down in peanut land down in Carter’s home.

Judge: Plains, Georgia.

Judge: Plains, Georgia. Where that subject came up. I hadn’t said much and Carter turned to me and said, “What would you do, Charlie? Would you extend those wage and price control laws?” And I, having thought about it some, I said no, on the grounds that once they’re there and things start to get going, then the pressure is going to be on to do it and business firms are going to say, “We better get our price increases in now,” and it could be dangerous, so don’t do it. At the end of the period, some of the political types were beginning to make noises about wage and price controls. I even sent a letter in to Carter in 1979 or ’80 saying, “Look, you’re coming up for an election, et cetera, et cetera, et cetera, and you got some people pushing wage and price controls. I think that’s wrong but if you’re thinking of doing it, why don’t I quit beforehand.” I wasn’t trying to pressure him. I’m just saying, “To do you a
favor. Get rid of me now.” So he didn’t do it. He was pretty conservative on this, too.

Meeker: Wow. I’ve never heard that explanation of avoiding wage and price controls, for fear that they would actually spur an inflationary sort of rally prior to them going into effect.

Schultze: Yeah. I may have been pushing that a little hard. No, no. But it was a clear case that would happen. Now, I don’t think if you’d gone ahead and done it—it would have taken a blip in inflation but that alone wouldn’t have—if that was all it was, it wouldn’t have given you the problem. But it would exacerbate it. We were doing everything we could, I remember. Well, I’ll keep going to the Carter Administration. Why don’t we wait until we get there.

Meeker: Okay. Well, I just have a general question about the Nixon and Ford years. Forgive me, it’s a little drawn out, so let me do a setup here first. I came across a publication, I think from the American Enterprise Institute, of a transcript of a conversation, a debate, you had with James Lynn, who was Ford’s OMB director. This was, I think, in 1975. And in this conversation Lynn said, “We must get back to balanced budgets. Doing so is inextricably linked to combating inflation and if the country continues to sustain inflation of the kind experienced recently, it will be a country in which the system of competition of risk and reward of investment cannot survive, let alone flourish.” And your response was that Congress appropriated more than Ford requested, therefore spending more, right?

Schultze: Right.

Meeker: And you said, “And then what happened? A pretty good recovery got under way. Inflation did not re-ignite. Despite a poor rate of growth in the money supply, interest rates did not rise and private investment was not crowded out.”

Schultze: What year was this? Seventy?

Meeker: Seventy-five. So this was during Ford’s presidency. And so I’m wondering if you can comment on this debate about budget deficits during the period when, as you point out, deficits were quite low. Is Lynn’s concern and discussion of deficits begin to point to a new paradigm of concern about it or is this sort of the way in which they were talked about?
Schultze: There was kind of a standard view. I don’t remember that particular interview. If you’d asked me at the time. But I would have said the same thing I said then. If you could look forward to the 1979, ’80 oil price increases, you might have said, okay, this will go too far. It’s just I didn’t believe that a tax cut—oh, and I know what. The other thing that I do that comes into that. At that time, didn’t last very long, I was kind of an advisor to the Democrats on the Hill. And I remember they wanted to have a stimulus program and I pushed like heck for what they did, which was a temporary rebate. Not so much because of inflation but there are all kinds of reasons you don’t want to give these taxes away. So therefore go for a temporary one. So if you’d asked me at the time what about a permanent tax cut, I probably still would have said yes because that was a pretty bad recession. But it would have been much more difficult. So at the time I didn’t think there was any problem. Now, ’75, the price inflation was still higher than we’d had. It was probably up in the 4 percent, 5 percent range maybe. That was higher than what we’re used to. But at the time I didn’t think that was a long run problem. And in a way I was wrong but I still wouldn’t have pushed it in the middle of a recession.

Meeker: Meaning? Pushed what?

Schultze: Oh, pushed some kind of restrictive policy.

Meeker: Okay. A restrictive spending policy?

Schultze: Well, either spending or higher taxes. Well, they weren’t going to push higher taxes. Yeah, yeah.

Meeker: Some people look to the Kennedy tax cuts as the beginning of supply side economics. Maybe a prehistory, if you will. Supply-siders later would look back on the Kennedy tax cuts and see it as evidence of the veracity of the theory. And in this same exchange from 1975, you described something that sounds like an early version of supply side economics, which you rejected when you said, “I just don’t believe in this psychological theory of reverse causation,” which is sort of interesting. I wonder, on this notion of cutting taxes to spur economic growth, which then presumably would make the federal coffers overflow, when were you first exposed to this idea? What did you think of it?

Schultze: Oh, I’ll tell you. I have a great quote about it, supply side. There’s absolutely nothing wrong with supply side economics you couldn’t cure by dividing its claims by a factor of ten. Now, ten was probably made a little too big. Yeah, I believe there is an effect there. Now, I don’t believe it’s particularly in effect
during a recession because firms aren’t out there saying, “Oh, gee, I got a tax cut. I’m going to build a hell of a lot of stuff and keep it in my warehouse when people aren’t buying it.” I don’t believe it. In normal times, yeah, it has an effect. There’s a great story about one of my predecessor, Arthur Burns. It’s within one of these. The people down at the Miller Center that do these same kind of things. It’s a footnote. In 1954 or ’58, I can’t remember, one of those two recessions. I think it was the second. Arthur, who was not then chairman, had left the council, was trying to convince Eisenhower to have a tax cut for Keynesian reasons. He wasn’t a Keynesian but nevertheless the same idea.

01-00:45:16
Meeker: Stimulative tax cut.

01-00:45:17
Schultze: Yeah. The guy who was then Secretary of the Treasury was an old fashioned, hard as rock, hard headed conservative Republican on fiscal policy. He hated deficits and he just didn’t like that at all. He’s the one who decried Eisenhower’s own deficit while he was Secretary of the Treasury. Arthur [Burns], trying to bring him around, got over to the supply side by saying, “And in addition to putting more purchasing power in the economy, it could help incentives—.” And what’s his name turned to him and said, “Arthur, I pay my 91 percent tax rates and I don’t complain and you don’t pay anything like that and you’re always bitching about it.”

01-00:46:03
Meeker: Wow.

01-00:49:03
Schultze: It’s the difference between the pre-supply side Republicans who were death on deficits. Sure, they’d like a tax cut, too, but that wasn’t a big deal.

01-00:46:13
Meeker: Sure. This is, if you will, a meta-issue that we’ve been exploring: the transformation of the Republican Party over the post-war era from a party that was very fiscally conservative, liked to have balanced budgets, to a party that I would describe as fiscal risk takers. That comes along with the supply side theory. It sounds like there were some opening salvos in this war as early as the 1950s with people like Arthur Burns. Or would you date it later on?

01-00:46:55
Schultze: Well, but that wasn’t the main point of Burns. I’m sure we were just picking up an extra argument. Even then conservatives said, “Yeah, incentives are important.” But compared to deficits, it wasn’t. I don’t think Burns was trying to raise a the whole concept that business firms act in accord with incentives, et cetera, et cetera, and supply side demand. That is, can you sell it? It wasn’t an overnight affair. Because of people like Art Laffer and Steve Forbes and a number of others, that got big—
Meeker: David Stockman.

Schultze: Yeah. And I’m not good enough at the political chronology. Not chronology but interpretation to know. But that took over. Well, it had a big success in pushing the economy up because a lot more money out and people were buying. But as far as I can tell, we had slow productivity growth, innovation was slow all during that period and then all the way up to 1995. So it didn’t have much impact on incentives but it had a big impact on stimulating demand. The Reagan cuts.

Meeker: Yeah. So the impact—

Schultze: Well, in the five months after the trough of the worst recession we’d then had in history, the last part of 1982—in May, because of that huge budget deficit at the time, it looked like that lay ahead, Volcker began to push up interest rates and pushed them up over the next year and a half or year and a quarter about 250 basis points, which was a great thing to do because you had a good recovery without inflation because he was pushing down the excesses that that fiscal policy would have given you.

Meeker: Interesting. So there was a balance there between Reagan and Volcker?

Schultze: Well, the Fed is independent. Reagan’s people criticized Burns much more than any Democrat I’ve known except LBJ once. So I don’t know about the balance. It was a balance but I don’t think it was a planned balance. I don’t think Reagan put him in there to do that.

Meeker: So another kind of legislative touchstone in our study again was this 1974 Budget Act, which created the Congressional Budget Office and arguably moved some power from the Executive Branch to the Congress around budgeting. And I’m wondering if you can maybe give a little insight into it, given that you were in the OMB in the sixties.

Schultze: Well, I testified on it and so on.

Meeker: Yeah. And I know that actually some of the ideas from the ’74 Act actually came out of Brookings here and I imagine you were probably around at that point in time.

Schultze: Yeah, yeah, yeah.
Meeker: What was the extent that, first of all, that act was passed out of a concern over budget deficits? What was the rationale?

Schultze: No, no, no.

Meeker: Okay. Well, then, what were the main rationale for the Act?

Schultze: From small things, small acorns, big oak trees grow. The biggest thing that set that off was the whole business of—I’m getting old enough I can’t think of the term.

Meeker: Oh, impoundment?

Schultze: Impoundment. Nixon had impounded. Every president impounded some. But like most things with Nixon, he just took it way ahead of it and Congress was so pissed off that they set that committee up to get a budget procedure which would cut that out. And as they got into it, however, they began to take up bigger and bigger issues and set up a whole new paraphernalia, including the Congressional Budget Office. I think Alice Rivlin ought to be given any kind of awards you can give her for coming in and making that thing independent and respected. It’s incredible. Even now you get a very strong Democrat or a very strong Republican to run it and they don’t seem to vary much from their predecessor or successor. But it came from that—not little but more or less little things. At least that’s my vivid recollection of it. Now, there were all kinds of technical problems to solve and I never in the early days thought—they made a budget committee. Nobody realized what was going to happen but as part of that. You, for the first time, had a group with which OMB could negotiate and talk to. There were no appropriations committees. They didn’t control revenues. In fact, the Ways and Means Committee, by controlling Medicare and Medicaid and Social Security, controlled all of the revenues and half of the spending. But they put in step a lot of procedures. No, they didn’t stop a lot of bad things from happening but they made it, I think, at least somewhat more rational. But it came out of that, I think, was my memory, that one thing.

Meeker: It’s interesting. It’s sort of unintended consequences, perhaps.

Schultze: Yes, exactly. Yeah, yeah. It was a good set of unintended consequences. But I say Alice [Rivlin] ought to get all kinds of credit because, to be honest with you, I didn’t think it was going to work with all those prima donnas looking down. And somehow the CBO gets away with murder in that sense.
Meeker: So you didn’t think it was going to work because you thought it was going to be politicized?

Schultze: Well, I didn’t mean it was going to all go bust. But at the time I wouldn’t have dreamed up the idea of a CBO just on grounds I thought you couldn’t make it independent, a big congressional—

Meeker: Okay. You thought it would have just been another OMB perhaps?

Schultze: No, not another OMB. It would have been dominated by the chairman of the appropriations committees probably. And it wasn’t. Yeah, yeah. And give her credit.

Meeker: Well, I think the stature of the director’s of office have something to do with that.

Schultze: Oh, yeah. And also it’s been good picks mainly all the way through.

Meeker: Yeah. There have been a few maybe not so good picks.

Schultze: Well, nobody, even the one guy I can think of whose name I won’t mention, I thought went in with kind of Republican political ideas, and he, after about one or two or three months, he was doing it with the best of them.

Meeker: Interesting.

Schultze: So yeah. Yeah. It’s lived on. Now, god, they make mistakes. We all make mistakes and they’re not perfect and the system by now is kind of broken down but not because of CBO.

Meeker: I’m guessing that’s probably Dan Crippen?

Schultze: Well, I wouldn’t—

Meeker: Okay, all right. I won’t force you into that position. Well, let’s move on to the Carter Administration then.

Schultze: Right. We’ve been away from LBJ for a long time.
Yeah. So you’ve talked a little bit about the 1973 to ’75 recession and how it was rather long and deep and unemployment was rather high, 9 percent, in 1975. Had gone down a little bit by the time that Carter comes into office. Stagflation had become high, inflation combined with job losses. The national debt increased in the Ford Administration. If you kind of look at the graphs, there was a little bump up at the end of the Ford Administration.

Schultze: In what?

Meeker: In deficits.

Schultze: Oh, deficits.

Meeker: Contributing to the national debt.

Schultze: It was also a recession.

Meeker: And it was also a recession. Yeah. So there were mounting deficits, in other words, and there was some concern about this. Government spending as a percentage of the GDP had been growing and revenues, they did in fact keep growing because of inflation at that time. Income tax was not indexed to inflation. But they were unsteady because of the recession. And so given this economic climate of late ’76 into ’77, can you give me an overview of what the main concerns were of Carter’s economic advisors and what sort of advice were you giving to Carter at this point in time?

Schultze: Well, Carter was a fiscal conservative at heart.

Meeker: What does that mean?

Schultze: Well, he just liked balanced budgets. I don’t know. Don’t spend too much and so on and so forth. He wasn’t erratic on it or anything. I remember him being pushed into having a stimulus program at the beginning of his reign. What happened, and among other things, was that the recovery, which was going on in 1976, kind of didn’t peter out but it stumbled, particularly with the earlier release of the statistics. I think they got revised up in about the time of the election campaign. So I don’t remember the extent to which it got built into his campaign but I think it did, of having a stimulus program or whatever we called it at the time. I was hot for doing what they’d done in ’75, which was a rebate against the permanent tax cut and the minimum amount possible you
could get away with by way of spending increases. Because what the Congress wanted was like an accelerated public works program. And the problem with that then, when you’re thinking about the “normal” recession, is that they come on too late. I remember looking at some OMB numbers some years later—three or four years after the whole thing was over—you’re still spending money out of that. There’s no such thing as a shovel-ready virtually project. So I didn’t want that. But the Congress, I remember a big session down at the peanut factory. They kind of pushed that on Carter and he took the minimum amount I could convince him to take and he took it. And then Ray Marshall, the incoming secretary of labor, for big public employment programs and I tried to minimize those because I thought they won’t go away. And they didn’t during the Carter Administration.

Meeker: This is like CETA.

Schultze: Yeah. And by this time I forget the specific names of it. There were combinations of different programs. But in any event, we had a stimulus program. The Congress didn’t like the rebate. I don’t know why.

Meeker: Well, I remember reading somewhere that perhaps it was Blumenthal or somebody else in the Administration said that rebates felt like bribery to the population or something.

Schultze: I don’t remember that but it was giving something away for nothing or I don’t know what.

Meeker: Why did you support rebates as opposed to stimulus spending on programs?

Schultze: Because, again, the same reason: by the time that they were there, the economy would be out of this and it would be inflationary. It would add to the inflationary pressure. And that’s what happened a little bit. Not much. We had to give up the rebate. I remember that. Because it was my idea and we pushed it. In addition to everything else, Muskie and some other people are going out on a limb. It wasn’t very popular, the Congress pushing it, and he didn’t notify them before he made the public announcement he was going to get rid of it. And boy, you don’t think I didn’t get a blasting over the phone for that.

Meeker: From who?

Schultze: Muskie. Understandably he was pissed off.
Meeker: Oh, I see. So Muskie went out on a limb, a legislative limb.

Schultze: A limb. And other people did.

Meeker: And then Carter eliminated it. Okay.

Schultze: I remember the debate in the White House. It was Blumenthal and the budget director on one side and me and Stu Eizenstat on the other. Now, it turns out economically I was wrong. We didn’t really need all that. It wouldn’t have hurt, it wasn’t that big, but we probably didn’t really need it. So what we got was some extra construction and some extra employment programs, which were some good and some not so good. But we probably didn’t really need it.

Meeker: So the tax rebate that you proposed, there’s always this question about who should be getting the tax rebate.

Schultze: Oh, I know. I know. Oh, god.

Meeker: What was the nature of what you were proposing? What did it look like?

Schultze: I think it was fifty dollars or something or other per person in the house. I can no longer remember. But it was a flat amount. But the amount of effort we went to to make sure every person in the country got it. It wasn’t just taxpayers. You can’t reach everybody who’s a taxpayer but doesn’t pay that year. You got to go through beefing up all the welfare programs. And it just went on and on and on, all the problems.

Begin Audio File 2 12-06-2010.mp3

Meeker: This is tape two in our interview with Charles Schultze. So we were talking about the stimulus package, the economic agenda that Carter brought coming in. You had actually described a little bit of this happening down in Plains, Georgia and it sounds like this probably was prior to the inauguration.

Schultze: Yes. Between election and the inauguration. I’m not that sure whether to say this or not. Let’s put it this way. We lost one potential Secretary of the Treasury at one of those meetings. You get there in the morning and no lunch, no nothing. You’d finish. I remember one time we finished, god, we get on the bus and somebody said, “Don’t worry about it. You’ll get something to eat on the bus.” Well, on the bus we got a little apple and a little pile of crackers.
One of the guys who was a well known financial bank guy couldn’t even find where to get a glass so he could a glass of water. Fritz Mondale says, we’re all sitting there, he says, “That guy’s got an awfully cement ass.” He can sit there all day.

Meeker: But that sounds indicative of him [Carter] being very conservative and not—

Schultze: Yeah, yeah. He put a cousin of his in charge of the administration of the White House and he was known universally as Cousin Cheap.

Meeker: Yeah. In California at the time, right, we had our first term of Jerry Brown, who was famous, for one, for not moving into the newly built governor’s mansion that Reagan built, and two, for driving a Pinto.

Schultze: Oh. Yeah, yeah, yeah.

Meeker: So there was something going on at that point in time. It’s kind of interesting.

Schultze: He was really a nice guy, Carter, except he was kind of cheap on that stuff.

Meeker: Okay. You said maybe this resulted in a loss of one potential treasury secretary. Can you tell me a little bit about how you were selected as CEA chair, if you thought you were going to get a position in the administration, if this is the one that you wanted.

Schultze: Yeah. I stayed active around Democratic circles during the interval between Johnson and Carter. So among Democratic economists I was pretty well known. Two anecdotes about that. One, I remember—I didn’t hear this—but Ham Jordan saying, “We’re going to have a new type of person around this place. We’re not going to be going after the Cy Vances or Charlie Schultzes.” And I remember him then coming around to tell me would I be willing to go down to see the President, et cetera, et cetera. I kind of like that. What was the other one?

Meeker: It was about your selection as CEA chair.

Schultze: Yeah. He and Fritz were there. I got in the room and kind of a, “What would you like to do, Charlie?” I said, “I’d like to be OMB director.” Well, there was no OMB then. But budget director again. I said, “Now I know all the things not to do and how to do it.” He said, “Well, we’ve got this wonderful
transportation secretary from Georgia named Burt Lance and we’re going to put him in.” Well, that didn’t last very long.

02-00:04:23
Meeker: Do you have a sense why he was selected? Was it his proximity to Carter?

02-00:04:28
Schultze: Yeah. I think he felt comfortable with him and he understood him. Bert was pretty conservative himself. As far as I could tell, that was it. I didn’t know the background but they trusted him.

02-00:05:10
Meeker: The CEA is a fairly small office in the Executive Branch. I’m wondering if you can tell me a little bit about how you assembled your team, how much authority you had over who you picked?

02-00:05:55
Schultze: It’s non-civil service. And it hadn’t fluctuated a lot. I’ll have to guess. I can easily find out. If I’m wrong, I’ll correct it. Talking about economists as opposed to secretaries and we did have a statistical office. Yeah, maybe twelve, fifteen, and that’s it. When I used to work there, they were mainly people who were there for a number of years. But it later changed, not long after, when I was there as a staff member. But we would bring in for one year, occasionally two years, bright young academics who were starting out as assistant professors somewhere, were known to be good, had good sponsors and that went very well. And that was fundamentally it. Now, so when I got there, I inherited all the staff from the prior administration and I didn’t have any trouble working with them. Like John Taylor—he was one of the guys. And you can get the best. You say, “Come down to CEA and be an RA.” Some of them were just out of college but some of them were between finishing their orals and doing a dissertation.

02-00:06:42
Meeker: ABD, yeah.

02-00:06:43
Schultze: And that was fine. It was a great operation and I didn’t want it to get much bigger. And it isn’t much bigger. It is a little bigger.

02-00:06:50
Meeker: The way you describe it, it really wasn’t an academic outpost within the Executive Branch.

02-00:06:56
Schultze: Yeah. I’ve got a paper I wrote on it, making the point I made a little bit earlier about the budget bureau. I’ll give you a copy if you want.

02-00:07:07
Meeker: Yeah. I’d love to at least get a reference to that.
Essentially, 80 percent of what the CEA does in terms of the time is not the big macroeconomic stuff. It’s all the stuff that continually flows into the White House. You’ve got trade policy and specific decisions to make. There’s always agencies in the government pushing the president to do this, that or the other thing. So it’s microeconomics, most of it, and my proposition was the CEA ought to be the partisan advocate of efficiency. I also said at one time often I might give the president advice that if I were president I wouldn’t have taken on grounds—with one big exception. I don’t want to go in there and try to balance everything, including on the efficiency part. I was very much in favor of a good safety net but you take care of problems with the safety net, not building in all kinds of inefficient protections for this industry or that industry or this group of workers or that group of workers. And we are the official ear of the economics profession and we ought to be able to translate that into stuff the president can understand and understand his problems. But we ought not, again, I said one big exception, be in the political business and we ought not even to be, for purposes of individual items, in their to do good in the sense of the people part of it, except it then behooved us to be big supporters of strong broad safety nets as a way to handle this. So the free traders, that sort of stuff. Let’s just take a presidential piece of legislation, big, small, whatever. First it goes through three tiered committee. Usually you have the staff, then you have the assistant secretary level, then what the group is going to handle. Then you come to the president and make a decision. Then you got to have seven different sets of decisions. It goes through each house. A subcommittee, a committee, then the house as a whole and then a conference committee. And every time you do you got then another set of circumstances. Do we accept this? From our standpoint do we accept this amendment, not accept it? Mind you, this is mainly working with—it’s not CEA by itself—but committees. In doing that, you’ll find that, understandably, department heads or the number two, whoever’s working with this, every time you go to the Congress and they’ll say, “If you don’t put this amendment in, I’m not going to vote for it.” And the bill won’t pass and they’ll always come in with that. And strangely enough, it’s always on the side of what they wanted at the beginning. Now, that’s a little strong. And therefore you’ve got to have some sense of when to stick your back up and when not to. Because you don’t want to go to the president as a dissident all the time. So you do need to build up a sense for that particular purpose, but you don’t try to outguess the president on the politics of it.

Meeker: That’s a very interesting subtle analysis. At the CEA you want to be, it sounds like, non-political. But the reality of the situation is you’re forced—

Schultze: Yeah, forced to. Yeah, yeah.

Meeker: —to be political but you try—
But in a limited sense. We had an office in the Executive Office Building. An office opened up in the White House, would I move over there? I said, “No. I don’t want to get away from my staff. I don’t want to.” Those guys are, understandably, mainly into a different business than I am. And everybody said, “Schultze is losing it.” I was co-chairman of what they now call the NEC, the National Economic Council. At the time we had a very messy arrangement. At any event, the Secretary of the Treasury and I were co-chairs and I decided I didn’t want to do that because then, instead of being able to see the president—and I could get one on one with him, not all the time. I don’t want to have to be giving him something I think has already been compromised down. And therefore I got off it. And then people, “Oh, Schultze is losing out.” But you got to play a role in some of these. As I say, I’d give him advice that I wouldn’t take if I myself were pres—he knew that. And you can’t be an ivory tower type. You got to be able to write well to get him. I used to write mostly memos in outline for him. You could get a little longer paragraphs in. But LBJ loved that. He’d really go through that. And it’s good because it forces you to have a logical structure to go through. Well, enough of that.

Meeker: No, that’s actually great material that you can really only get in an interview like this, so I love that background. Before we move on about Carter’s fiscal policy, kind of hovering on the CEA and something that you said made me think of this one broader question about being an economist, right. And not necessarily the degree to which you were forced or exempt from being political, but I’m thinking the degree to which you were engaged with the academic profession of economists overall. And in thinking about this period of time, the 1970s, it is a period of time where academic economists in the United States are going through a really big transition, particularly moving from Keynesianism in a really broad sense to embrace of Milton Friedman and monetarism.

Schultze: Yeah, I don’t agree with that.

Meeker: You don’t agree with that? But that’s how historians see that.

Schultze: Yeah, I know. I don’t. No, no.

Meeker: So maybe you can give a different perspective on it.

Schultze: Like most everybody I know, the kind of pure Keynes, people have shifted well away from him, even though a lot of the basics are still there about stimulating the economy in a recession and so on. But much more
sophisticated. Well, it’d hard to be more sophisticated than Keynes. But in a way more sophisticated, more understanding what the institutional part of it and what works and what doesn’t work. With Milton, the whole business of the quantity of money is the only thing that matters and you keep the economy. I did then, I did know, and I think most people now agree this whole business of monetarism, that you set a given rate of increase in the money supply and that’s it, is wrong. And I don’t think there’s been a big swing to that at all. The Fed doesn’t use that approach. Even Milton, like Friedman, I think, would have to change because in a modern financial world a large part of what goes on isn’t—you got a whole shadow banking system. You got a whole different group of intermediaries out there. And I remember when Volcker, for reasons that are very interesting, shifted for a while to a monetarist approach. When you set the short-term interest rate, you’re doing it with pushing more money in and out but the point is you got to target, as you target the interest rate, and if takes more money or less money to get to that interest rate, you do it. When he first went into this, and he only stayed there about three years into this way of doing it, we had money supply. M1, M1A, M1B, M2 and now there’d be about M3. The Fed still keeps the numbers. They know what it is. But that part of Milton Friedman is gone. The second Milton Friedman is just very conservative on what the market ought to do and what the government ought to do. He thinks that optimum size of government would be maybe ten percent of GDP. Milton had all kinds of good insights, because we do some awful silly things as government. I don’t disagree with that at all. And there has been a big change away from the naïve Keynesianism to—I don’t know what you’d call it.

02-00:17:14
Meeker: Neoclassicism?

02-00:17:15
Schultze: But fundamentally it says that it’s true. The government can’t iron out every wrinkle in the economy. It’s absurd to try. The Fed doesn’t try that. One of the problems with this recession is getting people, myself included, to say maybe this is so deep that you don’t have to worry too much about the length of time in which it takes spending to get going. Yeah, put some spending in your program because even if some comes in two years later you’re going to need it. But on the other hand, there’s been a big shift away from the idea that you can push and pull government spending. And for a long time, myself included, there was a Garden of Eden period in which the monetary policy was doing its work mainly and you didn’t need so much of the other stuff. So people have changed. But it’s the kind of fundamentals that the government has a responsibility to intervene, including with fiscal policy but only when it’s a big enough thing to make the timing work. That’s what I would say. Now you’re going to get other people who are going to give you a different story obviously.
Meeker: That’s a helpful explanation. That’s, again, providing some subtlety to it. It seems clear that deficits were not a major concern of yours as an economist and it sounds like it wasn’t a major concern of—

Schultze: Well, no, no. From the time I left, after the Reagan years in particular, I spent a large amount of my time saying we got to get back. Not to debt. Debt part. Because there are two things a deficit can do in a way. We had talked about economics. It can stimulate the economy more or less than some people think. But also, there’s a long run impact, that what that is is it sops up saving and economic growth, all kinds of things involved in economic growth, but one of them is investment. And so I wrote articles. I remember coining a phrase which you see once in a while. Starting with the big Reagan deficits. Periodically they’d pop up again. This is not in the context of this long run catastrophe we got here but deficits are not a wolf at the door, they’re termites in the basement and what they do is nibble away at your long run growth. Now, it doesn’t usually look like a big thing if you run deficits that soak up saving in financing that could otherwise have gone to investment. And that’s more a problem of prosperous times. During recessions it’s a different world. You got excess capacity. But when you think of the more normal times when you’re dealing with a relatively low unemployment. Now, reasonably speaking, getting the deficit somewhat higher or somewhat lower during those periods, if you get it right, can add two-tenths of a percent or three-tenths of a percent a year to economic growth. But when you compound that out, A, it’s a lot and B, in good times we grow it in terms of per capita growth, say, three percent a year. Well, three-tenths of a percent is a ten percent of what you’re doing on growth and if we knew how to do better than that we’d all be rich. So it isn’t that I don’t think deficits are important but I don’t think they’re important, as many people do, in terms of the kind of cyclical up and down stuff. They’re important.

Meeker: But it sounds like you came to see deficits becoming an issue not until the Reagan era.

Schultze: Yeah, mainly. Yeah, mainly.

Meeker: Okay. What I wanted to get at, though, was it seems like in the 1970s, as evidenced by the American Enterprise Institute conversation that was published, was that deficits were not the main concern. Rather inflation probably was. But a lot of historians have talked about Carter as kind of being a deficit hawk, if you will, before it was fashionable to be so. And one, do you think that’s an accurate assessment, and then two, how did his interest in balanced budgets impact the work that you did for him?
Schultze: Well, the first thing, I think to give Carter his due. He was the first Democrat to come along since Franklin Roosevelt who thought that the solution to any national social problem was to create a new program and let the government spend money on it. He was trying to Clintonize before Clintonizing was popular. And that meant it was very difficult for him to operate in the Democratic Party. He was a big environmentalist but he came around to believing you got to do this efficiently. My view would be less regulation and more putting a tax on bads. And that was hard to do. It gave him all kind of problems and he wasn’t fully successful in doing it. Clinton picked that up and, after the first year, did it by what they call triangulating, which I never understood. Didn’t make much sense to me. So he was a big environmentalist. We set up OMB. Not OMB. It’s Executive Office review of agency regulations and he finally agreed to that. He was a big environmentalist. But in general he was conservative and on budget deficits, if you could convince him he ought to move towards less, he liked that. That’s what he felt more confident with.

In 1978, we put a tax reform bill on. At the time we thought it was necessary. You can’t sell tax reform without also being a tax cut. At the very end of the whole process, he didn’t like the way that Congress was handling the reform, particularly because they wanted to extend capital gains taxation, ease it up. And if I, wasn’t just me but several others, hadn’t convinced him, wrongly I think now, the economy needed the tax cut because our forecast showed a mild potential recession if we didn’t have a tax cut, he not would have gone along with it for a different reason. And we would have had a somewhat tighter budget in the latter part of his term. And that would have had a very mild, but some modest affect on the inflation problem. So I say he would have given it up if two or three of us had said something. I’m not sure of that. But for a different reason though. Although he did like the less budget deficit the better.

I remember another time, about the same time, I don’t remember exactly when, that Congress was pushing him when he was preparing his 1980 budget in ’79 or his ’79 in ’78, I can’t remember which, to promise in advance he would keep the deficit under X. It was thirty billion dollars, mind you. And then budget director and I, after some meeting where this was being discussed and where it was pretty clear that even the Congressional Democrats were saying that. He said, “Should I do that?” The problem with that is when you were putting together a budget you didn’t know how the hell it was going to come out that precisely. We probably shouldn’t have done what we did but, yeah, both the director of budget and I said, “Yes, do it.” He wanted it. That’s what he wanted to do. “Yeah, do it.” I thought we got a budget that came out within it. Whether that held up at the end of the year, I don’t know. I don’t remember.
Well, I seem to remember some discussion of that in this famous 1978 anti-inflation speech that he gave as an address from the Oval Office. I actually just watched it last week. It’s available through the Miller Center. It’s remarkable for several reasons and from my perspective, my generation, post-Reagan generation, one of the main things that’s remarkable about it is how frank he is and how willing he is to give tough love. He says things like, “We must face a time of national austerity.” I think that he used the word ‘failure’ close to forty times. And it’s so different from the speeches of Reagan or Clinton—

Reagan, oh, yeah.

—or anything. And I wonder the degree to which you were involved in his messaging.

I don’t remember the specifics on that. I must say the one thing that Ronald Reagan learned. You can never lose any votes by telling the American people how great they are. He [Carter] never used the term, this ‘malaise’ bit—he never actually used that term. Malaise I thought was a terrible way to do it. To come out and say it’s not just the rich but we’ll take care of the poor but the other three-quarters of you, you’re going to have to toughen it up and take it in. I wish that would be done more now.

At the time, I wasn’t so sure of that. During that particular period I was in the hospital for something they couldn’t cure for a while but that worked out all right. I think that was the right thing to do. Whether he said it right or not, you’ve seen the speech. Maybe it went over better. I don’t remember seeing it. I’m sure I probably did but I don’t remember seeing the speech. I was in the hospital so it wasn’t something that was a big thing in my mind.

Okay. To me it’s a question about political discourse and me watching it today from my point of view, I think that it was shocking to me about how brutally honest, I guess, he was. And politicians aren’t brutally honest anymore.

I know. Yeah, yeah.

And I think that from a historian’s point of view, that speech is remarkable for how he’s really speaking the truth to the American people and saying, “Listen, we’ve got a hard time ahead of us. Everyone’s going to have to make a sacrifice and failure is possible.”

Yeah, that part in particular.
Meeker: But then there’s another part of me that looks at it from a political point of view. I imagine if I was one of his political advisors—

Schultze: I’d say, “No way.” Yeah.

Meeker: —I’d said, “Oh, no. Be quiet. What are you thinking? You can’t tell the American people this!”

Schultze: Yeah, I know.

Meeker: You were in the hospital at the time but this wasn’t his only speech like this. And how did people in the cabinet and his advisors feel about his brutal honestly toward the American people? Was there a discussion about, “Hey, listen, we’ve got to tell the president to tone down the rhetoric or to give them more hope or a spoonful of sugar or something like that?”

Schultze: Except I do not remember him saying that in other occasions that much. Right now I think it’s so much more important in the first place. Well, they’ve been doing it to some extent now. The question is how much do people need. This whole business now with all the plans to do this and—

Meeker: You mean the fiscal commission report?

Schultze: While they say it in general, they try to tell you how they’re going to protect your particular thing. And that’s fine if you’re dealing with people who don’t have much to begin with. But the whole business of Obama’s saying we’re going to let everybody below $250,000 keep this tax cut. Well, Jesus, that’s not the middle class, for god’s sake. I wish more of this were done, the way they tell people. Look, no way you can get around it. Now, the only thing about the honestly. I’m not sure I’d go so far as to stress the fact about how uncertain you are it’s going to work. That’s true. That’s unfortunately true but I’m not sure I’d go that far. But yeah, I think now the business of trying to tell people that you can get by this easily, just can’t be. And then it was a deal but it’s not this deal and that’s the point. And as I say, yeah, you can always wait a couple more years.

Meeker: So by 1978, inflation starts to be a serious problem.

Schultze: Right, right, right.
Meeker: Was there a watershed moment or a moment that you and the White House recognized that inflation was going to be problem number one?

Schultze: No, and I don’t give myself much credit for that in the sense that we kept devising things that deep down we knew weren’t going to be enough to do it. That’s the point. It isn’t so much the voluntary wage and price controls. If you cut the budget a little bit, that’ll do it. And deep down inside. They will gradually work inflation down. You can’t do it in a hurry. Well, looking at it seriously, it wasn’t going to go away on its own. And what we were doing, yeah, it worked in the right direction but it wasn’t very big. But I said this earlier. No way in the world that any administration is going to say we’re going to do something that’s going to push up the unemployment rate. You can't pull the deficit or pull the budget way down and have real tough monetary policy all together without pushing employment up a lot. And so, yeah, I never feel comfortable. It wouldn't have done any good and we didn’t in any sense lie. These were things that were help. But they weren’t enough. And it was a little bit of unwarranted hope that if you just stayed sane and got at the edges of it and nipped away and nipped away you’d get it down. But I don’t think we were terribly sure.

Meeker: So perhaps it would have required wage and price controls?

Schultze: Oh, I think that would have done a lot of harm. It didn’t help Nixon any. It did for a while but all you do is build up the problem and it comes back at you at the end. Now, we are running a war. But in World War II we’ve got 80 percent of the economy. No, I’m sorry, 50 percent of the economy going to the military. War’s a different matter. I don’t mean you never, never, ever use wage, but you get used to that and, boy, you’re heading down the wrong track.

Meeker: So in retrospect?

Schultze: In retrospect I didn’t have a solution, I think was the best way to say it. Even though we’d work up “solutions” but they weren’t enough. As I say, deep down I’m not sure we even believed they were going to be enough. It’s just hard. But I don’t know what the alternative is. You can’t go in and say, “Mr. President, now let’s face up to it.” In the first place you’d never get anywhere with him. But that’s all right. You got to go in and cut like hell and raise taxes like hell. Fed’s independent but you talk to the chair and try to push him a little bit in the same direction. One time, only time I know in history where Mike Blumenthal and I got caught in history leaking stuff trying to get the Fed to be tighter. I’ve lost it unfortunately. A document where in the margin he wrote, “Charlie, would you and Blumenthal stop leaking stuff to get the Fed to
go your way?” Like any Southerner, he didn’t like high interest rates easier, or any farmer.


Schultze: Yeah, but I doubt if it has that marginal note on it.

Meeker: No, he talks about it.

Schultze: Oh, is that right?

Meeker: Yeah, yeah.

Schultze: Savage was—

Meeker: James Savage was a historian, political scientist. Yeah. He wrote a book on the history of budget deficits.

Schultze: I see, I see.

Meeker: And he actually cites that and talks about the marginal comment.

Schultze: That’s interesting. Yeah, yeah. I didn’t know that.

Meeker: It’s interesting. So the moral suasion wouldn’t have been enough. Guidelines, whether they were enforceable or not, wouldn’t have been enough. Wage and price controls would have perhaps backfired. And so in retrospect it sounds like the only fiscal policy that might have had an impact—

Schultze: Oh, fiscal policy?

Meeker: Yeah.

Schultze: Well, you never get it through to Congress but Paul Volcker came along and did it on his own. But it took him a year and a half to get it under control.
Meeker: Well, why don’t we talk about the Fed and Volcker a little bit as we move along. Well, first of all, let me back up and let me ask about Bill Miller or William Miller a little bit. He had a very short term as Fed chairman.

Schultze: Yeah, yeah, yeah.

Meeker: How would you evaluate his term as Fed chairman?

Schultze: He didn’t know enough about the job. It was Blumenthal and my fault because we said, “Instead of having a financial guy in there, why don’t we have a businessman?” A successful, smart businessman. But I don’t think he really knew enough about the job.

Meeker: He didn’t know enough about macroeconomics?

Schultze: He didn’t know enough about macroeconomics? Well, macroeconomics but monetary policy in particular. I just thought it didn’t help. Let’s put it that way. And he then came over to be secretary of the Treasury, where it was a different job. It’s hard. I don’t have a good feel for how you’d evaluate it.

Meeker: Well, it definitely begs the question. He was not seen as a particular effective chair of the Fed. Why was he brought over to replace Blumenthal as secretary of Treasury?

Schultze: Well, I’ll give you my standard excuse. I was in the hospital. Actually, the whole getting Volcker in I had nothing to do with.

Meeker: But you must have overheard conversations or something or at least asked people once you got out of the hospital what happened. That was August 1979. A firing of Blumenthal and Califano.

Schultze: Yeah, that business. Firing. I got a couple of stories about that. But what brought Carter around to picking Volcker, I don’t know. It was done. I argued against what Volcker did but for a different reason. That I didn’t like going to the monetarism business. And that’s where he turned out to be much smarter. Well, he still doesn’t like it when I say this but the way the Fed used to run monetary policy is the way it does now. I think I said this. They meet and they set a short term interest rate that they think is right. They do it by increasing or decreasing, in effect, the money supply. They buy government bonds or sell government bonds. It puts reserves into the bank or takes it out. Monetarism
has nothing to do with the mechanism of the way it works. But what the monetarists will do is say, “We’re going to set what we think is the right increase in the money supply.” And the economies flexible enough to adopt to that after a little while and that’ll stop this whole inflation business. I just didn’t think that was right. What he realized, however, was he understood how big this job was going to be. As I said, what we were diddling around with on the side wasn’t big enough, on the fiscal side. And he realized how big it was going to do. If he had to go out every six weeks and say, “Today we’re going to raise the short term rate,” and it got up to about 18 percent almost, no way in the world would he have gotten by that way. The Congress would have absolutely exploded. So what he did is say we’re going to set a non-inflationary growth in the supply of money and what interest rates are, that’s the economy out there. Nobody here but us chickens. And that was exactly right, that he got done. It did take him a while because for a while the money supply went all over the place. But it took him a while to get control of how to do this. But when he did, he just leaned on it hard as hell and you had 10.9 percent unemployment at the peak. But it worked. Now, I think if I had my druthers I’d have worked a little more slowly because it was pretty rough but that’s around the edges. I’ve told him he was a great politician at figuring that out and how to do it and he says, “No, no. I did it for economic reasons.” So if you ever said that to him he wouldn’t admit it. But I think it was perfect. It worked and I take my hat off to him.

Meeker: Well, one of the things that’s been brought up by historians is this notion that people have known before he was appointed to the Fed that Volcker was a real inflation hawk, that he was going to do whatever he could to bring down inflation and that that almost certainly meant spurring a recession.

Schultze: Well, yeah. I first knew about what he was going to do on a plane ride back from Belgrade. It was a big international meeting and he was over. I wasn’t very heavily involved except in one day of it. But in any event, we went over in a plane together. Coming back, he told Blumenthal and me that he had been working within the Fed on this idea and—

Meeker: Prior to his appointment?

Schultze: No, no. He was then chairman.

Meeker: Okay, all right.

Schultze: No, no. This is 1979. Fall, yeah. And so Blumenthal and I argued against it, particularly stressing, at least I did and I think Mike did, too, that once you get into it you can’t get out of it. That is, virtue, truth, everything else will be the
money supply but it turns out that the way the financial system works, that relationship is very flaky. And in some stage, that much growth in the money supply will throttle the economy and in another side the same growth will let it go too fast. But you can’t get out of it. And we got back home. He went back, talked to his colleagues again and then he called. He came over and had a meeting for a complicated reason in my office. He went back again. And then he called to say, I forget, that day or so, they were going to do it. And I remember telling him, “Well, I still don’t agree but we won’t give you any trouble.” And we didn’t. Carter didn’t open his mouth and he went on and did his thing. Once during the campaign, it was kind of funny, the only time that Carter ever said anything, and it got a lot of publicity when it probably shouldn’t. Some graduate student, when he was giving him a speech, asked him about this whole business of monetarism. And he proceeded to give him a lecture that I had just given you about the monetarism part of it. And that’s what got all the flak. But aside from that, we kept our mouths shut while he was doing it.

Meeker: Well, I’m sure that you needed to keep your mouth shut.

Schultze: Yes.

Meeker: But there is this debate or this sense that Carter knew by appointing Volcker that he was—

Schultze: Maybe.

Meeker: —going to throw the economy into recession at the same time that Carter was going to be up for reelection, which would have diminished his reelection prospects. And there is this sense that Carter, to a certain extent, fell on the sword in order to—you don’t buy this?

Schultze: I don’t know. I don’t know. And for some reason, we didn’t ask, “Mr. President, why did you appoint Volcker?” Mike or I called the President and said—well, maybe Volcker did it himself, too. That I don’t know. That he’s going to do it and he didn’t object in that sense. Even Volcker himself, one of the reasons I brought up the airplane, I forgot the reason I mentioned the fact, at this conference every representative from when I was there from my day handling—and he tells the same story—all of them Europeans, Japanese, dumped all over him. You got to toughen up a heck of a lot. You got to tough. So he was thinking about this, that’s clear, because he had earlier started work on it at the Fed. But I’m sure that had a big impact on him. So how tough he was going to be may have been bolstered by the fact that from all over the world he got—easy for them to say. But they got the go ahead business. So I
find it hard to believe. Well, if you’d told Carter it’s going to get you ten point—let me see, did that come before the election? No, that didn’t come until ’81. Am I right on this? Yeah, ’81.

Meeker: Well, there were two recessions.

Schultze: No, ’80. Well, the ’81 was another. That was a freak, an absolute freak. But the real recession began in ’81 after Carter had left and it got to its peak in ’82 when he’d been long gone. And if you’d told Carter this is going to give you 10.9 percent unemployment, I have my doubts he would have said do it.

Meeker: Okay.

Schultze: But the basic proposition, that he knew Volcker was going to be tough, that’s probably true. It’s just how tough is what I don’t think he understood.

Meeker: Interesting. All right.

Schultze: When I say probably true, I only really know by word of mouth.

Meeker: Yeah. Well, let me ask just a few more questions. And one, from what I’ve been able to tell looking at the history of the Council, it’s pretty rare for an individual to chair the Council of Economic Advisors for an entire administration, or at least term, yet you did. Did you ever consider leaving? Were you ever concerned that you might be asked to leave, say in like August ’79 when Blumenthal left?

Schultze: Again, I was in the hospital. Well, I’ll say this and I may be just bragging. But that business of Ham Jordan going around and telling cabinet officers, “Send in your resignation.” And would have said, “God damn it. If he wants my resignation, get it from me. Don’t send you to tell me.” I can’t believe they all signed that. Because every cabinet officer signed it, which is kind of silly. That’s what I’m told. But that’s an aside.

I remember we had a meeting. Blumenthal, I think, arranged a group dinner every once in a while for the casualties. There were five secretaries. They didn’t keep it up because Schlesinger insisted he be chairman of the group because he’s the only one who’d been fired by two presidents. What’s his name got rid of him. I think it was Ford. I’m not sure which one it was. I’m digressing.
Meeker: I was just asking about the longevity of your service on the Council.

Schultze: No, I did. I said I once wrote a memo. It wasn’t that I was asking to leave but saying I want you to be sure that if you’re going to make a big change you’d be smart to get rid of me now. He came in. “You stay.” But I never even talked to him about it. I just sent him a memo, a little thing. “No, Charlie, I’ll stick with you or something like that.”

Meeker: Okay. Fair enough. And in your Miller Center interview, you had mentioned in the event of Carter winning reelection in 1980 that you were going to support a program for tax cuts, especially corporate tax cuts.

Schultze: Right. Well, investment tax cuts. There probably wouldn’t have been a corporate rate.

Meeker: No? Okay. All right. That’s different.

Schultze: An investment tax credit. Yeah, yeah.

Meeker: Well, to what extent was there a consensus in Washington that taxes needed to be reduced at this point in time? And what were the various proposals for doing so? You just said some of them.

Schultze: Well, I guess the main thing I had in mind and some of the rest of them, was kind of a supply side but kind of indirect. We need to get investment moving up. If we’re going to have full employment, either we got to have a bigger growth than we’ve been having in consumption or we got to have more investment. At the time, the trade deficit was less of a—that’s the other way to do it. Is to export. And it was this push which I’d been doing all along. A number of us even suggested he have a small one during the election campaign. He had promised he would not go the tax cut route and he wouldn’t even take up a small investment one. But afterwards, yeah. And he would have, I think, gone along. Yeah. You want to boost investment in this case.

Meeker: Did you see this as sort of temporary kind of boosting the economy or was this—

Schultze: No, no. No, no.

Meeker: It was a broader macroeconomic kind of change?
Meeker: All right. When Reagan won the election and he comes in in 1981 and Stockman and his blitzkrieg approach to the economy, the Kemp Roth tax cuts and indexing of income tax and inflation and so forth. What did you think of the new fiscal policy?

Schultze: I thought it was terrible. I was wrong. I thought that for the wrong reason and missed the reason why it was really bad, which I picked up on very soon. I thought it would lead to inflation. And the clear reason is that Volcker wouldn’t do it. And Volcker, I think I mentioned earlier, five months into the recovery, seeing the huge deficit he was creating and the big increase in defense spending, that it was down the road. Not right away. Going to lead you to inflation. And he jacked the rate of interest up five months into the recovery. That’s all. Now, it was a fast recovery but it could have been even more buoyant without what he—but what he did again, it took a lot of guts. It would be like five months ago, four months ago, Bernanke saying, “Okay, we’re now going to really tighten up.” So the reason that I was wrong, that it was going to cause inflation, it didn’t. But the only reason was that Volcker stood his ground and instead it went to high interest rates and slower growth because that kept interest rates from coming down as far as the other ones would have.

Meeker: Although there were high interest rates in the eighties. It was a period of economic growth from, what, ’82 to ’91 or something.

Schultze: Well, yeah, from the trough, I’m saying. But just as that started he pushed rates up to hold potential inflation in bounds. And that’s where he turned out to be right. Now, gradually over time the rates came down. Oil prices came way down. Everything worked out great. That’s really when you got out of the stagflation. Not quite, because the end of the eighties we had a little problem but not much. And then Greenspan came along and he was pretty tough. And that convinced people that this is for real and so the inflation gradually went down. Then comes the big oil price in 2003 and you never even saw it in inflation basically. Inflation or anything like that.
The Reagan people take a lot of credit for the period of growth between ’82 and ’91. It sounds to me like you’re saying it wasn’t so much Reagan’s fiscal policies as it was Volcker’s tightening of the money supply—

At the right time.

Real quick. I’d said before that nothing wrong with Reagan’s supply side economics you couldn’t get by dividing by ten. So there’s some impact there. I wouldn’t say there’s none. But I think it was the Greenspan Bernanke business.

I just have a brief last question, sort of to think back to the broader picture about American budgetary politics. Try to get a sense of the effectiveness of different efforts to legislate budgetary discipline, beginning with the ’74 Budget Act but moving up through Graham-Rudman-Hollings in the mid-eighties and then the 1990 budget agreement with the PAYGO rules and the like. And from your perspective as someone who’s had experience dealing with this set of issues, both in and outside of government, what have been sort of some of the more effective measures put in place and why have certain things failed or succeeded?

Well, not necessarily in order of importance. The CBO has been a big help because you have a relatively neutral source of getting data. What’s going to be the cost of this program, that program, the other program, rather than just being every committee staff does their own thing. That doesn’t mean they’re always right. They aren’t. But it is a better, more professional and neutral approach to it, which I think is a help. That’s particularly on the micro side. Trying to deal with different programs. I think Gramm-Rudman was a fiasco, mainly because you can’t control the deficit from short run. You can’t fix rules because the state of the economy is going to just make it very difficult to do and your forecasting isn’t that good. And it turned out that it didn’t last. PAYGO is much better. Now, it depends on what you’re PAYGOing to and kind of what the framework is but I think PAYGO is much more.

Do you know where the idea for PAYGO came from?

No.
Okay. That’s a riddle we’re trying to answer.

No, I don’t. At that time I paid less attention to the budget details. You got to go right across the hall and ask Alice Rivlin. Maybe she’ll remember.

The deficit problem of the 1980s created during Reagan’s presidency. Actually, you’ve sort of addressed it to a certain extent already. But this was the first time since World War II that there was a real ballooning of deficit and mounting national debt not in wartime, right?

Right, right.

And then during the Clinton Presidency you have four years of budget surpluses. As a historian thinking about periodization, I’m wondering whether you think they were too different debt problems or is it the same thing with an interlude of surplus?

Well, this is just unique. It’s the aging of the population and health care costs are growing faster than GDP by a significant amount. In a small way we had it. And I think Clinton did a great job but the Clinton budget surpluses came, importantly, out of a combination of a booming economy, an economy in which profits in particular were spectacular, and finally, in which the income and inequality in the US at the top end really exploded. It’s unbelievable what fraction of the growth of the American economy in the last, thinking of that period, ten, it was fifteen, twenty years, went to the top one percent of the population. That brings taxes in like mad. Clinton put a tax increase through and his policies probably gave us a fifth of the surplus in the economy plus, unfortunately in a way, the growing inequality of the income tapped the upper income groups for taxes.

Interesting.

I don’t know. I don’t have the right proportions for that.

Well, he also, in 1993, passed the legislation that increased the highest marginal tax rate.

Yeah. He did that. I’m saying that plus what he did to hold the budget down to some extent, maybe gave you 20 percent of some of the surpluses, are some
significant but not major fraction and the rest was profits and upper income. Incredible explosion of upper income.

03-00:05:31
Meeker: Well, then why such quick return to annual deficits and a ballooning national debt after four years of surpluses?

03-00:05:40
Schultze: Well, you didn’t have that. It didn’t happen until just now, 2007. So here’s a bulge and what year is this? Yeah, this is ’80 with Reagan. It came back down and it hit this. And it’s that big growth in Medicare. This is the stimulus program. Plus an economy which has plunged like heck. I was going to try to calculate quickly how much this right here is a poor economy. And you get, what, eight million people or nine million additional people unemployed. The GDP dropping below its normal course of eight, nine percent. It’s going to cost the hell out of revenues.

03-00:06:30
Meeker: You were pretty critical of the congressional attempts at stimulus at the beginning of Carter’s presidency. I wonder if you have any thoughts on the Obama stimulus package that was passed?

03-00:06:46
Schultze: Well, all things considered it’s better than I thought it was because the economy’s worse than I thought it was. Well, no, I thought the economy would be recovering quicker and I didn’t want all this spending, which takes time to get going, whatever they say about shovel ready, and therefore I would have preferred more either transfer of payments to individuals, even better unemployment benefits and the like and/or more tax cuts. The payroll tax holiday is a great idea. That puts money in in a hurry just as the people are going to spend it most.

03-00:07:29
Meeker: Well, that’s something I saw in the debt commission report, right, or the fiscal commission report?

03-00:07:33
Schultze: No. It was the Rivlin-Domenici one.

03-00:07:37
Meeker: Yes, yes.

03-00:07:38
Schultze: That has a full year’s and that bumps about six to seven hundred billion dollars in. And I’ll give them credit. They’re doing exactly what I’ve been saying for ever since this started. You want a tax program which puts more spending and taxes in now but has a delayed fuse, really serious long-term budget cuts and tax increases written into the legislation. And that’s what they are in effect proposing, the Domenici-Rivlin. There is some stuff in the other
one which does it, too, but the big one is the Domenici-Rivlin. Would put a huge chunk in.

Meeker: So you’re saying that those are long-term tax cuts or those are short-term that fade out quickly?

Schultze: No. No, no. They’re one year. They’re a one year holiday. You just don’t collect payroll taxes. And you appropriate from the government into the fund, which doesn’t show up as a deficit. So you don’t take it away from the fund. But then you pick it up multiple times over the next ten or fifteen years with the stuff they’re proposing. That’s why I like that one better than the Simpson-Bowles one.

Meeker: Okay, all right. So do you have any other thoughts on Simpson-Bowles? The fiscal commission report?

Schultze: Well, I think although it was great to crack the ice, if I had to choose between the two I’d clearly choose Domenici-Rivlin. It doesn’t matter what the vote was. By now the question, have you really cracked this open enough that people will seriously consider doing it? And I don’t yet know. But you had three Republican senators voting for it, one of whom I think was leaving office. But that’s all right. And now you’ve got all this up in the air. I hope that it doesn’t just collapse when people get down to the detail. I can’t tell. But it hasn’t been opened up like this. Erskine Bowles is a conservative Democrat and has the equivalent of Ben Nelson and Simpson and the other Republicans on board. I think that makes a big difference. And the Democrats, I don’t know how they’re going to come out on this. The liberals may, I don’t know, in the long run cut their own throat by not pushing this.

Meeker: Well, there’s a lot of screaming about Social Security.

Schultze: I know that. Well, the first place, it’s not going to happen for a long time. It’s going to happen gradually. I think they did exactly right. The thing that’s always bothered me about extending the retirement age is there is twenty percent of the population who’s still manual labor. I don’t mind. I’m eighty-six and I’m coming into work. I don’t get much done. But you don’t want them working for a long time. And it’s not going to be easy to do.

Meeker: The exemption.

Schultze: A lot of cheating. But that’s all right. You can police it some. You can do that. That’s good. So you might as well do it. My point is you want every nickel
you can get. And the real problem—I’ve taken this well beyond—is in the next ten years, God couldn’t pull Medicare spending down very rapidly except by being brutal. But what’s built into the Obama bill may have a chance of doing that, but ten years, twelve years because they got to change the whole medical. That means that in the period ahead, if you want to get budget deficit reduction, you’ve got to do more than normal with taxes unless you want to just gut the rest of the government and then let the taxes relax beyond it. Now, how the hell do you manipulate that politically, I don’t know. But it’s going to be a very difficult period because you really can’t cut that much out of Medicare unless you really want to disband it. And so it’s going to be really difficult. We waited so long. The longer you wait to get at this, the harder it is.

[End of Interview]