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CARTER PRESIDENCY PROJECT

FINAL EDITED TRANSCRIPT

INTERVIEW WITH ALFRED E. KAHN

December 10-11, 1981
Charlottesville, Virginia

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University of Virginia

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Also present

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Young: I would like to welcome our three guests from the Carter staff: Alfred Kahn, Ron Lewis, and Dennis Rapp. I've reviewed with our guests the ground rules that prevail for all these sessions and it is understood that nothing said in the room goes out of the room, that the transcripts of the session, which are off the record, are first seen by nobody but the three former staff participants, who then have the opportunity to edit and review their words as recorded in the transcript—to indicate statements that they prefer to keep off the record or that require special permission to quote. It's further understood that these transcripts are to be used for scholarly research purposes and that our plan is to use these transcripts as primary source material for the Miller Center-sponsored overview by scholars of the Carter Presidency. And following that the transcripts will be made generally available to scholars, and copies filed in the National Archives for that purpose.

I've discussed the general range of topics that we—the academic participants—considered yesterday, and there seems to be a good deal of convergence between what you'd like to talk about and what we'd like to hear about, in general. We do try to keep some kind of focus for the segments of these sessions, ending up tomorrow with our talk about how one should look at the large picture of the Carter Presidency, its problems, its successes, its difficulties. We generally like to start out by having you, if this is agreeable, just talk in general terms about how you came to be involved in this White House and an overview of your work, and we might find it helpful also if Dennis Rapp and Ron Lewis—or you—could tell us about what your special responsibilities were, and something about your background because we know well only Al Kahn's background.

Kahn: On the question of how I came to occupy the two positions—the chairmanship of the Council on Wage and Price Stability, and the position whose official title was Advisor to the President on Inflation—I am forced to rely primarily on inference and surmise. You will recall that the President evidently was in the process of formulating his third anti-inflation program—I think that's the one that I inherited—announced on, I think, October 24. I had no role whatever in the formulation of that. I was Chairman of the CAB [Civil Aeronautics Board], had been appointed in early June of '77.

In early October I was in Europe for meetings on international aviation policy and a week in Venice because it was my 35th wedding anniversary; that was October 10. And when I got back,

sometime after October 15, I think, there was a message waiting for me that the Vice President wanted to see me. I had never met him before. I found myself talking to Bob Strauss and Fritz [Walter] Mondale, and Charlie Schultze. And it was then that they said that the President wanted me to take those two jobs.

Later, while in the process of trying to decide, I had conversations with Hamilton Jordan and Stu Eizenstat. Now why did they ask me? I had had no professional, no appreciable professional exposure to the problems of inflation. I'd done some writing, but it was not my major area of expertise, and I had no real connections with the administration other than an old friendship with Charlie Schultze because he and I were senior staff members at the same time in Arthur Burns' Council of Economic Advisors. Interestingly others of those were George Shultz and Joe Pechman, whom you may or may not know. So I can only guess.

I remember, for example, protesting many times, "What do you need an advisor on inflation for? Inflation is intimately associated with other economic policies, you've got a Chief Economic Advisor, the Chairman of your Council of Economic Advisors, with specialist members in the macro and micro field—" at that time there was Lyle Gramley and Bill Nordhaus— "And you have in addition the Secretary of the Treasury, who is supposed to be your Chief Economic Advisor." Does it look as if there's really any point, other than a cosmetic point, which may have been one of the main reasons for doing it. I couldn't see any functional reason, except the responsibility of running the Council on Wage and Price Stability, with its new program of enforcing wage and price standards.

And I remember saying, "If you really want someone whose principal job is to run the wage and price standards, you don't have the right person—I'm not interested in doing that." Not that I scorn it; I think it's pragmatically something that may do some good—I don't oppose it on principle—but it doesn't challenge me, it doesn't interest me professionally. It's a messy job; it's in the nature of a freeze, which economically is not satisfying for me. And I was assured that Barry Bosworth had that pretty much under control, that he would be working under me, and I would be responsible in some broad sense for policy, but that I didn't have to anticipate that the major part of my time would be spent actually enforcing the standards.

I think that the principal explanation and maybe justifications were the following. First, when you announce a program yet an additional time, after the manifest failure of the preceding ones—the inflation problem was getting worse, nominally I replaced Bob Strauss in at least one of my roles—I suppose it's necessary, it adds credibility to say, "Well, we're bringing somebody new in, this is a new program."

Second, I was a kind of Mr. Clean; when I surmised this I suggested several times that the President must have invited me because he wanted a pretty face. I really was serious, though only metaphorically [*laughter*]. I was somebody who had achieved a certain success in a perfect laboratory situation at the CAB. I guess there must have been some feeling that it would be good to bring in someone who was not tainted by previous association, and had been successful in a previous job.

I think also there's an institutional reason, even though I can't justify it in terms of organizational charts, for having someone, however irrational it is professionally or substantively, to try to separate inflation policy from economic policy. It sets forth a sort of objective recognition for the public that we think this is our most serious problem. The President many times said this was his most serious domestic problem, it would be his Achilles' heel, and it was important just to have someone identified as reflecting the President's renewed or intensified interest in the subject who would speak to the public and just scream inflation at all times, who would have a kind of public charge—never mind how real it was, but public charge of looking at everything over the whole face of government that might bear on the problem, and be the President's conscience on inflation. Pragmatically, that may have been a sensible reason. Those are the reasons that occur to me.

Lewis: And I would simply add, lest Fred be too modest, that as part of the pretty face reason, Fred had by then become both within the Washington Beltway and I think throughout the country something of a folk hero for the way in which he did what he did at CAB. He was perceived as having done something regarded three years before as virtually impossible to accomplish—the deregulation of the airline industry—but had done it with such style and wit and grace that anyone who had come to one of the sunshine meetings of the CAB or heard or read one of Fred's speeches immediately perked up and said, "Here's something special." And that was clearly perceived at the White House.

Kahn: You see why I brought Ron [*laughter*].

Mosher: Did you replace Strauss as economic advisor to the President?

Kahn: Not as economic advisor. Charlie Schultze was that.

Mosher: Inflation advisor.

Kahn: I think he had some such role as inflation czar.

Lewis: I think he had that title.

Rapp: Strauss was running the inflation program such as it was in the Carter administration for the first year and a half—there was a group of people—I was managing director of the CAB when Fred was chairman. Fred was asked to serve on the ad hoc committee on inflation early after he came to the CAB.

Kahn: I totally forgot about that.

Rapp: It seemed sort of strange to me to have an independent agency chairman fooling around with a bunch of people in the White House. I'm sensitive to the independent agency separations from the rest of the establishment. But he did go to a couple of meetings, and it was Bob Strauss, Bo [W. Bowman] Cutter, Nordhaus, and you. It was a little ad hoc task force that was supposed to do something about inflation, never mind what. After the second meeting, Fred came back and said to me, "I don't know why I'm fooling around with these guys, I don't know why I should be

doing anything, they don't seem to know what the hell they are doing. Should I keep it up?" And a couple of days later I said, "No, drop it." I mean it's important that we get down to the business of regulatory reform of the airlines and so we drafted a note and he sent the note back over to Bob Strauss and Strauss called him back. He was disappointed, but....

My only point in making this point is that Strauss had had some personal exposure to Fred, however small, in a couple of meetings—to what extent that exposure, that prior exposure, which I believe was in the late fall of '77 and early winter of '78—he stopped in February, I believe of '78, and he never went back. I think that gave Strauss a clue. I believe Strauss was the prime mover in recommending that Fritz call Fred. I got a call from Mondale's office when Fred was in Europe; they said, "Where is the chairman?" And I said, "He's in Europe," and they said, "We want his phone number." I said, "I don't know what it is," because he didn't give it to me. He didn't give anybody the phone number because he wanted to vacation in Venice. And they said, "When is he arriving?" And I thought that they were going to pick you up at the airport but I guess they didn't and you went back to the office.

Kahn: Somebody handed me a message in the car.

Rapp: That's a little bit of background on that. I think that Strauss was behind picking him, I think Strauss recognized the political importance of having an attractive figure out in the open who was honest, who had a clean, fresh approach to government, and to bring him into the White House and to give some credibility to the inflation effort that up to that time had no credibility because they really didn't have any institutional or legal tools to work with. They didn't want to go to mandatory controls, and the government has no strong control over the economy in the direct ways it had to if it was going to do something about the various forces that were causing inflation. So they figured they needed a very attractive spokesman, and up to that time Fred had shown that he was a very attractive public figure in the way he ran the CAB.

Kahn: I bet you five dollars that Bob Strauss said at some meeting, "And besides, that dumb sucker is naive enough to take it," [laughter].

Rapp: I always felt that Bob Strauss was behind this.

Young: The impression that we have is that as far as you can discern the reasons and who was involved in this, it was not a case of the President laying down the law saying we need a person to do this and do that, but rather advice to the President that this is what you need, and those were presumably the people involved, the people whom you first talked with.

Kahn: I strongly suspect that. It is true that as I was delaying giving them a response, I may have taken a day or two—I knew it was a no-win situation, and I remember I called Bob Solow, whom I had very great respect for, a first rate economist. I don't know if you know him—at MIT [Massachusetts Institute of Technology]—just a good friend. I talked to Jim Tobin as well and both of them said, "Well, my first piece of advice is get out of it if you can. But second, there certainly is nothing intellectually unrespectable about trying to take a point off the teamster settlement." But the message came in from the President, "Why can't I see Fred Kahn?" So he

was apparently sold on the idea, and pressed me to come in and see him sooner than I was ready to.

Would it help if I told you about Dennis and Ron, how they got connected with this project? I guess I accepted somewhere very close to the time the President made his speech, I think that was October 24, and there was even some question about whether my appointment should be mentioned in the speech. I'm not sure why it was not, it was so close to the moment that it was infeasible, but on October 25 I appeared before the White House press corps, the President made his announcement, and then I walked into an empty office. There was a functioning COWPS [Council on Wage and Price Stability], of course, which Barry was running. I had talked to Barry, I admire Barry very much, and he was running feverishly, developing the standards, which had just been announced. They were fully occupied on that, there was no way in which I could run that effort. And since I had had the view that the most attractive part of the job to me was in some vague way being responsible for the entire range of government policies that might have a bearing on inflation, and the President's assertion to me, "Any time you want to, pick up the phone and call me and tell me what to do and I'll do it." That is what he said. I was attracted by that.

From the beginning I placed a very heavy emphasis on my role as advisor to the President. Other than the function of running COWPS, which did not greatly interest me, I had no authority; I had nothing, no mission, except as the President made that offer to me. And he in several ways carried it out, as I'll point out in a moment. I think the failures to push that sufficiently were more my failures than his. And that's not false modesty. So I felt it important that I be separate from COWPS, and have my own staff, and so I moved into a couple of offices in the White House. There was nothing there. There was nothing on my desk; I may at some point have had a secretary who was lent me.

One of the first acts in office was to call Governor Jim Hunt of North Carolina to decline a speaking invitation. The secretary it turned out after the fact had gotten me George Wallace [laughter]. We had this cordial conversation [laughter]. He said, "You're doing a great job for the President, of course if you can't come down, that's all right." It wasn't his conference. That's how efficient our operation was. Meanwhile somebody is saying that the first person that called the office was George Wallace. The timing is misleading, that did occur several weeks later. But it was an evidence of the chaos of the office, there was nothing there. I had inherited Dennis as director of the Division of Environmental Planning, something like that, at the Public Service Commission in New York, Joe Swidler had brought Dennis up from Washington. Dennis had had a long experience with the OMB [Office of Management and Budget] or whatever its predecessor was. Steve, what was it called?

Rhoads: BOB.

Kahn: That's right, Bureau of the Budget, and he brought Dennis up to organize this Division of Environmental Planning at the Public Service Commission. I had become very impressed with Dennis. Not only his interest in that, but his knowledge of administration, and so he was the one person that I asked to come down with me to the CAB, and he became managing director. So partly I think out of loyalty, and partly intrigued by the job, and by the recognition that I would

be eaten alive in the White House if I didn't have somebody that had some knowledge of how to do anything, Dennis had two jobs. He sat in the other office down there and he continued to run the CAB for the first several weeks, and I relied very heavily on him. He knew people there. I didn't know anybody in those offices. He knew how to do things.

We recognized that we would need a number of deputies, and since I guess my most urgent interest was in the regulatory area, in conversations with Charlie Schultze about the job, I gathered what I would have imagined in any case, that my principal influence, other than such public role as I might play and such small effect as I might have on policy, would be on government regulation, broadly defined. It would clearly not be in the monetary and fiscal areas. The director of the budget and the Secretary of the Treasury, not to mention the chairman of the Federal Reserve Board, had the principal role there, and to the extent that it was within the White House it would be the Council of Economic Advisors, which would always play a major role in tax, fiscal, macro-economic policy, but my role would be more likely to be in the area of micro-economic policies, both its narrowly regulatory and more broadly ranged issues that I'll be glad to allude to before we're through.

So I needed clearly among others a deputy to represent me in regulatory matters, and that's how I settled on Ron Lewis. He had been a partner in Caplin & Drysdale, practicing tax law for a long, long time. Before that he had been in the antitrust division of the Department of Justice. I didn't know Ron but I knew people who knew him. He came and was my alter ego in the regulatory field. He's now back with Caplin & Drysdale. He can tell you what he's doing now.

Young: You referred to your meeting with the President, this was supportive but vague. Did you understand from him that you would be positioned as some kind of czar or not?

Kahn: The czar was a newspaper word. Advisor was the proper word. And I think either the first or the second Cabinet meeting after my appointment, the President asked me to write what I wanted him to say to the Cabinet officers. But we'd agreed roughly that he was to say something along the line that inflation was his most serious problem, and that he wanted all the Cabinet officers to cooperate fully with me, that they were required to satisfy me on any issue and policy question that I felt was pertinent to the inflation question, and that if there were disagreements that he would resolve them. So again, he did what I think he could by way of lending support to me, verbally, to be an effective advisor, but obviously not a czar.

Young: I will just try to draw out again what your mandate or character was, to make sure that we know how precise or how general it was; the general impression is that it is general within a specific area of concern.

Kahn: That's right. It was very imprecise, with respect to specific responsibilities, to methods of carrying them out, and mechanisms for converting the very general mandate into reality. Dennis laid out a staff of fifty or sixty that would be necessary to have. How does one person identify issues that are coming up, even with all the support in the world from the President? The idea was that COWPS was being expanded in order to enforce the wage and price standards, and that therefore some of those people would be made available to me in my immediate office.

Young: Two other questions on this. Was your membership on the EPG—Economic Policy Group—understood at the beginning?

Kahn: Yes. I'm not sure whether it was ever made explicit, but it just seemed to follow automatically. I was not only on the EPG, which was a much bigger group, as you may know, but there was an...

Rapp: Executive committee.

Kahn: Executive committee or steering committee. In any case, my membership in that group of five or six was somehow clear from the outset. I was probably the least effective member of that group. We'll talk about that when we get to it.

Young: Was that because you were newest?

Kahn: Well, within the group my one identifiable function in which I did take the lead was on those damned standards. But beyond that, I was the newest; I was the least supported in terms of staff, and functioning responsibility. So my role and function were limited to the extent to which I was aggressive and opinionated and demanding; and I wasn't any of these.

Mosher: Who were the others on that group?

Kahn: The chairman was always the Secretary of Treasury. That was Mike Blumenthal at the outset; Charlie Schultze as chairman of the Council of Economic Advisors; Jim McIntyre as Director of OMB; Stu Eizenstat as an ad hoc member.

Rapp: Both Stu and the Vice President were considered ex officio members.

Kahn: Whatever the reason they were there regularly. The Vice President; that's five, and me. That's all. And that's it. This was always a source of jockeying within the government. The Department of State would say, "Well, how can you exclude us?" Blumenthal insisted that it not be unwieldy, then you'd have to have Commerce and Labor and Agriculture. On occasion Ray Marshall would come. Ray Marshall was always insisting he should be a regular member. He was not. Juanita Kreps similarly as Secretary of Commerce. But the six members were the ones I've mentioned.

Rapp: We had operated with the other members when EPG had finally decided to take up an issue and gotten to the point where the President needed some advice. They would bring in Cabinet officers or other officials in government most directly concerned with the issue and I remember Ray Marshall was brought in on Davis-Bacon.

Kahn: And nothing came of it.

Young: The other question is a small question. You talked about the emptiness of the office physically and metaphorically, and you were the least staffed member of this group. A number of your colleagues in other areas who have come here have felt in retrospect that the constraints laid

down at the outset by the President on the growth or expansion of White House staff was a real impediment. Did you run into that same obstacle? That is, a gap between what was allowable to you in terms of staff and what you felt you needed?

Kahn: Oh, unquestionably. This could have been in part a personal deficiency. Theretofore every job I'd ever had was one in which there was an organization. I came to the Public Service Commission and there was a whole group of people already there. I should have been tougher in getting rid of some of the people immediately under me. I learned that lesson, so that when I came to the CAB I went to each division chief and said, "I hope it'll work out that you can stay, but you do understand that I may want to put in somebody of my own." And one of the reasons that we were so successful at the CAB was that before long when a lawyer told me I couldn't do something, I got a new lawyer [*laughter*].

But here I moved into something that was not merely amorphous, it was non-existent. Dennis laid out the requisite organizational arrangements, the kind of thing that he's very good at and I'm very bad at. And I think had we been able to insist on the kinds of people we needed there—setting aside the difficulty of plunging into enforcing a so-called program with enormous public expectations, with my picture on the front of several magazines, but with nobody there behind me; nobody there but us chickens. That didn't prevent me being reasonably effective in a public role, but it made me totally ineffective internally.

Young: How large was your staff? I'd like to hear a little bit more about what you were organizing to do and what you would have considered an adequate organization and resources for that job.

Rapp: When Fred got back from the White House I asked, "What did he tell you you could do?" And Fred said, "I told him I wasn't interested in the wage and price program but I had been assured that I didn't have to spend all my time on that. I would be Chairman of COWPS and also be advisor, and in the advisor role I can range across the whole field of economic affairs and look for inflationary areas in government policy, both in existing policy and new policy, that I can advise the President on." So translating that into a kind of staffing need, which I tried to do, I set up a series of—I knew Fred was going to be heavy in the regulatory reform area, in the White House—I think the economic rationale for that is that, especially in economic regulation, throwing more economic decisions to the marketplace tends to bring down pressures on prices and get more economic efficiency. I felt that was important. So I had a deputy for regulatory affairs, which turned out to be Ron Lewis, eventually. Well, I'd had some background in the Executive Offices about ten years before that or so, more than ten years, and I knew that congressional relations were important, and political affairs, and we had to provide a deputy for that.

Young: Did you get those?

Rapp: Yes, eventually. I'll tell you what happened. I had a series of requests for secretarial support and everything, and I didn't overblow this, because I'm a fairly efficient kind of person and I knew what I thought we could do with COWPS. But I didn't know very much about COWPS. I looked at its organization. I did this all in two days because I had to have something

ready after he took it, to go down and say what he wanted to get started, because the offices really were empty. And I had a staff of about 52 counting secretarial support and everything, but I needed—I figured we needed about 25 professional people, because I felt we were going to have to be heavy in major areas of government policy that had important effect on inflation: agricultural policy; try to do something in health care policy. And I had senior people set up on our organization chart for all these things.

Well, that chart was never laid before the President in any discussions that Fred had with him, so there was never any explicit approval of staff or anything else. But, as Fred said, there were some increased budget allocations already decided for the expansion of COWPS for the voluntary standards, so since that was inheriting that organization, that was the only legal charter, framework, in which we had to go into the Executive Office—it was the Council on Wage and Price Stability Act.

There was no inflation advisor statute, and therefore we had no statutory role in the Executive Office structure that was recognized by Congress or any other established government institution except COWPS. But for these other roles, which were the ones Fred was interested in, really, not the wage and price standards, I prepared the chart. I met with Hugh Carter and he said, “What have you got in mind?” because he didn’t know what the hell Fred was going to do either—but nobody knew what Fred was going to do. I think Charlie Schultze had an idea. Charlie had a lot of experience around there and he knew what could be done. I showed him the chart, it was just all hand drafted—the program functions that would be carried out by this staff were recognizable—and he said, “Oh hell, you’ll never get that many people, because we’ve got a freeze on White House staff.”

Kahn: Dennis, put that in context. How many professionals does the whole Council of Economic Advisors have? Is it more than 12?

Rapp: Oh no. The whole council has a professional staff of about 55.

Lewis: Oh no, not that many professionals.

Kahn: Professionals?

Rapp: I don’t know what the organizational chart looks like but think you’ll find that—

Young: The domestic policy staff has what, 25 or 30 professionals.

Rapp: I think he had about 42. But the CEA [Council of Economic Advisors] I’m quite sure is a fraction of that. That’s a factual question.

Young: In your organizational plan for what was needed, you identified a deputy for regulatory affairs.

Rapp: Deputy for congressional affairs.

Young: Were there other deputies' key areas?

Rapp: I think I provided for several senior professional staff to handle agricultural policy.

Young: Not a deputy, but a working group.

Kahn: You talked about a deputy, I think, for intergovernmental relations.

Rapp: For government operations—I felt there was a sort of process deputy needed to really deal with all of the different government agencies, the Cabinet agencies, the non-Cabinet parts of the executive branch, and then to the extent that we could get involved with them, in the regulatory processes—I knew that we had to have some way to deal with the independents.

Young: What about for budget matters? Did you have a special deputy for that?

Rapp: No, I felt that we really shouldn't get that heavily involved in the budget process, and I felt that the program people in the regulatory area and in other governmental operations would, by virtue of their policy focus at times when it entailed both OMB relations and the budget itself, touch on the budget process. Do you understand what I'm saying?

Kahn: Wait, are you talking about our internal housekeeping budget or relationships with—

Young: No, no, the Federal budget.

Rapp: You're talking about the Federal budget process. I felt that the deputies and the senior staff that we hired in the program for handling various areas of the program would, to the extent that the budget came up, have to deal with OMB, but that we wouldn't have a single group of people just to deal with the Federal budget process.

Young: My impression is you would have gotten very much involved as the inflation fighter on budgetary constraint, whether or not there was a deputy.

Rapp: We didn't feel that the budget had that much influence on inflation.

Kahn: Wait a minute now [*laughter*]. Wait a minute. I'm going to backtrack a little. The reason that I almost immediately became disaffected with that original committee Bob Strauss had formed was that they defined their role primarily as identifying sources of waste in government. That is rather narrowly a budgetary scrutiny, and that's where I came back to Dennis and said, "What the hell can I do with my responsibilities and staff about identifying waste in the military, or identifying which CETA [Comprehensive Employment and Training Act] program is effective and which not?" I knew nothing about these details of the budget and so it was clear at that point that it was merely cosmetic.

So when I came over here, it seemed to me to be totally futile, and would be absurd for the President to try to create within my office a competence that would somehow match the competence across the whole face of the budget that OMB had, and that to some more limited

extent Charlie Schultze's people had. So Dennis is quite right in the end. Not that I thought the budget was unimportant, but that there was no way except ad hoc in relationship to specific policies on which I chose to act in which I could be effective in fiscal policy.

Lewis: As long as the access was assured to the decisions on those policies.

Young: That is what I was getting at. When I see no organizational provision for this, I am assuming that it was important to you to have some access to some discussions about the size and scope of Federal expenditure.

Rapp: There was no point in trying to replicate the budget staff.

Young: I understand that, but I also remember your picture being very prominently displayed on the pages of the newspapers in the shirtsleeve sessions when the budget was being revised.

Rapp: Yes, in the March exercise.

Kahn: That's right. There I certainly did become involved, although even there, even though that was almost a year and a half after I'd come to the job, I still did not have the competence—I'm not referring to myself individually, but the staff competence—to play the kind of role in those conferences with Congress that on the one side Jim McIntyre and the other side Stu Eizenstat, who had people directly working for him with competence in every major area of the budget as well as a long rich background of working on these individual programs, or Charlie Schultze, etc. At that point we had about how many professionals working for me in the White House? And this took months and months to get the authorization to get the level fours—remember?—it was simply absurd. But how many times did I have to go back and to try to get Hugh Carter or somebody to get off his ass, and everybody kept saying, "Well, golly, you have enough people."

Young: I try to put myself in your situation. I see two main sources of difficulty in building a staff to do what you wanted to do. One would be the Hugh Carter operation, which says, "We can't grow that much." The other would be people feeling the area in which you wanted a staff was their proper area—for example, congressional liaison—I can imagine the congressional liaison staff would have reservations about other staffs getting their own congressional liaison people. Was that a problem?

Rapp: I don't know. The person we got made a difference, because he knew all of the other congressional liaison people, or almost all of them, and they accepted him as one of them. So he worked right into it and he worked into it very smoothly. But you're correct. Everybody was resentful. I talked to Charlie at one point; Charlie didn't feel that we needed that many people because he said, "I've got that competence, OMB has it, why do you guys need it?" Although he recognized also that we needed some strength. He was more sympathetic than other groups were. The fact is, if you were going to be advising the President in the same areas that the other institutions of the Executive Office and the White House were advising him, you would need some staff, some senior staff competence to be able to play a role in that very complicated decision-memo process that was used for decision-making and advice to the President.

Young: So nobody had really thought about this position in terms of the consequences for staffing it up, and there were a few empty offices provided but nobody had really thought that through.

Rapp: Even in terms of square footage of office space, they just didn't feel we could command that much office space in the Old Executive Office Building.

Kahn: You've left out one of the simpler obstacles: the fact is that, in theory, I was supposed to command the resources of COWPS and they were trying to run that as a kind of shoestring operation as well. And they were going to try to develop wage and price standards for the whole economy and enforce them with—what was the expansion?—149?

Rapp: It started out as 147 and they were to ultimately go to 300. On the expansion round, we argued for 400. We had a meeting with Jim McIntyre and successfully convinced him that we had to have at least 400 slots to expand it to include, I think, a thousand firms rather than five hundred that we were to monitor. Well, that was later on in the expansion effort. It was associated with the March exercise.

Kahn: But the point is that there was a similar tension then between the needed expansion of the wage/price monitoring operation and the servicing of this advisor to the President's role, and it was a perpetual source of tension—the people at COWPS having some tendency, understandably, to say, “Well, they're doing all the glamorous things up there, they're getting the publicity, and we're the ones who are doing all the dirty work.” And therefore there was some tendency to resist on questions of how many people we were going to allocate to ourselves, to surround me in the office. So it was very much an individual operation. Barry would come with me to the meetings; Barry's a brilliant guy, and we were good friends. Nobody ever thought we had enough staff.

Young: You mean there was nobody close to the President to whom you could go to make these determinations of what is an adequate sized staff.

Kahn: Hamilton [Jordan], who was terribly friendly and respectful, always assured me that he would do anything I needed. But all too often nothing happened.

Rapp: What it came down to is that Hugh told me that we would not be allowed any slots in the White House budget, none except Fred's since he was the advisor.

Kahn: For which privilege I paid a reduction of fifteen hundred dollars in my salary.

Rapp: Because he had this discount policy for anyone who was on the White House staff, remember that? Hugh said, “Go get the rest of the slots out of the COWPS budget to staff the White House part of your operation,” so I went over to Barry and he said, “What the hell are you talking about, I haven't got enough slots to run the operation that they've thrown in my lap.” So I had to eventually squeeze 17 slots out of the COWPS budget after months of friction with Barry

Bosworth, who understood what I was trying to do, but was jealous of it, partly from the slots point of view, just eating up slots he needed badly.

Lewis: Well, in fairness, the people working on the standards at COWPS, whatever else one could say about the standards program in general, really were overworked.

Kahn: Of course.

Lewis: It would seem an impossible amount for the number of people that they had available.

Young: Beyond staffing maybe you could explain a little bit on what developed as your main focus, if you had any, of interest. I mean, you had a deputy and you for regulatory matters, and you said that this in addition to wage and price standards, which was an operation you had inherited, this was one of your special areas of expertise. And yet, when you look at the organization, you were just one of the organizations involved. Obviously you felt that you should or were expected to do also a considerable amount of outside work and you were a very publicly visible spokesman for the administration. My impression is you did this, much more so than the other actors involved on the outside, particularly more frequently than Schultze, Blumenthal, and others. You were the most public. Was that compatible with what you wanted to do, was it something you felt you had to do, or were expected to do?

Kahn: Can I start by trying to answer your general question on what were the main areas, and then I'd like to come to the regulatory ones. My first role was one I fell into very early partly by default of not having the capacity to do anything else. It took me months, and I don't know if we ever got as many as ten professionals and none of them was an authentic, full-time economist. But in any case, it became clear, partly by default, but partly because that seemed to be the need, that a very important part of my job was representing the administration externally talking about the inflation problem, trying to convey my conception of what it was and create a useful climate of public opinion. And I did that well, much more effectively than in bureaucratic work within the White House.

Number two, substantively one major area was to be what we could do in the regulatory field, of course in cooperation with the Regulatory Council, with RARG [Regulatory Analysis Review Group]. Circumstances were quite propitious there because A, that was an area in which I had some professional stature, and public credibility, and B, Charlie Schultze and Bill Nordhaus were the least turf conscious people in the White House and Charlie was an old and respected friend. I guess those are probably sufficient reasons.

Then third, largely with Dennis' help, we developed an approach to a number of areas of micro-policy primarily in which we might again be equipped to effect some structural improvements. Agricultural programs: Dennis was the person who was mostly working with Bob Bergland and his people trying to fill the responsibilities that the President had put on him to cooperate with us. In housing policy, where the inflation of housing costs was so serious, trying to work (less effectively) with Pat Harris, who was much more turf conscious, much more politically minded in the narrow sense, that is to say, here's the typical exemplification of traditional Democratic politics, which led me to the despair of writing an article "Can Liberalism Survive Inflation?"

Third, in the inflation of medical costs, where again later we came into conflict with Pat Harris after Joe left.

Young: Joe Califano.

Kahn: The day I got into that office, the minute I had a telephone installed, there was a call from Joe Califano. "Hello, Al, welcome to the scene." My name is Fred. "Hello, Al, glad you're here, we really need you, you leave the health field to me" [*laughter*]. He was really cooperative. And what have I left out? There was food and energy. We picked the four most driving components of the CPI [Consumer Price Index], and said "what can we do" in those areas. It took me months before I succeeded in organizing a group of people, always drawing people from other agencies, because I didn't have them, and in good faith people like Jim McIntyre and Charlie Schultze and people in the government agencies said, "Yes, we want you to deputize somebody to work with Fred Kahn in identifying policy in the field." But they didn't work for me, and the result was that there were delays and it must have been six to eight months before we even began to get some agenda in those fields. So, in any case, the third area, then, was somehow a specific area of micro-policy in relationship to the major departments where we might hope to develop a program or affect current programs. Those were really the most important ones.

Lewis: Relations with the labor unions?

Kahn: Yes, well you're quite right, we haven't even talked about that, but that is really in a sense related to my COWPS responsibilities. After talking to John Dunlop and Arnie Weber I was led to Jack Gentry, who was very respected in the labor movement, had been in the labor department and after being with me for a while he became Ray Marshall's number two person, he became Undersecretary of Labor. And I needed badly someone who had the confidence of people in the collective bargaining area on both sides. But that was in a sense ancillary to the whole wage and price standards program.

I guess finally the area in which I think I never really developed sufficient support was the relationship to the economic policy group. The whole macroeconomic area where daily budgetary policy issues were arising, monetary policy issues and there my principal reliance had to be on Barry, who was professionally superbly qualified, and a brilliant guy, but since his principal job was to run the standards, when we got in this area we were more like gadflies. I mean we would suddenly say, "Look, no matter what else, we've got to see if we can get them to cut fifteen billion dollars out of the budget," but with no real competence. Nevertheless I was being exposed twice a week to a whole range of policy questions, Social Security policy, what do you do about the housing industry, what do you do about CETA. And all I could do was sort of pick and choose ad hoc, often in alliance with somebody in the Council, who was it?

Rapp: Bill Boehm.

Kahn: He did all the agriculture stuff; we had to rely on the people in the areas to do a lot of the work. Well, perhaps that gives you a range. Now you may want to talk specifically about the regulatory field.

Mosher: I'd like to ask, in the regulatory field, I think Dennis mentioned earlier your reluctance for an independent commission to work closely with the White House. What were your relations with ICC [Interstate Commerce Commission] and the other commissions that are presumably independent?

Kahn: First, appointments. President Reagan's failure with the ICC is a failure of appointments. That's the time of his opportunity to create the policy, and that's when he has the opportunity to screw up the policy, and he's done the latter brilliantly. Then second, I suppose there may have been some informal contact, but it was very cautious, I mean there you don't tell people what to do. In fact, with the ICC you didn't have to, we played some role, maybe Ron can be more precise in what that role was, in seeing that Darius Gaskins was made chairman of ICC. Darius I had brought over to the CAB to be my chief economist, and we played some role in getting two other excellent appointments to the ICC; from then on things were essentially done.

I remember only one other case in which Ron told me that there was a new member appointed to the ICC we thought understood what we were trying to do, but who was clearly showing signs of I don't know what, backsliding, if he'd ever been out front, and Ron suggested it might be helpful for me to have lunch with him, bring him to the White House. I don't know if it was lunch. We brought him into the White House and talked about what we were trying to do at the ICC. It was not a brilliant success. Ron, maybe beyond that you can say something.

Lewis: We did keep close ties in fact with the independent agencies. But to answer your specific question, we worked most actively through the appointment pattern. The President was genuinely interested in appointing reform-minded people, and I think that's one of the administration's clear successes, and the White House was geared up to follow through on that interest. On the access point, we had full access to the interviewing process for prospective appointees, and whenever we felt like it took the lead in that. The people who ran the personnel office were very happy when we would suggest people and bring them in. There was a group who would interview them of which we were always a key part, and I can't remember a case in which Fred's office disagreed particularly with an ultimate selection.

The President really did want the people and he got the people. In the process of interviewing them, we knew clearly if they wanted to do the kinds of things that the administration was interested in, before we even brought them in, as had been the case, I suppose, with Darius Gaskins. In the course of a conversation it quickly became apparent whether they thought exactly as we did. Once they were there, we were scrupulous about not talking with them privately about the things that were before them. We drew the line at independent agencies. COWPS had a program of filing comments on specific regulatory proposals of the independent agencies that we in Fred's office worked on.

Kahn: The formal COWPS business involved maybe 60 interventions per year. That antedated us, we were at least nominally in charge of that, and I think Ron would be the one to talk about how we used that.

Lewis: But we showed the flag on important deregulatory issues before the independent agencies. But, I think at least as important as that, since there was legislation moving forward

that affected all the important regulatory agencies, we were free to discuss the legislation with the chairmen and members of those commissions as legislative projects. There was nothing wrong with that, and we did that all the time, and in trucking and in rail, with somewhat less, even minimally, at the FCC [Federal Communications Commission], communications legislation, they tried to move forward jointly with the commissions in Congress. Our relations were always excellent with the agency people, and where we could have a unified front, we tended to work pretty well on the bills.

Kahn: That's a rich history, and an area in which we feel we did play an important role.

Young: It sounds like a natural for us—both because of the priority you attached to it and because it's there you feel you were very important—for us to go into some discussion of what your role in this area was in the universe of actors there and what it is you were trying to do from the White House. It's also clear there was a campaign commitment by the President to regulatory reform, including deregulation. So I think that seems to be identified as an area which you might take as an example to elucidate the process, the role, and the problems. And we wanted also to get more broadly into economic policymaking in general. I was just trying to pick out of the list you gave us of the things that were important to you, one that you considered of particular importance that we might use as a window to look at the operations in the White House and your role.

Jones: Before we get too far into the details of the job as it worked out, I want to back us up again and ask this. I suppose that any job that isn't very well defined but is an important job if somebody says it's an important job will get defined pretty quickly by others if the person doesn't get actively involved in defining it, Califano as an example that you've already given. I'm really interested in those first days right after the appointment was made, how you looked at the job and what you thought you needed to do and whether it was at this point that the public role came to be important. Did someone say in the beginning, "Look, this is a job with lots of time for you"? It put you out front, so people had to pay attention and it gave you time to decide "what am I going to do next?"

Kahn: There's no question that the public role was forced on me from the very outset. I'm not aware that I embraced it as a means of buying time. On the contrary, I initially at least was quite uncomfortable with it, for two reasons. One is illustrated by the fact that when I got to the CAB I said for six months I would not give a speech, until I knew all I wanted to do and had a grasp of it. Actually I gave the first one in five months or something like that.

Second, because it seemed to me I would be devoting my energies to recruiting some people, getting a few people around me who could help me start working substantively in fulfilling that role. Indeed it was in that connection that I made a call that I thought was to Governor Hunt and which turned out to be to George Wallace. Every time I would come in the office someone would say, "Will you give a speech over here, or go over here and talk to these people?" I am a ham, and so there was a certain attractiveness and I do have a comparative advantage in that, but from Peoria I found that nothing was happening back home. I was supposed to address a conference in North Carolina and I just despaired.

I went to see Mondale and said, “Nothing’s happening in my office, they’re sending me around to give speeches,” and he said, “Well, call down there and tell them you just can’t go.” The defining of my substantive role was necessarily part of the process of just getting a few generalists around me, to whom I could talk and who could help me do that. Now I got a handwritten note from the President when I was still at the CAB, and he’d scribbled this little note saying, “By next Thursday give me your plan.” *[laughter]*

Rapp: You would be occupied for the first few days trying to figure out what the plan should be.

Kahn: I was still at the CAB. At that point, Dennis and I for several weeks were to outline what we thought we might be able to do, and we did deliver something to the President.

Rapp: One was a series of letters we worked with [Eugene] Eidenberg and [Jack] Watson on to the Governors, asking them to pledge support for the wage and price program.

Kahn: You may be right, I didn’t remember those coming first. First it was an attempt to outline the various approaches that we might take. I remember at a fairly early point suggesting that I set up groups to help me on housing, health care, energy, food.

Rapp: And we did.

Kahn: And we did, and I’ve already suggested how long it took to get them together. Also at an early point we set up a kind of a state and local anti-inflation program, about which the President was initially very skeptical. Then we brought in Governors and legislators and got the President to talk to them, and then we heavily emphasized regulatory reform at the state and local level. There were some general achievements there. We can talk about it at some later time. I remember that as the second phase.

The third, of course, was to get somebody working in the regulatory field. The President in a sense forced me to curtail the speaking and to try to define what we might be able to do. All this must have taken at least a month or six weeks; everybody was saying, “Well, why didn’t you stop inflation?” And Ron, when was it that you came? It must have been two months later.

Lewis: Oh, it wasn’t until January.

Kahn: At least two months.

Rapp: I remember I interviewed you in mid-January.

Lewis: We may have started talking in the end of December.

Rapp: But I didn’t have a slot. I wished we did have.

Kahn: Here we were creating these expectations publicly, sort of unwittingly, by my exuberance and my exposed position.

Kahn: I guess because the public was looking for somebody.

Kahn: And here was this guy being advertised, and I was naked.

Jones: Did that help you at all? Do you think?

Kahn: Being naked? (*Laughter*)

Jones: Did this immediate public exposure help you at all in relationships with the agencies or with COWPS itself as a staff organization and so forth, to permit you to go ahead then and define the job as you saw the job and not have that definition forced on you by somebody else?

Kahn: I think it did help. Because I became a public figure, it meant that the people at COWPS were somewhat flattered that I was there, even though I think there was also this resentment, not at me, I don't think, but at the people who worked for me, who were regarded sometimes as privileged because they were up there near the White House. It also, if only by the process of progressive embarrassment, led to my ability to go to people like Jim McIntyre and say, "For Christ's sake, Jim, I've got to have some help here." And he'd say, "Yes, but what can I do to help you? Go to the President or go to Hamilton Jordan." The newspaper stories began to appear with here's this czar who has no troops. It was more by the process of embarrassment of what was evident to me from the outset and always a source of discomfort, which led me finally after a year to just go to the President and say, "I want to quit."

There was this enormous disparity between the public image of an all-powerful effective functioning person with almost the other extreme. I don't mean to exaggerate, because I really think we accomplished a lot of things. It had both effects: on the one side, it made me a person that you had to deal with, and it got to a point where I couldn't resign. Jody Powell sent me a nasty note once about something that I'd said in public—rather, about a misleading press report about it—and I wrote back and said, "This is the last note of this kind that I ever expect to get from you." He knew perfectly well that I would quit. The President would be very upset if I quit. Because I had achieved credibility that was in some measure unjustified—that is not modesty—but by my style I had achieved considerable credibility with the public.

I was increasingly unhappy with the disparity between that public image and the internal one. It helped me where I could play a role, if you take the extreme case, I think we played an important role in getting the trucking deregulation bill through. Ron can talk about that more fully than I, because he was very much engaged in that. It helped me pick some areas, but it did not make me more effective. It took us nine months to get an executive order through that Dennis was shepherding, which you'd think was an absolutely logical thing to do from the President saying that no government agency should give any assistance of any kind to the construction of hospitals in areas that have excess beds. Was it nine months?

Lewis: Yes.

Kahn: It was nine months before we could get it through and get it to the President and have him sign it, and Reagan has already rescinded it. We were frustrated whenever we encroached on the domain of the VA [Veterans Administration], or proposed anything that threatened Pat Harris'

relationship with the AFL-CIO [American Federation of Labor–Congress of Industrial Organizations]. An example of the latter would be my contention that there ought to be a cap on the excludability of employer contributions to health insurance from taxable income—any economist will tell you the present situation is absurd, and contributes to inflation of medical care costs. The AFL-CIO is opposed to that, and if it suspected anything, it could have marshaled plenty of support within the administration against my position. In a memorandum I wrote that I'm very proud of, and that's one of the very few that I'd write again, I said to the President, "You've got to veto this eight per cent parity price support bill for dairy products." I'm not sure to this day that the President ever saw that.

Rapp: I think it was blocked.

Lewis: Which would have been unusual, most of the—

Rapp: Most of the things went through even if people didn't like them. But on that one I—

Kahn: I don't know that it was blocked, but the fact is I never got any response. I never knew what happened, and I was so incontrovertibly right except maybe politically. I've wandered around your question, maybe because I can't give you an answer.

Rapp: May I add something to that?

Lewis: Go ahead, Den.

Rapp: In attempting to exert leverage on the decision-making process and to make decisions come through us, and to use the decision-making process and to get access to memos so we could at least get involved in the drafting and fight about the options, I'm positive that Fred's outside role was our only leverage. We had no real charter. People didn't accept our legal responsibilities because we had none, and I believe that the credibility Fred established and the strength he established in performing his outside role was the most important leverage that we had in exerting our inside role with the other institutions we had to deal with, both inside the Executive Office and in different degrees of effectiveness with independent agencies.

Mosher: Was this largely personal, or did you have public relations people? You spoke of a congressional relations office; did you have anybody in public relations or was it strictly you?

Kahn: I had a young man who helped me arrange press conferences and so on.

Rapp: It was just personal.

Lewis: I think that it was more scheduling capacities that the staff did. On the public role, I'll simply add this, that I think there was always a certain schizophrenia among other administration people about what the role of an inflation advisor ought to be. Clearly part of it was that an inflation advisor ought to comfort the public by saying believable things that would increase the President's popularity. Every President believes that and needs it and there's nothing other than legitimate about it, but the implication is what the job ought to be, without in any way

disparaging Anne Wexler's role, she was terrific. A super Anne Wexler is someone who does not formulate policy, but simply takes policy as formulated and builds up political support for it.

Rapp: It somehow conveys the impression to the public that he does formulate it.

Lewis: Yes, yes. Elucidates, makes brilliant speeches, at the end of which the electorate will support the President and return him to office. To the extent that the public or private role departed from that, other White House staff, the President himself, would be uneasy about what it was that he had created. That led to some tension.

Kahn: Oh, yes.

Lewis: I think—

Young: The essential role was a public relations role, not a policy-making role. That's what I gather from what you said, that is one aspect of it.

Lewis: Nobody held simply that view, which is why I said schizophrenia; everybody realized that it was legitimate and desirable for a Fred Kahn to take part in the formulation of policy, but there that was more difficult. People had established roles and people were very close to the President from a long time back, and always would be; some people had more political instincts than Fred, for example, who was in the job and tested often to the limit the question whether a truly honest person of an academic background can survive or function effectively at the highest level of political administration.

Kahn: That evolved, I think, into a very interesting conception of my role on the part of the President, which I'm not sure anyone in the public ever perceived. I'll give you an illustration. When the UAW [United Auto Workers] negotiations with the automobile companies were approaching, at the very time the Chrysler bill was being debated—I don't have the precise chronology in mind, but they were somewhat closely associated—in my biweekly (roughly) breakfasts with the President, which were called the inflation breakfasts, and for which we paid [*laughter*—the breakfast was charged but still we paid—it was my function to put together the agenda and to present memos to the President to look at beforehand. It was the same economic policy group that you mentioned before, but it was in a sense my meeting.

At that time one of the things I wrote to him was that I thought it was outrageous that the UAW was getting ready to violate the wage standards and impose an estimated cost of a billion and a half dollars on Chrysler alone over the next three years, which by an interesting coincidence was exactly the size of the loan guarantee that Chrysler was asking for. I had not opposed the loan guarantee, I'd not actually been actively involved because I didn't have the staff capacity to do so. George Eads, who was on the Council of Economic Advisors, was in that and we had confidence in him, he worked well with us.

The occasion arose within a week, because Ted Kennedy had accused COWPS of never having identified a single violator of the standards and/or put any pressure on anybody. I don't remember how he put it precisely.

Rapp: Never cited anyone.

Kahn: Never cited anyone. He said to call a press conference to say it ain't true; so we called a press conference on a Saturday morning, in your office. I remember I was sitting in your chair, Dennis, and I went through the litany of the people we had cited and the inflated importance of these, but in any case it was not true, whether we had not cited anybody and there had been rollbacks, people who had—I got the President to call the president of Sears Roebuck—there were a few, not very many, but a few. Then somehow the automobile business came up.

Rapp: No, no.

Kahn: How did it come up? Go ahead.

Rapp: This was on a Friday that Stu had asked us to do this, to refute Kennedy's charge in the University of Oklahoma speech. Our press people were all gone, so I had to get everything together and I didn't normally do this. So I got all of these press releases that we had put out over the last year and stacked them up and then we met in my office, and Fred and I talked in his office privately and all the press people were gathering in my office where the cameras had been set up and he went through that with me. Fred always takes a lot of notes on things on a yellow pad and that sort of guides his presentation, but he doesn't have to read anything. He said, "Does that seem to be the way we should lay it out?" I said, "Yes, that's good enough."

Five minutes before we went out, he said, "Oh, I'm going to bang Chrysler this month, I'm going to bang the Chrysler bill," I said, "Gee, I don't think you'd better do that because at least we ought to check with [William] Miller." He didn't say also at the breakfast what Miller said after the President said that, because Miller was right there. He said, "Mr. President, you have just sent up the bill." Debate on the bill had not started yet. This was a week after the bill had been transmitted by the administration, the original bill. He said, "Mr. President, we just sent up the bill and now you tell Fred to go ahead."

Kahn: I was not blasting the bill.

Rapp: You weren't blasting the bill, but Miller saw the linkage right away.

Lewis: Of course he did; Miller saw all sorts of linkages.

Rapp: You told me he was a linkage-seer [*laughter*]. The President said, after Miller objected, "Bill, everybody knows Fred's a free spirit anyway." That's what you told me he said. So I said, "Gee, I don't think you'd better do that," and you said, "I'm going to do it anyway." So we walked out, there's all the reporters, and he went through the litany and the Oklahoma speech and then it was over and nobody—

Kahn: Nobody gave a damn about that.

Rapp: The reporters didn't. What the hell, it wasn't news anyway. Irving Levine had had his cameraman turn off the camera already. The camera was off and Fred said, "I have one more

thing.” The guy turned the camera back on and we had just made the calculation that the agreement had violated the standards so Fred laid it out. Irving ran right to my phone and called the station that night, he wanted to change the schedule and that was a big news thing.

Kahn: That’s when I used the word outrageous. Now, the point is that Dennis has already suggested the attitude the President was developing about my roles: Fred’s a free spirit anyhow. Within a few days people had asked Miller about his reaction to this and Miller said, “Well,” in a diplomatic way, “I think that Fred may have strayed beyond his proper jurisdiction.” The newspapers interpreted that as the administration having somehow let me get to the end of the tree and sawed the limb off. I’m sorry I don’t remember if it was at the President’s initiative or mine, but we were talking on the telephone, and the President raised this on his initiative, “By the way, Fred,” he said, “I do think it was a good thing what you said about Chrysler, about the UAW contract and the Chrysler bill.”

I think by then I had already had a call from Bill Proxmire who was always opposed to the Chrysler bailout anyhow. He called me back and he called me in. I had not testified before, I prepared testimony outlining why I felt it was outrageous and at that time the bill had somehow stipulated that the UAW would make concessions, give back on the order of 230 million dollars, and I said, “That isn’t enough,” relating to the billion and half. These were only temporary concessions, and in the long run the wages would still be at the excessive level, and I gave some very strong testimony. I regard this as a real victory: I got another 250 million dollar concession. Congress insisted on \$460 or \$470 or whatever. I also established a principle. I thought that in public it was very important that that tie be made.

But interestingly, the President when he said that, approvingly, maybe inadvertently or undiplomatically said, “People know that you don’t speak for me.” [*Laughter*] But that’s when I first got the idea, which later he made more explicit when I tried to resign: “It’s important for me to have as part of the administration someone who is known to be close to me but at the same time does not speak for me, and is my apolitical person who speaks his mind.” Now I’m not sure that that is anything that Jody ever accepted, but maybe in time he did, because I never did get another letter from Jody. I guess the President decided, maybe because the primaries were coming up and it would have looked terrible if I left because I had this public credibility, it was worth the risk that I would shoot my mouth off and say something politically embarrassing.

Mosher: Did nobody ask you whether you were speaking for the President?

Kahn: Yes. In that case I think I said—

Rapp: At a press conference Irving Levine said, “Mr. Kahn, does the President know you’re saying this?” That’s a depressing thought.

Kahn: I said yes.

Rapp: You turned to me and said, “What should I say?” Of course, the camera’s running, I said, “Tell the truth,” and so you did.

Kahn: We had an act, you see, and so I said yes. Fortunately, it was the easy question that was asked: “Does he know what you’re saying?” And the answer was yes. Yes, because he had said, “Fred—”

Mosher: But not that you were speaking for him.

Kahn: I think it would have been much harder for me to answer that question. I don’t know what I would have said because he agreed with me, but I’m not sure that I was at liberty to say that.

Mosher: When you had been before Proxmire’s committee, didn’t Proxmire ask you whether or not you were stating an administration position?

Kahn: I wish I could remember. I remember saying—oh, yes, explicitly in my testimony I did not separate myself from the Chrysler bill; I said, “I did not participate in it, but I can accept the decision by the administration about the pains of the transition, the cost to the economy, the spiral-downward process that might be set in motion by a Chrysler bankruptcy. I’m not quarreling the bill itself.” But the administration had always taken the position that there should be a contribution of unspecified dimensions by the various affected parties, the dealers, the suppliers, Chrysler, the stockholders and the UAW, and therefore I felt that I was speaking entirely in keeping with the position of the administration when I expressed the view that a settlement in those circumstances violated our standards.

I made this point because the violation of the standards was nothing like on the order of \$250 or \$400 or \$500 million. The standards were so damn elastic that I used the violation of the standards as my wedge and as the occasion, because it just happened that they were settling at that time, to state a much broader principle. I pointed out what automobile wages had done in the preceding decade, they were much higher than the average, and I tried to state a much broader principle, which was that even if they had complied with the standards that it would not have begun to satisfy me. That was the point at which I got way past what Bill Miller would have regarded as my proper jurisdiction. I think it was possible for me to say that the administration wholeheartedly accepts the notion of contributions, large contributions, by the affected parties, so that the taxpayer’s contribution would be as small as possible.

Jones: Just one final question on this whole matter of getting going with the defining of the job. Was there anything in your initial meeting with the President on his appointment that suggested what he said later—I think you said when you tried to resign, that suggested to you that this public role was a very important role for you to play—or was there anything else in the initial meeting by which a job definition beyond the substantive kind of thing that “inflation is clearly important and I want a spokesman on it”?

Kahn: I don’t think that the President emphasized the public role at all during the conversation. I think that just happened. At a fairly early point, until they got scared of me, people in the White House press group and so on thought, *Well, we’ve really got something here*, and so they would be constantly asking me to talk to different groups. But I don’t think the President emphasized that particular aspect. He may have said I would be a spokesman to the public, but there was no assertion that that was an important part of my job. It was very general, and it ran in terms of

wanting me to feel free to roam across the whole face of government and to advise him on anything that I felt was pertinent to the inflation problem, and I don't think it ever got more closely defined than that.

Jones: Did you ever reflect later on his picture of what your job was to be?

Kahn: Well, I had occasion to do that partly with my increasing dissatisfaction with the situation. I can't just list the successes and consolations so as to be able to say, "Look, it isn't really futile, just to have played some role in getting trucking deregulation through, I should be satisfied with that." I don't want to leave you with the feeling that this was a period of total constant frustration. There were satisfactions and excitement. But, A) as I reflected about my anomalous position and B) as I talked to him about it, the first time was August of 1979, which means I'd been in the job only seven or eight months, and after much soul searching I went to him and said, "I'd like to resign."

For one thing, I pointed out that next year would be increasingly political and that I would be likely to embarrass him, that up to that point there was no manifest success of the anti-inflation program, on the contrary, and my general feeling that I was a fifth wheel. I said that to Charlie Schultze and he said, "No, no, I'm the fifth wheel," Charlie said and I said, "Then I'm a seventh wheel," and Charlie had a similar feeling. Even Stu Eizenstat amazed me by saying that he didn't feel that he was in on the final decisions. The difficulty was that I never sufficiently used the telephone, as the President wanted me to do. It is true that whenever I did the President answered, and he really was true to his word. When I tried to resign I tried to explain why his mandate that simply said, "Call me up any time you want to, I will answer, and tell me what to do," was not sufficient.

How many times is an issue so clear that you can simply tell a President, "Deregulate crude oil," or "Don't deregulate crude oil"? That was a terribly difficult and complicated decision involving political aspects, involving weighing short term vs. long term consequences, involving uncertainties. You don't call up the President and say, "Don't deregulate crude oil" or "Do deregulate." I tried to explain that to him. I said in addition I had a certain awe of the Presidency. A Bob Strauss, I think, would feel free to breeze into the Oval Office, but the fact is that I never had a biweekly meeting with him for fifteen minutes, in which I might find it possible to talk about the complexity of these things, and exert some influence.

Rapp: But you never asked for it?

Kahn: I was too proud to ask for it.

Mosher: But you had those breakfasts?

Kahn: Yes, that's right. By the way, before that August meeting, they had felt free to cancel them half the time, but after that he made it very regular, and said, "Yes, I realize that it's so important, I promise you we will have them regularly every week," and I think we did from then on until the campaign. I asked for fifteen minutes to talk to him and after about thirty minutes I

began to fidget and he said, "I told them to leave us an hour." At that point when I was threatening to leave, he gave me all the time I wanted.

And at the end he put his hand very firmly on my shoulder and said—no, he didn't put his hand on. Figuratively he did, and said, "What do you do for exercise?" I said, "I swim every day in a pool," and he said, "I'd like you to use the White House pool." He took me over to the White House pool and he said, "The only people that use it are our family and Dr. [William M.] Lukash." And so I used the White House pool. Then of course there were some people on my staff who thought I stayed because the President offered me the White House pool [*laughter*] and I couldn't leave. But Kennedy had already announced his candidacy. I really couldn't leave a President whom I admired, under those circumstances, because I think in some degree it would have been injurious.

Young: Help us clarify your bringing to the President your desire to resign. Were things better after that or not?

Kahn: Better in the sense that he then did meet with us every other week at the inflation breakfast. I am putting two separate incidents together here. I'll separate them if it seems useful. At a later point when again I was ready to quit, I didn't go to him this time, I was too proud to go a second time. Bill Miller had taken it upon himself to exclude me from the calls to some of the meetings of the EPG steering group because I had, at one point—I think this was the reason—I'd been testifying on oil problems and was asked whether the administration had ever contemplated a big gasoline tax or something, and I said, "We'd be derelict if we didn't contemplate all sorts of things, and I myself think it might be a good idea to have a big gasoline tax." Bill was furious; disclosing inside information was absolutely wrong.

Then at a later point, some reporter asked me, I'd been at an American Stock Exchange symposium on the economy, and he said, "Well, do you think there should be a tax cut?" I said, "Well, look, a tax cut is inevitable; the only question is when." What the newspaper published was that "Kahn says Tax Cut is Inevitable" and that was counter to the position the President was taking. Bill was so furious, I discovered at a later point, that he simply stopped inviting me to these meetings in the EPG. I went over to see Bill and he said, "I feel that you're somehow acting improperly." I said, "Bill, why don't you go to the President and tell him I want to quit." I rejected his accusation. I was terribly careful, but of course I can't help it if I said, "The only question is when," and the reporter left out the qualification. Bill said, "Well, you should have thought that he'd only use the first half of the sentence." I can't function in an atmosphere like that. But the consequence was that the President gave strict instructions to Stu; Bill was very courteous to me from then on. That was another consequence. I was brought back into the process but there was no way in which the President could change the fundamental nature of the situation.

Rapp: There was a great fear that Fred would resign and hurt the President's image very much. It was expressed to me by a large number of people in different places in the government. It was all in terms of the President's chance for reelection.

Thompson: I just wondered if, in addition to the political price this independence might carry, whether you ever made the foreign policy comparison or analogy. You know better than any of us, but some of us have lived with the literature on this subject for quite a while, that generally in terms of good foreign policy, the scholars, the publicists, others have argued that it was bad that you had more than one voice in foreign policy, [Zbigniew] Brzezinski, that kind of thing and all the rest. Did you ever talk about why inflation was different, or is there no comparison in your mind between these two?

Kahn: In terms of why or whether inflation was different from foreign policy in terms of having two voices?

Thompson: Yes, yes, using the foreign policy analogy.

Kahn: I don't think it ever arose in that form. I don't think there was any point at which it was ever raised very clearly, either to me or others, that the administration was speaking with two voices. The President made it clear at one time that Bill Miller was his Secretary of Treasury, it was first Blumenthal, and was his principal spokesman on economic problems.

Lewis: He made it clear, if you will permit the interjection, to Blumenthal two weeks before he fired him [*laughter*].

Kahn: Yes, that's right.

Rapp: That's another interesting story.

Kahn: I guess the question never arose. I think the assumption on the part of those people was that they were nervous about me, that somewhere the decision was made that it was on balance useful for the administration to have someone who had a reputation, who once said to the airline companies, "There is nothing you can do to me; I have tenure at Cornell." It was kind of my attitude, and everybody knew that, and perhaps they made it increasingly clear that I did not speak formally for the administration. How they managed to carry this through—that was their problem, not mine.

Thompson: Was there ever a distinction between someone in the NSC [National Security Council], who was grabbing for power and on policy issues continuously and using that office to tilt policy in his direction, and your role as an intellectual leader as well as somebody who wanted to influence policy, but wasn't grabbing quite in that same way?

Kahn: I don't know why it doesn't strike a responsive chord. I don't believe that there was any sense anywhere nearly as fundamental as the discrepancies between Brzezinski and [Cyrus] Vance on some major questions. There was no general sense and no specific instances in which my freedom to speak resulted in an appearance of a serious split within the administration on policy. With the Chrysler bill there was no fundamental difference.

Rapp: I think there is an analogy and I think that it wasn't viewed though as a dual role on inflation in the same way that the NSC and State had a dual role on foreign policy. It was viewed

as Fred against the whole administration. Because no one had an inflation lead, it was viewed as Fred bringing to all parts of the administration an inflationary perspective in the policy-making process.

Kahn: But not in a way contrary to avowed administration policy, I don't think.

Rapp: Yes. I think so. I think that in the minds of the people who were affected, everyone in the government felt that any intrusion in their traditional way of operating their programs and serving their interest groups was antithetical to their assigned and designated role from the outset of the administration. I can give you specifics in terms of agriculture policy, I can give you specifics in terms of the whole health care field, and you know what Pat Harris was doing.

Kahn: If you think of Pat Harris as analogous to Cy Vance, then of course there was resentment. I was thinking of it more in terms of the central administration, and you know Cabinet officers are not part of the central administration. I was somehow distinguishing between those two situations. When I testified on the [David] Durenberger bill—

Rapp: It was a terrible shockwave through the administration.

Kahn: Because he's a Republican for one thing, and I was in favor of his bill, and you don't do that. And second, because I expressed some desire to see if we could introduce some competitive choices into the health care field, which was what the Durenberger bill was. I said in principle I'm in favor of a cap, some limitation on the excludability of employer contributions. I don't recall whether that was counter to administration policy.

Rapp: Yes, it was.

Kahn: Had they announced the policy?

Rapp: Yes, they had testified the previous year before the Senate Finance Committee [*laughter*]. I helped Fred prepare the testimony and I knew what I was doing. There is a legislative clearance process in government that, as you know, requires that anyone who's testifying—anybody—has to get clearance. OMB called me on Fred's draft testimony and said, "He can't say those two things that are in there, the rest of it's okay," and I didn't tell Fred. I wanted him to say it, and I knew I was going to get it. I was called the next day by Bo Cutter and he read a reprimand over the phone to me and said, "I'm going to mail this to Fred. Because we know you're at fault, we know you were called yesterday, and you were told, and you violated it." The administration had, the year before, had a great struggle on the employer contribution tax deductibility question, and had arrived at a consensus with HHS [Health and Human Services] on a position, and that was a very carefully constructed set of language and testimony that was presented to the Senate Finance Committee the year before. I had seen it, and I did it on purpose.

Kahn: But, Dennis, I was aware.

Rapp: I told you that you didn't know how to translate it into their formal constraints.

Kahn: I understand, I understand, but the point is when I made that statement in the testimony, I have to go back and look at it to ascertain for sure to assure myself of this, but I do remember that I made it quite clear that I was aware of what I was doing. I may even have listed the pros and cons—no, that was on another aspect of it, but I was quite careful to talk in principle.

Rapp: Yes. It was read by the administration as a violation of the agreement.

Kahn: I wasn't specifically aware of that.

Lewis: But you thought he would want to give it.

Rapp: I told him that the administration had taken a position that was contrary to the sense of what was in your statement, your written statement, and that's why you were careful.

Kahn: I *was* careful.

Rapp: Clearly the principle in opposition came through.

Mosher: What can they do to discipline you?

Rapp: Fire you, that's all.

Lewis: For someone who's a principal Presidential advisor you can't do very much.

Rapp: No, they can fire *you* though.

Kahn: There's another example in which I was more discreet but conveyed a message. I fought very hard within the administration against the message on sugar.

Rapp: That's another one I was thinking of when I said that.

Kahn: The Presidential recommendation for a sugar support price. Charlie Schultze agreed with me in principle, but he had fought this fight so many years and gotten beaten down that he made a more modest proposal. Let's go on with a 15.3 cents, or something like that, and of course I said, "You've got to make the political decision about Russell Long on the one side and Frank Church on the other." I strongly opposed it and I've forgotten where it came out, thirteen and a half cents or something like that. I said if you want to supplement the income, do it by a [Charles F.] Brannan Plan kind of approach, use budget contributions rather than support prices. I went around making speeches about that, one to the Consumer Federation of America, and I said, "Look, you've got to have a constituency, put pressure on Congress, stop that stupid sugar legislation." When the decision was made, the President took a compromise position, it was a more moderate, better position than it might have been, but worse than it should have been, but it was for support prices. I was testifying on food pricing and inflation before the House committee or subcommittee on agriculture.

Rapp: It was Fred Richmond's committee, it was a food subcommittee. It was the House Ag. Committee, Subcommittee on Food Policy.

Kahn: Yes, and Margaret Heckler was there, I remember.

Rapp: She asked you the questions.

Kahn: She began to berate the administration for its sugar policy and we were playing a kind of game, I guess. I didn't feel that I could criticize it, so I said, "Let the record show an embarrassed silence."

Rapp: The question was, after Fred had presented a very good piece of policy testimony on the phenomenon of food inflation and the problem of weather and crops shortfalls and things like that and the undesirability of price controls on food, and she asked, "After all the good things you've said, Mr. Kahn, the President has sent a bill to the Congress recommending a—" whatever the price support level was for sugar— "that seems to be antithetical to what you've said. What's your comment on that?" That's when he said, "Let the record show embarrassed silence." That quote from that testimony was used by the floor leader in the House to gather votes for the defeat of the President's bill. I know that because he called me and told me that he was using that quote from that testimony.

Lewis: Peter Peyser.

Rapp: Peter Peyser, yes. While the debate was going on he said, "I'm going to use it," and he called me back later and he said, "It was decisive."

Kahn: The question is, in those circumstances am I justified in putting that House vote down on my list of successes? I think I was. Then the next question is, was that bad for the President? I believe ultimately that the President concluded that it was not bad. He had done his job.

Rapp: You should understand where that commitment by the President came from. It came from a meeting in the spring that the President had traditionally with key legislative leaders on the bills he was going to be sending up. At the meeting, I was told with Russell Long, he had a long list of things he wanted for the Senate Finance committee, and after he went through the whole list, the Senator responded by saying, "Mr. President, I'll try my best on every one of those bills; I only want one thing," and he wanted 17.3 on sugar, something like that and the President said okay. That's what I was told. Because we fought very hard in the decision memo process to try to stop a consensus recommendation for support price, and we lost in the decision-memo process because of that commitment.

Young: That raises a question that I wanted to ask. On this point, when you gave this testimony or made these statements in some knowledge that they did not reflect administration policy, in terms of what went on before that, were you a part of the process? Were you a part of the process by which that decision had been made inside the White House? Either on the sugar or on the Durenberger Bill?

Lewis: Oh sure, to the extent that sugar decisions were still being made after Fred got there, yes, very much so; but there had been decisions made before Fred got there but the access was fair. The paper flow was basically fair.

Young: Did you have a real problem, not knowing what went on that was affecting your shop?

Kahn: Ron, why didn't I get the request to comment on the glass bottler exclusive franchise bill?

Lewis: I think that was in special circumstances. The President was traveling. Sometimes when things were very fast, it didn't always work. But I think the President wanted it to be fair.

Kahn: Well, I believe that.

Lewis: I know Stu Eizenstat did and to the extent he was in the best position to see all the paperwork, he saw his role at least in part as assuring access. Stu made an effort; I think the President wanted him to, to try to get the advisors to put what they wanted to say into one memo. Stu tried to draft the memo with his people. They felt free to let other advisors, at least in the White House, put in what they wanted, and any principal advisor could always send in his own memo, and it would go in, I'm convinced of that, with maybe some rare exceptions.

Young: You would not say that blockage, though there were some instances of it, that this was a major problem?

Lewis: No, it wasn't a problem. Everyone knew the President was a compulsive memo-reader, and there was a certain self-imposed reluctance to send in yet another memo on something, even though the points could have been made more eloquently.

Young: For example, the President is going to give a speech or make a major policy statement. I understand that that process included footnoting with in some cases optional paragraphs for the President posing a decision he had to make which way he was going to move on this. Footnoting in which x, y, and z, the people involved on staff and in the departments, their feelings on this particular statement were noted. Were you footnoted in those?

Lewis: More than that. On the decision memo on domestic policy, there'd usually be a background section and then option sections, and this group of people thinks you ought to do the following options for the following reasons; this group wants that, this group wants that, and there was some jockeying to position the options. Everyone would try to present the President a middle option because he liked middle options.

Young: Was Eizenstat preparing these memoranda?

Lewis: Yes.

Young: You were identified as a base always to be touched in these things.

Lewis: I think it was the President's idea really. Stu always respected that.

Rapp: Memos frequently said, “Fred Kahn thinks...”

Young: Yes.

Lewis: Yes. People did also put in their own. Stu for example, did tend to put in a one-paragraph memo. Some other people did.

Kahn: I did on occasion.

Lewis: You did on occasion, you could have done it more, but the Cabinet departments always loaded up the President with memos that were overlong, which he read, and the White House staff just didn’t want to do that, as time was too valuable. Maybe it was a mistake not to give him more individual memos on things, but we always saw the drafts well in advance of the option memos and to the extent we had an option, we could draft basically what we wanted in that option. So that was fair.

Kahn: The only amendment to that I’d make is that there is probably at least one more step in the decision-making process beyond this. Well, there are two steps, one of which I often participated in, but the other one which I did not. The one in which I often participated would be if the issue was complicated enough that the President would call a meeting of interested people and we’d argue about it.

Lewis: Which he didn’t like to do.

Kahn: He did it, for example, on several occasions I think. He did it on oil deregulation and of course on major economic programs, and of course we used the inflation breakfasts for many of those. Then, there is the ultimate time when he makes the decision, and selects among the options, and I don’t know who sits with him at that time, whether it’s the Vice President, or it’s Hamilton Jordan, maybe Stu.

Lewis: I think it varied from issue to issue. I know that he would ask Stu in or call him up, or he would say, “Here’s what I think I’m going to do, tell me this, tell me that.”

Kahn: I don’t remember that.

Lewis: A lot of times I think he did it by himself. But you’re right, to the extent that he wanted to talk to human beings just before making a decision.

Kahn: I was not one of them. The only times that he said that kind of thing to me, “This is what I’d like to do, but I want to check with you beforehand,” was when I was chairman of the CAB because we got into a public flap over the choice of Pan Am vs. Braniff out of Dallas, a public flap in the sense that he overturned me and I was furious [*laughter*]. When the reporters came to me I said, “Well, I vowed to myself that I would not comment until I had counted to 24, one count each hour.” Then at the end of the 24 I said that this was not good democratic process—small “d”—and thereafter he never acted within his constitutional authority of international

aviation policy without calling me and saying, “Hello, Fred, this is what I think I’d like to do, does this give you any problems?”

Rapp: But there was never another Braniff.

Lewis: The President also—

Kahn: And by the way, Braniff should have thanked me for the position I took, in terms of the way things worked out.

Lewis: The President also liked to go over the memos himself; he would get into the office very early, as you may know, and he was scrupulous about going through his in-box not only on things that were urgent, but simply on things that were ready for decision. He would come in very early, and by about eight or nine in the morning, he would have made, by checking and noting things on these memos, a lot of decisions.

Kahn: Right. When he came into the breakfasts at eight o’clock in the morning, he was amazing in his grasp of the things that I had given him to read. But it was the way he functioned, and sometimes it would be a ten-page memo. I would try to keep them down, and he would clearly have grasped the memo and gotten right to some particular point, or taken a particular position, that I found very impressive.

Mosher: Fred, did you, in this decision process, work with Schultze or work with anybody in the CEA so that there was coordination between the operations?

Kahn: As closely as possible. We were on the same floor; we were good friends, I think. I shared with him and his staff, which was a wonderful tradition, a professional apolitical attitude, and came as close as one could to considering his staff as my staff. As close as one could I would work with Dave Sibley when we had a complaint about a requirement that a cooling tower be built on a plant in North Carolina or work with someone else.

Rapp: On Mexican vegetables—Steve Kohlhausen.

Kahn: Was that Steve Kohlhausen?

Lewis: Larry White also.

Kahn: And so on. And I don’t think there was any jealousy.

Young: I’d like to pursue this kind of line of questioning in somewhat more detail perhaps this afternoon and to draw out in specific areas of policy as you ranged over them, actually the nature of your work in relationship to the White House rather than just picking out one at random, so if you can reserve this for some more systematic discussion. As it is, our picture is still cloudy of how you worked into the system and that’s one of the problems.

Rapp: It may be forever cloudy. We can’t make it any less cloudy than it is.

Young: Maybe we can get deeper into deregulation or other areas of policy where you made a principal thrust.

Kettl: I wonder if it might be useful to talk a little about what you see as your major successes. You've mentioned two of them, Chrysler and sugar supports. I was wondering if you could lay out for us what you see as the accomplishments that are the most important.

Kahn: I had intended to bring the list that I kept, but I forgot. I think the first is a general one, and that has to do with the public educational role that I played. It's hard to know how important that is, but with the kind of conception that I have of inflation as a phenomenon that is not subject to remedy by simple manipulations of government, but somehow reflecting a society's attitudes, public recognition of the problem is an important part of the solution. People stop me in the streets still and say, "You really told us the truth." That gives me personal satisfaction. I think the educational role is important.

Then the more specific areas: I think trucking deregulation was the most exciting accomplishment. In a sense modest—it was a revolution but a modest revolution. They're all micro from this point on. A lot of them will seem trivial to you. Mexican tomatoes. We're in court on that probably still, but it's a matter of public record that we did intervene on Mexican tomatoes. It's only 300, 400 million dollars a year, it's only a tenth of a tenth of a point in the CPI, but it was a dumping suit by Florida growers that I strongly opposed. I suppose the revision of the CPI, which is now at last being put into effect. I'm sorry that my list is so sketchy, but each item on it represents a lot of work.

Mosher: In the last week.

Kahn: It was in the last month or so but they began an experimental series of alternatives, one, two, three, four, and five. I think it was January of 1980 and that was pressure in part from Charlie Schultze, who played an important role in that, but originally the PLS people said, "You're out of your mind." I testified at length on the deficiencies of the CPI before Paul Simon's committee, a first rate person in Congress.

Then there was the hospital construction memorandum—another small one, working with HUD [Housing and Urban Development] and four localities in the country, local authorities. HUD financed, but we helped organize, a program to demonstrate how much you could reduce housing costs by waiving various extra review processes on the state and local level; environmental review stuff and foolish building code requirements. As a result it took four months from application to completion of the houses. The Home Builders' Association estimated that the result was to cut 30 percent off housing costs. I went out to cut the ribbons and talked to the people who built the houses. Another: I suppose I helped in some measure in trucking deregulation in Florida. I went down and addressed joint sessions of the legislatures of various states, and tried to work with them on some of their licensing programs.

Rapp: I think it would not have been the climate and the kind of bill construct in the communications act if Fred had not gone to the Congress and given a seminar to the full

committee, Tim Wroth's committee, to give them the economic concepts in which they should proceed with the consideration of the bill.

Lewis: We played some role in formulating the bill.

Kahn: Another example: automobile imports. The fact that the President resisted quotas on Japanese automobile imports. It wasn't primarily me; Charlie surely played an important role in that. I helped, I think. When you have the Labor Department and the Commerce Department, and all the politicians were on the side of restrictions on imports. The rescinding of the trigger price protections, for a while. When the President had said, "If you bring this antidumping suit, we're going to drop the trigger price protection," there was a great deal of pressure by Commerce not to live up to our threat. We put the damn things back on eventually when we were absolutely convinced that the Department of Commerce decision on dumping was going to come out and it was going to be worse and so we had no choice, we had to live under a lousy anti-dumping law. As I said, I wish I had my list here.

Rapp: There were a lot of little ones, like the accelerated cutting of old growth timber in the national forests, the annual review by the President of target price setting and set aside setting for agricultural products. I think that we exerted some influence on that, it's inconclusive. We started a lot of rumbling on dairying but totally lost on it.

Lewis: What about reconstituted milk?

Kahn: Yes, we worked like dogs on that and failed.

Kahn: There was also the Davis-Bacon Act. We tried hard on that and got nowhere; we couldn't get organized labor though we did have some success on the Fair Labor Standards. I had talked about reconstituted milk in a speech that I gave, I believe, to the consumer federation. It's a scandal. Now that transportation costs are so high, fluid milk transportation is so expensive. The areas of the country that can produce milk at lowest cost, Wisconsin and Minnesota, have a restricted market for fluid milk. You have these milk market orders that hold up the support price for milk. In Florida prices for milk are very high.

It is now possible to ship the powdered, dry skim milk solids to various areas of the country at a much lower transportation price, because all the water's out. Then if you can reconstitute it, mixing it with some fresh milk, you'd get a product that is indistinguishable both in taste and in nutritional value. There are various estimates that at the highest point, maybe in Florida, you might cut as much as three or four cents off the price of a quart of milk—12 to 15 cents a gallon. I pointed this out in speeches that I made to various groups. I was saying constitute yourself a committee of the whole to fight inflation. You have to organize to fight against these special interests. I think I helped to inspire a petition by some group—what was it called?—the Community Nutrition Institution.

Rapp: The Consumer Nutrition Institute.

Kahn: To Bob Bergland, asking him to set down for a hearing. Oh, I'm sorry, under the Agricultural Marketing Act, anybody who reconstitutes milk in this way, mixing it with whole milk, the dairy must then pay the same price for the powder as though it were buying the fluid milk at the artificially high support prices, which instantly eliminates any incentive to undercut the market for fluid milk by introducing this new economically superior expedient. They came in and wanted him to have a hearing on amending the milk marketing borders to eliminate this protective tariff on the cow. Bob Bergland had advice of his own people to reject the petition. Well, Dennis and I met time and again with Bob Bergland and his other people, and we would not let him do it. We got the help of Stu Eizenstat.

Kahn: We played the major role in it. Then of course we encountered the feeling *let's not have any hearing before the election*, all this kind of thing; but at least we kept it from being killed. Just before October first of 1980, when under this vile law of rigid eighty percent of parity, which I tried so hard to get the President to veto, and failed, we were going to have just before the election a big increase in milk prices, because the support price had to be raised up to eighty percent of parity in a period of a few months, and because Bob Bergland was embarrassed about this.

I shouldn't put it that way; Bob really tried to take inflation into account. The dairy lobby, I've forgotten the name of the guy, you probably remember, Dennis, you dealt with him, offered to agree on some revision of the rigid eighty percent of parity, to support a move in Congress to give us some flexibility so we wouldn't have to go all the way up, if in exchange the Secretary of Agriculture would agree to reject the petition to hold hearings on reconstituted milk. We were blocked out. The result is that we lost on both counts; the prices were raised on October 1 and had no reexamination on the price of reconstituted milk either.

Kettl: So what you're explaining is a form of jawboning that in fact is one of the things you were criticized for when you first came on: all the President's doing is jawboning, there are no real teeth to this. You pointed to some successes, but there is a combination of both an external and internal kind of jawboning.

Kahn: But do distinguish the two of those, I think that the distinction is very important. The jawboning for which we were criticized, which I was very uneasy about myself and that's why I didn't like the job, had to do with trying to enforce wage and price standards, screaming at people in public.

Lewis: No, there was jawboning. There were some successes there.

Kahn: True.

Young: There's another dimension that we would like to explore, I think probably tomorrow morning. First thing, particularly because one of my colleagues who's interested in this question won't be able to be here this afternoon, and that's what it begins to tell us about the management of economic problems as essentially political or economical in approach. You've suggested all kinds of things where you tried to get the President to veto this. There are two approaches to the management of a hot political problem concerning the economy involved here. It goes to the

larger question of the writing of economists, non-economists, politicians in this whole process, I think we're beginning to see some—

Kahn: But I would like—

Young: It's some of those tensions that I would like to proceed with tomorrow morning.

Kahn: I just want to finish this idea, because I do think they're really different; the same word, jawboning, seems to apply, but they are two totally different phenomena. The validity of jawboning, to get restraint in wage and price setting, externally is a matter of interest, and I share the feeling that you can't really do very much that way. I'm an economist, and feel we have to rely principally on market constraints in that area. On the other hand, what you are now characterizing as jawboning, that is arguing within the administration, internally, that's part of the process of trying to form an intelligent policy; that is, arguing the merits of whether you should have 80 percent of parity or 75 percent. There's no other way of proceeding. I can't have mandatory control over Bob Bergland or apply monetary policy to Bob Bergland. That's part of the process of trying to develop an intelligent administration policy.

Thompson: Jim may want to reserve this for the future, but I used to ask my agriculture colleagues at the Rockefeller Foundation about the absolutes against the relative successes of the Green Revolution. You've done the same, I think, with some colleagues at Cornell, as I remember, but are these relative or absolute successes that you've been talking about. Maybe this is a philosophy of Fred Kahn rather than what we're really here to talk about, but every time I spend two hours on the phone negotiating with airlines about rates, I either have the feeling that in the end I'm coming out better thanks to Fred Kahn or I have the feeling that it's taken an enormous amount of time to achieve this, and similarly with one or two of the other examples. I remember one that you cited, it flashed through my mind that there was a price for the advance and that it had a kind of mixed record.

Kahn: I think that there are two parts to the answer, but I think you'd have to say that there is no such thing as an absolute success. I can't think, at the moment, of any policy of which I approved or policy step of which I approved or anything that I would call reform or that you would call reform that doesn't have a price. It really just doesn't exist. That's why [Vilfredo] Pareto really sometimes leads to an absolute stalemate in policy, because he says you can't do anything that makes a hundred million people better off if you make one person worse off, because there's no way of making inter-personal utility comparisons. In that sense there's no absolute success.

Also of course, you never get precisely what you think is the ideal policy. There are always compromises. The trucking bill that we got out is not a perfect trucking bill, by any means. There are things in it to assuage various people, and the result is that Reagan can now appoint a new chairman of the ICC who can perfectly legally—I believe, maybe Ron will disagree—say, “Look, this is not a deregulation bill.” You could read the direction in which it was moving, but the chairman could say, “Look, I think applicants for trucking licenses still do have to show fitness, willingness, and ability to serve, and I may choose to define ability to serve as already having all the equipment that is necessary to serve everything that they're asking for authority to serve,” which could be used, therefore totally to frustrate deregulation. If he wants a 48-state

permit, who's going to first acquire all the equipment, and prove that he's able to fulfill this obligation? That bill is a great triumph, I believe, but it's an imperfect bill.

Thompson: Can you ever build in hedges? That was the example that flashed through my mind. We have a family involvement because of somebody working his way through school with the business, and in negotiations right now with UPS [United Parcel Service], it's management who wants to raise the salaries of workers, largely because UPS can pay the increased salaries. Whereas small truckers will in effect really be forced out of business according to this line of thought, while the union, which has something to gain from the continued existence of small truckers, is opposing the increase in wages in this negotiation. Is it ever possible in an essentially economic resolution of a problem of this kind to build in any kind of political checks and balances that protect against maneuvering of this sort, or is that not the business of an economic policy advisor?

Kahn: Where one can foresee costs of a particular policy and devise protections against it, of course it's your function to achieve the best possible resolution; but what I think you're saying and I'm saying is that it is impossible to make an omelet without breaking eggs. Indeed, you may want to break the eggs. Remember, I gave you two ways in which it's relative: one is that some people will be worse off. That doesn't necessarily argue against it; I'd love the Teamsters to be worse off. I'd love the automobile workers to be worse off. You may say that's inhumane; I'm putting it rather baldly but I want to eliminate a situation in which certain protected workers in industries insulated from competition can increase their wages much more rapidly than the average without regard to their merit or to what a free market would do, and in so doing exploit other workers. I'd want to be able to tell the Ladies' Garment Workers that they're being exploited by the automobile workers, or the Teamsters. My first point is that there's no way of making improvements for the consumer without limiting the monopoly profits of either the workers or the laborers—that's the first side.

The second side is the fact that even in terms of definition of public interest, you'll get a bill that's imperfect. The first I do not regard as an imperfection, so long as by some reform by this I'm making more people better off than I'm making worse off. I'm helping the unemployed, who have been exploited by the UAW; those unemployed automobile workers are being screwed by the employed automobile workers. That's my first point, my second is that I don't know how to get a perfect trucking bill, I just get the best one I can. If you have a specific illustration of an imperfection that arises, or some alloy in the gilt, maybe I can be more precise.

Thompson: Is it good or bad for the trucking industry to have small truckers continue to exist?

Kahn: Is it good or bad for the industry? It depends—I'm not evading you, but it depends on how you define the industry. Yesterday I was testifying before the [Elliott H.] Levitas Government Operations Committee on our international aviation policy, and they kept saying, "Well, is that policy good for the industry or is it bad for the industry?" It's good for Air Florida; it's good for World Airways and for Transamerica. It's good for United Airlines, which wants to get into Japan, but I don't doubt that it has been very hard on Pan Am and TWA and Northwest.

Thompson: Then, is it good for the consumer?

Kahn: That's my ultimate view; what I try to do is what I think is good for the consumer. In a long run sense. When I regulated public utilities, I didn't say I never would give a rate increase, because I recognize that the consumer has an interest in continuity and quality of service as well. My standard is, of course, what's good for the consumer. The revolution that we effected in international aviation policy, fundamentally, is that until that time—until 1977—almost without exception, the United States government and the aviation authorities regarded their job as one of bargaining internationally on behalf of the existing incumbent American carriers. That was their job. If the carriers wanted more landing rights in Belgium, they'd go to Belgium and say, "In exchange for giving our carriers more landing rights, we'll give your carriers more landing rights." If our carriers did not want any more landing rights in Belgium, which is the situation I confronted, then our official view was that they had nothing to give us.

Brock Adams just said it in an article in the *Washington Post* a few weeks ago, answering mine: "They had nothing to give us." Well, who was "us"? They were regarding "us" as the incumbent airlines, and in those circumstances, it's ridiculous to give them Atlanta. You're "giving" them Atlanta in the sense that you're permitting them to take business away from Delta, but what about the American public, which is now getting an independent alternative? We didn't get any more landing rights from Belgium for our existing carriers. They didn't want it. We got hospitality from Belgium and Holland to any new American carriers that want to come in, with unrestricted fares; elimination of all the absurd restrictions on charters, that you had to have a blood test before you could get on a charter, to prove your type was the same as the type of the person next to you [*laughter*] or prove that you had 97 percent of your seats for 40 days in advance with a penalty of no less than a hundred dollars if a passenger didn't show up—all those restrictions; that you had to sell in blocks of 80 seats; a charter operator couldn't sell a single seat—those are all the things we got rid of. Pan Am could not have cared less about getting rid of those restrictions, but my son who lives in London cares very much, he travels on those low fares. Forgive my bursting into—

Rapp: None of the established carriers wanted [Freddie] Laker.

Young: When you're talking about the automobile workers and the garment workers, I thought that you had votes, whereas the consumer vote—

Kahn: That's exactly it—

Young: I want us at some point this afternoon to try to get down to cases, as illustrated by some of the pictures of life in the White House from the viewpoint of the inflation advisor and his staff. There are also some other questions that Steve Rhoads wants to ask, a question that maybe we should get out of the way first before proceeding into the others that will come along. So why don't you start first? This is a question, I guess, on wage and price standards as a policy.

Rhoads: I wonder if part of your problem was with the advisory staff. In this *National Journal* stuff there are some more critical comments that you said initially about the wage-price business. You said that it pragmatically may do some good. At one point the Congress and the *National Journal* picked up those wage-price guidelines and of course you did say, "If I couldn't do

anything else but that, I sure wouldn't have taken the job." This seems to give a different kind of attitude than what you said earlier. I wonder if that caused any resentment in the White House staff, in that somehow you were undermining the importance of that. What was your attitude toward it in general? Was it somewhat less positive in its importance in combating inflation than you expected?

Kahn: I think that statement I made was comparable to Dave Stockman's Trojan horse. I shouldn't have said that. I was expressing a personal lack of enjoyment in the job of administering something that is not aesthetically pleasing. Wage and price controls are by their nature a kind of rear-guard, pragmatic freeze and gradual unfreeze operation. And so it's not a very satisfying thing to do. And I'm sure that that was a mistake in terms of seeming to denigrate some of the things that the troops in the trenches were having to do: this slogging, dirty work. That's what the statement means. It was the perfect case of one that shouldn't have been made, but it doesn't really in any way contradict my feeling that pragmatically they had some effect, that they did probably slow down the incorporation of the upsurge of mortgage interest rates, housing prices, oil, energy prices, and beef.

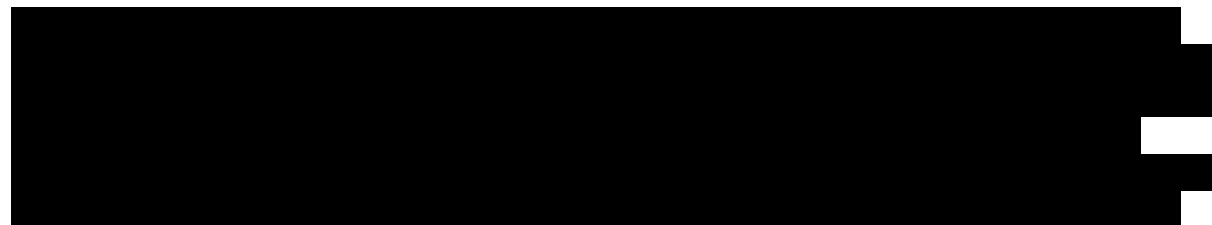
If you look at wage settlements in the 1974-75 period, you will find that they exploded by three, four, five points, in early '75, as I recall. I've just been lecturing on it, looking at those first two quarters of 1975. There was an attempt to catch up for what is not catch-able in the economy as a whole. So incorporating the shock inflation, to use Otto Eckstein's terms into the core of inflation, i.e., bringing it into the underlying cost rate. And I think that if you looked at the behavior of wages in the '79-'80 period you would find a much more modest response. And in a sense that was the very limited success of the program. But it did succeed. I failed to distinguish a personal lack of joy in doing what is inescapably a messy business from its social value.

Young: But was it also your implicit view, which you ought to make explicit if it is, that wage and price controls per se were not a major tool? Voluntary standards, rather, not controls were not a major tool in accomplishing control of inflation—was that your view?

Kahn: Of course it was.

Young: Not just that it was a slogging job, but that it wasn't the most important.

Kahn: It wasn't the most important. I mean, suppose we did succeed in holding down the acceleration of inflation by a point, which I think is a reasonable estimate, that's a lot. This is getting off the subject a little bit, but I'm sure Barry Bosworth would not disagree; all economists I think agree that when Nixon put those things on he made the terrible mistake of turning up the heat under the pressure cooker while putting the cover on.



[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Mosher: They didn't recruit from the outside then.

Lewis: Well, they did a little bit, but there wasn't time, because at the same time they were frantically overworking, in most cases legitimately, though, to develop sensible voluntary standards, which is very hard to do.

Rapp: These standards had to be developed, they had to promulgated, put out, passed around. The industry had to be educated on how to interpret them and apply them to their pricing practices, and we had time spans of 60 and 90 days to get all this done, and to begin the enforcement and examination process. The enforcement and examination process entails looking at tremendous amounts of detailed information from the common records to determine whether the industries were in fact complying with that kind of price-markup constraint or whether they weren't. And you pitted a bunch of people who didn't have a great deal of sophisticated experience in looking at those things against the huge accounting departments of major corporations in this country.

Kahn: You were asking them to compile index numbers of product prices and quantity indexes, and remember, under the Nixon control they used IRS [Internal Revenue Service]. How many thousands of people did they employ?

Lewis: The Nixon controls program had 3,000 people of their own in addition to the big call on the IRS.

Kahn: And we were talking about adding 150 or maybe 200 for the whole economy. Now, you may say these were voluntary and those were mandatory. But there's no substantive difference between voluntary and mandatory standards.

Rapp: In terms of the form of the work you have to go through it was the same process. While we weren't monitoring the whole economy, we were monitoring a selected group of large firms.

Kahn: And Dennis is using "we" in the Pickwickian sense. The fact is, those guys in the trenches were doing that slogging.

Rapp: Well, you know, whether you like it or not, you have to identify with COWPS. I'm sure that lies behind your question. The outside perception in the community at large, Fred, is that you were the leader of the wage and price program. I just want to comment on the atmosphere surrounding that phenomenon. The things you heard earlier in the day were what we wanted to concentrate on. Your question raises what the outside world perceived us as being strong in, and it was essentially the wage and price program. And after that remark that you have heard, Fred got a lot of strong advice from his senior staff, especially Al From, to really embrace the wage and price program and to try to make the best of it, and to give more because after all, it was sort of the centerpiece of Jimmy Carter's announced anti-inflation program. I don't want to sound critical, Fred, I just want to give a perception.

Kahn: Do sound critical.

Young: Did anybody ever go to the President and say, "Mr. President, if this is sort of the centerpiece in the public perception of your policy, it is a no-win situation unless certain things are done to make it work"?

Kahn: Yes.

Young: You work on the jerrybuilt apparatus using dropouts from departments for staff. You have a tremendous amount of special competences required. Data is required; analysis is required. Did the President ever get a sense that this was a shoestring operation, and it couldn't be anything else?

Kahn: I'm quite sure he did. I'm not sure at what stage. It happened a couple of times along the way. There was a recognition at a certain point that we really had to get more people, to make a reasonable show of looking at the reports even of the top 500 corporations, and of course as Dennis pointed out, maybe to extend it to another 500. There was also periodic discussion with

the President about ways of involving him, and he was eager to be involved. He'd say, "Tell me to call the president of this corporation or that."

After a while we evolved the institution of having industry meetings that I would organize. My staff would convene the heads of the companies in a particular industry; we must have had six or seven of them. We would identify industries whose prices seemed to be behaving particularly badly, and bring them in. This was very alien to them. It was aesthetically satisfying to exhort them, to talk about the anti-inflation program, to ask whether there was anything we could do to relieve pressures on them.

The quid pro quo under the President's whole anti-inflation program from business's standpoint was regulatory reform. We had the promise of helping them. Often they would in fact come in and respond appreciatively to my offer of help, and I would try to intervene. There were some instances in which we may have succeeded modestly, and we always brought the President into those meetings. There was a whole program of Presidential involvement in the anti-inflation program to give it credibility, partly merely politically so that the President would be seen to be trying to do something about inflation.

Young: You used an interesting word that makes all political science ears prick up when you said there was, in part, trade-off involved, for the acceptance of restraint on pricing. This is not a source of leverage that I imagine would carry you very far with labor, not with management. Relief from regulatory burdens goes with cooperation, and in price restraint. Was this explicit?

Kahn: It was explicit. It was explicit. Tom Murphy, the Chairman of GM [General Motors], was excoriated by the *Wall Street Journal* several times, was criticized for being a traitor to his class because he exhorted people to adhere to the program and comply with the standards. One of our great successes was when GM sent a letter to all its subcontractors, several thousand of them, saying it didn't want to buy from them unless they complied with the standards. Tom responded to the *Wall Street Journal*, I think perfectly properly, saying, "Look, this was not the centerpiece of the program, we don't like wage and price standards, but it was part of a package that the administration agreed to practice—fiscal restraint, monetary restraint, and sympathetic attention to our complaints about undue regulatory burdens.

Young: Specifically GM, or regulatory burdens in general, or both?

Kahn: Well, he spoke in terms of regulatory burdens in general, but of course the automobile industry was constantly at us to deliver directly to them. We had endless discussions on the fuel economy standards. They ceased after June 1979, when it was perfectly clear that the industry was going to have to do better than those standards anyhow. Until that point we had endless arguments about whether it was cost effective or not. All those: the diesel engine, diesel particulate standards, bumper standards, you name it, the various emissions standards.

Young: This is not a press photographer; this is Clyde Lutz, who takes pictures for our book of records.

Kahn: As long as there's no film in the camera [laughter].

Rapp: I don't know; I saw *Foreign Correspondent*, I think it was, an old Hitchcock movie, in which the cameraman came up to a Prime Minister and it was a gun [*laughter*].

Kahn: That was a very explicit bargain, from business's standpoint. The Round Table supported the President's program, with distaste for standards. There are various ways to get back, and industry meetings were one, and as I said, we must have had seven or eight of those in which we got the President involved. We tried to do more. We tried to incorporate in the President's various field trips, a meeting with local business and labor. All around the White House, the President had to be more involved in an exposed way because the standards really depended on such informal pressures.

Mosher: In view of the President's commitment to a smaller Executive Office, it was suggested on several occasions two or three years ago at some meetings I went to that COWPS should not have been put in the White House. It was not part of the Executive Office. It should have been in the Department of Commerce. Could it have worked in the Department of Commerce?

Kahn: I have no idea.

Rapp: No, I didn't think that COWPS would have worked there in terms of the wage-price programs, or in terms of the interventions program. I don't think that you can give the operational charter to a peer agency in government and expect them to intervene with any force as an independent group in the proceedings of other agencies. I'm talking about the intervention role of COWPS. Its academic studies were about the big program before the wage and price program, the voluntary wage and price programs as instituted by the Carter administration, as Ron alluded to earlier. I'm not so sure how much the intervention records weighed in the ultimate decisions of the regulatory agencies, but I don't think you ever would have been even able to support institutionally a charter to an agency to intervene across the government.

Kahn: Well, I agree with that but I'm not sure your question had to do with this traditional professional intervention program of COWPS in regulatory proceedings, or whether your question went to the wage-price standards program.

Rapp: I think that's why I said it, because I wanted to set the context for it.

Kahn: I don't think there was any necessary connection between the intervention program and—

Rapp: There would not have been any credibility at all to the wage and price program, had it not been in the Executive Office.

Mosher: I'm not sure. Suppose you had set up an "independent" agency outside the Executive Office, operating like, say, the Office of Personnel Management, which is now a part of the Executive Office. It intervenes all the time in other agencies. Would this not be possible?

Rapp: No. Because remember, the standards were voluntary. The Office of Personnel Management has a statutory charter that it has absolute power to enforce on the agencies the

voluntary program. The COWPS statutory charter was a very soft one, as Ron said. It was enacted after the wage and price program of the Nixon administration by the Congress, to make sure that never again would anybody have the power to impose mandatory controls on the country without another act of Congress. At the same time there was a recognition by Congress that there needed to be some monitoring within the inflationary forces of the economy, so it set up a studies group without the threat of jawboning and exposure, which could only come from the White House. The wage and price program would have had no credibility as an independent agency operating as a technical monitoring function; because its technical monitoring function results would have no application value in a voluntary program unless you jawboned once in a while.

Kahn: And that would have to definitely come out of the White House. That's probably true.

Jones: Given that mandate, that's what you're really saying.

Young: Given that mandate and given that it had to be there, and given the absence of legal power. A number of students of the Presidency have remarked on the degree to which now the President's ability—the White House ability—to, for example, bring inflation under control, is essentially dependent on gaining compliance without legal leverage over institutions not a part of the Federal government. And that's essentially the problem, it seems to me. There was an operating problem, but it was a problem that, as you were suggesting, could not possibly work unless it were put under Presidential imprimatur and located in the Executive Office.

Kahn: I agree with that. By the way, that suggests that there never was an attempt to go back to the President and say, "This is insufficient, we need more." We went back also from time to time on a question of sanctions, which nobody's mentioned yet. In principle the President said we would not hesitate, we would withdraw government contracts, any other government preferences. The ICC would not incorporate increases beyond the standards in permitted rate increases. We deny in principle the Export Import Bank's loan guarantees or whatever.

In point of fact, the President and people like Stu Eizenstat were constantly after us to turn up some miscreants because they wanted to demonstrate the determination of the President; they were very impatient and it was very hard for us. We had a shortage of miscreants partly because there was essential compliance for a long period, partly because the standards were necessarily flexible. You couldn't stick to a standard that said you may not increase your prices more than what you did in 1975-77, the base period, less a half a percent. You couldn't apply that standard to the oil industry, when you had—

Lewis: Or agricultural processing—

Kahn: So you had to develop profit margin standards, cost plus standards. It was holy hell to find people that we could hold up to opprobrium. So in part it wasn't we going to them, it was them constantly coming to us, saying, "Come on, help us find people. Do you have to wait for the process of letting them have an appeal?" which would stretch it out. Then later, we came back with proposals for improved and extended application of the sanctions to contracts, to grants-in-aid programs, to all sorts of things.

Rapp: Everything we could find throughout government that we didn't have to use a statutory amendment to impose.

Kahn: Yes. You surveyed all the departments to see what programs they might have that they would be able to devise.

Rapp: We had a long list.

Kahn: But then we ran up against a terrible political problem. We couldn't use it. We won in the courts. You remember, the AFL-CIO vs. Kahn.

Rapp: That's procurement.

Kahn: But that authority was upheld. This was sometime into the spring of—

Rapp: You're talking about the suit? The suit was spring of '79.

Kahn: Seventy-nine. It was sustained somewhere around the summer of '79.

Rapp: June was the decision point.

Kahn: Okay, by that time, we were already trying to negotiate some sort of an accord with labor and with business to get back the disrupted wage-price council or whatever, which had fallen apart because of the fight over labor law reform and also, of course, with the prospect of the election coming up, the President needed political support. Here's where Bill Miller came in as the President's emissary to put together this package that clearly had political aspects supporting the President in primaries and the election, and anti-inflationary aspects. Let's get them into the program instead of being hostile. George Meany was just doing nothing but condemning us. To help us enforce the restraint, we set up a pay board and a price board. Their price was, "Yes, we lost the case, but we don't want you ever to apply sanctions of any kind." That was the deal; John Dunlop put this together.

Rapp: In exchange for the accord.

Kahn: For the accord. Labor was meant to enforce the wage standards. We acquiesced, we had to. We said, "Okay, we're willing to say that as long as the voluntary program is working, we will not invoke the standards," We were sufficiently vague so that we could still threaten; how would we define if it was not working? Well, presumably if somebody's violating the standards, it's not working. Even after the automobile contract, that takes us into 1980, we were threatening to withdraw some military contract from Ford. But still, labor accepted. It didn't take business very long to say, "Well, if you're going to do that for wage violations, then you've got to do it for price violations." We were going into the critical meeting in the second program year, which means about after August first.

Rapp: October first. The program year started October 1, 1978.

Kahn: That's exactly right. It was the critical meeting in which we were going in in 1980 to vote the new standards developed by this wonderful pay-price mechanism, which were lousy standards, with holes that you could drive trucks through. As we stood outside the door, I got a call saying there's an emergency. The business people are saying they are not going to go in and vote for it unless you agree that you won't apply the contract sanctions to them. It's only a question of parity and fair dealing. And there we were outside the meeting room with the press waiting for an announcement of these marvelous standards, and the two business people suddenly say, "Wait a minute...." I wasn't ready to agree. Here's the point at which Bill Miller said, "Okay, I'll take upon myself to accept, to agree, to accept your terms." They went and they voted the standards. From then on, he never took it to the President, because I think that the President wanted to be tough; he wanted people to kick in public. So we sort of slithered around that.

Jones: You mean in this particular agreement? He never took it to the President?

Kahn: I believe that's right.

Lewis: Because it took away the only thin lever we had to turn.

Kahn: So I continued to use those threats. And they would come and want to see us, particularly the former head of the National Association of Manufacturers, who was outraged that I would talk about taking a contract away, or threaten anything in view of his understanding. We had meetings, and somehow or other we were always sidestepping this embarrassing concession by Bill Miller. I believe that the President never knew. I would have been unwilling to accept it. So the result is that we had only the vaguest sanctions. But nevertheless, when then the question came of tightening the sanctions and making them firmer, we realized that we just couldn't do it.

All the business members disclosed this understanding. I mean, what kind of a stinking, sinking ship to be trying to steer.

Mosher: How did Miller get authority to agree to this thing?

Kahn: He was the chief negotiator on behalf of the President for the national accord, which had political aspects to which I was not privy. You remember he was brought in as Secretary of the Treasury in the summer of 1979 with that holocaust, and I think that was his main mission. I don't speak from personal knowledge. I know only that he assumed the leadership in the negotiations with John Dunlop, and through John Dunlop with the leaders of business—the Business Round Table, people like Lane Kirkland and Tom Donahue of the AFL-CIO. He was the chief economic advisor to the President, whatever the word is, Secretary of the Treasury. And he just did it on the spot. I don't mean that I argued with Bill, he was the one who was putting this together. They asked me first; I said, "I can't do that."

Jones: Was the agreement ever in paper?

Kahn: Yes, there were some parts of the so-called accord that were published. Within a very short time the newspapers were asking us. Somehow they knew about the contract sanction, and there was a piece of paper that got out, which was John Dunlop's main points of the treaty, and that one said something. We accepted the language, that as long as the voluntary program was working we would not apply the sanctions.

Jones: So that when there were changes in the future, there was some paper that business could refer to?

Kahn: The fact is that I kept making those empty threats, because, in the case of Amerada Hess they were bidding on jet fuel contracts for the military, and the military was dying to award the contracts to Amerada Hess because there were certain kinds of jet fuel that were very scarce due to the characteristics of refinery facilities all over the world.

Well, there was always a reason why you couldn't apply the sanctions.

Rapp: But that was before the accord negotiations started though, on Amerada Hess.

Kahn: The Mobil one later.

Rapp: The Mobil and W.R. Grace, which occurred after the accords.

Kahn: Mobil and W.R. Grace were definitely after and Mobil also was involved in a jet fuel contract and W. R. Grace in a contract for synthetic fuels.

Rapp: A coal plant in Eastern Kentucky.

Kahn: Precisely.

Rapp: Two senators were heavily involved. Mr. [Charles] Duncan was also heavily committed.

Kahn: And W.R. Grace just stonewalled, just absolutely stonewalled.

Rapp: They absolutely rigidly refused to do anything, following the philosophy of their chief executive officer. You see why it wasn't a totally satisfying experience. Some of the early labor negotiations were, I think, significantly influenced by it. I think rubber was one.

Kahn: The first was the oil negotiations, and we did pretty well with the leading people in negotiating the oil agreement and petroleum workers. That was in something like January of 1979, it was the first test of the standards, and they held firm for us and what was accepted was a kind of compromise. Instead of a three-year contract, they put in a one-year contract with the allowable eight percent, with the understanding that it could be renegotiated in the second year, if the standard changed, to incorporate improvement in the standards. But in a sense it was a victory. Limited.

Rapp: You should maybe tell them a little bit about the sort of expressed agreements we had with the negotiating service.

Kahn: You mean the mediation people? I don't know if I'll be able to entirely because the mediators have a very strong professional feeling, which is quite understandable, that it is not their job to enforce standards. It is their job to bring the parties to agreement. At the same time there was an informal mechanism called the collective bargaining committee, on which I sat with Ray Marshall, Charlie Schultze, the usual, Landon Butler representing the White House, and the head of the National Mediation and Conciliation Board, and they agreed to try at least to explain the standards to the parties, and to keep in touch with us, at least informally so as to enable us to exert such pressure as we could. And I think they were helpful.

Sometimes they stretched it a little bit, such as the time when they told the Teamsters it would be OK—what the hell was it? Oh, that the standards did not apply to any concessions they'd made to workers who were no longer working, to fatten the retirement provisions. We were faced with a *fait accompli*. We were not aware of that concession; we came out in public, I think this was one of the times when I looked like an idiot, and said, "This contract is in compliance with the standards," and we found out that there was a tenth of a point or two-tenths of a point that I didn't know about that Wayne [Horvitz] had agreed to.

But that leads to my final point, that I think that even the Teamsters settlement, even with some stretching of definitions, was more modest than it would have been. If you compare, as we did, the settlement by the Teamsters, the automobile workers, the steel workers, and there was a fourth, rubber, with the corresponding settlements three years earlier, I think you will find that they were surprising. With inflation much higher, by any reasonable anticipation, the later ones would have been more costly, and yet in fact they were not. You can't generalize. Rubber was much worse; rubber was a terrible failure. But the others were in line with the contracts three years previously. I think there was some effect, that's all I can say, and it was helped of course by the difficulties of the steel industry.

We called together all the steel people. We were giving them trigger price protection, and I kept saying, "We're not going to give you this—" even though I couldn't really deliver on my threat—"if you're not going to hold the line on wages." We did it with the oil people, who could easily have gone way over the roof with their profits being so high, and the oil wage costs being so negligible a portion of total cost. Steel, even auto, there was some effort to bring it in, while of course taking advantage of every possible loophole in the standard to get the most generous possible settlement.

Young: I'm remembering the time President [John F.] Kennedy called up U.S. Steel, Roger Blough. Your operation was an improvement on that approach, was it?

Kahn: Well, I'm not sure. I'm not sure that there's anything that would take the place of what President [Lyndon B.] Johnson would do when he would call people in to the White House and say, "You're not leaving until we have an agreement." I mean, you're dealing with an appeal to public opinion. Really, if you're going to appeal to public opinion you should be using your most powerful appeal. I guess that's the President. We never really succeeded. The failure was

probably ours, because I think the President was eager to do it. But we never really succeeded in marshalling the power of the Presidency. Do you think that's fair?

Lewis: Well, I think that's true of the entire four years and virtually everything the Carter Presidency did in that context. I think it's fair.

Mosher: I don't understand what you mean by that.

Lewis: I think insofar as one of the important elements is to be able to appeal to public opinion, I think that the Carter Presidency wasn't often able to do that successfully.

Mosher: Was it because of the President or because of his staff, or what? Media?

Lewis: Maybe some of each. I don't blame the media.

Kahn: Many, many reasons. One is the fact that the country perhaps was not yet ready. But if you contrast the performance of Reagan on the budget, in dealing with Congress, with that of Carter, you have to concede that there was some deficiency in the Carter administration. The times, the different constituencies of the two parties, and the differences in the personalities of the two men.

Mosher: Fred, was part of the reluctance to call on the President to follow through on some of these because you didn't think he would be effective?

Kahn: Well, it's partly that and it's partly me. You have to be more like Bob Strauss than like me to be a good thug. I was quoted by Elizabeth Drew as saying, "Bob Strauss's idea of fighting inflation is to pick up the telephone and swear." I mean, he called—I was there, he picked up the phone to talk to the head of the steel industry and got out a string of curse words, "What the hell ya doing," good natured and so on. That's what was necessary; President Carter couldn't do that, I couldn't do that. I was reluctant to excoriate somebody until I was absolutely certain.

They wanted me to make threats to an independent refiner. I've written a 600-page book on the oil industry; I know that the returns of independent refineries, since they live on a margin where the prices at which they sell are much more flexible than the prices of the crude oil which they buy, that their margin is subject to wide fluctuations, and sometimes they have very good and other times they have terrible years. You go back to some of these independent refineries and look at the base period, '75-'76-'77, and say we're going to hold you to that profit standard, and if that was a year in which product prices were weak relative to the price of crude oil, then in '79-'80 it happens to be a year in which product prices were strong, and suddenly they are exceeding their standard by 5, 4, 3, 2 percent, and you say, no you've got to come back down.

Young: —to your worst year.

Kahn: —to your worst year. Well, I just refused. I said, "I'm not going to." They wanted me to call the President and plead with him or threaten something. I wasn't going to threaten them. It was absurd. Someone else might have felt that public benefit of a piece of public thuggery by the

President outweighed the injustice of the fine lack of discrimination that it took. I never could. We never could quite deliver to the President the raw material, but I think in addition he wasn't very good at communication.

Rapp: I think a lot of this kind of thing that we wanted to achieve with this kind of jawboning that Kennedy was good at and that Lyndon Johnson was good at, it has to come from the President. It has to be from a President who has the charisma to exert leadership of that kind, that is, the crystallizing leadership of a powerful person standing up, appearing to be powerful, by the way in which he delivers the point and the message, to command attention. I think that what Ron refers to is the four years of the Carter administration not really commanding that kind of public attention. People don't understand the technical problems like wage and prices; they don't understand, I don't think, at least when I try to explain it to them and what we will try to achieve with one or two sentences what John Kennedy achieved with Roger Blough.

Kahn: But in fairness to the President, you have to remind people that there wasn't a week that passed but what somebody from the White House didn't say, "For Christ's sake, why don't you deliver some names of violators."

Rapp: We did some when the President made the speech at the Mayflower; he mentioned them even though we didn't want him to. The President attended six meetings of industry that Fred referred to earlier and we tried to get press coverage on them, and the President got some coverage. I cannot explain to you why it didn't have a national attention-getting effect. I know it was in the *Washington Post*; I don't know how much coverage it got throughout the country, but I don't think it was very heavy. It's hard to explain the phenomenon of leadership.

Young: The fact, however, remains in all the cases you point to as a kind of an ideal situation in which the President has the charisma, the will and the operating style to knock heads together and, almost in public, to lock people up in a room. These are exceptional examples: they're not the usual examples of how these things are done.

Rapp: I also think that you can't do this more than once or twice before you begin to lose effectiveness.

Young: Kennedy was not ultimately successful. He won the battle and lost the war with steel; steel prices did go up. They said, in effect, screw you, and they got away with it. So one can easily, when you don't see that thing happening, one can easily overrate the long-term effect of trying to manage inflation by this device, by throwing around one's weight in this way, particularly when the President doesn't have all that much to begin with.

Young: Also I imagine one would have to be seen as a rather brutal figure, one willing to play hardball. I don't think that was Carter's operating style, "I'll get you if you don't do this for me now."

Jones: I'm impressed with the range of activities that you got involved in. In a way I suppose that you had a job that was about everything and it was natural enough since inflation is related to everything. I'm interested in how you got into various issues; did you have a free hand in

selecting what you worked on? Were there some that came to you? Were there some that were in the form of demands to get involved? How was that, how would that be structured?

Kahn: I wish I knew. Dennis may be able to answer it better than I. I never knew how things from one day to the next would come to me. The ones that arose out of the wage and price standards are fairly obvious. They were generated through the mechanism that gradually developed for identifying violators and sending them notices of possible or probable non-compliance and getting appeals, which eventually came to me. Some would come in the form of either memoranda or meetings among staff convened to develop legislative proposals; there were regular arrangements of this kind in the agriculture field. We would be informed that the question of acreage restrictions on feed grains for the next growing season was coming up, and there'd be meetings. Dennis often went to those along with Bill Boehm from the Council of Economic Advisors. There would be legislative proposals coming up automatically; there would be bills, these would be distributed and circulated for comment.

Young: About the legislative, it's a minor point but has some interest. With the review of proposed bills coming up, you presumably had the reason of inflationary effect.

Kahn: Yes.

Young: Wasn't there a procedure, a regular procedure?

Rapp: Yes, there is. There are some processes that work in the Executive Office that we cut into early. We knew those processes operated, and I tried and was successful in getting cut into the loop, as it's called. The decision-memo system: When the offices were there the decision-memos started flowing to Fred immediately, and of course there was nobody to analyze them, so we tried to work on them together, at the same time we went down in the fall of '78. Congress had adjourned, and enrollment of a great number of bills was facing us. We had no background on the bills, we hadn't been involved in working them through Congress or anything else, but we got involved in I believe about 50 enrollment messages in two weeks.

We would look at the bill very fast to find out whether there was anything inflationary in it, and if there was, whether we should take a shot at it, a paragraph or a sentence in an enrollment memo. We got into a few of those, but mostly we were just not able to get up to speed fast enough to really learn the background enough to make an intelligent comment on them. But we stayed in the loop for both agency-proposed legislation and for bills that were originated in Congress and then came down for comment. That is the legislative clearance process, as it's administered by OMB. I told the legislative clearance staff at OMB what categories of subject matter we were eventually interested in, so that we would get bills in those categories. You got looped in the last one, didn't you?

It was a very broad range of subjects, including bills that we were involved in trying to shape, like the trucking deregulation bill, which we were very heavily involved in building. Does that answer your question on looping?

Young: The original question, from which all of this was a little excursion, is: did you have a free hand? How did your agenda, the agenda of the inflation advisor, get formed?

Rapp: We decided to frame, to pick certain subjects, certain broad subjects on which we would concentrate, as we said earlier. We related them to major areas of CPI change: food, housing, energy, health care. That framework came from some of our own ideas first, but it was so crystallized by a group that formed on the outside that was called COIN. It was an interest group that was put together. I don't know if it was because of the inflation that was occurring. I think it really was. I can't remember the name of it.

Kahn: Consumers Opposed to Inflation in the Necessities. They were led by Gar Alperovitz.

Rapp: I can't remember what the institute was that he formed.

Kahn: Well, he has a group called the Center for Economic Alternatives or something like that. It's a labor-supported consumer group, and somewhat left wing.

Rapp: We met with that a few times, and with groups that would write in to suggest specific program areas in those four categories that we should work on. And eventually that came to be a written down list of specific things. That wasn't all we worked on, but it was the core list. That's where the list came from.

Kahn: Right, now let me just follow up on that source. We're trying to identify the different sources. Out of that came meetings, sometimes with proposals first going to the Economic Policy Group, sometimes by the organization of an advisory group that I constituted. I referred to an interagency advisory group in each of these four areas. But out of those deliberations came rather formal meetings with the affected department. We had one major meeting with Bob Bergland and all his people; we sent them lists, we solicited suggestions from them about areas in which agriculture could help us take the initiative to show that we were trying to do something about food prices. We had a long meeting with Bergland and an exchange of papers about whether anything might be done about reconstituted milk, what we would do about tomatoes, and so on. Similarly we had a meeting over at HUD.

Rapp: With Pat Harris, just before she left.

Kahn: Right, she was just leaving and Moon Landrieu was walking through, but we met with the various undersecretary types.

Rapp: Well, the Undersecretary of HUD was our main help.

Kahn: That's right.

Young: Was this Larry Savin?

Rapp: No. The fellow who went on to become chairman of the Home Loan Bank Board, Jay Janis.

Kahn: Yes. Yes. We didn't have such a meeting with the HEW [Health, Education, and Welfare] people on health.

Rapp: Because of the gap. Joe Califano left and there was nobody there for a while, and Harris went over there. But we never got a clear agreement with them, although we got involved in a lot of their subjects.

Kahn: Well, there we moved because we had somebody on our staff who was very much interested in health costs, and had me meet with the business groups in Washington who were interested in seeing what businesses could do to hold down this bill that was estimated to be sixty-three billion dollars in 1980 in terms of the business costs of health plans. Also, we consulted outside people when we called in seminars with health professionals; the executive director of the Maryland Cost Containment Commission—

Rapp: Hal Cohen.

Kahn: That was Hal Cohen. And Walt McClure. In any case, leading professionals. I would depend upon them for the generation of ideas.

Young: It also looks like constituency—

Kahn: It was an attempt at constituency building. One constituency called us at the beginning of my term—the heads of various consumer groups.

Esther Peterson had me meet with them, with Ralph Nader, with all the consumer people. There are other pieces of the agenda that would come to us from outside interventions. Some of the people associated with the refining part of the sugar industry wanted to hold down the price of sugar. They came and urged us to give our attention to the emerging sugar debate. Can you think of other such cases? There were many.

Rapp: When we started on the anti-dumping suit for the Florida growers. You sent me a news clipping of a speech that that Congressman from Wisconsin made in Wisconsin about dumping.

Henry Reuss made a speech about the stones. You called them stones.

Kahn: I was the first one—I referred to the tomatoes that we get in the winter as the small green stones that can be picked with a machine.

Rapp: Just a quick run, I say do something about this. So I started digging into it to find out what this anti-dumping suit was about.

Kahn: How we got into that one—

Rapp: That's the way that one got on our agenda. Davis-Bacon came from a group of analysts on Charlie's Council of Economic Advisors staff. We had a person on COWPS who was a labor

economist and had been doing things for years trying to look at the inflationary effects of the way in which prevailing wage rates were set by the Labor Department in its surveys and the inflationary effect. We had some allies in OMB on this because they have had big implications upon budget costs. So we got into Davis-Bacon in that way, another good story on how we got killed on it, but that's a long story.

Kahn: The Service Contract Act was part of that.

Rapp: SCA was also a part of that.

Kahn: Some of those verge over into another source, which is the Economic Policy Group, the EPG. We talked about Davis-Bacon, we called Ray Marshall, we got his agreement to undertake a study, and to make some changes. It was through that group that Charlie and I were the principal movers in getting Ray to withdraw a proposed regulation that would have increased very sharply the minimum wage necessary for exemption from the provisions of the Fair Labor Standards Act as an executive. That is to say, the people who run McDonald's hamburgers, the managers, get very low hourly wages, and do not get time and a half for overtime. So in order to avoid evasion of the Fair Labor Standards Act, there is a minimum pay that you have to get per hour in order to qualify as a manager, and Ray suddenly wanted to increase that minimum very sharply. Charlie and I caught it, and said, "We're going to take it to the President if you try to do this," and so Ray pulled it back.

Jones: That seemed to be a two way street. You were bringing notions there and—

Kahn: —and conversely. The final group that I know about, I'm sorry, was the Energy Policy Group.

Rapp: It was formed by Duncan after he took over the Secretaryship from Schlesinger.

Kahn: That's right, which is a very high-level group. I remember as a matter of fact that he didn't want to put me on at first, and I had to go to the President. That was one that I took to the President. I said, "I can't conduct inflation policy unless I'm on the Energy Policy Group."

Rapp: Duncan did not want him on it.

Kahn: I don't quite know why. I think it may have been that Duncan felt he would have had to put a lot of other people on if he appointed me.

Rapp: He wanted to keep it small, for one thing.

Kahn: But in any case, then, all energy policy issues were cleared through that group, and obviously we were constantly faced with deregulation of crude oil and deregulation of gasoline attitude. Oh, we had a lot to do. We were involved on the coal back-out bill, the bill to make dollars available to utilities to enable them to convert oil plants to coal. Millions of those came from that channel.

Lewis: There were very specific issues. We had them beefed up. A group of people whose job it was to read the Federal Register and also to talk with the regulatory agencies and find out what issues were coming through had to decide which ones we wanted to be involved in. That led to a lot of intervention and discussions.

Kahn: Was that RARG itself?

Lewis: To the extent that COWPS was the staff for RARG, sure. These were people on the COWPS payroll. Their job was to monitor the regulatory agencies to see what was in the pipes.

Ultimately the regulatory council did a surprisingly sophisticated job in a short time in publishing a regulatory calendar, so the public could do the same thing.

Kahn: From what source did the, let's say the nitrite problem, come? I remember us sitting around the table discussing it.

Lewis: Well, that was driven in the form of a legislative proposal, because the clause prohibits the FDA [Food and Drug Administration] from approving as a food additive any known carcinogen, no matter what gradation or degree of carcinogenicity. There is now underway at FDA the final stages of a scientific review of something called an interim study and it looks as though it will conclude that nitrites as added to bacon as a preservative were carcinogens, but having been advised by their lawyers that if the study did conclude that, they would be forced immediately to prohibit nitrites from being added to bacon—

Jones: —and set off a wave of botulism in the country.

Lewis: It was known that that would cause a health risk and a political storm. FDA and HEW drafted some legislation to have a limited, unnecessarily limited, we thought, waiver while alternatives were being developed, and so we got into the process of drafting that legislation. Ultimately it turned out that review of the Newbern study. It was disclosed that it hadn't been a good study, and so there wasn't the risk they'd put forward.

Rapp: Our interest, by the way, was both in regulatory reform and the effect that that decision would have on the price of pork.

Lewis: This is, of course, a huge area that you will want to go at in some organized way, monitoring the regulatory area, both the COWPS program and the RARG program, and Fred's group.

Rapp: That started when we got there, but it dropped away after that when the deputies formed a much more systematic approach to the RARG operation.

Kahn: Well, as I say, that's something that's a whole separate subject.

Mosher: May I pursue this subject, just one more question. Was there any initiative apart from enrolling legislation from any part of Congress or any Congressional agencies such as GAO [General Accounting Office]? To initiate your interest in—

Kahn: I'm sure there were instances.

Rapp: I'm trying to recall some of the GAO reports that I finally reviewed.

Lewis: They were involved in a highway cost—

Kahn: Oh, I just put that on my list, that's right.

Lewis: But I'm not sure they prompted us to do it; because of their involvement we needed to deal with them to get their agreement.

Kahn: But that one came to us somehow through COWPS. DOT [Department of Transportation] was going to do a highway cost allocation study, which seemed set up in such a way as systematically to eliminate the possibility of finding that trucks were really causing all the costs that they really were causing. I got involved because apparently our interventions through COWPS had been ineffective and the final plan for the study clearly was biased on the truckers' side. I called Sam Gibbons who was the Congressman in charge of something, I don't know what, in the House, but he was the pertinent one. I enlisted his support, and then I called the fellow who took over as Secretary of Transportation after Brock Adams, who then became secretary of the Navy or something.

Rapp: He'd been Undersecretary.

Kahn: Graham Claytor. I called him directly and said, "This is going to be a lousy study, and here are the reasons." Somehow we got that study changed. Now, I'm giving you only one tiny instance, but it was important, because it was related to the whole issue of user charges.

Lewis: GAO did one or two studies on the regulatory interventions at the request of one or two Congressmen, who were nervous about executive branch meddling in the regulatory process. We talked to the GAO people, and the studies never amounted to anything. Other than that I can't think of any GAO involvement.

Kahn: But his question is broader; were there any instances of things getting on our agenda that were brought to our attention by other interested agencies?

Mosher: I don't see whether, for example, whether you got the items that you got from Congressional committees or their staffs. Congressional agencies, such as GAO, CRS [Congressional Research Service], or—

Rapp: Well, Congressmen would write to us or call all the time, saying you ought to do something about this and that, and every other government agency did. We'd look into it.

Kahn: Yes, I'm trying to think of more instances.

Rapp: There weren't any. Congress chose to try to stay away from trying to do anything about inflation because of the political costs.

Kahn: The Congressmen were perfectly happy to complain to us and say, "You ought to do something, why don't you look into oil profits, and refinery margins." I know something came to us from Charlie Vanik about which he was right.

Rapp: Vanik was on sugar, very heavily.

Kahn: Yes, he got us interested in sugar, someone else got me to write a letter to Congress about the inapplicability of anti-dumping to perishable agricultural commodities; we wrote a very good letter.

Rapp: That was our own direct—Oh, I know who that was, he became a judge—Abner Mikva.

Young: In other words, one set of your priorities in terms of special areas in which the work was derivative from the components of the CPI.

Kahn: That's right, at our initiative.

Young: At your initiative; you had other business generated from various sources out of COWPS, out of EPG, out of these other sources, and that in rough is how your agenda was formed.

Kahn: There were industry remonstrances of various kinds that we could use as another source.

Rapp: Heavy regulatory, any on the regulatory side from the industry.

Jones: I made the list that you began to go over, on outside groups. The loop for legislative proposals, whether from within the administration or from Congress, were queries about Congressionally initiated legislation, the enrolled bill memos, unsystematic contacts. I have down here coordinating groups like EPG, two EPGs, the Energy Policy Group, and inside mechanisms, review of the Federal Register and that kind of thing. That still amounts to an awful lot of possibilities, and suggests still the need for some kind of mechanism within your head or within your office to decide what you are going to work on, with all of these sources.

Kahn: How were choices made? On the basis of availability of resources, meaning either did we have anybody who might be able to work on it? Or whom could we dragoon?

Lewis: One of the groups that we didn't mention that was an organized trade group, on the same principles.

Kahn: International Trade Policy Group.

Lewis: On that one you made a conscious decision that unless something was of unusual importance, we weren't going to step in. So we would see papers coming through on should or shouldn't the President approve a modified tariff on something. Someone would skim the papers and that was about it. Once in a while there would be something important and then we would plug back in and get on with the papers.

Rapp: We did pick up a few items.

Kahn: Sure.

Lewis: We picked 'em up, we watched it, but in the back of our minds was a decision that we wouldn't be heavily involved in that area.

Kahn: Yes, incidentally, on other government agencies, which was my question, not yours, Charlie Schultze would call me and say, "Fred, this has come to my attention and is there something you can do about it?" Just as there would be times when I would call Charlie and say, "This has come to my attention. You have somebody you could have look into it?" Or "Can we both get together on the issue?"

Lewis: Cecil Andrus sent you a copy of that wonderful letter in response to an employee of the Interior Department.

Kahn: Well, it had to do with the rents, and the compliance with the standards. They'd suddenly doubled the rents charged by the Department of Interior, and some employee complained and Andrus just crossed it out and said, "Rescind this increase; it violates the standards."

Lewis: And he sent it to us, not to show where his heart was but we could carry through with OMB to make sure that this became government policy.

Kahn: Except that we couldn't.

Young: I'm interested in your coalition or your constituency building for support on inflation control, which is what I heard you describing as a process that I would interpret that way. Did you see the need to do this right in the beginning, or did it come to you that this was a necessary effort to proceed effectively?

Kahn: I think it was a growing recognition. I think it came in a certain way to be exaggerated in importance; this conception that fighting inflation was something that had to enlist everybody. My own eclectic explanation of inflation is that you can't simply entrust it to the Chairman of the Federal Reserve Board. Milton Friedman lives in a much easier world than I do. There was a recognition that every time you tried to do something, you would have trouble. I once said the measure of my success would be the number of people who hated me, because fighting inflation means squeezing somebody. I had this growing feeling that you had to develop an interest grouping of the whole, and I developed that in various speeches. I went out and talked to the Consumer Federation groups; I went out and talked to retired people groups, very often with this theme of the fight against inflation being a series of small battles, each of them a very tiny

fraction of the CPI but adding up to a whole. I don't really feel that's entirely correct intellectually, but it seemed to be a useful approach.

Young: But basically your orientation was toward starting with consumer—

Rapp: It was a convenient device. It was a lively group to work with and it was a convenient device. They had it organized and came to you. They suggested that we work together in trying to work on some things. The trouble was that it fell apart. The reason it fell apart is because they wanted to put policies in place that were inflationary, or which, I don't know if that's fair to describe them all that way, but which really were such distortions of policy that they weren't really creating cost effectiveness in some of the public programs. They were back to some of the original approaches to constructing public policy that came out of the liberal wing of the Democratic tradition. I'm trying to remember specifics in housing, which ultimately just created such an impasse with them that we had to drop the association because we couldn't come into agreement. You remember that, Fred?

Kahn: Yes, they wanted us to have major programs of subsidization of housing, expansion of housing programs. They insisted that we fight to the death decontrol of crude oil.

Rapp: That's when we totally lost all congeniality with their energy subcommittee, which they formed to work with us.

Young: So what you found is that having started out one way, you ended up being expected to be the advocate for some of the interests like subsidized housing.

Rapp: I don't think that we could have ever really formed a constituency that would have supported efforts to bring inflation under control, because it would hurt everyone. That soon became apparent.

Young: You have some company in history, you know. When FDR [Franklin Delano Roosevelt] put in the NRA [National Recovery Administration], he got concerned about what effect this would have on consumer prices, so he established a consumer advisor and gave the consumer advisor a charter to organize consumers throughout the country, and announced this person as the man who would review all policy affecting consumer prices.

Rapp: Sounds vaguely—

Kahn: —vaguely familiar and it disappeared.

Rapp: Who was the person?

Young: It first started out being ... it lasted about two years.

Kahn: That seems to be par for the course.

Rapp: Ours lasted about—

Kahn: Two years.

Rapp: Well, now, I think that the alliance with the COIN fell apart in about 12 or 13 months.

Kahn: Actually they invited me to speak at their annual conference, you know, there must have been a thousand people there.

Rapp: Just recently?

Kahn: No, no, no. At the time, originally, and I kind of lit into them in a way and said, “Basically your hypothesis is wrong.” Their hypothesis was that inflation was somehow inherently worse in the necessities than in the luxuries. It’s really wrong. And that inflation is harder on poor people. That’s really wrong too. But at the same time, I said there are many areas in which we can be helpful to one another, and in point of fact, until this day on an ad hoc basis, I have had support and continued their support. Yesterday I met Ralph Nader on the street and, on that issue.

Young: He said I’m still supporting you?

Kahn: No, but we talked sympathetically about the proposed legislation on the transcontinental pipeline. I don’t think it was ever a case of a formal rupture. It was simply that in many of the cases, it fell apart.

Young: What about within the government itself, whom did you feel, if anybody, was most supportive and helpful in the things you needed to do, within the White House or in Congress or elsewhere? Did you have allies, did you seek allies, or was it entirely ad hoc on this issue or that issue, or did you feel the need for that?

Lewis: I think it varied from issue to issue; Charlie Schultze was a natural ally on inflation issues, and to some extent that was also true of OMB.

Kahn: At times it was Jim McIntyre.

Lewis: But I think the Carter White House was run by what one of the people there has described as the gladiatorial school of decision-making, where everybody had the same mandate. You’d throw them all into the same arena and see what emerged, and so on every issue there would be shifting coalitions. I don’t think there were particularly natural constituencies. Over time you tend to see the same people or agencies lining up on the same kinds of sides of issues, but not necessarily so.

Kahn: There was no reason why Charlie Schultze, the CEA, and we should ever, however, be in conflict I don’t mean that we always agreed, but we had the same mission, the same orientation.

Rapp: In terms of the agencies, policies and programming responsibilities, in the nine agencies of the government, on specific program areas and issues that we tried to tackle, I think we never

really had any allies. We had friendly cooperation, more friendly cooperation from some, although they were always guarded because everything we were trying to do with the programs we picked on were programs that were antithetical to their interest groups, interest groups for whom they administered those programs.

Kahn: We were natural enemies more easily than natural allies. Congress and Labor were our natural enemies.

Lewis: Always, yes. In regulatory reform it tended to be the entire White House against whatever Cabinet agency or agencies were involved, though not always.

Kettl: Our impression of the way in which regulatory interventions worked is that for the most part, the kinds of things that you did were along the lines of the internal jawboning. The preparation of reports, some of which are really fine brief short pieces of economic analysis, try to convince people, for example, why making the New York subways system accessible to the handicapped is a bad idea. I saw the report, I think the figures were ten billion dollars or something.

Kahn: That, by the way, would be added to my list of successes, that's one in which I was actively involved—finding ways of making public transportation accessible to the handicapped without having to dig up every subway station in New York City.

Kettl: And there were a whole series of these reports that came out, in which a lot of the RARG and COWPS work on regulatory interventions worked. I was wondering if we could talk a little bit about that process. How questions got chosen, along the lines of the agenda question that Chuck asked, how the work was done, where allies within the White House and where the President came from. Particularly since regulatory intervention, regulatory reform was clearly one of your most important interests, and was one of the President's key items of domestic policy, and rather than talk about a large number of these items, I was wondering if we might focus on one or two. I was thinking either along the lines of the Section 504 Handicapped Regulations that we have just mentioned, or perhaps the reform of trucking regulations.

Lewis: There are really two aspects of the regulatory reform program; one of them, perhaps both of them would be decent examples without taking a lot of time, but the legislative program was a lot different from the program of specific regulatory interventions.

Young: Can I ask you just to clarify one thing? Had the basic machinery and procedures for central review of proposed regulations been established when you came into the White House?

Lewis: No, they were still in the formative stage. The President had made the decision he wanted some kind of review, RARG had been set up. But everyone was fishing around; nobody really quite knew how to do it.

Young: The idea was that there would be a central review.

Lewis: Yes, the idea was there. It's just that it was in such an early stage of its evolution that we were there close enough to the beginning to affect it.

Lewis: That must have antedated me.

Rapp: Oh, yes. You worked on the early stage.

Young: I would like to hear about it in the context of any specific case or different cases that illustrated different things that you might choose to talk about, about what your role was. Walk us through one.

Lewis: Let's walk you through one of each kind, one of the regulatory interventions and one of the legislative projects, all of which differed in some aspects.

Young: Regulatory intervention; just for the record, tell us what you mean.

Lewis: By that I mean actions or discussions, or both, by an EOP [Executive Office of the President] agency with regulatory agency people. You called it jawboning, and that's not inaccurate, though behind it all was the ultimate authority of the President in the case of the non-independent agencies to direct the decision if he wanted to do so.

Kahn: And that goes on today.

Lewis: Even more formally, though also more politically and I think in a more haphazard way.

Kahn: Another reason that jawboning is misleading is that in dealing with independent regulatory agencies, these were formal interventions. I mean, when I was chairman of the CAB, COWPS would file briefs, they would propose arguments, and they were part of the regular process.

Lewis: Taking an intervention, the process that evolved was that the COWPS staff would identify what was going on in the agencies by reading the Federal Register, by keeping in touch with a lot of people at the agencies; several times a year I would organize meetings with the key regulatory agencies at which they would understand that we were going to discuss with them what was going on. And we would try to invite people whom we thought were congenial to regulatory reform to tell us what was going on.

Mosher: You mean one by one or whole groups of them?

Lewis: Well, no, one agency. We would usually invite several people from EPA to come over and say, "Okay, what are you doing for the next six months? How far along are you on your agenda? Six months ago you said these and these were the big ones, and these were the problems with them, when are you going to do a notice of proposed rule making, and what do you think about it?" We'd get information; intelligence gathering was step one.

Kahn: Ron is describing a process that our office participated in, after our office came into being. But COWPS had intervention programs before.

Lewis: Briefly for now, COWPS had had people to read the Federal Register; they didn't quite do it with diligence I think, so that some of the filings were very good before and they tended not to call the agency people in for periodic review. So I think it's fair to say we beefed that up a bit.

Kahn: Because we had some prestige and authority, I suppose. We were closer to the President.

Lewis: And we were dealing with a group of people at COWPS who were very good. This was the heart of the old COWPS when that was almost their only important job, and they'd recruited very well. Fred's office relations with those people were, after some brief periods of initial jockeying, very good. And that worked out well, I think. So they would identify the issues. Then I would look at them, and sometimes Fred, and an informal group of other deputies within the EOP who were interested in regulatory things: Si Lazarus and of course Stu Eizenstat and OMB, George Eads at the CEA, and on occasion when there were scientific issues, Gil Omenn usually, from the Science Advisors' office.

I'd circulate a list of issues that were coming up that after an initial cut looked important, and would meet periodically with the deputies. I'd just circulate a list and say here are the ones that look important. The most important ones that would be identified for formal filings would be categorized as RARG files. There was a process then that invested those files with extra review that George Eads would generally be in charge of. It was a practical matter; we all felt the same way about regulatory reform. As a practical matter, whoever wanted to take the lead on a particular issue and had the time would do it. Somebody would say, "Well, I'll take that," and that person would then within the White House have the responsibility, but also the responsibility to let everybody else know what was going on, so that the agency would only have to deal with one person. It may well have been confusing to the agencies, because on the next issue involving that agency, they might be dealing with a totally different person who on the organizational charts worked somewhere else in EOP. But it worked fine for us; that's the way we did it.

Kahn: Bill Nordhaus preceded George Eads, I assume.

Young: At this early stage were cost benefit analyses required?

Lewis: Not formally, well, not formal. There was already in place a Presidential executive order, under which all of this operated, requiring agencies, to the extent that statutes permitted, to analyze costs and not to choose the least expensive alternative, necessarily, consistent with their goals, but to explain if they didn't, why they weren't cost effective.

Young: There was no requirement of cost benefit, I take it.

Lewis: No. But it was only the authority of that executive order and the agencies, after a period of initial struggle and distrust, in some cases recognized that this was what the President wanted and came in most cases to acknowledge the legitimacy of the process. The philosophical

justification, I think, was simply that the President's relation to the agency head was such that if he wanted to make that decision, he could make it. This is informal rule making.

If it wasn't a RARG filing then COWPS would do the filing. But in almost every case we wanted something on the record, even though it was an informal ruling. So the next step was to prepare a draft and circulate a draft to anyone who wanted to see it in the EOP, of what it was we were going to be saying. It was from the COWPS files, because by definition they weren't quite as high visibility. We generally wouldn't circulate drafts outside COWPS, but if any of these other people wanted to see them, they were perfectly welcome to. Some of the scientists in particular helped a great deal, and some of the CEA staff, who by and large were even higher quality than the average member of the COWPS staff. Sometimes CEA staff would write a COWPS filing. That was step two. We'd file with the agency.

Young: You picked out ones for special attention. These were ones involving large costs or large principles?

Lewis: Both. The executive order in fact set certain ground rules for intervention.

Kahn: All such analyses had to be made on major—

Kettl: And there was a dollar threshold.

Lewis: And sometimes what we'd do instead of making a filing would be to send them a letter and say, "You've come out with the proposal. The executive order calls for you to have issued a regulatory analysis, and you haven't done it so we'd like you to come out with one." OMB was supposed to be enforcing that part of it, and one of OMB's weaknesses at the time was they didn't do it enough. But they came to toward the end; they got a little better toward the end about that. So we did it sometimes.

Rapp: And sometimes we had to tell them how a regulatory reform worked. They too were supposed to ride herd on the economic issues.

Lewis: The Regulatory Council evolved as the regulators' response to Executive Office oversight. There was great nervousness among the agency people about what it was we were going to do; we were really breaking new ground. To some extent in response to the nervousness, we set up the heads of all the regulatory agencies as a Regulatory Council. And initially I think the agency heads used that as a counter to EOP oversight. What happened was, as bureaucracies will, it took on a life of its own. We stacked the deck by putting in a very good staff director, a guy named Peter Petkas who believed in regulatory reform; made Doug Costle the first chairman. The mandate was that what the President wanted was reform.

Suddenly after about six months, they began doing the most wonderful things: they'd push recalcitrant member agencies toward more reform-minded positions, and it was very helpful. They could do it in a way that the EOP couldn't without a lot of unnecessary breakage. For example, on the scientific policy of how to identify a carcinogen, the Labor Department had been light years behind EPA, which was rather progressive, and the Regulatory Council did a joint

scientific paper on identifying carcinogens so that there wouldn't be different agencies doing it differently, and really pulled labor along, in a way that we would have had a hard time doing. They came out with the regulatory calendar, which essentially is like the Federal Register; it's such a good idea that you wonder why it had never been done before. That forces the agencies to publish—

Jones: That's because the agencies didn't want to announce?

Lewis: —to publish what they're thinking about; the public has to come in and talk to them before they're locked in to all these formal procedures. That's been very helpful.

Mosher: You said "we" set up the Regulatory Council. Who is "we"?

Lewis: I guess basically the principals of these deputies urged the President to do it, is my recollection.

Mosher: The President, then.

Lewis: Oh sure, the President set it up. Forgive me for using the imperious White House "we."

Kahn: No, I think in fact the actual constitution of the Regulatory Council either antedated my coming in or it was just about coincident with it.

Rapp: It just occurred I think a month or two before.

Lewis: But the staffing and the—

Rapp: —and the development of it; I remember a meeting with them, my first assignment was with the Regulatory Council.

Young: Could you take us through the rest of the process. Here is how you got involved, now, if you could give us an example.

Lewis: That's where it used to rest. What COWPS did before this position was created was to make the filing and then turn to something else, and the agency took it into account or didn't take it into account and often didn't take it into account. Again, operating on the executive order, after the filing went in, we felt free to call the agency, the agency head, or more typically one of the assistant secretaries or assistant administrators and say, "What are you going to do? We'd really like you to take this thing seriously." There would ensue a process of discussion, always under the mandate that if you do something that's so far off from what we think you ought to do, that we really dispute it, we'll take it to the President.

Kettl: And press releases, also, from time to time, weren't there?

Lewis: No.

Kettl: Only with the filings?

Lewis: No, we did this very quietly, because part of the process was that we believed that the initial stages probably had to work in a confrontational way. The only hope for the future, the long term future of regulatory reform, was to build into the agencies the capability and desire to do it themselves, so part of the policy was that every time we got an agency to do something that we wanted, the agency would take the credit for it. There wouldn't be any credit or even acknowledgement that the White House had done this.

Kettl: Can we take an example of one intervention in which you were heavily involved, maybe trucking deregulation?

Lewis: Let's take trucking deregulation separately because that's legislative.

Rapp: You've got the handicapped, you've got ozone, the bubble policy.

Kahn: Bubble was a good one.

Kettl: Could you pick one of those and track it through from the beginning so that we can get a better picture of how this worked in practice.

Lewis: Sure. I can take the New Source performance standards. I may miss some steps. This was a potentially very expensive set of regulations on what kinds of controls coal-fired generating plants would need to install; there was science involved; there were legal questions of the extent to which costs could be considered; there were policy decisions involving energy issues and environmental issues. RARG, I think it was, not COWPS, filed suggestions of ways of meeting the statutory EPA goals at the lowest cost. After that filing, we had the utility industry and coal industry. The Energy Department was very interested in this one. This was probably the most expensive of the EPA regulatory proposals in 1980, I guess.

There followed a lot of discussions; the EPA staff would talk to the EPA assistant administrators as the thing went forward to decision. We knew at every stage where they were procedurally, and pretty much we knew where the options were substantively. And the EPA by then was a divided agency, because they had set up their own policy office with people who were more reform minded. The policy people had one proposal and the enforcement people had another proposal, the clean air office and the general council's office. You know how agencies work. But we kept track of all those as it was moving forward, and ultimately the options were narrowed to two or three, one of which was significantly less expensive than others, and the EPA people briefed us. EPA was very good about the procedural niceties of not trying to slip through a decision before we'd been fully satisfied that we'd had a shot.

Kettl: And your shot came not only in keeping track of what they were doing, but also performing analysis on your own about an independent guestimate of what costs would be.

Lewis: Oh, yes! Our economists and engineers and to some extent writers were looking this over too all along, and discussing it all the time with EPA.

Kettl: What did the filing look like in this case?

Lewis: A policy and economic document suggesting ways in which the statutory mandate could be met at minimal cost.

Kettl: Was there any Presidential involvement and at what stage?

Lewis: There'd been Presidential involvement once in this New Source performance standard, up until this stage. Every time the principals or deputies would identify a list of the most important things over the next six months or so; we would send a memo to the President saying, "These are the regulatory issues that we have been moving through the agencies. We would like your approval to discuss them with the agencies when they come up, and we hope we won't have to bring them to you, but on the understanding that we might want to, do you approve?" "Yes, I approve." Then the agencies all knew that we were operating under express authority. Well, I think there may also have been a catchall phrase in the memos—"and such others of comparable importance as may arise"—but we pretty much didn't use that much. We knew the ones that were going to be big in the New Source performance standards.

Young: At what stage did a member go in to the President? You said he'd check off, he was given one box, not five if there were five issues.

Lewis: He was given one box: Approve/Disapprove/See me. It was a unanimous memo from Fred, Stu Eizenstat, Charlie Schultze, Jim McIntyre, and Frank Press.

Young: Was there any briefing of the President on the issues or did he require any at this time?

Lewis: Not at this time.

Young: Just identification.

Lewis: Right. The next step normally on this was not true in resource performance standards. Take handicapped, which went through the same process, different Cabinet, different people involved, the very same process, except on that one it was earlier and we had to jar them a little bit about their responsibilities to cooperate with us and give us information. Some of the old-time people and their lawyers felt there was something wrong with this. We had looked into it and asked the Justice Department to look into it enough to know that if we took the issue to court we'd win. So we never backed down from our legal right to be involved in informal rule making under the blessing of the President's having said, "Okay, do it." On handicapped, it ended at that point; the _____ came over and said, "Here's our proposal." We sat down with it and said, "It's pretty good. It's a lot better than your original proposal, and it does respond to our filing, but let us make it still better in these three or four ways," and they did.

Kahn: I was involved in that?

Lewis: You sure were, yes.

Kahn: I'm not even sure at what stage, but at somebody's initiative, I had Brock Adams over in the office and, I've forgotten the name of the young woman who—

Lewis: It was, ah, Linda Kamm, the general counsel.

Kahn: There was somebody from our place, Diane somebody. At that time, they had come in with the one, I think it was still the one that they required retrofitting in every subway station.

Lewis: You may be right.

Kahn: And Brock Adams said his hands were tied, because Joe Califano, in interpreting the pertinent act, the enabling act for the disabled, had interpreted equality of access to public transportation as requiring equality of access to every mode of public transportation, taxis and jitneys could not be substituted for subways. So, every station. We had these various estimates of the horrendous costs of doing so—imagine New York City. You'd have to install elevators and that means guards on the elevators with guns *[laughter]*. So, I don't know how we persuaded Brock, at what stage or how, to go back and try to confine it to the nodes, the main exchange places.

Lewis: I think it was the position that in that case, your calling him over to ask him to think it over another time was sufficient to get him to ask the consumer counsel to please think about it another time.

Kahn: So they came back with maybe 50 percent of the stations instead of 100 percent.

Lewis: Even though we have to do it with every mode, we don't have to do it with every station. Well, that was a breakthrough. They came back with a 50-percent proposal, and we whittled them down to a 40-percent or whatever.

Kahn: Something like that. Of course Reagan has eliminated that entirely.

Lewis: Well, he took on the Califano decision, which by then had been a final decision, and in order for us to try to bust that open, this was too difficult at the time.

Mosher: How has he changed it?

Lewis: How has Reagan changed it? It wasn't easy for Reagan to simply propose a withdrawal of the regulation, but Carter could do that. It was something done before we were there, a few months after it was done, it was just not within our mandate.

Kettl: He just pulled the program, he just jerked it. He hasn't put the new regs in, and I expect the new ones are going to be just as expensive as the old ones.

Lewis: To finish answering your question on Presidential involvement, on a case like that, which was the standard case, the principals would then send a joint memo, Fred and Charlie and Stu,

usually, sometimes McIntyre was on it, sometimes not, sometimes Frank Press was, sometimes not. But virtually always those three would send a memo saying, "On Monday, Sec. Adams intends to announce the 504 handicapped regulations; these have been subject to Rand review and our review, and here's where it came out; on balance we think this part is okay," and blah blah blah."

Kettl: Memos to the President?

Lewis: To the President, short ones, just to inform him that something of importance in the regulatory area was about to occur. He wanted to be informed.

Young: Were you ever subject to, or did you invite, constituency responses from the affected people, or did you do it yourself?

Lewis: No, we didn't invite them, because of the regulatory record, even though it's an informal rule making, and after some legal review, we decided that we wouldn't refuse to talk to people who came in, if we thought they had something important to say, but we would make clear to them that any factual material that they had belonged with the agency and they had an obligation to send it to the agency, and also that to be sure it got there we were going to send to the agency in a public letter any factual material that they presented to us. But what we didn't send, and what the environmental groups and some of the agencies didn't like, was a précis or transcript of the actual policy discussion we had. We always refused to do that. We did try to draw the line between facts and policy, which was hard.

Mosher: After you sent this memorandum to the President, what did he do?

Lewis: It wasn't an action memorandum, it simply informed him before the event that something was about to happen. Normally, we were satisfied with what was about to happen. And he would send it back. He had various ways of acknowledging that he had read something, and he would write a little comment sometimes and send books by, or simply put a check to show that he'd read it, and Adams would come out with his decision.

Lewis: He never intervened. Well, let me get to New Source performance standards. He never intervened after getting a unanimous memo from his principal White House regulatory advisors saying, "It's okay." He didn't go looking for trouble. On New Source performance standards, it was the agency that wanted to see him. Doug Costle wanted the President to make the decision there. He really did prefer the President to make the decision. The fact that Costle asked for the meeting made us nervous, and our response was to advise the President, "Hey, this is a very important issue, but don't please let Doug put you in the position of making a decision when we don't know, and you don't know, precisely whether it'll be necessary for you to make the decision. Treat it as a meeting to get information on an important issue." Just as the deputies would tend to designate a lead on an issue, when it finally got up to the secretarial level, usually the principals would informally end up designating a lead: on handicapped, it was Fred. It was always somehow or other. On New Source performance standards, it probably was Stu Eizenstat but Charlie Schultze was also involved.

Kahn: I was in some meeting in which Doug Costle explained his new dry scrubbing discovery, isn't that right? [*Laughter*]. That was in quotes, but anyway that was the decision in which it seems to me I was involved in finally saying, "Well, this is probably the best we can do."

Kahn: I remember some very serious meetings of Charlie, me, and Frank Press. I don't think Stu was involved.

Rapp: Ozone went to the President?

Kahn: No, we finally did not go to the President. We met first. Frank reviewed the experimental evidence, and that's when Costle proposed to go from .08 to .12. We felt that even .12 was too stringent. We went then and visited Doug again, Charlie, Frank Press, and I, at least, conceivably Stu, and he was not going to go any further than .12.

Lewis: Didn't he extract the promise that in two years you would review the science?

Kahn: That's right, that's exactly right. That there were to be further tests. The National Academy of Science was going to do a better look at these evidences. Second, we would let it go if he went to .12 and not higher, as we felt he should, provided there would be an explicit promise of a re-examination within two years, and our assurance from our own people that there would be no major cost consequence during the interim period.

Kettl: We understand that members of the domestic policy staff, Eizenstat in particular, were involved as a matter of course in these regulatory review things?

Lewis: Yes, and Si Lazarus was one of the major members.

Kahn: In fact, we had a meeting afterward, after our meeting with Doug, Charlie and Frank and I, at least, met separately to say, "Well, do we want to take it to the President or not?" Doug was going to be bitterly criticized even at .12 by some of his colleagues, and in fact shortly thereafter there was an article by [Robert] Crandall and Lester Lave that said it's absurd at .12 and it ought to be .15 or .16, but we'd decided that we'd reached a point at which there was no point in going to the President.

Lewis: We did send the President the normal memo: this is where it's coming out, and I can't remember, it would have been reasonable to assume that the memo had a paragraph in there saying we think this isn't so hot, but under the circumstances we don't propose to ask for more.

Rapp: You somehow went to the President on that one?

Lewis: Two things that happened after that that were interesting. One was standard and one wasn't. Just as we always let the agency take the credit when we moved, we also stood up for the agency when they made a decision that we would have made differently when we decided not to go to the President. We never criticized the ozone decision in public and that was conscious. The President called a meeting with environmentalists simply because he promised that once a year he'd meet with environmentalists.

Young: Were there cases in this where the President had to make the decision?

Lewis: Only one.

Young: Which was that?

Lewis: Cotton dust.

Let me just finish about that meeting with the environmentalists. He stressed that he wanted both sound environmental regulation and regulatory reform, and it was his policy that the agency head should make the decision. Then gratuitously he said, and this was over a year later, "Even when as in the case of the ozone decision, I feel that he's made the wrong decision."

Thompson: Would it have made any difference if Frank Press had been out of the White House or if he had had to depend on departmental scientists?

Rapp: Oh, I think Frank Press was an extremely effective person who made an enormous difference. His prestige is high.

Thompson: Was the White House intervention in things that were, other than scientific expertise, controlled by the agency?

Lewis: They were an unexpected resource, and a marvelous resource. They were apolitical, smart, dedicated, and believed in regulatory reform.

Rapp: You should mention, since we're talking about ozone, one of the early RARG where principals' groups' interference with the regulatory process and the agencies triggered a storm of concern by [Edmund] Muskie.

Lewis: Oh, he called big hearings.

Rapp: Sure. He demanded that Fred and Charlie appear before this committee to explain the arrogance of the White House operation in its intervention with what otherwise was a charge to the agency, and in a statute that the White House had no right to interfere with. A great deal of work went into preparing the strategy presentation for that, and Fred and Charlie appeared side by side as witnesses and I believe there was nobody else there from the White House.

Kahn: There were just the two of us.

Rapp: I think Muskie did it partly because he was expected to with the constituency that he'd built over the years, with the environmental constituency, and also because I think he felt that there was a threat to the committee's power over EPA.

Young: Could you take us through a legislative one?

Lewis: I thought you'd never ask. There's a time limit, though. We could spend all afternoon. The legislative projects were different because they were more a matter of Presidential initiative than regulatory projects. The fact is by and large we were responding to rather than initiating things. True, we were respondent only to mandates of an executive order that had been initiated by the White House, but still, we didn't set an agenda there. Clearly the President and his advisors did set the regulatory reform agenda with Congress, and by the time Fred came to the White House there had already been successes, largely as the result of Fred's efforts. Anyone would say that. President Carter's administration, a success in the area of deregulation, was perceived at the time as having done the impossible. There had also been a decision—which I put in the passive voice because I don't really know how it was made—and it was a smart decision.

Rapp: There's only two times we are permitted to use the passive voice: 1) when either we don't know the actor, or 2) when we conceal it. I think that's a general message for everybody.

Lewis: The decision had been made to do trucking after airline. It was a smart decision because airlines had to fight the fear of deregulation as well as the politics, and the politics was bad but not overwhelmingly bad. There were only a few airlines. They didn't have a long tradition of political involvement. A lot of people in Congress didn't owe them a lot, like trucking, and there was reasonably intelligent management, at least, in some of the airlines that ultimately split off from the anti-deregulation.

Kahn: This is a long footnote to a chapter I wrote that Ron dictated to me over the phone.

Lewis: What airlines proved was that the economics were right. This was several months since deregulation, both at the CAB and in Congress, and everything was happening that the wooly-headed theoreticians said would happen: there was greater competition, better service, lower prices, some disruption, but to the extent that some carriers were moving out of some places, others were flocking in with even more frequent schedules, more experienced than before, and in a time of enormously rising inflation, and enormously rising fuel costs, to the airlines, prices were actually falling in absolute terms. Is that right?

Kahn: In the first year? Slightly.

Lewis: And after that, they kept falling in relative terms, due to the increased productivity, so that by the time we got to trucking—

Kahn: That changes after mid-1980.

Lewis: The economics had been proven in the real world. Trucking then became simpler—though it was hardly simple. It was a political problem. When we got there, the administration was in the middle stages of preparing a specific trucking deregulation bill. The President was committed to trucking deregulation; there was just something in him that liked it. Partly, I think, from his experience as Governor of Georgia, where he sat, the truckers and others always asked for protection.

Kettl: And who was working on it as of this point?

Lewis: Well, it was the usual free-for-all, within the White House and the administration, which was to say, everyone who wanted to work on it was working on it. Stu Eizenstat had somebody on it who fortunately was very good. This was a happy confluence of circumstances. DOT had people working on it.

Kahn: They had a working group—one of the first meetings I went to was with the working group at DOT. Barry was there.

Lewis: The people at DOT working on it were very good, because they'd gone through the exercise under the Ford administration, and they believed in deregulation. Their Secretary, Brock Adams, did not. He was afraid of it politically and didn't believe in it intellectually, but he was at that point willing to let his staff go forward. Charlie Schultze had one or two people working on it. Justice was heavily involved because of the anti-trust aspects. It was a group of committed people.

Out of that came about the only unanimous memo the President saw on a controversial piece of legislation. Justice, DOT, the Vice President, had differences of opinion about the extent to which one wished to shift the burden of proof. Those weren't there. Only as the legislation progressed; only about how much, if any, we should compromise from what was a remarkably strong proposal. And it was of enormous importance to that effort that Fred was then in the White House, because to the extent anyone wanted to pick out a strength above strengths, it was Fred's intellectual and political authority in the area of deregulation.

Also, I think it was increasingly recognized that there were a lot of people in Congress who had gone through the airline fight. Almost everybody on the Senate Commerce Committee for example, felt that they'd been involved in an historic effort and that Fred had helped to get them there. So Fred could testify, and call people up and see them in Congress, including Howard Cannon, people who were the most crucial to any kind of effort. He could have a reception that was different from what anybody else in the administration could have had at the point, their relations with Congress not being at their best.

Thompson: What about the Kennedy group?

Lewis: The Kennedy group cooperated fully throughout, in all of this.

Kahn: When I was first at CAB, I had a call from Washington on Saturday, and I came to the phone, he said, "Dr. Kahn, this is Ted Kennedy, and I'm calling to urge you to take that job." I testified before Kennedy and we had a really marvelous relationship. I was never in any way disturbed in this course or period when Kennedy had to come to an accommodation with Cannon and the division of responsibility. The opening day of hearings, Ted testified first and then Charlie and I, and that was it. We were the three main people. I can't assess the relative importance of Charlie's or mine, but there was never a problem about Kennedy. Remember the time he came over to the Rose Garden for the signing. That was a very happy occasion.

Young: The administration put together in this case a bill, I guess, with a united voice.

Lewis: Just before the President announced. There was usually an announcing ceremony made on the White House initiatives. The Congressional relations staff got cold feet and called a meeting.

Kahn: In the White House.

Lewis: In the White House, not to suggest that we not go forward with the deregulation of the trucking industry, but to suggest that they checked around in Congress and it was a dead duck, that [Thomas P.] O'Neill wouldn't go with it, that the House couldn't do it, particularly as the election got closer, that the Congress committee really wasn't that interested, that the politics truly were ferocious.

Kahn: Cannon certainly.

Lewis: Cannon had by no means made up his mind, and the signals were at best mixed from him, though he said he would be fair-minded, and we believed he would. And it was, "Who needs it? Why do we need this aggravation, let's put out a release and send it off and let it die and not be bloodied by it all." And the other White House advisors, almost all of them, said exactly the same thing that could have been and was said by you. It doesn't quite make it, the passive voice, does it? *[Laughter]*

About the airline bill. Increasingly, the Congressional liaison people began to realize, as did the Secretary of Transportation, that the President really wanted this, because every time something on it came to the President, he would write "Keep it tough, move up in priority." It didn't take too long for the message to get across. We introduced the bill, there was then a long period of active intellectual political involvement, and in this Fred was the key from the administration's point of view.

Kahn: I'm not aware of that; all I know is they would keep calling me to meetings.

Lewis: Well, I was organizing meetings.

Young: Were you organizing the Congressional strategy?

Lewis: Ultimately, yes. Mary Schuman, who worked for Stu, was wonderful and had done airline deregulation with Stu for the White House. She just got tired of it and wanted to leave. It left a gap; for a while Stu had nobody on it, and then he had somebody who wasn't very good.

Rapp: Worse than nobody.

Lewis: And so I just took over.

Young: Because the Congressional aides on staff were not on this one?

Lewis: Well, their role was always to help the substantive people and they did help us enormously as things went on, under our substantive direction. And ultimately Stu did put somebody on it who was good. By that time, at the deputy level I was seen as in charge.

Young: What was the division of labor? You said you had the substantive lead in backing on what?

Lewis: Getting to people on the Hill. We'd have meetings, daily meetings, as things got hot and as the votes were coming up in committee. When it was in the Senate commerce committee, Bob Thomson and I and people from DOT and Justice would sit down and say, "Okay, who have we not called in the last 24 hours? This Senator is wavering; I wonder whether he can be changed."

Young: Was anyone reluctant in terms of what priority should be attached?

Lewis: Oh, we got over their reluctance in about a day.

Young: Once the priority was clearly established.

Lewis: They threw themselves into it, and it developed a momentum of its own, because suddenly it appeared that we could do it. There was a lot of constituent building. We intentionally went out to deal with business groups and users of trucking services.

Young: Was Anne Wexler involved in this?

Lewis: Yes, Anne helped a lot. Mike Chanin had people on it.

Rapp: And then you have to bring in Neil Goldschmidt at some point.

Young: We need to put together a picture of how the Congressional campaign for trucking deregulation was put together, who had the lead on what. We were thinking about the departmental people who worked on Congressional liaison, Wexler's staff. Did she bring in outside groups?

Kahn: I just went where they told me.

Lewis: She did bring in outside groups. But on a typical day as things got hot, we were following his lead.

Kahn: You would point to me and say talk, and I would talk.

Young: Oh, but what talk!

Lewis: We'd meet in the morning and decide what had to be done by the end of the day. Even then, the natural person to deliver someone would volunteer, or we would assign somebody to it. The Congressional liaison people would be in charge of seeing that each key person in Congress was contacted, and by whom, including by the President. That's as things got really powered.

We would send notes in to the President saying, “Please call Senator X who is concerned about this point, and see if you can satisfy him.”

Young: In this area did you feel that they knew their business and were competent?

Lewis: We had Bob Thomson and he was wonderful, from the Senate. There was no question that Bob knew what he was doing. Bob never consulted Frank Moore about it, but just did it. And that’s great.

Kahn: Were you coordinating the things that people from DOT were doing?

Lewis: Goldschmidt was an active Secretary, who both was inclined to believe in deregulation and would have gone through a brick wall if that’s what he thought the President wanted him to do. The first time he came to the President substantively after his appointment, to discuss Presidential level issues involving DOT, he brought some notes on a yellow pad about what the issues were.

Thompson: This is such an exciting story that it leaves me perplexed about one thing: somehow the campaign built up the image of being an over-regulating, non-reforming, non-changing thing. One day they tell us to drink tea, the next day they said it won’t cause cancer; one day they say do this or that and somehow your story never got across—or did it?—to the mass of the American people. If it didn’t, why didn’t it?

Lewis: Partly because the administration had trouble communicating generally; partly because it came late. It didn’t really gear up until the third year of the Carter administration and by then there had really been a lot of stupid regulation.

Goldschmidt got the idea that this was a brick wall that he was supposed to run through, and it was in the first meeting when the President asked him, “What do you have on that legal pad?” He said, “These are what I think are the most important departmental issues from your perspective,” and he looked on the pad and read, “Trucking.” The President took out his pencil and wrote, “Trucking.” And on and on, and Goldschmidt got the message. He was wonderful to be in with, in terms of being up in Congress and the halls, and he just put that as a very high item on his agenda. So, yes, there were DOT people, a general counsel and one of their deputies, high level people, at all these meetings, and they would take on a political role. Often Susan Williams was the assistant secretary for Congressional relations at DOT. She would say, “Well, I know Senator So-and-so pretty well; I’ll take him on this issue.” Often it was substantive.

One of the things DOT did was field surveys on what kind of service small towns were getting, the small town issue being a good issue, and they got some original and from our point of view surprising evidence that they weren’t being served as it was by regulated trucking companies. So it was a combination of substantive and political work. We built up an unusual coalition of businesses, Republican economists, AEI [American Enterprise Institute] from Jim McIntyre—a prominent supporter of deregulation—consumer activists, major companies like Sears, the Lever Bros., the NAM [National Association of Manufacturers], the National Federation of Independent Businesses [NFIB], a rightish-wing group of small business—very powerful

politically, they were enormously important. And for the first time, not only had we established intellectual credibility through airline deregulation, “we” being the President and Fred, but suddenly there was some political muscle, and people like Cannon were for the first time getting dear-Howard letters from constituents they’d known for years and years, business people, asking them when they were going to get going on deregulating trucking. That had never happened before.

Young: Who solicited those outside letters?

Lewis: Well within the confines of a Federal statute prohibiting ginning up people to write to their Congressman, we—

Jones: Oh, is that prohibited?

Lewis: We were aware of it because the Teamsters threatened to sue us so we wrote to this outside coalition. The coalition would meet regularly and we would be invited to it. Well, the NFIB was part of that coalition.

Kahn: Remember they did that survey and got an overwhelming three or four to one response, what was his name, Mike Somebody?

Young: Mobilization of outside support.

Lewis: And mobilization of newspaper editors with letters. Every time anyone in the White House who knew anything about regulatory reform would go out to give a speech somewhere, we would ask them to go by and meet with an editorial board and talk about trucking deregulation. We soon discovered that editors loved it, it was a popular issue, they loved trucking deregulation.

We ultimately targeted them when we got to the House where the politics were even tougher than in the Senate and where the particular leadership had very little stomach for trucking deregulation. We ultimately targeted newspaper editors important to particular members of the House Public Works Committee and got an amazing response.

Thompson: Do you think this constituency voted for Carter in ’80?

Lewis: Ahhh—certainly not the business constituency, and this to them was important but small potatoes compared to what they really cared about, and the consumer part of it did, they didn’t have anywhere else to go. This was not political. Carter made the decision early on that he was either going to lose the Teamsters because of this or he was going to lose the Teamsters anyway, or that he just wanted to do this so much that he didn’t care, politically.

Kahn: There is one important strand that I know you are going to introduce, and that is the strategy of the appointments to the ICC.

Lewis: Exactly.

Kahn: I won't anticipate that, but where did you fit in the business about Cannon saying to the ICC, "I don't want you to move, I don't want you to initiate anything new."

He changed it, he started by saying, I don't want you to "initiate" anything new until I deliver a bill, and his staff member who had worked for me at the CAB changed it to "implement" it, so that they could do a hell of a lot of initiating, that part of the strategy....

Lewis: Well, as things moved, we had in mind a pincer strategy to catch the truckers and Teamsters between a rejuvenated ICC and a deregulation statute, and it worked. To the extent that truckers and Teamsters made one mistake, it was in not opposing President Carter's appointments to the ICC, because, having appointed good people, under a statute that permitted enormous discretion, particularly unchallengeable discretion to revoke the antitrust immunity, the Commission could do that by vote.

Once we established a pro-deregulation majority on the Commission, I felt the game was up and it was only a matter of playing the cards right to get the truckers and Teamsters and some people in Congress to realize that, because what happened month by month was that the ICC began to gear up to revoke all of the protectionist measures, within the limits of the statute, to redefine in pro-competitive ways all of the regulatory requirements. The truckers' and Teamsters' first reaction to our legislation, other than to laugh at the effort, was to try to bottle up anything in Congress. Once they realized what the ICC was doing, their second reaction was, "Okay, you want a bill, we'll give you a bill," and they drafted and had introduced regressive legislation.

Kahn: They visited me and said, "We're doing the reform."

Lewis: Well, it would have tied the hands of the ICC, and in that context we had to put out a lot of fires: they got Birch Bayh through the appropriations process to try to put a line in saying that the ICC couldn't do it. I think that's where this initial influence language came up, and Cannon ultimately squelched that. Then the final step, which was fully consistent with the way the President had been all along. If there was one area in which he was consistent, it was this.

He would call in the truckers—we'd given up even discussing things with the Teamsters, written them off completely—and tell them, "You don't have a choice about bills. Either you have the ICC doing these things to you piecemeal, and you'll have five years of chaos and litigation, by the end of which what they do will be upheld by the courts, or you take our bill, because we will veto you bill even if you get it out." Rick Neustadt and I told them that and they got red in the face and didn't believe it, and then Stu Eizenstat called them back a couple of weeks later and said, "That's what we're talking about; we're going to do it." At that point they didn't have much choice. They believed it. And suddenly of course in another month or two they finally negotiated for a few basically minor changes.

Rapp: When they concentrated on the election, that's when they got their victory.

Young: Do you think it would have worked out this way if the administration had not happened, in this case, to present the people in the administration to be of one mind on this issue? What if the President had presented a divided front among his own people?

Lewis: Well, it really was a happy confluence of things and that was one of them. It's hard to know what would have happened, because I think one reason the administration wasn't divided was that probably some of the people closest to the President realized that he wanted this. And that might have sent out signals. The ICC is an eleven-member commission, so he could have packed it any way he wanted; the fact is, he put four deregulators on, and that was enough, because there had been a lot of attrition.

Kahn: Did he put on four that he thought were deregulators, and only three proved to be, or am I—

Lewis: You're right about that, but they managed to pick up one or two others.

Kahn: Of existing people. He could always have packed it. The total, he could have eleven, but in fact he had only about seven, and some were coming to the end of their term, and on principle, we didn't really want to go that high. We didn't think it was a good idea to have such a big ICC. Putting on Darius Gaskins, Tad Trantum, and Marcus Alexis was enough.

Young: This was done with a specific eye to their views.

Lewis: Oh, absolutely. No question about it.

Jones: So, the bill passed in October?

Lewis: July. Rail passed October. July 1980, yes.

Rhoads: About appointments: did you have a chance to impact other appointments beside this? I was thinking about in social areas where you had a lot of fights for the later appointments, later administration, where there were new people needed, if they were needed. Did you have any hold in that?

Kahn: I don't remember that I did.

Lewis: We could have if we'd wanted to. I don't think—

Kahn: Were there any appointments?

Lewis: Other than Muskie as Secretary of State.

Kahn: There weren't any major changes, they all stayed. Had there been, I think we might have weighed in. I don't remember a single one.

Mosher: How about the commissions other than ICC?

Kahn: Well, I remember interviewing the fellow who was put at the head of the Commodities Futures Trading Corporation, Jim Stone, but I frankly don't remember the FCC [Federal Trade Commission], I don't remember being involved.

Lewis: They didn't have any vacancies. You were greatly important in Marvin Cohen's appointment.

Kahn: Yes, my successor at the CAB.

Rapp: You also interviewed a replacement vacancy at the CAB.

Kahn: That's right, there was one I didn't think very much of, and then the airport manager I interviewed and he seemed fine, and then I recommended him.

Lewis: There was a vacancy on the FCC and the election was so close in time at that point that I think the President decided he wouldn't fill it till after the election.

Young: I'm interested in this case, because you did cite it as an atypical case.

Lewis: Trucking? Well, it passed.

Kahn: It was successful in the legislative fields. Well, there was the rail, which we got through.

Young: Somehow this place illustrates a contradiction to all our accepted wisdom made about the Carter administration's decisiveness, finesse, and so on.

Thompson: So is the President's role. It seems to me one thing that hasn't quite come through the way you make it come through in some of our earlier discussions, is the check-off, the pushing things up the scale.

Kahn: That may be the exceptional case.

Lewis: I think it was the exceptional case for the President; he did care about this one, and one of the reasons it took so long for that generally to be known was that I think maybe he didn't treat a lot of legislation this way. He never liked, never felt as comfortable talking with Senators and Congressmen, but he would do it at the drop of a hat on the Trucking Bill and he did it well. He called at the key point, when things were stalled in the House, he called in the chairman and the subcommittee chairman, Jim Howard and Bizz [Howard T.] Johnson, into the Oval Office to say that "we really want this bill" and "let's move forward" and "what are you going to do?"

Jones: Any speculation on why that?

Lewis: Why he did it? Why did he pick this one?

Kahn: Well, this is as I said, you're telling this as an atypical case, this is not a unique one, we've had other instances where the President was deeply involved, where he behaved in a different way, but with less success.

Thompson: We're partly answered by his feeling at home, very much at home on this issue?

Lewis: That he felt at home on this issue? I think he felt at home, he felt that there was a clear right answer here, as all of us did who worked on it.

Jones: Did it have anything to do with his attitude in regard to the Teamsters?

Lewis: It's possible it did.

Mosher: Look, could we go back to Mr. Kahn's earlier statement when he was first appointed to the CAB, was it understood between you and the President that this was a mission, that you get that job done?

Kahn: I don't think it was as clear as that. The President didn't quiz me. I turned the job down the first time. Then I had a call saying, "The President wants to see you," and discussed it briefly with him. He knew I had testified before the Kennedy committee and had written about it in a book. But the airline case I was less clear about than trucking. I had a long section on trucking in my second volume. But I remember raising the question with Mary Schuman the second time around, and saying, "What if Eastern Airlines goes belly-up?" If you introduce more competition, you know, is the President going to turn around and say, "Who's the idiot and how come I appointed him to the commission?"

She showed me some memoranda that had gone to the President on decisions by the CAB. The President sat down and said, "NO." I mean several times, making it quite clear from his reaction to specific issues that he really believed in competition in this industry, and that he regarded this as a possibility that was very attractive to him. I was more cautious than he; I had not studied this industry in great detail. I knew more about it than most people in the world. But I was sensitive to my not feeling that I knew a lot about the industry. It turned out to be the proper attitude politically too, because it gave me a perhaps false reputation for moderation and reasonableness and wanting to learn and to listen to what other people had to say.

The President was ahead of me on it, and it was only as it went on that I became increasingly confident. And as I gradually replaced the division heads with people whose views I respected intellectually, then I began to evolve a group. Together we increasingly came to feel that the thing to do was to move. After we began to move I became convinced that I had to move fast, that is, that gradualism is the wrong thing; you either deregulate or you don't, and the process is itself a source of all sorts of distortions. There's something I wrote at that period which kind of develops this at some length. Okay, there was some general understanding that I was in favor of competition where it was feasible, but it was nothing like an explicit instruction about how far I was to go, how fast, or whatever.

Mosher: Didn't Carter campaign in 1976 on deregulation?

Kahn: I have no idea. I had nothing to do with the campaign; I don't remember as a citizen. Does anybody know? Was this important in the '76 campaign?

Strong: Trucking deregulation was.

Kahn: In '76?

Strong: Yes, he talked about the empty trucks that were traveling the highways.

Mosher: But not very much?

Strong: No.

Kahn: The Kennedy hearings had been in '74-'75.

Rapp: The airline deregulation was really started in the Ford administration.

Kahn: That's right, and trucking.

Rapp: But the airlines came out in front, I think, in the Ford administration, and Carter inherited a stage of development of deregulation in transportation where airlines were in the consciousness of government substantially ahead of trucking. And we walked into a CAB where the mood had already been structured for deregulation by the previous chairman, in his leadership with the board members, and in dealing with the Congress.

Kahn: Yes, the main difference between the preceding chairman and me was not on the general efficacy of deregulation—he had in fact come out in favor of it—but in his attitude toward moving before a bill. Now in that he was conservative, and indeed the Democrats on the CAB were very resentful of him getting the credit, because they kept saying, “We're the ones who are moving.” My predecessor was legally conservative. I was legally very different because I just had different lawyers.

Rapp: [John] Robson was our lawyer. He felt very strongly about it. I didn't know Robson, but I talked to people who worked there when Robson was there, and he felt very strongly that a regulator by all of the traditions of opinion and so forth couldn't really succeed in overturning the traditions of the interpretations of the Aviation Act as the board had applied them before he got statutory support. That was basically his reason. I don't think he was afraid to move.

December 11, 1981

Young: There may be things that have occurred to you overnight that you would like to put on the record, and if so, please do so. In terms of some of the unfinished items on the agenda, I'd like to have some conversation about the Carter staffing system as it looked to you; the shake-up after the Camp David summit; how you evaluate it as participant observers in that staffing system, and how it might have changed and not changed and how on the surface there were changes but maybe one should pay not too much attention to those. What problems did it solve, what problems remained, if there'd been a second election how do you think it might have looked, both from your perspective and then too let's have some conversation perhaps about the Carter Presidency.

There are all kinds of assumptions made about how one should look at a Presidency; one assumption puts great emphasis on the personality and working style of a President, and another places great emphasis on the kind of people a President gets around him and how he manages them in his Cabinet and his key positions and his own immediate advisors. A third says the President is really just a victim or the beneficiary of circumstances and there is very little he can do to control his own fate in office. There are just various ways one can approach explaining or working out the Carter Presidency, and maybe you can suggest some others, or comment on those. Before we go into this, maybe there are some things you would like to say that you didn't get a chance to say yesterday on subjects we were covering.

Kahn: There were a couple of episodes or policies to which we either didn't allude at all or touched on very briefly, and I don't know how fruitful it would be to spend a lot of time on them. One was Carter's growing conviction about the necessity for getting closer to a balanced budget. I recall that when inflation rates deteriorated and then became, and stayed discouragingly at roughly the 13 percent level, that Barry and I, Barry particularly, said we really had to try to make some dramatic attempt to come closer to a balanced budget.

My impression is that that would have been somewhere in the late spring of 1979, something like that, we were saying, "Isn't there anything that can be done," even with the fiscal '79 budget. It is conceivable that that was a naive notion that you could do anything at that late date, and certainly people like Charlie knew much more about that than we, but I cannot avoid the sense that if there had been the same sense of urgency as the occasion really demanded, and had the President, I don't mean only within the White House, but also had there been in Congress that kind of perception, that something more dramatic could have been done at that time.

It was only when in the first three months of 1980 and the inflation rate shot up to the 18 to 20 percent rate and the bottom fell out of the long-term bond market, a three point increase in long term interest rates in a few months, to what we thought then were catastrophic levels of about 12 percent, or 12½ percent for triple A bonds, that you got the requisite sense of urgency and the President came out with a new program on something like March 14 or 15. It involved the proposed modest ten-cent tax on gasoline—observe that the Reagan people are talking about that too—and another look at the budget only three months after it had been presented, and at that time we had eight days of meetings with the Congressional leadership, in an atmosphere of universal recognition of the need to come in with a budget that appeared to be balanced. I don't mean that there was anything cynical about it, but really that's the best you ever can say.

I sat in on those for six of the eight days and I didn't at times because there were wage-price problems or whatever that I had to attend to, and it was the most painful process even then. Everybody was committed to it, I mean Dave Obey, a liberal on one side and Jim Wright and whoever the fiscal conservatives were, Scoop [Henry] Jackson was there, and so on and Ed Muskie. At the end I think we emerged with perhaps 14 billion dollars on which the leadership and everybody around agreed that that was probably achievable in terms of cuts. I believe those were all cuts, maybe the cuts were in the 12 billion range, or a certain margin of uncertainty.

To get closer to a balanced budget the President had to propose the ten-cent gasoline tax though arithmetically that was not necessary; that would produce as I recall another ten billion dollars. The thought was that was not to balance the budget and that it gave you a cushion, and it also included some of the things like stopping the loopholes on dividends, which was to produce three or four billion, which we put in but there was no political chance of getting. Now I mention that only because even then, you see, the best you could do, in terms of cuts, was maybe 14 or 15 billion dollars, and that is an interesting contrast with the 37 billion that Reagan emerged with. The reasons I'm sure you can spell out as well as I.

Young: Why do you say the best you could do?

Kahn: Well, because—

Young: Because of the political limitations?

Kahn: I'll give you one example of the political limitations that even with that enormous sense of urgency the lack of power of the President, or the lack of backing of the President. Reagan obviously had some of those things that we didn't. I'll give you one illustration that continues to be pertinent. I was not a principal actor in that, I was there with the other people, but obviously as always in budgetary matters, Charlie and Stu and Jim McIntyre were more knowledgeable than I. I know there was not a day that passed in which I would not plead for some getting at the indexation of Social Security payments that were scheduled for July 1 and which proved to be 14.3 percent. The usual argument: the CPI exaggerated the cost of living.

I think it was Charlie who proposed a resolution from Congress to give the President the job of coming up with an index that would render beneficiaries whole against changes in their cost of living, but by 125 percent. We could have got five or six billion dollars just like that, legitimately, and it was universally agreed that the idea was correct but that the prospects were nil. We met with the Republican leadership again on this same issue more briefly, and I again raised it, and Barber Conable said, "Of course you're right, Fred, but every Republican vote for such a resolution would be one more instance in which Tip O'Neill would be able to say to a Democrat in the marginal districts, 'You don't have to vote for it.'" The President was determined; he did then make this speech, for which he took a lot of ridicule because it was another change, allegedly, but—

Young: Zigzagging.

Kahn: He wasn't, but that was the contention, and the fact of it is that inflation was running riot and he had to do something. The other, which I'll be much more brief about, was the first attempt at a TIP, a tax-based anti-inflation policy, in the form of real wage insurance. You should ask Charlie about the genesis of that because I'm sure that Charlie and Barry were the principal people who brought it in, and I'm sure Blumenthal was very much opposed. That was in the period just before I came, since it was part of the program that I inherited, and we fought very hard for real wage insurance, and even against the kind of instinct of the people in Treasury who don't like to use the Internal Revenue Code for any such vulgar purpose. They always talk as though the Internal Revenue code is self-enforcing and a model of lucidity, and therefore they didn't want to introduce anything that involved difficulty.

The fact is that they loyally came up with a plan and a rather very simple way of enforcing it. We made some compromises in the plan that would make it easy for them, that is, we eliminated the necessity for evaluating COLA [Cost of Living Adjustment] clauses since they depended on your projection of what the CPI would do. They concluded by saying, "Well, you need one more line on the employer's form," whatever the hell it is, I don't think it's the W-2, which would say, between the third quarter of one year and the third quarter of the immediately preceding, what happened to the average straight-time base hourly pay? Did it go up seven percent? More? Less? And that would automatically qualify people for it.

Labor was opposed and business was opposed. We had a group of mostly younger but sensible people in Congress, the [Richard] Gephardt and the Tom Downeys and the Paul Simons, who liked the idea. I remember as a sort of desperate last moment pitch Charlie and Stu and I met around the table with about 17 Democratic members of, would that be the Appropriations, no, it would be Ways and Means, I guess, the House group, and they kept saying, "There's no hope, because people are afraid it'll cost too much, it'll unbalance the budget." I remember saying, in a rare moment of eloquence, something like, "I just want to know where you stand. If I could guarantee to you that at a cost of five or, say, ten billion dollars in budget costs, if I could guarantee to you that the Teamsters would come in clearly within the standard, in exchange, if you passed a real wage insurance, would that convince you that it was possible?" And they said no. I don't mean that they were unsympathetic, but they said Congress was unwilling to see what I see so clearly, whether correctly or not, and that is that ten, twenty, fifty billion dollars in budget deficit is a reasonable trade-off if you could get a genuine wage restraint.

Indeed, at a later point, I specifically suggested that to Lane Kirkland. Before, we were talking about the Pay Advisory Committee and we haven't really talked about that at all, either, except perhaps I suggested what a kind of joke it was. I said to him that it seemed to me a reasonable deal for labor and for the country, in place of the frustrating process of wages chasing prices chasing wages chasing prices, to have a 40 billion dollar tax cut, if he would accept a six percent wage standard. He just shrugged it off. John Dunlop doesn't believe in wage standard. They didn't want tax reductions; they wanted major increased government expenditure programs. Besides, I suspect Kirkland couldn't deliver even if he had agreed.

We would have these discussions about the wage guidelines in which I would say, "Look, there's no way you can recover the 13 percent CPI; energy is unrecoverable; if you recover it, it means other people are worse off, and you know perfectly well that the housing part of the index is a

fraud.” I never could get even the remotest admission of that from him, even in private conversations.

My 40 billion for six percent was a variation on a conversation between Lane Kirkland and Paul Volcker that one of them, I think, reported in some meeting I attended. Kirkland and Labor were always inveighing against high interest rates and the tight money policy. I’m sure President Carter was also not very happy with it, with his populist background, but he became a very good soldier on that and defended it eloquently before Congressional groups. Volcker said to Kirkland at one point, “Look, you give me six percent wages, I’ll give you six percent interest rates.” That’s a flip statement and I’m repeating it at second hand, but fundamentally I believe it’s correct. Neither of them may have been able to deliver precisely on such a bargain. That’s not my point. My point is that his suggestion and mine underline an economic reality; and that we could never get anybody in organized labor to recognize the relationship.

Just as today. This recession, Herb Stein is quite right, it seems to be the only way of getting wage restraint, at a time when now wages are the principal source of continuing inflation, as they were not in 1979. Real wage insurance died, it was abandoned because people thought it might cost too much, and we’ll have to see. Obviously if the recession really does dampen down inflation and we don’t get a resurgence of it with recovery in the next few years—and that’s conceivable—then the necessity for TIPs will have been disproved.

Young: The system will do it for you instead of the politicians.

Kahn: Yes. I think those were my two main additional points.

Lewis: Was there anything in the history of consideration of credit restraints that’s illuminating about the development of economic policy?

Kahn: Direct credit restraints? Oh yes, yes. I think I was the only one among the economic advisors—no, there was Stu Eizenstat as well—who was attracted by the notion that the capital markets did not work perfectly, and I do not find it offensive, though it may be difficult, to try to direct the flow of credit. We have had consumer credit controls in the past. I think I see inflation in part as a consequence of an excessively high rate of consumer debt incurrence and corresponding low rates of personal household savings, and I was trying in part to be responsive to the COIN group—the liberal, labor people, who have always been saying, “If you have an excessive demand for credit why resort to the cruel method of simply letting interest rates go up to equilibrate”—and observe of course how interest rates have become even a more powerful equilibrating force since we eliminated usury ceilings. It used to be that housing got hit simply by the drying up of the credit; now the interest rates keep going up until it dries up hit. But nobody in the Federal Reserve System liked direct controls.

Paul Volcker adopted it, to some extent, in March 1980—at the request of the President, I believe—the Japanese technique of saying to the banks, “Well, when you come to the discount window we’ll want to see whether you’ve been using your credit to lend to businesses for takeovers,” for example. Of course, it is difficult to restrict how credit is used. Someone will say, “Well, I won’t borrow for a takeover, I’ll borrow for some other purpose and use my internal

funds for a takeover.” All money is fungible. The fact is that in Japan those qualitative informal jawboning efforts are alleged to have some success, and I don’t think there’s any question but what Regulation W, was it, where we had a maximum time period for installment purchases and minimum down payments, that those worked. As I say, Stu would keep saying, “Fred, can’t we do that?” and finally when everything got so extreme, Paul Volcker, I’m sure grudgingly, adopted some quantitative limits on incremental consumer credit, and attempts to do it with book credit, with the credit card; and it became discredited because it had such an unanticipated extreme effect.

There seems to be no doubt that that really helped plunge us into recession, and nobody contemplated that the response would be so enormous. Increments to consumer debt suddenly went negative; that was not because of the restrictions, that is to say, not because of the letter of the restrictions, but it was clearly associated with the reaction. Some people sent me credit cards, wrote irate letters to the effect that Sears Roebuck was still soliciting credit card accounts. They said that’s unpatriotic, and I would write back and say, “No, we don’t want you to throw away your credit cards; all we want you to do is restrict your increases.”

Jones: Could you say a little more about meetings with Congress, how those were conducted, who ran the meetings, who set the agenda on a daily basis.

Kahn: I think Bill Miller presided at those, because it was at our request that we held them.

Jones: You met on the Hill?

Kahn: Yes, on the Hill. I remember we met all day Saturday. I remember when Lud [Thomas] Ashley came in with his lunch pail and I pointed out that it was a Superman lunch pail [laughter]. Lawton Chiles was there. Anyhow, the paper was generated mainly by Jim McIntyre’s people, because the exercise consisted primarily in going through the budget line by line, in the same sort of way as Dave Stockman did in that February 18 document, to much greater effect. I’m sure Jim is right if he tells you that he felt frustrated that every time he would turn to something they would say, “Well, you can’t touch that, you can’t touch that.”

Young: He was frustrated in part, he said, by people in the White House saying you couldn’t touch this, you couldn’t touch that.

Kahn: You’re quite right. I didn’t mean to mislead you, I think Mondale and Eizenstat would be more sensitive to their constituents and say, “A couple of billion here,” I don’t mean to say that making fun of them. These are painful things to do. I do remember that they would sit there and identify the Youth Conservation Program or something like that, and the people who knew about it would immediately say, “Sure, we can cut that, that’s a free summer vacation for middle class youths;” on the other hand, everybody would say, we must not touch, the—what’s the summer job program?—which is means tested for really poor kids. Anyhow, that’s how it was run.

Jones: Whose idea was it? How did that come into being? How did the notion itself, that it was time to really sit down with Congress and see if you couldn’t get some pre-agreements on the budget?

Kahn: I don't remember exactly.

Rapp: I believe it was that the initial identification of this need that you referred to earlier stayed surfaced all through the period in a dormant sort of way, but still alive. There were various identifications of it—but it stayed alive. That was always in the background as a possible next set of actions.

Jones: About doing something about the budget?

Rapp: Yes, doing something about the budget. When we got the demands up out of the financial community for doing something because of the effect of what was happening to the interest rates.

Young: Was it kind of a crash?

Kahn: Yes. Do remember that the President had just presented his fiscal '81 budget, with a nominal deficit I think of over 15 billion dollars. That was the gap, and I think the President was disappointed. I participated in those discussions and I wish I could replicate the discussions within the White House out of which emerged a 15 billion deficit instead of a balance, at that time.

Rapp: I remember something about it too, but I can't remember precisely what it was.

Mosher: Were these meetings with the budget committee people, or with the appropriations people?

Rapp: The whole leadership.

Kahn: Yes, it was the leadership generally. Tip O'Neill appeared, but was not there regularly, but Jim Wright was there continuously from the House, and Bob Byrd was there for all those meetings from the Senate side. Muskie was the head of the budget committee.

Jones: Lud Ashley, I think, was second-ranking Democrat, and I think Bob Giaimo.

Kahn: Bob Giaimo, of course!

Jones: He was there, and then he was sick later in the summer and Lud Ashley took over.

Kahn: Yes, but Giaimo was either House Budget or—

Jones: Chairman of House Budget.

Kahn: He was the Muskie counterpart, and as far as I know Muskie was there all the time. Scoop Jackson tended to come in and out. Dave Obie was certainly there most of the time, Tim Wroth was there a good deal of the time, and he was on House Budget. I think Chiles was Senate

Budget, Lawton Chiles, and he was there. There would be some degree of in and out, but there was a core of about ten people from the Congressional side.

Young: Someone has suggested this was a kind of contingency plan of which people were aware before it was activated.

Rapp: We were always, during the entire time we were there, actively considering what moves we would take on inflation. There weren't a lot of obvious traditional things to do in the inflation area as far as that is concerned. There was a package that [C. William] Verity put together back in '79, as Fred said earlier, and it contained clear efforts by the Federal government to do something about the budget deficit among other things.

Young: The deficit and the getting out of hand of the deficit were perceived as major problems.

Rapp: There was an outside perception that it was.

Kahn: That's right; that's it. It was a necessary part of the program. None of us believed that 15 billion dollars in the Federal budget—

Young: The reason I'm asking is because of Carter's October 24, '78 speech, which I think you said was written just about that time. The first item announced in his summary of his plan for dealing with inflation is cutting the budget down some.

Kahn: That's right; there was always that.

Young: And second was hiring, reducing the Federal work force; restraint of pay.

Rapp: There was a freeze on employment.

Young: Delay tax cuts; remove needless regulations; use Federal policy to encourage more competition; and fairly well down on the list we will set specific standards for both wages and prices throughout the economy.

Kahn: Yes, and of course the public seized on that. I would periodically send a memo to the President, I remember slightly to the irritation of some of the people on the EPG who wanted to staff everything out before anything went to the President. I got the increasing feeling that particularly under Blumenthal that was a systematic method of eradicating any novel ideas.

Rapp: The staffing did not occur. The staffing follow-through never occurred on anything when Blumenthal was Chairman of the EPG. I remember going to an EPG meeting one time for Fred who wasn't there, and Curt Hessler, who was executive secretary to Blumenthal, was the note-taker at all EPG meetings. No staff was allowed in EPG meetings, not even deputies. Mike went through a list of agenda items while he was eating scrambled eggs. He just went through them so fast and nothing was decided on a single item.

Kahn: That was probably Blumenthal's fault. He was a good and admirable man but a very bad administrator, so far as EPG was concerned.

Rapp: I'd call Curt and I'd say, "Curt, what do you want us to do, let's follow through." He said, "What are you asking me for, there are no decisions."

Young: Curt?

Rapp: Hessler, he was the contact person.

Kahn: We would be gunning up what would be a more effective approach. Periodically I'd be going to the President and saying, "Look, things are not going well." I remember sending in one that called it a short-term anti-inflation strategy, which quoted some of Barry's ideas, and then I did one that I called a long-term anti-inflation strategy. I remember that I didn't get a reaction to it, and that was one of the things that Stu alluded to when I tried to resign in the summer of 1979. He said, "Oh, you don't understand. The President told me that he read it, he had it on his desk and looked at it many times." Maybe that was just a way of making me willing to stay. I never got an explicit reaction to it.

Young: The impression I'm getting is, getting back to the larger thing, that when very drastic circumstances developed and it galvanized, the administration could do wide consensus between different wings of the party in Congress that clearly you had to redo the budget and reduce spending. That exercise under more or less optimum conditions of consensus that something had to be done could produce at a maximum without raising very large political issues 14 to 15 billion dollars worth of cuts, which would fall short of the need.

Lewis: Don't forget that was the spring of an election year.

Young: That's another problem.

Kahn: But out of the discussion of indexation, for example—

Young: To have gone beyond that point was impossible from the Congressional point of view, perhaps also impossible from the point of view of the administration people themselves who begin to disagree about whether this was desirable.

Rapp: Exactly.

Rapp: We were on the campaign already.

Kahn: On the indexation question, for example, all that emerged was a request by the President, or by Congress, I guess, for reports to them after the election on 1) the whole indexation issue and, 2) the specific indexation formula of the CPI.

Young: The President never really considered going beyond that amount.

Kahn: Some of us urged him to go beyond it. I don't know by what process he concluded, and probably totally correctly, that, "Look at Reagan, he's getting his head handed to him trying to touch Social Security." It was just out of the question.

Lewis: And with Kennedy on the President's left actively at that time as I recall.

Rapp: Precisely. He was announced by that time.

Young: When you were describing the remarkable support for doing this, I was wondering where Kennedy was in all this, in Congress.

Kahn: He certainly did not participate in any of these discussions.

Kahn: I forget whether Kennedy came out against the gasoline tax. Congress specifically acted to disallow that. I know, because the President invoked his authority under whatever the act is, and he imposed the import fee, ten cents.

Rapp: That was on crude. It was all designed to pass through on the refinery crack.

Kahn: Gasoline. The idea was to impose the fee on oil imports, then to use the entitlements program and to see to it that it flowed through entirely to gasoline, and then with about thirty seconds of thinking I can figure out exactly how it was to have been done, but it was a tax on the barrel of crude.

Rapp: To pass through on the refinery crack.

Kahn: In proportion to the gasoline and Congress then specifically passed a prohibition.

Jones: Do you recall any hesitancy on the part of the members of Congress to participate in this kind of exercise? Was that discussed?

Kahn: No, not ever.

Jones: Politically there was the possibility of committing themselves to something again in an election year, but the Democrats appeared very cooperative.

Kahn: Excellently. I'm not saying that when you got to specific items that there weren't problems.

Jones: I mean the process itself.

Kahn: The process and the goal of the balanced budget enthusiastically adopted. Everybody said it's obviously necessary, and I'm thinking of Dave Obey and Leon Panetta, who were the good liberal people.

Jones: This must have been the combined budget committees.

Kahn: You probably know the identity

Jones: It sounds like the combined budget committees, plus, probably, the leadership.

Young: Did you want to add anything further to these?

Kahn: Those were the two main areas that I wanted to touch upon.

Young: On the wage insurance program it was really a different story.

Kahn: Nothing could be done. To the day that I left Washington, some of these younger people in Congress would be saying, when I went to say goodbye: “Fred, if you could produce a program, we will push it.” Nobody feels that that’s been produced. I just had a conversation a week or two ago with Gary Hart’s chief assistant, who had called me about recommending an economist to work for Hart. Hart was coming up to Cornell and I was to have seen him. He said, “Who was actually working to translate the TIP idea into a legislative proposal?” I said, “Larry Seidman, a Professor at Swarthmore was the one that I know that was most actively doing it,” and he said, “He never really has given us something that we can use.” I gather Hart’s people were interested; I remember Tom Downey and I remember Dick Gephardt would still like somebody to give them a proposal. It will surface again as kind of the Democratic alternative, unless of course circumstances work out miraculously well.

Mosher: You really think that it will surface again?

Kahn: It will among the younger people—the Paul Tsongas, Bill Bradley, Gary Hart group—who represent, by my way of thinking, the answer to my question, “Can liberalism survive inflation?” Stu Eizenstat was talking about it near the end. We were all talking about trying to develop it. That would have been the next step, the President actually alluded to it, we got some language in—Bill Miller didn’t like it, but Charlie got some language in the President’s late August 1980 economic speech, in which he talked about the manifest discrediting—that’s not the word he used—of the existing standards and the clear necessity for finding something to put in their place. That last year with the standards was a demoralizing experience. Charlie had people actively working on developing a TIPs proposal.

Jones: COWPS?

Kahn: The COWPS group was working for it too, at my request.

Mosher: Was Barry working for this too?

Kahn: No, Barry has certainly always been interested, but Barry left COWPS in the summer of ’79.

Mosher: Is he still working on this?

Kahn: I'm not sure if he's working specifically on TIPs. After leaving the council, he came out for mandatory controls, as a shock. I meant to mention Al Sommers, who is the chief economist for the Conference Board, on whom I relied. He's a friend, I have great respect for his judgment, and made him chairman of my Price Advisory Committee when the President appointed one. Al had always been advocating credit controls, for example, and indeed, had recommended publicly wage and price controls as a short term way of breaking the spiral—clearly associated with monetary and fiscal restraint—so as to avoid the [Richard] Nixon experience.

Young: Can we turn to the shake-up after what somebody called the nervous breakdown at Camp David in 1979, whether you were a participant in any of those confrontations that led to the speech and then the ensuing changes in the Cabinet and White House Staff, or if not, what happened? How can you enlighten us about it? I ask this question of everybody who comes, because obviously in the eye of the historians that's a rather unusual event in the history of an administration. I don't want to ask whether you thought those changes were steps in the right direction that did not go far enough, or whether they were inadvisable. We are aware of the circumstances under which that occurred; the President had gone through Venice almost to Tokyo and cancelled his vacation, the gas lines were forming, and so on.

Kahn: I want to try to confine my discussion of it to what I knew myself, as distinguished from what I read in the papers. I was invited to Camp David, and participated in two of the quite lengthy meetings: one, as I recall, associated with lunch, and another with dinner, a total of about seven or eight hours. I'm not sure that I can identify those two, but one of them would have been I think with the main business and labor people, one with leaders of Congress, and there was one associated with one or the other of those with outside economists. Those are the three groups that I remember I sat in on with the President and Rosalynn [Carter].

Mosher: Did she sit through all of them?

Kahn: I believe she did. She was there I'm pretty sure. The ones I participated in all had to do with anti-inflation policy. I took some notes, of what I said and what other people said, but they simply ran the whole range of what one might do on the inflation problem. There was a great deal of simply stirring up the same old pot. I'm sure there was a discussion of whether or not we should go for a big gasoline tax, and Arthur Okun said, "Why shoot yourself in the foot?" This was the summer of '79, and I'm sure that the budgetary question surfaced. I'm sure that I somehow got into the various things that I've mentioned in these two memoranda that I wrote to the President on inflation policy. I don't mean to suggest that I, again, played the leading role. I did not. I guess Blumenthal must have been there. He must have been; he hadn't been fired yet. I'm sure that it was the usual group, from our standpoint, I'm sure it was McIntyre and Eizenstat and Mondale, Charlie Schultze, me, Blumenthal.

Rapp: I don't think Charlie went; he was ill.

Lewis: Charlie was sick that week.

Kahn: That's right. This was the period in which I was undertaking consultations with members of Congress.

Rapp: You were doing the consultation work. Al From was setting up schedules for you.

Kahn: I had five meetings in late spring and summer, with selected Congressional people.

Rapp: This was the beginnings of the accord.

Kahn: That's right, we got Tip O'Neill to appoint some people and we got Bob Byrd to appoint some people, and there was a good deal of jockeying. Al From was—

Young: Consultation about what?

Kahn: What the hell we should do next on the inflation problem.

Rapp: We were trying to bring Congress in and the party system into the fight against inflation, which up to that time they had not been.

Kahn: They had not played a major role.

Rapp: That was the objective, and it was the strategy that emerged from internal discussions in the White House that such an initiative was going to be necessary.

Kahn: Oh yes, and Frank Moore helped.

Kahn: Frank Moore in fact suggested that I be the one to conduct them.

Rapp: There was a long debate about who should be the lead spokesperson and it ended up finally that people agreed, I think not enthusiastically, that you should take the lead.

Young: Is this an event that occurred during the consultations at Camp David?

Kahn: Just before, but I think they went on afterward as well. Then Bill Miller became—

Rapp: Miller became the lead spokesperson in the accord and the coalescer of the accord.

Kahn: That's right. Frank Moore wrote a memo to the President in which I think he suggested that I take the lead in organizing it, partly because of course they hated Blumenthal, and maybe partly because Charlie was by that time—

Rapp: Charlie was ill.

Kahn: One of my people, Al From, my deputy at the legislative—

Rapp: I'm sure he talked Frank Moore into it.

Kahn: Al felt that it was time for me to assert leadership in the inflation fight. There was a good deal of this sort of ego business coming out and I was already beginning to feel quite frustrated, not having a role. I had some very fruitful meetings with Congressional leaders.

Rapp: Al was with you, I don't remember what happened.

Kahn: Four separate meetings on four separate areas and occasions.

Rapp: You actually started the accord. That was started with you in the lead, and it was then picked up after the Camp David announcements and the reshuffling.

Kahn: Then of course it became very heavily political and Bill became the emissary, after he came on the scene.

Rapp: That was the original impetus for it. Al felt the political move was necessary, and the accords were an attempt to begin coalescing business and labor and the party system and Congress. That was the strategy that was supposed to—

Kahn: Now to get back to the Camp David meetings, then, there were these agonized discussions of what our policy ought to be, but apart from that, and that participation on my part, I did not have any direct contact with the process out of which emerged the shake-up. I'm trying to think whether I played a role in the writing of the speech.

Rapp: The "malaise" speech?

Kahn: Yes.

Young: Except that that word was not used in the speech.

Rapp: The word was extensively used at Camp David in discussions, however, wasn't it?

Young: The speech referred to a crisis of confidence.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Jones: This was shortly after your appointment?

Kahn: Yes, I was appointed October 25, and these discussions were in the October 26 to November first period. I remember the November first announcement was made. I was already out giving speeches. We were out in St. Louis.

Rapp: That was the last event set up by Bob Strauss, the baseball bats.

Kahn: Yes, some dumb publicity stunt, where we posed with baseball bats. I swore I was never going to do that again. As a sign of my role in the administration, Bob Strauss was on the program, I was on the program, and Bob Strauss wrote me a note after I spoke and it said, “You’re too—” y-o-u-r t-o— “fuckin’ good—I’m not going to get on a platform with you again.”

Rapp: That’s the Strauss we would come to know and love.

Kahn: Exactly so. To return to the pre-November first decisions, you had the tension there and Blumenthal was prepared, consistently and logically, I’m not talking down Mike except in his role as chairman of the EPG. I’m not sure on balance if it was good for the President or not; administratively and in terms of easy relations with the White House we never could get along with Blumenthal, he was abrasive, he would lecture the President, and didn’t know when to stop. Maybe I’m committing the same offense now. It was a personality and power struggle; I think that was true of the [James] Schlesinger business, too. Who was running energy policy? Was it Kitty [Katherine] Schirmer? Or was it the Secretary of Energy?

Kahn: I am not denigrating her, she’s very able, but Schlesinger, I’m sure, always thought *what the hell’s going on, I send things in and there’s this young woman who’s translating it before it gets to the President*. In the end, Jim Schlesinger’s policies were the ones the President really adopted. The crude oil deregulation, Jim said, “Get it out of the way”; there were people like me and Stu who were scared about it. You remember on the crude oil one, that was the first talk show I appeared on, *Issues and Answers*.

Rapp: On Sunday right after you got down here.

Kahn: The week that I came in, and I was asked in view of the inflation problem, what did I think about crude oil deregulation? I said, “Sometimes things have to be done that are economically proper even though it means an increase in price.” I stated the basic economic case for deregulation. Dennis caught me after the program and said, “Fred, you know you’re in a new situation.” I’m not trying to say I was right and Dennis was wrong, because I was in a situation in which at the same time I was supposed to be trying to hold the CPI down and keep labor in line. Doug Fraser was in my office not long thereafter, not in response to the program, and said, “If you people deregulate crude oil, you can kiss your standards goodbye. If you make my workers pay a dollar for gasoline, then I’m not going to stick to the wage standards.”

I became more wishy-washy on this subject because I was trying to carry two pails. The President ultimately and I think courageously opted for the Schultze plan, a tapered approach to

it with more end loading of the increase to the world market price. Stu and I were more on the side of saying, "Look, do it with new oil, but it's not clear to us that it serves a great purpose to do it with old oil." I'm not proud of that, but it was forced on me by my guidelines requirements.

Rapp: You also knew, Fred, that with deregulation of oil and energy driving the CPI, our chances of being able to do anything with inflation rate were low. This occurred very early.

Kahn: Spring of '79.

Rapp: And with the deregulation of oil and the known implications for the CPI and the way the CPI measured it, we knew that we were setting up great barriers against our ever being successful.

Kahn: I'm not convinced that that's true, but it was certainly the position I took. As it turned out I think probably deregulation on balance helped the CPI within a very short period of time. In the spring of '80 and in the summer of '80 the CPI was then going down and oil prices were getting sloppy. Moreover, we don't know what difference it would have made in the short run, because the world price was going up there. In any case there was a clear short-run CPI benefit of trying to hold the domestic oil price. The long run proved to be really quite short too, and paid off. The minute the President decided it, I went around quite enthusiastically defending the President's view, largely on the grounds that any curtailment of our consumption that resulted would operate in the opposite direction immediately, in terms of the strength of the dollar, in terms of the world price of oil.

Young: From your perspective, was life and work around the White House different after the Camp David thing, were there real changes?

Rapp: No.

Kahn: Look, there was certainly more system in the White House operation because of [Alonzo] McDonald coming in.

Young: Some difference was made in the EPG, I suppose.

Kahn: At EPG, yes.

Young: Inside the White House it wasn't all that different.

Kahn: It wasn't all that different. There would be some introduction of order. I remember we prepared a series of radio talks for the President, or started to prepare them. Stu, I think, was the main motive force, but Al was kind of the organizing one. He was to have given four talks on the economy. I don't know at what point that was scratched. I didn't see a hell of a lot of difference.

Young: I take it, though, your relationships with some of the agencies improved with the changes, as far as your job and the job of COWPS was concerned, in personnel?

[REDACTED]

Kahn: That's exactly correct.

Rapp: Jodie [Joan] Bernstein, not the Secretary; the Secretary was not supportive.

Mosher: Those two people were new at that time.

Kahn: That's true; they were brought in with Pat Harris. There was an improvement. I think the energy one was an improvement, because at that time Charlie Duncan put that advisory committee together and John Sawhill moved in, and that was an effective operation. I remember I had some trouble getting on it but then the President put me on it, and I participated in that, I think usefully.

Rapp: Our efforts with DOT had gone by the critical period of needed support by the Secretary, although, with Goldschmidt coming in, that aggressive new support was a great improvement. But Secretary Adams was always a reluctant supporter of the President's deregulation efforts in the transportation field, and never really an aggressive supporter of it.

[REDACTED]

[REDACTED]

Young: What about the apparent recognition that the spokes of the wheel approach to simplify was the wrong one for the President and he needed to—

Kahn: Improve the hub.

Young: Yes.

Kahn: Well, I think there's validity to that.

Young: Do you think that's the better way to run the White House, to have a Chief of Staff? What do you see a Chief of Staff as contributing or not contributing for the better organization of the administration?

Kahn: I don't want to express opinions that are not worth anything. I don't see how you run a Presidency without an effective Chief of Staff. For all the talk of every new President about

Cabinet government and relying on the Cabinet and so on, I just don't see how it can be done. Maybe because the only system I've observed closely is Carter's. When I was on the senior staff of the council under [Dwight D.] Eisenhower I never saw anything. I just worked with Arthur Burns and he ran things with a very tight hand, and my relationships were on a different level. The only one I've ever observed at close hand was the Carter one, but I just don't see how a President can function without people close to him who perform the function of drawing together different plans, getting a basis for making decisions from people that he trusts very closely. That might be a defect of vision on my part.

Young: I think what you're saying is the idea is good, but it never was put to a real test.

Kahn: Jack, I think, was probably a great improvement over Hamilton for that particular job. I have a feeling that, setting aside my personal attitudes toward Edwin Meese, that he probably is even better in terms, of fulfilling that function, of combining, so far as I can see, the political with the running, although I don't know the respective functions of [James] Baker or Meese, with the Stu Eizenstat substantive function.

Young: That's an interesting point, and a different kind of justification for the Chief of Staff than one used to hear in the past, namely that there's a local group and there's the policy specialists, and one of the things, besides just the sheer size of the White House staff, that necessitates the Chief of Staff is some extraordinary person to bring together the politics with the divergent policy leaders. That brings up another question about the Carter administration, because it's always very widely faulted for deficiency on the political side of the President's job. Carter gets fairly good credit on the policy side in terms of the quality people.

Rapp: I'd like to make a comment about the general Chief of Staff thing. I think while it is important to have someone at the center to synchronize everything—the administrative things, the mechanics of the management of the Executive Office and the White House staff, to see to it that everybody's playing their role and to sort of orchestrate on a grand scheme—I don't think that the lack of an active "Chief of Staff" means that there wasn't necessarily some fairly effective mechanism for coordinating policymaking and getting it to decision point. I think that role was performed by Stu Eizenstat.

As far as the political part is concerned I think that there was a lot building into the decision memo process, which was really orchestrated by Stu's staff, a bringing together of Fred's point of view, Charlie Schultze's, McIntyre's, OMB's role, in that decision-memo system. It wasn't all-inclusive, but in the process of doing it, the domestic policy staff lead person would be checking the politics on the Hill as far as the committees of jurisdiction were concerned. As policy, this is what I know more about than anything else, Lynn [Daft] was always going back and forth walking with [Thomas] Foley, talking with the Senator from Georgia who was chairman of the Senate special committee.

Rapp: Right down to the last detail; going by Bergland's office. I know I went there many times to have meetings with Bob and Howard [Hjort], the chief economist there, a lot of the people in different parts of agriculture. Everything would coalesce in the memo. The politics of policymaking for that subject, fairly well checked out. Unimportant things that Anne needed to

be involved in to get the business communities' support on, like the grain embargo, that was all worked out very carefully beforehand. There were long discussions with the National Security Council staff, in which George Eads sat representing Charlie, and I was there. My point is the White House coordination of it was sort of worked through the decision-memo process.

Young: I've heard you describe Stu doing this and Eizenstat doing this in some areas. I haven't heard you mention the larger political side of the coordinating process, the Congressional side, for example.

Rapp: I just said that on the decision on target prices for wheat, for example. I should have been more specific that Lynn would have meetings.

Rapp: Lynn Daft was the associate director of policy staff for Agriculture. You would have meetings with Foley's staff and with Foley himself, who is chairman of the House Agriculture Committee.

Young: He'd take the departmental route?

Rapp: No, he'd go himself, and he'd take somebody from the department with him, but he'd go up, he'd take the lead and do it. He would go over and talk to the Senate counterparts. They weren't always on agreement on the position that was going to be taken, but he nevertheless touched base with them, explained the position and reason for it. He got their reactions; sometimes compromises and brought it back. Stu was thoroughly briefed by Lynn on everything that transpired. I know that. Before a decision was made, Stu would direct a decision. Stu would say, "Lynn, I think this is what we ought to do."

Young: At what point in this, either an example or typically, would the assessments of the relevant people on the Congressional liaison staff be developed into this decision-memo process, if at all?

Rapp: Many times if Lynn was having trouble getting lined up with somebody he would call [Bertram] Carp or Cable and try to get them to help. I'm not saying it was a perfect process, but I'm saying that there was a staffing system in the White House that led to decisions in a coordinated way and on a schedule.

Kahn: The same thing was true of EPG stuff. Time and again at EPG someone would say, "Well, the issue is up before [Allen] Cranston in Housing." Bill would say to Charlie or around the table, "Who would be the best person to go?" Then somebody, either Charlie or Stu or I on occasion, would say, "Well, I'll go up and talk to them." So there was always at least at every other meeting at EPG some deputation and delegation to some member of EPG of responsibility for doing that kind of clearance and coming back then with a report of how it looked.

Young: Does this suggest that you have a view that the widespread reports that the Carter Presidency just had no strategy for dealing with problems of governance and the problems of Washington, and was always very inefficient and that was a wrong view?

Rapp: In part, yes. I think it could have been better. Please don't misunderstand me. I would like to describe for you factually what occurred on certain things, and this wasn't a one-shot thing.

Young: You weren't there at the beginning of the White House, but would your guess be that it wasn't?

Rapp: It wasn't as polished as it was when I worked with it, and it got more polished all the way to the end. We kept improving the process that I worked with in the areas that I was involved in. I tried to carry the program responsibilities for Fred. It was a system and it worked fairly well. I had worked there before but not in that kind of capacity, however, and there were fewer actors. I'm not so sure that it wasn't just as ad hoc as I've just described it. Not operating through a regularized formalized system. Now when Joe Califano was Chief of Staff in the Johnson administration, Joe Califano orchestrated everything. He told everybody what to do and then he wanted the schedule on what the subjects were and they did it.

Lewis: There was also a difference in the Johnson administration. The political considerations in the Carter administration tended to be culled by the staff to the extent they got them, and by the time the third year of the administration came, which was when we all joined the White House, the system was reasonably well in place of culling at least the Congressional political considerations. That all flowed up to the President. The President would get the memos and to the extent there would be discussion the staff would tell him that these are the policy considerations and here's the politics of it: Senator X likes this and Congressman Y needs this.

Johnson didn't need so much of that. Joe Califano gave him what he needed and ran his intelligence and policy operation. Johnson first of all knew perfectly well what Senator X would want instinctively, and to the extent he didn't he'd pick up the phone and call and bring him in for an arm-twisting session. That was different. At the very peak of the Carter administration it was as though the President needed to be educated each time on the politics of each issue. He just didn't have a background or a framework in which to operate.

Jones: Did he invite political considerations?

Lewis: Sure. I think he did. Again, this is in the third and of course the fourth year, in which everything was highly political.

Rapp: Yes.

Mosher: Dennis, was this system you describe changed in any way after he set up a Chief of Staff?

Rapp: No. That's why the Chief-of-Staff system didn't make that much difference.

Lewis: It really didn't.

Rapp: That's why I wanted to explain that.

Lewis: It was billed for a time as a system in which the President had been overburdened with decisions and therefore on all but the rarest of issues to the extent there was a policy of political disagreement among the staff and between the staff and agencies, the Chief of Staff would resolve those disputes. I remember seeing, I think, a memo on that that simply never happened. I don't know whether it ever could have, but particularly on the kind of issues that the economic policy makers dealt with, the major domestic issues of the administration, it was inconceivable that they could have gone to this Chief of Staff or maybe any Chief of Staff.

Rapp: This Chief of Staff was an administrative Chief of Staff. He was not a political timekeeper for the President, he didn't orchestrate the beat, and Ed Meese does.

Young: Also one has the impression that, though this may be wrong, correct me if it is mistaken, sometimes another useful function that is seen for a Chief of Staff is the person who can say the President must not be bothered with this.

Rapp: Sherman Adams performed the function in the Eisenhower administration.

Kahn: There was nobody, nobody that we would have deferred to.

Young: Would that have been more desirable if he had had somebody?

Thompson: A gatekeeper?

Rapp: I don't think you can run a Presidency like that. Jimmy Carter wanted to know the subject matter and he wanted to know what was going on. He wanted to make policy decisions and he wanted an analytical foundation for them. Adams could do that and could say, "You can't see the President because I don't want you to."

Young: "You guys have to settle this matter yourselves. The President should not be involved in this."

Lewis: Staff would try to do that, even staff not in the Chief of Staff's office, and I think the White House policy people generally would always try, and other than the most central economic issues, when we were working out a piece of legislation, for example, we'd always try to get agreement. I think the staff always felt a responsibility to try to keep things out of the President's desk.

Young: But he didn't cooperate.

Lewis: I think the agencies always knew that the mandate of the White House staff was not to tell them what to do but to try to seek agreement and that they could always go to the President with an option paper, if we couldn't get agreement. To that extent he didn't cooperate.

Kahn: I was told when I came in that the President had expressed great unhappiness with the functioning of his economic advisors, along the lines, I think, of saying, "Why can't you ever come in with a position?"

Rapp: There had been a history of great disorganization in the Economic Policy Group before we got there, and we didn't experience it, but that is correct.

Kahn: Bill Miller did improve that.

Rapp: At first it consisted of 15 people; everybody in the Cabinet wanted to be on the EPG and Charlie attempted to control it and orchestrate it and as a practical matter to get it down to a working system. Charlie told me a little bit about that right after we got there, to try to explain what we were up against. It got down to a manageable-sized group, with five people or six people as Fred iterated yesterday, but the question then was a question of leadership.

Mosher: Did the troika still exist?

Rapp: EPG was the troika.

Mosher: It was the troika expanded to five people?

Rapp: Yes.

Kahn: Was the troika confined to domestic economic policy?

Rapp: No. It never was.

Kahn: Then EPG was not the full substitute for the troika.

Mosher: The troika I think was still operating.

Rapp: Tell me what the troika consisted of.

Mosher: It consisted of the chairman of CEA, the director of the budget, and the Secretary of the Treasury.

Kahn: I see. There, clearly, EPG took that role, that is to say, added to that would be me when I came in, and Stuart, and the Vice President.

Mosher: Occasionally, and then they had the quadriad which included the Federal Reserve.

Kahn: Yes. That was different. And then I participated in that so I suppose that became a quinquiad, but, that's right, that was separate. It was every three months at a lunch. I think maybe Jim McIntyre was not one of those. Who was not in the quadriad? Maybe it was Stu who was not. But Charlie and Bill Miller—

Rapp: Stu was not.

Kahn: And the Vice President would be. I think the Vice President was in everything that he wanted to be in.

McCleskey: You made a reference a moment ago about the President being dissatisfied with the economic advisors when you began there. I'm curious and puzzled about the difficulty that the administration had in dealing with economic problems. I'm trying to think of some simple or simplistic way even of posing the question, and I'll try this: Was it a problem of bad economics or bad politics? Were these problems even manageable to start with? Or did the decisions somehow get made in the wrong way?

Kahn: First, that discontent was reported to me, antedated me, so to an extent that we're talking about the period before I came on, I'm speaking more as an outside observer, although I must say that after I was there, there was an increasing recognition of the mistakes that had been made in the '77-'78 period, and they were clearly mistakes in part of substantive economic policy.

Young: The economic stimulus package?

Kahn: The stimulus package, sharp increases in minimum wage, some very severe acreage cutbacks on agricultural commodities, some excessively high support prices. I think for a while Barry's people were keeping an inflation scorecard, trying to measure the inflationary consequences of some of these various policies.

Rapp: Incrementally.

Kahn: Yes. There was an inadequate appreciation of the powerfulness of the latent underlying inflationary forces, and I believe that the President increasingly felt that if he'd listened to his own instincts rather than his economic advisors, he would have been better off. I think that's correct. That's part of it, I think: incorrect economic policy. I think another part, however, is associated with my general feeling that all the countries of the Western world are in for one-term administrations. If you ever want to get into office, the one sure guidance is: don't be in. Giscard [d'Estaing] and the Norwegian government, and it's what would happen to Margaret Thatcher tomorrow, the Greek government. We're dealing with an, in some important measure, intractable problem, given the constraints of liberal democracy. Unless the country happens to have a kind of cohesiveness, let's say, that the Swiss seem to have, or maybe the Japanese. That would be my second point. One is some mistakes, but second, the intractability of the basic phenomenon.

Third, would have to be the particular constituencies of the Democratic Party, which made it particularly ill equipped in that period to handle the kind of budgetary and monetary restraints that were required. Oh, by the way, an excessively expansionary monetary policy in '77-'78 as well. Bill Miller was not a pillar. I don't think he'll go down in history the way Paul Volcker will, as a great Chairman of the Federal Reserve System. The third, as I say, with the limitations imposed by the constituencies of the Democratic Party, somehow that was associated also with the aftermath, the wounds left by the fight over labor law reform, which again antedated me, but broke apart any possibility that business, labor cooperation might constitute some sort of a genuine—God, I almost said meaningful!—genuine collaboration in restraint. When that was resurrected, it was in the context of the campaign and labor really having a whip hand or thinking

it had a whip hand or being permitted to think it had a whip hand much against the instincts of the President. I think there were capitulations that the President really wouldn't have wanted.

It was largely facade, the Pay Advisory Committee and the Price Advisory Committee. It was kind of a facade for the liquidation of an effective incomes policy, rather than an effectuation. Maybe that may be a slightly excessively bitter summary on my part, but I remember Abe Raskin quoting me in the piece he did in the *New Yorker*, saying that I said something to him about how I felt that I was presiding over the certification or validification of the existing power structure. All I was doing was permitting a wage standard that was particularly favorable for organized labor, let's say, or deferring to this political whip hand that labor exerted.

I think those are the main ones. I think there was also some deficiency in leadership. I think it is conceivable that a President who, as President Carter did, realized that inflation was his Achilles heel, might somehow have had the charisma or the powerfulness of a Johnson. I've said that it would have been in many ways more satisfying for me to have been working for a President who was feared by the people I had to deal with rather than the reverse. I don't think there was much wrong with the President's instincts or desires, or understanding of the problem. I'm not sure, have I left anything out?

McCleskey: Could I follow that up with this question? This goes back to some points you made just a moment ago. Among the three of you there is some experience in other administrations. I'm wondering if you all could generalize about the understanding that you saw particularly among those in the Carter administration who were particularly concerned with the politics of policy. Could you generalize about their understanding of the mainsprings of American politics? Were there differences in the way Carter's political operators viewed the political process from what you would have found, say, under Johnson or Kennedy for those who can make that comparison, but even in your case, Fred, do you think these people really understand American politics? Were their political instincts and political understandings acute?

Kahn: I guess I don't really feel that I have a judgment that's worth anything to you. The fact that my second observation, my second reason that I gave for our failure, I really should at some point mention also the consequences of OPEC [Organization of Petroleum Exporting Countries]. It is always expected that you will be defensive when you say that, because you know that other people will be offensive and their reaction to that: "Oh, that's an alibi." Still, it is no accident that the two waves of double-digit inflation that we've had were both associated with what happened to oil prices.

In a sense—more than in a sense, take that out, fundamentally—faced with that kind of situation, a country has no alternative but to have some inflation, accelerated inflation, or be prepared to have a general depression. You either accommodate to it, in sum, or you go somewhere half-ass in the middle and you don't satisfy anybody. You either accommodate your macro-policy to this great external shock, which means you accept and give validity to the inflationary surge, and validity to the response to that which is the secondary wave of inflation that occurs when people try to catch up with it, or say, "By God I'm not going to do it at all," in which case you've got be willing to tolerate some real deflation before you'll get corresponding declines in rates of increase in other prices. That's terribly important. It was just bad luck, oh, maybe bad energy

policy over the preceding seven or eight years had exposed us to it. Other than that I don't know about the political realities.

What I was saying in my third explanation of my failure was about the constituencies of the Democratic party, given that lack of enlightenment by a George Meany or a Lane Kirkland, I feel almost a bankruptcy of American labor—and there are good old friends of the American labor movement who will say the same thing and have said the same thing to me. Another of those constituencies were the regulatory zealots, whose contributions to our failures were minor really, compared to the first. I wonder if anybody could have done it any differently.

When Stu or the Vice President would say, “You can't do that, we've got to do something for the automobile workers,” or “You can't tolerate this unemployment problem,” or “You can't touch Social Security,” I think they were probably accurately reflecting the external political restraints. And when you or I say, “Well, the country's never going to solve its problems,” or “The liberals are never going to solve their problems until they make contact with these things and develop the way the social democrats in England seem to be trying to develop,” we may be just talking about what ought to be but not what is politically feasible right now. That's the best I can do.

Young: Maybe Ron and Dennis also would like to have some comment on this discussion?

Rapp: I don't want to pretend to know what the political perceptions of the past administrations that I worked in or the key people in those administrations were in terms of their operating style and their operating sensitivities. The only observation I have is in the direct working mechanism in policymaking that I'm associated with, the Domestic Policy Staff, who in my judgment were the only people who tried in a working way to touch a base with what they felt were the important political points. My sense is that they tried to maintain what they thought was a traditional Democratic way and what they thought the Presidency, the Carter administration, represented in political terms. I'm thinking specifically of the staff people I worked with on Stu's staff on health policy and agricultural policy, and these are two big areas of traditional Democratic alliance. Their orientations were to interest groups, and not to the party system. They seldom talked about the Democratic Party in a formal party sense, and the key leaders in the Democratic Party except as they happened to be key people in Congress. I had discussions with them about these things, and I've asked them about party considerations, and they were *de minimus*.

Young: The interest of the constituent groups.

Rapp: The constituent groups who they thought were the real working elements of party support, but not organized parties. I know that the health person always touched base with the American Hospital Association and I had some dealings in that medical context with the veterans' problems, and they always touched base with veterans groups, the legions and the VFW [Veterans of Foreign Wars], and had consultations with them on things, and with labor unions, with the AFL-CIO staff people in their areas.

Jones: Excuse me, Dennis, when you say “party” do you really mean Congress here?

Rapp: I think that their concerns with Congress were with the committees' power structure and not with party per se. Maybe they identified them as being synonymous, since the Democratic Party was in the majority and therefore controlled the chairmanships. They seldom talked about party considerations, except as we got closer to 1980 in Ag policy they were very sensitive to the President's problems in the Florida primary, which was a key primary for Carter, and this was particularly true in the Ag policy area. That was only in terms of seeking party support for a primary victory for Carter in Florida, which is relevant, I admit, but before we got near the '80 primary season, the discussions seldom mentioned party per se, but always interest groups, the Cattlemen's Association, the Dairy interests, on Ag policy; the wheat farms, who had given the President a hard time with their marches on Washington and the corn belt states generally, and that constituency. I guess that's what came closest to being a party consideration in Ag policy, is this in the Midwestern states.

The Vice President's staff was very heavily involved in all Ag policymaking, by the Vice President's own instructions. In dealing with them on differences of view on which way we ought to go on substance, my view was that they continued the tradition they thought was necessary to maintain the Democratic ideals in never wanting to go against those interest groups, and the traditional ways in which policymaking, liberal policymaking, had always moved. My exhortations to try selectively to do things that would, in those specific areas of policy, reduce inflation or tend not to be as inflationary as the then constructed policy were always responded to by, "But these interest groups won't tolerate that."

Young: What you're suggesting is that—

Rapp: I may be oversimplifying this a bit.

Young: What you're suggesting is there is an essential political strategy here that is mismatched.

Rapp: With the conditions of...

Young: With the policy they are trying to get through on the anti-inflation.

Rapp: Exactly. Exactly.

Young: You cannot build a successful program of austerity or moderation or fiscal constraint on those strategies in dealing with those groups.

Rapp: That's correct.

Kahn: In the discussions that led to the accord, there were all sorts of issues that were side issues from our standpoint—those of anti-inflation policy, getting their cooperation—but were central quids pro quo from the point of view of the labor people, and these would come to the ERG and would be negotiated. I would go to these. We'd have lunches with Lane Kirkland, the Vice President usually would be there, and Bill Miller. We had four or five such lunches and then there would be subgroups that worked on trade adjustments assistance, and they wanted a more liberal interpretation of the tripping mechanism on unemployment insurance, and God knows

there would be a series of things like that. Them, similarly, if you take the view of a John Dunlop, I had a whole series of very private meetings at the—what's the name of that club, at 18th and I?—from five o'clock in the afternoon through dinner, and into the evening.

Rapp: Metropolitan Club?

Kahn: Metropolitan Club, with Jack Gentry, me, Lane Kirkland, Tom Donahue, and Heath Larry and John Dunlop, just the six of us. This was, as it came to my authentic area, which was the third year standards, and we must have had three, four, five such meetings. Sometimes there were a couple in my office, and they came in. John Dunlop might say, "Well, you're crazy to think that you could get anything better than you got, and you're crazy to think that you got nothing." John would say, "Look, all you could hope to do is prevent new outrageous steps forward at a time when the CPI is going up at a 13 percent rate, then an 18 percent rate, and back to a 13 percent rate, to get a wage standard that is a nominal seven and half to nine and a half percent. Okay, you and I recognize it might even, with real arithmetic, prove to be eleven percent in some of those cases. But we are still preventing the new breakthroughs, and that's a great accomplishment."

Rapp: No rollback, though.

Kahn: In any case, it's a matter of what you think is possible, that doesn't contradict you because it suggests that the possible is still not enough. Surely not enough to get a President re-elected, particularly with the hostages in Iran as well. The similarity of those two, as I saw it, was very great and contributed to the same feeling of helplessness on the part of the American people. We didn't seem to be able to do anything about inflation, we don't seem to be able to do anything about the hostages. As I encountered it, but I must say I am relying very heavily on a long interview I had with Theodore White, in which he made this point, that those psychologically had the same effect. I don't even have to finish that sentence, because I don't remember what it was, but the political circumstances were such as to make it impossible to do enough to be re-elected.

Jones: I'd like to go back to Dennis' point in regard to the interest groups vs. the parties as a kind of filter through which you would put policy proposals. What you describe sounds like a President or at least a system associated with a President in business for itself. For a long time in this country Congress has thought of itself as a filter for interests and interest groups, and some Presidents, perhaps working through party, have viewed Congress as a place in which you get a lot of those kind of interest group reactions, that the thing is peculiarly well set up to do that. It was intended to be set up in that way, and the combination of the party structure, the committee structure, the subcommittee structure, and so forth, and it's pretty well set up and has been tested over time to do it in that way. Was it your view then that there was almost a feeling that we have to do all of that on the administrative side? We must in essence kind of duplicate Congress on this side, filter these things through interest before they're even proposed on the Hill?

Rapp: I think it was a recognition in sort of a pragmatic way that the interest groups themselves generate that. Part of the people on the domestic policy staff didn't exclude that traditional sounding board, and they knew that these interest groups were talking to members of the

committees at the same time, but the interest groups themselves recognized—and so did the people in domestic policy staff—that depending on the position the President would take on target price, for example, it would have a major influence on what the committees could and could not do. I think it recognized, if you want me to talk about it in sort of classic political science terms, that there is a pluralism in decision making that is shared by non-elected administrators that is very real and has been going on for a long time. In fact it is the way an awful lot of policy is made, working with interest groups, without necessarily excluding the other process, the more formal recognized one of party and organized committee structure in Congress, that those interest groups truly also do work with you, not exclusively.

Jones: The point was to bring that process within the White House system?

Rapp: Not necessarily to bring it in the White House but as a necessary way in which to work and formulate Presidential and administrative policy and that by virtue of the existence of those interest groups that they had to be touched base with and worked with as a part of the process of moving to Presidential decision making.

Lewis: I'd just add one thing to that discussion, which is I think that with the Carter administration it is important not to regard the way in which the White House considered political factors as static. I think perceptions changed, though I'm relying on someone who reads the *Washington Post* for the first two years of this observation. The administration came in running against Washington, as an outsider's administration, with a tremendously ambitious agenda, and for a lot of reasons, one of which I think was probably insufficient consideration of political realities and deficient consultation with Congress and other interested parties, found for a lot of the items on the agenda they couldn't deliver.

It started off not consulting as much, I think, as all the other White Houses, with the standard political sources of an administration's strength. By the time the third year came and we joined it, the pendulum had swung to the point where there was a lot of consultation, partly in recognition of the fact that because of the first couple of years when the President really couldn't deliver on a lot of things he had tried publicly to do. I think there might have been excessive reliance on advice from people in Congress or elsewhere who said, "You can't do this." By that time they were right [laughter]. By that time people in Congress said, "You can't go over, we're going to try to squeeze \$15 billion out of the budget and you absolutely can't do more." I think at that point it was true. On the fourth year there were obvious continuing political consultations of the kind that every administration gets into in the fourth year, but that's different. An election is really separate.

Rapp: It was true because of the Democratic Party predominance in the Congress, because this Congress has shown a very different response to the size of possible budget cuts.

Young: Did you want to get back to your point?

Lewis: That was really all I'd add on that point.

Young: This is an interesting point that what judgments you reach and what analysis you make of these problems of policy, in the Carter administration, depends very much on at what point in the history of that administration you're looking at, and you're suggesting some swings between extremes.

Jones: I wanted to ask one question, a little related to Cliff's question but perhaps more putting it in the frame of your responsibilities: on this whole matter of staff organization, White House and so forth, comparing Carter with Reagan, Meese with several people in the Carter White House, perhaps one of the conclusions one might draw about staffs, staff organization, system and so forth, is that if a President is very clear and forceful and purposeful—whether he's right or not is another matter—but if he has made that quite clear, then it becomes relatively easy to establish a staff and even have someone as agent almost speak for the President. There's a kind of predictability to it that permits a staff organization to grow and relate itself and for people therefore to speak in place of the person who has a clear direction. My question then is just within your area of responsibility, how confident did you become about knowing what the President wanted? Did you feel that you could in a sense be his agent, was that the kind of relationship you had with the President or with the people on the staff, but primarily the President?

Kahn: In the administration of the guidelines, there I could be reasonably confident about what the President wanted. The difficulty was to deliver it. Partly because, although he wanted those things, we never had the capacity. We ran up against the limitations on the ability to expand staff. There I think it was fairly clear what the President wanted: he wanted me to be tougher, he wanted me to identify violators, he wanted to excoriate them, give him an opportunity to excoriate them, and was impatient at my failure to do that fast enough.

In anti-inflationary policy, generally, it was much less clear. The limitations on my ability to represent the President there other than in talking to the public comprised two difficulties: one, the inability of the administration to formulate a strong program. There was the October 24, 1980 speech, you may not remember it at the time, but a lot of people thought this was about the best thing that could be done. People in Wall Street, said, "No, this is a good program, we'll all get behind him." Then, you see, OPEC washed over that whole program, within two months. From then on there was a constant feeling reflected in memoranda to me from Al From and some of it is from me to the President, that what we had was insufficient, unless we were lucky, and we proved not to be; that is, we got more OPEC instead, we got Iran.

Young: And Kennedy?

Kahn: And Kennedy. From that point on there was never a sufficient feeling of a clear, powerful program. It was always underkill, rather than overkill. My second deficiency was the uncertainty of my own role. When I first came, Charlie and Stu were advising me to get myself somebody as a first deputy who would be knowledgeable and widely known immediately and respected. They all said Bo Cutter was the guy I should get, and Bo was available. John White had been brought in as the second in command to Jim McIntyre, and so Bo told me that he was interested in that, but then he felt he had to get through the budget first.

Then it turned out that for months we were proceeding on a kind of interim basis, where Bo was kind of available to us but not available to us but was going to join us as soon as he finished his responsibilities with the fiscal 1980 budget. Then it appeared that Bo felt that really I ought to make Barry my first deputy; there wasn't room for two people. One person should do both. The result was that after some three to six months, I guess, Bo didn't come over. His decision, I believe, may have reflected additionally the general recognition that my office was a seventh wheel. That's perhaps why I had difficulty outside of these two people getting really effectively functioning staff.

Jones: There were a couple of occasions you've indicated that the administration position—sugar was one, I remember was one particular position and you opposed that, and you commented that I believe the President agreed with me on that. Was that an example of the feeling you had of where the President was on some of these things?

Kahn: The one in which I disagreed about sugar, clearly also dairy products, also the bill to exempt bottlers from the anti-trust laws. The one on which I said I believed the President agreed with me was what I said about General Motors, the UAW settlement in relation to the Chrysler bill. In fact, I don't know about it in detail, but it was clear when I was with the President about the overall desire of the President to respond to the inflation problem. There's no question. It was somewhere along the way that the uncertainties arose.

As I say, I did run some four of these meetings with Congressional leaders on developing policy. I remember now that one more session was devoted to getting some consensus on what the tax cut should look like when it came; another was about what we might be doing about the standards the next year and the incomes policies, but there was not yet a formulated administration position, and so it was highly exploratory, and it kind of floundered. When it became clear that we were not going to have a tax cut, at least for a while, that whole line of talk had to be dropped. It was reflective of the inability for the reasons I've earlier mentioned of the administration to have a credible anti-inflation policy.

Young: I noted three things here, one in the comments by Dennis about the connection with the interest groups, and the constituent groups, that that was an important part of the role in domestic policy staff, for example, trying to put this together with the President's final speech in which he talked about the dangers to the republic of single issue interest groups. Second, I've noted Ron Lewis' suggestion that maybe we ought to think of two different points in the Carter administration, one of which toward the end, perhaps overcompensated for the political blind spots of the first part of the administration and I'm trying to match that with another perception that is possible of the Carter administration, which is that any President who was primarily motivated by political considerations did all the wrong things to get himself re-elected, in program terms.

Third, I'm trying to wrestle with the problem, as we try to sort out the causes behind all these consequences, the possibility, I think you alluded to it, but I don't know whether you meant to represent this, that not just this President but the problems that occurred presented a genuine dilemma which no technique, no finesse, no fear could have overcome, however much the President might have been feared. Johnson was a very feared President, but he abdicated. It was

not enough to solve the dilemma of the Indochina war. These are real difficulties to wrestle with in trying to think about the Carter administration, and the OPEC, for example, you remind us that a large part of the inflation problem or the inflation rates were due to that factor alone. What could a President have done about that? No kind of good staff organization or anything else would have been able to do anything.

Kahn: I think that the greater historical truth is in the third set of considerations as compared to the first two, that is, we always tend to concentrate on the Presidency. We kind of have a built-in bias to the assumption that the Presidency makes a difference. I don't mean to say that it doesn't make a difference, but I guess in this recent history one is inclined to think that the times are more important than the man.

Young: It kind of goes back to Clint's question, maybe there's a genuine disjunction between the mainsprings of politics and how one deals with those, and problem solving in these other areas.

Kahn: On the energy issue, for example, we had a lot of discussions about whether the President might take a dramatic step of instituting either rationing or a huge gasoline tax. I remember a letter to the *Times* Jim Tobin wrote, saying, "It's one or the other, that might conceivably have been equal to the occasion." I suppose it is conceivable that some other President might somehow have said, "I don't care about the political consequences." People hate rationing. Remember, his stand-by rationing scheme was rejected, that awful mess, and then Congress finally adopted a bill that would give him the authority only if you had a 20 percent shortfall in supply. We never had a 20 percent shortfall in supply. I don't know how many people realize that with the Iranian revolution, the fact remains that the so-called free world production of crude oil actually went up slightly; the increase in price was not the result of shortages, it was the result of panic buying. Highly inelastic demand and sharply shifting to the right for storage purposes.

You couldn't have demonstrated, but maybe you, political scientists, might muse about that question—would there have been some President who might have seen with sufficient clarity the dilemma in which any business as usual would have put him, somehow choosing between validating inflation and having a real recession, neither of which was acceptable, and the one dramatic breakthrough that might conceivably have been equal to the occasion both psychologically and really in terms of strengthening the dollar, in terms of breaking the world price, in terms of insulating the economy and come out and say a dollar a gallon tax on gasoline? Simply decree that it not go into the CPI, it does not go into any indexations.

Who would say, "I don't give a damn about private contracts, I'm going to have the equivalent of the gold clause in 1934, and in this way we will declare our independence of OPEC, we will insulate ourselves from this bubble, which will pass us over, we will not permit it to pass into the underlying rate"? Consider that all these things could have been done. You tell me whether it was a deficiency of Carter or a deficiency of Frank Moore, or a deficiency of the institutional arrangements with Congress, or of the times, that it didn't—that indeed is close to impossible even to imagine it happening.

McCleskey: You're saying that from an economic standpoint there were probably two alternatives that would have worked: either the rationing or the tax?

Kahn: I think, yes, associated with some fix on wages that would not permit the indexation of those. In my farewell interviews with people in the press, several asked me, “If you were dictator, could you stop inflation?” Of course I could stop inflation, by doing two things: a three percent wage standard on the average, and the dollar tax on gasoline. I don’t think I’d need much else.

Young: Put your question—

Kahn: Why didn’t I do it?

Young: You started out that the two solutions that might have been adequate to the circumstance were these, and you agree *but*.

McCleskey: Why, why not?

Kahn: Do you mean why didn’t the President do it? That’s the critical question, not why didn’t I recommend it. I think first of all, this is a sidelight to history, that had I conceived of my role somewhat differently, or maybe been a different kind of person, I think I might have screamed that these are the two things that have to be done. I think I would have been more unequivocal about it, less understanding of the political realities, less solicitous.

Thompson: Or resigned if they weren’t done?

Kahn: More than I did. It would be misleading to convey the impression that I was always pressing for the powerful policy, unequivocal and frustrated. I’m not as decisive as that intellectually; it takes me a long time make up my mind. So it isn’t that. I think I would have been more as I learned to be in the airline case, doctrinaire, and said, “I see now that this is the way to go and it’s the only way that offers us hope. I don’t want to hear about all the other problems.” I tend to listen to all the other problems too much. The President, to get to the historically significant aspect of it, I guess the President was not willing to shoot himself in the foot politically. And I couldn’t bring myself to urge him to do it. He had inadequate faith in his ability to convince the country that this offered our only salvation. Instead, I’m not sure what did come out of Camp David. Remember, we had Art Okun sitting on the table saying, “You’re crazy to have a tax on gasoline on top of your problems.” You had differences in advice. Economic advice was not unequivocal. It’s easier for me to be sure now, in hindsight, and to talk tough, now that I have neither power nor political responsibility, than I could at the time.

Jones: He had proposed it in his original energy speech, which was the crucial part of it.

Kahn: Ten cents a gallon mounting to twenty per gallon.

Jones: That’s right, over a period of time, and he backed off it. The centerpiece, which was thrown at the edge of the table almost immediately.

Kahn: A different person and maybe different circumstances. Maybe he should have jumped back in and said, “Now look, oil has gone from \$11.70 to 40 dollars a barrel. Surely the occasion demands it now.” But the fact is he didn’t even get that stinking rationing thing through, because it immediately fell apart and the rural people said, “Well, I don’t think that’s going to be quite fair to the rural areas.”

Rapp: What did the President say to you when you went over there and had a talk with him about the 50-cent gasoline tax? There seemed to be some consensus around the Cabinet table when you had that meeting with them. You came back and told me that the President himself scotched it by saying, “You think I’m going to stand up and say to a person in Georgia who has to drive 50 miles each way, back and forth to work each day, that he’s going to have to pay 50 cents more a gallon for gasoline and that’ll do something for the economy?” Didn’t you tell me that when you came back?

Young: That seems to be the realist speaking.

Kahn: I forget. Incidentally, it wasn’t I who went over and proposed this; the subject came up at a meeting with all the powerful economic advisors.

Jones: Is it possible that the political store, sort of, had been given away by the time you came on board in the light of what Ron was suggesting earlier? It would be awfully difficult to be a forceful leader in a sense by then.

Kahn: Yes. Again your question carries an overtone that it was the President’s fault for having given it up; I’m not sure that that’s fair. His energy speech had some very powerful things in it that didn’t get through. How much of that was ineptitude and how much was the unwillingness of the country to accept it? Congress kicked out our ten-cent-a-gallon gasoline fee, when it clearly would have helped on the budgetary side, which they were all hepped on, and it would have helped somewhat on the energy side.

Rapp: I think there’s some confusion in this discussion about the dynamics of events over the four years. The President achieved almost all his energy package. On energy, he began to take us off dependence on foreign oil. Every damn one of them except that Siting Board thing.

Kahn: And the gasoline tax?

Rapp: Forget the Windfalls Profits Tax, he got the synfuel corporation passed, these were the centerpiece pieces.

Lewis: Also, a lot of energy conservation credits.

Rapp: Energy conservation programs, solar program, that was an energy-based policy to get us off dependence on oil. Early in the Carter administration the inflation rate was not bad, and they didn’t perceive until after the first year and a half of the Carter administration that they were really going to have to start having something built into their policy structure about inflation per se. Keep that separate from energy issues, although some of the energy issues, after the oil

decontrol decision, or concurrent with it, happened to be inflation related in their objectives. They were again tied to getting self-dependence on oil and solutions to the oil problem. I don't think you can blame the first two years of the Carter administration for not setting the proper political tone in terms of either the Democratic Party or the traditional supporting interest groups, and beginning to work on inflation.

Jones: I wasn't suggesting that.

Rapp: Maybe they just were riding the traditions of the Democratic Party and assumed that they would continue to make policy except for the energy area, and that they had to say some bad things politically and do some things that people didn't like for energy reasons but not for inflation reasons. They didn't set the proper political tone for beginning to carve up and do things that were antithetical to their traditional support groups in the Democratic Party on their programs that were inflationary. Those were the frustrations that we ran into. I remember one time, maybe this will help cap this off, to get a lower level of consideration. A woman who worked for the Vice President had a long talk with me one time in the Ag policy area; she said, "I know what you're trying to do. Some of these programs had to have some structure built into them that tends to contribute to inflation," talking about dairy and target pricing, "but unless you can show me how each one of them knocks off a piece of the percentage point of the CPI, we lose more than we gain on the inflation fight by loss of support of these people. And when we lose the support of these groups, we have lost our political support." That's precisely what she said.

Kahn: She could well have been right. That's why you have inflation.

Rapp: Yes, and she said, "Don't keep coming around to me piece by piece and telling me that we've got to hold down the target price raise when everybody in this support group wants the target price raised by the traditional measures we use in the open to realize them. If you can't show me a direct relationship to a knockdown in the CPI next month or a year from now."

Kahn: It's a little more precise, but I think very illuminating, the arithmetic of inflation, unless of course you're a monetarist, in which case all this is irrelevant. Suppose you could demonstrate it, a fiftieth of a point on the CPI, or a twentieth of a point on the CPI that the political plus from a twentieth of a point on the CPI is less than a political minus.

Rapp: Exactly.

Kahn: Arithmetic of inflation.

Rapp: Exactly right.

Kahn: You add all that up and there are more votes for inflation.

Kettl: I'd like to continue on some of the things we were talking about before the break. It's possible, maybe not fair, but possible to argue that as you listed out the major problems that you faced, that things that were most important, here, on the one hand the intractability of the

problems and on the other hand how the constituency of the Democratic Party made it politically difficult. I'm wondering if in fact that isn't two different ways of saying the same thing. In fact, from the economic advice point of view that the thing that separated most of the economic advice that was around, and in fact most of the economists, was not so much a judgment on what economically had to be done but what politically was possible so that in fact what you had was not so much economic and political advisors who were dressed up in different clothes?

Kahn: Yes, I think that's probably right. The intractability of those problems was obviously closely associated with the nature of the political alignment. I think that's right. They're two different sides of the coin. If, for example, you're a strict monetarist and believed that, and of course I must be careful since I'm in Charlottesville [*laughter*]. What I meant was that if you're a strict monetarist you would not agree about the intractability of the problems. It is simply a question of political will. If you have a somewhat more complicated view of the problem—this almost shifts me to the other side, because my view of the complexity of the problems is intimately associated with my regarding inflation as something reflective of a society that's incapable of disciplining itself. You're quite right, I almost merged the two views, because I'll say to a monetarist, "Well, why is it that some societies at some times are able to practice the necessary monetary restraints and others do not" and then the monetarist will say, "Well, you're over on the political side." Or I'll say, "I'm over on the social or historical or cultural or whatever side."

Kettl: To the degree that that's true then that raises a terrible problem, I think, about how one gives good economic advice. It's a terrible tightrope walk: on the one hand, you're involved in a situation in which if you find good economic advice that is also good political advice, then there's a danger that it strays a bit far afield from economics. But then if you give purely economic advice, it's easy to ignore you altogether because it's not in any way politically useful. Perhaps you might discuss how one might have improved in a second term, organizing economic advice in the Carter administration, to try to deal with what is a truly intractable problem thus far. How might the Carter administration have responded to developing economic advice in the second term?

Kahn: It's hard for me to answer, because I shared with the American people the feeling the administration had run out of steam, ideas, and effective organization. A second-term administration, in any realistic conception of the auspices under which it might come in, would be a dreary affair; I don't know if Dennis or Ron agree with that, because we would have been elected by the same constituencies that frustrated effective policy. Since I give even greater primacy to external circumstance, we would probably at least have had the luck that I kept expecting two or three months down the road, and it finally came under this administration, energy markets were responding to deregulation. What did Reagan do? He concentrated it all in January instead of letting it take from January to September, but in effect energy markets were already slumping. We might have been better in that we would have avoided Kemp-Roth and therefore what happened to interest rates. Food prices in 1981 behaved just like lambs, cows behaved like lambs [*laughter*].

Young: Steers, not cows.

Kahn: A good deal of the pressure might have come off. I don't think it would have solved the long-range difficulty, and I think probably we would have gotten a somewhat stronger automobile settlement than we now look as though we're going to get if we avoided the plunge that high interest rates seem to have caused. I'm not really answering your question because I don't know what the answer is. I don't know how the Carter administration would have behaved.

Kettl: One can imagine a very rosy world. You have Paul Volcker pulling down the interest rates slowly but surely, finally succeeding; you can imagine food prices stabilizing; reasonable things happening to the price of gasoline; you can imagine Carter finally, after feeling confident after winning re-election, having got into a situation where he could say, "Now I think I can cut the budget and come closer to a balanced budget and I can also avoid the Kemp-Roth pressures." We can imagine a very rosy world for economic advisors.

Kahn: The external circumstances were favorable, had become favorable.

Mosher: But can you imagine all this without a recession?

Kahn: It's hard to imagine, but I don't think there's anything inherently causing a recession in the favorable developments. It is not the weakening of world energy markets, in part that was a consequence of failure of our economy to grow very rapidly, but in large measure it was just the elasticity response and the inability of OPEC really to behave like a totally effective cartel.

Mosher: What about the interest rates?

Kahn: That's right, that's right; all I'm saying is that none of us will ever know to what extent that upsurge of interest rates was a consequence of Kemp-Roth. The administration whose arithmetic was such that with all the fluff, all the publicity about the \$37 billion in cuts was sharply extending defense spending and at the same time going ahead with a radical, even by Keynesian terms, a radical cut in taxes. I think the best objective judgment you could make would be that interest rates would not have behaved so badly. How much less badly I don't know.

Kettl: Would there have been a way for an economic advisor in the second Carter term or even early in the first term to somehow maintain political influence without becoming captive of the kinds of the constituencies of the Democratic Party, the problems of deficiency leadership that you pointed out before; and was there some way of being able to somehow improve the dance along that tightrope?

Kahn: I just don't know the answer. There would certainly have been a new effort by the administration to reach some sort of understanding with labor more effective than the one they had. I'm quite confident that we were sufficiently worried about the size of the impending wage settlements and particularly to the extent that you didn't have a recession helping you or that the recession was milder. I think we would have come back to the President's desire to balance the budget with renewed effort. Other than those two things and possibly pushing even harder on the regulatory reforms, I'm not sure. Maybe it's a defect in my imagination, but I can't think of anything very radical that could have been done to change things.

Maybe another way of looking at it is, let's see, what did Reagan do? One was clearly the really tough budget stand. Carter would have been half that. I'm just guessing. Second was a much more powerful ideological patronage that motivated changes in regulatory policy; Carter would not have gone nearly so far, I'm quite sure. I wouldn't be surprised if in a second administration he would have had some of those extreme people leave. I'm just not able to say.

Young: The regulatory zealots.

Kahn: He would have kept Darius Gaskins, though; he would have kept the pro-competitive and would have pushed faster on that, surely. He wouldn't have had to pay off the Teamsters.

Young: Or, if the politics had changed, if the President had run against certain segments of his own party and gotten an endorsement for that, maybe, the politics might change.

Kahn: Remember that he ran against Kennedy.

Jones: It also happens to Congress, you have to throw that into your imagination, also. In a second term, if you'd gotten a Republican Senate and increase in the number of Republicans in the House, that's one scenario, and another is if the President ran well and appeared to either stabilize the Congressional majorities or in fact increase the Congressional majorities, all of those as far as the interest group business, representation, budget cutting and all the rest of it are contingent on what's happening there.

Kahn: I think that's exactly the case.

Jones: And how they picture his relationship to what happened there. Certainly if the Democrats came in on the low side, and the President won narrowly, they might picture that they had trouble.

Kahn: Because of him. On the other hand, it's conceivable that he might have made more common cause with the gypsy moths, the Republicans. I guess that's the problem. I can't envisage sufficiently clearly what combination of political circumstances there would have been, but I think the instincts of Carter would have been to do better the things that he had always wanted to do, along the lines that I suggested.

Young: Do you think the Carter Presidency in this respect will, after the Reagan administration retires, be seen as the defeat of a centrist Presidency, in policy terms? The non-ideological components of traditional Democratic position, his policy and posture?

Kahn: Other than that that is in fact what happened I'm not sure I agree. That is to say, yes, Carter was a centrist, and yes, he was defeated, and therefore, historically, it will be seen as a defeat of the centrist candidacy.

Young: Is centrist the right word?

Kahn: Oh, yes. Yes, I think that's right. If you mean by that a generalization will be drawn from that beyond the particular incident, I'm inclined to think no. That is to say, I'm inclined to think—I hope this isn't just self-justification—that, subject to some discount, that people will see that what he was trying to do, though inadequately, not with sufficient effectiveness, were the right things. That's in effect what I was saying in this liberalism piece. I think he'll get credit for a good deal of courage in deregulating crude oil, which is one kind of deregulation, and then the other deregulations that we've referred to.

His recognition that the Democratic Party cannot simply accept the bankrupt, I think in some considerable measure, policies of running against Herbert Hoover or the Jack Kennedy campaign of 1960, which may have been pertinent at that time, everything you have to do is just get America moving again, increased government spending, multiplication of programs. It seems to me his efforts to move us toward reduced dependence on energy can only be regarded historically as the proper course to have taken. I think that in many ways Reagan will help; that is to say, the environmentalists will say, "Jesus, Carter wasn't so bad after all," and maybe the labor will come to say, "You know, he really wasn't so bad after all."

Rapp: And the women's movement and the veterans.

Kahn: The women's groups particularly. The way he was excoriated by those women, it was incredibly unjust. There was nobody who was better on that issue than Jimmy Carter, in terms of appointments, in terms of, boy! The trouble that Charlie Schultze had getting an appointment on the CEA—the best available person—because he wasn't a woman.

Rapp: He got rejected constantly because he wasn't putting women on the council.

Kahn: How many women would there be on the Supreme Court today if Jimmy Carter had Supreme Court appointments to make; how many female judges did he appoint? All of them add up to more than all the rest in history.

Rapp: They criticized him very openly.

Young: Because ERA [Equal Rights Amendment] wasn't passed.

Rapp: Because he wasn't doing enough, because he didn't get ERA passed.

Kahn: It's not just those interest groups; I think that historically it will appear that that's the way the country's got to go.

Young: We've got two questions. Is this along the same line?

McCleskey: I think this is.

Young: Anybody have a follow-up question?

McCleskey: You have said that Carter was trying to do the right thing, that he had the right instincts; you've also indicated he failed but it was in some sense a failed administration. To what would you attribute that failure? Is it the man? The system? The political understanding?

Kahn: Primarily I think it was because of external circumstances, whether you define those as the inflationary upsurge, the OPEC situation, the unwillingness of the country to do what was necessary, and in some degree, the political failure of the President and the administration. My feeling is that the first is more important than the second, but that's probably all I can say.

Rhoads: Since both of you worked with microeconomics to achieve what you tried to do, to what extent do you think Carter understood reasonably well what you call the basics of microeconomics? How did you feel about Eizenstat's and Jordan's, his closest advisors, thinking about things like that? There was a quote in which someone said competition is naive. He did come in as you mentioned, a populist, high interest rates are bad and so on. To what extent would he have had the problems that you had in convincing people that the employers' contribution to health insurance was not anti-poor, in other words that it might hurt some people of below average income, but on balance not, and that some such sacrifices are necessary? To what extent in that article were you talking to Jimmy Carter as well as the other wing of the Democratic Party, or to what extent do you feel he really understood pretty well microeconomics and was a good learner and picked it up and so on?

Kahn: I think preponderantly I was talking to the other wing and not to Jimmy Carter. He had a couple of blind spots. He thought middlemen were the source of inflation in food. It takes one to know one, maybe, *[laughter]* since he was a peanut warehouser. I think it was an element of naiveté, you know, if you bust a few people, and you can make the standards work better. There was some of that naiveté. The naiveté about the case that I gave—I was just as much arguing with Betsy Bailey as I was with him—but the notion that if you have one carrier from New York to London that somehow you'll have substantially more competition if you have a different one going from Dallas to London. It's like saying, "Gee, the big grocery store in Washington is Safeway, so the big grocery store in San Francisco better be A&P." That's more extreme. How many people were going to go Dallas-New York in order to catch a plane?

Young: Reagan thinks they're very mobile.

Kahn: Airplanes?

Young: People.

Kahn: Oh, yes. Not that way *[laughter]*. When you fly, some of them are. That's a rather restricted point I was offering because the Texans had been putting great political pressure on him to do that and I was afraid it at least would appear so. Also I had a sort of, I think, more sophisticated recognition that you could not indefinitely deny Pan Am access to international routes on the ground that Braniff was better equipped to pick up the domestic passengers and keep them on Braniff planes, when you had systematically denied to Pan Am the opportunity to have the domestic routes, and that until you opened up the domestic market and created equal

opportunity you were just in effect killing Pan Am. I think there's some evidence that that's what happened. That's a very narrow example.

His attitudes on interest rates where he learned and magnificently supported Paul Volcker. We had four evening buffet suppers and then discussions in the East Room with members of Congress after the March 15 speech, and his ability to explicate the policy was really superb. Apart from some of these blind spots, I thought he was really very good on economics. It wasn't a defect of recognition of the problem of sugar, or of dairy products. In the latter part he refused to put quotas on shoe imports. I think that was a slight waffling on looking at it, but he didn't put the quotas and it was before the New Hampshire Primary. He had a recommendation to put quotas on leather clothing and he refused to do it. I think that's made in New York City and that was before the New York Primary. He took the two cents off the sugar import fee at our instigation. In any case he took the two cents off, at that time; he refused to put quotas on automobiles, with UAW and Coleman Young pushing him. There were a series of those politically courageous acts.

He dropped the trigger price protection; after the Russian embargo on feed grains he was under great pressure to put large acreage cutbacks on feed grains and he refused to do it on anti-inflation grounds. I don't think there was anything very wrong with his perception, and even his determination to stand up to these people. Did I answer your question? He was very educable and then you've got to throw into the balance his insistence on competition wherever possible. We got him to write—I don't know who "we" is, I think Ron played a role in that—on innovative regulatory techniques or, was that mainly the Regulatory Council?

Lewis: I think Peter Petkas probably more than anyone.

Kahn: In which he was urging people to use more controlled trading and transferable rights and something approaching emissions taxes and the bubble. Those were very hopeful developments. Now he of course ran up against the people he had put into those offices, however, in many cases, people who were excessively rigid and ideological. Notice the nature of his regulatory appointments. I think Ron said this some time ago. They were careful regulatory appointments; they were of qualified people in all cases. Joan Claybrook was qualified, in a particular perspective, so was Carol Foreman in the Agriculture Department. He was a victim of that. I believe that there might have been some changes in the second term in that direction as well, in the direction of less ideological social-protective regulation. As I say, some of the things that Reagan did in these areas are not quite so bad.

Jones: As regards these kinds of appointments, we discussed the women as a group and so forth, there did seem to be a failure that was perhaps inevitable given his own posture in politics to sort of educate them in what was necessary to those politics. It seems that many of these groups and it seems many of these appointments continued to represent their interest rather than join them in the White House and see the need for bargaining and come to realize what the President's position had to be, and compromising and developing policy.

Kahn: I think that's right. Now I don't want to exaggerate. Ron pointed out that Doug Costle didn't always satisfy us, but he tried genuinely to bring some order and some logic and economic

rationality to the regulatory process in his role as the head of the regulatory council and some of the other people, like Jodie Bernstein. There were some people who tried genuinely to cooperate. I'm not sure about the Consumer Protection Agency, but my impression is that Susan King was intent on trying to get some economists in there and trying to do some cost-benefit assessment.

[REDACTED]

[REDACTED]

Jones: Heroism without compromise.

Kahn: Yes, exactly.

Mosher: This is changing the subject quite violently but I was curious whether in the field of economic policy Carter was particularly influenced by the Georgians, whether they were helpful or obstructive to you in your efforts.

Young: By the Georgians you mean Eizenstat, Moore, McIntyre.

Mosher: McIntyre, Jordan, Powell.

Kahn: First of all, I don't know, I was never in on the lonely ultimate sessions at which choices were made. I suspect of course that there were more Georgians in there than non-Georgians, but it's very hard to put together as Georgians Powell, Jordan, McIntyre, Eizenstat and label them all the same way. And, Moore.

Young: The Georgians were the bad ones, I think.

Kahn: Eizenstat is not really a Georgian at heart [*laughter*].

Young: All the good ones weren't Georgians [*laughter*].

Kahn: McIntyre surely to the extent that he exerted an influence would have exerted in the direction of curtailment of government spending and moved closer to a balanced budget. He was not a powerful, effective person, but then it's not his fault. Stu would be a different story. You might say that everybody admired Stu, and properly so, as a decent, intelligent hardworking person. Still, I suppose that there were critical times when Stu was, as many of us would say, excessively responsive to labor and similar considerations. What role Jody Powell had, God

knows, I don't know but he played a very important role, and he is very smart. I really don't feel competent to comment on others.

Mosher: Did you ever feel that there was an inner circle with access to Carter that had gotten involved in the economic policy?

Kahn: I'm sure that there was an inner circle that played a role.

Mosher: [Charles] Kirbo, for example.

Kahn: Oh sure, but you see, I'd be surprised if Kirbo would be taking the same position as, let's say, Mondale, who was also I suppose in an inner circle. It's easy for me to say Georgians, but there were different kinds of Georgians.

Young: You're saying the group was not a unified group. I think his question was two questions, which I think have to be separated: Was there an inner circle, and the answer is of course, yes. It's rare that there isn't one. Did you feel a source of problems in getting action where you would have liked to have seen it in the economic policy, that these people as a group were playing a role and I think you've answered that.

Kahn: As best I can. It's confusing.

Young: Eizenstat has much more relevance than Powell would.

Kahn: I think that's right. My impression is that the President relied very heavily on Jody Powell, very heavily, substantively, more than people perceived. That's a strong impression I have.

Mosher: You mentioned yesterday, for example, that Charlie imagined himself as a fifth wheel, he was outside that circle, and you described yourself as a seventh wheel.

Young: Can I ask who the sixth was?

Kahn: Six was too close to what I perceived as Charlie's role, so I was seven. The point is that as chairman of the CEA, with an institutional mechanism and responsibility for making forecasts and therefore explicitly for formulating macro-policy, with an agency that was geared up always to supply the machine runs that would tell you what were the consequences of this or that for the consumer price index, no number is good or bad, a number is a number. On any single policy that you could name, there was an institutional role for the Council of Economic Advisors even though it had no operating responsibility. He met regularly with the President, perhaps half an hour every other week or something like that, alone to discuss things.

In addition, of course, Charlie had such a wealth of experience and knowledge so that he had to be an active participant in the details as well as the aggregates of budgetary policy, just from his own history. In all those respects he out-gunned me, in a sense. He always came to meetings infinitely better prepared than I, and so all I had to do was get by on my native whatever I had on

that one corresponding institutional role which I've discussed, responsibility for the wage price standards.

Mosher: Going back to the wheel analogy, who were the first four wheels?

Kahn: We never actually talked about it, and they would vary from one policy to the next, but in general economic policy, I think it would clearly be Miller and Eizenstat and the Vice President and maybe McIntyre. McIntyre helped put budgets together. I just happen to have been able to name four. That was only a metaphor.

If you only had one generalization about the President's feeling about economic policy in the first three years, my inference is that he believed he was oversold by the Keynesian expansionists. This is not inside information. It's still a perception I have, and that seems to fit.

Rapp: Charlie was the principal economic strategist at the beginning of the launching of the Carter economic plan.

Kahn: I saw the President time and again look to Charlie, ask his opinion, and rely on it; Charlie was certainly involved in writing drafts of speeches, more than I.

Rapp: I don't know, Fred.

Kahn: No, but it's pertinent of course.

Young: Didn't the President, when he appointed Blumenthal, identify him in the meeting with the press as "my principal economic advisor?"

Rapp: At some point.

Young: Or was it Schultze?

Kahn: No. At some point, I know that he said it about Blumenthal. Blumenthal was always after him to say it.

Young: Yes.

Kahn: I remember one occasion when he said it. He was going to say it in a way that looked as though he was already writing me off, especially as it came after my banana incident and my Schnooks incident, which you probably don't remember, mercifully. I talked to Stu, and Stu said, "No, we will get to it that he says it in such a way that it doesn't minimize your lead role as advisor on inflation."

Rapp: Don't read his naming his Secretary of Treasury as the lead economic advisor as being a derogation of any of the White House staff or Executive Office institution leaders. Charlie was one of the originators of the trickle back in the Johnson days, even before that, the Johnson administration didn't start it.

Mosher: Eisenhower.

Rapp: Died, and it revived in a slightly different form. Charlie preferred that to Secretary of Treasury, I believe this is correct. Always be named by the President, always be looked to as the lead.

Kahn: Charlie was not a turf-conscious person.

Rapp: No, he was not a turf-conscious person. I think he believed institutionally and politically as a part of the Presidency that he wasn't, that the Council of Economic Advisors chairman was an inside advisor and not necessarily an external entity.

Young: It's interesting that he's one of the two people I know of in the administration, Schultze and the other being [Lloyd] Cutler, who toward the end and after started talking about how perhaps we ought to consider changing our form of government because what we have now is not going to work.

Kahn: Charlie did that?

Young: I don't think in print.

Kahn: How would he have changed it?

Young: Toward a parliamentary system.

Kahn: Oh, I see.

Young: Yes, not toward a socialist system. It is one commentary, at least, from the inside.

Mosher: There was an advisor to President Kennedy, who will remain anonymous, who said after he'd been in the White House for six months that he'd always believed in democracy until he got to the White House and he gave up [laughter].

Rapp: A lot of people who that might have been.

Jones: A name that has come up quite infrequently is that of Mondale. I wondered whether you wanted to say any more about his role as far as your job was concerned.

Kahn: I had very little active and direct basis for commenting on that. Until the primaries came up he participated in all the meetings of the economic policy groups, and contributed to, number one, some sense of urgency about the inflation problem and as related to that, two, a kind of a plea for imagination and effectiveness, and three, at times, a willingness to confront political obstacles. I remember when we raised the question of increasing the cut of timber around Federal lands and he said, "Where the hell is that? I've been trying to get it for years." I think maybe even on Davis-Bacon. I'm not sure.

Rapp: Oh, no, no, remember the EPG meeting, the confrontation when Ray and Fritz stood up and said, "Get off the backs of labor, stop it, guys, this is the end of this campaign." I don't know if he used that word, but it was the sense of what his statement was: this is the end of this and we're not going to raise Davis-Bacon again.

Kahn: I don't remember that, but I wouldn't be surprised.

Rapp: No, you came in late; you were at the airport and you asked me to go to the meeting and start the representation with you.

Kahn: Nothing certainly came of that. Beyond that I have only the impression that on agricultural policy he didn't want us to do anything. I'm trying to think. Similarly on the automobile workers, his position was surely one of, "Isn't there something we should do?" And yet, again, I don't want to oversimplify. Never in my presence did he come out and say, "We ought to put quotas on Japanese imports," but at the same time I would be surprised. He leaned in that direction with the President. I have the impression of someone omnipresent and interested but not of someone within my vision, which would be not only the EPG meetings but the meetings between the EPG and the President, not someone coming out on his own initiative and formulating specific suggestions and saying, "Look, this is what we ought to do," and yet he may well have been doing that with the President privately.

Young: Wasn't there also historically what appears to be an unusual connection working between some of Mondale's staff and some of the White House staff, specifically the domestic policy staff?

Rapp: Bert Carp, the deputy director of the domestic policy staff, had been a formerly very senior man on the Hill; for a long, long time he knew all the constituent groups at first hand, he knew them by name, had long working associations with them.

Young: Was Gail Harrison then, working in effect also on domestic policy staff?

Rapp: She got many of her analytical and political clues right from Bert Carp.

Young: This was when Carp was on the domestic policy staff. He was transferred.

Kahn: Mondale was represented at the EPG meetings regularly by John Farmer.

Rapp: Farmer? He was a staff aide to Mondale and was an intelligence gatherer and a recorder; I take it from my discussions with John, just of actual happenings at meetings, not policy formulation.

Kahn: That's right. I think one of the impressions that was not in my answer, which I had never formulated before very much, was that I never saw Mondale as an independent formulator, either in the narrow or the broad sense, of coherent imaginative or powerful effective program

suggestions. It tended to be in terms of: Can't you guys come up with something? Why can't we have selective credit controls?

Rapp: Bert Carp reflected what Mondale's role was in the White House. It was that he was the protector of the liberal wing's historic association with the interest groups, with major segments of the interest groups that were part of the Democratic base, and I was literally told that in one lecture by Carp about the medical stuff.

Young: There's a young professor here studying the Mondale staffing and one of the things he's picked up is that this is unusual historically, this kind of role of the Vice President, but more than that, of the Vice President's staff working with the White House staff.

Kahn: I suppose that was part of the unusual relationship between the Vice President and the President. It was unusual. Weren't there a couple of times when I sought out Mondale and when I was feeling particularly frustrated by what I saw as the lack of imaginativeness on the part of EPG? I think I've already used the expression to you: I saw EPG as an agency for systematically eliminating and weeding out any possibility of imaginative innovation.

They'd say they were getting rid of crackpot ideas, it's only that the traditional ones didn't work. I can remember not having very satisfying conversations with Mondale—I think he was not particularly satisfied that I was very effective—but just somehow to see whether there was some way of generating some new ideas. I liked him very much personally, an immensely attractive man.

Jones: I think part of the record that is being put together here should reflect your own personal evaluation of this experience. It's of interest to academics. Certainly, since you're an academic, if you can reflect on what it came to mean to you.

Kahn: You mean my personal evaluation of the personal experience?

Jones: Yes, as a personal experience, what you got out of it. Is this the sort of thing academics ought to do more of?

Kahn: First I'll summarize. People have asked me if, knowing now what it was like, you were asked to do it, would you? There are two questions: Would you do it again? If by that they mean would I go through that past experience, knowing now, if I put myself back in 1978, would I accept? The answer is unquestionably yes. Despite all the advice of people who said, "Get out of it if you can," the answer is unquestionably, yes. I'll be glad to expand on it.

If they mean by that, "If Carter were re-elected would you do it a second time," that is, continue it? Unquestionably no. When he prevailed upon me to stay, I wrote back and said, "Yes, provided I may leave after the election, no matter what the outcome." Mary said to me, "Are you certain? You really must think carefully; remember, he offered you the job, just as he did the one at the CAB; he said if you do this for a while, any other job you're interested in, you may have." I think he put it just as baldly as that. Anyhow I did think it over carefully; there was no other job in Washington that I would have wanted. Now I take it your real question was the first part.

Jones: The second was the important because it suggests that there's enough of a bad experience. You reach a point where you decide that there's enough.

Kahn: Yes. The first part, I think, the reasons are fairly obvious. It was so different from my academic experience, and so illuminating in so many ways. It was an extraordinary learning experience, number one. Second, it was extraordinarily different from my two major non-academic governmental positions, as head of those two independent regulatory agencies, which were almost unalloyed joy, because you were boss of an agency, and could bring in people that you found intellectually congenial and together then could really do something. People are less aware of my New York experience. I urge you to look at a book by Douglas Anderson on something about regulation of electric energy; he talks at enormous length about what I did at the New York Commission. Have you seen it?

Rapp: Yes.

Kahn: It's a good book. It's very satisfying for me to read. Third, purely personally, because like the other two jobs, and also differently from them, it required and called upon me to use resources and abilities that in the first two cases I didn't know I had and could use successfully, and in the third case I found some more deficiencies in my ability to operate in that area. That was illuminating; I learned something. I'm a very good head of an independent agency; I'm not so hot when you're dealing with a whole bunch of guys who are in power positions.

It's a question as I was quoted in the *Wall Street Journal* in a very illuminating article, saying I feel as though I'm the fellow who's outside the football huddle who's running around the outside saying, "Let me in, fellows." I don't like that. I like to have responsibilities and functions and then I can do things, or just to make my own, but I don't like to jostle. In particular because I'm not very good at quickly expressing my opinion and saying, "This is the thing to do, you fools, why don't you listen to me?" Even in terms of discovering my deficiencies it was a marvelous experience. Then discovering still other capacities that I had, my histrionic abilities. That was fun; I love people shoving microphones in front of me. This is an ego experience as well as an extremely interesting one.

For all those reasons. Those are all personal reasons. Now I don't mean to leave out the feeling that I could accomplish something, this marvelous group of people I had right around me, just a few people. I brought the two I was most congenial with. We did do some things. We didn't stop inflation. I didn't change the world. As I say, if all this public exposure hadn't gone to my head I would be satisfied with a lot of the small, and some not-so-small, things we did accomplish.

Young: I'd like to urge you to go on, but I'm your timekeeper and I know you have a plane to catch. I want to thank you all very much.