Journal of Economic Perspectives—Volume 6, Number 3—Summer 1992—Pages 65–71

Economists and White House Decisions

Stuart E. Eizenstat

In Washington, economists rank about even in esteem with my profession of law—hardly an enviable position. Presidents of the United States and their White House Staff members expect economists to be omniscient prophets of the future course of the economy, unerring economic policy advisers, teachers of the mysterious science of economics to often distracted pupils. They expect their economists to provide an economic blueprint for high growth, low inflation, and a guaranteed re-election—but without offending any important constituencies.

These inflated expectations may explain the frequent presidential frustration with economists. The classic story, of course, is President Truman's comment that he longed for a one-handed economist, since his economic advisers kept telling him "on the one hand this and on the other hand that." I frequently observed President Jimmy Carter frustrated by the uncertainties surrounding the economic forecasts he received and the divisions among his economists on the economic advice presented to him.

While I served in the White House, Ph.D. economists occupied the positions of Secretary of Labor, Secretary of Commerce, Secretary of Treasury, Director of the Council on Wage and Price Stability, the President's anti-inflation adviser, Chairman and Council Members of the Council of Economic Advisers, and many other senior positions throughout the government. Yet we

■ *Stuart E. Eizenstat was Assistant to the President for Domestic Affairs and Policy and Executive Director of the White House Domestic Policy Staff from 1977–81. He is Vice Chairman of the law firm of Powell, Goldstein, Frazer & Murphy in Washington, D.C. and Atlanta, Georgia, and Adjunct Lecturer at the Kennedy School of Government, Harvard University, Cambridge, Massachusetts.*

presided over an economy with double-digit inflation and interest rates and a recession. The sad state of the economy was the major reason for President Carter's loss to Ronald Reagan in the 1980 election—even more than the Iran hostage affair.

What is the appropriate role for economists in the White House? What can they realistically be expected to do?

The Council of Economic Advisers

The principal institution for the exercise of power by economists in government is the Council of Economic Advisers (CEA), created by President Truman and the Congress in 1946. The CEA has served succeeding presidents well. If the CEA did not exist, it would need to be created. On virtually every decision with economic implications, the President receives widely varying advice from different departments and agencies. In fact, the various departments of the Executive Branch were created by Congress to carry out distinct missions, with entrenched bureaucracies to implement those missions, and with private interests who look to each department to champion their cause to the President. When we had to decide on the Administration's position on the advisability of raising the minimum wage in 1977 we could expect widely differing economic estimates from the Departments of Labor and Commerce on the impact of a rise in the minimum wage, because each saw the world differently, and their economic assumptions reflected these differences. Similar conflicts of recommendations occurred whether the issue was agriculture, import restraints, or the cost of new regulations in areas as diverse as new source performance standards for coal-fired utility plants and cotton dust protection for workers.

In contrast, the CEA has only one constituent, the President of the United States. Its primary role is to act as an objective counterweight for the competing, interest-driven recommendations of the departments and agencies of the Executive Branch, marshalling what is generally the best advice the economics profession provides.

A second function which the CEA can play is to be an advocate for what Charles Schultze, Chairman of the Council under President Carter, called "economic efficiency" in governmental decisions. This involved advice about the most appropriate, least costly use of national resources to achieve the president's policy goals, as well as unvarnished views on the appropriateness of the goals themselves in light of scarce resources. This advice was sometimes grating to me, and to others in the White House, because it lacked political sensitivity. But presidents always have more than enough political advisers. A president sorely needs the candid advice of economists within the White House on the least costly, most efficient, most economically sensible way to achieve his goals. Others can emphasize other legitimate considerations, like fairness or political concerns.

A good example of the constructive role economists can play in assuring that economic efficiency is considered in governmental decision-making was the operation of the Regulatory Analysis Review Group (RARG), created and chaired by Mr. Schultze. RARG would consider a half dozen or so major proposed regulations which the Regulatory Council (under the chairmanship of Doug Costle, our EPA Administrator) would determine to have a significant economic impact on the economy in the next year. RARG operated within the Executive Office of the President, and had members from CEA, the Office of Management and Budget, and the Domestic Policy Staff. It offered the President an independent review of ways to reduce the cost of regulations while still adhering to the statutory purpose. On a few occasions—involving cotton dust regulations and regulations governing new source performance standards for coal-fired utility plants—Mr. Schultze took regulatory decisions to President Carter to resolve, when RARG and the agency in question disagreed about the best way to achieve the regulatory result.

The CEA constantly forced us to face the inevitable tradeoffs between lives and dollars, inflation and unemployment, environmental protection and costs, efficiency and equity, which policy-makers and politicians in the White House and in the departments would often like to ignore.

A third role played by the economists at CEA and elsewhere within the Executive Office of the President, like the Office of Management and Budget, is to provide the President with advice on the current state of the economy, and its likely direction, and to help the President understand the economic policy consequences of the projected economic scenarios. The President cannot be expected to rely on the myriad of private forecasting services. He needs the in-house advice of his White House economists. Actually, it is only since the administration of Franklin Roosevelt, with the advent of Keynesian economics, that presidents had personal economic advisers and were held accountable for the economy. But today, presidents stand or fall on the performance of the economy. In this role, the economist becomes both most critical to a president and most subject to ridicule.

The principal fault of the economic policy of the Carter years was a failure to identify the ferocity of the underlying inflationary pressures in the economy. We stuck too long to the stimulative fiscal and monetary policies promised in the 1976 presidential campaign, to end what we called the "Ford recession." In retrospect, we were blind until it was too late to the rising level of inflation, occasioned by an unforeseen drop in the rate of growth of productivity, rising commodity and oil prices, and higher inflationary expectations by labor and management. Economic forecasts of inflation were consistently too low in the early Carter years. The longer the delay in responding to inflation, the more draconian the remedies required—and the more disastrous the political consequences.

To his credit, President Carter had a better inkling of the dangers of inflation than did some of his closest economic, domestic policy, and political advisers. This accounted for his decision to abandon the $50 rebate in 1977, originally proposed as part of his Economic Stimulus Package; for his willingness to restrain federal spending and to maintain low federal deficits; for the voluntary wage guidelines he adopted in 1978; for his strong free trade, anti-protectionist bias; and for the painful domestic budget cuts he proposed in 1980 in the midst of a difficult primary campaign against Senator Ted Kennedy, who had already criticized our economic policies as being too conservative. President Carter was convinced, against his own inclinations, to sign the 1978 tax cut bill by his economic and political advisers—a cut which in retrospect was unnecessary and only fed growing inflationary pressures.

But the shortcomings of the economic advice the President received must be kept in perspective. Economists are not a latter-day Oracle of Delphi. They can only utilize the imperfect tools at their disposal. The nation had not experienced a sustained bout of high inflation in modern times. Except for the brief spurt in inflation following the Arab oil embargo in 1973–1974, the U.S. economy was in unchartered waters. What seems clear in 20–20 hindsight was not at all clear then. Economists should give greater weight to public psychology in their forecasts. But, nevertheless, forecasts are humbling exercises, given the innumerable variables in a multi-trillion dollar economy.

Moreover, the economy is influenced by unanticipated factors no economist can predict. No economic adviser could have forecast the Iranian revolution, the resulting drop in Iranian oil production, and the panic among western nations in the spot market which led crude oil prices to rise by 120 percent between the beginning of 1979 and 1980—although, in retrospect, the value of rapidly filling the Strategic Petroleum Reserve in light of the consequences of the '73 oil shocks, to withstand short-term supply interruptions, could have been stressed. Likewise, we would have been better following standard economic advice to deregulate gasoline prices during the oil shock rather than maintaining inefficient controls and allocating shortages. This would have avoided the gas lines which so enraged the public, although prices might have been higher.

Finally, many economic decisions reflect political decisions and attitudes, for which economists cannot be blamed. The president's top aides, myself included, and the Democratic party in general, feared and tended to oppose any economic decisions which risked restraining growth and causing higher unemployment to fight inflation (although Secretary of the Treasury Blumenthal did press for a tougher anti-inflation policy). This sentiment was an important backdrop to the Carter administration's economic policies, for which it is unfair to castigate our economists.

Lessons about the Role of Economists in the White House

I learned some important lessons in the White House about economic policy-making, and about the role of economists.

First, economists, like other senior White House officials, must be team players. We were blessed with top-flight White House economists, like Charles Schultze, William Nordhaus, Lyle Gramley, and George Eads, who retained both their intellectual integrity and their loyalty. They argued hard for their positions internally and then loyally supported the President's decisions externally. In sharp contrast, former Reagan CEA Chairman Martin Feldstein, a brilliant and able economist, often enunciated his own economic views publicly even when they differed from the President. This can only limit the influence of an economist and assure a premature exit from government service.

Economists must recognize that in joining the senior ranks of an administration, they must sacrifice some of their freedom of action in their public pronouncements. No one in government wins every argument before a president, whether an economist or otherwise. You must be prepared to support decisions with which you voiced your opposition during private deliberations or at least remain silent; if the disagreement is fundamental and central to your beliefs, then you must resign. But no one should expect the luxury of staying in an administration while publicly distancing oneself from the president's decisions. This is not only unfair to the president, but it limits the official's ability to win on the next issue.

Second, the White House needs an economic policy coordinator, someone other than the CEA Chairman, to integrate economic policy and politics for the president, pull together inter-agency meetings, service timely agency recommendations, and mediate Executive Branch disputes. Early in the Carter Administration, I urged Charles Schultze to move from the CEA Chairman's traditional office in the Old Executive Office Building to the West Wing of the White House, to serve in the additional role of economic policy coordinator. He refused and, in retrospect, rightly so. He felt it would compromise his objectivity and burden him with administrative duties inconsistent with his role as the head of the President's in-house economic think tank. The CEA cannot provide both detached, Olympian economic advice and become enmeshed in the daily, inter-agency compromises and political log-rolling.

But this left the President with no person without a stake in the outcome clearly charged with coordinating the disparate economic advice coming to him from the various Executive Branch departments and the CEA. President Carter became increasingly frustrated with the operation of the interdepartmental Economic Policy Group, chaired by the Treasury Department, because its recommendations were often nothing more than the collection of differing agency recommendations, without adequate synthesis.

The Ford administration had developed an appropriate model, which we should have employed. William Seidman (subsequently Chairman of the Federal Deposit Insurance Corporation) was President Ford's economic policy coordinator. He was not a professional economist nor an economic adviser, but served as a coordinator and synthesizer of economic policy within the White

House, uninfluenced by the passions of any agency. Roger Porter ably plays that role now for President Bush. Had such a figure existed in the Carter White House, perhaps he could have avoided the decision to abandon the $50 rebate after the President had invested so many resources to pass it—a decision which first created the impression of an inconsistent economic policy. (The impression was largely erroneous; in our own defense, the changes in our economic policy were dictated by changes in external economic realities, like rising inflation and the oil shock.)

Third, a President must have supreme confidence in his Secretary of Treasury to be his chief economic spokesman on all key domestic and international economic decisions. This will create inevitable tensions with the chairman of the CEA, as it did in our Administration, but such tensions are manageable with the right combination of people. However, President Carter never clearly invested Secretary of Treasury Michael Blumenthal with this mantle, because of a lack of personal chemistry. The Treasury Secretary is generally drawn from the business or financial community and is rarely a professional economist. However, by virtue of the history of the Treasury Department, the stature and Cabinet status of the position, and the institutional role of dealing with foreign finance ministers and central bankers, the Treasury secretary must be the primus inter pares on the President's economic team. In contrast, the CEA Chairman has a limited institutional base and a staff role. Yet, the president must also recognize that the Secretary of the Treasury provides economic advice through the filtering of the financial constituencies the Treasury Department feels it represents, as other agencies are advocates for their constituencies.

Fourth, economists should concentrate less on tinkering with the economy and more on identifying broad trends. Our economic policy demonstrated some of the limitations of Keynesian fine-tuning of the economy. By the time our anti-recession package of 1977 had an impact, the recession was long since over and inflationary pressures had begun to build. The economy has many natural self-correcting mechanisms which economists should emphasize. Consistency is essential in convincing the American public and financial markets, here and around the world, that a steady hand grips the economic rudder—one which will not try to change the direction of the shape of state at every economic blip. Presidents and their political advisers are under tremendous pressures to change policy with every temporary change in the economic environment. The CEA must help the President resist such temptations unless the economic realities have changed profoundly and permanently.

Fifth, economists at every level of government should take a more expansive role in administration policy-making. For all of their training and expertise, economists tend to retreat to the safety of the ivory tower—to see their role as purveyors of pure economic advice. This inferiority complex is misplaced. Economists possess useful insights and knowledge for every stage of the policy-making process, from the conceptualization of an issue, to the development of options, to the economic consequences of varying decisions. For example, Charles Schultze had served in senior roles in previous administrations, and was thus able to play a significant and positive role in matters as disparate as designing regulatory policy to negotiating the Humphrey-Hawkins Full Employment Act of 1977 with key sponsors—including the late, great Senator Hubert Humphrey—so that it better reflected economic reality, and permitted inflation concerns to be considered in economic policy decisions. Economists must go beyond theoretical frameworks and lists of possible alternatives, and have the courage to make recommendations based on sound economic judgements, leaving it to others to insert political considerations.

Economists and politicians too frequently are like ships passing in the night, neither understanding the needs of the other. White House economists need clear political direction from the President, and they need to give the President clear and fearless economic advice.

Finally, economists cannot substitute for a president who is engaged and involved in economic policy-making. To be sure, the boom of a 21-gun salute and dealing with foreign heads of state are more stimulating than economics. Also, presidents take their role as "Commander-in-Chief" seriously, and often have greater discretion to influence national security policy than domestic and economic policy. President Carter chaired a weekly breakfast meeting with his national security advisers for four years, but met less regularly with his economic advisers—except Charles Schultze, with whom he met one-on-one frequently. Presidents rarely spend the time on economics commensurate with the stake they have in their administration's economic policy-making, for it is on the performance of the economy that presidents are most severely graded by American voters.