

The monetarists on Reagan's team

Arthur Burns



Arthur Burns, the "grand old man" of the Nixon-Ford economic advisers and chairman of the Federal Reserve from 1970 through 1977, is likely to play the same role, if in a more senior and less public way, in the Reagan administration.

Burns, born in Stanislau, Austria in 1904, is one of the founders of what is known today as the Friedman school of economics. Burns received his Ph.D. in economics in 1934 as the leading pupil of Wesley Mitchell, who brought the principles of monetarism into the United States. Mitchell was trained at the University of Vienna and at Britain's Oxford University in the Anglo-Austrian tradition that credit creation for industry is ipso facto inflationary, and that both the rate of credit creation and the rate of industrial production must be kept to a fixed annual rate of growth. In 1920 Mitchell established the National Bureau of Economic Research to propagandize within the United States for this Anglo-Austrian view.

Joining the bureau as Mitchell's assistant in 1930, Burns became its director of research in 1945, and its president in 1957. At the NBER, Mitchell and Burns elaborated the concept of "business cycles," popularizing the theory that the capitalist industrial economy is inevitably doomed to endless boom-bust cycles because when central banks extend credit to industry, they invariably create too much credit, causing a banking crisis and a depression. The solution, according to their studies was for central banks to restrict credit.

Burns and Mitchell also invented and elaborated the concept of Gross National Product, the national accounting scheme which fails to differentiate between productive and nonproductive output in the economy. GNP was adopted for national planning use, which has

greatly weakened U.S. government capital formation programs ever since.

While teaching at Columbia during this time, Burns ingratiated himself as an economics adviser to Columbia President Dwight D. Eisenhower. He moved to the Council of Economic Advisers when Eisenhower became President in 1952, and was chairman of the CEA in 1953 to 1956. There he became economic tutor to Vice-President Richard Nixon.

In 1969, Nixon brought Burns to the White House as special counselor to the President, and when William McChesney Martin resigned as Federal Reserve Board chairman in 1970, Nixon appointed Burns to that post. At the Federal Reserve, Burns carried out the Anglo-Austrian policy of fixed rates of money-supply growth which his student Milton Friedman had popularized as "monetarism," and was a leading contributor to the recurring economic crises of the Nixon-Ford years. He resigned as Fed chairman in early 1977 and joined the Lazard Frères investment bank and the American Enterprise Institute in Washington, D.C. as a Senior Fellow, where he remains today.

George Shultz



President of San Francisco's Bechtel Corporation, Shultz left the post of treasury secretary in May 1974 after a two-year stint during which he continued John Connally's opposition to European requests for a re-monetization of gold.

Trained in economics at Princeton and the Massachusetts Institute of Technology, Shultz became a specialist in labor relations and worker retraining. He worked closely with Milton Friedman and Arthur Burns at the University of Chicago, where

in 1962 in he became dean of the Business School. His father, Birl Shultz, was a Princeton economics professor and collaborator with revisionist historian Charles Beard.

In the first Nixon administration, Shultz became labor secretary, leaving a post at the Palo Alto Center for the Advanced Study of Behavioral Science. The President appointed him the first director of the new Office of Management and Budget in July 1970. There he attempted to centralize economic policy control at the expense of the Treasury Department, in what the *New York Times* described at the time as the counterpart to Henry Kissinger's centralization of foreign policy control in the new National Security Council.

William Simon



Former Treasury Secretary William Simon, born in 1927 in Paterson, New Jersey, was graduated from Lafayette College in 1952 and spent 20 years thereafter as a municipal bond trader on Wall Street. He joined the Union Securities Company of New York in 1952, and rose

by 1964 to become senior partner of Salomon Brothers investment bank in charge of municipals, from which he consulted with the U.S. Treasury and related government agencies on the markets and became friendly with George Shultz.

Simon was groomed by Shultz for government service. When the Federal Energy Administration was created in 1973, Shultz advised President Nixon to appoint Simon as its "energy czar" and then brought Simon in as deputy treasury secretary later that year. When Shultz left in 1974, Simon inherited his post.

Simon is a patriot who in his 1978 autobiographical bestseller *A Time for Truth* describes with horror his bird's-eye view of the decaying U.S. economy as that of a physician who can see the disease in every system of the body but who has only one problem: "I was in love with the patient." However, Simon is a committed tight-money man with regard to credit for U.S. industry, and as a practical economist is overrated. *A Time for Truth* was co-authored by Edith Ephron of *Reader's Digest*, a collaborator of radical libertarian Ayn Rand, who saw to it that no departure from strict Friedman doctrine was allowed to appear in the book.

Simon is on the board of directors of Dart Industries, the firm of Justin Dart, a leading member of Reagan's "California mafia" kitchen cabinet who is also close to the progrowth faction of New York Congressman Jack Kemp, and is said to be personally close to Dart.

After he left Treasury with Jimmy Carter's 1976 electoral victory, Simon served as chairman of the board of Georgetown University. He is also a leading member of the New York Council on Foreign Relations. He maintains offices currently at Wall Street's Blythe, Eastman Dillon investment bank.

Simon is a director of Citibank and close to Citibank chairman Walter Wriston.

Alan Greenspan



Alan Greenspan has spent his career as a professional economic consultant committed to the principles of Friedmanism. Born in New York City in 1926, Greenspan was graduated from the New York University School of Commerce with an M.A. in economics in 1950, and founded

the economics consulting firm Townsend, Greenspan Inc., in 1954. Radical libertarian Ayn Rand introduced him to the Burns-Friedman circle. Greenspan became a consultant to the Nixon Council of Economic Advisers and Burns's Federal Reserve Board during the 1970-74 period.

When Ford appointed Greenspan chairman of the Council of Economic Advisors after Nixon's resignation in 1974, Ayn Rand made one of her few public comments. "Alan is my disciple, philosophically," she said. Greenspan is a member of the board of Morgan Guaranty Trust Co. of New York, Morgan & Co. of London, *Time Magazine*, the Brookings Institution, the Dreyfus Fund, and Mobil Oil, as well as the Hoover Institution.

He left the government to return to Townsend, Greenspan in 1977, where he remains as president. At the Republican National Convention, he served with Henry Kissinger as one of the principal architects of the attempted Gerald Ford "co-presidency."

During the 1980 campaign, Greenspan once attempted a professional economist's correction of Reagan's economics. When in August Reagan accurately told the press that Jimmy Carter had created "a severe depression," Greenspan called the press to apologize for Reagan's "overdrawn false alarm." The proper word, of course, said the economics consultant, was "recession."

Later that day Reagan also called a press conference, and with a contrite Greenspan by his side, informed the public that he stood by his own statement. "When somebody else is out of work, that's a recession," Reagan said. "And when you're out of work, that's a depression. And when Jimmy Carter's out of work, that's recovery."