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George Shultz
U.S. Secretary of State, 1982-1989

Reagan's commitment to his convictions made taming inflation possible.

INTERVIEWER: How did Paul Volcker set out to squeeze inflation out of the economy a few years later?

GEORGE SHULTZ: Paul Volcker was undersecretary of the treasury when I was secretary, and we worked together closely. He's a fine person, and very knowledgeable. Toward the end of the Carter administration, with inflation out of control, Paul Volcker was made chairman of the Federal Reserve. He understood the problems well, but I think it's fair to say he was under constraints as to what he could do about it.

When President Reagan took office, he had people like Milton Friedman. I was chairman of the economic policy group, Milton was a member, and there were others who said the essence of the inflation problem is monetary policy, and to deal with it effectively, you've got to discipline the money supply. Paul Volcker agreed with that, and President Reagan gave him a green light. Now, people worried about that, and many people warned President Reagan that if he did this, there's likely to be a recession. And obviously who wants a recession? But I can remember President Reagan using those famous words, "If not now, when? If not us, who?"

So he did the right thing, and we did have recession. But also, inflation dropped like a stone. And we had basically, in the United States for the last 18 years or so, a non-inflationary environment. And that is one of the primary reasons why our economy has been as strong as it has been. So I give President Reagan and Paul Volcker a great deal of credit -- and Paul's successor, Alan Greenspan, of course, has continued on and done brilliantly.

INTERVIEWER: How important was President Reagan's support for Volcker in actually seeing that policy through?

GEORGE SHULTZ: Well, to do something difficult, even if you are the independent Federal Reserve, it makes a huge difference if the president is on your side and is strong and understands the problem, and when things get tough he doesn't go the other way and denounce you, but holds in there. That was one thing about President Reagan: He understood these major developments, and he wanted to be president because there were things he wanted to do as president. And so when he took actions that he thought were right, knowing that there could be difficulties, he stuck with them, he didn't run away. He had a stiff backbone.

Just as in Britain, where Margaret Thatcher did a lot of things, and she had help, but basically you have to say she's the one who stood up for the ideas, and she's the one who put them into effect. So you had in Reagan and Thatcher at the same time two of what I call "idea politicians." They had convictions, they had ideas, and they were convinced they were the right ideas so they put them into effect. In a way, that's why they wanted to be in office, to do that.

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Milton Friedman

Professor Emeritus, University of Chicago

Reagan understood what he was doing, and it worked.

INTERVIEWER: How important was President Reagan's support for [Chairman of the Federal Reserve Paul] Volcker's policies [directed at squeezing inflation out of the American economy]?

MILTON FRIEDMAN: Enormously important. There is no other president in the postwar period who would have stood by without trying to interfere, to intervene with the Federal Reserve. The situation was this: The only way you could get the inflation down was by having monetary contraction. There was no way you could do that without having a temporary recession. The great error in the earlier period had been that whenever there was a little contraction there was a tendency to expand the money supply rapidly in order to avoid unemployment. That stop-and-go policy was really what bedeviled the Fed during the '60s and '70s. That was the situation in 1980, in '81 in particular. After Reagan came into office, the Fed did step on the money supply, did hold down its growth, and that did lead to a recession. At that point every other president would have immediately come in and tried to get the Federal Reserve to expand. Reagan knew what was happening. He understood very well that the only way he could get inflation down was by accepting a temporary recession, and he supported Volcker and did not try to intervene. Now, you know, there is a myth that Reagan was somehow simpleminded and didn't understand these things. That's a bunch of nonsense. He understood this issue very well. And I know -- I can speak with, I think, authority on this -- that he realized what he was doing, and he knew very well that he was risking his political standing in order to achieve a basic economic objective. And, as you know, his poll ratings went way down in 1982, and then, when the inflation seemed to be broken enough, the Fed reversed policy, started to expand the money supply, the economy recovered, and along with it, Reagan's poll ratings went back up.

INTERVIEWER: And the economy has been pretty solid ever since.

MILTON FRIEDMAN: Yes, absolutely. There is no doubt in my mind that that action of Reagan, plus his emphasis on lowering tax rates, plus his emphasis on deregulating ... I mentioned that the regulations had doubled, the number of pages in the Federal Register had doubled, during the Nixon regime; they almost halved during the Reagan regime. So those actions of Reagan unleashed the basic constructive forces of the free market and from 1983 on, it's been almost entirely up.

INTERVIEWER: What Reagan was doing is almost exactly mirrored in Britain by what Mrs. Thatcher was doing at about the same time. Are the two influencing to each other, or is it just a case of ideas coming into their own?

MILTON FRIEDMAN: Both of them faced similar situations. And both of them, fortunately, had exposure to similar ideas. And they reinforced one another. Each saw the success of the other. I think that the coincidence of Thatcher and Reagan having been in office at the same time was enormously important for the public acceptance, worldwide, of a different approach to economic and monetary policy.

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Richard Gephardt

Democratic Leader, U.S. House of Representatives

Reagan's economic policies left the country burdened with huge debt

INTERVIEWER: What challenge did Reaganomics pose to the Democratic Party? How did you try to reshape the vision of the Democratic Party as [the U.S. was] heading into the late '80s?

RICHARD GEPHARDT: The Reagan years were marked by one very big economic decision, and that was a very large, far-reaching tax cut that really changed economic policy and ultimately the role of the government. [The Republicans] argued [for the tax cut in] terms of supply-side economics. But there were a lot of us who never really believed that would work and were very worried about the deficits that we thought would result from these tax cuts without including spending cuts. Some Republicans, though, were cynical about it and saw the tax cuts as a way to de-fund government. [They wanted] to get rid of government because they were doctrinaire, ideological opponents of any government effort. Some of them [were] almost libertarians who [felt that] the government shouldn't even exist, even for national defense. So it was the combination of the supply-siders who really believed in the economic theory and of ideological opponents of government that combined to come together [with the cynics] on a very politically attractive proposal to get rid of taxes or to get taxes to be very low.

When this passed the Congress, a lot of us were very worried that deficits would occur, that they would continue, and that we would complicate fiscal, budgetary, and monetary policy in the country because the government would have such a voracious appetite for borrowing capital. We believed that there should have been sufficient capital so that [it] could be borrowed at reasonable rental rates for individuals and businesses. Our prediction unfortunately came true, and we went from \$1 trillion of debt in this country to about \$6 trillion in debt in about 12 years. The economy was staggering, and people couldn't borrow money. Inflation was up, interest rates were up, growth was down, unemployment was up, and what we feared [would happen] had happened. It took a very hard job by President Clinton in 1993, along with the Democratic Congress, to turn that policy around.

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Newt Gingrich

Speaker of the U.S. House of Representatives, 1995-1998

Reagan's success wasn't dumb luck

INTERVIEWER: What was the Reagan revolution?

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NEWT GINGRICH: The Reagan revolution really was the reaffirmation by the American people that they believed in their own country, that they believed in free markets, and that they were prepared to defeat the Soviet empire. Ronald Reagan was the leader around who they rallied to achieve that. But it's the interaction between Reagan and the American people that made it so amazing, and it's his ability to come to personify the kind of principled leadership they believed in.

INTERVIEWER: I think it was Gary Hart [who] might have described Reagan as a con. An old girlfriend described him as a nice but dopey guy, and there's a lot of people on the center left who regard him as a figurehead and not really as an intellect.

NEWT GINGRICH: If you are a left-winger committed to the belief ... that the United States does not have a unique system of freedom, committed to the belief that free markets are phony and everything is manipulated and rigged, the Hollywood model [of] business, committed to the idea that conservative values can't really have any core rationality to them, then you have to find a new explanation for Reagan. On the other hand, if you look at the evidence, the Soviet empire in 1980 was on our fence. By 1989 it was collapsing. The United States economy in 1980 had 13 percent inflation, 22 percent interest rates, and was going into the worst recession since the Great Depression. By 1988 we were in early stages of what has now been almost 20 years of economic growth. In 1980 Jimmy Carter could talk about malaise, the weakness of the American people, gasoline rationing, and the Iranians holding us helpless with hostages. By 1988 we were the dominant power on the planet. Now maybe Reagan was just this nice goofy guy who pleasantly presided over all this, but if so he may be the luckiest single leader in the history of the human race.

INTERVIEWER: Was it intuitive or intellectual in Reagan's case?

NEWT GINGRICH: It was both. Reagan was a genuine [intellectual] if by intellectual you mean a person who believes in ideas. This is a man who read books for his entire adult life. He used to remind people in private that when you were on movie sets you could either play cards, which he didn't, or you could read. But you had long stretches of waiting for them to set up the next shot. When he worked for General Electric he learned a lot about labor management. He learned a lot about the economy. He learned a lot about science and technology, and on those long train trips -- because Reagan didn't like to fly prior to his political career; he wouldn't fly prior to his political career -- on those long train trips he read a lot of books. Mike Deaver in his new book about Reagan talks about how they'd get on airplanes and Reagan would promptly dive into reading. There's a new book out called Reagan: In His Own Hand which clearly indicates that Reagan wrote in his own longhand every radio address he gave from 1975 to 1979 and edited it himself. Now you read those, and you can't help but say to yourself this is a very serious man who read widely, thought deeply, and who had the ability to communicate in a clear and simple language, and that led intellectuals of the left to assume that simple language meant a simple mind.

INTERVIEWER: Had he internalized people like Hayek?

NEWT GINGRICH: Absolutely. Reagan is the only president to have actually studied the Road to Serfdom and thought about [it]. He knew Hayek personally, [Peter] Diamond; he knew Milton Friedman personally. As governor of California he was deeply into these kinds of conversations. It's a little bit like learning how to cook

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eggs. Once you learn that there's a stove, there's a pan, there's water, you boil it, you put the egg in, that's a profound thing if you've never done it before. But once you've learned that you don't have to learn 700 permutations; you've learned it. Reagan's technique was going for the basics -- learning why freedom worked, why military strength worked, why American civic culture worked, and then communicating that over and over from different angles. But he had thought profoundly about the basics of what worked.

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John Kenneth Galbraith

Professor Emeritus, Harvard University

Reagan didn't understand Keynes, but his policies were Keynesian

JOHN KENNETH GALBRAITH: Ronald Reagan [was] once one of my fellow practitioners on the liberal left [who] came into the presidency as an economist. He came into the presidency as the country was experiencing a rather disagreeable recession and [implemented] lots of strong Keynesian policy -- borrowing, unfortunately, for arms. It was the arms expenditure that got the attention and created the sense of necessity, rather than putting people to work. But in any case, one of the results was an improving economy in the '80s under Ronald Reagan, and one of the amusing facts of that was that this was done by people who didn't really understand Keynes and who were critical of him. We had involuntary anonymous Keynesianism.