Interview

Weidenbaum: 'We are all monetarists and supply-siders'

The chairman of the President's Council of Economic Advisers, Dr. Murray Weidenbaum, granted the following interview to EIR*'s Washington correspondent Laura Chasen last month.*

EIR: Last December in the Dunkirk memo, Stockman and Kemp stressed that we could not bring the budget deficit into control unless we are experiencing a period of growth. But now we are facing a recession.
Weidenbaum: Well, I addressed that in my testimony to the Budget Committee. I have a paragraph talking about the possibility of one or more periods of no or negative growth in 1981—which you would expect with just a 1 percent year-to-year increase in real GNP, which has been our forecast all along.

EIR: Then you disagree with Volcker's forecast?
Weidenbaum: What's that?

EIR: Of a 1.6 percent decline in real GNP?
Weidenbaum: My forecast is 1 percent growth—and you notice that that's the standard forecast—if you follow blue chip economic indicators, they have got 1.2 or 1.3 percent increase year to year. In other words, my forecast is within a decimal point of that of the experienced forecasters of the economy, so I feel very good about it.

EIR: They've certainly been wrong many times.
Weidenbaum: That's right, but at least I will have a lot of company.

EIR: Professor Mundell of Columbia, who is considered the inventor of supply-side economics—
Weidenbaum: Oh, there are so many "inventors" of supply-side economics that it is hard to choose. And he is not well known as a forecaster.

EIR: My question is regarding his criticism of your program: that judging by the supply-side approach, your program will not be enough to pull the economy out.
Weidenbaum: He's free to have his opinion.

EIR: Do you consider yourself a supply-sider? And what does that mean to you?
Weidenbaum: You may recall when I testified at the JEC [Joint Economic Committee], I said, "To update Thomas Jefferson, 'We are all supply-siders, we are all monetarists.' " I went on to quote the great English neoclassical economist Alfred Marshall, "The twin blades of a scissors: supply and demand."

EIR: From where do you economists derive the figure 3 percent as optimal for U.S. money supply growth?
Weidenbaum: What do you mean "3 percent"? Whose figure is that?

EIR: Well, it is Paul Volcker's right now and that does mean it is the administration's.
Weidenbaum: Whoa whoa, whoa—it is Paul Volker's. That means it is Paul Volcker's. That is all it means, it is Paul Volcker's.

EIR: But he controls the administration's monetary policy?
Weidenbaum: He doesn't speak for the administration and I do not speak for him.

EIR: I want to pursue that. The monetarist economists are saying that there is a set figure that they can set for money supply growth. I want to pursue this, because if it is something you disagree with, I want to hear it. They are saying that there is some standard by which they can set money growth rates, which is not related to the growth rate of the real economy.
Weidenbaum: You'll have to explain that. It doesn't ring a bell.

EIR: Oh, I agree that it doesn't make sense. But it is what, for instance, Milton Friedman says.
Weidenbaum: So ask Milton Friedman to explain it. I spend enough time explaining what I mean.

EIR: If you disagree, I would like to get you on record.
Weidenbaum: No, no. I do not disagree. But if you want an explanation of what Milton says, ask Milton. I am not going to comment on him.

EIR: So what do you think should be the basis for determining the growth rate of the monetary aggregates? It is a simple economic question.
Weidenbaum: Our position is very clear. Between '80 and '86, we think the growth rate of money should be reduced by one-half. Now, on the real economy, my forecasts—we have released the administration's forecasts of real growth year by year, so you can know exactly where we stand.

EIR: So what is the relationship?
Weidenbaum: I don't understand the question.

EIR: The day of your appointment as chairman of the Council of Economic Advisers when you spoke to the press, you stressed that the balanced budget is a predicate, but the substance of what we should be doing in the economy is generating growth, and if we do that, everything else will sort itself out.
Weidenbaum: Yes, yes. But what I meant is that the big entitlement programs are triggered by what is happening in the economy: you get an expanded economy, lower inflation, and less usage of the entitlement programs. The Dunkirk memo makes the same basic point. We think reducing the government strain on savings, which is what a balanced budget is all about, releases investment funds to the private sector, where we badly need investment funds—and don't forget the regulatory reform. . . .

EIR: So what do you tell industry now about interest rates? What in your program will work so rates can come down?
Weidenbaum: They are coming down already. Look, they have been coming down; they have been coming down.

EIR: Yet Volcker has just announced that his policy will continue to keep rates way up, and you supported him.
Weidenbaum: Oh, much higher than we would like but they are pointing the right way: down.

EIR: All right, I know your position on that. You support Volcker. How do you reconcile that with your stated emphasis on economic growth as the priority concern. You say you reject the ideological baggage of the balanced-budget crew, but then you strongly support Volcker.
Weidenbaum: Look, I want to bring down those damn interest rates, and here I think the monetarists have taught us all that inflation is what is driving up the interest rates. Volcker and his colleagues have it in their power to bring down inflation via moderate monetary policies. And bringing down inflation is what will bring down interest rates.

EIR: Let me ask you about another cause of inflation: the shifting of the labor force from the productive to the service sector.
Weidenbaum: The service sector can be very productive.

EIR: This shift has an overall inflationary effect.
Weidenbaum: I wouldn't say that. For example, if you look at offices, you see a tremendous shift toward automation. What do I mean? Word-processing machines. We are looking at some very substantial increases in productivity.

EIR: Looking at the overall shift away from basic productive employment, do you get disturbed?
Weidenbaum: No, not at all. You would expect that those rapid increases in productivity in industry enable production to proceed with fewer people so they can be shifted into other areas. . . .

EIR: On this same point, what do you think of Alexander Hamilton?
Weidenbaum: Gee, he's dead. He's got a statue out there. I never think about him at all except that it is odd that in all my years at Treasury, the entrance with his statue is always closed and the one with Gallatin has always been open. I never gave him more thought than that.

EIR: I raise this because Hamilton [the first U.S. Treasury Secretary under Washington] was clear about what the role of our government should be in terms of a positive relationship to the economy. I raise it because what Alexander Hamilton did for the country is what I think Ronald Reagan received a mandate to do last fall.
Weidenbaum: Which is?

EIR: Have the federal government play a role in making certain that those investments which are critical to the well-being and advancement of the entire nation get taken care of—and if it is a long-term, large-scale investment, then the federal government has got to play a role.
Weidenbaum: This gets into a discussion of my philosophy. I really do not think the government should make a large amount of economic decisions. Individuals should make those decisions. The private market is much better

at making those economic decisions than we sitting up here.

EIR: What about, for instance, the nuclear power industry. That industry would not have been built without massive government involvement.
Weidenbaum: Yes, that's right.

EIR: Or take NASA.
Weidenbaum: Yes, that's right.

EIR: Or now take the fusion program.
Weidenbaum: Now, when I say yes, it is like with the Japanese—it means "Yes, I hear you," not "Yes, I agree."

EIR: Are you saying that the government should not have played that kind of crucial role?
Weidenbaum: I look forward, not backward. . . . Oh, the government played a vital role for nuclear power. But, as I look to the future we would be much better off if the government reduces its future role and frees up capital resources so the private sector can allocate.

EIR: The private sector is not going to develop fusion.
Weidenbaum: First
keeping fuel prices low. Then reduce those regulatory obstacles. And third, stop the government competition for scarce investment funds. We must reduce the deficit and reduce the off-budget financing, and next we have got to bring down the inflation rate, which is the biggest deterrent to savings. Finally, we need a tax system more conducive to savings and investment. . . .

EIR: *EIR* has covered extensively the fact that West Germany's growth rate is high is due to a certain government orientation—which is what I was getting at by bringing up Alexander Hamilton, since he is identified with that kind of approach.
Weidenbaum: He's dead. . . .

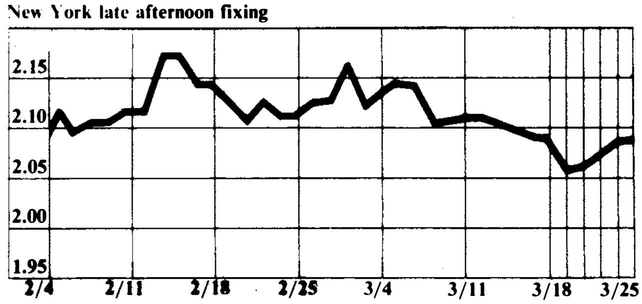
EIR: What is your reaction to the recent statement by the head of the U.S. League for Savings and Loan Associations that there are a number of S&Ls that are about to go under. Do you have anything to say on that?
Weidenbaum: No.

EIR: Does it worry you?
Weidenbaum: Oh, I follow all sectors of the economy. If you look at S&Ls, clearly the high interest rates are a special problem for them, and it reinforces the need to bring down high interest rates. The key thing for S&Ls is to bring interest rates down. . . .

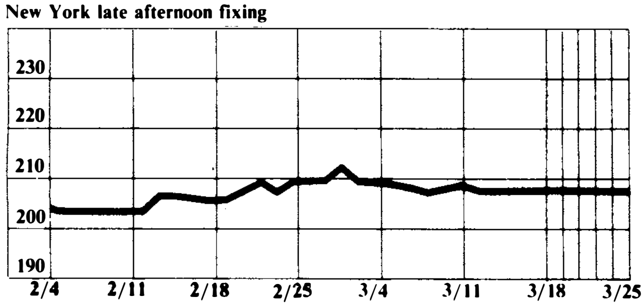
EIR: We thank you for this interview.

Currency Rates

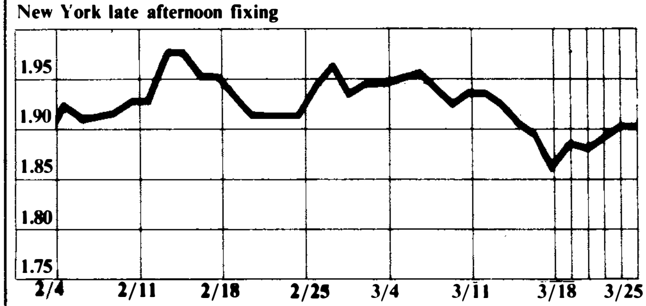
The dollar in deutschemarks
New York late afternoon fixing



The dollar in yen
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing