



Presidential Oral History Program

2201 Old Ivy Road
PO Box 400406
Charlottesville VA 22904-4406

434.982.2974 *voice*
434.982.4528 *fax*
millercenter.virginia.edu

RONALD REAGAN ORAL HISTORY PROJECT

FINAL EDITED TRANSCRIPT

INTERVIEW WITH EDWIN HARPER

August 13, 2002
Charlottesville, Virginia

Interviewers

University of Virginia

Stephen Knott, chair
James D. Savage
James Sterling Young

Assisting: Duane Adamson
Audiotape: Miller Center
Transcription: Martha W. Healy
Transcript copy edited by: Jamie Miller, Jane Rafal Wilson
Final edit by: Jane Rafal Wilson
© 2005 The Miller Center Foundation

| UNIVERSITY *of* VIRGINIA

RONALD REAGAN ORAL HISTORY PROJECT

FINAL EDITED TRANSCRIPT

Interview with Edwin Harper

August 13, 2002

Knott: We're pleased to have Edwin Harper with us today, and we want to thank you very much for coming down here. We know you have a very, very busy schedule. You were just telling us you're in a different city every day this week, is that correct?

Harper: Unfortunately, that's the case, yes.

Knott: So we do very much appreciate your coming here. We talked a little bit about the ground rules downstairs, so I think we're ready to go. One of the things we usually do—although I'm not sure it's necessary today, since this is such a small group—is a voice recognition. Make a little statement and identify yourself so that the transcriber can know what your voice sounds like. So, if you could just introduce yourself, and Jim, as well.

Harper: My name is Ed Harper and I'm from St. Louis—therefore you'll identify my voice as having a Midwestern accent, or no accent at all. [laughter] In any case, I've lived different places around the country and haven't picked up those accents either, at least that I'm aware of.

Knott: And Jim?

Savage: Jim Savage, I'm a professor here at UVa. I've been here now for 12 years, in, I guess, your department—your old department—and I'm from California, Ronald Reagan country.

Harper: Right.

Savage: Is that enough?

Knott: That's great. Duane, did you bring Mr. Harper's dissertation with you? [laughter]

Adamson: I did. I thought you might be interested in seeing this.

Savage: My goodness.

Adamson: An actual, signed copy of your tome.

Harper: Well, I've got one on my shelf, that looks like the typeface that I used, for sure.

Adamson: This is from what, the Alderman Library?

Harper: Correct.

Adamson: Where it is prominently displayed. [laughter]

Savage: I saw it as I came in the door the other day.

Harper: You really wanted to know what the comptroller of the currency was doing in 1865—

Savage: [Thomas] Jefferson there, and [James] Monroe there, and your book is right in the center.

Knott: Well, I think probably the best place for us to start is if you could just talk about how you first became involved in politics and in government. We know that you played a role in the [Richard] Nixon administration, but if you could just take us back to your first political experiences, that would probably be the best place to start.

Harper: Oh, great, yes, start at the beginning. When I went to college I had no idea what I wanted to be. I thought I wanted to be an industrial engineer, so I took calculus and chemistry—and that persuaded me I ought to look for another career. The head of my college's (Principia College) Government Department was a graduate of the University of Minnesota, which had a great tradition of public service. Principia's chairman, Clayton Ford, had always been very active in producing political scientists interested in public affairs and government. We had an annual public affairs conference, and that got me interested in politics.

Not having really made a commitment to a party I noted that the Young Republicans and Young Democrats were having meetings in St. Louis, not far from my home. I went to the one that came first, the Young Republican club. The Young Republicans were having their national convention in St. Louis. I decided to go and see what it was like. There, I met Bill Steiger, who has to be one of the most brilliant people I've met in politics. At about the age of 21, he was a member of the Wisconsin State Legislature, and truly an extraordinary fellow. He was later elected to Congress, and unfortunately died at a very early age. But he encouraged me to get involved with Republican activities, which I did. Consequently, in college, I helped out in some congressional races.

Then I went on to the University of Virginia and studied government and foreign affairs. My dissertation focused on the factors involved in the selection of Federal political executives, specifically the Comptroller of the Currency, the regulator of national banks. After teaching at Rutgers for a couple of years, the American Society for Public Administration granted me a post-doctoral fellowship, which gave me my first experience at the Bureau of the Budget. While at the Bureau of the Budget I worked on a project in 1968 evaluating the program planning and budgeting system (PPBS) in 16 domestic agencies. When Secretary of Defense Robert McNamara implemented PPBS in the Defense Department, President [Lyndon B.] Johnson

thought PPBS did a terrific job of focusing and inserting analysis into the decisions of the Defense Department, and he decided it ought to be applied to domestic agencies as well.

Our study at the Bureau of the Budget was a great opportunity to get around and talk to people in all the major agencies, and talk about planning and analysis in those agencies. Subsequently, with two colleagues, I wrote an article in the *Public Administration Review*. I became fascinated with policy analysis. After my fellowship concluded at the Bureau of the Budget, I went to Arthur D. Little where I mainly worked on public policy issues such as transportation, HUD [Housing and Urban Development] issues, and so forth. Then a friend of mine from college said, “Well, since you’ve been in the Bureau of the Budget, here we are, a year into the Nixon administration, and the President still doesn’t understand what’s going on at the Bureau of the Budget—doesn’t understand the process.” And that surprised me. This was President Nixon, an experienced Washington hand. John Ehrlichman soon afterwards asked me to join the White House staff as Special Assistant to the President dealing with budgeting and long-range planning.

That’s how I got involved in the first place. There, in the Nixon administration, I met a number of people, one of whom, in particular, is key to the story, and that’s Martin Anderson. Martin was subsequently Issues Advisor to President Reagan. Through him I became involved with President Reagan. The first time I ever met Governor Reagan was during the Nixon administration, when Governor Reagan was invited to the White House to tell us about the amazing things he was doing with welfare reforms in California. I was very favorably impressed with the Governor, but there was really no further contact with him until 1976, when Martin Anderson asked me if I would join the Reagan campaign. I said I really couldn’t leave my work at that time for an extended period. Mike Duvall, on behalf of President [Gerald] Ford, asked me if I could help out in the Ford campaign, and the two of them came to the conclusion that I would be a good mediator for the two campaigns, on the platform committee in Kansas City.

Knott: That struck me as an unusual role to play.

Harper: It was.

Knott: Can you talk a little bit more about that?

Harper: Yes. In Kansas City the arrangement was that the witnesses were in front of the stage, and the platform committee was on risers on the stage. There were a hundred members of the platform of the committee so it was a big group, and, of course, some draft material had been prepared ahead of time. We knew what the contentious issues were going to be. Off to the side of the stage—behind the wall, so you really couldn’t see it—was a table where the three of us sat with some regularity. I was officially Deputy Director of the Platform Committee. I worked with Martin Anderson on behalf of President Reagan, and Mike Duvall on behalf of President Ford, trying to negotiate the issues so that we’d come out with the minimum amount of flack on platform issues. And it worked fairly well.

Knott: Were there particular issues that were real sticking points? Was the Panama Canal part of this?

Harper: I think that it smoothed over to the point that the major issue was whether Bob Ray would get the vice presidential nomination, Bob Ray being chairman of the platform committee. [laughs]

Knott: You mentioned that you were impressed by Ronald Reagan's presentation on his welfare reform efforts in California when he came to the White House. What was it that impressed you?

Harper: Just that we had been struggling unsuccessfully to come up with an approach. Our approach, the Family Assistance Plan, had problems we never really solved. For those of you who are fascinated by welfare issues, there is a step function where the people move off welfare, becoming independent. That critical transition step basically defeated everybody's efforts to come up with a formula that did not jolt recipients. The structuring of various public assistance programs made a smooth transition virtually impossible. At some point, people fell off a cliff; suddenly their income was diminished substantially.

In California they seemed to have been able to negotiate that within their state, and get people to agree to move ahead with it.

Knott: I knocked you off your chronology, if you want to take us back to—

Harper: Oh, no problem.

Knott: If you want to take us back to, I think we're up to 1976.

Harper: Right. In '76 Ronald Reagan was not given the nomination, and he went about his private sector activities, which were very much involved in public sector issues: he spoke extensively around the country, and was funded in large part by the Fund for the Republic. He traveled extensively, had a radio show, a newspaper column, and was much in demand as a public speaker. When the 1980 election came around, it was clear that he was the leading candidate, that he prepared himself and his organization carefully. He secured the nomination and won the election.

I didn't have a large role in the election. I had known Caspar Weinberger since the early Nixon years when he was at the Bureau of the Budget, and at the Federal Trade Commission. He was in charge of the budget committee for the 1980 campaign. So he asked me to serve on the budget committee, which I did. Our Committee was not overly active during the campaign, but I did write one fairly lengthy paper suggesting places and strategies for reducing the budget.

Then, when the President won the election, and the transition was in place, I was in Europe on business. Darrell Trent called me and asked me if I'd join the transition. I said, "Well, just for the transition, for the 90 days," because I was happily gainfully employed in St. Louis. In any case, he said, "That would be just perfect." I said I would go back, talk to my boss, and hopefully it would all work out and I'd be there.

I joined the transition a couple of days after the election, and was essentially the deputy director of the transition policy staff. Martin Anderson, essentially the Director, was almost fully engaged

in talking to reporters, answering policy questions. He had hundreds of call slips on his desk. Darrell was supporting Marty and was involved in administrative and procedural issues.

The transition office, at least that one, was a delightfully chaotic place. I remember, as an example, the day I arrived. Darrell said, "We need to get you a secretary and an office." And I said, "Well, that's great, this office looks fine," even though it was small, had no windows, and the doors at either end made it look suspiciously like a hall. It was a rundown building on M Street that GSA [U.S. General Services Administration] had procured for us. Darrell came back about an hour later and he said, "I went up to personnel, and I've got two secretaries who will show up tomorrow, and I'm sure we can find something for them to do." The next morning at eight o'clock, I opened my door and there was a secretary sitting there. We were off to a good start in the transition. She proved to be very capable.

Knott: Can I take you back, just to the Nixon years. I'm sorry to keep jumping around here.

Harper: No problem.

Knott: But if you could talk a little bit about, perhaps, some of the lessons you learned from your experience in the Nixon administration that you may have carried over into your Reagan-era experience.

Harper: There are a lot of parallels and contrasts that we can make between President Nixon and President Reagan. The most outstanding lesson or warning that I would point to is that operating activities have no place in the White House. The White House—if you want to make the analogy to a corporation—is the holding company, and not an operating company. The best way to create a major blunder is to draw operations into the White House—where there is no one to properly audit or supervise operations, and you can get into a lot of trouble that way. I think that's true of both the Nixon administration and the Reagan administration. The operating agencies can do a pretty good job of its mission. Even if you don't think they're great, they're probably more competent than the White House staff to do operations. That would be an overarching lesson I would draw from the two.

The other I would suggest is that a successful President has a short agenda. It can be six great goals or four great goals or something like that, but that's a useful thing to organize the Federal Government around. Then people can say, "I know what the President wants. He wants new federalism, he wants to devolve functions and activities to the state. So here I am in the Bureau of XYZ, and the President's never heard of the Bureau of XYZ, but I know, if I'm going to be doing what the President wants, I should be thinking about how we can devolve functions in the Bureau of XYZ." So having a short agenda is a very useful thing for the President.

Knott: Did President Nixon have a short agenda?

Harper: He did. Yes, there were the six great goals that President Nixon announced in the 1971 State of the Union Address: 1) welfare reform, 2) peace and prosperity, 3) restore and enhance the environment, 4) improve health care availability, 5) new federalism, and 6) reorganize the

federal government. These domestic goals complemented his overriding goal of giving America a full generation of peace.

Savage: They both had relatively short agendas.

Harper: Right. President Reagan in his 1982 State of the Union focused on 1) cutting taxes to grow the economy, 2) balancing the budget, 3) pursuing the new federalism agenda, and 4) eliminating fraud, waste, and abuse.

There is a cyclicity that runs through Presidencies. In the first year of the Presidency, you have all these commitments from the campaign, things you promised to do. Everybody knows what they are. You want to see what you can actually do: “These are the commitments I’ve made, now can I fulfill them?” I think every Presidency racks up those things during the campaign or immediately thereafter, and then tries to achieve them in the first year. The President may find some goals are simply not doable—maybe they were bad ideas in the first place—on substantive grounds, on political grounds, and others are of such a long-term nature, there’s no way you can get them done in the first year. But anyway, that often fills the first year, and the second year is assessing what you can really get done and then thinking, *Do we want to run for office again?*

It seems every modern President has reached the conclusion he’s going to run for a second term, otherwise you have two years of being a lame duck after you’ve been in office only 18 months. Why make the trip if you’re only going to be President for 18 months? So then, you start thinking about, *How are the American people going to judge us as a Presidency at the end of four years? What can we say that we’ve accomplished? What can we say that needs yet to be done that is credible—why we should be hired again for a second four years?*

In some ways, the most interesting and creative phase of an administration—in terms of policy—probably comes in the second year, because you’ve sorted out the campaign promises the first year. You’ve got enough experience in governing that you know what needs to be done, and maybe new problems have evolved and you have to develop a plan of what you’re going to deliver by that fourth year—by the election cycle—and what some of the things are that might carry over and give people a reason to vote for you for the second term.

Then the third year is consolidating your activities, setting election year priorities, selling that program, starting with the State of the Union in the second year. That lays the groundwork for the beginning of the campaign. Some have talked about perpetual campaigns, but it’s a matter of degree. In the third year—unless there are overwhelming events that change your course—it’s “steady on” figuring out how to deliver on your promises by the election, and getting people to begin to anticipate what could be the product of a second term.

I think that cycle of policy development generally holds true, and parts of the cycle are more interesting than others. Martin Anderson went back to Hoover [Hoover Institution at Stanford University] after 18 months in the Reagan administration, because most of the things that he thought were most interesting had already been done. He wanted the opportunity to write, so he and Annelise [Anderson] went back to Hoover. She had a good arrangement with the San Francisco Home Loan Bank Board as well as being at Hoover, and Marty had a chance to write

his book, *Revolution*, which is an important statement of the development of policy in the Reagan administration.

Knott: In the Nixon White House, who was it that you worked most closely with? I assume Martin Anderson was one of those persons, but were there others who you either reported to or dealt with on a fairly regular basis?

Harper: Yes. Here we're talking about the first term, because I left right at the end of the first term. The first 18 months of the Nixon administration during which I served, the policy process seemed like a series of competing spheres or a star system: the Arthur Burns star nexus; the Pat Moynihan star nexus; and then the other satellites, ranging from Ray Bauer, who was a fascinating political scientist there with the National Goals Commission for a while, to Leonard Garment, who had a particular portfolio of interests—Native Americans, intellectuals, New York, etc. And there were others focused on the political side.

It was a very competitive and somewhat chaotic situation. President Nixon loved order in a lot of things, and he loved to be presented issues in an orderly fashion. Thus, the creation of regularized decision memos in a very precise format was developed during the Nixon administration. When you presented a decision memo to the President, it had a format: an introductory paragraph, an argument with pros and cons, options A, B, C, and the recommendation. It's "yes," "no," or "see me for more information." Then you would back that up. Sometimes the back-up could be fairly lengthy. For example, one of the longer (140 pages) decision memos was about Indian affairs, prepared by Leonard Garment. It had to do with Indian affairs. It was a complete overhaul of the Indian program, and presented in the decision format with accompanying papers.

The President liked to have things presented to him in this manner. That enabled him to avoid extra meetings. It enabled him to maintain a fairly precise schedule, which he liked to do. He was tremendously disciplined. It's amazing that he put up with all the chaos of the first year or two. But when he got through that, it was a very disciplined process for both the domestic policy, and in the foreign affairs areas. The President felt much more comfortable in the foreign policy area than on some of the domestic issues. He knew about them from a distance, but foreign affairs was clearly his great interest and love, and he was really very, very good at it.

Knott: Was John Ehrlichman part of this scene?

Harper: Yes.

Knott: He was the domestic czar, essentially—is that an accurate portrayal?

Harper: That's an accurate portrayal. In 1970, the Ash Council recommendations included the creation of a Domestic Council. The Domestic Council was headed by John Ehrlichman, and he was Assistant to the President for Domestic Affairs. He handled all the policy stuff that wasn't national security affairs; Henry Kissinger did that. Those were the two grand divisions. The Domestic Council was then organized so that there were assistant directors in substantive areas

such as the environment, health policy, and law enforcement, and each of those had one or two staff members.

My staff of 35 or 40 people who were essentially consultants to the rest of the Domestic Council, and they were primarily people who had been consultants, political science professors, who were available to work on projects for the other Assistant Directors of the Domestic Council. For example, I had a woman from McKenzie who had an MBA, and John Whitaker, the Environmental Assistant Director, might come up with a project on which she would work for him. Or Roy Morey, from Denison University, would consult with Lewis Engman, another Assistant Director, on a specific project. It was kind of a roving band that could help everybody and draw our policy plans together in a coherent whole with a budget to match.

Thus, I dealt in budget and long-range planning issues—bringing them all together into an overall plan for the President. The culmination of this process was to develop the policy plan for President Nixon for the 1972 elections.

A critical milestone in the policy development process was the presentation at the Western White House in San Clemente in July, 1971. President Nixon spent half of the day with Henry Kissinger doing a review of what was happening around the world, and what foreign policy initiative actions the President should consider. The second half of the day focused on a reformulated Domestic Policy agenda that I presented with John Ehrlichman on behalf of the Domestic Council. Essentially, we suggested that the President focus on these particular areas: curbing crime, interdicting drug trafficking, a greatly enlarged revenue sharing program, and a massive consolidation of federal programs into block grants. The President was very taken with the presentation, and adopted the basic programs on the spot.

So we then went back to the assistant directors of the Domestic Council and said, “This is going to be our program. Let’s figure out how we’re going to implement it, when we’re going to implement it.”

So getting back to your question—the person I reported to directly was John Ehrlichman, and the persons that I worked with on a regular basis were Ken Cole, John Whitaker, Jim Cavanaugh, Bud [Egil] Krogh, and Tod Hullin. Leonard Garment was kind of periphery to the Domestic Council, but a good friend and fascinating colleague at all those times. The counsel’s office, Fred Fielding and the political staff, Harry Dent and later Chuck Colson were important.

Knott: So you left the Nixon White House in—?

Harper: December of ’72.

Knott: I know we’re straying here, but when the whole Watergate thing exploded, and Ehrlichman’s involvement was revealed, did that come as a surprise to you—or not a surprise? I realize that was completely outside of your bailiwick.

Harper: It came as a complete surprise to me, really. I think it shows that even people who are on the staff can be surprised by things that are going on with the staff. The story had not really

broken when I was still there. By that time I had moved to Philadelphia and was a Vice President of the INA Corporation, which was a big insurance conglomerate. INA was situated over Suburban Station in downtown Philadelphia. It was a shock each day to walk down into the subway, go to the newsstand, and see the latest headlines from Washington about former colleagues.

But I think one of the things that's very hard for people to appreciate as time passes is what the nation was like at that time. As you look at history and have a sense of history, a lot of things look on the surface both the same. Like, "Hey, there's no difference between now (August, 2002) and 1963, '64, '65," but there really was. Fear, stress, and anger are real factors determining how people behave.

In the 1960s, with respect to the war in Vietnam—the protests over it—the leaking of national security documents, the bombing of the Sears Tower and at the U.S. Capitol, left the natives afraid of what would happen next. We at the White House were still trying to maintain a steady orderly approach to achieving peace and calm in the nation. We can't appreciate now what went on in this country in the 1920s with the Red Scare. We read about it in history books, but what did it mean to the average person on the street? How did it affect political decision making at the time? What's hard to appreciate now is the mindset that overcomes people in politics, in the White House, and in the Congress in previous crises.

Furthermore, in a crisis period, different groups of people have different points of view. For example, the French think Jerry Lewis is very funny; they think Richard Nixon was a great man. They don't understand the Watergate problem. And of course, it was the French whose Secret Service sank the Greenpeace boat in New Zealand and said, "Oh, they really shouldn't have done that," but they brought the saboteurs back to France and let them retire with full pensions and full honors. It all depends on what the mind-set of society is, or was, at the time. And in the Nixon years, it was not a good mind-set.

Knott: So you could feel this fear, or you could sense this fear in the air?

Harper: Well—

Knott: Were you there, for instance, when there was the protest where they said they were going to shut down the government, and they surrounded the White House with buses and trucks or something?

Harper: Absolutely. It was eerie to walk to work early on that Saturday morning. There was no traffic on the streets, but there were buses packed together end to end all the way around the White House. The only way we could get in was to walk through a passage large enough for a single person to squeeze through between two buses. Then you looked into the courtyards at OMB and there were troops, special forces troops in black uniforms there, and in the sunken driveway on the west side of the Treasury. It was a spooky time.

Knott: Okay, I think we'll move away from the Nixon years. [laughter] I guess you were starting to tell us about your activities in 1980, both in the campaign and in the transition. I don't know if you'd finished with that.

Harper: Well, in the transition, pardon me for wandering—

Knott: Oh no, I was leading you astray.

Harper: It was an exciting time. We did have all of these great pronouncements about policy during the campaign in the summer of 1980. But suddenly we came to the jarring fact in November 1980 that there was a Congress still in session, wanting to make decisions every day, and wanting to know where the President-elect of the United States stood on the issue. Members of the Republican party, at least, didn't want to cross the guy who'd be their leader and President in a few weeks by unintentionally voting against him on something. So they really wanted to know what the President's position was on every minute detail of the things that came before the lame duck session of the Congress.

One of the jobs that the policy shop in the transition had to undertake immediately under my direction (Martin Anderson delegated this role to me as he was busy dealing with the press, and Darrell Trent was dealing with the administrative tasks) was to prepare a daily briefing book for the Senior Staff meetings. The Senior Staff met every weekday during the transition. [Edwin] Meese, [James] Baker, and the other senior members of the transition would meet every day at 7:30 a.m. and review the issues book we had prepared the night before. We'd have the policy issues as well as some of the other political and a few personnel issues would be dealt with at that meeting at 7:30 every morning.

Then, in some ways, one of the most important aspects of the transition was to brief each of the designated Cabinet Secretaries of the incoming administration on the details of the President's policy commitments made during the campaign. I personally met with each of the Cabinet Secretaries, went through what the President had committed to during the campaign, and basically the last statement was, "Is there anything here that you're uncomfortable with?" For some of the Cabinet Secretaries-designate this was a challenging issue, and for others it didn't make any difference. For Ted Bell, Secretary of Education, the final question was, "The President has committed to do away with the Department of Education—are you comfortable with this?" [laughs] For others, William French Smith is thinking, *Hum, well, I'm the President's lawyer—don't call me, I'll call you.* [laughs] So, I think those were some of the important things we got done during the transition.

We did get the briefing books out every day; we prepared briefing books for each of the Cabinet Secretaries-designate. There was a feeling in the transition that we had an important mission, and one part of that mission was to solve the problem of the economy. To do something about the economy, we had to do something about Federal spending. We had to hit the ground running on the budget, and get the budget under control. We wanted to do that so rapidly that it would be done before the incoming Cabinet Secretaries had been captured by their ongoing programs and bureaucracies.

We had the famous example where Governor [James] Edwards said, “Well, if the President only understood his own energy program, he wouldn’t be in favor of it—he’d be in favor of my DOE program.” Anyway, we kept the President’s program. But, those were the kinds of issues that we dealt with.

Savage: So, your working with [David] Stockman, was it heavily involved in the transition period?

Harper: Absolutely. But Dave was still a member of Congress so he was often not at the transition office. Nevertheless Dave was heavily involved.

Savage: To do all this?

Harper: The first time I met David, we met for breakfast over at the University Club, and then walked over to the transition offices. The announcement of his nomination was made the previous night, and I met him the next morning. We talked about the importance of hitting the ground running and having the budget process in control. He and Ed Meese asked me to stay and become a member of the administration, because I had worked at the Office of Management and Budget and had been around it. I knew a lot of the issues already, perhaps more so than a number of other people.

David is truly a brilliant guy, and he knew a tremendous amount about the details of the budget. He was very facile with numbers, and I think most importantly knew the congressional budget process and the players in the congressional process intimately—more or less on a real-time basis, since he was still a member of Congress when I met him. He had some grand ideas—which were the basis of the strategy we adopted—to try and tackle the budget problem on a reconciliation basis: package everything together and force the Congress to vote up or down on the package, and try and minimize the efforts of the Congress to disintegrate the process and vote on things one at a time. If we voted on things one at a time, we’d never get close to the targets. I mean, it was hard enough as it was!

This was the basic strategy: focus on the budget, and within the budget, focus on the reconciliation process. The reconciliation approach would force this Congress to vote on it as a package. We knew we were still going to have to defend each element of the package.

Savage: A number of the key players here have this OMB background—Weinberger and [George] Shultz, I think, too. How important was it that there were so many people involved—key players in the administration who really had spent some time in the budget process? Both for and against?

Harper: Well, Shultz was not heavily involved in that stage. He was still in California, and did not really become involved in the transition budget process. After the Administration got under way, he was a member of the President’s Economic Policy Board, which met quarterly. Walter Wriston, Jack Kemp, and other key political/economic advisors were members of this group.

Weinberger, on the other hand, was heavily involved before and after the transition as Secretary of Defense. He went from Mack the Knife—or “Cap the Knife,” to “Cap the Defender” of the 600-ship Navy, and everything else that meant additional spending for the Defense Department. He was always a worthy advocate of Defense. He’s a wonderful guy and a good friend of mine—and I’ve told him, if I were ever accused of a crime, I’d want him as my attorney, [laughs] because he’s great on the defense in protecting the Defense Department budget. He was terrific. So we had our hands full in trying to get anything out of the Defense budget when we dealt with Cap.

There was the famous back-and-forth that we did, and I think that it proved that the Defense Department’s graphic artists were much better than OMB’s graphic artists. This was funny—it’s funny only if you know the inside joke. Stockman presented at a Budget meeting in the Century Plaza Hotel in Los Angeles. The whole Cabinet was there. Stockman gave a present-value presentation of the Defense budget, and Weinberger complained, “I’ve never seen any of these numbers.” Stockman said, “Of course not—these are all present-value numbers of what you’re spending in the future.” And Weinberger said, “Well, that’s not fair. This is ridiculous. We’re dealing in today’s dollars, so you shouldn’t be using these funny numbers.” Stockman said, “This is the real economic impact of the numbers—we ought to be using these numbers.”

Of course, this made a shambles of the discussion. But Dave’s point was, the Defense Department’s budget was getting totally out of control, and we had to find some ways to control it—not just let every expenditure run unchallenged.

Then, a couple of weeks later, we had another meeting in the Cabinet Room, and this time Weinberger had a series of graphics. One graphic showed what looked like a poor, dejected, Boy Scout. He was unarmed, slumped over. Weinberger said, “Is this what we want defending our country?” The next graphic was a high-tech, he-man kind of fellow, complete with every piece of modern technology, armed to the teeth and ready to fight. And Weinberger said, “Mr. President, this is your choice.” [laughs] So anyway, we lost again. Weinberger won with his debating skills and graphics.

Knott: Did you ever have any disagreements with David Stockman? In a sense, he was your boss, but you came from a different angle than he did. For instance, did you think he was right in arguing that Defense needed to be cut?

Harper: Yes, and certainly in the sense that it was our job, as we saw it, and as I saw it, to keep the pressure on Defense spending. If we let up, the Defense establishment would spend every nickel we did not challenge.

It’s kind of like the classic story of the frog and the scorpion. Just for the record, the story is that a scorpion needs to cross the lake and there’s a frog there, and he asks the frog for a ride across the lake. The frog says, “No, you’re a scorpion. You’ll sting me in the middle of the lake, and we’ll both drown.” And the scorpion says, “No, I promise I won’t. I realize it’s in our mutual interests for us to get to the other side.” So the scorpion hops on the frog’s back, they get out to the middle of the lake, and the scorpion stings the frog. The frog starts to die, and the frog says, “But you promised—you realize this isn’t in our best interests.” The scorpion says, “Yes, but I’m a scorpion: It is my nature to do this.”

Yes, what they *do* in Defense is spend money very well, and lots of it. And if we didn't keep the pressure on them to try to make sure that there's good justification for those funds, we wouldn't be doing our job, and they wouldn't be doing their job. It's a natural conflict in the order of things.

If Dave had asked, I would have told him the interviews with the *Atlantic* magazine were a mistake. But he did not ask me. That was certainly an obvious disaster for Dave. I think somebody who sparkles with intellectual virtuosity as Dave did is always a little suspect in the minds of some. That article made him much less trusted throughout the Administration and throughout Washington. I think that's too bad, because I think Dave had a lot to contribute, and he stayed on beyond the first term, but accomplished less than he would have otherwise.

Knott: Prior to the *Atlantic Monthly* article, had Stockman already alienated some members of the Cabinet other than Weinberger? Was he considered, perhaps, a little too brash—or too young, or too...?

Harper: When somebody comes in to run a program and you say, "By the way, we're going to get rid of that program," that's not the news they want to hear—that's not why they came to Washington. But the Cabinet was picked on the basis of their agreeing with the President's fundamental strategy and formula, and that certainly highlighted that we needed to get spending under control, get the budget under control. So people realized, coming in, that there were going to be a lot of reductions in order. But whether this was what they really wanted to do was tested severely when we came up with large budget cuts.

Savage: A couple of OMB questions.

Harper: Sure.

Savage: When you came into this new position, and the Reagan folks obviously had a different agenda than the Carter people, was it your observation that the people at OMB were just good soldiers—that they changed direction and policy direction, and followed the orders, or was there some resentment and bureaucratic foot-dragging? How well did the people at OMB respond, the foot soldiers, by and large, to this new change in policy?

Harper: I think it was very positive. OMB is one of the great institutions of government, and some of the people that I'd known from the Nixon years on the staff were still there. Dave and I fully acknowledged that they had been doing some very good work during the Carter years. The debt collection, cash management, travel issues—all were excellent projects. They were nonpartisan projects, and debt collection was very much in line with what President Reagan wanted to do in terms of reducing the budget. If you collect money that's owed you, you don't have to appropriate more money to take the place of cash you should have in the first place. So I didn't sense that there was any foot-dragging at all.

As it should, the OMB staff is concerned about where the money will come from. When I first came into the Bureau of the Budget in 1968 under Nixon—the then Bureau of the Budget. After

the staff had had eight years of the Great Society spending programs, the staff was professionally concerned about how we were going to *pay* for all of these programs. At the end of the day, the job they had was to figure out what to do with the resources this nation had available to it. So they shared my concerns. I guess, as fellow members of the President's staff, responsible for trying to figure out how to allocate resources. It is the fundamental reality that they always have to live with.

So when a President comes in and says, "I want to focus on the budget," it is music to their ears, because this is what they do—the budget, the allocation of resources. So they're back in the spotlight. They're the number-one guys again. I think it's just a fabulous institution, and has for many, many years been the home of some really great career people serving in leadership roles.

Savage: How had it changed from the time you went into BoB in 1968, and came back to OMB in 1981?

Harper: There were more political appointees later. In '68, I think, there were only two political appointees—the Director and Deputy Director. There were no assistant directors for program areas. Then, BoB was basically professional staffers, with a thin veneer of political appointees. Then in '81, there were six or eight appointees. You had the program assistant directors, the director, the deputy director, and then a few schedule C's—the Public Affairs Director, Joe Laitin, under the Democrats, and then Ed Dale under Reagan. Laitin and Dale were very accomplished individuals.

The OMB is a great institution that manages to attract very, very good people. I think it's fortunate in that there's a continuing shift in the kind of work it's doing. You hear about the golden years when the examiners used to be able to do field trips and have time for leisurely examination of the issues. I think maybe that happened at some point, but not after 1968 when I first arrived. It was always, "We haven't got time to do this, and we haven't got the budget to do that." They were always very harried, very busy, and very good.

Knott: Did you consider yourself to be a supply-sider? Were you someone who favored the tax cuts that President Reagan ultimately adopted, or were you more concerned about deficits and balanced budgets? Where did you fall in that?

Harper: Well, I guess I kind of came down in the middle. I had known Art Laffer from the Nixon years.

Knott: Arthur Laffer.

Harper: Arthur Laffer, yes. And I had the fun of having Art explain to me his supply-side theory, in person, a couple of times—complete on a napkin, re-enacting the historic discovery.

Knott: Historic offering. [laughter]

Harper: I thought he had a good point: cutting taxes can increase supply of capital available for investment and consumers' ability to purchase goods and services. On the other hand, as

somebody who'd spent a number of years in business, I was also concerned about fixed cost—how quickly does the enterprise grow so that its fixed interest costs remain a fairly small percentage of its revenues? If the enterprise's profits don't grow fast enough, you must borrow, thus expanding fixed costs. It certainly limits the flexibility you have to respond to unusual situations.

I remained concerned about the deficit and the debt, but felt that the tax reductions were the way to go in terms of stimulating the economy. Clearly, the other things we had tried had not worked particularly well, and we had more or less a decade of "stagflation."

When President Reagan came into office, mortgage rates were 16%, which in itself made some feel the economy was in crisis. There is a big, big difference between a normal 7% and 16%, and clearly something was wrong with the economy. It had been wrong for too long a time, so we needed to find a different approach. I was convinced that the supply-side approach was certainly worth trying, and made a lot of sense.

Knott: Stockman had been a supply-sider, but sort of drifted away from it? Is that an accurate description of his position? By the time of the *Atlantic Monthly* article, he was talking about supply-side as a Trojan Horse, if I'm not mistaken.

Harper: Yes, he used the phrase. And I have to confess, I've always been a little puzzled by it—a Trojan Horse to do what?

Knott: Yes, I have to say I've never understood that either.

Harper: People usually don't think linearly and only have one reason for doing something or one reason for saying something. Some people said, "One of the great things is, if we cut taxes, it will discourage Congress from spending more money, because they won't have a surplus to play with." And certainly, when, in the last couple of years, we talked about big surpluses, the restraint on new spending was not there.

I don't believe, politically, that a surplus budget is a sustainable situation—that somebody is either going to spend any surplus or say, "Let's cut taxes." You're not going to operate a government with a surplus for any period of time. The states have to do it often by constitution. For one thing, they can't print money—not any more—but constitutionally, they have to show up with a surplus, and that's giving some states a big headache right now.

The state of California, this year, apparently is looking at a 25 percent shortfall in their budget. That is really distracting people in California from doing what they would otherwise do, and it's a very unpleasant task to try and figure out how you're going to cover a 25 percent shortfall. That's a big, big number in California.

Savage: The point that you were making, I think, ties in the general argument that this was a premeditated move to drive the budget into deficit and would have this outcome on spending.

Harper: Um-hum.

Savage: And President Reagan was then accused of that—that this was a conscious, premeditated action on his part. Did you have a sense that there was a conscious, premeditated desire to drive the country into deficits to constrain spending, by either the President or Stockman, or any of the other major people?

Harper: I think, certainly, there was a realization that that was a possible outcome. I think this needs to be a balanced view, that a balanced budget was clearly what the President was striving for, and we didn't have a balanced budget. That was a goal. Let me back up just a second.

Sometimes, in corporate life, a CEO will be asked, "Well, how many times did you hit your budget in the last ten years?" And if the CEO says, "Well, it was a stretch goal and we hit it five times in the last ten years," for a public official, that would be pretty good. As the CEO of a private company, a goal—a budget—is a commitment: you achieve it or you're out. In public life, a budget—an aggregate budget—is a goal. So clearly, the President had a goal of a balanced budget. He was committed to *trying* to achieve that, but he wasn't committed to *achieving* it, because he recognized that there would clearly have to be a transition stage.

I think the biggest problem with that commitment to the balanced budget was at the time of the February '81 economic speech, there were clearly "unidentified savings," which left us with a large gap (deficit). For those who had been working on the inside, trying to achieve expenditure reductions as David and I had, the "unidentified savings" were nigh unto impossible to achieve.

We had spilled a tremendous amount of figurative blood trying to get to the reductions we had gotten, and to get billions more in reductions—the "unidentified savings" were hard to foresee. I think the only hope for that would have been that the momentum of having made the other cuts would carry further, or in the long run the economy would grow fast enough to eliminate the need for the cuts, which is what in fact happened.

Savage: By implication—that Reagan consciously induced deficits, not just not meeting the target, but consciously induced deficits to constrain spending—you would or would not agree with that?

Harper: I think he knew that that was a possible, if not likely, outcome.

Savage: The use of the reconciliation to accomplish the Reagan revolution that first year: where did the idea come from to use reconciliation? Because, as you know, it had only been used in a minor way under Carter one time.

Harper: It was Dave's strategy. I think he really was the genius for coming up with that strategy. I think only somebody who knew, appreciated, and fully understood the nature of the process on the Hill would have come up with that strategy and figured out how to implement it.

Knott: For the non-experts out there, could we just explain the whole reconciliation? [laughter]

Savage: Well, it was part of the '74 Budget Act that was aimed at controlling entitlements, and it provided for overarching budget rules that would be managed by the Budget Committee. They would direct the authorization committees to create spending changes—actually, changes in law that would affect spending totals. This went out to the non-appropriation committees to tell them to do things, so that's where a lot of big changes came from in the first year of the Reagan budget. Is that roughly correct?

Harper: Oh yes, absolutely. The whole idea of the reconciliation process is you've got a budget mark, and you figure out how you are going to reconcile everything else that Congress is doing to the budget mark. One of the other things that's going on here—underneath the surface in the budget aggregates—is that the mandatory spending from the entitlement programs is driving out all the domestic discretionary spending. At one time you could have said that most of the budget was discretionary spending, but in the Reagan years the discretionary domestic budget was down to 17.5% of the total budget.

Savage: The other big political attraction of the reconciliation is that it was roughly a single up-or-down vote. It was a procedural rule that would actually affect all these different programs. So rather than having any series of votes where interest groups could fight each cut, you would have one big vote: up or down on all these changes.

Harper: And it gave the members an out. They could say, "I wanted to do it for you, but I can't, because I'm constrained by reconciliation." Now, just to give you a feel for the strength and stability of that particular concept, there is no reconciliation bill this year.

Savage: Or budget resolution.

Harper: Or budget resolution. There is neither a target nor a reconciliation. So one could argue that the budget process, as such, has collapsed.

Savage: What was the relationship between OMB, Stockman, yourself, and the Council of Economic Advisors?

Harper: Oh, it was very good.

Savage: Because I know that you had this relationship with [Murray] Weidenbaum.

Harper: Yes. There was a lot of tension overall early on in the administration. Not so much people fighting with each other, but rather trying to figure out how in the world we'd make the numbers fit. How do you get to a balanced budget? What kind of assumptions does it take to get to a balanced budget? And the President has said, "We shall have a balanced budget. We shall have tax cuts. We shall have spending cuts." So then what kind of assumptions do you make with the economy to close the loop, so that you come up with a balanced budget in a reasonable period of time? And to do that required some heroic assumptions in the CEA's [Council of Economic Advisors] forecast for the economy early on. Thus was born "Rosy Scenario," to go down in history with Rosie the Riveter.

But that caused some stress, because some of the economists felt, “Here you guys are monkeying around with my professional reputation while I’m walking the plank, putting these assumptions in the CEA’s report. It will make everything fit together, but it’s not anything I’m very comfortable with—but this is, I guess, what we’ve got to do.”

Savage: Well, you had the supply-siders, you had the monitorists, and you had traditional budget-balancing folks. How did you put all that together in the white-paper budget to create that harmony amongst these people—or did you think it was accomplished?

Harper: Well, I think it was pretty well accomplished. As I say, there were a lot of stresses, in particular in terms of the assumptions for the out-years that had to be made. We knew what the numbers for this year and next year were going to be, but when we got out beyond the first two years, we were making some very big assumptions about what would happen. I think one of the things that has happened in the last couple of years—and I won’t go too far in philosophizing about budgets—but traditionally, the Congress had said, “Congress is for two years, budget for two years. To go beyond that time goes beyond the authority of the sitting Congress.”

Now, we’re not talking two years, we’re talking budget forecasts of ten years. When we look out ten years, you can come up with scenarios and assumptions that will give you surpluses pretty easily. That’s been one of the big things that’s changed over the years. Whether that’s the proper or best budget concept is a debatable point. In the private sector, I would say three- to five-year projections are about all anybody believes are really credible. To go out ten years is beyond anybody’s realistic expectations of our ability to forecast.

Savage: How involved was the President in the budgetary process at this point?

Harper: He was certainly very involved at the aggregate levels. I don’t think he had any great desire to be involved at a terribly detailed level. And I admire and endorse that approach, that if you get involved in too much of the detail—in effect if you get too involved in the woes of a single soldier in the battle—you’re going to lose sight of the battle. The sympathy in your heart goes out to a single soldier, a single program, and you can say, “Well, gee, I understand, I’m sympathetic, but we have a war to win here, and I’ve got to take a look at the entirety of what’s going on.

So I think Reagan took the appropriate approach to stay at the higher level. He wanted to stay with the aggregate numbers, to be sensitive as to what was going on below those, but only deal with them if there was such a feeling—and such a political force—to move that up to his level of decision making so that he would get involved in it. Otherwise, he didn’t. The budget review board that we set up was one way to force people to prove their case. There may have been some issue that went beyond the budget review board, but I can’t remember what they were.

Knott: Were there ever instances where you’d be engaged in one of these discussions? You talked earlier about the charts, the good, effective Defense Department charts: was he swayed by things like that? I mean, were visual props the important element in getting him to take—

Harper: Well, visual props are always helpful. Whether it's a chart or a good graphic of a soldier, I think they're always helpful. With respect to the Defense budget, one of the basic elements of the President's campaign and his platform was a strong national defense. One of the easy formulas of that was, "We shall have a 600-ship Navy." And so that was quantifiable, specific, and people could relate to it.

Knott: Who came up with that number, do you know?

Harper: I think John Lehman, Secretary of the Navy, campaign advisor.

Knott: John Lehman?

Harper: Yes. I've never heard anybody else take credit for having come up with the number, and he was the one who spoke about it most often, so I presumed he did. So that's where we started: the President wants to rebuild national defense, so anybody who wants to make a big cut in that ought to have a pretty good excuse for it.

Savage: How did Stockman view the President in terms of his decision-making capabilities or style? There's the story about the budget quiz that he arranged during '83, or maybe it was '82. He was trying to get the President to understand the tradeoffs, so he had the budget quiz. In order to achieve budget savings, there'd be X number of items you'd have to cut, and then someone would go through this whole process, and the President eventually produced minimal savings through all this.

To arrange this quiz suggests that Mr. Stockman viewed the President's decision making in a certain way that would require him to do this. I was wondering if there was any sort of consideration about, "How do we approach the President? This is how he thinks. This is the easiest way to get him to do such-and-such." How did that approach work, and what was the preconception of what that approach might be?

Harper: Well, preconception. It's important to recognize that he had an approach to making decisions, and it was, that with some exceptions, he did not like to get involved in a lot of details. His job was to have the vision—and maintain the clarity of the vision—as to where we were going. And again, he felt that if he got too involved in the details, he would lose sight of the vision, and that would not be communicated to the rest of the administration and the people.

With respect to budget quizzes, I guess I'm kind of surprised to hear it referred to as a budget quiz, and that probably is the appropriate—

Savage: That's what he calls it—

Harper: That's probably the appropriate term, but it's a technique that I've used in other circumstances where you say, "Okay, if you want to do this, and you want to do this, and you want to do that, *this* is what you've got at the end—it's not very much. So let's go back through it again, now. Do you really want to do this, do you really want to do that, or do you really want to do this? Or, do you want to come up with this result? If you want to come up with that result,

we've got to go back here and start over again and go through the quiz and see what you're going to give up."

To me, that's kind of a standard technique, because most people, when they're dealing with resources, want more at the first pass than the result they're targeting is going to deliver. It's a pretty standard budgeting technique I think. You see it in sales, marketing, developing revenue forecasts all the time. People say, "Gee, I want to sell this much of this product." And you say, "You really think you can do that?" They say, "Well..." And you say, "Is your probability 100 percent that you're going to be able to achieve it?" They say, "No." And then you say, "Well, all right, what lower-percentage probability will you have?"

On the other hand, Reagan was interested in certain issues, and you couldn't drive him away from some of the details. He was particularly interested in Social Security, and there he would say, "I want to talk about this, because it's an important issue." And we the staff would say, "Why, gee, it's so complicated for people to understand." And he'd say, "No, I can do it," and we couldn't keep him from it.

Knott: Were there other issues—other than Social Security—that you recall that he took an interest in?

Harper: The numbers in Social Security always fascinated him, because they were big numbers, they affected a lot of people. One personal feeling that he had—which was kind of surprising in some ways—he always felt in his heart that Social Security probably ought to be means-tested. I heard him say on a couple of occasions, "I have all these rich friends, what do they need Social Security for? They really don't need it at all—and they shouldn't get it. But it's going to be too complicated to try and undo that, and it's not that much money in the end. We'd get everybody upset if we did that."

Savage: I think what Stockman was talking about in the book, regarding the means-test, the quiz, was that there were incompatible aspects of the program. And the defense buildup and tax cuts and the goal of a balanced budget wasn't going to be reached anyway—given, as you suggested earlier, the kind of cuts that might be possible—politically, anyway, on the domestic side. To see how this all added up, that it wasn't going to be realized. I was wondering: did Stockman have to go through this exercise in order to get the President to understand that maybe this would not be the way the situation added up?

Harper: Well, I don't know. As I say, one, I don't think it was a particularly unusual technique to go back and forth over budget issues. Two, you're dealing in tremendous complexity. And three, on its face the goals seemed incompatible, if you stayed in the weeds as opposed to trying to see the totality. Program cuts as politically brutal as they were only took you so far. We delved into the details, took the cuts we thought we could take, and then had to move on. More micro analysis was not going to generate more money from the cuts nor make them any more palatable.

You've got to stay at a fairly aggregate level if you're going to make any sense of it at all. The quiz, in effect, is one way of refocusing yourself on what it does. If you went back to the aggregate numbers, in the initial presentation of the plan in the February timeframe, it had large,

“unidentified savings,” and I think everybody knew. The professionals who were into the details knew this before the budget was released.

I urged Ed Meese to “make sure the President understands this. You *know* the pain and agony that we’ve gone through to get these savings. That unidentified savings are going to be almost impossible to get within any human capacity to withstand pain.”

Yet, I think it’s legitimate for the President to have gone forward with the program, saying, “Okay, it’s laid out here, “unidentified savings” are right there, and we’re going to try and do it. We need to do it.

But, at the end of four years or eight years, are those unidentified savings going to be realized? I don’t know, because it’s something I can’t do by myself. It is something I need to persuade the Congress, and I hope I can do it.”

Savage: You have made some interesting points about President Nixon’s decision-making style, the use of the memos and so forth. I was wondering if you might be able to compare President Nixon, in that regard, to perhaps the way President Reagan was staffed, and the way he made decisions.

Harper: They were radically different kinds of people to begin with. Nixon hated to be wrong about anything, and he basically played hardball in everything he did. When you play hardball, you’ve got to be right, or the jackals will eat you alive, as they did. He played the macho role, Nixon did—strong language, strong emotion, strong feelings. Perhaps to compensate for this, his decisions went through this vigorous controlled process of lining up alternatives and making choices. Still, he felt very, very strongly about some things, the CIA being one.

I remember, he verged on being abusive with Henry Kissinger about the CIA [Central Intelligence Agency]. That he thought the CIA was a terrible, terrible place. He felt it was a waste of billions of dollars a year. This came up in a budget meeting we were having about the CIA and other agencies. He said, “Henry, I have told you that we need to do something about that organization.” He said, “I get better reports on my desk every day in the *Washington Post* than I do from the CIA, and that’s a terrible, terrible waste of our money. You’ve got to find a way to get that place improved so that we’re getting our money’s worth out of it.”

Nixon was a very tough guy to work for. If you enjoyed boot camp in the Marine Corps, you would have enjoyed working for Richard Nixon. On the other hand, Ronald Reagan was a wonderful guy. He was as down to earth and real as anybody could possibly be. He had a very strong self image. I remember one time, he walked into the Cabinet Room with a small group of us there, and he had his glasses down on his nose, and he was reading the paper and he said, “How can those people say such mean things about a nice guy like me?” And he really meant it. He really was a nice guy. [laughs] He didn’t get mad about the article; he really was a nice guy.

Savage: So, on the staffing, where Nixon had these memos arranged a certain way, how, in that regard, was Reagan?

Harper: Well, the memos were less formal. There certainly were decision memos, but Reagan liked to hear discussions of things—listen to discussions among his advisors. He would then withdraw from the meeting and think about it, and then would make a decision. It was more a conversation among advisors.

I think Nixon preferred a more adversarial discussion. The presumption of the bar in this country is that you have two opposing sides and they debate each other, and the best side wins—whoever makes the best argument wins. Nixon liked debate, whereas Reagan would just like to hear a friendly discussion amongst his advisors, and then make a decision after that. He didn't feel that it had to be two sides debating each other on a particular issue.

[BREAK]

Savage: (Reading) “The notes that my Deputy, Ed Harper, took every day at the 8 a.m. White House Senior Staff Meeting.” I was wondering what it was like at the 8 a.m. staff meeting, and who was there and what the personalities were like?

Harper: We had a series of meetings each morning along these lines: 7:30, the troika of Meese, Deaver, and Baker meet in Baker's office. 8:00, troika meets with rest of senior staff in Roosevelt Room. 8:30, Meese meets with his staff in his office. 9:00, troika meets with the President in the Oval office. I meet with Dave Stockman in Dave's office. One of the unusual things was that I was Assistant to the President and Deputy Director of the Office of Management and Budget, which meant that I hit all the morning meetings, and would take notes on those meetings. Then, I'd either talk to Dave about them, or give him a copy of the notes each day.

It was an absolutely fascinating group of people that was there every day, in terms of other assistants to the President. At the 8:00 meeting, there was usually a quick roundup of the news, and what the news lines, or messages we wanted to get out, were for the day, and if we were nearing a milestone on one of the policy projects, we'd report on that. This was the same kind of meeting that, I guess, goes on in every administration. It was the same place, basically the same time, as the early morning staff meetings in the Nixon administration, as well. I guess the difference was that I was there with both hats, as a member of the White House staff without portfolio, and Deputy Director of OMB at the beginning—and then, later, when I stopped being Deputy Director, and was Assistant to the President for Policy Development, I had a portfolio on the White House staff as well.

Savage: On this one, one comment he makes was about how there was some decision on budget changes and Social Security, and it reads, “At the bottom of Harper's notes is the underscored line, ‘No presidential involvement.’” Did you have to write, “No presidential involvement” very often, or was that just a rare case?

Harper: No, that particular episode was a conscious choice where the line went from “the President will take the lead on this” to “keep the President as far away from this as you possibly can,” because it became such an ugly political mess. I don't remember all the details of this, but it was the reform of Social Security that really turned sour. The idea involved a penalty for early retirement in your social security benefits.

So, this was intended to be something that would take place in the future, and there would be a transition to it. There was an argument about how it was handled in HHS [Health and Human Services] which precipitated a firestorm on the Hill. Instead of it being something in the future that would be phased in or phased out, it was done instantaneously. That touched off a political firestorm. Originally, the President thought this would be not an unreasonable thing to do, and he could take the lead in showing we had to do something in every category. But instead, it turned out to be something that looked, on its face, like a very unfair thing to do. So we went in, over a period of about ten days from, “The President will lead on this,” to “Let’s keep the President as far away from this one as we can, because it’s really a bad deal.”

Knott: Could you tell us why is it that you came to hold these two titles, both Assistant to the President and Deputy Director of OMB? What was the thinking behind that? It had never happened before?

Harper: No, it never happened before. Basically, Dave and Ed Meese asked me to be Deputy Director of OMB, and I turned them down. I really wasn’t negotiating, it was just that, well, I’d already been second guy in the OMB part of the world, and there were other things I was more interested in, and I really hadn’t planned to stay anyway.

I was happy in my career in the private sector, and would just go back to doing that. The transition had been a fun 90 days, and it was great to meet a lot of interesting people, but I wanted to go back to St. Louis and resume my career with the Emerson Electric Company. Meese came back to me and said, “The President really wants you to do this, and just to show our good faith and interest in this, we will offer to use one of our White House slots, and make you Assistant to the President, which is about as high a rank as you can go. Also, you’ll get paid the same amount as Dave Stockman will be. So you’ll get paid at the level-two rate. This is the best we can possibly do, and the other thing is you know the President likes to promote from within, so if one of the other Cabinet department jobs that you’re interested in comes open and you’re interested, we can talk about that. But we need you at this point to help us hit the ground running, and make sure we’ve got two people at the top of OMB who know about that and have experience.” So that’s the simple story.

Knott: Could you discuss a little bit the roles and responsibilities that you played—let’s say almost on a day-to-day basis—as opposed to David Stockman. I mean, you’ve touched on some of this already, but if you could, perhaps, go into greater detail.

Harper: Well, certainly, Dave was the leader of OMB, the public spokesman. He was the strategist on the Hill strategy, which was more critically important under his leadership than under any previous OMB Director. OMB’s involvement in the Hill had never before—and perhaps not since—been what it was when he was Director, because of his intimate and personal knowledge of the Hill. I don’t think any of his successors or his predecessors had been members of Congress.

Dave took the lead on the budget issues, but I had a lot of background and could be helpful and supportive in that—sit in on meetings and take on special assignments regarding the budget.

But, beyond that, there was the “M” side of OMB, that Stockman didn’t have much background in, didn’t have a lot of knowledge of. I basically took on that responsibility altogether. That involved the management of the institution of OMB itself, and—I’ve sometimes been curious if this has been repeated since—a personnel review program that I instigated. We did a review of everybody’s job performance in OMB, all of the career staff. Certainly, it had not been done before in terms of personnel evaluations.

What was good about that, for example, was there was a branch director who was a very competent analyst, and a good person, but a terrible manager. He tried to make up for the fact that some of the people reporting to him were failing in their responsibilities by his doing their job and his job. This meant that he was working incredibly long hours doing his job and their job at the same time. And he didn’t have the courage to ask those people to leave. But the net result of it was that he was not fulfilling his role as a manager, and he was shortchanging himself in terms of his ability to be a stellar performer as an analyst.

So, as a result of the personnel review, we were able to find some high-level project work that took this guy out of the line of being a manager—where he was not doing a stellar job—and putting him where he could really excel as an analyst and leader of a project, and try to get things straightened out in the branch by putting in a more assertive manager so the branch would again be functioning effectively. I think this was a win-win situation for the employee and for OMB to be able to make that change.

In terms of the larger issues of managing government, there I took a little bit different tack than perhaps has been the tradition in public administration. Historically, a lot of activity in public administration from the Hoover Commission on has dealt with government organization. I felt that perhaps we had run that string out in a couple of areas. One, the Congress basically told us that the negative veto on organization proposals would no longer be acceptable. By that, I mean that before we would send up a reorganization plan, and unless they vetoed in a certain amount of time—the legislative veto in effect—we could put the reorganization plan into effect. There had been some court cases on the issue with respect to constitutional delegation of powers, which suggested that this was an unconstitutional delegation of power by the Congress to the executive branch. Those cases essentially eliminated an increment of flexibility that the executive had had since the Hoover Commission anyway.

One of the things that’s an interesting curiosity is buried in the Homeland Defense Bill right now. It’s a provision that allows for a legislative veto of reorganizations with respect to homeland defense. And so far, nobody has made a big issue about it, so maybe that power will creep back in, and the power of the executive will gain an increment here, but we’ll see what happens with that.

One of my major points of emphasis was financial management. I felt that the executive branch had not done enough with financial management. There had been, in earlier years, some very important work done in the Defense Department with respect to financial management. But the Federal Government, broadly, had not focused excessively—or to any extent really—on financial management as a key element of management.

During the Carter years, the OMB's programs on debt collections, cash management, and travel policy were three excellent projects. I felt we needed to finish them and implement as rapidly as we possibly could. That would be consistent with the President's program of trying to make the most of our assets, and avoiding unnecessary appropriations. Beyond that, there was a strong feeling that there was fraud, waste, and abuse in government. I have to say I began as a skeptic as to whether or not there was really substance to this, but after I got into it, I became convinced that this really was an issue of importance, and did have substance to it.

Before I became aware of it, the President and Ed Meese had reached a decision that the Inspectors General program presented a constitutional challenge that they wanted to take up. The challenge was the penetration, shall we say, of the Congress in running the executive branch. The President felt that this was a constitutional issue, and therefore he used his executive prerogative to terminate all 16 Inspectors General. He did that, certainly, without my knowledge or asking my advice about it. [laughs] Ed Meese did give me a one-day heads-up that, "Tomorrow the President is going to fire all the Inspectors General, so there may be some attention to it—and, by the way, you're going to be in charge of that program." So I was up for the challenge and the task.

Knott: The feeling was that these people were more representative of Congress than the executive, was that the—

Harper: There were two feelings. One, some of them were incompetent, that they were political hacks who had been put in the jobs and weren't very good at it. Number two, there was a feeling that there needed to be a definition of what their role was, and who they were really responsive to. Now, that's difficult, because they are the nominees of the President, they reside in the executive branch, and they issue reports to the Congress.

There's been a lot of conversation lately about the role of auditors, and it was my view that the role of an auditor is extremely important. In the private sector, I had worked with our auditors. They are an essential help to management, because it is impossible for the top executive in an organization to know everything that's going on below. If you have good auditors, you can feel a little bit more comfortable that the control systems are in place—that people are not stealing money from you, are not doing things that are totally at odds with the overall objectives of the company and the organization.

There was concern that the Inspectors General were neither fish nor fowl, that they weren't really part of the executive branch, that they really weren't part of the congressional branch, that they were potentially meddlesome troublemakers. So we committed to reinvigorating the program, to hiring the best possible people we could find to fill the Inspector General job. We thought it was a good post, and eventually came to expand it beyond the 16 agencies where it was initially, to cover all of them—eventually including the Defense Department, which initially objected to being covered.

We wound up rehiring three-quarters of the existing Inspectors General. We reassigned them to other agencies. It is not bad audit practice to rotate your auditors from one place to another, so

they're fresh and don't get stale and don't become captives of whom they're auditing, and come to question things anew.

And we had some really outstanding people as Inspectors General, people who became good personal friends over time. Chuck Dempsey, who looked like Dick Tracy [laughs]—not only acted like Dick Tracy, he *was* Dick Tracy I think—was widely respected in the IG [Inspectors General] community, and headed our HUD [Housing and Urban Development] program after a while. And June Gibbs Brown, who had been our Inspector General at the Interior Department, we moved to NASA [National Aeronautics and Space Administration], and she eventually became Inspector General at the Defense Department. They were truly outstanding people. And we had other very good people as well. I think that program was very effective in meeting its objectives.

One of the things we did, which had not been done before, was to issue reports, not just dull, standard, government-issue reports of blinding page-after-page small print, but rather things that would highlight the fact that we were getting indictments. We were getting convictions of Federal employees, and non-Federal employees who had violated the law, and stolen things from the government. We even discussed cases where we convicted doctors of stealing from Medicare and Medicaid. We thought this was important to deter additional fraud, waste, and abuse against the Federal Government—to publicize our success in recovering funds and convicting and terminating Federal employees who had broken the law. I think that was really a pretty effective program in the end. So I went from being not entirely convinced to being an enthusiastic supporter.

To add to the effectiveness of the program, we brought the Inspectors General together for the first time in a council—the President's Council on Integrity and Efficiency in Government—where they could work together and interact and share best practices. Another thing we did—it was a very important breakthrough that sounds kind of trivial now—was computer matching. There had never been computer matching between, let's say, government payments and government debts. People who owed and were way past due on debts they owed to the government were still paid payments for other things, because the agencies weren't matching debts and payments. So we changed that.

We got into other issues with matching potential, such as catching deadbeat dads. Those were big breakthroughs for the Inspector General program, and in combating fraud, waste, and abuse in government.

Savage: Let me ask you maybe a tough question. Going back, especially to the first budget, where we have Rosy Scenarios and magic asterisks and questionable economic assumptions—and I think there was still the assumption of 5 percent economic growth at one point. All these various assumptions and questionable data built into the budget undermined the trust that might exist between an administration and the Congress—as well as the lack of credibility the budget and the executive office came to have on behalf of Congress. How much, then, did that initial effort to push the Reagan program through undermine the kind of credibility that budgets might have had in the past? You mentioned auditing, and now we have accounting—was this an early Enron budget?

Harper: Well, I don't think so. To abstract things for a moment, there is a question about intent to deceive. There's the intent and then relatively what have you done? In the Enron situation—what I understand of it—you have a scenario where a reasonably astute auditor could read the books and could not figure them out. A good analyst—somebody making half a million dollars a year as a corporate analyst—couldn't figure it out, because it was so cleverly camouflaged. The budget submitted by the Reagan administration did not camouflage anything. You do not have to be a half-a-million-dollar-a-year analyst to read it. It says, "unidentified savings," big number, oh, how are you going to get that? "Assumptions for the economy, 5 percent growth," hmmm, that hasn't happened very often. So you didn't need to be a rocket scientist to figure this out.

Now, is everyone going to say, "Gee, is this the most accurate, the most reliable, the most probable forecast of what the economy is going to do?" No. Is it possible? Hmm, maybe. Is it good for selling the program? Maybe. Probably better than using a pessimistic forecast.

On balance, I think it was a pretty reasonable thing to do. Did it enhance the credibility of OMB? No. I think it was clearly a political activity. But, I think it was increasingly recognized that the budget process was the nexus of politics and this is the center of the political fight that we were having about policy.

You must put your best foot forward. "Legally, it is legitimate puffery." You have to lay out your assumptions so that everybody knows what they are, and to me, that's the element of fairness. If there have been some sneaky assumptions that nobody could figure out, that would be bad, and that would be unethical. But if you were clear and fair in your assumptions, people could say, "Well, you know, I don't think it is going to be 5 percent." It *has* been 5 percent at different times. But 3-1/2 percent, as I recall, was the post-World War II average, or high average. So yes, it was above. Was it impossible? No. Was it the most likely? I don't know. Some could argue it was the most likely if the program were put in place, and that's what the debate's all about: what is the forecast if the program is put in place?

Savage: Even in "The Education of David Stockman," part of what made that article so important was that Stockman was revealing that he knew the numbers were not adding up, even as he was presenting them.

Harper: Those were the unidentified savings.

Savage: But there is a sense of probity in budgeting, you don't think that that was all undermined by an administration—administration X producing numbers that even some people know are unrealistic and virtually unreachable? That that somehow doesn't undermine—it produces things like, "The President's budget is dead on arrival," because you can't believe it. The call goes out later on, "Well, we need to have budgets we can really believe," and so on. You don't think that that contributes to that kind of atmosphere?

Harper: Well, I think realistically, budgeting is a dynamic, real-life process, and the President can propose a budget, but he doesn't control what the Congress does with it, number one.

Number two, he can't control what outside factors happen. And number three, nobody—*nobody*—can really forecast what the economy is going to do.

Whenever there's a radical shift in the economy, somebody stands up and says, "I forecast that." But they weren't the guy who forecast the last change—and they won't be the guy, I'll stipulate, who'll forecast the next change. They got *lucky*. In their heart, they'll really admit they got lucky.

So, you can argue that, "Gee, what scenario should we pick? Should we pick the consensus scenario?" Well, some people say, when all the economists agree on something, that's when you know that's not going to happen, so that's an argument against taking the consensus scenario. Should you take the scenario that's going to suggest your plan isn't going to work? I don't think so; why do that? Should you pick the scenario that may be aggressive? But you say, "If you do what I ask you to do, this is going to be the result, I think," and you say, "Can you prove it?" No, I can't prove it. Is it most likely? I don't know, but I think it's got a good chance. So what should you do?

Savage: I asked earlier about the relationship with the CEA [Council of Economic Advisors]. When the budgets were being put together, did OMB and CEA agree on the economic estimates, or would, from time to time, OMB create its own? Were the economic forecasts about expected inflation rates and interest rates and economic assumptions? Were they derived from the Council, or how did they come about?

Harper: Well, I'm sure Larry [Kudlow] did his own. I'm sure the CEA did their own, and somehow they came into agreement—here's the number the administration will use. One of the other things is that Larry Kudlow was a much more public-oriented guy than, let's say, Van Oms, whom he replaced—and let's stipulate that Van Oms is a great economist and very solid and everything—but Larry was much more into the politics of what was going on with the economy, and was very intrigued with supply-side. I don't think he would complain about being described as a supply-sider. So I'm sure he had his own ideas: if the tax cuts were put in place, *this* is what would happen to the economy, and *these* are the assumptions that fall out from that.

Knott: I was just going to ask, Jim had asked earlier about the relationship with the CEA, I was wondering about the Treasury and Don Regan. Anything that stands out?

Harper: Well, I don't think Don Regan was ever a true-blue supply-sider. I think he was an independent-minded guy who enjoyed having the Economic Policy Council as a seminar that he held about once a week, and enjoyed educating people and hearing a debate about economic policy. He probably would distance himself on some issues from the supply-siders, per se, but he was a realist, determined to get some things done, determined that the tax cut was something that we needed to get done. And he was a very vigorous advocate of the President's program, and, I think, a pretty effective Secretary of the Treasury. He was designated as the President's economic spokesman and Dave did a lot of public speaking, as well, on the economy. The CEA maybe less of a public voice, and Paul Volcker was always an established and recognized voice on the economy in that era. So there was some natural tension in those relationships, but overall, I think they were very good.

Knott: So there was not any resentment towards OMB? It seems you just said that Reagan and Treasury were in the forefront.

Harper: Yes, Don was designated as the President's spokesman on economic policy, and certainly, as Secretary of Treasury, he established himself as that. When we'd have economic summits and so forth, it was clear that he was in charge. I'm trying to remember if Stockman went to the economic summits, I don't think he did.

Knott: Did they get along, Stockman and Reagan?

Harper: Yes. They were both pretty strong personalities, but I don't think there was any particular example of their not getting along.

Knott: Could I ask you about some other personalities of the Reagan administration?

Harper: Sure.

Knott: Any reflections or observations on James Baker, the White House Chief of Staff during this period?

Harper: Well, Jim Baker is a smart guy, a smart lawyer, a good negotiator. He had a good understanding of the public policy issues that had been involved. Although he was a little bit of an outsider—in terms of the mainstream kind of moderate conservatives that were around Reagan generally—he had earned his place in the administration by his role in the campaign and had done a good job.

Knott: It was reported at the time, and since then, that there was a schism in the White House between the pragmatists—supposedly led by James Baker—and the more ideological members of the administration, people such as Ed Meese. Is this overstated, or is this an accurate assessment of the Reagan White House—that there was this gap between the true believers and the pragmatists?

Harper: Well, there's always somewhat of a distance between the negotiators and those who "carry the word," I guess. I don't want to say "true believers," but those who know what we'd really like to achieve on a policy basis, and here are the guys on the front lines saying, "Can we negotiate this? Can I get a little here so I can give a little there, and then we'll win and be able to carry it off?" But I think there was respect for that as well. I think there were some tensions amongst the troika over time, but I think Meese realized we couldn't get everything we wanted. But still, let's not give up too soon—let's keep pushing on it.

In particular, there were always concerns about, "Well, if we're going to be 'no taxes,' we've got to be 'no taxes,' and let's not take the easy way out. 'No taxes' is the hard way, but that's what we're committed to do." So there was always that tension between people wanting to do a deal, wanting to be able to make a deal—because only by doing a deal are we going to move

forward—as opposed to those who say, “All right, this is what we came here to do.” So I think it’s a natural tension, and it wasn’t a big problem.

I believe that there’s a certain natural tension in organizations anyway, because different people have different jobs, and each is trying to do the best job in their particular area. You see that in the private sector. The manufacturing versus the marketing guys: the marketing guys will give it away, yesterday, and the manufacturing guys are trying to make it at the lowest possible cost—and that means the product has to be plain vanilla, in an orderly fashion, and you can’t do any specials. So, there’s tension, yes.

Knott: Did you view yourself as one of the “true believers,” or one of the pragmatists, or—

Harper: Oh, I guess one of those in the middle between being appreciative of the “true believers” and wanting to get something done. That’s where Ronald Reagan would step in and say, “You know, like I told you before, we’re not going to raise taxes.”

Savage: On that last point, what role did OMB have in the President’s decision to raise taxes in TEFRA [Tax Equity and Fiscal Responsibility Act], if any.

Harper: Well, TEFRA was a little bit after my time, I think. In one case that I recall, there was a highway gasoline tax that Drew Lewis wanted for highways and bridges. I think there’d been a bridge collapse, and he felt that he needed these funds. The Cabinet meeting was kind of funny. The President said to Drew Lewis, “Well, Drew, I think you have something for us today.” Drew said, “Yes, Mr. President. We need to do something about highways and bridges, and I propose that we have a two-cent gasoline tax increase.” The President said, “Well, George Shultz, what do you think about it?” He said, “Well, I talked to Drew and I think he’s right.” [laughing] So I think he asked Weinberger, and Cap said, “Yes, I’ve talked to Drew—and he called me the other day—and I think, probably, Drew is right.”

At this point Stockman just took his notebook, folded it up and sat back in his chair. He realized he’d been had. [laughter]

Savage: Looking at trying to understand Reagan’s core beliefs, he was at one point a New Deal Democrat, and he supported President Roosevelt and those kinds of programs. But he really didn’t like paying the taxes for them—as an actor signed with Warner Brothers, there were a lot of stories about how he didn’t like having to pay those high returns. Where is your sense of where the core was when it came to fiscal policy, and economic policy in general? What were the core values? What was he willing to let go of in order to get what he needed? I don’t want to use the Stockman budget-quiz analogy, but, were the tax cuts the most important things he was willing to defend, as opposed to defense spending versus other kinds of spending? When you were trying to understand the core-value system, how did you interpret it?

Harper: Well, I don’t know if his core values start with the allocation of resources in that manner. There were things that he believed in. He believed that America was a very resourceful nation, and basically we could solve any problem. So he wasn’t afraid of any problem. Whether it was Yankee ingenuity or necessity, or whatever, something would lead us to a good conclusion

if we put our minds to it. That was the trick, to be focused on it. He believed in Star Wars (the Strategic Defense Initiative), in the sense that if we really tried, we could figure it out, before anybody else could do it. So in that sense he just had a tremendous faith in this country and the people in the country to get things done. He believed that we had to defend the country, so defense was a tremendously important issue for him.

The budget, I think, came next after defense, as something that he was keenly interested in. And then things flowed from that. But his fundamentals were the defense of the country and the ability of the country to figure out how to solve almost any problem—whether it was a cure for cancer, or putting Star Wars defenses up. He thought we could do it.

Savage: Well, when that boiled down to you and OMB, what did that mean to you?

Harper: What that meant was, we sure had to avoid any new taxes! [laughter] And that we probably had to let the Defense Department run a bit before we could really reign them in. But we had to be tough as heck on everything else. As he showed in the highway gasoline tax, in the end, if he were forced into something, he would do it quietly, and then go back to the fundamental vision of where he wanted to go.

Savage: Do you recall what the criteria would be when you were looking at the non-defense programs—why you spared some and did not spare others?

Harper: Well, there was a basic concept of, as Dave phrased it, the Social Safety Net, where we're helping those who are truly disadvantaged who cannot help themselves. But when we have programs that are middle-class subsidies, where we're providing Federal dollars to middle-class families who aren't the poor in society, this doesn't make any sense. And those are the ones we need to grind on. Well, unfortunately, that's where the votes are.

This is the real conundrum of American politics, that if we want to reduce the size of government, reduce the tax burden and so forth, we can't give subsidies to the middle class. But the middle class is where all the votes are. It's popular to say, "Let's tax the rich," but the problem is, there are so *few* of them. And even if we took all their money, it wouldn't solve all of our problems. Somebody came up with a figure that if you took all of the funds of all of the billionaires in the world, and distributed them equally amongst all the people on the planet, everybody would have a hefty three dollars of additional funds.

Savage: When you talk about the non-middle class, low income programs—I'm not talking about tax programs, but spending programs, export-input bank and so on, the Heritage Foundation list of the programs that go to the wealthy—how did you address those kinds of programs? Were they thought of as off-the-table? Were they also subjected to reductions and so forth?

Harper: The social safety net programs were off the table as far as budget cuts go. Those are going to be funded, the low-income programs.

Savage: Then there are the programs that fall into the corporations, the upper-income folks. I'm not talking about tax programs, I'm talking about budgetary programs. How are those approached, given that so much of the constituency would be of the Republican party?

Harper: Pretty rigorously. Unless we felt it could really be demonstrated that a program would create jobs, we wouldn't do it. Some of those programs were hard-tax programs, and one that we did put in place that's an arguable program was the tax credit for R&D spending. This was one that I worked on in particular. I felt an important part of the future of the country was the development of new technologies. In fact, historically, this had been a key role for the United States government and its economy. In terms of the tax credit, we would support increments of R&D, above and beyond what companies had done before. And this was a credit for spending, not new money for them to use. We thought that this would have a good role for government in developing, creating new jobs, and securing the future of the American economy. In terms of spending programs, where we actually laid out cash for R&D, there it had to be basic R&D—not contribute to immediate commercialization, but R&D that we felt over time would be creating jobs, and creating new sectors in the economy. It was still pretty rigorous, and not an area that we wanted to let up on.

Knott: Could I get you to talk a little bit about Ed Meese. His name has come up repeatedly.

Harper: Sure.

Knott: Talk perhaps about his strengths and weaknesses, if you saw any, and his importance in the administration?

Harper: Well, Ed Meese had a long history with Ronald Reagan. He was Reagan's Chief of Staff, he knew the policies that appealed to Reagan, had been with him for a long time in California. And Meese was very interested in law and order, and had a good hold on a broad range of policies, and had been with the President through a lot of these.

Meese is, easily said, a "good guy." He is a good person and he has a good grasp of the issues, as well. So he's a pleasurable guy to work with. He's not a hard-edged ideologue. He is a guy whom you kind of enjoy talking to, and you know, you talk to him and you realize he's really got a strong point of view, but he doesn't come out and say, "Hey, we're going to do you in unless you agree with my point of view." But he has got a point of view, and I think he presents his point of view pretty effectively.

Probably, management is not what he will go down in the history books for. He was not the most effective manager the White House has ever seen. I think, frankly, that was one of the reasons that my work appealed to him—I added a management dimension to what he was doing, and what he tried to achieve. Consequently, we got along very well, and still do. He continues to engage in the debate about public policy from his position at the Heritage Foundation. One of his favorite road shows over the years, I understand, has been debating George McGovern at college campuses across the nation. [laughs]

Knott: Oh, is that right?

Harper: Yes.

Knott: What about, again, some of these names you may not have had a lot of contact with, but I'd just like to find out. Michael Deaver, of course, the Deputy Chief of Staff—any impressions?

Harper: Deaver was a good friend of Mrs. Reagan's, and between the two of them tried to look out for Ronald Reagan personally. I think Deaver, as scheduler, was in a good position to do that. He, of course, had been with the President a long time. He was not always focused on the policy side. One time, we had been working for some time on a project to have a White House conference on education, and there were a lot of pieces of this already in the works. So one day he came into a meeting and said, "Let's have a White House conference on education." We could have said, "Good idea. We just about have it ready." I do not mean any disrespect to Mike, but this illustrates that it is hard to keep everyone informed about everything in process.

Mike made good contributions when it came time to sell the policies from the communications and PR side. But, as I said, I think one of his most important roles was sharing with the First Lady their interest in protecting the person of the President and allowing him to focus his energies.

Knott: How about Alexander Haig. You mentioned earlier this morning, one of the things you did in the transition, I believe, was to meet with every incoming Cabinet officer. Was that correct?

Harper: Yes.

Knott: Did you meet with Alexander Haig?

Harper: I don't believe that I and my team met with Haig or Weinberger for a pre-briefing in the transition. Al Haig is a fascinating guy, and I still see him around sometimes.

He strikes me as a guy who changed personalities in mid-career. I think it may have been being Supreme Commander of Allied Forces in Europe that may have done it. I can't help referring to this book I'm reading on [Benjamin] Franklin, that they said many people in France—Franklin was living in France at the time—were eager to come see him, except the Holy Roman Emperor, Franz Joseph, said he wasn't that excited about seeing Franklin. Somebody asked why, and he said, "Because my trade is being King." [laughs] I think after being Supreme Commander of the Allied Forces in Europe, his trade became being king, and it was a little hard to adjust to the civilian life afterwards.

For example, early in the administration there was some dust-up between Treasury and State and OMB over Latin American debt. I can't remember what the policy was. So Haig came over to OMB, and we met in the big conference room on the second floor. Dave and I were there as well as a couple of assistant directors, and Haig walked in with 20 people from the State Department. I mean, it was a royal entourage. Treasury had Tim McNamara Deputy Secretary, and an aide

from Treasury. Anyway, we're going to have the meeting, and Al pounded the table and he said, "By God, we're *going* to have this, we've *got to* have this for world peace."

So, anyway, then Haig got up and left. McNamara was hanging back in the hall, and he said, "Don't worry about it, we've got this all worked out with the State guys already." So anyway, it was the pomp and circumstance fitting the Supreme Commander that I think was necessary.

Savage: How about William French Smith? I mean, he's interesting. What's interesting, for me, is in part, he's part of the California connection, and Weinberger, because he's a DoD person, he's able to protect his budget pretty well. But was French Smith able to use the California connection much to his advantage when it came to policy in general or the budget? What's your impression?

Harper: Well, we had a Legal Affairs Policy Council. I spoke to him one day about the agenda for the council and so forth, and I noted his lack of participation, frankly, in the council. He said, "Well, I'm the President's attorney, and if the President wants my advice on something, I'll give him my advice—and not share it with a whole bunch of other people." [laughs] That was his view of his job. Now, other Attorneys General have had other points of view, they were interested in policy, but William French Smith saw his role as the President's lawyer, and that was it. He would talk to the President about his views, but didn't necessarily share them with other people.

Savage: You talked a great deal about the positive strengths of Stockman, what were his limitations in terms of a budget person, his relationship with Congress, whatever?

Harper: Naïveté. He was a young guy, getting elected to Congress in his early 20s. He grew up on a farm in Michigan. He spent some time in the rarified atmosphere of Harvard and so forth, but how naïve can you be to grant a series of interviews with a working reporter, and expect that he was going to keep them in his closet for years.

Savage: A left wing reporter.

Harper: Yes. I mean, I think what he felt was that [William] Greider was someone worthy of his intellect, and a worthy person to talk to. These other reporters were just reporters, and Greider was something special—and he could talk to Greider and be immune to these other things. I think that was a little naïve. I like Dave; I think that it was too bad. I think his book is sour grapes, and it has kept him out of the debate on public policy in Washington for 20 years. I think we would have been better for the debate in Washington if Dave had been around and played a role in it, but he essentially has taken himself out of it. I don't know if he'll ever come back to it.

Savage: Your earlier comment about OMB at that point really having a special role to play, perhaps because of his being a member of Congress. He does, at that point, certainly have more presence, say, than Mitch Daniels and some of the other ones—not to single Daniels out—but Charlie Schultze, the whole lot of them, really have not had the same kind of public presence and, is it—was it—him? Was it the fact that there was such a conscientious focus by President

Reagan on the budget as an important thing, in a way that some of the other Presidents haven't? What allowed OMB and Stockman to really stand out?

Harper: Well, think back on the directors who have stood out, who have public presence. Kermit Gordon did because of the gravitas of having been at Brookings and being an intellectual. I think Maury Stans did because he was regarded as a heavyweight in the [Dwight] Eisenhower Cabinet, an experienced guy in business. Then you start going way back to find guys who were really big names, and powerful individuals besides that. I think it was the fact that the issue of the moment was the budget. It was the focal point of political activity. It wasn't diverse, it was focused on the reconciliation process, and Dave was unique in that he understood the reconciliation process. He was the driver of the process, and he understood the budget numbers. So he was the right guy at the right time for that approach.

Today we don't have a reconciliation process, and, as you point out, not even budget targets. So would a Dave Stockman be as successful or as important to the budget process today as he was then? Probably not. I think it's a harder place. You don't have the leverage you did then because of all the focus on the budget. Now, there are so many other things that share the front page, or share front consciousness of policy makers. Then, it was focused on the budget, the budget, the budget. Now, it's homeland defense, terrorism, trying to get any bill passed by the Senate.

Savage: I'm not sure there's really a point of leverage in the budget process, where, like the reconciliation, people really didn't understand or know about. Now we have home players, members of Congress who are so into the process, you can't take them by surprise quite as much.

Harper: Right. I think one of the things you have to think about is, what is the nature of the Congress? How is it organized? Too often, we put the emphasis on the executive branch, but it's the organization of *Congress* and how it receives things from the executive branch that are critically important, along with the relative power within the legislative branch of the budget committees.

The budget committee's political importance now is much less than it was 20 years ago. We had to understand both the congressional side of what happens to the budget as well as the significance of individual players on the executive branch side to correctly understand what happens. It's the interaction of the two, not *one* that necessarily dictates what will happen with the *other*.

It reminds me of an interchange with Senator [John] Danforth, who was interested in procurement policy. He asked me, "When are you going to get the Defense Department to come under the proper GSA procurement regulations?" And I said, "The minute you get the procurement in the Defense Department on the same congressional committee as that that supervises GSA." If you have two congressional committees with different demands, therefore you have different regulations that cover the two.

Savage: There was a certain novelty effect of the budget back in 1981-82.

Harper: Yes, there really was. Dave's staying on, I think, was a product of the *Atlantic Monthly* article. I would hurry to stipulate, I don't think anybody could have done a better job, but I think relatively that Stockman's contribution was in the first two years, and everything after that was just trailing off. I don't know how he feels about that, but the rest of it has got to be a disappointment, because it was really, really frustrating after that initial burst to get anything done, or to feel you were ever going to be able to get to a balanced budget. It was unbelievable, to me, that last year we could be talking about budget surpluses, but, again, I think that's the function of changing the rules and unprecedented capital gains. You change the rules to a 10-year forecast to the budget, and then all kinds of wonderful things can happen.

Savage: So the balanced budget really was the normative drive of OMB when you were there.

Harper: That's the norm we wanted to achieve, yes. I mean, it's like a lot of economic phenomena or many phenomena of different types—they try to achieve a balance. And that doesn't necessarily mean that the precise balance is always what in fact you are going to achieve—but it's still the target. Your body is at 98 degrees or whatever it is, and it's always going to try to stay at roughly that temperature. It will react in different ways. I think, to a certain extent, the same thing is true on the budget process. It's more under the control, obviously, of individuals, but, they're going to want to keep revenues more or less in line with expenditures.

Savage: What's the basis, you think, for that normative concern? Why would you want to balance the budget? There are the economic arguments that are coming out on the budget, the white paper budget and so on, talking about the budgets being—

Harper: That's a beat up budget there! [laughter—referring to Savage's dog-eared copy of the budget.]

Savage: Yes, well, it's an original, my own copy. [laughter] The source of high deficits, and then within the space of a year you have [William] Niskanen and [Murray] Weidenbaum coming out and saying deficits are not the cause of inflation. Did that, do you think, serve the normative purpose at all?

Harper: Well, we talk about economic phenomena as if they were relatively simple, because it's easier to communicate with other people in simple terms. I think the easy, simple terms are a balanced budget. As we were talking earlier, that's a goal—not a commitment—that we will achieve on a particular day. But to run continuing deficits of major proportion for a long period of time probably destabilizes the economy, and I think part of the problem is that economists really can't tell you what the impact of individual tinkering with the economy will be.

There's a consensus that if you run huge deficits for a long period of time, you'll probably have inflation. Or that if you have too much money supply coming into the economy, and there's no way to absorb it—yet having enough goods there to be bought—that will probably produce inflation. But what does any one move do? I don't think they can really tell you.

Herb Stein, I know, took the view at various times that deficits really don't make any difference—certainly not a big difference. And probably a lot of people would say, "Well, if you

mean a little deficit, yes, it probably doesn't make a lot of difference." But if you're talking about a big deficit—over a period of time—we're going to notice that and they're going to think, *Well, something ought to change as a result of this.*

Savage: Then I won't ask you about the Bush tax cut. [laughs]

Harper: It wasn't big enough—in a lot of people's eyes. [laughter]

Knott: You mentioned the Stockman book, you called it sour grapes, or used the term "sour grapes." Did the tone that it used surprise you when it came out?

Harper: Yes, I had heard. I hadn't seen a galley of it, but a friend and I were talking about it, and he said, "Gee, you know, Dave really pointlessly says some things here about people that could easily be left unsaid," and frankly, it's my impression, in the first draft of the book, they were not said.

Knott: So the publisher may have—

Harper: And I can imagine the publisher saying, "You know, this is really a pretty boring book—let's spice it up, and say something controversial about these people. That will start generating interest in the book, and we'll sell more books."

Savage: He said nice things about you.

Harper: Dave was always kind to me.

Savage: He indicates you're a black belt in bureaucratic politics?

Knott: Yes, what is that, do you really have—

Harper: I said, "What does that mean, Dave?" And he said, "I don't know, it just sounded good."

Savage: So, you're not a black belt?

Harper: I'm certainly not a black belt in *karate*. He said I had a black belt in bureaucratic politics or something. [laughter]

Knott: You were also given the role of leadership in the Presidential Council on Integrity and Efficiency, which I don't think we've touched on too much this morning. Do you want to tell us a little bit about the role of that council, and how it interacted with OMB?

Harper: Well, this council is basically Inspectors General. We added to that the Assistant Director of the FBI for Investigations—who at that time was Francis X. (Bud) McMillan—and we added [Charles] Bowsher, the Controller General. So basically, we had all the people in government who were in a position to do something about fraud, waste, and abuse. We had

roughly 11,000 auditors and investigators represented on that council. I think we did some good things, as I say, in sharing best practices, in beginning the drive towards computer matching, and using computers to detect fraud and waste. Then, we emphasized—published—the results of our audits and investigations and arrests and convictions as a way to deter others from thinking this was an easy take from the Federal Government. It was a pretty successful activity, really. We were supportive of that in terms of budgets. Whereas everybody else got clipped, basically the Inspectors General didn't.

Knott: What relationship, if any, did you have with the Grace Commission?

Harper: Not a lot. J. P. Muldock was brought on to head the Grace Commission. He had been a consultant with McKenzie. He was a friend of Joe Wright's. I think they'd known each other from someplace else. There had been a similar commission in California—I don't remember the name of it—that Ed Meese felt had been pretty successful in helping California to publicize various budget cuts. He felt that would be a good thing, to just continue to publicize that there were savings realized in a lot of Federal programs, and to generate public support for that. But they were a separate group from the Inspectors General, because we were really looking for fraud, waste, and abuse that we could either get convictions on, recapture funds, or change programs.

Some of the changing programs were things that the Grace Commission couldn't help us with. But they were essentially public sector—private citizens—and the Inspectors General were officers of the Federal Government.

Savage: What was your gut sense? Here you were in two different White Houses, administrations—how would you compare the Nixon to the Reagan? How organized were they in terms of issues management and getting things done—was one more chaotic than the other? I know they were different times and so on—

Harper: They were certainly at different times. The first three years of the Reagan administration were relatively linear. The first three years of the Nixon administration were not linear. There was a clear change in the policy making progress. The formation of the Domestic Council ended the star system, which was how the Nixon administration began, with the stars of Pat Moynihan and Arthur Burns, and their galaxies of advisors, and their differing points of view. Moving from the star system to a staff system was an important break in the history in the Nixon administration. The star system was relatively chaotic. The staff system was really buttoned down and tremendously well organized. I felt that's where the true Nixon really was—was in a very tightly organized staff system, as opposed to the star system. If he had been comfortable with the star system, he would have kept it—found other stars to replace Moynihan and Burns, but he got rid of it, because he was more comfortable with the staff system.

With Reagan, he began with the Cabinet Council system, and certainly, in the time I was there, that remained in place. He was happy with the Cabinet Council system. It allowed him to sit in and listen—as I described earlier—to a discussion of his advisors. It was not particularly confrontational, but gave him a good sense of where the people he had confidence in stood on issues. Those were the major differences in the two administrations.

Let me add that Nixon—sometimes, when he had a tough decision—would get the briefing papers, read through them, and then we'd have another meeting. I remember one time we had an issue where he particularly wanted John Connally—and I think Don Rumsfeld and some other people—to show up and discuss this particular issue. But it was more of a debate, and the briefing papers set it up as a debate. With Reagan, I felt it was more a discussion of trusted advisors.

Knott: President Reagan came in with the idea of shutting down the Department of Education—

Harper: Yes.

Knott: And also the Department of Energy?

Harper: Yes.

Knott: What happened there?

Harper: As John Whitaker (Nixon's advisor on environmental issues) used to say, "I've got three drawers in my desk: I've got the in-box, the out-box, and the too-hard-to-do box." I think in the end, the Energy Department and Department of Education got into the too-hard-to-do box. Trying to do it wasn't worth the results.

Part of the frustration that President Reagan felt was that in return for providing about 7 or 8 percent of education funding in the United States, the Federal Government was dictating the education programs of virtually every public school in the country. He thought—based on the track record of the Department of Education in terms of its leadership and telling us how to improve education—that that was about as bad an idea as you could possibly have. He felt the people who were really responsible for innovations in education were some of the courageous superintendents and teachers in schools that were really making a difference, and that we should be listening to them and giving them their head, rather than having somebody in Washington tell them how to run their schools.

The Department of Energy? It's two different things. It's the manufacturing of nuclear bombs manufacturing department and petroleum energy policy. They couldn't have anything less in common than those two parts do. So it makes for a very bifurcated and weird department. The petroleum policy is one that is and is not market driven. It's market driven in that there is still a world-wide market, but there are those who would attempt to make an oligarchy out of it—on a regular basis with the power of the state, of Saudi Arabia, Iran, Iraq, and so forth, and the Soviet Union. It's a little bit complicated. Probably, where we've had our biggest problems—in terms of what consumers have noticed over the years—is not in the absolute supply of petroleum, but the distribution of petroleum. The SPR, or Strategic Petroleum Reserve, makes us feel good in that, theoretically, there's a month's worth of petroleum there. It really is the problem of marketing—and getting it distributed to people—that usually is the hang-up, rather than there not being petroleum anywhere to be had.

But it does make people feel better, and it's, oh, kind of a nice add-on to jaw-boning that some Presidents have used. I think President Clinton released some petroleum from the Strategic Reserve. But anyway, it makes us feel a little bit better, and it's like insurance—you never want to use it, and it's not as good as you think it's going to be, but it gives you some comfort anyway.

[LUNCH BREAK]

Knott: Well, we covered a lot of ground this morning, particularly your experience at the Office of Management and Budget, and almost exhausted that topic. But Duane mentioned something to me, just after we broke for lunch, the controversy over the use of block grants—in particular, the controversy that it generated with the Department of Education. Does that conjure up any memories or reflections?

Harper: Oh yes. The whole subject of block grants really goes back, has a long history. In the Nixon administration, of course, we put in revenue sharing. When we proposed revenue sharing, we also proposed block grants. In fact, we had “General Grants” and special grants, but we decided not to use that distinction. So it was general revenue sharing and the block grants—or special revenue sharing as we called it originally. We had originally planned to consolidate special purpose grants in six areas: 1) transportation, 2) health, 3) education, 4) law enforcement, 5) urban development, 6) job training. Not all of these special revenue sharing programs got enacted, but we did succeed in getting some of the specialized grant programs consolidated. So the block grants for the education department were a relatively simple and obvious way to consolidate the funding of specific instructions by the Federal Government to direct local education programs and put the moneys back into a funding mechanism that would give more flexibility to local schools. So that was the history of it. It was a pretty good approach, given the President's decision as to where he wanted to go with the Department of Education.

Knott: Secretary [Terrel] Bell didn't last too long, if I'm not mistaken. Was he somebody that you considered a team player?

Harper: Oh, yes. I think that anybody who would essentially take on the assignment of being Secretary of a department with the main program objective being to shut the department down, had to be a team player on the first day, since he knew that was the objective. So yes, I think he did a good job of trying to pull that off.

Young: But it didn't happen.

Harper: It didn't happen, right.

Young: Why not?

Harper: I think it was just too hard to do. There were too many folks at the federal level who liked to put their hand in the pie, and try to steer local education in directions they thought were superior to what the local educators were doing. And there were people at the local level who felt their special interest program might not be able to get as much money if there were broad competition for the funds.

Young: Well, the teachers, did it have a strong congressional constituency that would have opposed it?

Harper: Well, yes, strong enough. People had gotten on the Education Committee so they could say they'd done something about education, and not to say that their major accomplishment was getting the Federal Government out of the business of directing local education. Objectively, you could say, "Well, yes, there are great examples of teachers and superintendents who have made a tremendous difference at the local level. And yes, we'll grant you that, but most of them aren't any good, so we'll have the Federal Government tell them—the rest of them—what they should be doing." As I was saying earlier, some on the Education Committee wanted to use that 7 or 8 percent of total resources that go to education out of the Federal Government, and direct the other 93 percent of the locally raised and generated funds.

Young: Was this a pet project of the President's, or was it not so high on his list of priorities? I'm leading up to the question, at what point—if you can cast any light on it—did Ed Meese or the President or whoever just give it up, say it's not going to happen?

Harper: I think just by force of events, this sifted down out of the list of priorities. It came in as something the President had already decided he was going to do, and wanted to see accomplished, but with all of the other heavy lifting that was involved—getting the economic program in place—other issues obviously took first priority. With all these things, the real way politics works is you've got to make compromises, and you don't necessarily want to advertise those at the time you make them. For example there were various agricultural programs that got more funding than they probably deserved. Some of the congressional caucuses—the "boll weevils" and the "blue dogs" happen to come from those parts of the country, and if you wanted to get them to help make up a House coalition to pass the Graham-Latta reconciliation bill, that's where you looked.

Knott: Do we have any other questions about OMB before we make the transition into the Office of Policy Development? Do you have anything more?

Savage: Do you have anything else you'd like to add that we haven't touched on?

Knott: The Stockman-Harper legacy?

Savage: Isn't it the Harper-Stockman? [laughter]

Knott: Of course.

Harper: I don't know. I think it's overreaching to associate my name with any legacy there. But it's a wonderful institution, and it's one that has developed over many decades, and has been fortunate enough to attract—on a continuing basis—some really outstanding talent.

I think one of the funniest stories involved Interior Secretary Jim Watt, who had been, certainly, a partisan activist, wanting to recruit Don Crabill from OMB. He said, "Crabill knows more than

anybody else in the world about my programs, and I want him on my side instead of your side, so that's why I want to make him Assistant Secretary of Interior." I said, "Well, have at it."

One change over time is interesting to note. When I was first at the Bureau of the Budget, I saw a woman have a nervous breakdown. It was at 5:30 in the afternoon. Her boss came out of the office and said, "By the way, I need to make some changes in this table." It was 20 columns across, 25 rows deep, and there were eight carbons. She literally broke down and cried. There were no computers, no PCs, no calculators at OMB. Fast-forward another five or six years, on a Saturday, we're making a presentation to the President, there were calculators but no PCs, and we would adjust the charts we were going to show the President by getting stick-on labels to correct the charts. It was not until well into the '70s that there were PCs available on more than a couple of desks in OMB, so that has made, I'm sure, a tremendous jump in the productivity of that place over time. I think it's just an interesting historic anecdote.

One point regarding the Stockman/Harper legacy, as you put it, is what we talked about this morning, that certainly OMB was a focal point, and began to live in the spotlight during Dave Stockman's time as Director. Simply, the time was right, and he was the right person to do that. I think that we had never really come to a satisfactory conclusion as to what the "M" in OMB really should mean or be about. Sooner or later, resource allocation becomes fairly clear. It's clear that you have so many dollars, and you've got to sprinkle them around on the programs or do away with the programs—and there's a good program evaluation function. But, in terms of management, what's good management? What's bad management?

If I left a legacy it was to emphasize the financial side in fiscal operations in OMB. I felt that public administration had not done enough with the financial side of management. Now we have a strong and well established Inspectors General program. After my time, the OMB and Departmental CFOs were established. In addition to financial management, some real organizational dynamics and organizational issues come to the fore.

It may be, in political organizations, that there is a built-in change at the top in the executive branch, but there are also organizational dynamics in some of the agencies that don't change, which is counterproductive. We're not here to talk about those agencies, but it is an issue. I mean, as somebody described it to me, the reason the Federal Aviation Administration has such problems delivering programs is they lie to each other—they don't know how to tell the truth, and it's very unfortunate in an agency dealing with safety and billions of dollars that that kind of culture is in place. I'll stipulate it may not be true, but it's the reputation they have as an agency. And it's clearly true they were able to spend billions and billions of dollars and not come up with a new air traffic control system as they were supposed to.

Savage: How about assessing fiscal policies. I think you've done a good job on the institutional side, but let's be sort of a nay-sayer. Let's say one of the legacies is long-term deficit spending, a major increase in the national debt, a budget-cutting period that's really limited to the first year, and after that it's holding spending—attrition is really due to inflation—and a loss of credibility of executive budgets, Presidents' budgets, because of perceived gimmickry. Is that a legacy too?

Harper: Well, the expansion of the national deficit is really a function of how it compares to the GNP. So, is the deficit monstrously larger? Is the growth in the deficit monstrously larger than

the growth in the GNP? I don't think so; this, I'm not particularly worried about. As financial organizations grow, maintaining their balance and relative leverage, the deficit ought to grow. When we were talking about big surpluses coming up in the next few years, there was some discussion within the last year or so of reducing the national debt. It was ironic to find who was on which side of that debate, but in any case, it was certainly not unanimous that we were going to spend the surplus to reduce the national debt.

Credibility of the budgets? It's a political process, and maybe OMB had been seen prior to the Reagan administration as not playing a role in the political process. But if the budget is the key political issue, and the President's professional staff is going to be advising the President, they're going to be in the midst of the political issue. The professional staff can not avoid being touched by politics, even if there were no political appointees there. It was still going to be seen as a political issue. I rapidly became convinced from an earlier episode of life in the Nixon administration that you could have the purest motives, you could have the most informed and correct analytical procedures, and still be accused of being stupid and a malefactor, because your views didn't fit with the views of your political opponents. For better or worse, this has been true in American politics since the founding of the Republic.

Savage: I've given you some negatives in terms of a legacy: would you want to add the positives in terms of fiscal policy?

Harper: In terms of fiscal policy, yes. The longest sustained period of economic growth ever. And President Clinton has taken credit for it, but I think all Presidents probably justifiably take credit for anything good that happened under their watch, because they didn't screw it up, or they kept something else from screwing it up.

Young: And always blame their predecessors.

Harper: Right, if it doesn't go right, it's their predecessor's fault. The only person they can't blame is their successor. The economic policy, for all of the chances that it took—chances with the tax reductions, chances with increasing the deficit—really worked pretty well. I think the country is better off for it.

Young: There used to be a legend about OMB—and maybe it's still true or maybe it's not—but speaking from your experience there, where it was perceived to be the main source of what was called neutral competence close to the President: it was considered very much a vaunted agency for having the best and the brightest as career professional staff. The utility to a President was that, whereas those in his administration tended to be part of the temporary government, these people—the professionals in OMB—knew the fine print of Washington, and had a great deal of knowledge about the history of things. That was the legend of the past. I'm not so sure it was correct, but there was a perception—and this wasn't only during Reagan, only during Nixon—but there was a perception that over the years, starting some time—maybe after [John F.] Kennedy, or during LBJ [Lyndon B. Johnson], when the neutral competence ceased to be valued so much, and, as the old boys put it in the old-boy network, the bureau was being politicized.

Do you reject that hypothesis or that view, or is there something to it? Part of that question is about the relations between the ideologues, or the people with the program, or the President with the program, and the careerists.

Harper: Well, I think there are a number of factors that probably go into this. When you think historically about what the Bureau of the Budget did, the Office of Management and Budget, the largest element in the post-World War II era—through probably the beginning of the 1960s—was the Veterans' Division. There were veterans' programs, and the political controversy over the veterans' programs was not great. It wasn't a partisan issue that we were going to do right by veterans.

Young: Yes.

Harper: Only in the '60s did they really start to challenge some of the veterans' programs—"Is this just a program to take care of unfortunates suffering from alcoholism?"

Young: Yes.

Harper: So much of the Veterans' Administration was taking care of people who were depressed and alcoholic and things like that, and then it was expanded into families. But prior to the early sixties, I think there was a much more leisurely pace in the Bureau of the Budget. They dealt in aggregates. When Kermit Gordon made the fabled trip to President Johnson's ranch in 1963 he was talking to LBJ about the aggregate total budget cracking \$100 billion for the first time in history. Thus, the big policy issue was, should they allow—could they allow—the Federal budget to exceed \$100 billion? I mean, that's almost chump change today with a 2003 budget at \$1.87 trillion.

So the focus has gone away from the veterans' program, although it has come back a little bit with the Vietnam veterans. We have a new age of veterans coming in—but the focus has been on the middle class, middle-income subsidy programs that are most politically controversial and most difficult to deal with because of the politics involved. I think the issues have become more complex; the formula entitlements of Social Security, Medicare, and Medicaid are more complicated. Trying to figure out how to fund the health care program without bankrupting the nation is something that no modern society has figured out yet—and we're still trying to figure out how to do it. So there are complicated, intractable issues that are closer to the heart of politics than they've been before.

Young: With substantial dollars attached—

Harper: Big dollars.

Young: So that an alternative view I've heard expressed is when money—available resources and the impact of expenditures—becomes a significant driving force of public policy, there is a gravitational shift in clout toward the fiscal management side and the Bureau of the Budget and the President's office. And naturally, the President uses that for political purposes in the sense of establishing his policy priorities. That's another question, but now you want to move into your

role on the policy side, so maybe you can address that issue from either side of the street you were on.

Harper: Yes. Some of the articles talk about policy-making focused in OMB for the first few months of the Reagan administration, and then shifted across the street to the West Wing and then it dissipated. I do not think the articles were correct. There was one policy operation centering on the President, OMB, and the White House staff. Think about the functions on which the President needed help. Somebody needed to know the existing programs and keep track of the numbers. Dave Stockman and the OMB were brilliant at that, and that was the Administration's initial focus. Somebody needed to keep track of the commitments that the President made during the campaign—Marty Anderson knew those inside and out. So it was logical that, in terms of policy, there wasn't a lot of new formulation.

We talked earlier about a view of the cycle of things. You don't formulate new policies in the first year of a President's term; you've already *got* policies. It's after the first year—in the second year—when you come around to making new policy. So I was fortunate in that I was in the Office of Management and Budget when the focus was on the budget, on what are the implications of this budget cut or that budget cut. Meanwhile, Marty Anderson was guarding the flame for the commitments the President had made during the campaign.

Thus when we got through that first-year phase, I expected to see more policy making and that policy making in the White House. This was not a major political shift; it was just how it came about in the nature of things.

One of the reasons that I agreed to the assignment to go across the street and become Assistant to the President for Policy Development was that we did have this second phase coming on, and I knew the time to get this done was as we were phasing out of the first year, and coming into the second and third year. That's when the decision would be made about the policy the President would run on for re-election. So we needed to go through a planning process to say, "How can we win re-election? What can we deliver as results? What can we say? These are the reasons why you need to keep us in office doing the job for the second term." That's where new policy is created, and it's in that timeframe. So that's why, then, in that timeframe I geared up to bring some new people on who could add a creative dimension to policy, and that was our aim.

Young: There's a lot of substance we might want to get into here about the policies on which you would run for re-election, and what the priorities were, how that related to the Cabinet councils.

Harper: Right.

Young: Or to Ed Meese's operation.

Harper: Yes.

Young: Also, I'm just identifying a whole area of subjects here, not of specific questions, but also the question of who the key players were in this phase of policy—in the Reagan

administration phase that took you to the White House, and how the President dealt with his options.

Harper: Well, I'd say the first thing was predicated on the economic programs working. [laughs] If those didn't work, everything else was a footnote in history. So, obviously, we continued to focus on that, and through 1982 the focus was on the tax cuts—on our hope and expectation that the economy would significantly improve.

Certainly in 1981 there were reasons not to be optimistic that it was going to happen, because things did not come out immediately the way we'd hoped. But on the other hand I think we all realized it was going to take time. We had to get the bills passed in the first instance, and the economy wasn't entirely meeting our forecasts, because the bills might not get passed in the Congress. But they did. The Cabinet councils were really the focal point—or the mechanism we used to try and develop the policy plan for the last half of the first term—and as the basis for running for re-election. I think one of the most important of those councils continued to be the one on economic policy headed by Don Regan, with Roger Porter acting as Cabinet Secretary for that council.

Young: Did you staff the Cabinet councils or—

Harper: Yes.

Young: Including the one Roger Porter—

Harper: Yes, Roger worked for me as my Deputy, right. Let me clarify the organization. We had the Office of Policy Development, which was a successor to the Domestic Council. For a while, there was a unit that was staffed by Richard Beal, a former associate of Richard Wirthlin, a 1980 campaign strategist, which dealt in longer-term political issues, and I think developed some white papers, although they were not at the heart of policy making. When Beal left, those positions were not replaced, but Wirthlin continued to be a valued source of direction for the Administration.

Then there was a unit where Doug Bandow worked with Ed Gray and another fellow, Kevin [Hopkins]. They were very, very good at writing synopses of policy positions that we could use for distribution. So we'd come up with some complicated policy that would be 50 pages long, and they'd reduce it to a page-and-a-half. And that's what we would hand out to everybody and say, "Here's the policy." So they were an important and effective unit.

But Roger Porter and the other assistant directors of the Office of Policy Development were the guys who provided the staff work, and worked between the White House staff and the agencies to get the research done in the various issue areas. For example, Dennis Kass worked closely with Mac Baldrige and Bill Brock on issues of commerce and trade. As to the one on agricultural policy, Burleigh Leonard was the Assistant Staff Director there. Shannon Fairbanks worked with Ed Gray dealing with some of the savings and loan issues. So we had a very solid group of good, analytical people, serving as the Secretary for each of the Cabinet councils.

The Cabinet councils varied in their effectiveness. As I said, the one on law and justice was not particularly active. We never touched any ongoing antitrust cases. They were just not a proper topic about which to hold a discussion in a Cabinet council forum. The AG's (William French Smith's) view was that he was the President's lawyer, and if the President wanted advice, he'd give the President advice. He felt that his view on law was confidential information. Some other members of the Justice Department would appear at the Cabinet council meetings, so we would have some discussions with them. We worked the farm program through that Cabinet council with Jack Block. And Jim Watt worked with us on the environmental program. But that was the mechanism for coming up with the leadership issues which we were going to be focusing on—that we'd try to run on.

Young: How much of what established a Cabinet agenda at these meetings came from above, and how much came from below, or out in the Cabinet? I'm trying to get your sense of what the function of the Cabinet council was. Was it really to take the President's commitments and translate them into a policy in that area that you could get the departments to agree to, or was it just a forum?

Harper: I'd say the former description fit the first year of the Cabinet councils, and as we entered the second year, you had to think about "what else," because there were laws expiring, and other action-forcing events. For example, in the agricultural program, there was renewal coming up and what we were going to do about the farm program was a perennial issue. The farm program was worked through the Cabinet council on agriculture and the environment. Jack Block (Secretary of Agriculture) took an active interest in that.

The farm programs did not require a lot of meetings. Once the farm policy had been worked through, there was not a need to meet every week on agriculture. There was not something every week on energy or the environment. With respect to commerce, meetings were scheduled more regularly. With respect to economic policy, almost every week. The frequency of the Economic Policy Council was generated because Don Regan loved them. He really enjoyed them. I enjoyed them too, they were a lot of fun to go to; it was always interesting, always interesting debate.

Some of the others could get a little obscure for a larger audience. When you get to arguing about Payments in Kind—the PIK program in the Agriculture Department—people's eyes would glaze over fairly quickly.

Young: Did the President attend many of these Cabinet councils?

Harper: He would from time to time. We'd work up to where the Cabinet council was and say, "All right, we know what we want to do here, and this is ripe for a discussion with the President," and everybody would get together and invite the President to attend a Cabinet council meeting.

Young: These were advisory to the President.

Harper: Yes.

Young: So the result of the Cabinet council decision—did you present options? Did the Cabinet council present options to the President, or did it present a consensus?

Harper: I think it generally presented an approach, with options, but, as I was saying, I think I would differentiate the Reagan and Nixon discussions in that Nixon liked to see a clash of ideas—in effect, if you will, two attorneys arguing different points of view to clarify the issue for him—whereas Reagan tended more to enjoy a discussion amongst his advisors of different points of view. That’s how I would characterize it.

Knott: Could you talk about any changes you made as far as the way Martin Anderson ran the office you inherited? Were there some changes that you made in terms of the administration of OPD as a result of Anderson’s experience during that one year he was in the position?

Harper: Yes. There were some people who perhaps fit well in Martin’s approach to the office that I didn’t think would be strong contributors in the way I wanted to approach the office. I felt that the office could play a larger role—especially as we got into the policy planning season, and that it needed to have a very activist approach. We had our people with ideas about policy there in the Cabinet departments and councils, and we needed to make good use of them.

We had people who were working effectively. Dennis Kass and Mac Baldrige became great friends and worked closely together. I know he and Bill Brock both had very high regard for Dennis, and Don Regan had terrific regard for Roger Porter, and regarded him as somebody he wanted to work with—not an enemy on the White House staff who was out to do them some violence.

So, I think we had a very high-caliber group of people, and we also had Dr. Carlton Turner, whom I shouldn’t leave out, who was the drug czar in the Reagan administration. He was trained in all of the issues of drugs. He worked well with Mrs. Reagan, as far as I know. I certainly never got any reports to the contrary. He was an effective representative for the administration in dealing with the issues of drugs, and drugs in our society.

Knott: So he worked with Mrs. Reagan on the “Just Say No” campaign?

Harper: Yes, he did. Yes.

Knott: Could you talk about some of the other, more important, policy matters that you dealt with during 1982?

Harper: Well, the economy just overshadowed everything. That was certainly a critical issue. There was a continuing feeling that welfare programs were not working well, and that they needed to be reformed. We thought we had a better approach to it than the Family Assistance Program, but still were not completely successful in selling our point of view to the Congress. I think those were two good examples. I think Martin Anderson in his book goes through in some detail the efforts to deal with the welfare reform programs.

Knott: What was your typical day like? Earlier, you described your OMB responsibilities in some detail. Could you give us some sense of your day-to-day responsibilities in OPD?

Harper: It didn't change much. [laughs]

Knott: It didn't change much?

Harper: No. I still went to the eight o'clock senior staff meeting, and the 8:30 Meese staff meeting. But I wouldn't see Dave at 9 o'clock, typically, because I'd be meeting with my OPD staff. Typically, we'd have one or two Cabinet council meetings most every day. I sat in on almost all of the Cabinet council meetings. Then, one thing that the President started—which was practically worth the price of admission in itself—were called the Issue Lunches on Mondays. If you can imagine this, having lunch with the leader of the free world—the President of the United States—and you could talk about anything you wanted to, anything you thought was important for him to know.

Knott: How many people would typically be in the room at one of these?

Harper: Seven or eight people. Deaver would come sometimes, but Jim Baker, Ed Meese, [Dave] Gergen, and [Bill] Clark were usually there in addition to us.

Young: Clark when he was what?

Harper: Security Advisor, National Security Advisor.

Knott: And it would just be a free-flowing discussion about—

Harper: Whatever we thought was important. For example, I took my turn, a couple of times, to talk about industrial policy. It was something that I was very much concerned about—again, we're back to the economy, how to strengthen the economy. There was a great deal of concern that part of our economic problem was that we were not remaining competitive with the Japanese. The solution to this was to adopt an approach more similar to Japanese industrial policy, where we would find the industries of the future, and support those with government investment and intervention of various sorts that would be the most effective way to create new jobs, to promote new industries and new technologies, and it would make the United States a winner.

I had seen a half-hour video on the operation of the Yamasaki Machine Tool Company's 24x7 program with its metal-cutting operation. Basically, they turned off the lights at midnight, and the machines worked on their own in the dark, overnight. Then, in the day, the workers would just come by to sharpen and replace the cutting tools; the mechanics used a multi-headed turret for cutting various engine parts. I got the Signal Corps to edit this down to a five-minute tape for me, and I showed it on TV in the Cabinet Room to the President, and he was fascinated. He was pleased to remind us that he had probably visited more plants and talked to more factory workers than anybody else in the room. He reveled in talking about his days at General Electric. He was very proud of it. So I said, "Here's the challenge: the Japanese have done a lot of great things in

terms of being competitive. A lot of people want us to adopt an industrial policy which will pick what industries or segments of industry we're going to support.

So we made the policy determination that *that* was not what we wanted to do. Instead, we thought the economy should pick who the winners and losers were going to be, and it was not our role to dictate where those investments ought to be made. We were into the election season, so a standard gamut to deal with on insoluble problems which the government should only be minimally involved in is to appoint a presidential commission. I proposed we have a Commission on Industrial Competitiveness, and we were fortunate to get the involvement of some truly superior intellects on it. John Young, CEO of Hewlett-Packard, agreed to be the chairman. Michael Porter, the Harvard B School professor, agreed to be a member and provide staff support. Porter still has a class at Harvard on marketing, where he gets his students involved in various marketing projects. In fact, that's how I had met Porter in the first place. He had come to do some marketing studies for a company I had been working for earlier.

We got an absolutely sensational group of people who agreed to serve on the commission, and Young became very enthusiastic about it. A lot of other people in Silicon Valley were concerned about what was going to happen to our high-tech industries if we continued on the road we were traveling.

It was a very hot topic. But it turned away from, politically, the Congress's notion of, "Let's race to do something," to our really having a blue-ribbon commission that focused on whether we were going to be competitive industrially.

Savage: That's the Hewlett Packard John Young?

Harper: Yes. He was chairman of H-P at the time.

Savage: What was the President's level of engagement in these discussions? How finely tuned were his questions? What was he interested in? How did he address these luncheons you had—what was his involvement?

Harper: The luncheons in general? Well, they ranged on a wide variety of topics. Gergen would sometimes use this as another opportunity to talk about how a line was playing in the press of the day.

Savage: I mean, the President's, his own engagement, what did he look for, how did he discuss—

Young: Did he just listen?

Harper: Oh, no. About industrial policy, for example, he was very animated and quite interested. As I say, this was an extension of his involvement at General Electric. He felt very much akin to this issue, and felt that having an "industrial policy" picking winners and losers would be exactly the wrong direction for us to go as a nation. He wanted to see us go another way. Consequently, the idea of a commission was a good one—especially with good people on

it. I also presented some discussion of *Excellence*, the book by Tom Peters et al on excellence in management. The President was quite interested in that.

Young: So he sometimes used it to clarify his own position on an issue that wasn't really on the policy table.

Harper: Yes.

Young: It wasn't coming out of the system, like he had to sign off on this. It was more long-range, was it?

Harper: That's right. That was the beauty of the lunches—that it really was free-form, and you could bring up anything you wanted to bring up. There were no rules.

Young: Tell us what came up, and then tell us what Reagan was interested in of those things that came up.

Harper: Well, I remember this industrial policy best, because it was the thing that I was most interested in, and I remember him as being very interested in it as well. Some of the national security issues that would be brought up would be things that I'd heard about in the paper, things I was interested in. But it wasn't the defense strategy issues: "Should we be prepared to fight three wars instead of two wars and a brush fire," or something like that. It tended to be more topical.

Young: Did missile defense ever come up? Did the President ever have a chance to deliver himself of—

Harper: You know, I can't sort that out from other discussions we had on it. He certainly talked about missile defense a lot of times, and how strongly he believed in it, and how absolutely confident he was in Yankee ingenuity to figure it out. He was not going to be dissuaded by anybody telling him that it couldn't be done, because he was confident it could be done. [Raps on table]

Savage: So he wrote off the South's ingenuity at this point, is that it? It was all Yankee? [laughs]

Harper: Well, I think he would have been pleased with southern ingenuity as well.

Savage: This is Virginia, you know.

Harper: No, he was just convinced it could be done. One time or another I heard him say, "So what? They [the Soviets] don't know that it can't be done. Look what we've got, we've made a bargaining chip out of nothing."

Young: So that was his answer, also, to the cost? We can't afford it?

Harper: Yes, we *can* afford it. And, I think, Stockman was convinced in the end that we won the cold war because we were prepared to outspend them—and they couldn't afford it; they could not afford a missile defense.

Savage: What's the time period here, is it 1982, 1983?

Harper: 1983.

Savage: So, the elections had happened, and the Republicans had lost 26 seats in the House. How did that affect things?

Harper: That's the price of the economic program not having taken hold yet.

Savage: I understand the cause, but how did that affect thinking in the White House? How did the President react to that?

Harper: It made it that much more difficult to get things done. In the first two years, with the passage of the tax cuts bills, you had the device of the reconciliation bill, you had that enthusiasm for a new program, but the economic program had not yet delivered the results we sought by the '82 elections. So we took a drubbing. We were betting on the economy's coming back—and that the list of initiatives that we had taken would be enough to encourage people to continue with the program, and to see it through.

Savage: So when you were talking earlier about the second stage—later stages of the Presidency being policy development and so forth, the forthcoming election—it was “stay the course.” It was regrettable that 26 seats were lost, but it was simply a matter of “carry on through.” Or what kind of adjustments were made to the policy framework for the forthcoming election?

Harper: I don't think many policy adjustments were made. We didn't have a majority in that timeframe anyway—other than a working majority where we'd try to scrape up enough votes to pass a bill. But, I think the plan was to stay the course on the economic policy, and try to fill in the gaps—and continue to beat the drum that there were other things that could be done, like welfare reform, and so forth. But it wasn't saying, “Oh, gee, we lost 26 seats in the election, therefore let's change the course we're on.” I don't think that ever crossed Ronald Reagan's mind.

Knott: There was this top-to-bottom review of economic policy. Do you recall that? Was that a result of the November election in '82?

Harper: Well, I was trying to figure that out, because I don't have a clear recollection of that. I really don't.

Savage: One thing that does happen along the line, economically, is that Weidenbaum leaves and Bill Niskanen is interim, and then [Martin] Feldstein takes over as chair of the CEA.

How did that this transition affect anything from these folks?

Harper: Well, there are three different personalities. You need to think about the personalities and their effect, and the group dynamics. Murray began life as a corporate economist—that was much of his early career. His greatest interest at that point in his career was deregulation. So a lot of the things that he had aspired to, and hoped to achieve, were well on their way with the beginning of the administration. The administration put great emphasis on deregulation. I feel bad that I haven't said more about deregulation, because it was a big issue, and Murray played an important role in that. I think he was probably most happy about deregulation, and most stressful about rosy scenario.

Bill Niskanen was, is a very capable academic, philosophic, economist. He is a very capable guy. I've known and liked him for a long time. Martin Feldstein, on the other hand, is a very articulate and persuasive guy—a guy who is very powerful in groups. He exudes confidence, he exudes a sense of reason, and he's got the NBER's [National Bureau of Economic Research] background—all of the research and data that they put together that gives him great credibility in looking at economic issues. And he always appears well balanced and good humored about things. He was very well received by the President, and everybody else. Marty had concerns about the size of the deficits, but you know, the President always would say, "We're going to stay the course." And he would salute and say, "Yes, Sir."

Savage: What's interesting is that Don Regan was correct about the economy turn and Feldstein was not. Feldstein was saying all the deficits were going to choke off recovery, and Regan said, "These economists don't know anything—it will be the greatest recovery we've ever had." And he was right—the '84 recovery—and Feldstein was completely wrong.

Harper: Well, yes, I don't know what you can make of that, because Feldstein is still employed as head of NBER. [laughs]

Savage: It's called tenure, tenure! [laughter] He was fortunate to get tenure—not based on his prediction of the economy while modeling the abstractions of it.

Young: Well, there is always this question though, it's an interesting question about how Presidents deal with economists. They're obliged to have professional economists on the CEA but they don't always have to listen to them.

Harper: Oh, yes. And I made peace with Marty Feldstein, because he vigorously asked me to desist from telling any more economist jokes. [laughs]

Savage: One thing on that point is that Reagan did buy the Weidenbaum line—deficits do not cause high interest rates or high inflation. So he accepted that and he articulated it. But he didn't buy into the Feldstein line that you had to do something about the deficits, because they were so far off, they'd choke off recovery.

Harper: You're right, and Don was right.

Young: Or, maybe the President felt deficits were self-correcting in the long run.

Harper: Well, that's the argument of supply-siders, really, that they are.

Young: Don't worry about them.

Harper: Yes. They're self-correcting, because if the economy grows, you don't have to worry about the deficits any more—and largely, that's the way it worked out.

[BREAK]

Young: About Reagan and the economy, someone was asking—

Harper: Well, Harry Truman already invented economist jokes. He said he wanted to have a one-armed economist as head of the CEA so they would not say, "On the one hand and then on the other hand...." We had a long laundry list of what seemed to us pretty good jokes about economists. As others have observed, Ronald Reagan was comfortable with being his own economist. I guess he felt that he had had enough exposure to the basic ideas of economics that he could make his own judgments about what was going to happen with the economy—certainly with the same degree of accuracy that other professional econometricians would have.

Savage: He was smart enough not to get a Ph.D.

Harper: Yes.

Young: Another possible way of looking at this would be that it's not a matter of his knowledge or understanding of economics, it's his political understanding of the effects of what is politically important about economic conditions. Reagan had an extremely good ear when it came to discerning what the public is saying and thinking about the economy.

Harper: And he also did have the President's Economic Policy Advisory Board, PEPAB, where Alan Greenspan, Walter Wriston, and just about all of the economic wise men you could find who had been associated with the Republican party offered him advice. I know he always listened carefully to what Alan had to say. I know Greenspan's point of view would be, for example, that you could take a lot of unemployment. You'd have a catastrophe if you were at 10 percent unemployment. Anything south of 10% unemployment you can ask the public to be patient with. At 10% everybody knows somebody who is unemployed.

By the time it was all over, we had fairly low rates of unemployment, fairly low rates of inflation, and a restored and sustained rate of economic growth that basically was unparalleled, and that carried over through the Bush and Clinton administrations. I mean, it's a sensational result.

Young: But the public psychology attached to economic conditions is not always a one-to-one relationship between the public perception and the actual state of the economy. Presidents have more than once gotten caught in believing the numbers—but not being blind to the perception that people didn't think that. You know, FDR was the first one to deal with this psychology.

“What we have to fear is fear itself.” The depression wasn’t over in 1940, but people thought it was over.

Harper: Yes, there’s an aspect to that political psychology. Moving a little off the subject, but if you can go back to talk about Roosevelt, you can come forward to talk about today. With the spread of stock ownership by more middle-class families, when the stock market tanks, there are more middle-class families that feel it.

I was talking to a fellow running for Gary Condit’s seat in California, which basically represents a middle-class working group of people. He said that his approval rating has gone way up recently, and he really attributes that to the fact that many people—many of his constituents—have lost money in the stock market. They see the fat cats from the corporate side walking away with millions and millions of dollars—building \$12.5 million houses. He’s wondering how he can afford to add on his house when the value of all his stock has gone down, and when these guys made millions from their options. I think it’s a potentially dangerous situation. You have big clumps of the middle class feeling like there’s one set of rules for them and there’s another set of rules for Ken Lay and Dennis Kozlowski, and that “ain’t fair.” And that’s something that I think this President’s got to deal with.

Savage: I think one of Reagan’s big accomplishments in terms of the psychology and economy is the positioning of the issue, “Are deficits good or bad, economically?” And my question to you is, where do you think this influence came from? Was it self-generated or not? Does he follow the position of Niskanen and, to some extent, Weidenbaum—even Weidenbaum reinforcing Niskanen—that deficits don’t cause high interest rates, and they don’t cause inflation? And Reagan articulates that, and he goes to various conventions—home-owner conventions and so forth—and tells these people, “Look, there’s no relationship between deficits and interest rates: deficits are going one way, interest rates are going the other.” So what he tries to do is disconnect the two.

But nevertheless, deficits are still bad—not for economic reasons, not for the macro-economic reasons, but for political reasons. They are indicative of waste, fraud, and abuse, government overspending, neglect, fiscal neglect. So he’s pulling apart the economics from the politics. He is still saying, “Deficits are bad—have a balanced budget amendment to the Constitution, but do so for political reasons.” And it’s a great accomplishment intellectually, because it’s something the Democrats can’t do. To this day, they’re still befuddled by this issue.

But it’s something that Reagan does, and whether it’s completely successful in terms of how it’s perceived by the public, nevertheless, he goes through this intellectual process. I’m wondering, does that come from these advisors, or is that something he does himself just by reading the newspapers?

Harper: I think it’s something that he does himself, but he starts at a little different place in the argument. He says, “By the tax cut, we are going to create more money to invest, so there’s going to be plenty of money out there. So interest rates aren’t going to go up, because we’ve had this huge tax cut that injects capital and frees it up to be reemployed in the private sector. With

that comes growth, more tax revenues coming in. That takes care of the deficit—which we want to avoid—and we shouldn't waste money on anything.

So fraud, waste, and abuse is out. It's not fair to pay welfare queens—he mentioned that several times. The tax cuts are the whole key to the program and it's, "Stick with us for the course, and you're going to realize the benefits."

Savage: That's something he says, and then Regan comes and supports him, and at the same time Regan has to publicly chastise Herb Stein for disagreeing with that interpretation. But it's something really that Reagan, himself, does.

Harper: Yes, absolutely. He is a true believer, as I think charismatic leaders have to be, and I would rate Reagan as a charismatic type of leader. He's a guy you relate to. You immediately like him so much that you want to agree with him—and if you can, you will. It's like a column that I saw in the *Washington Post*, and I can't remember who wrote it. But it was one of their regular columnists who admitted in the column that he was a Democrat, but said, "When Ronald Reagan came out riding the horse, wearing the hat, he was *my* President. While I disagree with almost all of his policies, gosh, I was proud of him as President of the United States."

Young: In the Reagan equation also, though, weren't there some untouchables that were very costly, one of them was defense?

Harper: Yes.

Young: That's worth a big deficit, if you have to.

Harper: Absolutely. No question about it.

Young: And Stockman could not prevail on him to think otherwise, is that right?

Harper: Right. I think Stockman became a believer that he had the responsibility to try to keep defense honest. But he realized that he wasn't going to be able to do anything about the big spending, because you weren't going to be able to argue about how important it was to project power with another nuclear carrier. That wasn't his decision to make. The President had made the decision, so he had to get on with it, spend his time somewhere else.

Young: So the belief that deficits are bad, even Reagan has them. I mean, you cut back government spending, we don't need big government, there's an exception to that.

Harper: I think the feeling was that the basic purpose of government is to provide for the common defense. One of the keystones of his administration was focus on defense—focus on defense, win the cold war.

Savage: But it's also, What is the cause of the deficit? And, if you believe the deficit is not being caused by the necessary defense spending, but by big-spending domestic programs, then you can

say that's why we've got a deficit—not because this component of the budget is really responsible.

Young: Reagan made it very clear in some speeches that the issue wasn't so much the deficit as it was this *cause* of the deficit—that he was against big government. He wanted to free up people—the “magic of the market,” as he once called it.

Harper: Subsidizing the middle class, giving middle-class benefits to people who really don't need them, and the worst category of all, those who cheated on welfare programs. I mean, basically, they were people who were trying to cheat the system.

Savage: So by 1983, you're getting ready to leave?

Harper: Yes.

Savage: Why do you leave?

Harper: Well, I had come with the idea that I would not stay at all, then stay one year—and when I took the job on the White House side, I agreed I'd stay a couple of years until the election. I wanted to get back to the private sector. My daughter was a sophomore in high school, and I couldn't see staying on indefinitely in government. I wanted to get back to the private sector, and earn enough money to pay for a college education.

Savage: So she could come to UVA.

Harper: Yes.

Knott: You mentioned a while back, in passing, deregulation and the importance of deregulation as a part of the administration's economic package. Did you want to talk a little more about that?

Harper: That was a strongly held fundamental belief that we forget about sometimes, because it was reasonably successful in being achieved, and in achieving the result that we anticipated for it. We felt government regulation was a drag on the economy in numerous ways, and that it was verging on being a crisis with the amount of regulation that was unnecessarily placed on private activity—whether for businesses or individuals.

I think the pages of the Federal Register—help-wanted ads by lawyers in Washington and the rest of it—are testimony that we made some progress there.

Frankly, I think we're coming around the cycle again, and that the trial bar is replacing what government regulation did before. We shouldn't go too far on this, because it's more about today than yesterday, but the trial bar really is a huge problem, and has replaced government regulation as a big drag on the economy. And I think it's going to be a political issue. It's going to come in focus very soon.

Young: And is all this a predictable result as a form of regulation?

Harper: Yes.

Young: Get some wild decisions out—

Harper: Yes, you do. And you get wild distortions economically, politically, and otherwise. Listen to Senator [John] Edwards and Senator [William] Frist debate the impact of the trial bar on medical malpractice and the practice of medicine—it's there.

Young: On deregulation, I think I'm right, the first presidential involvement on the side of deregulation came under Ford. Carter carried it a step further, and then established a special council or something—or oversight, I think—and with Reagan, that process was enhanced and put into OMB, wasn't it?

Harper: Correct, that we formed OIRA, Office of Information and Regulatory Affairs. Right.

Young: Was that your charter, that part of it?

Harper: Yes. I worked on that as well. Jim Miller joined us, he had been working at AEI [American Enterprises Institute] and this was one of his special fields of interest. So we had Murray Weidenbaum at one end of the hall, and we had Jim Miller at the other of the hall—both working on deregulation to good effect. Tim Muris was part of that team, and he's now chairman of the FTC [Federal Trade Commission]. So these things do go over generations as well.

Savage: Let me ask you about another issue, be the nay-sayer again. Once development's taken place—the economy, the income gaps, questions of equity—what responsibility did the Reagan revolution—and subsequent policies that have attempted to follow up on it—have in contributing to disparities in income and social class divisions? Regulatory policies may or may not contribute to it. And tax policies lowered rates for upper-income groups. How do you look at that whole set of issues? Perhaps these policies may have spurred the economy in some regard, but one of the consequences is greater social class divisions, and unequal distributions of income.

Harper: Well, one of the areas where President Kennedy was right was in saying, “A rising tide raises all boats.” I think that's the basic answer that I would give. That certainly a stronger economy, a more buoyant economy, one that saw the GNP rising, one that saw jobs increasing, is one that is going to be good for everybody. There are a diversity of gifts among individuals in terms of what they're talented at doing, and some of those talents earn a lot of money. My son is an artist, and that's a talent that *doesn't* earn a lot of money. I don't think raising the tide—the tide's coming in—necessarily increases economic disparity among groups.

This is an argument you can go a couple of rounds on. For example, statistically which are the relevant data sets in each measurement period? There is no question there *is* disparity of income. There always has been disparity of income. Is it greater now than before? This is where we come to the edge of meaningless statistical arguments. Our primary concern—certainly in the Reagan administration—was not whether we were going to have more or less economic disparity, but were we going to have a strong economy that was going to create more jobs for everybody, so

there would be more opportunity—and that the President's concern was always clearly opportunity, opportunity, opportunity, not the equality of result.

Savage: You call that trickle-down theory? It works?

Harper: I think that was an unfortunate phrase.

Young: Or the tidal theory. [laughs]

Harper: Yes, I think that, what you're referring to—

Young: There was no trickling, there's a tidal surge, an ebb and a flow. I can imagine a discussion on this point within a busy administration, but I can't easily see it happening, except maybe in Robert Reich's—I think that's a question of the President's ideology, his core beliefs. I don't think he thought in terms of class divisions.

Harper: That's right. I think he really did not.

Young: He wasn't really concerned about it. I don't think he really thought about race.

Harper: No.

Young: He didn't think in those terms, don't you agree with that?

Savage: He was a New Dealer. There's no way you can talk about Franklin Roosevelt's language—and how he described social relations and social classes—where Roosevelt uses Jeffersonian language to talk about the moneyed aristocracy. If you buy into that, and Reagan was a New Dealer, then you can't say Reagan was ignorant of issues of social class.

Young: I didn't say he was ignorant. I said he didn't think in those terms very much.

Harper: What he thought about was that he was a real person. And what he saw—his father was a salesman, his father didn't make any money.

Savage: There are two issues here. One is, what did Reagan think? And the other is, what did these policies produce? And how one looks at them from hindsight. So the question to Mr. Harper is, how do you evaluate this period?

Young: Was the result acknowledged in the administration?

Savage: Is this a consequence, in part, of these kinds of policies that you helped to create?

Harper: There was some argument at the time that this would produce income disparity. I don't think that was a major concern at the time—we were in a hell of a mess, economically.

Think about the times we were in when Reagan became President. We had 16 percent mortgage rates—that's awful. That's not sustainable. Something really major had to change when you had that kind of thing going on in the economy. So your comments and the emphasis on interest rates is right in tune with what was happening at the time.

When you had 16 percent interest rates and a degree of unemployment, the concern was not, "Oh gee, if we do something, somebody might gain more than somebody else." It was, "We've *got to do something* to bring the interest rates down or we're going to stop all construction—stop all construction jobs. And while those are good paying jobs, they're not steelworker jobs—but they're jobs that a lot of laborers have, a lot of blue collar workers have." So the thinking was, "Let's get those jobs started, and we'll do the fine-tuning later—if we need to do any fine tuning." So disparity was not at the top of our minds then.

To me, Reagan was just a real person who said, "This is the land of opportunity—if we create these opportunities, everybody is going to get to participate." Certainly, he had. He'd come from nothing; he knew he made a lot of money. There was a funny example of this. Reagan said, "You know, the PR guys tell me I should wear jeans when I ride a horse," he said. "I never have, I don't wear jeans, I wear jodhpurs." And they said, "Well, you know, that kind of looks like you're uppity or something." And he said, "That's the way I am, I've always worn them, I'm going to continue wearing them. I'm not going to wear jeans. That would be phony for me."

Knott: Can you add just a little more to this? You started to talk about your feelings that Reagan was not someone who believed in—I don't want to put words in your mouth—or recognized class or racial distinctions. Did you want to add anything to that?

Harper: I just don't think he did, because of his own upbringing. It was certainly modest. I never saw anything that he said or did that recognized class or talked about class warfare or class challenges. He was just a guy who believed in this country and the opportunity that this country gave.

Young: In upward mobility.

Harper: He had lived it, and since he had lived it, he recognized that, yes. George Shultz and others had done things in the Nixon administration that tried to give a special deal to minorities, and maybe that was right then, but it wasn't right now, and it wasn't right for him. He was not in tune with that kind of thing.

Young: You said earlier that there wasn't much difference between working in the White House and working at OMB. Was your office in the West Wing—as policy head?

Harper: As policy head, my office was the same office that John Ehrlichman had in the West Wing of the White House on the second floor.

Young: Okay, so you were pretty close in.

Harper: Right.

Young: Can you comment on any differences in what's called the culture of the West Wing and that of the OMB?

Harper: At the OMB, you're dealing with professional staff, and there are bigger meetings that require the big conference rooms to get all the people in to the meetings. After I went to the West Wing, I think we only had one meeting where I had to have it at OMB to have enough room, and that was on trade policy. Everybody's got an interest in trade policy. You've got Agriculture, State, USTR, Defense, Commerce, for just the starters, so people would demand to be invited to discussion of trade.

But in the West Wing, you know, there's more focus on what the President is doing that day. I mean everybody, everybody, has the President's schedule on his or her desk, and you know it's your responsibility to make sure that the President's day goes smoothly, and the results he's looking for get realized, and that he is able to make the most of every minute of his day. The people are there, the information is there—in that sense, it's much, much more focused on the President of the United States, the man, and what he is doing.

In OMB it's a little more from a distant perspective of the President's policies, and what we are going to achieve over a longer period.

Young: The President is more present in the working day, even though he is not visible.

We hear two different things—this is not specific to Reagan—but when people review their experience in the White House, one problem is burn-out, overwork, the adrenalin surge, or whatever you want to call it. And some people, as they reflect back, think they served too long, or that one oughtn't serve in such-and-such a position—a top senior position—more than two or three years, because you lose it, or the knives come out, or something like that. The other thing we hear is “I loved it, I wouldn't take anything for having done this.” You see only the afterglow of it. Try to give us a feel for the reality of life in the White House. Is it a function of whether things are going well or not going well—or just a function of the job, of working in that place?

Harper: Well, one of the things to remember is most people who work in there have families, and the interaction between the family and the employee is fairly important. If a member of the family is ill, that can make a very difficult situation. If the person burns out, obviously, as in the Vince Foster situation, it's all over. So it can be very stressful, and a very difficult place for families. I mean spouses sometimes—

Young: Spouses and children always suffer.

Harper: Yes, and it's hard on the egos of spouses sometimes. And it can be disillusioning for those appointees who don't realize that they're loved because of the job they fill—rather than who they really are as an individual—sometimes it's an abrupt realization.

Savage: Throughout the day, a number of times, the issue of packaging policy analysis has come up. You raised, initially, the Nixon White House and the memos and we talked a bit about

Reagan and style. Then there was a story about the Defense Department's artist versus OMB's artist. How important is the packaging of a policy to get it accepted? Is it more important than the analysis itself? Is it that if you don't have the packaging, it's not going to get accepted? How sensitive do you have to be to that whole aspect of the policy process?

Harper: I think you have to be absolutely sensitive to it. Regardless of nice sayings, and things you'd like to believe, nothing sells itself—it's got to be sold. You've got to be able to convince people that you're right. You can know you're right, but unless I can convince you I'm right, nothing is going to happen.

There are different ways to communicate, to sell that package. One of the reasons that Ronald Reagan was such a successful President was that he was so successful in communicating with people and persuading people that he was right. And, you know, Bill Clinton had many of those qualities as well. It's important for a President to be able to communicate—to sell his position, to persuade other people—because the analysis by itself won't carry it.

Savage: One of Reagan's earliest efforts at selling people was on the budget, and he brought out the big stack of budget documents. Was that his idea? Or do you know where that came from?

Harper: I don't—

Savage: Was that a BoB or OMB kind of—

Harper: Yes, that's a classic OMB kind of thing—"Look at all this stuff we've got to do."

Young: It's the rubber dollar bill?

Savage: The size of the deficit would be this—

Harper: Yes. Reagan was good at communicating, he had good lines, he positioned himself well. He would move around the room during a speech. When you give a podium speech, you don't have the opportunity to move around much, but in other circumstances, he would move, and he was just a very engaging fellow.

Savage: Do you think Stockman was more capable of that kind of selling than, say, some of the other OMB directors you've talked about? Was that part of his success?

Harper: Yes, definitely. Stockman is a very articulate guy. He has tremendous credibility, because he is so facile with the numbers and budget concepts. Relatively few people were that good and that quick with the numbers on the detailed programs. There are not very many people who could have gone through FY 83 budget programs and say something intelligent about each one. Stockman could. There were relatively few directors before or since who could do that with such facility.

Young: Richard Darman may be close to that.

Harper: Maybe, but I think Stockman had much more finesse than Dick. Dick is a smart guy—I don't want to take that away from him—but I don't think anyone else had Stockman's ability with the numbers.

Young: Jim asked the question about the packaging. I assume that both of you were referring to the public communication.

Savage: Internally, also.

Harper: No, we were talking inside the administration. The specific example he was referring to was a presentation to the President in the Cabinet room that I talked about earlier.

Savage: Yes.

Young: Oh I'm sorry, I misunderstood—you were talking about selling something to the President.

Savage: We were talking about internally.

Young: Yes, persuading the President, not the President persuading others.

Savage: Right.

Young: I see, I misunderstood.

Harper: It was a case where Weinberger showed up in the Cabinet room for a discussion of the defense budget. He had a poor, disarmed, disheartened, desolate Boy Scout standing next to a robust, American male armed to the teeth with high-tech equipment ready to do battle in defense of his country. So Weinberger said, "Which one do you want?" [laughs] I think our comparable graphic was the number of new Army limousines. I think three Chevrolets were in the former budget, and they wanted 100 Chevrolets in the new budget—we thought they could do with the three Chevrolets.

Knott: There have been some reports in a number of memoirs that have been written—and also, I think in Edmund Morris' book on Reagan—of the President being somewhat detached and uninterested in his staff, and some people have been quoted directly saying that they weren't even sure he knew who they were. Do you have any observations on that? Did you get the sense that he wasn't engaged in that regard?

Harper: Certainly, that's *not* how I saw him. Again, I would emphasize, I was there for the first three years, not the last three years, and I thought he was engaged, enthusiastic, and well aware of who was around. I can't imagine him being really frustrated and burned out. Reagan was sticking to the guns and staying the course, while the political bombs were bursting all around him. And it was only at the end of the first term that the economy really did begin to come around, just as he had been saying it was going to do all along.

Kind of reminds me in reverse of Jack Kennedy's comments, "What was your biggest surprise when you became President?" He said, "My biggest surprise was that the economy was in as bad a shape as I said it was."

Knott: Did you read the Morris book by any chance?

Harper: No, I haven't read it.

Knott: Do you have any other personal observations of Reagan, you've made a few. Anything else that we can pull out of you for the historical record? [laughter]

Harper: Well.

Savage: Maybe we could do extremes, like your impression of him at his best and worst. Academics always like the best and the worst.

Young: Let me rephrase it. What was he best at, and what he was not so good at? You know, no President is tops in everything. I mean, they all have certain gifts, certain things they're interested in. It's true with Carter, it was true with all of them. What did you observe with Reagan that he was really best at?

Harper: Well, one of the things that really impressed me was his courage. For example, the air traffic controllers strike: calling their bluff on that was a real act of political courage. It took on a group that nobody had ever been willing to confront before. He did it with his eyes wide open and went ahead. It was Drew Lewis' call in some ways, but Drew Lewis was not going to do this without Ronald Reagan's permission—and I think that was a real act of political courage to do that. And it set the tone for a lot of other things. I think beyond this, his courage to say, "We've got the tax cut and it's going to work." His courage, basically, to bet everything—bet his career, the administration, the nation's economy—that he was right. That's a real act of political courage in my book. There were a lot of people, including smart guys like Martin Feldstein, who said, "Gee, you need to raise taxes." And he stayed the course and had the courage of his conviction *not to change*.

I think the other thing that I would say—and I'm not objective, I'll say that, I really like him—is that he was not impressed with himself as President of the United States, not impressed with himself as an actor. He really was comfortable with who he was—that he might have strengths and weaknesses, but overall he felt he was a good person and doing the right thing.

For all the things that he did, I can't think of a bad thing I'd really want to say about him. Even when somebody would screw up in small ways, he was good humored about it. We were having one of these lunches on Monday, at the Cabinet table, and they had those thick blue mats on the mahogany table. I was talking, and took a drink of iced tea, and I set it on the edge of the mat, and the iced tea turned over. I'd spilled a glass of iced tea all over this zillion dollar Cabinet table. And it was interesting. All heads at the table looked at Ronald Reagan to see what his reaction would be. And he looked at me and smiled and threw a napkin. Then everybody else threw their napkins. [laughter]

Young: Now, that tells you something.

Harper: Anyway, he was always a very kind and forgiving person. He did not play hardball like Richard Nixon did. He wanted to win—win fair and square—and he was confident that he was doing the right thing.

Young: Was he a born politician?

Harper: I don't think so. In some of his biographies, I've read he got interested in it and just would talk people's heads off about politics when he was younger. He'd just talk and talk and talk about it, he was so fascinated by it. As he matured, he felt less compelled to continually talk about it, but he was greatly interested in it. If you take years of your life to talk about public issues on a radio show and a column and things like that, you've got a lot of dedication to the issue. He did it because he was interested in it, and he could.

Young: Did you ever observe him working a room?

Harper: Well, that's hard to say. When someone is President of the United States, everybody comes to the President. The President usually doesn't have the luxury of working the room, because everybody gravitates to him. He kind of stands in one place, and everybody makes a beeline for him.

Young: There are some reflections on Reagan that he really wasn't all that comfortable with politicians, but he was okay. He didn't enjoy them. He was somewhat reserved. He wasn't like that when he was before an audience and was communicating—something he obviously enjoyed and was very good at.

Harper: I liked Ronald Reagan a lot, and I worked with him a lot. I would never say he was my best friend or I was his best friend, but he was somebody I enjoyed working with, and a tremendous guy to work for.

Young: He didn't use the Johnson treatment on anybody?

Harper: He was not a politician in the sense of, "Gee, I'm running for office," or something like that. One of the reasons I liked him was he was just so much who he was, and there was no phoniness about the guy. That in itself was a very, very likable characteristic.

He was also somebody of a slightly different era, that of the late 40s. I don't know if this has any real meaning—that you can make anything out of it—but there was an age of people—some, like Nelson Rockefeller, a number of businessmen like Henry J. Kaiser, and others—who had a sense of public well-doing in what they did. They wanted to create jobs. They believed in America, and they believed in the opportunity of the country. They weren't being phony or political about it. They weren't trying to impress anybody with it. They just thought it was wonderful that they could do it, and that's what I think about Ronald Reagan. He was not a politician, certainly in the sense that we think of politicians out running for office today.

Knott: Well, I think we're at the end, unless anyone else has a question. It has been very rewarding and we appreciate your spending all this time with us. Would you like to add anything else?

Harper: Well, let me see if I had anything else in my notes worthy of mentioning. I think that Reagan did get some important things accomplished for the nation under his leadership. As we were talking about earlier, a President deserves credit for letting something happen under his reign. You can give him credit for making it happen, or for not screwing it up so it doesn't happen. Certainly I think he has a reasonable claim on winning the cold war, and putting an end to that source of tension in the world. If he didn't initiate it, he set the stage for a sustained prosperity the likes of which the nation has not seen before.

He gave credibility to the Republican party and gave it a new life that I don't think it had before. When you look at the statistics before Reagan and after Reagan, the number of people who identify themselves as conservative or Republicans was much larger after Reagan than before. And as to the composition of that group—there were more young people in it as a result of Reagan. It may sound surprising, but he still attracted younger people—he attracted women and a lot of other constituencies the Republican party hadn't before.

I think in some ways, the most important thing that he did was to restore our confidence in America. I like and respect Jimmy Carter personally. (I had the pleasure of meeting him a number of times.) However, at the end of the Carter administration, Jimmy Carter seemed to feel that the United States was ungovernable and to have a sense of "malaise" about our future. Ronald Reagan restored the nation's optimism—that we could solve any problem we put our minds to, and that we were no longer a nation that couldn't govern itself, that couldn't solve its problems. We were a nation that could solve our problems, and would solve them.

And that's one of the reasons I think he was a good President. When you look back and think about who the great Presidents were, and why they were great Presidents, you have to look at the time and the opportunity. I don't think any President will have the impact that George Washington had on this country. No other President had the opportunity to have the impact that Washington had on so many aspects of how our government functions, because he was the first. Lincoln is generally regarded as a great President. He had a terrible problem to overcome, to win a war, a civil war. I think that he could have lost it, and he'd be considered a terrible President. He was not overwhelmingly popular in his own time. We, from the 20th century perspective, put a lot more gloss on Lincoln than the people of his own time did. There were people who liked him a lot, and people who didn't like him.

You look at Franklin Roosevelt. He had a great opportunity, and did some good things. He also did some dumb things. But he was trying, and that's what the country needed and wanted—somebody trying new ideas. I think that's another characteristic that Reagan brought—a lot of new ideas, and a willingness to try new approaches. We dealt with stagflation and economic policy since the early '60s. It is amazing to think about Reagan's having to deal with 16 percent rates of interest and inflation. Richard Nixon thought that 4 percent inflation was such a big problem that he instituted wage and price controls.

Reagan's was an era of trying new ideas. We don't have to argue about who ranks where in terms of great Presidents, but I would sincerely nominate Ronald Reagan to be one of the greater Presidents that we've had.

Young: Time will tell whether the revisionists agree with you. [laughs]

Harper: Well, that's the problem, we have revisionists from time to time.

Young: It's not always downward either. [laughter]

Knott: Thank you again, very much.

Harper: I sure enjoyed it, hope it was worthwhile for your project.

Young: Yes. Thank you.