



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

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

CARTER PRESIDENCY PROJECT

FINAL EDITED TRANSCRIPT

INTERVIEW WITH CHARLES L. SCHULTZE

January 8-9, 1982

Interviewers

University of Virginia

Charles O. Jones
Donald Kettl
Frederick Mosher
Peter Petkas
Steve Rhoads
Kenneth Thompson
James S. Young, chair

Visiting

Erwin Hargrove, Vanderbilt University
Bert Rockman, University of Pittsburgh

Audiotape: Miller Center
Transcription: Miller Center Staff
Transcript final edit by: Jane Rafal
© 2003 The Miller Center Foundation

| UNIVERSITY of VIRGINIA

CARTER PRESIDENCY PROJECT

FINAL EDITED TRANSCRIPT

INTERVIEW WITH CHARLES L. SCHULTZE

January 8-9, 1982

January 8, 1982

Young: I want to welcome Mr. Charles Schultze to this session. The ground rules as we all know are that nothing said in the room goes outside of the room. Mr. Schultze alone will have the opportunity to see the transcript of the proceedings. He will then have the opportunity to edit or indicate what portions will be put off the record. The transcript will then be returned and, as amended, will be used as primary source material for research purposes here at the Miller Center. We have in mind using these materials from this and the other Carter project sessions for purposes of writing, under Miller Center auspices, an overview of the Carter Presidency. Following that use of the transcripts, they will then be made available for general scholarly use.

The fundamental purpose of the session and the general topic we'll try to emphasize in the sessions is to get an in-depth oral history from the vantage point of the senior aides. In this case we have one of the leading economic advisors to President Carter. We invite them to tell their own story of this Presidency, their role in it, and help us as observers from the outside and as analysts in figuring out how this Presidency worked, how it responded to the problems of its times, its strengths, accomplishments, its failures and problems.

In terms of the focus of the discussion, we have three large areas that we'd like to emphasize. One has to do with the transition into the White House: the early formative period of the Carter White House, including how Mr. Schultze got into it; how the economic advisory system was initially formed; why it got established the way it did; and what kind of role Mr. Schultze was expected to perform in the Administration. What did the President and his advisors see as the main goals in the economic policy of their Administration? What were the plans and how did they view their own role and purpose in economic policy?

A second subject that we can then move on to, and it is a large and diverse one, is talking about the nature of the economic problems that this Administration confronted. They appear to have changed over time. How did the Administration respond to those changes or to those problems it experienced in office? Not only in policy terms, how did economic policy shape itself in this Administration? It would be very useful for us to talk about these things, and to talk about some specific cases. Use those cases that you think are important for purposes of illustrating how economic policymaking was organized and worked. Surely, coping with the changes in the inflation index is an important one. The economic stimulus package may be another.

There may be other specific cases and general principles about which we might be able to talk. We're interested in finding out, for example, how economic policymaking or an economic advisor in your shoes related to the other institutions involved, such as the Treasury, OMB [Office of Management and Budget], the Domestic Policy Staff, the Cabinet, and Congress. You might want to draw on your experience in another Administration for purposes of illustrating the substantive problems and the way the White House was organized for dealing with them.

The third major subject, which we may get into later, will focus on larger questions about the 39th Presidency in its time, about Carter as a President and the Carter Presidency as a phenomenon in its time, in its place and the circumstances in history. We can talk about the problems of the Democratic Party, the problems of unanticipated changes in the economy, unanticipated when Carter came in. We'll discuss the apparent switch to a fiscally conservative posture. The intersection of economic problems and economic policies with politics and with the system of governance is a topic of interest. We might start out, if you like, with your overview.

Schultze: All right. Let me ramble for just five minutes. For an oral history, I'm probably one of the worst, because my memory tends to wipe out details once the events are over. I can reconstruct events, but you will find me at times terribly vague about the details of what at the time was traumatic.

Second, as background, the nature of the economic world both here and for most other major countries makes it very difficult, particularly for a Democratic President, to deal with. The central economic problem that we came to appreciate—I have to admit a lot more in the second two years than we did in the first two years—was how do you reverse a stubborn inherent inflation without stifling the economy? You give me the charge and I'll get rid of inflation for you in two years—if all you tell me to do is get rid of inflation. I've just been doing some work on inflation back to the turn of the century, and we had fairly substantial inflationary episodes that we proceeded to get rid of by putting the economy through a wringer. And if you look at the magnitude of the wringer compared to what we do in the postwar period, it was tremendous and it was successful. The problem, of course, is we don't want to do that and we're struggling with that balancing act, which is principally a modest austerity balancing act. And Democratic Presidents with their constituencies find them very difficult to do.

A second economic problem, less important than the first but a central important economic problem, is economic budgeting. The fact is that outside of defense there was a steady expansion in the share of the national economy going to civilian programs of the Federal government from about 1965 through the 1970s, and it just couldn't keep going. The same thing was true of tax rates. It had to be at least halted. And again in modern terms at least, this is difficult for a Democratic President. The two put together meant very difficult times, which I don't think any of us recognized initially.

I don't think any of us, at least I didn't, came in with quite that grasp of what we were going to face. So, particularly if I compare that to the experience of the '60s with [John F.] Kennedy and LBJ [Lyndon B. Johnson], the world was a much more difficult place in which to make economic and social policy. It required not so much any more, "What can we do for you?" No longer can you go to the American people and say, "If you just get rid of your economic myths

and let us expand the economy you can have everything all at the same time.” It was perfectly valid at the time, but it was no longer the situation. How does a Democratic President cope with this problem, given the constituencies that elected him?

Both of these problems are somewhat related, though really separate. That is, the inflation/economic growth tradeoff on the one hand, and better grip and control on the governmental budget on the other. Combine that with another problem and you get a real difficult time. I think there is a dilemma of the modern Presidency that in my mind I have never been able to solve, and we sure didn’t. In the domestic arena—I won’t say this about foreign policy—my judgment is that in the last 15 to 20 years the nature of the problems has become a hell of a lot more complicated. We always had massive problems, but very often they were kind of a value judgment nature. Do you or do you not have a Social Security program? What the heck, you make your mind up and you can hire accountants to do it and it gets done. It’s a big important massive judgment. But strangely enough, it isn’t terribly complicated from a technical standpoint. Whereas energy, the balance in the whole environmental area, the tremendously complex ramifications of that, urban problems, the fact that the Federal government now has some responsibility for this. We used to just build highways; now we worry about what it’s going to do to the social structure. All of these things make for an incredibly complicated set of balancing jobs.

Since I have never put this down in writing, I’m not going to tell it very coherently. I don’t use the word “ideological” in any pejorative sense, but an ideologically oriented President doesn’t have a lot of difficulty. If I scratch Ronald Reagan, I know which way his knees are going to jerk. If I submit a list of a hundred questions to him, I can forecast 99 of the answers. The same thing would have been true with Hubert Humphrey. Maybe 95. And that does make for clarity.

Most of the problems are difficult as the devil to handle by analytic assessment. How well do the CETA [Comprehensive Employment and Training Act] programs really work? If you’re for those good social things you’re for them, and if you’re against them you’re against them, and you make your mind up and then you worry about the politics of it. But to deal on the one hand with the complexity of these events, you do need someone who doesn’t see everything the same way, who recognizes most of the very close calls and the complexity of them. In that sense, the Carter Administration was led by a man who was quite good at that. The problem is it makes for lousy leadership. I don’t know the answer to that dilemma. I just leave you with that. We struggled with it. The world demanded a lot more.

It isn’t just value judgments anymore. It’s how do you do these very complicated things? How do you balance the acid rain problem against the energy problem? There are value judgments in it, but ultimately, given the margin you’re dealing with, it’s got to be a very complicated balancing act. A President who is good intellectually at that unfortunately sits there right on a fence. He looks at every decision day after day after day. He can see it’s 48 to 52. When you can see it’s 48 to 52 one way, you hear somebody else argue and the next thing you can see is 52 to 48 the other way.

Whereas, if you think the government’s too big and let’s get smaller, 98 percent of your answers come to you easily. Vice versa, if you figure the government should provide more services,

there's always an appropriation you can pass and a piece of legislation you can pass. You've got to worry about it, but as in the case of LBJ, you turn it over to Joe Califano and a task force and say, "Get me a good piece of education legislation that will help American education and the poor," and he does that and I'll get it through for you. There's a very difficult set of balancing complex issues in the problem of (a) a Democratic President, and (b) the analysis versus the kind of ideological leadership. How you balance that is something that I haven't sorted out in my own mind, but I think the problem runs right straight through the Carter Presidency more than anything I can think of, without being at all knowledgeable about some of the earlier Presidencies.

Young: Can we talk about the first few months, and getting into it? There are some more detailed questions here we might want to ask, but in light of the three components of the problem that you've just described, I wonder if those things were appreciated at the outset of the Administration? I'm trying to get at what the incoming economic policy posture of the Administration was. We've heard that Carter's a fiscal conservative, but how much did he go beyond that at the outset?

Schultze: At the outset, while I think we were clearly aware of the longer run budgetary problems, and the much more limited room for maneuver in terms of new programs, we weren't anywhere near as aware as we should have been of the asymmetry of risks when you're dealing with inflation. That is, if you're a little bit too conservative in your economic policy and you make a mistake, it's easy to cure. So next year you have a little bit bigger tax cut. But if you make a mistake on the inflationary side, the inflation becomes very hard to pull down. We didn't appreciate that. Sure, we were aware of it, but we weren't aware enough. Of course had we known we were going to be hit by the second OPEC [Organization of Petroleum Exporting Countries] oil shock, we might have gone in differently. That was a big point, and nobody knew that. So I think we were aware of the second problem in some general sense, which was the size of government, taxes, not much budgetary room, and not being enough aware of the first problem.

As evidence of being aware of the second problem in particular, we originally set up—and as usually happens, it never stays this way—a large number of the new programs, public service employment, as explicitly temporary. Now, the nature of politics was that it took a Ronald Reagan to make them temporary. But we tried to set them up on a temporary basis.

Secondly, you may recall the ill-fated rebate in the economic stimulus program. It wasn't just stupidity; it was in there. Because I was the principal sponsor, I can't say it was just stupidity. It was in there precisely because we knew in the long run we'd have some budgetary problems, and we did not want to go in right away and give away those tax revenues. So the idea of the rebate was, make it temporary and then we can see during the first year or second year exactly what we want to do in the longer run. But don't rush in with a permanent tax cut. It was precisely because we were aware of those longer run problems. So, yes, one problem we were aware of I think pretty fully; the other problem we weren't enough aware of.

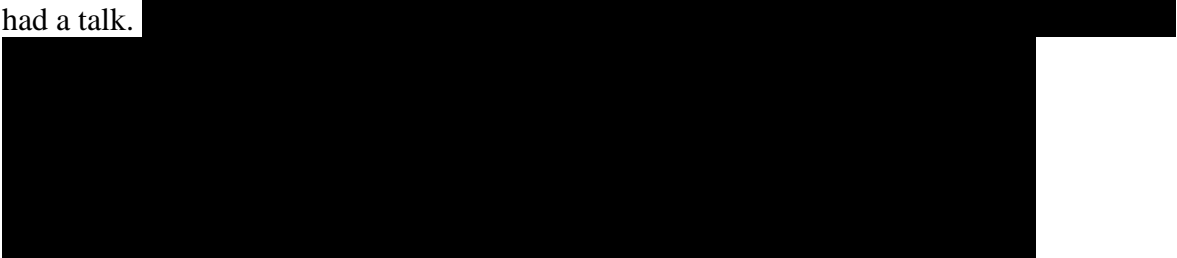
Young: How were you recruited?

Schultze: Oh, I don't remember exactly.

Young: You were conspicuously a non-Georgian.

Schultze: Correct. In April of 1976, well before April, candidate Carter enlisted the services of Larry Klein, Nobel Prize winner, for the Pennsylvania primary, early in the game. I don't quite know how I got attracted, but I did a lot of work for him. He set up an economic task force. I was not on that task force until late in the game, I forget exactly when. All during the campaign, however, I was on the phone very frequently with [Stuart E.] Eizenstat or one of his people, who were doing the issues work. I have the impression that Carter would have recruited me for some job, but that he probably offered the Economic Council chairmanship to Klein. I'm not positive of that, but I think he probably did. And Klein decided he didn't want it. It is my genuine impression that if that had gone on I would have had at least an opportunity at some job, although possibly not as chairman. I don't know, I mean, that's my guess.

The formal part of it was that after the election, Carter was at Blair House and called me, and we had a talk.



Young: In connection with your discussions about what you would do in the Administration, were there discussions with the President that allowed you to understand something about his economic thinking? Was there any discussion in terms of what he would like to do, or was it not that sort of discussion?

Schultze: No, it was not that sort of discussion. I had had enough conversation. I talked to him before. I had enough conversations with Eizenstat and had been through the speeches and everything else to know that his basic thrust was that the economy's in a recession, and we have to bring it up out of a recession on the one hand, but be very darn careful about what we do in the longer run. That fundamental thrust I was aware of. It wasn't a major element in our discussions. The one thing that sticks in my mind, again out of the fog of a very poor memory, is the long discussion with him and [Walter] Mondale in the session in which they asked me to be Council chairman. I remember Carter saying, "Well, now that we've made this decision, let your hair down, and you're just one of the team. Now let's talk about other jobs having to be filled." And there was a long discussion about Treasury Secretary. Who would want to be Treasury Secretary? That I remember. There were discussions about possible people for HEW [Health, Education, and Welfare]. There may have been others. I do recall with some glee Ham [Hamilton] Jordan's comment apparently made to some reporter either right before or right after the election, about "bringing fresh faces in," and, "By God, you won't see us ending up with a Cy [Cyrus R.] Vance or a Charlie Schultze." I forget exactly what he said.

Young: Maybe that tells you something about Hamilton's influence at that time. I understood you to say there were conversations in which you were consulted about appointments of other people.

Schultze: Yes, there were. There was one conversation that I remember with Carter and Mondale. There were numerous conversations back and forth with Eizenstat and some of the staff people. Already by that time one could see developing in the Administration a small group over here saying, "My God, we don't want that conservative in this job." And vice versa. So you begin to get those sorts of things going on.

Hargrove: It's generally understood that you did set a precondition for accepting the chairmanship of the CEA [Council of Economic Advisors]: that there be no "Special Assistant to the President for Economic Affairs" in the White House.

Schultze: I don't know whether I made it explicit, but I must have. I'm not sure I did, but in my own mind I know the condition was there. What I don't remember is whether it ever needed to be expressed, because it never came up at any time that I remember.

Hargrove: I'd like to know your reasoning. A large question behind that is that last night Charlie told me that he served continuously as accounts staff person for [Leon] Keyserling, [Arthur] Burns, and [Raymond] Saulnier. Then, of course, in the Johnson Administration he served in the Budget Bureau. So you've had a lot of exposure to the CEA as an institution. And in your mind, were there maxims about effectiveness and conditions for effectiveness of the chairman and the staff, and did this condition itself flow from that kind of a maxim?

Schultze: Probably much less complicated. To use an analogy, if I were going to be appointed head of the National Security Council and someone said, "By the way, the President's going to have someone who is going to personally advise him and you're going to run his office over here," or, "The President is going to have somebody personally advise him on economic matters," I wouldn't have taken that either. Partly that depends on the nature of the job. For example, although I wasn't involved, [William] Seidman filled a role like that for [Gerald R.] Ford. Now Seidman happened to be an old personal friend of Ford's and he was much more a manager and kept things running. But as a general proposition, quite frankly, if there's anybody of stature between the Chairman of the Council of Economic Advisors and the President, why have a Chairman of the Council of Economic Advisors?

The Chairman of the CEA, unlike OMB, doesn't have a huge institution. The whole point precisely is to be almost the personal economic advisor with enough of an institutional staff so that you can do more than lick the back of an envelope. So I don't know. I had always thought that this was a contradiction. Arthur Burns did it for a while, but that didn't last. So it was just open and shut. What I don't remember is whether it actually ever came up. If it would have, I would have laid the condition down.

Young: We have some general questions about the initial organization. I'd like to get a picture of what the critical staffing decisions and operational decisions were right at the outset affecting economic policy. We've covered one of those—

Schultze: Excuse me; before you get off the business of recruitment and transition, there is one interesting point. It was rather interesting and kind of set me up a little bit. We put together that economic stimulus package before the President was ever inaugurated. We had 90 percent of it done. Now, what that meant was the three major economic advisors were Bert [T. Bertram] Lance, Charlie Schultze, and Mike Blumenthal, with Ray Marshall playing an important role. Well, it turns out that while Blumenthal had been in government, he was in the State Department foreign policy area. Nobody, but *nobody* had the experience of: How do you sit down with a bunch of numbers of estimated revenues? How big ought a tax increase to be? How do you use a staff to get it together? What are the implications? And how do you distinguish appropriations from authorizations and spend outs? And all this business.

So, obviously, it turned out in those early days that I had everything in my own hands. And it was a little bit of a come down as people gradually learned the game and you found yourself more into struggle. But in those early days the advantage of having the knowledge that other quite bright people just don't happen to have of the mechanics and how to go about things gave me a terrific advantage in putting that whole program together. It was just something that I later realized. It kind of set me up with a false idea of how easy it was to keep that up.

Hargrove: You had carte blanche to pick your own associates on the Council and your staff.

Schultze: Well that was an EOP [Executive Office of the President] problem—well not a problem, but there was always a lot of pressure, and I made offers to other people. So basically I was. Nobody was going to do anything on that. The only thing that came out of the White House was pay a lot of attention to the EOP problem.

Rhoads: Since both the Treasury and HEW appointments did turn out to be controversial ones and since you were asked about your views on them, could you tell us a little something about the nature of the conversation?

Schultze: No. Among the people that I thought were qualified for the job were the two who were finally appointed. The main thing I stressed in the Treasury was somebody who recognized the importance of other countries expanding at the same time we did. And who would urge that. And Blumenthal was clearly one of those. So while there were discussions of other people, I had no sense of whatever advantages or disadvantages that, say, Califano would bring—that at some stage he would get way out ahead or different from the President. That was never a part of the conversation.

Young: There will be some questions on the decisions that affected economic policy and setting up the EPG [Economic Policy Group].

Thompson: From the point of view of a non-economist, I had the impression that there was a group. You mentioned the last time we were together that you came down to New York with Kermit Gordon, but there was a group of economists who had absolutely remarkable unity on many things. For instance, I hired Walter Salant because I thought [Nelson] Rockefeller never really had, after Norman Buchanan's death, a fully professional economist. And the thing that to

this day astounds me is that Walter got on the phone with Kermit, with [Paul A.] Samuelson, with everybody else. There were maybe philosophical differences but I never saw a group whom I thought had more mutual respect than this group. Would it have been any different if most of the choices in these key economic positions had been from a group like that where you had a great deal of basic common thinking and viewpoints, or was there enough of that so it didn't matter in what happened eventually with Blumenthal and Califano and a lot of others?

Schultze: I don't know how to answer that. Yes, Virginia, there is an establishment. There was/is, I guess, a group of economists that I might describe as modern. I don't like the word because it has so many connotations, but, "Keynesian," moderately liberal, but kind of hard-nosed on microeconomic matters, who would end up disagreeing with each other, but not very much on those kinds of issues. And it happened to be true, for example, with the group around Kennedy and Johnson. Obviously, you don't appoint your Secretary of the Treasury normally out of that group. Imagining an Administration staffed with just that group of people, it would have been a lot easier to work together, but we might have gone charging up in the wrong direction all at the same time. I can't imagine working only with colleagues of that kind. Even in the Johnson Administration, which was heavily loaded with those people, when [Henry] Joe Fowler was Secretary of the Treasury, while we basically agreed on most things, there was a lot of back-and-forth. Some of the people in the Treasury had a lot of disagreements with each other. I'm not sure I'm answering your question.

Thompson: On the personal side, would anything have been any different? I used to sit around a table like this and listen to Mike Blumenthal talk about policy and the kinds of things that we began to hear later. If you had had the foundations of a lot of personal confidence, and if you had worked in some of the same projects over time, if you had had a [Robert] Roosa and Fowler, it wouldn't have made any difference?

Schultze: No. I don't think a lot. Maybe a little difference. In the second two years of the Administration when you had to face up to the very specific question of how much do you start to lean on the economy and how, there would have been some shadings of disagreement then. Again, I'm not saying this very well. Obviously it's easier to work with a group of people who have the same professional training, who've all worked together one way or the other a large part of their lives. Yes, it's easy to work together with that. I'm not sure that's relevant for this. Just among the pure economists at CEA and the other economists in government, if they all had come out of the same mold, it would have been somewhat easier. But I find that unlikely to happen anyway.

Jones: Are you really saying that in the matter of recruiting no one ever made the point, "Well, let's identify all the actors who are going to be important in developing the economy, and let's go ahead and appoint a team of people with similar professional training background" or whatever?

Schultze: I don't think anybody ever did that. But they sure didn't this time. [C. Douglas] Doug Dillon and Walter Heller, I don't know.

Mosher: You mentioned earlier that when the President asked you what job you would like, your first choice was OMB. And you're one of the few people in the United States who have been associated with both institutions. What were your reasons at that time? Why would you have preferred the Bureau of the Budget to the CEA?

Schultze: The first reason is fairly simple. In the Bureau of the Budget you quite frankly have people where their hearts and minds will follow. You have that clout. In the CEA, you've got to scramble for everything you get. I mean you have absolutely no authority except to the extent you can make yourself felt with the President. With OMB, you literally have a hand on the government institutionally. It's a lot easier, I think, psychologically.

Secondly, it's one of those things where I'd love to go back knowing what I do now, but do the same thing in the same job. Going through it once you had a chance to sit back and reflect on it; I'd like to go back and try it again under different circumstances. Thirdly, from my own personal experience, that's the greatest place. If you're not going to be in the domestic arena, that is the single best, most interesting, most important place to be.

Mosher: It has power?

Schultze: Oh, yes. Either actually or potentially. Usually both. As I say, you can throw the power away, but it is there potentially, and usually actually. If my main preoccupation in life is the environment or some other area, then, no, it's not as powerful on any one thing as in the other one place. But put it all together and it is.

Petkas: Was there any discussion at any moment during these early periods when you were associated with Carter—during the campaign, the recruitment period, putting together the stimulus package—about what later emerged as the regulatory policy, the deregulation initiatives and the increasing emphasis on economic analysis, cost-benefit analysis?

Schultze: There was in my own mind, but to tell the truth, I do not remember whether we discussed it. I have a vague recollection early in the game. I don't know where this came from, but something that Bert Lance did, or something else that was done of which I wasn't quite aware, clearly indicated to me that either Carter had read or somebody had talked to him about that public interest book of mine. The basic idea came right through. But I don't remember any specific discussion.

Jones: I would like to go back to the early part and ask you a little bit more about the Lance appointment and your reaction to it. Why did the President want him there, and what were your early impressions of him coming into that position?

Schultze: In the first place, I didn't know the man; I had never heard his name. The President-elect, when I had made some noises about OMB, told me that his former head of the Department of Transportation in Georgia was absolutely super and would help him both substantively and politically. He didn't know much about the budget, but could learn in a hurry. He'd appointed him and I'd like him, et cetera. That's number one. Number two, my first six-month impression was that Bert basically was a personal advisor and OMB was kind of over here. I recall not

terribly accurately one or more occasions on which a memo would come over from OMB to the President and Bert would argue against the OMB position. That sounds pretty strange. On the other hand, it just happened.

As it turned out, what you had was a place, ultimately, to lodge a very influential advisor. And there's no question about it, he was a very influential advisor. He was interested much more in his relationship—I don't mean personally, but I mean his relationship to the President as that kind of an advisor rather than as the representative head of an institutional agency. That is not necessarily an impossible position if you get a good second person to run the OMB. But it was a little different from what I had known.

Jones: How did the people in OMB view this?

Schultze: Well it was hard to tell because of how short a period Bert had been there. If this had gone on for a couple of years, I don't know. It was really only six to eight months before the problem hit the fan, or whenever it was.

Jones: Then what did it do? You mentioned one possibility as far as you were concerned. It may have meant that your position was somewhat inflated over what it might have been otherwise, at least in those early days. Did that particular kind of appointment in OMB mean anything else?

Schultze: Again, it didn't last long enough. I don't know how to speculate on whether that's a workable arrangement or not. I don't know. It just wasn't long enough for me to get a sense.

Jones: Well, let's take the event then. The fact that he wasn't there very long meant you had for OMB an initial period in which there was a person who had to find out what was going on. There was a new guy in town, and all that kind of thing, plus the fact that then he had to leave. In short, what did the lack of leadership in OMB do to your position and to OMB, in your judgment?

Schultze: Well again, that's colored by the fact that on the one hand Bert was at a disadvantage initially because he came in new. He didn't know the system and he's not a numbers person anyway. That's counterbalanced by the fact that he was extremely close to the President and a very powerful voice. He saw him one-on-one easily and frequently. He had a long association where, as far as I could tell, the President put a lot of confidence in him. So whatever he might have lost because of his unfamiliarity with the environment and the fact that maybe he wasn't fully utilizing the institution was compensated for by the tremendous weight of his advice.

Young: I'd like to not forget to consider the other components of the staff, the initial staffing up for economic policymaking.

Hargrove: Well, first the EPG and the general problem of coordinating micro-policy. Then, I want to ask you about how the *troika* functioned. But in the first instance, the Economic Policy Board model was rejected explicitly, I gather. Why and by whom? I must say it was initially a terrible set of arrangements.

Schultze: Let me see if I can reconstruct this. I hope I do it accurately. First, when Carter announced my appointment, I don't remember the language he used about it—his chief economic advisor. About a month later Blumenthal and I sat down in his hotel room here when he came to town. He'd been appointed to work this out. We had a long go-round; a very pleasant but long go-round. I ended up partly agreeing that it would be impossible for him to operate as Secretary of the Treasury, particularly in an international environment, if he in effect was subordinate to me. The idea was that I was a chief economic advisor and would run whatever economic policy group. If it was in any formal sense, he couldn't operate. At least he felt it would reduce his effectiveness. He had obviously given it a lot of thought. He wanted me to serve as executive director, and he would be the chairman of the Economic Policy Group.

For the moment this is a blank box, whatever that economic box is. I ended up at least partly agreeing with him. Traditionally, even when Heller was a very potent advisor, even when [Alan] Greenspan was a very potent advisor, the Secretary of the Treasury always headed in some formal sense. For example, in the Johnson Administration, we had no board. We had the *troika*. It was informal—ad hoc—except it grew into something pretty potent and we always met in the Secretary of the Treasury's office. Now, he never had the title of chairman, but he clearly was pretty much into it. And so I agreed with Mike, and we ended by setting it up as co-chairman, which didn't work. It was a stupid arrangement.

We'll come back to that. The first proposition was that, in effect, I ended up agreeing because I knew what was going to happen. Mike would be chairman. Secondly, I felt strongly—and Mike did too, although he felt very strongly about something else—that it should be small. It also turns out that Carter had hired two other Ph.D.s in economic jobs, Marshall and [Juanita M.] Kreps. And they must have secured as a promise of coming on board that they would be on this group. Well, what the heck? We had also agreed, Blumenthal and I, that it would be very important to make sure we had the international connections. You knew Vance wasn't going to sit, but Dick Cooper would sit. So you already added three. If the Vice President turns up, you can't say no to the Vice President. And he wanted to sit.

Clearly energy is very important, but Jim Schlesinger didn't come. Pat [Patricia R.] Harris somehow got on; I can't remember how. Blumenthal and I argued with the President down at a kind of organizing session at Sea Island against putting anybody else on. We said to keep it small, and then we'll bring them in ad hoc when you've got to talk about something. But in any event, we ended up with, I don't know, seven or eight. The Vice President would come, and Eizenstat, of course, was always invited as an ex-officio member. Most of them would bring assistant secretaries who in turn would bring staff. And you'd sit around the Roosevelt Room the first couple of meetings with forty people there. I remember a couple of times the President came in on something, and he was clearly shocked.

We ended up with an Economic Policy Group. We couldn't call it the same thing that Nixon people did. We had to call ours the Economic Policy Group. There was then a problem about a secretary, so finally Blumenthal hired somebody. I didn't want a secretary. That is another bureaucracy. We did hire one person to keep the papers and all that, and that job stayed all the way through.

Hargrove: You didn't explicitly look at the functioning of the EPB and say, "We don't want to do that."

Schultze: Well, the EPB met virtually every day and everything came through it. We decided we wanted to be somewhat more selective. We would meet once or twice a week, more on-call than anything else, and we would be more selective in what we took up. We would not run everything through that group.

Hargrove: Now, Seidman played that staff-coordinating role. If that role was not to be played by the EPG staff, who was to play it?

Schultze: I can no longer tell you the source, but I heard from a number of sources that the EPB worked very well for unimportant things. All the important things didn't go through that route anyway, which you could expect of any formal large board. We wanted to have this group deal with the important issues, and just simply not bring in all the other stuff. Let it come through the normal clearance, through the combination of OMB, CEA, and Eizenstat, rather than having a formal board do it. That always meant, however, that we had problems with what did and what didn't come before the economic issues. There were no good criteria, which became a problem. This fundamentally sorted itself out over the first couple of years as we finally got down to a relatively small group. But for the first 18 or so months, it was pretty bad.

Jones: Was Blumenthal the final word on what was going to come, or were you?

Schultze: Mainly, Blumenthal and I would hammer it out. There was a problem in terms of the President having his commitment as to who was on and who was off. I'm losing track of all the changes we created. And we had an executive committee, but then the executive committee expanded. So then we had just a steering committee, and that threatened to expand. I remember one time we had what we called "The Eleven Group"—eleven was a pure code number—who would meet without the others. In the end, it worked out. The basic players sat down and did the job, but the formal organization was awfully messy.

Thompson: You were not unique, were you? Because when one looks back at the photographs that were taken of the foreign policy decision-making group, that, in contrast to the Kissinger model, was a huge group to begin with.

Schultze: In part that was one of the problems of the Administration. One thing the President found it hard to do was to be a son of a bitch. Being a son of a bitch means saying to your Cabinet officer, "No, you can't come in; no, you can't come in."

Hargrove: Charlie, could I pursue this? Why did you resign the co-chairmanship? That was quite early on, right?

Schultze: Yes. People made more of that than they should have, I think. In any event it was fairly clear. I thought, if you're going to play the game of an Economic Policy Group, you can't have the chairman be the personal economic advisor to the President. That's what he got me there for. He doesn't have me there to run a big shop. I don't want to be in a position of always

having to give him advice that's been agreed on. If I'm going to go see him, and I'm going to be wearing my hat as chairman or co-chairman, I've got to give him the views. And what do I say? "Mr. President, for the first twenty minutes I want to talk as chairman of the EPG, and for the second twenty minutes I want to tell you what I think." For example, "I think if all the foreign policy advice came through the head of the National Security Council, he'd have a hard time."

People are always talking to the President but, fundamentally, the structure of economic advice was coming up through that group or its executive committee, its steering committee, or some other group. And while it gives options, you sit in front of the President and argue about it all the time. When I saw the President personally, I didn't always want to have to be worrying, *Am I, as head of the EPG, being fair in some sense in presenting all the views?* By God, I want to tell him what *I* think he ought to do.

Young: In terms of your own access to the President, did you regularly see him? Was it one on one? Was it part of the routine?

Schultze: Yes. We had an arrangement. It became less frequent over time. It turns out we didn't need that much. I used to cancel appointments. Everybody said, "You're crazy." Initially, it was twice a week that I was to see him, and I cut it to once a week, and then to once every two weeks.

Young: Was that with you alone?

Schultze: Over the four years, just he and I met alone. We had a regular appointment. And that's what happened. I went in to him and said, "Look, this isn't working. I can't wear two hats. I'm always torn as to what I should tell you and what I shouldn't in terms of the two arrangements. So I want to drop the one job. In a sense, I'll still obviously play a major role on the board. But I want to come in and see you one on one regularly," and he agreed. It was a mistake on my part, just as a minor matter of bureaucracy, of course. Maybe it was more than minor to have ever taken the co-chairmanship, because when I dropped it, you get all kinds of poop stories—"Schultze Losing Influence."

Hargrove: Now, did the reorganization go to report in the spring? They pointed out the President wasn't really using the EPB, and that more and more he was using Eizenstat as the informal coordinator. So they recommended that that mini-staff actually be assigned to Eizenstat, who would be given that role. Is that what happened? Or was it just informal arrangements that evolved?

Schultze: I do this partly by contrasting the Johnson and Carter arrangements. Eizenstat was always heavily involved in all the EPG meetings, or whatever executive committee—overall economic policy. My recollections in the Johnson Administration of Califano, who had the same job, were different. He'd get his oar in. So we had the paradox, which I never saw through enough to be able to explain very well. Califano had more authority in many ways than Eizenstat did. I'm talking about Califano in the Johnson years. But conversely, on matters of major overall economic policy, he tended to keep his hands out, whereas Eizenstat was much more heavily involved.

In the case of overall economic policy, though, whatever he might have said to the President, he didn't manage the flow of paper, didn't manage the memos that came through the economic policy group. Eizenstat, in turn, in talking to the President about this, that, and the other, obviously gave him his views on it. But unlike the domestic policy matters where Eizenstat would fundamentally view the memo, the memo as far as I know always came through a process signed by Blumenthal and then [G. William] Miller.

Hargrove: The reorganization team was critical of the management, or failure to manage, the flow of papers. They said Carter was getting hit with memos from here and there. There was no order. Did you ever get that act together?

Schultze: Yes and no. That is, the President got only one memo on what came through the Economic Policy Group. There used to be some kind of in-fighting sometimes about what did and what didn't get included, but basically it was about the anti-inflation program, tax policy recommendations, that sort of thing. Eizenstat participated. I don't think the flow of paper was a problem, ultimately. What was a problem, however, is that—again I haven't sorted this out—instead of getting three options, the poor man would get six options. The reason being there was no penalty for sticking your own option in. Anybody felt that if you didn't like the options, you could put a sub-option in. Very often this sorted itself out because you'd end up on the big decisions having long discussions with the President about it anyway. So it isn't quite as bad as it sounds. Mainly because the real decisions were not made off those pieces of paper. They were made off the discussions.

Mosher: Discussions with their own group or EPG?

Schultze: I hope I tell this story in its proper chronological sequence. But at one stage—this obviously was the second half of the Administration—Fred Kahn was feeling abused and wanted to leave. The White House talked him into staying because—there was no logic in this but in any event—one of the incentives to stay was that the President agreed that about every two weeks he'd have an "inflation breakfast" with the Economic Policy Group under Fred Kahn's aegis. He would get the agenda up on inflation matters. It turned out to be very useful because it turned out no longer to be just an inflation breakfast. It worked out to be a useful occasion on which the main players from Budget, CEA, Treasury, Fred Kahn, Eizenstat—Mondale would sit in usually—and Barry Bosworth or his successor would meet for breakfast with the President every two weeks. It turned out to be a very useful arrangement. But it came about in a very peculiar way.

Hargrove: Did the *troika* operate in a different way than the EPG, and if so, how? There's more continuity of method of operations with the *troika*.

Schultze: There never was a separate *troika*, per se.

Hargrove: There wasn't?

Schultze: No. Again, it's very confusing in my memory, probably just as confusing in reality. It actually didn't work that badly, at least procedurally. I guess there were successive layers of who talked to whom. That large group we finally got rid of. I don't think we ever formally abolished it, but it was really the executive or steering committee in the EPG. Even that had a fairly sizeable number of players on occasion. When you get [James T.] McIntyre, me, Eizenstat, and Blumenthal together, which we very often do privately, I mean that controlled a hell of a lot of it. Occasionally, Blumenthal and I would sit down together. I'd come over and see him late in the afternoon. He'd drop by my place after going somewhere. I guess I usually went there. We could sometimes come to an agreement between the two of us. But the number of players on any given issue would vary. I can't logically detail it for you.

Young: I'm trying to reach a judgment about what you're describing here. The President announces you as his chief economic advisor. In order to perform that role, at some point you gave up the co-chairmanship because there was a problem in performing that role and being the channel of collegial advice. Are you describing a situation that could be characterized as confused, that is, that there wasn't any chief economic advisor in fact?

Schultze: That's right. There wasn't. I don't think there ever was in any Administration. That's neither here nor there.

Young: Were there issues on which you more or less had the lead? Did they come by accident, by Presidential initiative, or it didn't work out that way?

Schultze: It turned out on matters of economic forecast more than the other Administrations I know, and for reasons that I don't understand, but never tipped anybody off on. The CEA was almost supreme for their good or lousy forecast. I don't understand that, to tell the truth, but from the beginning for some reason or other my colleagues seemed to think it was always accepted that the CEA did the forecast and didn't really question it, or not very much. They might grumble about it. It was not true in the Kennedy-Johnson years; CEA took the lead but all three agencies did it. So forecasting was clearly CEA, and that was it. On the economics of regulatory matters, it was clearly CEA. Not that there weren't other players. Quite apart from simply personal relations with the President, my institutional role—the degree to which it was collegial or the degree to which it was lead or the degree to which it was subordinate to Barry from issue to issue—on regulatory economics was clearly it. On economic policy advice to the President it was fundamentally five: Kahn, Treasury, OMB, CEA, and Eizenstat.

Mosher: Stereo group.

Schultze: That's right. In effect that's it. Now, you know you get matters of energy policy, and other people coming in. Internationally you got Cooper coming in; in trade matters you've got [Robert S.] Strauss or [Sol M.] Linowitz coming in. So it would vary.

Hargrove: Would it be fair to say that the simple *troika* as in the '60s, which was first of all institutionalized, couldn't handle all the new issues, such as energy?

Schultze: Well, that's another matter. I happened to like the arrangement in the Johnson years. It may have been because I was fifteen years younger. On overall economic matters it was clear to the *troika*. On other matters of policy with an economic impact then, I thought it worked very well. It would come to the President from the agency—usually, it would be staffed out by the combination of CEA, OMB and Califano's Domestic Policy Group working pretty well together.

But there was no council, group, or anything else. And one of the problems, from my standpoint, grew up because of the history of the Nixon Administration. Everybody else who played in overall economic policy also began to want to play on the economic consequences of everything. Again, there is no logical reason why the final arrangements came down the way they did. The Carter Administration went through the Economic Policy Group and what followed was the old tradition of coming over and being staffed out by the executive office agencies in the normal course of events. I can't really give you a logical explanation for this.

On matters of foreign policy, for example, one time something had happened way back in the early days. The Kennedy Administration got a piece of paper out of Kennedy instructing the Secretary of Agriculture to do nothing affecting foreign price or production decisions without clearing through the joint group. I don't mean they could overrule him, but it had to be cleared through there to see whether it went to the President without going through OMB and CEA. Well, I remembered that. One of the first things I did was get that same kind of piece of paper. So it turns out on that issue it didn't go to EPG; it came over and got staffed out that way.

Hargrove: The reorganization team also recommended that two microeconomists be cut from your staff. The argument was, the CEA is primarily a macro body, and yet the great bulk of the work in the CEA's staff deals with micro questions. Is there any irony here?

Schultze: No. There are both substantive and bureaucratic reasons not to do that. How many macroeconomic decisions does a President make each year? Three? If all you're doing is the forecasting and the macroeconomic advice, you'll have a lot of interesting conversations with the President but I don't think very much action. Now that's straight sheer bureaucracy, but it's important.

Secondly, it seems to me that at least 50 percent of the role of the Council chairman ought to be to bring uninhibited straight sheer economic advice on matters of economic policy that don't deal with global issues, energy, or farm price supports. They all have overall economic impact. God knows, farm price supports do; trade matters do. It usually would turn out that the CEA's memos or advice on this was heavily colored by the overall economic impacts of specific decisions. On energy, for example, what's going to be the impact on inflation and unemployment? What's going to be the impact on the energy thing itself? We're much more likely to be involved in it that way. In the normal course of events everything gets mixed up, but normally our arguments and advice and input on trade matters was, "What's it going to do to inflation? What's it going to do to overall economic policy?"

Hargrove: Is the Council sufficiently staffed to protect the agency from claims coming in for the department? It's a tiny group of professionals.

Schultze: Well there is a long painful history. It was not all that important in my relationship with the President on the size of the CEA staff. And I think it could have been expanded slightly. There could have been a couple more people, but nothing really sizeable. In the first place, most of the staff come in for a year or a year and a half, and they can work long hours and they don't mind, really, but it's not as if they're there for thirty years doing it. They turn out tremendous amounts of work very well. It's just tradition. I haven't thought it through, but a modest size CEA staff seems to me to make eminent sense. Otherwise it just doesn't have the advantage of quick turnaround, or allow for very personal relations with the chairman and all his staff.

However, I did have messy go-rounds with Carter in the initial days on the size of the CEA staff. Somebody made, or he made, this idiotic promise that he was going to cut the size of the Executive Office. In all fairness, everybody's got to take their load. In all the time the White House was expanding over 30 years, the CEA staff had basically not expanded, certainly not the last 20, but we had to take our cut too. One of the first days he came to town after I had already been nominated as chairman, I rode up to the Hill going to a meeting arguing with him about whether I had to give up three or four people on a staff of whatever the hell it was—eleven professionals. Well, silly. I weaseled out of that one way or the other by various means. Luckily there was this Council on International Economic Policy that I claimed to cut the hell out of, and that was my cut. For reasons that maybe I can't explain logically, I don't think a large staff is important. I think a few more would help, but the nature of the work done is such I think it can be done fairly well.

Hargrove: Have you read Roger's [Porter] book?

Schultze: No. I didn't even call the multiple advocacy in an ad hoc way.

Strong: Our typist originally wrote it "multiple adhocracy."

Schultze: That's exactly right.

Young: So we must let Roger know he's an important innovator.

Hargrove: He's back there now inventing new categories.

Young: We've been talking about Roger Porter's typologies of adhocracies—centralized management of multiple advocacy as methods of economic policy decision-making, and our typist made an error in our own little sheets that invented the category "multiple adhocracy." Schultze was just commenting on that.

Schultze: My point would be that by the time it sorted itself out, it mainly worked reasonably well, even though it's hard to describe. That is, there were basically still too many, but a small number of players who fundamentally got in the game, and the paper came around. It ultimately got worked out. The special assistants to each of the three big players, Blumenthal, Schultze, and McIntyre, would meet frequently and make darn sure the papers were being prepared, and everybody got them, and who took the lead on what. And after a good bit of confusion, it worked out. At least the right people got consulted, the papers got done, and the flow of work came

through. And it was a bit ad hoc. But with the help of the combination of my council at the assistant secretary level and then down below the special assistants to the main players, that sorted out fairly well. It wasn't quite as bad as it sounds.

Young: There was no point—or was there?—in the four years of this Administration, in which somebody sat down with the President and said, “You’ve got to arrange your system of advice on these matters in a different way.” There was? Could you talk to us about that?

Schultze: Yes. Well again, it won't tell you very much. I was fairly clear initially that I wasn't working a great big forty-person group. And I don't know exactly when, but at some stage Blumenthal and I wrote a memo to the President, saying we've got to get this down to a smaller steering group, and we did. You then had the problem of accretion. You would appoint an inflation advisor; he's got to sit. Energy gets another member, and you've got something there, and so on. The Special Trade Representative wanted to sit in on a lot. Particularly when Strauss was STR. So you always had the problem of trying to expand. Very early in the game it became clear that the great big huge group wasn't going to work. What I'm suggesting is, from now on I was in a group that expanded and contracted depending on the nature of the problem and the particular bureaucratic situation at the moment.

Young: Yes. But the problem with the advisory system as you're describing it was one of limiting it to the main actors. Those were clearly against the expansion. There were tendencies of that type rather than, say, establishing a new post or causing some heads to roll.

Schultze: There was no fundamental change in a set of relationships. Just trying to pare it back. Yes, you are right.

Mosher: How did the Federal Reserve Board work in this business?

Schultze: We met periodically with the main players, whoever was there, Burns, Miller, [Paul] Volcker—the main players being the old *troika* plus Eizenstat; plus, Mondale would sit sometimes. When Fred Kahn got there—I'm trying to remember—did Fred sit in on the quadriad? I don't think so. It was a very small group. Altogether I didn't find it very useful.

Young: You did not find it very useful?

Schultze: I did not find it very useful. Anyhow, I never found it terribly useful in the Johnson Administration. You sit down once every six weeks with the President and the chairman of the Fed. During periods in which there was any kind of inflationary problem, with a Democratic President it's always a little bit like two dogs sniffing around each other. Most of them know that the other's got a different constituency and a different problem. Both of them in all cases respecting each other.

And I just didn't find it very useful.

The real usefulness came when you'd sit down one on one with the Secretary of the Treasury, and the chairman of the Fed or I'd sit down. Every once in a while, the President would call or

talk to the Fed chairman personally and he'd do something with that. But with the formal quadriads you're not making any decisions. So you sit around and talk in some general sense about the shape of the economy and where it is going, and do that every six weeks. The President looks at his calendar, maybe the night before he's read a briefing paper, and says, "Oh, I've got to talk to the Fed chairman today."

My point is, that normally came through the Secretary of the Treasury, and the CEA chairman really talked to the Fed but not in a formal arrangement. It was a very difficult and delicate set of arrangements, because the Fed chairman has a board of seven and an open-market committee of twelve he's got to answer for. It's not the happiest sort of arrangement. All I'm saying is that contacts are the ones who get the messages across and not so much the decisions.

Young: Do we have any more questions on the actors in the organization? Because I would like to move soon to discussing the process of putting together responses to some specific programs, issues, legislation and policies.

Hargrove: I have one question on the President. You talked about getting six memos, and case studies that have been written show that people would pile memo on memo. Was the President comfortable with being able to sort these things out himself, did he feel that he wasn't being well served, or did you feel he wasn't being well served?

Schultze: Again, my recollection is that the problem, after the first x months—x being a single-digit number or maybe a number like 10—at least in the area I'm familiar with, was not principally multiple memos. It was either an EPG memo or I think it was a memo out of Stu, which might be background staff papers out of the department. I don't think it was the multiple memos, but that's only a formality. The problem was too long and too many options, which is just as bad as multiple memos. And again the reason is that there was no penalty for putting your own options in. So why should anybody not?

Hargrove: Okay. That gives me the idea that this is his style. Spin that out a little bit.

Petkas: What did you mean, "no penalty for putting in"?

Schultze: Well, I'm not sure I know what I mean. I guess I'm not sure, since I haven't thought through the problem of how I would manage me. If on a tax matter—I'll put it in terms of me—I or somebody else would feel strongly that the President ought to see this option, which is different from the Treasury option, which is different from the Eizenstat option. I can't agree to get any of my colleagues to drop theirs and substitute mine, so I'll put mine in. I mean nobody did that. And nobody's going to put a hundred in, but instead of having three, you'd very often have more. The Secretary of Agriculture came in with some proposal. Very often what you'd have on a lot of these wouldn't be six, but it might be three when there should have been only two. Usually you'd have an Agriculture option and very often a CEA-OMB option and then, very often Eizenstat would come in with a third option giving political substantive directions. Now the problem with that would be, if it was one simple issue, that's only worth three options. But if the issue to be decided was a complicated issue, there might have been four decisions to make on each, for which there were three options. And when I say "no penalty," quite literally

there was nobody with the authority—the President didn't, and Eizenstat didn't have the authority—to say, "You've got to come down with no more than two; we simply cannot have this many." And that ultimately goes to the President. When I say penalty I meant, "If you do that, Eizenstat is obviously not going to put it in the memo." And the person then appeals to the President, and the President says, "I'm sorry, Eizenstat's running this process." I mean you've got to have something like that. That's what I mean by penalty.

Hargrove: Is this because the President liked to sit and sift through all this or because he was not forceful enough to use some rigor, or both?

Schultze: Some unknown combination of things. I don't know which of those two.

Hargrove: Did he like the homework part of the job?

Schultze: Oh yes. He wanted great detail. On the other hand, whether he really wanted all those options or not I don't know. I don't think I ever heard him say there's too many choices.

Young: I think we'll want to get back to this because we're trying to form a picture of this symptom of a possible problem of staff organization and maybe just something about the working habits of the President because they were similar in some areas. Others who have been here have talked about this problem at great length. Some have, in fact, indicated that there was a problem in their area of not getting the proper options to the President, of being blocked, not necessarily in economic policy. One has the whole question of the extent to which the ostensible reorganization of the staff to install a Chief of Staff was addressed to these problems, or whether it did anything about it. But I think that's a whole set of questions about the operating style of this Presidency that we might defer until later. Are there more questions on this?

Wayne: During the Carter Administration, at least from appearances, there was a tremendous degree of tension between the National Security Advisor and the State Department. Yet, from appearances again, the same tension didn't seem to be there between the two Treasury Secretaries and yourself. Was this true? Is this an accurate perception? And if so, why is that the case?

Schultze: It wasn't tension-free. As a general proposition, however, there were not fundamentally different views on things, to the extent there were between Vance and Zbig [Zbigniew Brzezinski]. I suspect there probably were fundamental differences between them. There were differences in emphasis between Blumenthal and me. But essentially, it was 30 degrees, not 140, and I think that's a fundamental point. Whether there were institutional reasons for it, I don't know; I've never thought about it. But I think it's basically a 30-degree, rather than a 140-degree, difference in policy.

Hargrove: Was that because CEA stays away from operational responsibilities? You weren't trying to be Secretary of the Treasury. That would be the big reason, wouldn't it?

Schultze: Yes, I think that's true. That's right. There is another point to this which I don't fully understand, and I've never understood the foreign policy versus domestic relationship in this

sense. Quite literally, if somebody gave me 15 or 20 minutes every morning to brief the President, I'd be at a loss. I wouldn't know what the hell to say to him that would be worth his time every morning. Apparently there is enough in foreign policy. I guess it's the intelligence briefing; maybe that's all it is, for example, if you've got a Soviet trawler around. But in any event, that tremendous control of information every day in the operational area coming through one person is something you don't have in the economic area. It's not just operational. It's also controlling the flow of information.

Jones: In a way, you have too much to do. So much going on in the economy.

Schultze: That may be part of it. But maybe in the economic area, while we may overstate what we can do, we still don't think it's terribly great. Certainly not day to day. You can't say, "The stock market went down yesterday; what are you going to do today?" But he lacked information on it. Maybe in the economic area they overstated what we could do, and we still don't think it's terribly great.

Young: Is the impression I'm getting correct—that the changes made in personnel and other changes made did not substantially affect the way economic policymaking evolved in the Administration? First, the replacement of Blumenthal with Miller didn't substantially affect policymaking; one doesn't describe a different method of operating, or does it? Second, the expansion of that staff and the appointment of Fred Kahn—do those signify any kind of changes in the *modus operandi* you have been describing?

Schultze: Yes, but in the following sense. They are different in their style of operation. Blumenthal had strong opinions, which he pushed. Miller was much more the conciliator. He would tend to speak last or he would keep his own options unknown for a long time, which meant that, as chairman, he probably got things done quicker and more succinctly than Blumenthal. Blumenthal was both a player and a chairman. That's the difference between the two styles. I'm not trying to say which is better or which is worse. It did make a difference in the tone, but it didn't make a difference in the fundamental sense. Probably with someone more efficient than Dr. Miller, which isn't necessarily better, but he was a lot more efficient.

The second proposition is, of course, with the policy expansion into the formal guideline, there was a very large increase in the number of decisions that had to be made, including a large increase in the number of decisions the President either had to make, or had to be talked out of making, or talked into making, or something. You have a very good, active jawboning. What does the President do and how does he make an input into it, and what's his role, and what are the political consequences? These questions tend to become a very large part of the weekly economic fare for the President. So the substantive difference made a difference in organizational and operational arrangements in a sense. There was just a lot more to go to and a lot more to argue about. There were a lot more decisions with a weekly political content in them.

If you were going to step up and blast President So-and-so, there's a lot of political stuff that has to go in that. So it will increase substantially the workload on everybody. That's one thing about it, and it requires a tremendous input from the main players, because all I get is price controls. You set them up and you get all technical problems, and if you violate them you go to jail. And

somebody else is prosecuting a few years after the President is out, so he doesn't have to worry about the political consequences. Of course, this time you've got a threat that maybe XYZ Company is violating the guidelines and says the President is going to come up and blast them. Very often it is never clear. There is always a case on the other side. These are complicated matters.

All the accountants—you run them out in court normally; there's a formal procedure for that. The President will pick up the phone and call the chairman of XYZ Company. And the chairman of XYZ Company will either have known the call is coming or will beg off and ask for a return call, and get his accountant in and then he'll give the President all this stuff saying, "Well, gee, our records really show that we have complied! You're being unfair if you blast me." What's the President going to do? It was a major problem with that kind of guideline. If Fred Kahn comes in and tells them they are violating it, Fred, being honest, has to say, "Well, Mr. Chairman and Mr. President, it's not an interpretation to some extent. We think it's clear, but they would tell you so-and-so." It makes it very difficult!

Young: One point I want to clear up before we get into something else. There was not a problem in your case—or was there—of a feeling that anybody was standing between you and the President in terms of economic policy advice?

Schultze: No.

Young: I just wanted to nail that down to see if the impression that I would have gotten from your statement about access was correct. Can we talk about some specific policy issues in your area—policy initiatives with respect to economics? Perhaps this is a method of illustrating some of the working relationships involved. We have talked about them in general, and also in order to get into the question of how economic policymaking and politics intersect. And perhaps you would like to suggest some good cases. We have some in mind. One is the economic stimulus package early on.

Kettl: On the economic stimulus package, it seems to me that it might be a good place to start, both as a way of trying to judge the problem in the economy when you took office, and how you formulated policy in those areas. Could we begin, perhaps, by discussing how that stimulus package evolved, what the problems were seen as being, who was involved and trying to frame it, and when those decisions took place?

Schultze: I'll try. I told you about my memory. I may get the chronology of meetings backwards. There were, I believe, several meetings planned at the so-called pond house. I can't sort out the order of events. There were roughly four components to that package that were put in by different people, in a sense the sponsors of each of the components. (1) There was, "Let's have a general tax cut, but make it temporary." (2) We needed some public works. That was the Congress who met with congressional leaders down there well before inauguration, when we actually announced the basic elements of the program. (3) There was the idea that we need some public service employment. And finally, (4) there was a relatively small but permanent reduction in taxes whose nature I'm embarrassed to say I forget. This was introduced by Larry Woodworth, who had been nominated early on as Assistant Secretary of the Treasury for tax

policy, and who accompanied Blumenthal to several of the meetings, and Carter clearly took to him.

Early on at some meeting with Marshall, Marshall sold the President on the idea of having some direct employment. I was arguing against it. What I can't remember is whether that came after we had gotten pushed into some more public works. We had the meeting with the Congressmen in the pond house. We had tentatively put together a package that included the tax cut and a little bit of public works. I don't remember whether the Marshall contribution came before or after that. We met for one day ourselves as the main actors. I can't tell you all the players but they were the ones who had been nominated—Blumenthal, Lance, Lee, Woodworth, Eizenstat—I don't remember who else.

The next day the Congressmen were coming in and I recall flying from Plains to Bert Lance's mansion in Bert Lance's famous plane. Blumenthal, Lance, and I were having dinner, and at twelve o'clock when they went to bed I sat down and drafted the program. Bert Lance's young son got up at about four in the morning and typed it. We took it to the nearest state police barracks and they ran it off on the Xerox and that was the stimulus type. I got up at six in the morning to correct it and the kid was just finishing typing it.

Then the President announced it. There was kind of a garbling in the announcement because the difference between appropriations and expenditures and how fast we were going to spend it didn't become clear. We were literally taking all the reporters over to some great big warehouse and sitting them down and saying, "Get out a piece of yellow paper and draw the following columns in the bottom rows. Here are the numbers." Then at some stage after that Marshall got his public service employment.

In the meantime, back in Washington, the transition team is meeting and a lot of work is now being done to nail this down. A lot of time was spent on that. The transition team met and we then had to do the economics in a formal sense to estimate the budget revenue. So over the period before inauguration, using Barry Bosworth as a staff, I did that. We then met several times a few days before, and within the week after the inauguration to nail this down further. There were minor changes one way or the other and sometime in the middle of February we sent it up to the Hill. But it started with some central components, which was the rebate and a little bit of public works and a permanent tax cut that was added to public employment. The Congress pushed up the public works.

Kettl: What you wanted to do was a quick shot of stimulus that year?

Schultze: No, the theory was that we needed something to get us going. The economy is going to recover, but it is going to be slow. We need to get it going fast. We don't want to give too much away permanently because when you get out two or three years from now you want tax reform. You want those revenues but you'll never get tax reforms without giving some stimulus. So you don't want to commit yourself now to giving all that away. The non-tax part of the program got bigger and bigger and the tax part got smaller and smaller.

Kettl: The initial heavy emphasis was on stimulus and especially the short-term tax cut, which was largely your doing at that point?

Schultze: I would say that part of it was, *What you need at this stage is permanent structure. What you need now is a quick shot*—something that wouldn't stay with you.

Young: Whose idea was it to bring in the congressional people in the development of this package?

Schultze: I don't know, maybe Carter himself. That worked very well. They were clearly appreciated. They felt they had their say in it. A lot of them didn't like the rebate but then they went along with it. There was a lot of talk about who would come. Clearly you had to have Ways and Means involved in the plan. The question is, did they have people? He was gung-ho in public works. I don't remember whether he had people from Education and Labor, because you had the labor program. I just don't know.

Mosher: It was all Democrats.

Schultze: Yes, this was a Democratic program.

Kettl: In the meetings as you put the plan together, were some people suggesting different parts?

Schultze: There was no disagreement that we needed some kind of stimulus. There was controversy between Marshall and me on the size of it. There were some minor disagreements in retrospect. Blumenthal and I wanted to have a small depreciation for business. Then he got, I think, an idiotic notion—"Well, gee, there's nothing in this package for small business." So they came up with a small cut in Social Security payroll tax credit for small business—any business, but mainly a small business. It was mini-scale, but a big debate erupted about the depreciation, which the economists treasured. Bert Lance wanted to push the other, and so finally I came up with a brilliant solution—give the people their option. Neither of them went through. That was when we had the biggest disagreement on the smallest substance.

Young: As illustrated by the degree of consensus. So you got the package together and the President has announced it. The numbers had to be worked out, the forecast, expenditures and so forth. What's the next step—it goes to Congress?

Schultze: Well, the final step was, "We've gotten some general guidelines from the President—keep within such and such a total package." I was the one who went in and said, "Here's what we worked out; here's what we're going to do." Then we sent it up to the Hill. If I remember correctly, there was a lot of back and forth. That went through pretty well except for the rebate, and that became a major issue.

Young: Could you talk a little about that? And I also want to ask you how the actors changed at that point.

Schultze: The essence was that Congress wasn't very enthusiastic about the idea of a rebate.

Kettl: What kind of argument?

Schultze: Well, you know, “It’s one shot, it doesn’t do anything fundamentally. People are going to save it; they’re not going to spend it.” Now it will be a great idea. I had a role in talking Tip [Thomas P. O’Neill Jr.] and some of the other people in 1975 into a rebate, but for some reason or other, this time it just didn’t go over as well. I remember one stage near the end just before Carter dropped it. I’m very sure he had a call from Humphrey somewhere on vacation. “The idea won’t do us any good; it’s terrible; it’s like a bribe; you’re just dropping fifty-dollar bills all over the place.” Somehow it seemed immoral to give away fifty dollars to everybody.

Kettl: Did you spend any time up on the Hill lobbying for the package?

Young: I wanted to get into that and maybe see how it was carried on the congressional side. Who did the work? Were Frank Moore and those people involved? How much were you involved in it?

Schultze: Yes, but my memory is very dim on that. I did not do a lot of running around office to office. I did a lot of testifying. I did talk to some people, made some phone calls, that sort of thing. But I didn’t take the lead.

Young: You didn’t do any of the lobbying?

Schultze: Blumenthal was running the tax bill and he was more involved, much more than I was. The operational responsibility of lobbying the tax bill through was his. And I would go with him very often and have sessions.

Young: This new task force was put together to send this through the Congress?

Rhoads: Why did the President back off from it?

Schultze: One of the things that was happening was that for about four months of that year food prices started to go up and inflation was real bad. It came down again the second year. But I think Bert Lance was the first one to get worried about it. He was never that enthusiastic about the rebate and everything. But that may not be accurate. It’s a sense. Blumenthal got cold feet. He thought it was adding too much to the deficit. Eizenstat, Mondale, and I argued that food prices had nothing to do with this, that if he took this out, you were likely to get more of something else which would be permanent. We had a big showdown meeting with the President.

Young: Was it argued out in front of him?

Schultze: Yes, with the main actors there. As I say, it was clear, and I could never sort people’s motives out—how much was substantive and how much political. It was clear that it would have taken a major exercise of Presidential clout and credit to get it on the margin. Even if you win it, you’re going to use up a lot of credits and it’s not worth it. It went back and forth all in about a week. Bert Lance, I think, was the first one to put it in the President’s ear. Blumenthal sent him a memo or called him, I forget which. The President stewed about it, and he and I talked about it,

and he finally called and agreed. He didn't decide at the meeting. In fact, poor Mike Blumenthal was put in a terrible situation. The President did not decide at the meeting what he was going to do. He did later that afternoon.

Blumenthal, in the meantime, was scheduled for a National Press Corps speech, at the end of which the reporters would of course question about the rebate. And he danced and danced but he had to be assuming we hadn't changed policy. Five hours later the President pulled the switch and poor Mike had a credibility problem. Then the problem was that it was done so quickly—even though a majority of the Congressmen were quite relieved not to have to vote for this—that those who stuck their necks out—[Edmund] Muskie in particular didn't think that much of it—were notified at the last minute that it was going to be pulled. He was absolutely furious.

The interesting proposition being—Even though it may have pleased 80 percent of the Congress, the ones who were pleased were mildly pleased, and the ones who had gone out on a limb for it were absolutely betrayed. So you have a paradoxical situation of doing something that pleases most people but probably hurts you. There was where we first got the reputation that “You can't trust these people.”

Young: Then you get credit for very bad congressional relations.

Jones: I just wonder whether the President—being on the front end of this economic stimulus package—was at all growing out of the campaign or whatever it was.

Young: Did it come from the bottom up, or the top down?

Schultze: Jimmy Carter had been pointing to the Presidency in late 1975 and early 1976. The whole thrust of his economic campaign was, “We're in a recession, we're stagnating.” I don't think anybody ever discussed the issue. If somebody said, “Mr. President, in order to do this you've got to add to your deficit this year, which is already high,” I don't really know, but clearly, there was just never any question anywhere in the camp at any time. Now it turned out that poor Gerry Ford got stuck by the fact that the economic recovery, which was moving, flattened out for a while in 1976 and then flipped up again in 1977. Carter was able to campaign against it and just made it open and shut—“I'm going to do something.”

Jones: The President was never in these early meetings. Is that right?

Schultze: No, no, no, no. The meetings I'm describing initially—he was there. These were at Plains with him. Now there were other meetings when he wasn't, but during the initial meetings, he was.

Young: He was very much involved?

Kettl: There seem to be two pictures: (1) There is a big problem on Capitol Hill and it's never going to fly; (2) The economic circumstances have changed and it's no longer needed. I'm trying to get a sense of the balance of these in the decision.

Schultze: Since the two complemented each other, it's very hard to tell what weight went in anybody's mind. I just don't know. My own guess is that it didn't make a lot of difference one way or the other.

Kettl: Did you sense any change in your role after the decision was made to yank the fifty-dollar rebate plan?

Schultze: I didn't sense it. I was the chief author of it. Once the basic decisions were made, there were staff available from the transition. So you might say the fundamental decision to go ahead with the rebate was a part of it, but then you gradually worked it out into the specifics. You have to make that initial decision and get some rough sense of where you wanted to go. We really didn't make any decision about the size of that rebate until much later, but the initial idea was to have one. Almost all the professionals are on one or two-year rotations, anyway, out of academia and they stay. Given the nature of the academic year—you start in July or August—so the ones who were there stayed through July and August. In fact, a lot of my staff not only stayed, but some of them stayed on until the next year with [Murray] Weidenbaum. There is no turnover in that sense.

Young: We'll want to turn at some point to look at a, perhaps, contrasting case. Here is a case where you're putting together an economic policy package that runs with the grain of the President's campaign commitment, with the grain of the Democratic Party in the Congress, and on which there's substantial agreement among the advisors. There is consultation, pulling and hauling over a few issues, and one adjustment in response to changed economic circumstances in the eyes of some congressional pressure. Later on, you have to turn around and run against the grain of all those things; you have to lean on the economy. So I think it would be nice to balance this off with a picture of how it worked in the new ball games. You might want to run through the saga of the other side of the fiscal coin, of when you were confronted with the inflationary issues and the budget control issues, and maybe one of those specifically, the debate on the issue about wage price controls and guidelines.

Schultze: One of the meetings that the President had in Plains after the election and before the inauguration had three potential Secretaries of the Treasury there. [A.W.] Clausen was there; Blumenthal was there; Larry Klein was there. Other people—whose names I can no longer remember—out of the Economic Group, plus some general consultants, were also there. There was a discussion of whether or not you should have standby wage and price controls. Everybody agreed we didn't want wage and price controls. Should you have standby wage and price controls? There was a lot of argument that I thought was correct under the circumstances. You now had a terrible situation because everybody's going to think you're going to put them in. And as soon as you start to get inflation, or try to anticipate it, you bring on inflation. We argued it back and forth. And at some stage the President turned to me and said, "Well, what do you think?" I said, "Well, I guess we ought to make up our minds. My suggestion would be, don't go for it." And it was one of those decisions we didn't go for.

Secondly, as a general description, I guess I was always leaning in the direction of doing more by way of guidelines, specific guidelines. I would say the Treasury people and Bert Lance, initially anyway, were much more reluctant. Marshall and the labor interests were adamantly

against it. And I think, in hindsight, it is probably true that we got into them. We got into them late and by stages and always a little after the event. That was one of the cases where it was very hard to do much because your major constituency was fighting you like mad.

Hargrove: Charlie, did you feel that the difficult problems of inflation were in the wage-price spiral, the institutional expectations, and that's why you felt that jawboning guidelines were the only way to get at that?

Schultze: I thought so at the time. Remember, this was all pre-OPEC, too. Our problem was, how do you have a decent economic recovery and at the same time move inflation down? It wasn't quite so much that you needed the guidelines to stop inflation from going up. It turned out later we were trying to, but initially it was a way to help get inflation down while you're having reasonable economic progress, economic growth. And the idea at least behind it was that if you get both wages and prices down at the same time, everybody gains, nobody loses. It's like the football game—everybody sits down. You're all better off, but who is going to sit down first? And this was an attempt to do it. We were always against the opposition of labor and business, but labor was a constituency.

Secondly, it was really being pushed by a CEA. I won't say there was the opposite. There was a very complicated store when we finally got to the formal guidelines, because the suggestion for that came from Marshall, which is kind of interesting.

Young: The suggestion for the guidelines?

Schultze: He wanted to do it in a different way, but it was one of those things. You remember the Cuban missile crisis and the two different letters—grab one and run with it. But in any event, they wanted to do it a different way than we wanted to do it, but ultimately it came. But I remember really being surprised with that memo. And what we did was take his idea and our numbers. Even in this, all the way through the Administration, I thought we were always eight months late or always doing things later after events had forced us into it, by which time we had lost some of the initiative. That's my interpretation. I'm not sure how much good it would have done anyway because when you get hit with a massive oil price shock, you're dealing with a very difficult situation, especially when you try to sit on it. So it would have been a major problem in any event. But that was a progressive business.

We got into it by stages. For example, sometime in 1978 we started out with basically nothing in the guidelines. We had an anti-inflation program—so-called—in April of '77, which had all kinds of bits and pieces in it. None of which meant anything. Then later that year, Barry Bosworth came up with an ingenious way to have guidelines without having guidelines in which we were going to push everybody to decelerate. That is, we're not going to set guidelines for everybody, but everybody do a little bit less than last year, to keep in line. What's a little bit less? Well, everybody knock a half a percent off; we're not giving you a number. So there was no absolute number for wages. That was the ingenuity of the idea, but it turned out to be too fuzzy to work. Still, we pushed that for a while.

Food inflation was giving us some trouble, and inflation was going up a little before OPEC, and with the EPG sitting around and asking, “What are you going to do now?” The anti-inflation program memo from Marshall comes in saying maybe we could set some kind of guidelines to be used as a signal when the government would do things like take action on Davis-Bacon and things like this. And we all seized on that and ran with it. CEA in particular ran with it. Then in September of 1978, we came up with the formal guidelines, with the idea of using the procurement sanction. That is, you would be barred from eligibility for government procurement if you violated the guidelines. There was a huge fight with labor over that. They sued us, as a matter of fact. So we got into it by these stages and it was a little bit like being at every stage just a bit too late.

Young: I’m trying to recall the date—I can’t recall it—of the Presidential speech in which he announced inflation as a number one problem. It was just about the time Fred Kahn was appointed.

Schultze: No, it was the same time. We did it all together as part of the package. September or October of ’78. I forget which it was.

Young: Right. And I’m trying to remember the points he listed in that speech, and I don’t have the order right or remember them all. But one had to do with spending restraints, budgetary components, including reduction in force. Wage and price constraint and a whole number of other things were put into that speech. May we go through those various components and how this was put together, perhaps even how the speech came about, and how it all fell out.

Schultze: Well, my first impression is oversimplified and does not do justice to the nuances. The gut of that speech was the guidelines. But at the same time, there were elements in there that recognized the fact that you can’t do it just by guidelines; we also have to kind of lean on the economy a little harder by way of fiscal policy. My recollection, however, is there isn’t a lot you can do in October about that when your budget is coming up in January. There was a big debate. It comes back to me as to whether the President ought or ought not to set forth his goal for the budget deficit in advance of actually having the budget. That was in September of ’78.

There was a big debate back and forth with the liberals, Eizenstat and Mondale, not wanting to do it. Blumenthal and McIntyre wanted to do it. I must confess on this one I was on the defensive. And I do recall at the last minute just before the speech was literally being typed for the teleprompter, the President had a meeting with Henry Bellman and Muskie and other members of the Budget Committee. Whether the House members were there, I don’t know. I guess the members of budget committees were there, and they strongly urged him to make such a pledge.

I remember him calling McIntyre and me into a little side room and asking, “Should I?” I remember it was one of those things where you’ve got two minutes to make up your mind. I was for it on grounds that, well, it would strengthen the commitment he makes in the speech, on the one hand, but dear God, before you know what all the numbers are going to be, what are you getting yourself into, on the other? Finally I said, “Okay, go ahead.” McIntyre had always been for it, and I remember Eizenstat being mad as hell that this was made when he wasn’t there.

Literally, they changed it on the teleprompter so he could include that \$30 billion budget deficit commitment. You may recall that while we did indeed come out with a budget deficit forecast of \$30 billion, when the year was over, it was \$60 billion.

We slashed Federal hiring and cut the Federal budget. Every President of the United States feels that somehow politically he's got to show his restraint by slashing the Federal work force. It's absolutely silly. It's happened so many times I don't even open my mouth on it any more.

Young: The ways to reduce the budget deficit and ways to pull down spending included eliminating regulation, bringing more competition back into the economy, opposing any further reduction of Federal income taxes until convincing prospects inflation will be controlled. Then he started talking about the deficit and named a \$30 billion figure. I don't know where the speech was given, but it was addressed to the nation.

Schultze: Yes, it was from the White House. It was the anti-inflation speech.

Young: I'm trying to get at the pulling and hauling behind that, and then the political fallout from it.

Schultze: The pulling and hauling behind it, maybe again due to my memory, seems now to be sort of fuzzy. Blumenthal and McIntyre wanted to give more emphasis—as much as possible—to budgetary restraint and all of those items. I remember I was pushing. I don't remember about Eizenstat. Eizenstat did not want the commitment on the budget. I was pushing for as much emphasis as possible on the guidelines, and being tough on that. The question of making the \$30 billion commitment was a big issue. But apart from that, it was a matter of emphasis, as I recall. There is a lot of debate that went behind this. For example, "We will oppose any further reduction of Federal income taxes until we have convincing prospects that inflation will be controlled." I can no longer recall it, but that ticks off kind of a vague memory.

Young: It sounds like it, because later on in the speech he says there are tax cuts that could directly lower costs and prices and help. It sounds like there's something going on there.

Schultze: Yes. And I wish I could remember it. The essence of that speech was the combination of the \$30 billion promise on the budget deficit and the guidelines. That was the gut. There were all sorts of other things that went into it. One of those very carefully worded statements that means nothing except to the people who wrote it.

Hargrove: Did McIntyre's troops then go to work furiously on the department objections?

Schultze: Oh, yes. But you know, always there was a huge fight between McIntyre's people and Eizenstat's people and what was going to be cut. That happened every year.

Mosher: This is just a suggestion. We've heard in previous meetings about divisions within the staff between conservatives and liberals. Was that clear-cut?

Schultze: No, not really. It was not as clear-cut as I indicate in some cases, and as other people indicate, because there were more positions than you think. That is, on the one hand, with respect to a lot of this I recall that, generally speaking, Eizenstat would be on the liberal side. On the other hand, some of the purely political types who dealt with the Hill thought he was being too hard-nosed.

Petkas: Too conservative?

Schultze: Yes. Captured by the Treasury-financial-economic types. So, you're right; there was a split. I'm not sure of Marshall. I'm thinking more of Frank Moore, [Landon] Butler, Bill Cable, those people. It was not always so much a liberal-conservative conflict, but it was the argument about alienating constituency groups, which very often *was* a liberal-conservative split, but not always. So you're right; there was a split. It wasn't a huge split, but there was this constant battling, but having more positions on it.

Young: Did I understand you to say that wasn't your main thrust or your main priority? You were sitting on the guidelines.

Mosher: I think last week you were quoted as saying that the difference between liberals and conservatives was not as important as that between ins and outs.

Schultze: Well, I was kind of being clever, I guess. But this was where Murray Weidenbaum is explaining, "Well, sure, deficits are a problem, but they're not that big a problem." Secondly he was saying, "Well, this recession is going to turn around because of x, y, and z about this—no inventory speculation—we don't have to correct for that, and there's no big speculative activity, and interest rates are coming down." I can remember making the same speech when the economy was sliding in 1980.

Hargrove: Were the CEA models forecasting models? Did they tend to underestimate inflationary forces, and is this why this business of being eight months behind was important?

Schultze: Again, it's hard to piece out. How much would we have underestimated if the big oil thing hadn't occurred? There are very peculiar sets of circumstances about the way the CPI [Consumer Price Index] in this particular inflation overstated it. If we'd known about OPEC, what we would have forecast I don't know. Clearly the problem with the OPEC one was that there was no good way to avoid it. We would have been more alert to the inflationary problem if we had known that, and clearly, we weren't enough. What I can't sort out is how much more inflation the economy had than we forecast. There is a legitimate excuse that you couldn't have figured that the Iranian revolution and the Iran-Iraqi war was going to occur. It's hard for me to sort that out. I like to believe that it was mainly the latter and not the former.

Hargrove: I remember Art Okun saying that even in the late '60s their models didn't fully capture dynamic forces in the economy, and he then made a follow-up statement. These models are not what they ought to be.

Schultze: We never used models that way. We never had a CEA model. We used a batch of models. We put a lot of judgment into it. It was always a complicated mixture of the models and

the judgment anyway. Now, the judgment may have been equally problematic. Then there was the other problem that I have to confess—I don't know quite how to describe whether this is right, wrong, or indifferent. During the days of the guidelines we were always asking labor to accept the seven-and-a-half percent or whatever guideline. You're hard put to forecast a big increase in inflation. Your forecast is a little bit conditioned by your policy. I'm dealing in relatively modest differences, but there is always that internal pressure on you—internal in the sense of what you're after. Remember, in order to get inflation down, you've got a wage guideline out there. You can't go and tell labor, "You pull the wage guideline down and inflation will be good two years from now, but next year's going to be bad." It's kind of hard to do.

Jones: You've mentioned this matter of political consideration several times. It's something I've never understood very well about CEA. How much political analysis are you forced to do? Do you get someone's advice on it or do you kind of go by what folks are telling you outside or in the White House? How much political analysis really are you forced to do of economic issues and policy?

Schultze: Political analysis in any formal sense, we don't do.

Jones: Well, you talked about the importance of labor, and I consider that political analysis. The forces that are at work in that matter are not totally economic.

Schultze: I have on a number of occasions described the role of both the OMB director and the CEA chairman in a lot of these matters as being "realistic hair shirts." Both words are important. What I'm saying is, as a general proposition, if you ask any of the people in the White House who were real politicians, they would have said we had absolutely no political acumen. But if you ask some of my purest economic colleagues, they'll say I was being too much a politician in terms of limiting what you propose. Time and time again I had to make a decision. On other issues some of my colleagues did. The question is, how far against the grain can you go before you lose your clout?

Jones: Which means you've got to have a sense of grain.

Schultze: That's right. However, you also want to never cut your recommendations to what you think the political outcome is going to be. You can afford to be 40 degrees off and try to push the President to do things that are politically difficult by 40. But if you try to do it by 180 too many times, then he's not going to listen again. I've never been able, except on a case-by-case basis, to know where that lies. It is somewhere between. If you do it zero you're always trying to make recommendations basically on whether they're going to pass or not. And that's not my job. But my job is to make sure that I don't bombard the President with stuff there's just no chance in the world he's going to get. Sometimes you make mistakes. Sometimes, all of a sudden, things that you think are absolutely impossible turn out to be possible, and you made a mistake.

Jones: Well, what kind of help do you get on that?

Schultze: A lot of conversation with a lot of people. A policy group meeting has one-third economic substance, one-third procedural and all that, and one-third political. I tend to try to

keep my role down in being the one who's giving political advice. But you don't just sit there mute. I don't know where there's any way out of this dilemma; you never know when the President is getting political advice. "Mr. President, that will never fly," very often comes from people who don't want it to fly, anyway, on substantive grounds. And we were always at a disadvantage on that. We had no congressional liaison; we had never pretended to be able to analyze the Congress. So you're sitting in a meeting and some Cabinet officer says, "Ah, Mr. President, you do that and there's no chance in the world." I very seldom have found that the Cabinet officer would give that kind of advice on something he didn't want to do. I exaggerate, maybe. You're pointing to a problem.

Jones: Could I pursue it just one more play? Is it the case that your former colleague down on the Hill, Alice Rivlin, is in a somewhat better position on projections and so forth? She can react to numbers that have been produced downtown and it becomes less of a political issue.

Schultze: Well, she still has both problems, but she has less of some and more of others. Whether explicit in legislation or by choice—I forget which—the CBO [Congressional Budget office] fundamentally does not make recommendations; it gives options. Now, it does a forecast, but when it gets around, you forget the forecast. They do not come up and make recommendations; they'll give you all sorts of options. But they will either analyze the impact of a program or they will give options. Most of them either give ranges or they will say, "Here are ways you could cut the defense budget," or, "Here are ways you could do x, y, or z." In that sense they don't.

Conversely, the other side of that is that you know when they come up with a forecast which is quite different from the Administration's, that proves politically embarrassing with the Democrats, then Tip O'Neill and now some of the supply-siders get mad as hell. So it's politically embarrassing there, particularly on the budget deficit forecasting line. Whoever is in power doesn't like it. But on policy recommendations, they usually give options.

Young: I think we'll want to come back to this question but it might be appropriate just to identify one now that the line of questioning that Chuck has been pursuing regarding the politics of economics brings to mind. It appears as a real puzzle about the Carter White House. On the one hand, it appeared to some to be overly political, and, on the other hand, that it wasn't sufficiently political. That's much too broad a question, but I'm just wondering if you, as an economic policy advisor, sensed that the political considerations, however one might characterize them, were always getting in the way of good policy.

Schultze: Well, let me get at that obliquely. I think that goes back to the point I opened this thing with. We were in an Administration with a Democratic constituency. A large part of the things we had to do on budget policy and on economic policy in the last two years—deregulate oil, energy prices, all that sort of thing—was to continually go against our constituents. We were continually doing things that were going in the opposite direction from the people who elected us. More so than normally. Which means that in almost everything we did, paradoxically, we had to be more political out there and make more political considerations. It's a hairy issue. Do we dare take on labor on this? Do we dare take on the environmentalists on this? Well, if you're Ronald Reagan, you know what you'll do. But paradoxically, he has it easier. Political

considerations come in critically, where you know Ronald Reagan doesn't have a big political problem of whether to cut the budget or not, whereas Jimmy Carter did on every budget cut.

Young: Not because he was Jimmy Carter but because he was a Democrat.

Schultze: That's right. He was a Democrat in the situation that the times called for. And probably also the Democratic Party has never quite sorted out what its image is in those kinds of times.

Hargrove: The reference groups were specific, organized constituencies rather than some diffuse public group?

Schultze: Yes.

Young: They were represented in the appointments to the Administration.

Schultze: Yes, I think, but partly in hindsight and partly because I wasn't a political type, I never ran for anything. But obviously we're going to be an old-fashioned liberal Administration in some sense. The whole point is not to be a Ronald Reagan, but to pick a line, which is "restraint with compassion." We made a new decision every time. One day to balance this way and one day to balance the other way. And so political considerations became much more critical.

Hargrove: I guess the first question is whether the President had a strategic sense of these questions.

Thompson: Did you ever use the political argument in this situation—that what the country wanted was your kind of moderate policy? One of your predecessors said that you did. I wondered whether you felt that was a political position you could take to defend your economic policy.

Schultze: I don't know. I guess so. One way to say yes is to say, "I suspect." I can't remember the specifics very often, being in a position of saying, "Well, look, you may be alienating x group but fundamentally the country's going in this direction." I don't remember that, but I'm sure I probably did it.

Young: You have indicated that the whole of regulatory affairs was something in which the Council or you were involved, as you also were in the anti-inflation package. The guideline was one of the things that you took a hand in. We would like to hear something about each of those areas. Maybe since we were talking about the inflation package just before, you can tell us something about the guidelines and what happened to them and how it worked or didn't work.

Schultze: Well, the main problem with the guidelines was that they were conceived principally as a device to help us pull down inflation—not dramatically, but modestly—while we were continuing to expand the economy. The emphasis being to pull down inflation. And of course just as we got them in, within three months the whole Iranian thing blew and the price of oil went


sky-high and instead of having six- or seven-percent price increases in 1979, I don't know what it popped up to—maybe nine or nine-and-a-half. We were continually faced by this, number one.

And, number two, the clear intent of the guidelines was in effect to have management enforce it for us. This was really an attempt to get labor to agree to it. All we wanted to avoid was a massive confrontation with labor. But there was clearly no way we were going to get labor to somehow agree. They wouldn't; they wanted no part of it. But at the same time, they decided not to sabotage it. The proposition was that if management would agree, they'd make them effective. And for the first year they did.

We had tremendous technical problems and discussions with large non-union firms wanting to make sure that our wage regulations didn't penalize them with respect to their potential union organizers. Interestingly enough, some of the most effective representation before labor in modifying their original design for the technical details of the guidelines was by people from other places. [REDACTED]

Next, if I came away from four years with mainly one idea to add to my intellectual capital, it was that whenever big management and big labor get together, whenever they are in the same room on things like this, they normally get together to screw the public. Let me develop this, though I'm skipping ahead a little bit. You may recall—I sure do—at some point in 1979 there was a so-called accord with labor that was put together. In this we formed a labor-management public advisory group. It was a public committee on wages. The pay advisory committee was headed by John Dunlop. [REDACTED]

I argued strenuously that unless we got a commitment from labor to some kind of a target as part of the charger on wages, I didn't want to see any committee charged with rating the target, because I knew what they were going to do. It worked out the way I forecast it. Fundamentally, every time an issue came up, the management people and the labor people and John Dunlop got together—there were other public members, but they couldn't have counted for less—and wrote it in a way that gave labor what it wanted. Up until recently, in my judgment, American management has been a patsy for large wage increases. I asked some of the people from GE the other day—this is just an aside—“Why do you do it?” And his proposition was, it isn't the cost of the strike itself. Customers are assets and once you lose them they're hard to get back. Once you have a strike, people all of a sudden discover, *My God, Sylvania makes light bulbs*. [REDACTED]



The reason for going into all this is that here is an American management exerting highly sophisticated, very competent staff work whose main objective was to see the most conceivably large amount they could give to the union. I've overreacted to this. I feel very strongly about this. Just tripartite committees of that kind, without a union already having agreed, "Yes, we do want guidelines." This was a case in which, on the one hand, labor didn't want to break with the Democratic Administration, but on the other hand, they were bound and determined, by God, that they were going to get rid of those guidelines, and the way to do it was to force us into a so-called accord.

By the second year the guidelines were worthless. There were just so many loopholes in them by the time they finished. I just didn't like this at all. Really, we were carrying water on both shoulders, because if you read that accord, there was a clear impression given to labor—but never quite enough—that they could hold you to it. Everybody in 1979 was afraid there was going to be a recession; everybody was forecasting one. We would take some standard labor-type anti-recession action, but in the meantime we're also saying to ourselves, *We're going to have a tight budget*. The accord was signed. Everybody kind of knew how you were going to walk the line come the next six months. If you sign the accord with labor, on the one hand, there was nothing in there that explicitly held you to that, but there was this kind of implicit promise, which I felt we had lived to regret. That whole episode, I just thought, was bad.

Now, one final point. The final result, had it gone my way, may have been no better on the grounds that labor may have publicly broken with the Administration. Then you wouldn't have had any better guidelines anyway, but I think ultimately you would have been cleaner economically, and maybe had a chance to do something about it, not necessarily politically, because there was always the threat of Teddy [Edward M.] Kennedy being out there.

Young: Whose idea was the accord?

Schultze: [Lane] Kirkland and Miller. I don't know in what order.

Young: He was Secretary of the Treasury at the time?

Schultze: Well, yes, he had started. I was in the hospital for two months, out of action for two months in '79. While I was gone, apparently it was decided that we wanted to get labor and management together in some kind of discussion on our economic program. All of that's fine. Let's start some discussions. As I came back, there was this idea we were going to sit down and reach some kind of agreement with labor and management, but it was particularly labor that would enable us to go ahead with our guidelines. Labor wasn't interested in the guidelines except to kill them, but they could use this as an excuse, they thought, to get other concessions out of the Carter Administration on its upcoming budget and what it would do in case of a recession.

And so, I kind of came into it. I spent some time doing the initial negotiating with Dunlop and people from labor. It became clear that I wasn't going to go as far as labor wanted. So it wasn't

so much taken out of my hands—it didn't work that way—but we then got down to one stage, and we met as the Economic Policy Group with the labor people, and it finally went to the President for decision. All the way through I argued, "If they do not agree to a specific target figure for wages within which they could then help write the regulations, that's fine—I don't want any part of it." I'm not sure, but I think I was the only one who voted that way. I'm not sure which way McIntyre went on that, but it was either me, or McIntyre and me dissenting on that vote.

Jones: Am I correct that the guidelines were working pretty well from your perspective at the time?

Schultze: As well as could be expected. I have to say that there was a real question whether you could extend them for another year, however, because they were put in with a six-and-a-half-percent or seven-and-a-half-percent wage, if I recollect. I'm terrible about my numbers. A seven-and-a-half-percent wage guideline in a year in which inflation in '79 was starting to move up at nine or ten percent because of the oil crisis.

Jones: So there might have had to be reconsideration anyway?

Schultze: Well, everyone knew that. The only question is, how do you do it?

Jones: Who would participate, and by what process?

Schultze: In fact, we turned it over to this committee. Now, we didn't actually turn it over, because there was then a continuing struggle. I had a continuing, nasty, messy year with that committee. All between Fred Kahn who was doing a lot of it with his people, and Dunlop's group, and between me and the group; it was always just a mess, in my judgment. It was a mess in the sense of being a very difficult problem. And they were always threatening to walk out.

Young: Who is "they"?

Schultze: Labor, fundamentally.

Jones: Kirkland had sort of just come on then, right? I've forgotten when [George] Meany died. Would that have been about right?

Schultze: Well, whether he had just come on or not, yes, he was doing the negotiating. I think he had come on. I'm almost sure he had come on.

Rhoads: You said in connection with the accord you had to make certain commitments or felt implicit commitments to labor.

Schultze: They were written. Somewhere there's a piece of paper.

Rhoads: The last big reversal was the budget cut. Wall Street reacts in such a way and then within weeks you switch it all around. I wonder if this is a good time to discuss that whole

business and what you think was behind it. Why the need to make the reversal? Did you really miscalculate the way people would react to that budget?

Schultze: Yes. Where we miscalculated was something quite literally none of us had given enough thought to obviously. It was not the new budget; it was the re-estimate of the old 1980 budget. The 1981 budget, we just sent. What people reacted to was the '80 budget in which we had originally put in a \$30 billion deficit a year earlier and it was now \$60 billion for no one single reason. I mean, it wasn't so much that anybody made a policy decision; it was just higher inflation and higher interest rates. Except for defense. We clearly just missed that. Everything was happening. Inflation was heating up; the oil stuff was coming right through. I mean, they were really accumulating in the price indexes.

The market saw that \$60 billion and said, "What the heck? We couldn't believe you last year; why should we believe you this year?" The bond market was drying up. For a few months the rate of inflation, as measured by the CPI, was running at 18 percent. Now, it was obviously not the right rate of inflation. It wasn't 18 percent, but it was clearly heating up. There was some fear on our part—in hindsight probably overstated but real nevertheless—that it could be getting away from us. My guess in hindsight is that it wouldn't have, but we felt we had to act. This was all combined with the fact that this was the year in which Afghanistan had happened, and Carter had announced the big defense budget increase. So underlying all this was another fear on Wall Street that my God, we've got a new defense move coming. It was absolutely overdone, given the size of the Carter budget. But nevertheless, there was that, so altogether it created this climate. It was partly real, partly overreaction.

If we'd waited another six months we could have done it more carefully, but we felt we had to act. Out of that came one experience that I thought was rather good. I'm not sure it could be repeated. And in the process of putting together a new budget three months after the other one is out, for the first time in my memory we sat down in advance, in detail, sixteen hours a day for a week with the major Democratic congressional leaders and put together a package that they had agreed to, more or less in advance. We'd all agreed to it. It was the nearest thing to a parliamentary arrangement I've ever seen. Some of it slipped; it didn't all get through.

But it was kind of interesting. You know, you'd see people like David Obey, "Okay, I'll give up some of my social programs if you'll give up some of yours." That led to one of the funnier incidents I've seen. About three-quarters of the way through this process, [Ernest] Fritz Hollings came in and starts making a big spiel, "Well, you can't cut defense," and he just went on spiling numbers off for 20 minutes while Dave Obey got madder and madder and madder. Dave had given up some of his programs and Fritz was trying to claim some for the military. Dave started to really rant and go on. Down at the end of the table sat Ed Muskie and he looked at Dave and said, "Temper, temper." That just saved the day. Everybody just broke up.

I think that was an action we had to take to rescue ourselves from not having paid enough attention to what was happening to the existing budget. It's one of the things that happens in a budget year. You get so wrapped up in the upcoming budget that policymakers don't pay as much attention as they ought to. There's not much you can do about it. If the current year's budget is going to blow on you, it's already blown and there's nothing you can do in terms of

policy to make a lot of difference. But at least you ought to be aware of the impact of it, and we were not. Volcker played a major role and sat in on a lot of the major meetings, including those with the President, when we put that package together. To my knowledge, that was unprecedented.

Hargrove: At the Camp David summit the previous year, was economic policy part of the fundamental reevaluation?

Schultze: I wasn't there. It happened while I was in the hospital. I don't think it was.

Hargrove: That's when you were ill?

Schultze: Yes. This was the one where the President was going to make a big energy speech. That's how the whole thing got started. But I wasn't around. I know about it, but I luckily missed all that.

Young: But you did read the newspapers?

Schultze: How are we going to show we're tough? Let's fire some Cabinet officers.

Hargrove: More symbolic than substantial?

Young: But that whole series of events—price increase, the budget redo, and all of that—really sort of hit the papers. It reinforced the view of the Administration as essentially disorganized.

Schultze: It was more flip-flop. That's right.

Young: It seemed inconsistent, and its political impact was enormous.

Schultze: I don't understand that in one sense. I mean, I understand it, and I don't understand it. For example, I think the Reagan people do a very good job of making policy switches, which I think you have to make. You've got to be prepared to make them, sometimes because events change, and sometimes because you recognize you made a mistake. For example on the Social Security thing. I mean, they were off that in two days. We diddled around for a month trying to figure it out. Reagan's obviously changing his mind. They had to change their mind on a whole batch of budget questions, and he may get into trouble, but they are not going to be known as a flip-flop Administration. Maybe he'll be known that way on other problems, but I don't think so. Somehow they have managed this much better.

I think if you were not able to change your mind—your consistency is not necessarily a virtue for a lot of this policy. It is in some fundamental sense. But if you get an oil shock blowing at you, to say, "I'm going to sit here and sweat it out"—I don't think that is realistic. We didn't manage it well. But I convinced myself of this at least—it wasn't so much that the switches were wrong. Even dropping the rebate, in hindsight, did not make much difference one way or the other. There is no reason why a government should not be able to change within three or four months, either for political reasons or because it turns out to be something that is not feasible. We never

learned how to manage it. My own judgment is that the problem was in not knowing how to manage it rather than in doing it.

Rockman: Was it just a matter of managing it, or was it also the fact that there's a dramatic difference in the backgrounds of Carter and Reagan in terms of public perceptions of who they are?

Schultze: Yes. You know, even when Reagan lets up on some program, all his conservative supporters say, "Well, you know, Ronnie doesn't really mean it; if he could, he'd do it." It's the same way whenever Hubert Humphrey had to be conservative, all his liberal friends said, "Ah, we know Hubert doesn't really mean it; he just has to." Carter couldn't do that because he didn't have a liberal or a conservative constituency.

Hargrove: It's the world-view image in people's minds that doesn't change. The kind of world-view of the President. Are you saying Carter didn't project any such world-view?

Schultze: It goes back to the thing I said in the beginning. I happen to like a lot of that. I think that's what the world needs. Ideology is no longer good. Nevertheless, in terms of your subordinates' knowing how to carry on in order to be able to delegate, it is nice to know what the boss thinks. Even if you've got to say, "You ought not to do this," or even if you know that for political reasons, or whatever, he's going to do something else, to have some fundamental sense of what he would do if he were here is helpful. It tremendously simplifies things. And you can do that if you're working for Hubert Humphrey or for Ronald Reagan, but it's hard to do if you're working for Jimmy Carter or, in my judgment, if somebody worked for me. Because with a lot of these I wouldn't have any foregone conclusion.

Young: Or for Franklin Roosevelt. His great strong suit was that he always kept people guessing about what he would do.

Schultze: That's true.

Young: Somehow that's now a liability.

Jones: Were there cases with Carter where you did know, when it was very clear, or you didn't have any questions in your mind, where you didn't have to go and sort of set the scene first, or set the issue first for him?

Schultze: I almost always knew—not always, but very often I knew what he'd *like* to do. I very often wasn't quite sure what he was *going* to do. Let me give you an example. I'm literally thinking this through as I go. Regulatory policy, minimum wage—in general I could be fairly sure that Carter would like to have taken a moderately conservative position, not extreme at all, but a moderately conservative position. It's understandable, when all the chips were down, which way he was going to jump, but when you put the political and constituency and everything all in together, I wasn't sure which way he was going to jump. The same thing would have been true to some extent of Kennedy and Johnson, but not as much. I would be less likely to know how Lyndon Johnson would have liked to jump than I would know how he was going to jump.

Jones: Well, I think that's a fascinating distinction. It says you knew something about him in regard to substance, but you were unsure about him in his evaluation of politics, which was maybe not consistent, or at least clear to you.

Schultze: But I'm going to sound vague when it comes back again to that original position. Here is a man who is inherently liberal on a lot of issues, not only because he had some popular streaks, but on budgetary type issues, regulatory type issues—not all, but on a lot of regulatory issues he understood the need for restraint—where that wasn't the case with Lyndon Johnson. But he was a President elected with a liberal constituency, with constituency politics, trying to work with the Congress without the big base of Democratic politics, and it was hard to know in advance.

I found it hard to know in advance on any given issue, when you would weigh the substance, what coalition you could or couldn't put together. It would very often be the case of taking an initially fairly tough position—I would say conservative—and getting whittled away by a combination of further arguments within the Administration before it was sent to Congress. In the inevitable bargaining, it got to be fairly common that you'd go up to the Congress and the Secretary of Agriculture would come back and say, "Well, Mr. President, we can get this through if you'll give up x and y." And he'd give up x and y. "Well, we just need c; we're damn close; Herman Talmadge has complained, so can you take q? We can't go all this way and then give it up." It would be very often on the political part of it. I'm sure I'm oversimplifying, but there is an awful lot of that.

Hargrove: There is an important question here. It wouldn't be altogether fair to say that Carter lacked strategic political skill. He had no coalition that wanted to go where he wanted to go.

Schultze: Exactly. What he was doing was managing. He was trying to manage in a direction that, while not 180 degrees, was to some degree in a different direction than his team of horses inevitably wanted to go. On the other hand, he had no way of controlling them. So he'd start out one way but spend a lot of time trying to ask, "What's the minimum I have to give up?"

Jones: Do you want to go so far as to say that the circumstances were such in the Democratic Party and in Washington that no one could have made that change, or that it was the nature of this particular President to have trouble making that change?

Schultze: Well, I don't know. I can speculate, but only speculate. I don't think that this could ever have happened had some avowed, hard-charging liberal gotten in and recognized that he had to do this just like Nixon going to China. But maybe only once or twice. I have some thoughts about Hubert Humphrey as a President. I don't know whether Hubert Humphrey would have done it; his instincts were so much the other way. He was a realist, but nevertheless, his instincts were so liberal. I don't know of anybody who could have done it or would have done it.

And secondly I don't know whether anybody could have done it. But I have to say that. You know—speculation in numbers. I can't think of anybody who could have managed that change that way. This is inherent in the nature of the times and the man and the party. Maybe somebody

who is willing to be tougher on staff and on Cabinet officers could have gotten somewhat more out of this. I don't think that's the fundamental problem.

Jones: There was the problem, though, of this President having to sort of set himself in Washington and establish himself in Washington and do these drastic, challenging kinds of things that you talked about. That was a double problem for this person, whereas it's possible that a person in Washington more familiar at least with Washington's perceptions would have had a better running start at it. On the other hand, they may have been by that time so committed to a course of action that they might not have been able to do it. So it's hard to know. There's a tradeoff.

Young: Do you want to tell us something about the whole regulatory aspect of this? The Carter Administration certainly appeared to have taken a major leap forward from the Ford Administration in terms of developing a fairly comprehensive approach to the problem of regulation, both in terms of the deregulatory thrust and in terms of regulatory reform and regulatory review. I'd like to hear about your role in that, because I think it was considerable. At least, it looks that way from the outside. How did this come about, and how did it get together the way it was?

Schultze: There were two aspects to regulatory reform. Economically, they're quite different. One is the deregulation—trucking, air, rail—reducing economic deregulation. The second is managing social regulation. The whole thrust of the two I think is quite different; the flavor is quite different; and I find it easy to talk about them separately. In the deregulation part we started with air. We fell heir to some very good work that had been done by the Kennedy subcommittee. It was the distinct, strategic, philosophical view of Carter to move in the direction of deregulation.

Young: Was that early on? Was that an idea from the beginning?

Schultze: It was something he had all the way through. The Secretary of Transportation at the time wasn't terribly interested in this. His instincts were somewhat on the other side. Somebody else had to carry the load. We had the tremendous aid of George Eades, who we had as a consultant and who knew air regulation upside down, backwards and forwards, and with Fred Kahn in the CAB [Civil Aeronautics Board]. Everything came together and it worked out much better than anybody thought. There were all kinds of problems. I did testifying but didn't do the lobbying, or at least not much of it. It worked well.

It turned out that we always would start in with trucking. That was the one we were going to play very carefully with. One of our problems was that we got all messed up because the trucking deregulation came along at the same time as the truckers' wage negotiations. That was critical, and we were walking on eggs. In order to get to one, they were avoiding committing on the other, and luckily, in the trucking, the Teamsters Union got off the reservation on the wage one. Not enough off to be quite out of line, but enough off that as it finally developed we ended up with a pretty tough trucking deregulation bill, and it got tougher on the Hill.

Young: There was a conscious tactical decision to go first with air, wasn't it?

Schultze: Yes, clearly. The legislative background had been laid. Initially we thought trucking was going to take three or four years; that's a really tough nut to crack; and it would take time for a momentum to develop. And we began to find as we pushed on this that we could push a lot further than anybody thought. I played a much bigger role in air than I played in the others, in part because by that time the thing had developed to the point where the Department of Transportation could do a lot of the work itself. But that's number one. So in that area, I think it worked well. There was a lot of pushing and shoving and all that, but basically it worked well through four years. We got a single direction going; we got success in almost everything we tried. We ended up at the end of the Administration with some communications deregulatory stuff underway, not done yet, which I think was a dramatic success.

Petkas: Some financial?

Schultze: Some financial, that's right. In fact, important financial regulation. And that's hard to beat. Social regulation.

Young: Excuse me. Before you go on to that in terms of the origin of this idea of this new policy direction—it wasn't reactive to any particular experienced economic problem in office?

Schultze: No. It had been something that if you polled 500 economists you'd get 499 to say you ought to do it. It gathered momentum from a confusion that I would be the last person in the world to try to clear up since it worked for us. When people talked deregulation, a typical small businessman was saying deregulation was the last thing he wanted; he didn't want to get out from the umbrella of protection. He meant OSHA [Occupational Safety and Health Administration] and all that stuff. But that was neither here nor there. A lot of the political motive towards the issue could use the deregulation to get the government off people's backs, which wasn't really what the people wanted. So we had some advantage there.

It was more than that. It was clear that the air deregulation was working. My God, you've got the air, you've got the lower fares, and people could see it, and the airlines were all of a sudden making money and people who had opposed were coming around saying, "My God, maybe we shouldn't have resisted." Eastern Airlines publicly switched after a while. I don't think there was any grand strategic plan at the beginning of the Administration in any sense. There were the task forces operating and the transition groups but I don't think anybody ever dreamed we'd get as far as we did. We just pushed, not quite against an open door, as all the negotiations went on and the struggles anybody was involved in. If I said, "open door," they'd beat me over the head. But from a longer historical standpoint, you pushed and you kind of went forward, because there wasn't as much behind the door as you thought.

Young: This is a nice thing—that here's one area where you did more than you thought you could.

Schultze: There were people—Si Lazarus—at the beginning of the Administration in the transitional stage charged with this, and the more the better. They would have loved to have seen us go ahead. So I won't say there weren't groups of people who didn't want us to go ahead.

Mosher: It seems to me that you were the first chairman who got into this. I'm curious how this got allocated to CEA, how you got involved.

Schultze: I think that's quite true. My predecessor had a Council member, Paul Macavoy, who spent full time on it. Greenspan didn't. But one chunk of the Council, possibly in the Nixon part of the Administration, spent full time on deregulation. I took more of a personal interest in it than my predecessor as chairman, but it was not new for the Council to be in it.

There has been a general drift in the Council towards more. It's always been involved in micro, but more and more involved in macro. I think that's because the government is more and more involved in macro. Social regulation is a horse of a different color. And it's so complicated and my memory again is so fuzzy, I'm not sure I can do it anywhere near justice. Well, the chronology may not be right. Among other things early in the Administration, Barry Bosworth put together—and then I put some stuff on it and drafted it—a long memo to the President on the economic effects of social regulation. Well, it's not just regulation. Economic effects of governmental intervention in the economy. Trade, social regulation—things like that—showing how much it's contributing to inflation. We laid out why it's not just an interest in and of itself. It has an economic interest generally with a lot of examples. And Carter loved the memo. It was going in the direction he had some inherent desire to go.

Jones: What kind of examples?

Schultze: You know—Here's what the latest trade case cost you; it adds one-tenth of one percent to the CPI. Well, it doesn't sound like much, but you get about eight of them and you're beginning to get up to big numbers. The latest OSHA proposal for *x*, *y*, or *z* is going to add so much to the cost, which ultimately is going to get passed on. That ups it .03 percent. Well, .03 percent isn't very big, but you get about 20 of these and you begin to get up to big numbers. But it wasn't just the numbers; it was, here's how it works. If you think business is absorbing these costs you're crazy. These get passed on, so you not only get the direct effects, you get the indirect effects. That in and of itself didn't lead to anything, but it kind of colored it.

Early in the game—and I can no longer remember the basic origins—together with some people from Eizenstat's staff—maybe OMB, I'm not sure—we ultimately cooked up this idea of a Regulatory Analysis Review Group. I kind of had a charter from Carter—and I don't remember exactly where I got it—to see what could be done. Together with Nina Cornell, a member of my staff who spent the whole time after about nine months of negotiation with a lot of agencies, we had this Regulatory Analysis Review Group, which essentially was a group chaired by the Council of Economic Advisors to review the economic context and consequences of major regulation. It had no authority to do anything about it, but it was a way to review it. You call it to the attention of the agencies and you file it. My recollection is we formally filed it on the record and in the public knowledge. I debated a long time whether the Council of Economic Advisors ought to be involved. My recollection is that it took Nina, with me intervening occasionally, an ungodly length of time to work this out. Ungodly may be only nine months but it seemed like a hell of a long time.

Second, throughout all four years of the Administration, but especially during the first two to three, there was a tremendous set of problems that have now been more or less solved, about what legal rights do representatives of the Executive Office have in intervening, in discussing with agency heads or their staff the content of a regulation where the public hearing record has been closed. What normally happens is the agency puts out a notice of proposed rule-making, has hearings, closes the record, sits down and decides what it's going to do, and initials the regulations.

These were all sorts of court cases; it's quasi-judicial. I mean, I'm not the lawyer on this, but there were all kinds of court cases involved. There was a box office case in which some judge had ruled in a way that, for a while, made it very difficult for us to intervene unless we put everything in the record. I can no longer reconstruct this, but it was a tremendous concern on my part. My special assistant and one of the regular people on my staff spent one heck of a lot of time with the lawyers on it. We were sued several times—by the Resources Defense Unit, or whatever it's called—by two or three different groups for having improperly intervened. There was a classic case, which was just recently decided, that ruled in the President's favor. From any kind of hindsight, it's obvious the President has the right to control his agency. These are not independent agencies. But my memory is just loaded. This is a fairly difficult, frustrating matter.

I'd issue instructions to the staff about not talking to people who were interested outsiders, and I found the very agencies who were so concerned about this were themselves casually discussing matters with interested parties after the hearing had closed. All this is probably of little interest now, because it had pretty much been decided as far as I can tell that, within the normal rules or reasons, the representatives of the President have every right to discuss with the agency what the regulatory outcome is going to be.

So we set up this review procedure. In my judgment, we never did find a good way, when the chips were finally down, to take it to the President. In one case—and I will not use names or agencies—I think the President was literally blackmailed into making a decision one way. The idea being, *Well, if you overrule me, I will not be able to say publicly that I think the scientific evidence supports the ruling I've got to give.* Ronald Reagan would say, "Well, screw you." But a President who's got an environmental interest himself and has got an environmental constituency can't afford that. And any agency head in this kind of environment who wanted to take it all the way, ultimately could win, I think.

Mosher: You're talking about the non-independent commissions?

Schultze: That's right. I'm talking about EPA, OSHA, Food and Drug. I had an incredible argument in public in a testimony with Muskie. Doug Costle and I and somebody else testified. It was the major hearing Muskie had on this. But early I said to Muskie, "These are not independent agencies." He said, "What do you mean? When we set them up, we meant them to be independent." He gave me the hardest time that they were really independent agencies. "Well, we're going to have to change that," he said. For the one and only time in my professional career I got in a literal shouting, screaming match with [John] Culver.

Petkas: He did the same to me once. I didn't shout back.

Schultze: He was having fun for a while, but he got carried away, and I thought to hell with this nonsense, and I decided to scream back at him. “What right do you have to intervene? How do I know you’re not carrying the word of General Motors in there and being associated with the Office of the President? This is an unfair intervention.” The President can’t intervene, for God’s sake? While I may be in some substantive sense overstating the importance of this, it was a major problem and it’s still a major problem for a President who’s trying to be balanced. It’s getting to be less and less of a problem. But if an agency head says in effect, “I’m not going to certify that,” you can always say, “I’ll fire you.” But there goes the whole constituency. I found that extremely difficult.

Young: Was the science advisor Frank Press at all involved in the analysis?

Schultze: Yes. More in some than others, because, while we did maintain that we were mainly looking at economic consequences, on some things there’s no way to do this without also evaluating scientific evidence. I must say I feel bad about the poor state of economics when I look at the incredibly flimsy scientific bases on which some of these regulations are done. The ozone ones are the ones I remember. We looked at six people and counted how many times they coughed. I exaggerate, but I mean that type of method is just all over the place. The scientific evidences all over the place are very flimsy. And yet you have to do it. You have to do it. Nothing to do with the history, but my guess is that the big organizational improvement that would help would be some central analogy to OMB for regulation.

Young: Were the agencies at this initial period being required to do any kind of cost-benefit analysis?

Schultze: The Nixon Administration and the Ford Administration had left a heritage of what was called an “inflation impact statement.” We changed that to “economic impact statement” confined to so-called major regulations. But the main difference was that, instead of just having them done, we used them as the occasion for this review. I don’t know what good it did, but I think over time the agency knew it was going to be filed on public record, so they were a little bit more careful. I think there was a lot of progress in terms of the analysis they put into it. EPA did a lot, and OSHA began to do it. There was still a massive problem of balancing. I mean there’s a real substantive problem involved, because even if you get the right procedure, it doesn’t tell you how you’re going to balance it both politically and substantively.

Hargrove: There’s not only the question of impact on inflation, there’s also the question of efficacy on regulation and, for example, the direct or indirect controls the economists prefer. Did you get into that in any degree?

Schultze: Yes. There was a good bit of that. There was very little occasion to tackle directly the idea of using fees and all that business, but there was too much water over the dam—no pun. Several cases however—

Hargrove: —liked hands-on controls.

Schultze: Oh, that's right. They love that. There was one case where we convinced EPA to open the door a little bit to the idea in so-called PSD [prevention of significant deterioration] areas where you're only allowed a certain increment to pollution a year, to auction off the rights. This would give states the right to investigate the idea of auctioning off, rather than just first-come, first-served. The bubble concept that EPA worked out was a way of getting some backdoor way of getting some incentives in. We had a tremendous battle with EPA, Energy, CEA, Eizenstat, and everybody else on regulations for steam, electric and coal utilities. That was incredible.

The fascinating court decision on it was where the EPA did not provide for uniform scrubbing of sulfur. They allowed a differential. The environmentalists wanted to scrub the same percentage of sulfur out regardless of whether you start with .1 percent sulfur or 4 percent sulfur. It turns out when you run through the economics and environmental consequences, you would get more sulfur in the air if you require a uniform scrubbing than if you let them be more relaxed on low-sulfur coal because then people will buy more low-sulfur coal. This got all mixed up with Eastern versus Western coal interests, and in the court decision, the judge notes that it's very strange that—as one of the major environmental groups was arguing—EPA does not have the right to take into account the total amount of pollutants put into the air. If the Congress said, “Scrub everything,” it's got to scrub everything, and they had no right even to look at how much sulfur was going to go in the air.

I used to disagree and fight with Costle a lot, but they had an analytical capability that could really do something. They had a very sophisticated modeling procedure where you could make judgments and estimates and at least begin to estimate what the difference is. It was kind of fun. The substantive part was kind of fun because you had a tool that you could really work with. You still ended up with a heck of a lot of fights about it. EPA has done a very good job in setting up the capability of doing the analysis.

Young: Who were the other main actors in all this? You've referred to Eizenstat in terms of regulatory review, and OMB.

Schultze: Kahn had a great interest in this. CEA, and of course the agencies, and then Peter Petkas. Yes, what was the year?

Petkas: Early 1979.

Schultze: Early '79.

Petkas: Yes, one argument that the regulators used, in fact, to argue that the regulatory council ought to be created were issues like these, at least the more controversial ones—the bigger ones, the cotton dust, the NSPS [New Source Performance Standards], ozone, and such. I remember the meeting very well. I was sitting off to the side thinking that all these issues ought not to get to the President's desk. In fact, I remember Hale Champion said, “We are paid to keep these off the President's desk, and if you set up this process—” I think he was addressing you, and McIntyre, and Eizenstat “—they will get to the President's desk and make his life more difficult.” How do you feel about that?

Schultze: Yes. It's like any other issue, I think. Fundamentally, I don't consider the decision on what you do about a new regulation on sulfur any different from a decision on how much money you're going to spend in the Energy Department for research on something. Potentially, both could come to the President. Actually, a process in which most come to the President is wrong, but has nothing to do with regulation. The question is, who, besides the interested agencies, necessarily, inevitably, and properly has a point of view on this? They're not necessarily the same as the President's. Who does the job of staffing, mediating, checking, providing in the advocacy process a somewhat different point of view? I don't find it much different, basically, from anything else. There is one big difference, but most of them I don't find any different. We just never did have a full process for doing it. I mean we gradually made progress. I think it was a long way to go and ultimately we needed the equivalent of CEA and OMB in this area, with about the same powers. They can't make any ultimate decisions, but they can scream and stuff.

Young: The big difference being what?

Schultze: There is one difference whose implications I haven't thought through yet. In the case of the budget, which is the nearest analogy, the relationship between the Congress and the Executive is inverse to what it is in the case of regulation. In the case of the budget, the President literally does a lot of balancing and all kinds of priority work and everything else in sending up a budget, which the Congress then has the final say on. Conversely, in the case of regulation, what the Congress has done is set up some guidelines, but the final say is the President's, that is, the regulators. So that in thinking through exactly how you handle this with respect to the way you get the President involved and the relationship to the Congress, you have to remember people, and I do it myself sometimes, to loosely draw the analogy of regulation with the budget. You want a regulatory budget and I think there are a lot of merits to that, because from a national standpoint you're using priorities and resources. But constitutionally and politically, there is a very big difference that you have to keep in mind in designing what you ultimately do. Having said that, I'm not sure what it finally ends up with. But the Congress wants more, in detail, fairly early in the regulatory process; because once it cuts loose it's given it to the administrator. Whereas, at least in theory, it always has the final say on the budget.

Hargrove: That's just what I was thinking about—the analogy of regulations on social programs. Congress and the advocate groups all want uniform standards. But that makes it almost impossible to implement social programs intelligently because the discretion is used differently. What you need can't be done. It's this fear of bureaucratic discretion. Now I'm just wondering if this new institution you're talking about would somehow—though I haven't thought about that—reduce that problem.

Schultze: No, I'm afraid it would make it a little worse. The Congress has given this authority to an agency over which they have some control in the practical sense of the term. I mean Muskie sitting there with Leon Billings shaking a stick in your face. Suppose you really give the President the power to do this? Then we don't have any final say on it. So I can understand why the Congress would feel somewhat more threatened by this than they are by OMB, and, God knows, they feel threatened by OMB.

Mosher: What was your feeling about the legislative veto?

Schultze: Oh, I think it would be an absolute disaster.

Mosher: Do you think it's already a disaster?

Schultze: Well, the bigger it gets the more disaster-like it gets. One major problem quite apart from anything else is once you use the legislative veto, from now on you're going to write the regulation in the office of the chairman of the appropriate committees in Congress. I mean it's going to be a negotiated deal from scratch. You talk about bringing the politics into it. It's not going to be a veto so much; what it's really going to mean is that you will just cut it away and give it to the Congress. Because, to avoid the veto, what's going to happen is that you'll have this ex-officio negotiation going.

Young: There was one question I'd like to get out of the way fairly quickly. A question on regulation and maybe we could move on to getting your views on the Carter White House, not necessarily in relation to economic policymaking, and perhaps beyond that get you into some more discussion on this fascinating problem of the Democratic Party in relation to this Presidency.

Kettl: You argued that what was needed, among other things, was a stronger Presidential role, a stronger Executive Office of the President role in clearance and review of regulations. I'm wondering if you could compare what Reagan's been up to for the last year as a point of comparison. You mentioned two things in particular that were different. First, more extensive use of cost-benefit analysis than the Carter Administration did; and second, a much more aggressive strategy of reviewing regulations, and in particular, catching regulations before they enter into the public record, and including the legal problem that you pointed to. Does this in your mind point to a better strategy for Presidential review of regulation?

Schultze: Considering the cost-benefit analysis, I don't know. It's just a question of how much you can get by with and what you can do. There's no way I can answer that. Secondly, I'm not that familiar with exactly what they're doing, so I'm not sure how much help I'll be. Thirdly, I haven't thought much recently anyway about whether it's better to intervene before or after the NPR [National Performance Review]. On the one hand, once the agencies put out the NPR, there is the question of whether they feel that their constituency is going to think they're selling them short when they later back down or make a change. That is, it's better to do it before the NPR than after. To the converse of that—at least the fiction is—if you use the public record and the hearings and everything else to help you make up your mind, and if you intervene before the NPR does, does that mean you give up intervention afterwards or does it just mean you have a longer period of intervention?

Finally, my guess is that once you get out of the current period, three or four years from now, you've come from an era in which anything went, to an era in which nothing goes, to an era in which everybody concerned is going to be more willing to realize you've got to strike a balance. It may be less important whether you intervene before or after the NPR simply because it may be a little less worry on the part of the agencies. Once having put an NPR out, they don't dare

weaken. My own guess is you may get into a period where that question becomes not terribly important. But I don't really know.

Kettl: There's a broader question at work here as well and that is, is the President better off, and can his Presidential advisors, especially his economic advisors, work more effectively toward intervening more consistently in regulatory actions? Should the President attempt to intervene more than had been true in the past, in the way in which Reagan appears to be moving?

Schultze: Well, I guess again I would say that having spent virtually all of my professional life in the Executive Office of the President, I end up being biased. In all areas of importance, the President needs independent staffing, whether that be budget, foreign policy, or economic policy. You don't want the President to be there himself with just an operational Cabinet and a regulatory agency. Therefore, I'd say, yes, you ultimately want to move, in that sense, in the direction the Reagan Administration is moving—setting up a more formal arrangement to do this.

That, in turn, like any staffing arrangement, leads to the question of how much do you ultimately want the President to see and how much gets staffed out and settled before he gets there? And offhand, I find nothing special about the regulatory area, with one exception. That's either more or less of a problem than other areas. It is probably true that the content of the decision to be made often appears to be much more technical than a typical Presidential decision. In fact, the basic decision appears more technical. What is the precise form they use for your scrubbing regulation? What is the precise parts per million in the air for ozone ECTs [external calibration targets]? And I haven't thought through enough to do more than recognize the problem. What it would lead to by way of explicit staffing arrangements and procedures, I don't know.

Petkas: I have a follow-up that connects with the broader economic issue. If there is some kind of mechanism within the Executive Office, whether in OMB or a regulatory agency analog, how should that group consider such issues that involved trade, other government antitrust policies, or other government intervention? Potential intervention would shape private decisions that are off budget, but that are nevertheless publicly controlled discretionary practices.

Young: With the stipulation that this is not a seminar in governmental reform, I'll let you answer in two minutes.

Petkas: No, but the question is, if you address tradeoffs, where do you limit them?

Schultze: I know that the Carter Administration and the Johnson Administration got staffed out by some combination of OMB, CEA, and Domestic Policy Staff anyway. There is body of things or activities called "regulatory" that is coherent enough that you can make one arrangement for it. But there are a whole lot of things that fit neither into budget nor into regulation—like minimum wages. If it comes up, you staff it. You don't have to have a new formal organization to cover everything. My guess is there is no logic about how much it should be OMB and how much it should be CEA. In fact, normally the two agencies are fairly close on these things. And as long as you've got somebody managing the works so that nothing slips out, nothing that doesn't at least get run by some executive office, I think you're all right. I don't think the volume

of that is so large you need to worry too much. I mean if your staffing is all right, and your arrangements are all right, I don't think your problem is going to be that there are too many of these loose things.

Young: I'd like to move off this subject and onto the question of the Carter staff. Perhaps we could start this out by asking you just for some general observations on how the two White Houses in which you served differed. I don't think there has been a Presidency, within my memory at least, about which so much interest, so much comment—mostly unfavorable—has developed about how the White House worked, the competence and the system of staffing.

It leads on to a whole set of questions. How did it look from the inside? Most of the staff who have been here have found certain things wrong, about which they talked quite freely. Should we think of this as some big difficulty of staffing, of staff operations, of setting up a staff operation in the White House? Should we think of it as a suit that must fit the working way of the President, or what? Maybe you might want to start this out by just offering some reflections on the differences, say, between the Johnson and the Carter White House in terms of the type of staff arrangement and staff workings.

Schultze: Well, one way to start is that in the domestic policy area, Califano had a much smaller staff, and was able to do far fewer things, but had a lot more authority. I happened to think that was a better choice. Eizenstat was equally as capable and probably somewhat more thorough and systematic. But he had a very large staff who got into everything. It's like too many congressional subcommittees. Everybody's got to have a memo on everything. That's one reason why it's good to keep the CEA staff small. It also meant that OMB got used much less than it should have been used to do a lot of this.

A side benefit during the Johnson years existed precisely because Califano had a small staff, and the OMB staff got used programmatically in positive ways, not just cutting budgets. You wanted to design a new legislative program; you don't have a staff of 40 where you've got to go to the substantive people in OMB. That automatically develops a closer working relationship between the White House and the staffs of the Executive Office agency. I mean, it naturally flows from the fact that people on Califano's staff relied on other staff. Califano managed the thing. He had more time, even though he had a smaller staff, for personal relationships around government because they were heavily relying on their staffs.

The other thing is, in ways I can't quite describe, the Johnson method would have been foreign to Carter, quite apart from anything else, because of his very nature. Johnson delegated tremendous amounts of authority to Califano, but would himself intervene anywhere—from the greatest issue to the tiniest issue. He reserved the right to get involved and nitpick if he wanted, or to just ignore it. I exaggerate, but it was almost as if, "Gee, this year we need a big legislation program. Joe, go design one and give me enough knowledge to let me tell you whether there are any political booby traps and if you, John Gardner, Charlie Schultze and three or four other people tell me it's a good substantive program, fine, I'll go with it." This meant that Califano had tremendous authority. He was the one. Califano himself, without anybody else there, would go in and report to Johnson on the basis of the latest task force education report out of which we're

going to get the Elementary and Secondary Education Act. And my recollection is, that was it. So we had tremendous authority but few staff.

And that developed, I thought, a relatively good working relationship among all the Executive Office staffs. Every once in a while you go at cross-purposes. I'd find Califano's people had called up some of my staff and I didn't know about it. And every once in a while you'd step on somebody's foot, but basically it worked pretty well. The Eizenstat operation was a big separate operation all by itself. It began to develop its own kind of substantive institutional views on everything.

Young: I'm curious about how that might have come about, particularly in view that clearly an exception was made to Carter's stipulations about cutting back staff, that this staff grew.

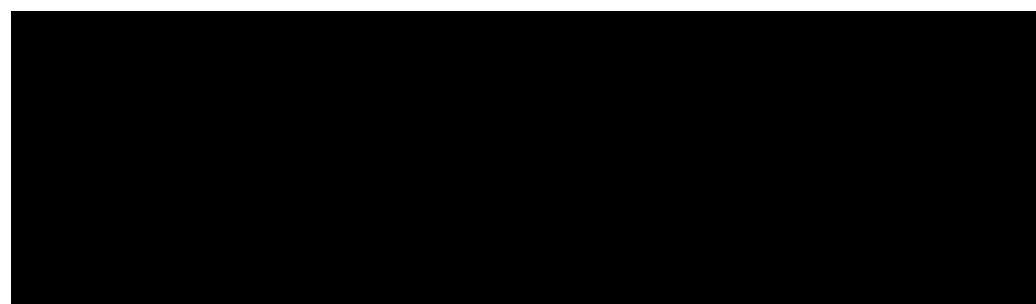
Schultze: No, no, no, no. It was incrementalism. All this stems from John Ehrlichman. I don't remember the numbers, but the right ballpark figure, I think—Califano had six people; Ehrlichman aimed for 90 and got 60; and Carter drastically slashed them back to 40. So you end up from 60 to 40.

Young: I was leaping over.

Schultze: A combination of a very large staff and not enough authority was the problem. Though Eizenstat was a very influential Presidential advisor, he literally didn't have the authority that Califano had.

Hargrove: What does that mean, exactly? He wasn't a lead person, or what was it?

Schultze: No, he was, in effect, the one who put all the paper to Carter. He was the person to whom Carter would talk to some extent, but he didn't have any authority, in effect, simply to tell the Secretary of Labor, "I'm not going to put that option in there; it's silly." He couldn't do that.



It's never this simple. It isn't a question of black and white authority, but there's an aura or feeling, and Eizenstat was terribly important. The paperwork all ran through him. There weren't duplicate memos coming in usually. He was the last one to see the President but nevertheless he did not have the authority to tell me or anybody else, "Forget it, we're going to give it to the President this way."

Hargrove: All the political science wisdom in those days was, you've got to pull that staff back. We were feeding that stuff out to the next President. We said to pull that staff back. That was all our conventional wisdom.

Young: It was also based on the standard of the Roosevelt staff, which counseled, "Never delegate; always keep your options."

Schultze: But Johnson didn't. He was a voracious reader of teletypes, talking to people on the phone. He was always on the phone, so he picked up a sense of whether somebody with this authority was abusing it. It's not going to work if somebody abuses it, and a President who's pretty good will pick that up. So obviously it's not something you do and forget about. Now it went too far because of the nature of Johnson. This is probably somewhat exaggerated, but I will bet you my bottom dollar that Lyndon Johnson never once had a programmatic discussion with John Gardner or Bill. These were all kinds of political matters of labor management relations. During the intervention strike, there'd be a lot of that.

But on the substance of the Manpower Development and Training Act, the substance of the budget or the Elementary and Secondary Education Act, for the last year of the Johnson Administration that I was there, he wouldn't see John Gardner, which had nothing to do with Gardner himself. On his budget appeals he said to me, "You've got eight appeals at issue between you, and eight or nine between you and Gardner. How do you think I ought to settle?" I said, "I think you ought to settle the first five in my benefit and the second three in his." "Fine." In the first place, you'd have had 26 issues—I exaggerate, you had many issues, and that would never have happened with Carter. That went too far. I think you can still delegate and somehow have a relationship with your Cabinet at least occasionally. You have substantive programmatic discussions. Lyndon Johnson never did. Conversely, Carter was putting the welfare program out there. There were endless sessions on substance in politics with the Secretary. My job has got to be somewhere in between.

Jones: The Eizenstat-Califano difference, as I understand what you're saying, is that President Johnson didn't lose control, but told Califano to go do it. The authority was there behind that "Go do it," and Califano then could use the small staff plus the agencies for assistance to go do that thing. But with Eizenstat, am I correct that when you said it sort of became an institution, that it was an institution without the same authority, since we've got a larger staff here separated somewhat from Presidential authority? Was he developing some options from the bottom up rather than from the President saying, "Eizenstat, go do that"? That may have happened as well; still, you could have things bubbling up from this domestic policy institution.

Schultze: It was almost always a DPS [Domestic Policy Staff] option. Very often there might be a Labor option, CEA-OMB option, or a DPS option. On issue after issue after issue, there was somebody on the staff who did it. For example, Kitty [Katharine] Schirmer, who worked full-time, was very potent in the energy area. I have nothing against Kitty whatsoever. She's a very bright, competent sharp person, but that's a full-time person who spent a lot of time trying to manage energy as a staff member out of DPS. The combination of that plus the lack of authority led to the DPS shop.

Hargrove: Was this real analytic work? A lot of it was political advice, wasn't it? From Eizenstat to the President?

Schultze: Both. It's hard to know how to describe analytic, but it was substantive policy, and it was an attempt to merge politics. That's needed; it's part of the job. It was just too many people involved.

Young: It's a very interesting discussion. According to the conventional wisdom, I can't imagine a Roosevelt telling a Califano, "Go out and design me a program and I will handle the politics of it." Johnson is very different from Roosevelt, and Carter is very different from Johnson.

Rockman: Well, what was ultimately to keep Eizenstat from essentially controlling the flow of options and ideas and contouring them in particular ways to the President? Were there ever any very visible problems that were raised with the Department Secretaries if that ever happened? Was it ever tested?

Schultze: I don't think I can give you chapter and verse, but from the feel of the place, let me concoct an example. There was no way in the world of drawing up the options for national health insurance that any of the major players all wanted. They didn't like what Eizenstat wrote, so they weren't going to go to the President directly.

And I don't think he ever would have said, "Get out of here." Now it turns out, once you sense that, it never gets tested. I may be overstating this, and obviously when you talk with Stu you'll get a flavor of this. Ultimately, Stu cannot do it; it's got to be the President. Johnson overdid it the other way.

Hargrove: The Cabinet officers did not complain then?

Schultze: Oh, yes. But I don't think they complained to the President. They complained to me, they complained to Califano, they complained to each other. They were ready to mutiny.

Young: Sometimes they complained to the press.

Schultze: They may even have complained to Johnson, but I doubt if they did very often.

Petkas: One observation and one question. The observation is my recollection of the little that I did on the EOP reorganization during the transition. There was a proposal from [Jack] Watson, and maybe this had something to do with his initial difficulties, to drastically reduce the size of the Domestic Policy, which was then called the Domestic Council. Literally, at the very last minute a few weeks before the Inauguration, that decision was changed. The President, Stu, or someone else changed it. I'm not sure what the mechanics of that were. Maybe we can ask Stu about that.

Schultze: That, I don't remember.

Petkas: And second, how do these observations on the management of staff square with the President's inclination and your own views on this to reduce the size of the Executive Office operation?

Schultze: Well again, a simple-minded view. He did reduce it. I don't think he ever thought of the Johnson example. I'm not sure he even thought about it consciously, but what he had in front of him was what Nixon had, and I cut it back.

Petkas: But I mean his inclination to reduce it was in the same direction.

Schultze: I didn't know; I can't reconstruct his thinking. You were ever faced with the explicit option of cutting it down to Califano's size, which was too small, given the modern era. But I don't think he needed whatever it finally got to—35 to 40—it was a large number. And I don't know what Carter's thinking was. If he were faced with a 10 versus 40 option, I don't know.

Rockman: To draw the contrast a little bit with the Carter and Johnson administrations again. In a way, Johnson came in and said, "Let us continue." He was wholly at harmony with the Democratic Party. We've talked about Carter as being in a very difficult period with difficult party and constituency problems. Early on in the Administration, did he discuss at all this political problem? That is, did he have a political strategy for dealing with the party, with its constituency groups in terms of the substantive changes, or was there any discussion among his senior political staff that they were going to be faced with this problem?

Schultze: Well, I don't know. Not that I know of. To the best of my knowledge, neither in the Carter nor in the Johnson Administration do I ever recall some kind of broad philosophical discussion like that. Later on in the Carter Administration, we were going through that self-searching business. There was one in '78 at Camp David—a small affair and then a bigger one—the '79 massacre. Yes, there were a lot of discussions and I think a lot of people in some broad sense recognized the nature of the problem. Eizenstat was always quite explicit about it. I think he made a speech on the "new realities." While there may have been an explicit discussion about how you manage the politics of cutting the cloth, I wasn't aware of it.

Young: On that Camp David business, you were not on the scene at the time. You were sick. But how should one view that? Was life different around the White House after you came back? Did things go differently from what they were before? Did the movement from what would appear to be a sort of a spokes of the wheel—if you want to use such a model—change by the installation of a Chief of Staff?

Schultze: Ham Jordan was no more a Chief of Staff than anyone. I mean nothing against Ham on that; it was just not his cup of tea to be the Chief of Staff. He never did act as a Chief of Staff. I didn't notice much difference in that sense. Watson came into a situation with no job and then created one, not a very successful one in terms of the state-local relationships. That's not something I spent a lot of time on, but my impression is that he came in with nothing. That is the job that was given to him at the start of the Administration, at least at the time I thought it was a clear kind of sit off on the side. It sounds great to be a Cabinet coordinator; that's always for the

birds. And that part of it was never much. But he developed that state–local thing into a fairly effective, politically useful operation.

Schultze: Nobody acted as Chief of Staff, to the best of my knowledge.

Hargrove: Or [Alonzo L. Jr.] McDonald. Did McDonald act as a surrogate for Jordan?

Schultze: No.

Young: What would have constituted a Chief of Staff? What problems would it have corrected?

Schultze: None.

Young: None?

Schultze: I don't believe in a Chief of Staff. But that's another matter. The problem was not the lack of coordination, as far as I could see, between Frank Moore, Brzezinski, and Stu Eizenstat, the three major advisors. That wasn't the problem. I don't know enough about foreign policy to comment on that intelligently. The domestic policy area was what I saw. There just was not enough authority for Stu's Domestic Policy Staff, much less for a Chief of Staff. I don't have anything for, or against, having a Chief of Staff through which everything goes. But as a basic proposition, I don't see any reason why Brzezinski and Moore and somebody else needed to be controlled by a deputy President. The President can delegate to those three. He should do the coordinating himself, which is a kind of top-level coordination. So I personally don't think that was the problem. I think it was more the question that there wasn't enough delegation of authority.

Young: Well, this is a rather important point to pursue, because there are other materials in some of these sessions that suggest that the picture of the inner circle in charge of the President—and each having very special influence over everybody else—is not exactly correct. It suggests that the President, in fact, even to them, did not delegate, and that that was the central problem. Am I reading this right?

Schultze: My impression is—and this is literally very impressionistic—that in terms of confidential advice, let your hair down and talk to each other about what you ought to do, was done by one group of people, and that was [Jody] Powell, Jordan, Charlie Kirbo, and Rosalynn [Carter]. Fritz came as close as anybody else, but he wasn't in that group. I may be missing somebody.

Young: Lance would have been.

Schultze: Bert Lance would have been.

Mosher: McIntyre wasn't there?

Schultze: No. To the best of my knowledge, he was not. That was one group of people from whom Carter got his personal advice. It was non-institutional.

There was another group of people who developed policy and made decisions, and that was the foreign policy area—Vance, and later Muskie and Brzezinski. In domestic policy, there's Miller, Blumenthal, Schultze, McIntyre, and Eizenstat. Two quite different groups of people. Now, I don't know what that means, if it's good, bad, or indifferent. In my own personal judgment, that was obviously one of the President's problems. He wanted a lot of respect from the people in that small Georgia group. They got treated worse than they deserved. Nevertheless, there was nobody like Abe Fortas, Clark Clifford, and Dave Lilienthal, who didn't have responsibility for policy, but who would be the "kitchen cabinet." It's not a good term, because kitchen cabinet is very much like talking about [Charles] Bebe Rebozo. A kitchen cabinet has people of substance and stature who have got a lot of national exposure who are at least reputed to have a lot of wisdom. He had a personal group who happened to be mainly younger, much younger people who still were quite good, but completely dependent on him. They were good policymakers. Eizenstat was kind of in the middle; he was a go-between; he used to catch hell from both sides. I didn't have much contact with Jordan. I don't remember Jordan that much.

Young: That's one of the phases that has been noticed. With Eizenstat's exception, the development of national policy issues was not done by the Georgians.

Schultze: That's right. No, they weren't involved. Jordan was heavily involved. It was funny to watch Jordan. He just couldn't stand sitting there during all the meetings while he was involved in a fiasco. Now, it wasn't Jordan's fault the way we handled the coal strike; it was a fiasco.

Young: What about the coal strike?

Schultze: That would take too long, probably. What actually happened was, one day—I feel bad about this because I didn't catch it until it was too late—at a Cabinet meeting, Jim Schlesinger, who should have known better, walked in and said, "If we don't get this strike settled in five weeks there are going to be five million people unemployed." The world could come to an end. They got a call immediately and really started putting pressure on the companies to yield. So I went back to my office. It took us about a week to get ourselves in gear, because this came out of the blue.

We developed a little model that had incredible accuracy in tracking the number of unemployed. I think at the peak of the strike we finally got up to thirty-five thousand, and by that time I thought I ought to come in and make a passionate speech. It was one of those passionate speeches to try to turn it around. It was a little too late. We were going to ruin our anti-inflation policy. You are putting the heat on the companies. You'll ruin the day because it will come out bad. Every time you try to be tough on companies, you are on the ones who pushed them on the strike. Poor Ray Marshall—it wasn't his fault. He was given instructions to go out and do all this. They got the people into the White House and then the miners rejected the pact and everything else.

So I made this passionate speech. Just that minute, the President walked in and said, “You don’t have a choice.” I tried making an impassioned speech the second time over, but it kind of fell flat. It was too late. We had gone so far. We couldn’t back down but that was just an absolute. It was just a shambles. My only point in using that was that I remember seeing Jordan sitting there, and he’d sit there ten minutes. He was actually brilliant when he put his mind to it, but he couldn’t manage.

Young: He said that that job was not his cup of tea.

Schultze: Ham Jordan mastered the Canal Treaty with organizing that strategy. He is the guy who gets credit for organizing a nationwide epic to turn that around, and he did it. It was well organized, beautifully done.

Hargrove: Weren’t Lloyd Cutler and [Hedley W.] Donovan brought in at the last minute to be wise men?

Schultze: You don’t create the relationship you need for wise men overnight. I mean, there is nothing you can do about that. We brought them in. Blumenthal and I on two occasions or one occasion got the economic wise men together, but it didn’t quite come off. You can’t create it overnight. There has got to be a personal relationship, and the President can develop a few people like that within an Administration if he feels comfortable with them personally, but it is awful that some people outside of the Administration aren’t always involved. I don’t know how you do that.

Young: I’d like to get back to this matter because I think it’s quite important and it indirectly begins to elucidate a little bit the picture of Carter’s working style, and his style of relating to the advisors around him. The presence on the staff of a group of people who are with the President on the campaign, who are intimately trusted and so forth, is of course not an unusual phenomenon. That’s not unusual. I am trying to put my finger on what is unusual about it. It’s not the fact that those people are around. You mentioned that he didn’t have people like Clark Clifford, etc., all around him either. He had these young and old campaign people. Then he had his policy advisors around him. What’s missing in here that the Johnson Administration had, besides the delegation of authority?

Schultze: There developed over the years a group of people who don’t necessarily need administrative experience, who had experience in the affairs you are dealing with, and whose judgment you trust.

Young: Who were outside the decision?

Schultze: Outside or inside. Most of them turn out in most cases to be outside, but it doesn’t have to be. My guess is, given another three or four years—or two or three years if he had been around—you would have Muskie develop that kind of relationship. One thing, if he had been in Washington for ten years, there probably would have been an Ed Muskie; it might have been God knows who else.

Young: Some of the other people, including members of the inner circle who have been here, have talked about this problem in the Administration and have observed that it came about, in part, precisely because Carter did not have those calls on Washington people. Is this part of what we have said about Washington?

Schultze: Conceivably, it doesn't have to be Washington. I can imagine it being somebody out of New York who had experience in national affairs. Abe Fortas, Clark Clifford, Dave Ginsburg, and Clint Anderson in the Johnson Administration were all in a big argument over whether to impose a Vietnam War surcharging system. [Robert S.] McNamara got into those discussions. So there are six—McNamara was a late comer—but the rest he had known for years. There were people on the Hill, there was another group that wasn't quite as close that he could go up and call up and talk to. He was always on the phone. He knew them all. Bob Russell for one, Dick Russell, while he was around, and just a whole group of people. Carter never had anybody. He wasn't around long enough, within the Administration in the policy there were none who got to him personally. I didn't get that close to Johnson personally either, so that's not my point.

Jones: Well, I was going to comment, too, on these people that you put in the inner circle. It just so happened that they also did not have management skills. Other Presidents had brought people in from outside who weren't from Washington, but they turned out to have some management experience. They weren't as young, perhaps, as this group, and they had some real management experience. I want to go back to the Camp David thing again. Did your work change at all because of the Cabinet changes?

Schultze: Not in a fundamental sense. I became a somewhat smoother, more organized manager than I originally was. If anybody thought Pat Harris would be easier to deal with than Califano, they had another think coming.

Young: [Neil] Goldschmidt was active in transportation deregulation, wasn't he?

Schultze: Some, yes.

Jones: From your contact with the President, were any of those issues in the economic area to see major changes?

Schultze: No. If they did, they went unnoticed.

Rockman: May I ask you what inspired the first Camp David? What was the restlessness that worked there? Was there any result of that?

Schultze: I don't remember. There must have been.

Rockman: There was a dissatisfaction, though, wasn't there? They were on board, on a team—Brzezinski—

Schultze: Yes, I think there was a sense that we were going downhill; we are not getting our message across, or things aren't going so well. Nothing like '79, but there was a sense of that.

That's only literally looking at the polls. It may have been some of that that triggered it, but I don't remember. Again, there probably were some Mickey Mouse changes that came out, but I don't remember anything fundamental. You know, we were sitting there, the President going around the table, "What do you think is wrong?" By the time you get halfway around the table, everybody is competing.

Rockman: We are trying to find some reason for the problems that this particular Administration had with Washington. Was it really that unique in terms of not having people—a good bit of Washington with political experience being very intimate with the President? Think of Nixon.

Schultze: No, no, no, no. Not quite Washington, but national political experience. It isn't just the California group. [James] Baker, [Lyn] Nofziger—a whole batch of people have been around for a long time. You are right. Nixon had his inner circle.

Jones: Well, that's what I was talking about when I said that they had had some management experience. Jordan and Powell particularly did not seem to know how to manage things.

Schultze: I think of myself in a position where I would want advice. After a while you build up people you go to. They are usually people that in some rough way think like you do. Nevertheless, you do get some judgment out of them.

Young: I would like to go back to the point you made about the reluctance, or the inability, or the positive desire, not to delegate like Johnson. What was the liability created by that? Why was that a bad thing? How did it work to make things unworkable or give problems?

Schultze: Well, one thing that comes to mind most is that the President just got inundated. Now maybe this is something he wanted so much that he did not want to delegate. How this came about may have been absolutely deliberate; I have no good sense of it. Every once in a while he would mutter and complain about too much, but what the heck, if he didn't want that much he didn't have to get that much. But it did mean that the level at which he had to decide details just grew and grew and grew because there was no penalty on keeping it up.

Jones: Are we talking about Johnson or Carter now?

Schultze: We are talking about Carter.

Young: Even though he was believed to have the lead on energy, the inundation follows.

Schultze: He was a tough cookie on that. You had to fight your way in to Schlesinger. Great guy, but he wasn't that tough. We had to fight our way to the first energy program, and in general Schlesinger is, you know, a different kettle of fish. Even at the end he didn't have much delegated authority. The last energy program was opposed to the first.

Young: Was the President not aware of the need to open up consultation on that first energy program?

Schultze: I don't know. I must confess that it was one of those things where the first time I heard of it, it was a public announcement.

Hargrove: He liked those deadlines.

Schultze: Yes, very fortunate. The second time around on the deregulation of oil and the windfall tax and all that, we must have had 85 meetings with a lot of people.

Hargrove: With the welfare reform story, you got involved as a mediator between Marshall and Califano and threw up your hands.

Schultze: I threw up my hands in the sense that there was no way of meeting in between. They held two fundamentally opposed ideas, and you could superficially merge them. They had two fundamentally different views in the way the world ought to work—Marshall and Califano.

Hargrove: Well, are you arguing that a White House staff person should have structured that whole planning operation from the beginning to protect the President's options? I just thought you had more authority to structure that.

Schultze: In this particular case, early in the Administration, it was very clear that the President wanted to go through all of this himself. Whether that was true in all the other things, I don't know. You know, in something like this, for him to do that with the number of issues is, as a matter of fact, a good thing. The problem is when it is on everything. I see nothing wrong with it; in fact, I see a lot to recommend on some major issues for the President not merely to want to see. You want to see the passion in your advisors' voices; you hear the passion of your advisors whether you want to see their eye. You want to watch them argue a very important issue that may not be the overriding issue but that was one of the big issues. That, and energy and national health insurance were the big domestic policy issues. I see nothing wrong with that. That's fine. I don't think that's a problem. It's good for the soul.

Lyndon Johnson would do that in a kind of a random way. There were things that I never quite understood in which he would get heavily involved. There was a big issue in which he got all the way every detail, down to the guts of it. He had marvelously good judgment, by the way. So I don't fault that. My problem is at everything. If you didn't have all the meetings that you had here—the memos reflected just too many opinions, too little screening. It wasn't Eizenstat's fault.

Just an anecdote, although it's in the book, but it is one of the most amusing and perhaps enlightening anecdotes out of that. I had been arguing particularly, but Califano had too, that it is not all that easy to create a million and a half jobs in public works or whatever, a million, or two, or some very large number, which was Labor's approach. It was not quite guaranteed, but almost a semi-guaranteed job. I thought the program was coming along fairly well when all of a sudden Carter literally did the mental arithmetic and divided the population of Plains by the population of the United States, and all of a sudden—Bing. *Well, my God, there would only be two of those jobs in Plains by my accounting, and I know how I could use two of those jobs. I can tell you right now.* And all of a sudden, Fritz Mondale's eyes flipped—Yes, whatever little town he came

from originally would suddenly take four, and, I know where they could go. We could use four people. And I said, “Mr. President, what about Abe Beame?”

Jones: May I ask about this energy thing a little bit more—the first energy program, the initial April ’77 thing? Was this sort of like what Johnson did? That is, instead of Johnson hiring Califano, Carter hired Schlesinger, and said, “Go forward and get me an energy program,” and then Schlesinger put something together and has the authority, the Presidential authority, to do that? Was that analogy somewhat like the Johnson–Califano relationship?

Schultze: There was something in that, yes. The difference was that, almost in every case, Califano’s legislative agenda was developed on the basis of—almost all of them—task forces of inside and outside people, heavy staffing, in addition to the aid of these other groups like OMB and CEA. When it finally went to the President, Califano had the charge. He carried it in to Mr. President, “This is what we want to do.” It had been through a process of all kinds of inputs.

Jones: Including legislative?

Schultze: Some. Johnson would then do some of that himself; he’d get on the phone. I no longer remember the mix.

Jones: For certain they wouldn’t go by without congressional input?

Schultze: That’s correct. Well, he wouldn’t go by with Califano in charge. Califano had no intention of sitting off on the side and giving up the program with his own staff, period. Secondly, there will be some combination of political checking, and thirdly, you are putting into this a man with a tremendous sense of who could do what and stand what. They didn’t need to check. So the idea of delegation was in a sense the same. That’s right, you did not have a great big committee with equal voice doing it, but with Califano there was an extensive task force operation in which ideas bubble out of a task force. Califano was always in charge and he was the one who finally decided what went to the President. Jim did a lot of checking on the Hill. At least he said he did. I believe him. But it is one thing to check, and it is another thing to know exactly, and he didn’t. In any event, it wasn’t a sampling, except for the fact that it was delegated.

Young: And I think you have pointed out, Johnson really had a programmatic discussion much less than delegate the development of a program to a Cabinet member, an operating Cabinet.

Schultze: You also have got to remember the first half of that program.

Jones: It wasn’t a Cabinet member at that point.

Schultze: He was active as one. But you have got to remember the thing about that program is that it almost made it. That is, it went through the House. There was, I think, a well-done arrangement worked out with the Speaker to set up a special task force. This had been brought out by Jim, who thought through this and worked it through. Now he had a batch of different committees involved, so he set up one committee that was done beautifully in the House, and

after a lot of bitter debate, it went through in a short time almost unchanged. Then it went on up to the Senate. Jim missed in the Senate. He finally blew one, but that really sailed through the House.

Jones: Could I ask you about your own involvement in that? Did he check with you, and were there economic implications of attacks?

Schultze: There was a famous member who leaked information. Blumenthal and I asked, “What the hell is going on here? This is a major claim and we haven’t even seen what is in it.” It was like pulling teeth to get it out of Schlesinger, so we write a memo to the President, and he was obviously annoyed. I think he was annoyed, the President, but he did have a meeting in which Jim could set forth his plan for everybody, and we could have shot at him. But in my judgment, you can’t delegate like that unless the delegatee has to realize that he can’t abuse that power. If he is going to serve the President, he’s going to do his own checking. It’s one thing to have the power; it’s another thing to be doing your own thing all the time. I might not say it well, but I mean it wouldn’t work with Califano; it wouldn’t work with anybody if you kind of go off on your own. To some extent Jim did that, though I think probably history treated him more poorly than he should have been, because he did do an awful lot of checking and work on the Hill. As it turned out, it worked in the House and didn’t in the Senate.

Jones: Did he, as far as you know, advise the President of what was necessary for him to do on a thing he hadn’t checked? Or is that one beyond what you would know about?

Schultze: I don’t know. You know, Jim knew where the hang-ups were. We may have made wrong judgments but he knew he had to do X to satisfy [Henry] Jackson and then turned around and got into trouble with Jon Bingham and that means he had to do something with somebody else. It wasn’t that Jim wasn’t aware of this and worked at it. It was not something where he kind of sat and developed this plan and didn’t check with the Hill. He had this very complicated political jigsaw puzzle he put together, and one part hinged on the other and it worked beautifully for a while and then it began to fall apart.

Young: Do you think that some of this stemmed from Carter’s initial feeling that he wanted to break away from the Nixon appearance—wagons around the President, people very close to him to whom he delegated a great deal of authority—that there was a conscious effort to do that and the whole business of that Cabinet gathering? That view served him ill as things came out, he would say. The way it worked out.

Schultze: I thought that Johnson used his Cabinet too little. Jimmy Carter used his Cabinet, but he wouldn’t delegate any authority over to his Cabinet members, in effect. Again, I think somewhere in the middle would be the best.

January 9, 1982

Young: We want to explore the Carter Presidency in its larger Washington and historical framework. One of the things that I think we'd like to complete is a discussion that will help us add to our understanding or our ability to define this President's distinctive operating style. This is much more of a problem, it seems to me, for analysts with the Carter Presidency than it is with most. I was struck by this when you talked about the Johnson period. And we all recognize that different Presidents have different operating styles. The Carter Presidency gives us something of a puzzle and something of a problem. You talked earlier about the non-delegation of authority as one of the things. And there have been other things we'll come back to.

Figuring out the operating style of this Presidency has not only some intrinsic interest, I think, but also it's of interest because there is a view that there was something about the operating style of this President that accounts for the problems he had. It indeed accounts for the vote of no confidence, so to speak, in this Administration, and the election of Reagan. There is, of course, another view that says no, it is not in this case the operating style that accounts for the outcome of that Administration; it's external events—inflation, oil prices, Iran, the fight in the Democratic Party.

There's still another variant of that view that says it's not even those events; it's the nature of our politics nowadays that tends to crush every President, and we may be in for a series of one-term Presidents. Think a bit about in what sense might this Administration go down in history as a failed Administration, or the extent to which that short-term journalistic or public view might be revised as time goes on. We want to get some sense of what you thought you coped well with and what you didn't cope well with.

There also are two little things that you might be interested in saying a few words about. One is the monetary policy, and one is the '78 attempt to rescue the dollar.

Schultze: Yes, nothing special. I'll just add a little bit to the oral history part of it. In the fall of 1978 the dollar was sinking like a rock in a way unwarranted by anything really developing, but it was a clear speculative crisis-of-confidence sort of thing. The President made his anti-inflation speech with the guidelines and all the stuff we talked about. It went over like a lead balloon and didn't affect anything. The dollar got worse. Tony Solomon pulled it together, and did it very well. At least he's the one who started it. Very quietly, with no leaks, and only four people involved, or four small groups of people from the Fed, CEA, OMB and—No, Fed, CEA and Treasury, that was it. OMB wasn't in it. Just the three of us got together.

In this particular case I think the CEA staff—Bill Nordhouse contributed a tremendous amount into making it a much more realistic operation. And eventually we put together the surprise package. I think we started work on it in the middle of the week and met all day Saturday after the staff had done their work. We sneaked Bill Miller into the White House. I remember picking him up in the chauffeur's rooms. We didn't want the press to see him. The President was on his way back from somewhere to Camp David and stopped in Washington. The helicopter came down in darkness about eight o'clock and he zipped out into the map room in the back of the

White House there. We met for an hour and he agreed to the package and he got back on the helicopter and left. It's one of the few things I've seen ever done with some degree of secrecy.

I recall, about an hour before we met with the President, or maybe two or three hours before we met with the President, calling Mondale and Eizenstat, both of whom were out of town, and informing them this was what was going to go on. It was done rather dictatorially and quite well. There were some substantive fights between particularly Treasury and CEA on it, but the exact composition of it worked out rather well.

One funny part of this was that it involved, among other things, convincing Treasury and the Federal Reserve, in effect, to put up more money in the kitty. It turns out there are some operations for which the Federal Reserve on its books has to show a loss. If you buy foreign exchange and the value of the dollar goes further down and other cases where other types of money legally are put up, that's where the Treasury bears the loss. You would have thought that's only a matter of bookkeeping. If we're going to put up our money, the Treasury's got to put up their money. In the national sense, it's all a matter of bookkeeping as to who takes the paper loss. But in any event, there was a little squabble about that, which I thought rather funny.

You recall, of course, in October or early November of 1979 the Federal Reserve went to a much stricter, apparently monetaristic set of operations, the result of which over the last two and a half years has been, of course, a substantial run-up in interest rates. Volker says that it stemmed from the specific timing of it. We had a meeting with the President in which the President was kind of plaintively asking Volker, "Isn't there any way you can control the quantity of the money supply without raising interest rates so much?" Volker said he went back home and he started thinking about controlling the quantity, and it was just that train of thought—he had been worrying about this and thinking about it—it was this train of thought that set the whole thing off into the new mode of operations. I'm sure if Carter ever realized that with his comment about some way of controlling the quantity—he had no idea what he had ticked off. So, tongue in cheek, you can say that Carter is the father of modern fed monetarism.

Young: Can we block out a subject of discussion that I define as the operating style of this President? Let me tell you what my impression is of the pieces of this that have come up thus far in this session. I have already mentioned the non-delegation of authority to staff as a distinct characteristic of this President's working style, related perhaps in some degree to his initial inclination to devolve considerable responsibility on Cabinet officials, although there did seem to be some attempt to retreat from that later in the Administration, with evidence of tightening up. Perhaps—I don't know—the National Security Advisor was an exception to this rule; we'll see. The result of this was that it got the President somewhat too enmeshed in issues of low Presidential priority.

Another thing that seems to be perhaps not an entirely unique characteristic, but you have mentioned these two sets of people around the President. All of the close, personal, political advisors were young, with the exception of Lance, who perhaps wasn't old, but neither was he there long. Kirbo wasn't there except as an outside person. None of them were seasoned in Washington politics. None of them were really versed in the fine print of Washington. Now, on the other hand, the policy people, and particularly the large policy factory and domestic policy,

suggested a low level of use of institutional staff in the Bureau of the Budget that Johnson was able to call on.

Third, and here I'm on less sure ground, but I have picked up something from you in the area of a highly non-ideological approach to problems, whether one calls this a pragmatic style or what, I don't know. But I'm recalling your comment that you always thought you knew what the President wanted to do, but you never were quite able to call what he was going to do.

Schultze: This gets back to the business of the Democratic President in the period of retrenchment—more that I had a sense of what I knew he liked to do substantively, but when all the political pressures and balancing came on, I never knew which way it was finally going to come down. So it wasn't quite so much the substantive call I wasn't so sure about, but the final result.

Young: And another thing that you have alluded to, and you might want to expand on, is the problem of a lack of discipline or control within the White House or the Executive Office itself. One aspect of this, perhaps, is that there was no penalty for presenting any option to him. And obviously this is related to the problem of getting enmeshed in too much detail. I got the impression from you that as far as you could see, despite the appearance of some changes in operating style, there was really no substantial change in mode of operation over those four years. I'm just saying this is what's already in the record or suggested in this session. Am I right in thinking that the question of the non-delegation of authority to staff is correct?

Schultze: Yes, I think that was so. I don't know how much you can generalize on that. I noticed it particularly in the problems Eizenstat had in the Domestic Policy Staff. That would have been a better operation if he had had more authority.

Mosher: Is that in comparison with Johnson?

Schultze: All I can compare it with is what I know. In the case of Johnson, there's a clear comparison and contrast. Probably in the case of [Theodore, Jr.] Sorenson. Ehrlichman, I can't tell you about except what one reads. But yes, I would say there was a contrast. It wasn't stark. I don't want to overdo it but the most powerful domestic advisor clearly was Eizenstat. Nevertheless, in terms of being able to manage the process, I don't think he had the authority that he should have had.

Jones: Was it something more than non-delegation? I can imagine the lack of delegation from the staff perspective. Was it also some lack of direction? Would the staff know they weren't delegated much responsibility or authority? Would they know what they were supposed to be doing? Was there also some lack of clarity in that?

Young: Did the President give assignments or responsibilities in the same areas to different people as a way of playing one off against the other?

Schultze: No. That wasn't a problem in any way as far as I know.

Jones: Well, I was really contrasting Carter with Reagan. Maybe it's the ideological thing where he might not be actually delegating in some cases, but they still know what to do, the areas to mark out and proceed with, because they know their man.

Schultze: Some of this depends on your psychological assessment of people. Carter liked to delve into the details himself. He didn't want to have potential sub-options that he hadn't thought about. That's number one, I suspect. I never talked to him about that but I suspect that's the case. Some of it, at least, was not lack of delegation because he didn't know how to do it. Part of it's that, I think.

Secondly—let me see if I can give an example. This happened several times with respect to negotiations with the Congress on agricultural legislation. We would have long extended discussions with Agriculture, CEA, and OMB as the principal actors. After much travail we would go in to the President for a decision. We would have narrowed down some options and usually go in with a few. You can imagine how the players lined up. The Department of Agriculture wanted more and more defined in the standard way, CEA and OMB wanted less, and the Domestic Policy Staff bridged this. The President would tend to take a fairly conservative stance.

But what's-his-name, [Robert S.] Bergland, would be given instructions, "By God, you go up and tell them that's all they can have." Well, this would go on for a while and Bergland would come back and say, "Well, you're really going to get a lot of trouble on this, with election year coming up or whatever, and you don't have to give much, just a little bit here, and if you don't, things are really going to be terrible up there. You're going to lose that whole committee." We'd hassle about that, and Agriculture would say, "Well, you, people from OMB and CEA are politically unrealistic. You're going to cost the President so many votes"—this, that, or the other.

Sometimes we'd go back to the President again with another memo saying, "Should or should you not make this concession?" And normally, maybe he'd go halfway. Or he'd very often go this far and no further. He'd be tough in negotiations on the memo. Bergland would go up again, and maybe by that time they'd gotten over to the Senate, and some other Senator would come in. "If you only give up this we can put this whole package together." We'd get back together again. You know, it's like being salami'd to death.

I don't know how much this was typical, but I have a feeling that the minimum wage, or anything like this, involves negotiations. Clearly I'm not suggesting, "Take a position and just stick with it through thick or thin." So this is partly what I meant about you don't quite know how it's going to come out. You knew how the President would like it to come out on most of these issues. He realized the inflationary implications of higher support prices. But at the end of that whole process you never quite knew how tough you could be. That stems from the combination of a President who is inherently non-ideological, and who doesn't have a real strong "This is what I want in everything" attitude. And secondly—again, I come back to the times—it's this business of how do you retrench with that coalition and constituency that Democrats normally hold together?

Jones: But I also pick up a little bit of the possibility of what is contributing to this is a lack of familiarity with, and perhaps a resistance to, Washington-based politics. Is that possible as well? Did you see a resistance to agreeing?

Schultze: I guess from my standpoint it was almost the other way around. I was the one who wanted to play less, time after time after time, less of the politics on this. Less, at least in the sense of, “Stand up and tell them no.” Some of his political staff would have said the President was nowhere near political enough, and by God he was trying to be too hard-nosed and you’re going to alienate every constituency he had. I don’t know whether you’ve heard that, but Bob Strauss used to say, “Carter make a political concession? Come on.” Strauss used to kid around, “You go in to Carter and tell him it’s going to be a politically wise thing to do, and by God, that’ll make sure you get the decision on the other side.” So, looked at from the other side, you’ll get a lot of criticism that he wasn’t in that sense political enough. If you looked at it from my side, what happened is you tend to get salami-sliced to death.

Hargrove: Maybe there’s a way out of that. In either case, he was being reactive. And what I find missing in the man’s personality is a sense of how to creatively combine political and economic policy, so that he had the initiative.

Petkas: Get on the front end of it.

Hargrove: Get on the front end. That’s what I find missing.

Schultze: I’ve decided my political judgment is pretty miserable. But maybe it’s that you’ve got to be willing to take some defeats—not massive defeats; that could be deadly. But you’ve got to be willing to take more risks. And you can’t negotiate your way to winning them all. In order to win the big ones sometimes you’ve got to be willing to take a stand and stick with it. Now, when you do and when you don’t and what you negotiate and what you don’t are points that I don’t have a good sense for. I must admit that never was my strong point.

Jones: It’s interesting. That connects possibly with the delegation, because delegating authority is taking a risk.

Schultze: Exactly. It means you’ve got to be willing to do several things. One, you get some mistakes or people will do things that you really didn’t want them to do. But secondly, also being willing to come down real hard and keep people to whom you’ve delegated in line. Delegation means taking risks. Sometimes it will come out somebody will misinterpret.

Young: On the other hand, couldn’t one say that another aspect was that this Presidency hardly flinched when taking political risk, given the nature of its very unpopular program commitments?

Schultze: He did take the big risks—many of them. Camp David, clearly. Panama Canal, clearly. So he took some big ones, but on the smaller issues there was an awful lot of trying over and over again to cut that cloth just to fit. People didn’t quite know how to operate in that environment.

Hargrove: Could it be a question of cognitive style? Since it seemed to me he was at his strongest when he had internalized all the information and worked it through doing his homework. Camp David was a good example. But again, that's one issue. You can't do that over and over, and what I find lacking is a raw strategic sense in which politics and economics is a cognitive style. When you went in and talked about economic policy, what was his cognitive style? How did he go at the problems? Is there a not-seeing-the-forest-for-the-trees problem here?

Schultze: I don't know. Some of that may be too simple. It's maybe some forests and not other forests. I've heard the man expound on some things, particularly in the foreign policy area, where he clearly saw the big picture. My impression in the economic area was that on microeconomic matters he was just very good—had a mind like a steel trap. I remember one time he embarrassed the hell out of me on, of all things, the probability theory. I mean literally. Small anecdote—I went in one time and it had to do with set-asides, production cutbacks in agriculture. We had worked up an analysis of risk. That is, yes, you can probably get away with it but it probably isn't what you want to get at. If the crop should be one standard deviation out, you're going to be in real trouble with the world stocks.

I hadn't done my homework as well as I should, and I kind of looked at the briefing notes and went in without thinking—about one part of this, anyway. And I said, "You know, we've had two good crop years in row; a third one, my Lord, will really be extraordinary." And he said, "I thought those were independent probabilities." I watched him invent in his own mind the concept of marginal opportunity costs. I mean, he invented it and never had an economics course in his life. I just watched him think his way through it. He was just first class. But with macroeconomics, his eyes would glaze over. It wasn't forest and trees; that wasn't quite it. But macroeconomics never got to him.

Hargrove: He didn't relate macro questions to big political questions?

Schultze: Oh, I'm sure he did. It was always just a bit of the economist examining it, coming in with this stuff on macro. The man was clearly willing, and it paid off in most cases, to take some very large risks. On the other hand, there was area after area where he wouldn't. And we got nicked and dined to death. We ended up with almost no policy—a little bit of everything. But I can't assess this.

Jones: I pick up a little bit in your description that it's not only the matter of taking risks, but the people working with him, the predictability of his taking those risks. I take it you're saying that you were never quite certain.

Schultze: Exactly.

Jones: There's a lack of thread for those people working with him.

Schultze: As I said, it's kind of hard to know, not what the man would like to get out of the process, but what's actually going to happen, and how he's going to end up deciding when all the

different things come in. This was so in a very large number of areas, but clearly not the case in a number of other major areas, many of which had to do with the foreign policy area. But at least for an outsider, it was fairly clear that was not a problem in a number of areas.

Hargrove: LBJ and FDR would keep their options, so is it unique?

Schultze: I keep coming back to the same old story. Let me try another way. In effect, he was fighting his constituencies. His constituency was not so much his, Jimmy Carter's, but the Democratic President's, and exactly where one came down between the necessities of the times and the political necessities of holding the coalition together. Having had no experience in national politics on this would make it even tougher. He was continually feeling his way, never quite sure how far he could afford to go and how far he couldn't afford to go and alienating this or that constituency in order to do something he knew had to be done or ought to be done.

He never knew quite how far to follow his hard-nosed advisors, hard-nosed only in the sense of the ones who were telling him to take all the political risks, and the ones who were telling him he'd better keep his constituencies happy. I think he just tried to feel his way through that. He had no nice line to follow that, "By God, I know I'm on this side and can't go there, and I know I'm too far on that side." And I wouldn't have one to suggest to him myself. There is no criterion that I would know of, and he didn't seem to have one for allowing him to make those decisions. And it was not a case of some major substantive area. There were always the problems, but on those he was good. I thought he was just first class. But it's this business of what criteria, what thread, what standard you have to guide yourself through that really made it a difficult problem for him and for any Democratic President.

Young: In a President's own approach to problems, in addition to these political circumstances, what you're saying is that both contributed to, if not dictated, a case-by-case approach to everything. There was a political minefield plus the habit of mind of the President himself contributing to that.

Schultze: Quite frankly, it's hard for me to imagine a criterion to use.

Hargrove: What if he'd been a Republican?

Schultze: He would never have had the problem. I exaggerate.

Hargrove: No, but if he'd been a moderate Republican President he could have opposed these groups.

Schultze: Because his election wouldn't have been a mandate. It was a combination. It was two things. It wasn't just an election; that's too simple-minded. If he depended on the Congress to get the things he wanted through, the big things on keeping that coalition together. So what a moderate Republican would have done with the Congress, he couldn't have much sway on.

Hargrove: Ford didn't get anywhere with Congress.

Schultze: That's right, so it isn't just that. It would have been easier for Ford in many ways to decide what he wanted to do, but not necessarily to do it.

Thompson: You haven't really talked about people who played a role on two sectors that have figured a little more in some of our earlier discussions. The great pragmatists of history have been frequently described as people who sometimes responded to the last person who talked to them. [Harry] Hopkins saw Roosevelt before he went to sleep. In this whole interplay, particularly if he didn't have a clear line, is there anything in this historical model that helps us understand it? In foreign policy the argument is that the Brzezinski-Vance interplay played such a large part in it.

Schultze: I don't know. There's one part of this on which I'm absolutely blank. There were very few exceptions, none of which I can think of at the moment. I don't remember once that Vance led any major policy discussions. They were restricted to a moderate number of people. If you had the whole room of people, that's another matter. It was restricted to a moderate number of people. I do remember occasions of real policy sessions on economic policy, taxes, welfare. But I remember very few occasions on which Jordan or Powell were there.

Young: In the policy discussions?

Schultze: Yes. Very few occasions. I exaggerate. There would be some, but very often they were not there. Or if they did, they didn't take part; they'd just sit. Again, there are exceptions. Undoubtedly, however, there were long conversations between them and the President later. And I have no sense of that.

Young: So what you were seeing, in effect, was a President who's keeping staffs separate, in a sense.

Schultze: As far as participation. Well, somehow that doesn't quite get the flavor. And, pardon me, I don't think I know the right flavor either. I hope I'm not overstating this because Jody, in particular, would be in and make comments. If somebody asked me what did either Ham Jordan or Jody Powell think about what ought to be done in economic matters, I have absolutely no idea—I mean, absolutely no idea. Did they think we were too liberal, too conservative, did too much, did too little? I have virtually no sense of that. So that even when they were there, they didn't take part in the sense of saying, "You know, Mr. President, you ought to do x; you've got to do y." Until this moment it's never particularly hit me, but on the other hand, you know, I'm just certain there must have been a lot of conversations between the President and them. I don't think it was so much the President keeping them apart but their role was somehow different on this. So I just don't know. I literally don't know what was involved in that.

Jones: Your description just now is consistent with your earlier description of the non-delegation of authority, which would lead one not to expect them to be participating in the presence of the President.

Hargrove: Is there an implication here, though, that the loss of Lance was a great loss to the President, since Lance could provide the two, at least from the President's perspective?

Schultze: Well, Lance had an institutional position in which he clearly did. Now whether that was a gain or a loss—he wasn't there long enough for me to have an opinion. Maybe it was a loss. I don't know. He just wasn't there long enough for me to have a feeling.

Rhoads: This is a slight change of direction. You've talked about a President who in some sense thought like the best sort of President an economist could want there. Someone who understood the way they make arguments on particular programmatic issues. I wondered if you could talk a little bit about two things. You're always going with this guy one time, with this guy the other time; it's a close call. If somebody comes up with different estimates, you swing to the other side because that's the sensible thing to do. The Administration had a large number of economists and yet wasn't successful. Is it possible to be rhetorically more effective and make economic prescriptions, therefore, into a successful Presidency, or not?

Schultze: Let me qualify that by saying I don't think it's so much economists, but it's the analytic approach, whether it be economists, that defines policy of almost any kind. I don't think it's got much to do with having a lot of economists in the Cabinet, because in their jobs they basically didn't act like economists. You defined what to me is very personal in the dilemma, and when I have an opportunity, I'll write a book. I think that is a very difficult problem and maybe I'm exaggerating it from just the one experience. But I remember having written fairly casually off and on during the '70s about this modern problem of running the modern American government in the domestic area—the proliferation of complex issues, the complexity of issues, the fact that the value judgments were still important, but that there were many more decisions that had to be made that weren't really value judgments. It wasn't hero versus villains, and how difficult that was. And here you get a President who is very good at doing this, at least in the micro area, in my judgment. I mean much better than Johnson in that sense. And yet it turns out to be very hard for him to lead.

Take the environmental issue. Reagan doesn't have any problem leading in that area. I mean, it's very clear. And my guess is in the 1960s and early '70s, more is better and it's not hard to lead when you've got to do this all the time and there's absolutely no single criterion that tells you whether this way or that way is right. So all I can do is repeat your question. I don't have an answer to it. It does turn out that being able to do that analytically is important, but seeing the problem isn't enough.

Rockman: This question kind of takes up Erwin's question on cognitive style. Is it possible for a moderate Democratic President with Washington experience to be successful with the Democratic constituencies, or is it a question of a President whose net outcome looks to be moderate but whose cognitive style is a problem when oriented as such? Could a Lloyd Bentsen, for example, who apparently would not have the same type of cognitive style, have been more successful with a Democratic constituency?

Schultze: I don't know. Some of that depends on how the person got elected and what particular problems he faced up to. Clearly, Lloyd Bentsen had no particular problem on major matters of economic policy, I don't think. But when you get down to the same kind of problem on the environment, minimum wage, you go down the list, I don't know. I just don't know. That

doesn't suggest that all of this was simply events and environment. Carter had problems as a Presidential leader. Nevertheless it seems to me a lot of it does stem from that essential dilemma.

Rockman: In essence my question is really trying to get at the question of whether the Democrats are able to nominate a moderate who would be successful with the constituencies or whether it was the particular character of this President and the way this President tended to look at problems?

Schultze: And I guess that's what I don't know. What I don't know is how to face the kind of problem I described earlier; that is, exactly where, issue by issue, you balance the need to keep the coalition and constituencies together with what you have to do economically and substantively. This is very difficult to do. Under those circumstances, is there some way in which a President can view a well-known, understandable line of delegation so people know where he's going, so it becomes clear and he doesn't look like he's flip-flopping? Clearly, as I say, I can see that with certain kinds of people you know where they stand. For a moderate Democrat in this situation, whether it's possible to do or not, I don't know. I just don't know.

Thompson: Was the dilemma made worse by the bracketing of points of view? In the '76 campaign the President was asked who his foreign policy advisors were and he said [Paul] Nitze and [Paul C.] Warnke. And you get a little feeling that you had this bracketing running through even the areas in which you worked. Did the very fact that you got strong assertions of polar positions on some of these issues further compound the dilemma, or was that a means of clarification?

Schultze: Well, yes, and no. I don't think it was in the domestic area. It was the people, not polarization or strong swinging views. I don't recall major continuing philosophical differences between me and Califano in the Johnson era. We were always fighting at the margin about how much new legislation should you go forward with, and can you cut it back, and how much money should you put in here, but I consider that kind of marginal. There was nothing to contrast with what I felt was the McIntyre-Eizenstat problem over every budget. I don't consider that—it's partly because McIntyre is basically fairly conservative and Stu is more in the liberal line, but I don't think it was fundamental.

I don't give a damn who you had in those positions; you'd have had somewhat the same thing going because of the nature of what they had to do. Eizenstat is fighting the action to keep the party and the Administration socially active, recognizing the problems. Whereas McIntyre's facing this incredible budget problem; it's just popping out at him all over the place, and these two are going at each other every budget season. That was inevitable given the nature of the game, and not particularly or principally a polarity of views or how he picked advisors who deliberately bracketed you. I don't think that was it. I think probably that would have been the case in almost any event. If I had been Budget Director—and I'm not as conservative as McIntyre—and if somebody else had been Eizenstat, the same thing may have happened. The President would have been faced with the same difficult case-by-case choice time after time after time.

Mosher: When you talked about the reluctance of Carter to delegate, were you speaking only about delegation to his immediate staff in the White House and the Executive Office, or was this partly the other side of the coin, about delegation to Cabinet? In an earlier stage he talked about it with you.

Schultze: Yes, none of them ever really do it, do they?

Mosher: Would your remarks about his reluctance to delegate apply to them, as well as to delegation to his immediate entourage in the Executive Office?

Young: Well, expanding on the one case we already have talked about, that is the delegation to Schlesinger—even though he wasn't a Cabinet member, he was already an operating one, but was that a unique thing in effect?

Schultze: Yes, I think it was. I have to search my memory, but for all practical purposes, it was. The first major test of that is the development of the welfare reform package. And that clearly was something—that the fight was brought right to the President personally and argued out in front of him. There may have been other cases that I don't remember—there probably are—but the tobacco thing and the different positions of Califano, Bob Strauss, and Schlesinger were affected by them seizing power when they could get it. And so you'll find Califano slipping off on the anti-tobacco crusade, as far as I know, with no White House clearance. I don't remember the specifics, but there was a lot of muttering and grumbling about, "What's he doing to our constituency down in North Carolina," on the part of some of the staff. The President never turned him off, as far as I know. I wasn't involved in that. Bob Strauss had no problem in grabbing authority. So to some extent, up to a point, some people could grab it, but when it got down to things like welfare reform, national health insurance, trying to develop a national health insurance proposal, Califano really bounded in. There were moderately different outcomes depending upon the personality and power propensity of the particular Cabinet officer.

Young: Perhaps the case was hospital cost containment that came back into the White House?

Schultze: It did, although Califano had locked that up so much. That's a particular case where he got out in some sense ahead of the White House, or had it pretty well locked in, and then it was a question of around the edges. That is a case where Califano did a lot of that on his own.

Mosher: You were talking about Cabinet meetings.

Schultze: I think they ended up meeting—for a long time there was a straight terrible show-and-tell session. "What are you doing this week? What did you do?" Absolutely worthless. Every week. Then we switched to every other week. Then they switched from show-and-tell to more agenda, the topics of interest. You didn't go around the table; the President would call on you. For reasons I never understood, he just got into the habit every week of having me start out with what's going on in the economy. But basically it would be one or two things like that and then it would be matters of particular interest. He turned to Blumenthal on some subjects. I personally didn't find it very useful. I guess maybe there was some collegiality involved—keep people

meeting and seeing each other and shaking hands and chitchatting before the Cabinet meeting. As a place of accomplishing anything, I don't think it did much.

Thompson: Before you leave his operating style, could we ask just one last question? Was the makeup of these three power grabbers that of strong people, brilliant people, people you could identify, even as in a sense you couldn't in the Nixon, and even in the Reagan Cabinet—striking personalities, like the ones you've mentioned? Was the dilemma that Carter faced, were the circumstances of the times, factors that required a kind of operating style closer to Johnson, where if you were to handle people of this type you would, more than in an ordinary Administration, meet somebody with the strength of Roosevelt either moving people over, continually watching them, getting them into places where they could cause less trouble rather than more trouble, to what was the dominant theme? Was this a problem with his style?

In other words, leave aside competence or incompetence. But the peculiar set of circumstances, the people, the times, the dilemma—did they, together, call for a type of control and leadership closer to a Johnson and Roosevelt? And is that part of the answer to the failure, if it is a failure, in the Carter White House? Because the skills you've described up to now—this capacity to understand probability theory instinctively—really don't go to the question of whether he could handle these three other things. I wondered whether what you've really described is a situation where only a political virtuoso could manage that situation and carry it through. And was it true that Carter was simply not that type of virtuoso, maybe because of his operating style?

Schultze: No, he clearly wasn't in that sense a political virtuoso. I think that's pretty clear. I really don't know if I can answer that question. My guess is, I'd sure hate to sit here and say it can't be done. He had much experience in it. And what seemed to me to be a very large, real external difficulty conceivably could have been overcome by some person with different experience and quite a different style. I don't want to say no, but if you ask me exactly, "How would you do it?" I don't know. A lot of the things you're asking me are things that I haven't reflected on very much. At the time, Califano and Strauss, for example, used to be incredible headaches. But in some fundamental sense, I don't think they were. They were headaches to staff because they were always going off on their own, but that's maybe what a good operation is—this business of taking some risks. Sometimes you make mistakes and sometimes you're going to clean up after people. That's better than people who don't do anything.

So I don't think my own judgment is the fact that there were in the Cabinet, for example, people who were very strong and charging off. They sometimes would charge off in a way that gave you trouble. Probably in the end this was strength, not a weakness. Even though at the time it was frustrating as hell.

Hargrove: Califano appeared to have flouted the President on the Department of Education. He lobbied against it, at least according to a number of reports. The President couldn't seem to prevent that. Was there an authority problem there, since the President could not seem to assert his authority over this guy? He fired him, after all. Why did he fire him?

Schultze: I don't know. Again, I wasn't there; that's my excuse. If I had been there I'm not sure I would have known. What I find even more difficult is why he fired Blumenthal. Whether Joe actually was out lobbying against him, I don't know. If he was, that is treason. That's treason.

Hargrove: I was told by OMB officials that Joe would go up and talk to Congressmen and threaten to take away mental health clinics. They'd call, and the President would say, "Did you do it?" And he'd say no.

Schultze: Well, this I was not aware of, to tell the truth. Joe and I fought a losing battle on that one. But if he did that, then that is cause, in my judgment, for firing on the spot. It's one thing if he goes up and opposes something another Cabinet officer is doing; it isn't kind of a Presidential pitch. So I don't know.

Hargrove: The point is he felt free to do it. He wasn't afraid of the President.

Schultze: That's right, in which case, I don't know.

Hargrove: But it shouldn't be necessary to fire a man. He ought to be afraid of you so you don't have to fire him.

Schultze: Yes. I can't comment, because I don't know the circumstances.

Young: It reminded you of a good story.

Schultze: About three months after the massacre, I was at dinner. I think it was for Blumenthal. In any event, he got up and responded to the toast and pointed out that the fired Cabinet officers are going to form a club, and it was founded on Schlesinger's insistence on being President, because he was the only one in the group who had been fired by two Presidents.

Jones: Could we sharpen this distinction between the White House staff and the Cabinet in regard to this matter of delegation? It seemed to me the picture you were drawing there was, as far as the Cabinet is concerned, authority from the position that was available to them, which was different from the White House staff, and therefore dependent on the President. Then it was a matter for the President of understanding that available authority and in a sense taking command of that, and insuring that, or taking command of the issues, or providing a lot of direction so that the Cabinet Secretaries didn't feel free to move about. So the question really is, did that happen, or did it not happen in some cases that some Cabinet Secretaries felt that they could command issues within their areas that did not result in big Presidential decisions anyway?

Schultze: Some did and some didn't. Again, I think if you have strong White House staffing with a lot of authority in it, you can, paradoxically, let your Cabinet officers go more. Because they ultimately develop a better sense of what they can and can't do. They know when they can go out on their own; that is, if there's good staffing in terms of something as major as a welfare reform. The President is staffed well on that and the Cabinet officers are brought in line on it. This is a Presidential policy to which you contribute very substantially. If that works well, then my guess is the Cabinet officer can feel much freer in a lot of other areas. I sense that.

Jones: That's an important point.

Schultze: I sense that.

Jones: The non-delegation of authority to the White House staff then affects the Cabinet?

Schultze: Oh yeah.

Hargrove: Califano could never find out what the President really wanted on welfare reform. He could never seem to get a notion of that. I don't know whether that's an accurate account or not. That's a major error.

Schultze: Well, quite right. The President tried to reconcile what was almost irreconcilable, which was a Labor Department view and a Califano view. He was very sympathetic to the Labor approach, but was smart enough to understand some of the problems in it. He also did something else that really shook Califano up, and if he had meant it, he would have been naïve. I'm not sure he really meant it; I think he just wanted to put the heat on Joe. He said, "You've got to have a welfare reform that doesn't cost anything."

Hargrove: Now that seemed impossible to Califano.

Schultze: It was looked at as a way to say, "You don't have much money coming and you'd better think of this not as a new way to increase your scope, but as a way to really do reform." It's a perfectly valid ploy. What actually happened, however, is then it turned into a big accounting shell game. That's partly right that Califano didn't know. Califano was there; he sensed what was going on; he knew the whole thing was a struggle between him and Marshall as to how you put this together. That's not unusual. It was a very complicated process of doing it, and he ended up with a program that was so complicated that nobody could understand it. There were probably three people in the world who understood it, and no one of those, fully. It didn't stem so much from Califano not knowing what the President wanted. Califano knew that what the President was trying to do was to get a major employment component into this program without wrecking it. It was very hard to do, and made for a complicated program, but there's nothing absurd about it. I don't have too much sympathy for that.

Young: Presidents have been known, as a matter of strategy, to keep everybody around them guessing about where they'll really come down. That's not new.

Schultze: It probably would be fair to say there is a sense that Carter did find it very hard to turn to either Marshall or Califano and say, "No, I'm turning you off." He might say to Joe, "You've got to give me a program with no money in it, no new money. You've got to save as much as you spend." That, he could do. But he'd avoid the confrontation in front of him. His instinct was to try to take a little bit of both as a compromise rather than to say, "No, you're wrong; you can't have it." I have some sense of that. I remember at the first Camp David meeting—it was kind of a mini-summit in '78—where, for reasons I no longer remember, there was this attempt to assess what's going on in the Administration. It was kind of a strange business of going around a table,

a great big Cabinet-like table up there, and saying, “What do you think we ought to do?” And by the time it got to me, my only piece of advice took thirty seconds: “You’re not enough of a son-of-a-bitch.” And there is some sense of that with people.

Young: Do you recall or know of any happenings early in the Administration, perhaps even as far back as the transition, in which people came forward to advise either the President or the people who had been with him in the campaign who would clearly have a major role in the White House, to forewarn them of a real problem ahead with the Democratic Party, and a real problem ahead in trying to take hold in Washington?

Schultze: Not that I know of.

Young: Do you recall anybody in Washington who came forward and was turned aside with this sort of advice or offering?

Schultze: No. Now, let me put that in context, because a lot of what I have been saying about the difficulties of dealing with the Democratic constituency in this kind of world is something that wasn’t all that obvious to me, large parts of it, in January of 1977. Our first domestic initiative, rightly or wrongly, was an economic stimulus program that was the old typical, fundamentally Democratic idea of give them more. The necessities that I have been telling you about are necessities about which all of us were aware. Carter himself was even more aware than anybody that the Great Society in some sense was over. You’re not going to invent a great new society. That was clear. But it only gradually became clear how much his Presidency was going to be one of cutting the cloth to fit the resources. That was going to be his problem—yes.

Rockman: Was the problem really that Carter couldn’t be an SOB, or was it that he couldn’t make up his mind as to whom he wanted to be an SOB?

Schultze: I don’t know. I think it may have been more the first. I think it may have been more that he didn’t want to be a SOB. I think so. Maybe some of both.

Young: You detect in these discussions the dilemma of the analyst. Do you all trace it back to the President? How much do you trace back to the President and his mind, and how much do you interpret it as being the result of the setup? One of the circumstances that are not amenable was to be controlled by virtuosity. That seems to be a real problem of our time.

Rhoads: I wonder if you could comment in a little more detail about your personal relationship with the President. The press reports would have us believe that it began very strong, for two people who didn’t know each other. That somehow you hit it off and that there was reason to believe that you were going to be the principal economic advisor. He’d read your book and liked it, and the press reports are that you became somehow more distant, that you weren’t as close and as important a substantive advisor as time progressed. I wonder if you think that’s an accurate perception, and why you think it occurred, if it is accurate?

Schultze: I think most of it isn’t accurate. The one which I’ve already alluded to, one part of it, I think, is it’s clear that in the early days there wasn’t anybody else. During that initial period of

putting the economic package together, nobody else there had the experience technically to know how to do it. Blumenthal had plenty of State Department experience; he had zilch in terms of how one estimates revenues or the relationship between an appropriation and an outlay and what you needed from the Congress and all of that. So the sheer fact of there being no one else, and the sheer fact that I was in Washington with informal access to staff made a huge difference. And as other people worked into their jobs, they began to have staff and opinions and roles, and settled down to a more normal relationship.

I don't think I was ever personally that close to Carter. But I don't think I was to Johnson, either. I think it's more that, as time went on, and we moved from a relatively pleasant situation of trying to stimulate the economy and give people what they want, to the last two-and-a-half years of the Administration, where they were trying to take it away. There was clearly more frustration on the part of the President. You'd come in saying, "Here are the economic forecasts and they're all not good, and here are the options and none of them are all that pleasant." He sure wasn't overjoyed to hear it. Sometimes you could see his frustration, but that was a relatively moderate level. He isn't the type to vent them terribly much. So yes, I think if you look at it in an objective sense, my initial status, almost by necessity was much stronger than what I ended up with, but I think that happened in about six months and would have happened in any event. At least that's my rationalization.

Kettl: Just along the same lines I wanted to explore a little bit further how your role changed as the Administration wore on. One might think that the Council of Economic Advisors would be the logical place for an early warning system to throw up fears or warnings of coming restraint, either in a technical sense, or in terms of your relationship with the President and the kind of advice that you turned out. Did you detect any kind of change in your relationship with the President or in your role as those four years wore on?

Young: Beyond the entry of more staffed-up actors and roles.

Schultze: Well, no, I don't think so. Pretty obviously, economic policy was not an area in which he was getting high marks with the public, and I don't think he looked around and said, "Gee, brilliant Charlie Schultze and our brilliant economic advisors are doing so great. I wish our foreign policy advisors could do as well." It's fairly clear we were not. I think there may be good reasons for it, but nevertheless, we were not producing in some objective sense for him the kind of results that would help him a lot.

Kettl: There are two problems that economic advisors in particular seem to have with the constituencies. It is a lesson that the Reagan people have learned, as well. On the one hand, there is the broad American constituency. Is the economy doing better? The question that Reagan asked during the campaign, "Are you better off now than you were four years ago?" But, particularly for economic advisors, there's a much more narrow, more technical constituency—Wall Street, bond markets, international financial traders. You've spoken of the problem of trying to play to the Democratic constituency, and I was wondering if you could talk a little bit to the problem of playing this particular constituency—Wall Street, the bond market and the international financial traders?

Schultze: Let me think for a second. There's a lot of attention given to that. My own guess is that there is a tremendous trap there and you'd see it come up once in a while. Somehow there is substantive policy for which you have these criteria and some way you can manipulate psychology on Wall Street—that a budget deficit has a real impact on Wall Street. Somehow you can manipulate so that you can have a policy that will really help psychology, that you can play the psychological game distinct from the policy itself. And I don't believe you can, really. Once in a while we would tend to—I think in 1980 we got a little bit panicked by the Wall Street psychology. Maybe overreacted. So I really think that's a losing game in the long run. I mean, you may be able to make points, or you move the bond market for a day or two, but the fundamentals are going to get you. Now, those fundamentals may simply be a tremendous amount of uncertainty. When I say fundamentals, I don't mean it's something that's easy to figure. So yes, there's an awful lot of discussion every time you ask, "My God, what is Wall Street going to think of this?"

Kettl: Did you spend any time talking to or trying to convince the opinion leaders on Wall Street, the kinds of folks who write the analysis, that the Street moves on?

Schultze: Oh, we knew the odds. A lot depends on what you mean. We did an awful lot of speeches, had them in, talked to them, but we didn't spend a lot of time at it, no. You're not going to change Henry Kaufman's mind.

Thompson: One or two of the people who seem to either not have staff, or run into roadblocks internally in pushing their policies, have talked to us about going public, about speeches, about hitting the road and trying to influence public opinion in some sort or another. When we were talking about this, I somehow have the memory that I saw you at a number of airports when you were in this job and I wondered to what extent your role called for a public presence and an educational function in shaping your economic thought. Or are we wrong in thinking you did a little bit more of that than some—almost the teacher's role?

Schultze: I don't think so. In fact, if anything, I probably did a little less than I should have. For example, and very often it's probably a mistake, but here's where I couldn't delegate—to a speechwriter. I do my speech from notes very often and in that position, that's not what you want; you want text. I didn't have time to write it myself and I didn't like to read speechwriters' stuff. I ended up not being as effective as I probably could have with a little bit more delegation. I probably did a little less of it than I should have, if anything.

Thompson: Including *Meet the Press*?

Schultze: Yes, I didn't do a lot. It was maybe normal, but not more, and maybe a little less, than some of the others.

Mosher: You mentioned that you were not closer to Johnson than you were to Carter.

Schultze: I don't mean we were distant.

Mosher: Is there a difference in the institutional bases as Director of the Budget? My impression of many of them is that they saw the President very frequently on a one-to-one basis, maybe every day in some areas. And that as chairman of the CEA you probably saw him once a week.

Schultze: I would see him, oh, I don't know—on a one-for-one, not once a week. Maybe once every two weeks.

Mosher: Well, is the nature of the institutional base such that the Director of Budget is almost certain to be more frequently involved with the President?

Schultze: Probably. Not massively, but probably, yes. There are just a lot more issues.

Mosher: Were there significant differences in the performance of the OMB?

Schultze: Again, I've not organized my thoughts on this. I think one difference is the role of the Domestic Policy Staff, which started with Ehrlichman and took over a lot of the functions that OMB used to do. Again, when you're Califano with a staff of six, versus Ehrlichman with a staff of 60, and Eizenstat with a staff—I don't know what it was, but my guess is it must have been 30 to 40—a lot of the things that you would look to the OMB staff to do, and for which the Domestic Policy Advisor would have leaned on the OMB Director, just don't exist. My recollection of my relationship with Califano was that we were virtually inseparable. We were always on the phone, always talking, always working together, and it's much less so than, I would say, McIntyre and Eizenstat.

Mosher: The number of appointments available to OMB had increased from four to about 20.

Schultze: I think that had a different impact. I think the main impact was internally at OMB. When I knew OMB, or BOB, there was a very small layer between the Director and career and staff, and as a consequence, the Director was dealing every day with the GS 12s and 11s. It was a tremendous place to work—in addition to every other reason—because, my God, you're young, still wet behind the ears, and you're dealing on major policy right with the top. But once you get all those layers, my impression is just that there's much less personal contact, much less satisfaction. I'm hypothesizing some of that because of course I didn't really have that much of a chance to observe it. I don't think it had quite so much to do with the fact that it was political versus non-political, as the layering. I mean, you've got the director, deputy, two associates, then assistant and then down to division directors and then down to the staff. Well, you know, it used to be director and deputy, division chief, and staff.

Young: I'll answer the other part of Fritz's question for you—modesty preventing you from answering it. But, yes, it did work better.

Schultze: By accident I discovered a new bureaucratic technique that's very effective. The only problem is by its nature, as you'll see, you can only use it very occasionally. On trade matters a memo would go in to the President and invariably, almost invariably, it would have three positions. There would be the Commerce–Labor Department protectionist position. There would be the CEA–Justice–Treasury–State–OMB free trade position. And in the middle there would

usually be a combined DPS–Special Trade Representative—“Well, let’s give them a little and take a little.” I must have signed 35 memos like that.

One time my staff, for a complicated set of reasons, decided the key issue was not what you did, it was the announcement. That is the essence of it, what went into the announcement. And the rules of the game were that if you lost the policy decision, you didn’t play a role in writing the announcement. Only the agencies that were on the winning side of the policy decision got their hand in writing the announcement. It tended to work that way. So, for the first time, we tended to vote with the other side mainly to keep our hand in writing the announcement.

Well, in all the first 35 memos that went in on this I never once heard from the President. That memo wasn’t in there more than ten minutes when I get the phone call. “Charlie, what the hell are you doing on the side of the protectionists in this issue? What’s going on here?” I told him, “The rules of the game are so-and-so and the reason we’re on there is we have a chance.” And he says, “Well, what is it that you want in the announcement?” I said, “Well, it would really help me if you would write on the margin of that—because I know you’re going to approve it on the middle ground—if you’d write on the margin, ‘Please make sure the following gets into the announcement,’ it would help me a lot.” “Fine, I’ll do it, Charlie.” That was it. So occasionally, surprising votes help your positions.

Young: That part of that anecdote where the President calls you up and says, “What are you doing on this?” suggests that he knew his advisors’ positions in advance. A great deal has been said about the adversarial nature of the relation that seemed inevitably to develop between the sitting President and the press. In the case of the Carter Presidency, there seems to have been a particularly destructive reportorial posture with respect to the President. I wonder how you saw that and whether you think scholars should be cautious about adopting the substance or evaluations of a President that they read about in the press.

Schultze: First, I have a sense that there’s been a steady deterioration in the relationships between the President and the press. The press has been progressively more cynical and negative. A lot of this may be due to Watergate, but I don’t think so. It started with Johnson.

Mosher: Since Kennedy.

Schultze: Since Kennedy, yes. I say it’s steady. I’m not sure it’s steady, but it’s really a problem.

Young: Kennedy’s not a fair test. Because you don’t know what would have happened. He himself was anticipating a worsening relation with the press.

Schultze: He wasn’t around long enough. The revision of history says that [Dwight D.] Eisenhower was better than the press gave him credit for, and I think that’s probably right. But it wasn’t really a bad relationship with Eisenhower. I don’t think that Carter’s was a lot worse. Ford, I’m not quite so sure of, but Ford features in the next point I want to make. The one thing the press does very early in an Administration is to pick a characteristic in a President—and I don’t give a damn what you do, you can’t get out of it. For example, Gerry Ford was probably the most athletic President we ever had, but he was called a bumbler—he was a stumbler, he was clumsy—which is absolutely untrue.

Carter was “flip-flop,” at least that was my impression. And my guess is, while, sure, we did make a lot of changes, once you get that reputation, you can’t get out of it. We very often didn’t change when we should have, precisely because we were worried about one more occasion for flip-flop. And that sticks very much in my memory as something that tended to play an important—not dominating, but an important—role in policy discussions. Do we dare make this change, because it’s just another flip-flop? So I don’t have any major philosophical comments on relationships with the press except to say that there is, I think, this tendency for the press somehow to characterize a person or an Administration, and I don’t give a damn what you do, you’ll never live it down. They haven’t yet, as far as I can tell, done this with Reagan.

Young: Well, the press itself kind of flip-flopped over time. You remember at first it was all style and no substance; then it was all substance and no style. First it was no politician, and then it was nothing but a politician. Every decision became governed by political consideration. So even within the range of press commentary, through the flip-flop and the indecisive President, and then, on the other hand, you would read about a very rigid kind of President.

Schultze: In any event, I simply don’t think that kind of current evaluations in the press for any President make much sense. They don’t have any perspective.

Young: We’ll go back to something you said earlier about your facetious comparison between Carter’s reaction to this bad economic news. How did he react to bad news? I mean did it send him into a depression, or how did he cope? Did he ever think of changing his advisors or something like that, making some move out of frustration or whatever?

Schultze: No. I must say it reminds me to make the comment that either he was a superb actor, or he had more inner self-confidence than any person I’ve ever met. Incredible. He could take bad news. He would explicitly make statements—I can’t quote, I can’t remember—indicating, in effect, “By God, I do the best I can, and I work at it, and I sleep well. And I think I’m doing right.” As I say, either he was the best actor I ever met, or he really did have an inner confidence. I think the man did sleep well. The Iranian thing, I think, although I wasn’t involved, clearly got to him. But apart from that, I was tremendously impressed by the man. Religion may have had something to do with it. That’s number one.

You could tell he was mad. I’ve seen him do that. But one case where he really lashed out—no, that is too strong a term; he never lashed out, but clearly was upset—was in late ’79 when we presented him with the budget and economic forecast for 1980, which did not make pleasant reading, and in effect says, “There isn’t a hell of a lot you can do about it. There are no major dramatic economic moves you can make.” He clearly was miffed. Miffed is the wrong word but it clearly got to him. But it didn’t last. I had a long communication with him on that subject and he clearly realized that he was lashing out. He took bad news very well. Let’s put it that way.

Young: The response was not, “If you have unacceptable news, you go back and do something to give me better news.” He just accepted it.

Schultze: Except on this one occasion, where he clearly was miffed.

Young: In more jargon terms, what you're saying, I guess, is that he was a person of very large ego strength.

Schultze: Fifteen years ago we would have said "inner direction."

Young: Okay. I'd like to get to the question of how this Presidency is assessed and to illuminate one fact. Let's assume, for the moment at least, we have a constitutionally-prescribed, one-term President. I mean, eliminate the factor of defeat in an election. And then look back over the four years. How would one then characterize it? Would it be, from your point of view, a failed Administration—eliminating the factor of defeat at the polls, failure of reelection? What do you think its essential strengths were? What do you think its essential failures were?

Schultze: Well, when you ask a participant, you get a biased answer.

Young: But we ask them all.

Schultze: I know. I can spend a good bit of time listing our mistakes; we made them. I think substantively we managed a very difficult economic time about 80 percent as well as it could have been managed. Not a hundred, but maybe 80 percent. And at a hundred it would have been somewhat better news but not a hell of a lot. The nature of things was such that you were bound to have had more inflation. Interestingly enough, if you look and compare our performance versus most other countries on most measures except inflation, we did better, and on inflation we did about average—not as good as the Germans or the Japanese, but better than the French, British, and Italians.

Young: Was that due to good management, or luck?

Schultze: Oh, some of both.

Thompson: It was partly due to the strength of the American economy.

Schultze: In this context, the question that is asked about is luck. That is something over which you have no control.

Mosher: Productivity?

Schultze: Productivity fell in every country in the world. It fell from five to three in other places and from three to one here. The fall was about the same. There's not much difference. Where we did much better was unemployment. Much better than anybody else on unemployment. The Germans just exported their unemployment; so did the Swiss. If we could have exported our unemployment to Mexico, we'd have had a tremendously easier performance. The Germans didn't have to boost their economy; they didn't have a labor force to take in. Not to bore you with statistics, but over the four years of the period, our employment grew by about ten percent and the Germans by zero. No other country had anything like ours. We just had a hell of a lot more to do to keep any kind of decent employment. I would have preferred a stronger, earlier,

better-integrated, more forceful employment policy. I don't think we did that anywhere near as well as we could have, and we did vacillate, but our problem was our labor constituency. They were undoubtedly a weakness.

I think we could have done better in terms of the impact on the economy and in overall economic reform, while being a little less generous on minimum wage and foreign price supports. But it wouldn't have added up to a lot. We could have done a lot better. We probably goofed more psychologically than anything else in that January-through-March period of 1980. We didn't pay enough attention to the 1980 budget getting out of hand, and then we did seem panicky in the way we reacted. But the overall economic results in this country and every other country under different policies was not terribly good. The question is damage limitation. In terms of damage limitation, we didn't do too badly.

Unlike some other countries, for example, when—and again this isn't just our policy management—I think the incomes policies helped. The United States did much better than any other country in workers not trying to recapture that oil price increase in their own wages, which is inevitably self-defeating. Because of our incomes policies we did better on that than almost any other country, including the Germans. They had a profit squeeze; it hurt their investment badly in Germany. So I must say, in substance I'd say, we did about 80 percent as well as you could have done under—maybe 70—I don't know. It certainly wasn't a hundred, but it wasn't 20.

And my way of looking at that is—just look around the world. The Japanese have done better. But as I said to somebody at one of the breaks, the Japanese are a feudal society with computers. I mean that literally. The social obligations are not economic. Their social obligations stem from a long cultural thing I can't understand. So they did better. I mean, they can do things like that. I've got some marvelous anecdotes about the Japanese I won't bore you with here, but they did the kinds of things we just couldn't do. As an outsider, my view is that even though I have no good sense of the strategy, I happen to think that the human rights thing was, in my judgment, a very good thing to do, even though it was poorly carried out at some times. The major issues were Camp David, getting the Panama Canal treaty through, and decontrolling energy, which was a very hard thing for a Democrat to do. It had to be done. Getting at least a start on decontrolling natural gas. Very hard thing for anybody, but particularly for a Democrat, to do.

I'd say this Administration came into a very difficult time and did a lot of good things and handled some things rather poorly and did not present a nice, firm, solid image. I'm not just saying the thing that didn't get reported; I don't mean that. We, ourselves, did not present a strong kind of consistent image for a lot of reasons I've talked about. History will indicate that it was not one of the country's periods that will go down as a very great success. But, on the other hand, as a period of damage limitation, almost—doing a lot of very hard things that recognized reality and finally tried to bear the cost that had to be born, we didn't do too badly.

Rockman: Did you ever get a sense of what image the Administration did want to project?

Schultze: No. I don't know.

Rockman: Let me just follow up on that a second. Was there talk of this as it grew nearer to the 1980 elections? Did you discuss an image for the Administration?

Schultze: Well, my guess is, you do not sit down and say, "This is the kind of image we want to project." You can't do that, I don't think. I think it isn't something you choose.

Rockman: Well, I meant it as a kind of retrospection. What was it that the Administration had been trying to do in the previous three, three-and-a-half years?

Schultze: I think Eizenstat phrased it "the new realities." How do you deal with that? It turns out that's not terribly successful because, in effect, it says, "We are compassionate, Democratic, conservative, and adjusting, at least temporarily." I'm not saying it's going to go on for the next century, but temporarily, at least, there is a more difficult set of external circumstances.

Young: I find this idea interesting because it suggests what you might call your realistic criterion—"damage limitation." I'm trying to connect that with the whole notion of what you think of as leadership. It's hard to build an image of leadership, of the limits of the possibilities in damage limitation, into economics.

Schultze: And there's one other thing I have to say, however. This is hindsight, but it's fairly clear the central thrust that this Administration came under, except for Carter's inherent fiscal conservatism, was only partly this. A lot of it was, "Let's get the country going again." We underestimated the difficulties. No question of that. So it isn't as if we came in to office with the broadest sense. Maybe Carter had a better grasp of this than a lot of us, actually. We came in still with a large hangover of what a Democratic Administration can do after eight years of Republican neglect. And that clearly did not fit what we were going to face. The first year didn't matter. There was some truth in that. You did have room to do something. But not a hell of a lot. If we'd come in with an adequate understanding of the problems, (a) we might not have gotten elected, but (b) it might have been easier if that awareness had been there all the way through.

Young: Nobody had a crystal ball, an accurate forecast of the economy. It might have been developed into some more advanced strategies.

Schultze: I don't know what in the world it would have looked like if we had not had the second OPEC. My own quick guess, without even going through it carefully, is that we would turn out not to have done a lot to get inflation down, which we should have. But we probably wouldn't have worsened it much, which ended up happening. That would be my guess.

Young: If there had been a reelection, do you think things would have gone differently, either in terms of the strategic approach of the Administration or its style? If Carter had been reelected, do you think there would have been any kind of significant changes, either in terms of strategic approaches to these problems in policy terms, or in terms of mode of operation, or personnel, or whatever. Would it have looked different?

Schultze: Probably not. Nobody wants to fight anything in the last economic report of an outgoing Administration. We had a lot of recommendations on what we should do on a tax-based

incomes policy as a major new economic thrust. That doesn't mean that if we had been reelected we necessarily would have done it. All I mean by that is that nobody was going to fight me putting that into the economic report, since it's an outgoing Administration. I don't quite know what would have happened. To the extent I had my way, we would have made a major thrust in that direction. We would have had, on the other hand, much less ability to do some budget cutting that needed to be done than the Reagan people did. We just didn't. No, I can't conceive of us cutting the budget like Reagan has.

Young: Because it would have worsened the problem with the Democratic Party?

Schultze: Yes. Had we been reelected, there would have been no mandate to do it, and with no mandate to do it, we wouldn't have gotten it done even if we'd wanted to do it. And we wouldn't have wanted to do that much. We would have had to do some, but it wouldn't have been anywhere near as much, I suspect. And on balance we would not have been bold enough, probably, in that area. I hope we would have done something much more in incomes policy. But again, I go back to the point that the country is in for a period of difficult economic times until we get rid of inflation or get it down a lot. We would have had tight money and high interest rates and we would not have been very popular in a second term. We would have done a little better with the incomes policy; we would not have saddled ourselves with this huge budget deficit that's now coming up. We would have done things better, but it would have been a period in which it would not have been a happy 1960s-like environment; it would be continuing to struggle with damage limitations.

Mosher: Was there any consideration about what the Carter Administration would do if it were reelected? Was there any planning for a reelection?

Schultze: Well, all of us had ideas.

Young: Or was there a sense of doom?

Schultze: It was growing. I suspect every major official had an unsent memo ready to go, just in case, the first day after the election. "Mr. President, here's the way I think about the second term." I'm sure Stu Eizenstat had one; I'm sure Bill Miller had one. It never got sent. But as you can see, during the election we had no great concept. We are not campaigning on a great platform or with statements coming out about what we'd do in a second term. We would have cut taxes on business. No question of it. Significantly.

We would have had a much smaller personal tax cut. A different kind, but very sizeable business tax cut. And I think we would have had, at some stage—and had the pressure been enough—we would have had to face up to the question of wage and price controls. Occasionally there were a few people in the Administration, particularly in the last year and a half, who wanted us to push in that direction. I wasn't one of them. If somebody would tell me that I could, I would have. The country could have had—for a period of about two years—wage controls and no price controls, and I would have taken it. But I don't think that's possible at all. The damage that price controls can do even on a fairly short period of time is incredible. I'm rambling, but my guess is, a second Carter Administration would have had to continue to face the problem of damage limitation,

would have done things significantly different from Reagan, but would, nevertheless—with the best will in the world, with the best luck, the best management—still be going through the two to three years of fairly difficult times.

There would have been continuing tension between a Congress that still probably reflected an important part of the old coalition, though not as much as it used to. So I don't know about worsening, but with Congress we would have continued our uneasy relationships. And I don't think better management would have made a lot of difference in that sense. You know, you could have done better but I don't think that fundamentally it would have improved. You may have had some personnel changes. Ham Jordan kept saying he wasn't going to stay around. Whether Jody would have or not, I don't know. I wouldn't have stayed. I don't know who would have come and gone.

Jones: Why wouldn't you have stayed?

Schultze: Tired. It's that simple. It was kind of at the point where it wasn't fun any more.

Jones: Would you have been willing to move to a different post in the Administration had it been offered?

Schultze: I don't think it would have been offered, and I probably wouldn't have. No, I was just tired. I've never thought about it, to tell the truth, but I doubt it.

Young: At what point, if any, was there a sense in the White House—I'm not speaking about the President now—that all was lost as far as reelection was concerned? When, if ever, did that sense jell?

Schultze: I think at different times for different people. Eizenstat tended to be somewhat of a pessimist, generally, about things. They tell a story that you had to get him off the plane during the '76 campaign; he was talking to reporters in too pessimistic terms. He's an inherent pessimist on those things. On the other hand, I have a vague recollection that [Patrick] Caddell and company, up until a week before, were holding out some hope. Caddell has a long story of the last two days and how that Iranian thing all of a sudden was a catalyst that just made it go to pot in two or three days. Carter himself, I'm not sure. I'm almost positive Carter hadn't a hope until very late in the game, but again, you've talked to people who know about this a lot better than I do.

Young: The impact of the Iranian hostage situation on work and life in the White House must have been substantial. Or was it the preoccupation of the President with that? How did it affect the operation of a White House under siege?

Schultze: Carter was very good. I don't remember any inability to get to meetings or inability to get decisions. You could see it was nagging at him, worrying him. But at the moment, I don't recall any particular delays or inability to be able to concentrate on some subject.

My memory may be failing. It must have had an impact psychologically on the man; it was wearing on him.

Young: Did it result, for example, in more de facto delegation, as the President's time was used up in other things?

Schultze: I do not recall. It may have happened and it just slipped by me. It wasn't obvious, even though it may have happened. I'm trying to remember. Things tend to get jumbled chronologically. At one time we were trying to get a lot of his attention and time on this whole jawboning exercise. But by that time it was already clear that that [Thomas O.] Paine Commission was going to recommend we get rid of the guidelines. And there wasn't much sense in pursuing that sort of thing in the dying phases. That could have been a problem but it didn't crop up.

Rhoads: Just following up on what you said about, "Sure, we would have had substantial business tax cuts, if not nearly as much in the individual." That sounds like it might cause real problems with the Democratic constituency. Are you pretty sure that Carter would have stood fast for that, or would he have been reversed on it when it got to negotiating with Tip O'Neill and the rest? Why are you so sure that he thought that was a high priority? It was a different kind of business tax cut.

Schultze: I can almost no longer remember what we finally agreed to do or not to do, to tell the truth. I have a recollection of a lot of discussion with the political people, with Eizenstat, with the economic advisors, as to the President making some kind of major economic speech during the campaign, laying out a longer-term economic program. I'm embarrassed to say, by now I don't remember how that thing came out. The immediate issue was the fight with Kennedy, and then our resolve that, because of inflation, even though we were going into a recession in the second quarter of '80 and into the summer, we were not going to do anything about it. We would ride it out. That was the big thing. There was a lot of discussion about an ultimate program. There was complete agreement among the economic advisors that there ought to be a major business tax cut. There would have been major battles as to what else would have gone with it. No question you would not have had the same kind of program as Reagan's. That's clear. What the political necessities would have dictated with respect to a Democratically-oriented tax cut with more different income distribution, I don't know. So I guess I shouldn't be so blithe in saying what would have happened. I think there was plenty of momentum in the Congress for a substantial business tax cut. Now, what you would have had to put with it at this stage, I can't evaluate.

Thompson: You're the second person we've had who, before going into the Administration, had standing in the intellectual and academic community. The rest have tended to be people who appear from nowhere, in a sense, so far as intellectuals were concerned. One thing that continues to baffle me is the kind of movement in the foreign policy field one saw against the Administration. In other words, the intellectuals and scholars became critics. Another thing that, of course we've all read about, is that [James M.] Fallows and others insisted that Carter lost the intellectuals because he geared his speech to the gasoline station operator rather than to leaders of opinion.

You seem to be in an area where at least you didn't have that massive defection. How do you explain that? The academic economists were not critics. For instance, the way the one little group I know about, the Niebuhrians, became almost unanimous critics of Carter, in spite of the fact that Carter had interests in their work. But the economists seemed to be an isolated case of a group where you had fairly continuing responsiveness, and I wondered why that should be true.

Schultze: If you look at the monetarist type, they had plenty of criticism, but they had nothing to do. The mainline moderate liberal, Samuelson, that whole crew, weren't critical, in part because they didn't have anything different to offer than what we were doing in any fundamental sense. Around the edges it would get plenty of criticism, but in the fundamental sense, I don't think that many of them were going to break away because of style. I mean, just because a guy was elegant and didn't give a Yale economic speech, he's not going to break away.

Thompson: But it is an exception to the reactions of intellectuals in other areas. I wonder whether it had something to do with a common core of ideas, or whether it had to do with personality. Part of the foreign policy thing seemed to me always was pro- and anti-Zbig.

Schultze: Part of it—I suspect that's true. Beyond what I just said, there's not much more I can say. All I know is, if I sat down with the mainline economists, they would bitch at me about this, and say, "Why don't you do that?" But there was no fundamental suggestion like, "You ought to be going in this direction, you idiot, and you're not." I didn't find much of that. Whereas, I suspect, you clearly could in the foreign policy area. We had differences, but we didn't have the Vance–Brzezinski 140-degree difference.

Jones: Well, several points you've made, most recently in this matter of damage limitation, make me wonder what the President can really do to improve the economy. I can see that the President can take actions to make sure things don't get worse. Are there actions that can be taken really to get the economy progressing? Is he in that important a position?

Schultze: To the extent the President can influence the Federal Reserve. Let me assume for the moment that he can; we'll come back to that. Look first at the economic limitations and then the institutional limitations. So, we assume for the moment he can influence the Federal Reserve. He's still bound very substantially by having to make a choice between how much emphasis he's going to put on reducing inflation, and how much on growth in the short run. In the long run maybe they're not contradictory, but in the short run they are. And he can't escape that. Incomes policy could help him moderate it, but that's no magic tool. It's messy and sloppy, and it has modest effects. I think it has good and modest effects, but only modest.

Lots of people disagree with me that it isn't even that. It is my view that the American economy is not terribly adjusted to a quick generation of the inflation problem. It's just hard as hell to get out of. Most Presidents, both politically and for economic reasons, cannot simply sit by and say, "The hell with it. We're going to take an eight or nine percent inflation and not worry about getting it down." You can't do it. Given that there's a limit to what the President can do, although it is an important choice, is how he takes that trade. Does he accept it, or does he go the other way and say, "I'm going to give a hell of a lot less attention to inflation"? We tended to go

from the early stages somewhat being more employment-minded, to later stages being much more inflation-minded, partly because events pushed us that way.

Secondly, in addition to that economic limitation, the “no free lunch” syndrome, he has the limitation of the Federal Reserve, which is importantly independent. In an era of low inflation the President has the upper hand. That is, I cannot conceive, when the chips are down, of the Federal Reserve withstanding a Presidential public appeal that these people are frustrating. But in a period of high inflation, they’re the only game in town. That’s not exactly true, but they’re an important part of the game. And a President can’t afford to look like he’s after cheap money in a period of high inflation, in addition to everything else that also limits him. Granted, he’s got to make this difficult choice; it now begins to limit him as to how much he can make even that choice. In that broad area he makes important decisions and has an important role, but there are very great institutional, political, and economic limitations.

In the micro area, there are ways to make the economy better; there are a lot of things he can do, but every one of them has a small impact. They accumulate over a long period of time. With minimum wages, farm price supports, deregulation of airlines—that tends to have beneficial productivity gain, and is modestly inflation reducing. Except for the deregulation, which turned out to be surprisingly easy to do, they are all politically difficult. So yes, he has an important potential impact, but nothing dramatic and long horizon.

Kettl: One of the things that I was struck by as you were answering was the fact that fiscal policy didn’t play a larger role in your answer in particular.

Schultze: Oh, it did. I’m sorry; I meant it.

Kettl: And it was implicit in some of the micro questions you were talking about.

Schultze: Even macro.

Kettl: Even some macro?

Schultze: No. I’m saying the President has two big problems—employment and inflation. So he must have a fiscal policy and monetary policy. One, together with the Congress, he can at least partly control. Even then he had to have full control. And the other he’s got to work with the Federal Reserve. The question is how much he can influence the Federal Reserve in a period of inflation. Politically, he’s got less influence. He can’t afford to tangle with them. There’s where Wall Street does come in. There’s where the President, for legitimate psychological reasons, probably can get to be seen as a cheap money President.

Kettl: One of the things that was important throughout the Administration, at least in a symbolic way if not in a very real way, was the question of a balanced budget. The continual struggle and continual projections in the out years about a balanced budget just over the horizon and the Administration’s continuing frustration in being unable even to move closer, let alone achieve it, is a double question. Is it as important as it was made out to be in a symbolic sense, and was it achievable in any kind of real sense?

Schultze: Under some circumstances, yes. Not the circumstances we're likely to face in the next five years, or rather four years or so. Is it important? I'm not talking about a balance. Whether you get a balanced budget or \$20 or \$30 million deficit and a \$4 trillion economy doesn't make much difference. But \$150 billion deficit can make a difference.

What else? Is it important symbolically? Well, there's an interesting political and psychological question here. Any kind of substantive economist would say that a balanced budget rule makes no sense. Straight sheer economic substance. It doesn't mean the budget deficit doesn't matter. It simply means that zero is not any particular magic number. But of course the political problem is, once you give up zero, what is your control? That's the real problem.

There ought to be two separate questions. One is the question of the level of government. What share of the national product do you want government to take? That's one question. A quite separate question is, what deficit do you want to run? The problem is that the main constraints we have on the spending side are the consequences for the deficit. One of the problems you struggle with is that you now say, "The deficit is no longer a constraint." The leverage to exert the discipline to keep the spending from popping part of that's gone, because it's hard to say, "Well, 17.653 percent of GNP [gross national product] for the non-defense budget is our target." You know, that doesn't send anybody anywhere.

Rockman: When you said you were tired at the end of the Administration, was it from a sense of the intractability of the problems you're dealing with? Was it from a sense of your role in the Administration? Could you illuminate that just a little bit?

Schultze: Yes. It wasn't as much fun—in fact, it wasn't any fun by the end—as it was in the Johnson Administration. And I think 80 percent of that is the world and maybe 20 percent is the nature of the Administration.

Jones: Even at the end of the Johnson Administration?

Schultze: Yes, even at the end. When Gardner Ackley and I left the Johnson Administration at the same time, there was this huge party at the State Department for us. Everybody, even the President, showed. I got a marvelous picture album out of it. Everybody showed up—Hubert Humphrey, Congress. Even in the midst of the Vietnam business, there was a real spirit. All the people I used to fight with like hell on being Budget Director still showed up; with a few exceptions, we were good friends. The Carter Administration was a group of people struggling very conscientiously with a lot of messy problems. There wasn't that spirit, that feeling of us happy warriors. I think most of that was the circumstances. Some of it may have been just the nature of the personalities involved. God knows that Carter, in terms of being nice and pleasant to deal with, was a hell of a lot better than Johnson. Johnson could be an absolute son of a bitch. He could also be a charmer. So it isn't obvious why this difference existed, except for the external situation. I think that was the most important part.

Rockman: The question was a little bit related to the 20 percent, which is whether you knew toward the end of the Administration, but before the election defeat, that there were any plans

afoot to restructure things differently. You did say that you didn't feel there was a deep problem of coordination. But it certainly was a perceived problem. Were there any plans that you knew of to internally resolve this?

Schultze: Not that I knew of. Carter may have had some thoughts about it, but I didn't. In economic policy, the Secretary of the Treasury, the Chairman of the CEA, and the Budget Director were all going in different directions. I didn't have any real sense of that. We had problems, God knows, and we had internal disagreements, but who didn't? There was a lot of fighting and infighting, but that's always around. Whatever our problems were in that area, in the macro economics it wasn't quite coordination.

Young: I've just struck a notion trying to remember some of the Carter speeches. Read in text, many of them in the economic and energy area fall quite into the mode that you were describing the President's role in. The essential message was damage limitation. No quick solution, some possibilities for long-term problem solving, and a lot of pain on the way. That was a theme that was consistently reiterated in a lot of those speeches.

Schultze: It is an obvious observation that is attractive in time of war, and devastating in time of peace.

Thompson: You've talked about the difference in the esprit de corps. Was there something about the mystique of the Carter Administration? We've seen it in universities; we've seen it in departments; we've seen it everywhere we've been; foundations, where people in some groups seem to get a sense that they are probably as important as any other group of human beings have ever been. Other times, it passes. That's the follow-up. Joe Fowler is on our board, and he continually harasses us with the notion we really ought to study the relationship between the President and the Federal Reserve and an Administration. Do you think that Carter got too close to Volcker and too close to the Fed, and in that sense bore a part of the political burden for high interest rates?

Schultze: No, he didn't get too close to him. He didn't publicly attack him, except at the end. If I'd had anything to do with it, he wouldn't have done it then, but he didn't lash out at him. So he did bear the burden in that sense. Not as much as Reagan did. He wasn't out there positively telling him. Up until the very end, he didn't bear the burden. I'm sorry he did bear the burden, and my guess is he had no option but to bear the burden because it did him more harm than good, I think, to take off after the Fed. If you're going to do it, you don't do it that way because then you'll be hurt.

Here's the President of the United States. We have Joe on the street complaining about the Federal Reserve in a casual statement in a backyard in Philadelphia. I don't know whether you remember this was the incident during the campaign that he complained about. The question came from a Ph.D. candidate who asked a very technical question and for some reason he chose to answer. He could have responded purely technically, but he went beyond his brief; obviously, he was very frustrated here. Things had turned up for a while in the economy. Inflation had come down temporarily, interest rates had come down, the economy was starting to pick up, but of course in the last two months all of a sudden interest rates start to go back up again like mad and

he's frustrated as hell, I'm sure. But I don't think, in a period of inflation, a sitting President can publicly take on the Fed. It does not do him any good, which also means, therefore, he is necessarily also suffering the burden. He's got to bear the burden of high interest rates. Rightly or wrongly.

Thompson: And on the mystique? You had such a diverse group of people.

Schultze: I look around at Bill, Jack [John Thomas] Connor, John Gardner, the people who were around Johnson—they were pretty diverse. It's partly personalities, I agree. It's part of the Kennedy–Johnson Presidency up until Vietnam and for the domestic people even during Vietnam, except in the last year and a half. Let me put it another way. Nineteen sixty-seven in the Johnson Administration, when I was Budget Director, was hell for me for about a year. Mainly because of the whole problem of the cost of the Vietnam war and what it was going to do for the budget. That wasn't very much fun either. But up until the Vietnam War really clobbered everybody—"The world's our oyster, my God." You know, "We fight, we've got problems, but we're doing fine." It wasn't damage limitation.

So I don't put most of it on the personality of the President. It could have been different, maybe. But it was not the same. And it isn't the same thing as, "My God, here we've got 25 percent unemployment and we're going to save the country." It's not that either. It's a much more grinding, steady sort of thing. You've got to have some patience; you've got to go through some moderately hard times. We're not going to put you through a wringer. And that fits neither war nor a Great Society, nor, "Let's rescue the country from the massive depression." Unfortunately, it doesn't fit any nice dramatic call.

Thompson: The President appreciated what all of you were doing. One of the things that has come out so far is that some of the young people have said they worked fairly closely to—they saw the President occasionally—but he never remembered their names or their faces when they saw him a little bit later. You get kind of the [Woodrow] Wilson syndrome. Loving mankind, listening to young people—loving mankind but not caring much about individuals. You didn't find any of that?

Schultze: No. When I was in the hospital, he used to call religiously. I used to, a couple of times, bug him about quitting just on the grounds that I don't want to be sitting here in the hospital. You need somebody. He said he stopped calling me just because he figured he was getting me to say that. Very thoughtful guy. And it may also have been that he wasn't the politician in the narrow sense of the term, of Lyndon Johnson recognizing everybody.

Hargrove: I'm not sure; this is too big a question. Could one argue that we've come to an end of a historical era, at which the liberal welfare state cannot generate the wealth to pay for its programs, and yet the effort to return to a neoclassical economy may also fail, so that fundamentally new thinking is going to be required?

Schultze: That is too big a question.

Hargrove: You don't think about that when you're in government?

Schultze: That's right. One peripheral question or one peripheral comment. If you imagine a group of governmental programs that are structured to be relatively stable, and you get the economy growing again at four or five percent a year, there is that increment of growth you can use for new programs. However, we and most countries have developed a group of social programs that are, in effect, one way or the other kind of indexed; they grow naturally. So without having any new programs, two-thirds of that dividend, assuming there was one, you automatically eat up. And you don't get much political credit simply for keeping up, and the room to do something like national health insurance—to do something big and dramatic in national health insurance. My guess is, we'd probably have room if we'd phase it in gradually over a six- or seven-year period to use a little wedge in all this. So it isn't quite so much that society won't generate the wealth. We have already had a batch of programs that automatically command a good chunk of that wealth, so the problem is even a little worse.

Jones: That's a two-column question, even for [James B.] Reston.

Young: But it suggests there's going to be a rather considerable analytic task to take these two Administrations of Reagan and Carter, and compare them in terms of what happens with each, because they represent rather different positions.

Schultze: Actually, the one thing Reagan may very well do is give the next Democratic Administration that comes in a little room to operate. I keep telling my liberal friends, "Don't complain; they're doing the cutting."