

When An Economic Adviser Disagrees with the President

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Assuming he is confirmed by the Senate, Greg Mankiw, a leading Harvard economics professor, will soon be the new Chair of President Bush's Council of Economic Advisers. He may need some advice: a historical perspective, in particular, on what an adviser can do when official White House policy goes contrary to his convictions as a professional economist. It would be a remarkable coincidence if any president accepted every position that his economic advisers had taken on every issue. But there are likely to be especially large divergences between this president and good economics -- as represented, for example, by Mankiw's own very popular textbook -- in such areas as budget deficits, steel tariffs, agricultural subsidies, and conflict with the Fed.

He joins an NEC director and Treasury Secretary who have already been asked to sell a shift toward budget deficits that appears inconsistent with their past views. But it is possible for a Treasury Secretary or OMB director to toe the party line while in office, and then confess later that this did not entirely correspond to his true beliefs. A professor of economics like Mankiw, who plans to return to Harvard after his service as a White House advisor, cannot engage in such inconsistencies, without risking losing some of the professional credibility that is so important to an academic career. Indeed, this truth-telling constraint may be the most valuable advantage of having a Council of Economic Advisers.

It might help to know the variety of strategies tried by past economic advisers, when they have found themselves disagreeing with the president, often over these same issues. In the late 1960s, President Johnson initially rejected, on political grounds, the advice of Gardner Ackley that if he wanted to pursue the War in Vietnam simultaneously with his domestic spending programs, he was going to have to pay for it by raising taxes. In 1971, President Nixon imposed wage and price controls, considered "sinful" and "wicked" by his CEA advisers, Paul McCracken and Herb Stein. In 1983-84, Martin Feldstein, President Reagan's CEA chair, gave speeches and testimony predicting years of record budget and trade deficits. This went over badly among White House aides, even though the predictions turned out to be accurate -- or perhaps precisely because they turned out to be accurate.

Mankiw will want to avoid the fate of Michael Boskin, who was CEA chair under his new boss's father. In 1990 and 1991, Boskin tried to warn George H.W. Bush about a weak economy, contrary to the happy talk that was being written into the president's speeches, with little success. Later, as employment stagnated, the press widely reported a perception that the White House had neglected the economy, precisely what Boskin had feared, and Bush sank sharply

in the polls. Three weeks before the 1992 election, as a desperate campaign move to demonstrate that the president “got it,” the White House in effect tried to blame the economic troubles on Boskin and the other advisers, by announcing that if re-elected he would not reappoint them. A similar absence of loyalty to the economic team was displayed by Bush the Second, in December 2002, in the unceremonious manner in which the press secretary announced the departures of Treasury Secretary O’Neill and National Economic Adviser Lindsey. So watch out.

Do economic advisers ever “do the honorable thing,” and quit in protest over a policy disagreement? Although there is little historical precedent in the United States for resigning over an issue of policy, it happens occasionally. McCracken considered leaving when Nixon rejected his advice on wage-price controls, but postponed the resignation four months to minimize negative publicity. Ten years later, President Reagan’s first CEA chair, Murray Weidenbaum did the same thing. The president was forever giving speeches about the need to cut government spending and yet, when faced with actual hard budget decisions, repeatedly declined the aggressive option, even in areas of spending that the CEA chair considered wasteful (military as well as domestic). Finally, in late 1982, Weidenbaum decided to leave his position early, due to his frustration over this issue and the knowledge that he could not defend the coming budget deficits. But, out of loyalty, he did not publicly resign in protest, nor has he revealed the story since.

Mankiw has one major factor working in his favor: in these situations, the press seldom asks persistent or sophisticated questions. So one can usually formulate a careful sentence that appears to be consistent with the White House line and yet is not literally false, and get away with it. His immediate predecessor, Glenn Hubbard, did well with this strategy, which helped him win a powerful role as an administration insider. He signed on to the White House statement “Interest rates don’t move in lockstep with budget deficits.” He, like Mankiw, has a textbook with the standard model linking interest rates to budget deficit. But because the sentence is true as written, Hubbard has nothing to fear from his colleagues when he returns to university life. The press did not ask the obvious follow-up questions. (“OK, budget deficits are not the only factor that determine interest rates. But doesn’t a budget deficit cause interest rates to be higher than they otherwise would be? And regardless whether that increase is small, doesn’t the deficit crowd out investment?”) In the current national mood, this Bush is getting an easier ride than his predecessors; so this strategy is probably Mankiw’s best bet.

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