JACK KEMP
ORAL HISTORY PROJECT

Interview with

JOHN D. MUELLER

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Interviewer

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Morton Kondracke: This is a Jack Kemp oral history project interview with John Mueller, who was Jack Kemp's speechwriter and economic adviser. Today is January 18, 2012; we're at the Ethics and Public Policy Center in Washington, D.C. and I'm Morton Kondracke. Thank you, John, for doing this. You've said in the past that when you met Jack Kemp the first time you hit it off right away. Describe that first meeting as best you can.

John Mueller: Okay. The reason I was meeting him, it was Jude [T.] Wanniski who'd make the connection, I had worked in newspapers for a few years, and had worked my way up to become, among other things, the editorial page editor for the Morristown, then the Morristown, New Jersey *Daily Record*, the daily newspaper. Jude was in transition himself. He was actually fired from the *Wall Street Journal* for handing out campaign literature for [Jeffrey L.] Jeff Bell I think on the Hoboken Path Train platform. I had met Jude when he wanted the paper, the *Morristown Daily Record* to endorse Jeff for his Senate candidacy. Jeff had beaten Clifford [P.] Case in the primary in early 1978 and was running against [William W.] Bill Bradley in the general election in '78 and so Jude was trying to get an endorsement from the newspaper for Jeff Bell. Well, it was a family-owned newspaper and had a policy of not endorsing candidates at the state level or higher, so I couldn't satisfy what he wanted to do. But Jude had just published in 1978 his book, *The Way the World Works*, and my future wife to be, Linda Mallon, and I had started a book review column for the newspaper, so I reviewed the book, gave it a good review, and became a convert to supply-side economics. When Jeff lost to Bill Bradley, who was of course enormously popular, being a New York Knicks basketball star, I was unemployed on election day and Jack was looking for a speechwriter with some knowledge of supply-side economics and so Jude made the connection. I was concerned that I was not making a good impression because I think the interview with Jack was supposed to be at his office down in Washington, I believe at 10 am. I grossly misjudged how long it would take to get from New Jersey to D.C. since I'd never made the drive before. I called from a pay phone about halfway there to warn him that I would be late. He said it was no problem. When I did get there, probably at one o'clock or something like that, we had a meeting in his office and he put me at ease at once. He had a very open and welcoming attitude. It probably didn't make for good administration in an office. He had an open door policy for his staff. But he put me at ease at once. I don't remember precisely what we talked about, just that we spoke about supply-side economics and what I would be expected to do for him. So he hired me on the spot and I started officially as of January 1979. Though in looking over the Kemp papers yesterday afternoon, I see I hit the ground running from the start in 1979, so I must have done something even in the meantime to prepare for that, but began as his speechwriter.

Kondracke: So you started in January 1979. What was it about *The Way the World Works* that captivated you?

Mueller: Well, it was a couple of things. It was a comprehensive vision of not just the economics but of the world. Jude thought big. He talked about the global electorate, he was inclusive, he had a positive vision, which was at odds with the Republican projected vision of the time about how we could help people. So I saw supply-side economics as a way to improve our economy, but more important just to help the average person. Jude highfaluting called the average person the global electorate, but I think there was a positive vision that captured me. And Jack was the personification of the positive, optimistic vision.

Kondracke: Was *The Way the World Works* a kind of a Jack Kemp bible too? Did he refer to it or how deeply had he read it?

Mueller: I'm sure that he read it, but I think that much of his understanding of supply-side economics came from constant phone contact with Jude. I think Jack liked to argue things out, because, as a politician he had to, once he understood something, he had to turn around and try to explain it to other people. So he would often invite people in whom he was interested to the Kemp home and kind of pepper them with questions and be a devil's advocate and try things out, try formulations out for himself. I'm sure he read *The Way the World Works*. Jack was a voracious reader, but he always had five books going at the same time. But I think it was probably more through the argumentation with Jude that he imbibed the spirit that was in *The Way the World Works* and that was embodied also in *An American Renaissance*, much of which was ghostwritten by Jude.

Kondracke: Really? So, the *An American Renaissance* book that Jack Kemp published is largely Jude's. I thought it was a collection of speeches.

Mueller: No, *An American Renaissance* was a prose account, let's see if I have a copy of it here; I left it in the office. His books of speeches came in three versions. The first one is called *The American Idea:*

Ending Limits to Growth, and this came actually in two versions. I saw you have the shorter version. This was a compilation of speeches, I think, that started with a talk in 1973 that he gave at the Pro Football Hall of Fame and went forward 1980 Convention speech up to I think it was closed in 1984, so that was one collection. We did another slimmed down version, which had the same title but was only 220 pages, whereas this one was about 350. So it was a different selection, even though it had the same name, so it's confusing. And then he wrote or there was a third collection called *Advancing the American Idea into the Nineties*, and that was essentially a campaign book for the 1988 presidential campaign, so it had a different selection, it had some overlap, but it was a different selection of speeches because it was the themes that Jack was concerned with in the 1988 campaign. It included his announcement speech and just about everything up to his concession speech. He also had an article that was published I believe in *Policy Review* on the lesson for conservatives on the 1988 election. So it started as a campaign book for 1988 but ended as kind of a summation of—

Kondracke: Did you dig up that 1988 piece? Do you have it?

Mueller: Which? It's in the book.

Kondracke: The *Policy Review* piece.

Mueller: Yes. It's called "1988's Lessons for Conservatives." It might have a slightly different title in its original form in *Policy Review*, but it's in the book.

Kondracke: Okay. But anyway, *American Renaissance* is a full-blown book that explains the view of supply-side economics that Jack Kemp and Jude Wanniksi shared.

Mueller: Right. It was Jack's persona, whereas *The Way the World Works* is Jude's persona.

Kondracke: Tell me about the speech-writing process in the Kemp office. There's obviously an occasion for a speech and so what was the procedure?

Mueller: Well, it was dictated by his speaking schedule, so we'd have a speaking event, and generally I would come up with a draft.

Kondracke: Did Jack say, "Look, this is what I want to talk aboutat this speech."

Mueller: We would talk in very general terms of what he wanted to accomplish. In his speechifying there was a great deal of overlap from one to the next because you can't do a wholly new and different speech. In fact, the point was to have a continuity of theme and purpose. So generally speaking a speech might lift some of the best parts, say, from *An American Renaissance*, and that would become a feature that could be plugged into almost any speech. But the group you're talking to has a specific purpose and idea and Jack was always commenting on what was going on in Congress or in politics, so it was constantly being updated. I noticed yesterday when I was at the Library of Congress looking at my speeches from that long ago, my first impression was I should have thrown a lot of stuff out, because it was not the final speech, it was the draft. You did three or four different drafts of the thing and there would be some notations in Jack's handwriting and then some notations in my handwriting, and I would take those and try and come up with a new speech. Generally there were about three different versions to every speech, which is remarkable, considering the number of speeches that he gave, and how often he spoke off the cuff. Other items that I noticed just in the first two years' worth of boxes were debates that Jack had with important people in the economic debate. Two notable examples were, from the time period I just covered yesterday, were [E.] Michael Harrington, the Democratic Socialist, and Stuart [E.] Eizenstat, the economic adviser to Jimmy Carter. In those cases what I would do would be to research transcripts of earlier debates that these folks had had against other people and try to figure out what this guy's strategy would be in a debate with Jack, because with other people, as with Jack, you come with a certain stock of ideas and try to apply them as best you can. So I would do talking points for Jack as to what the opponent—Harrington or Eizenstat—was liable to say, and war game what the liable attacks would be and the appropriate responses. And then in both of those cases, as I mentioned, they would come back with a transcript to be corrected, the raw transcript. At the same time, because Jack was a member of Congress, every time he went to the floor to speak, there would be the transcript of remarks by the court reporter which had to be corrected every night and marked up and cleaned up and sent back. I remember it was just a constant series of editing exercises, so that's kind of the typical process.

Kondracke: So he used the material?

Mueller: Yes he did.

Kondracke: Because other speechwriters of his have said that they would give him drafts and he wouldn't use them.

Mueller: Yes, I think we did connect at a certain level, and I think other speechwriters that Jack had took him too literally when he would mark up a passage. It didn't mean that he wanted those exact words. What he was saying was, "This doesn't work." And he was always right, that the passage did not work. But he didn't mean you to take him literally. He may have a phrase that captured his imagination and he wanted you to work in, but he didn't want you to take the literal words that were on the page. I think that's why other folks kind of had a skewed view of the speechwriting process with Jack. He was pretty disciplined. I was just looking at the stuff yesterday, he was pretty disciplined in taking in the prepared material and using it in his debates. In other occasions, I think, speaking occasions, especially when he was running for president, became so numerous, it was just very difficult to do that kind of quality control for every event, but at the beginning at least he was quite disciplined in listening and using the material.

Kondracke: So, in 1979 when you first arrived, what was his purpose in making all these speeches? The Republican party had adopted Kemp-Roth, his tax policy, as its platform; in the 1978 election they won seats and so on. So in 1979 we're leading into a presidential election. What was he basically, what were you basically writing about? What was he talking about?

Mueller: Well there were lots of different objectives. In retrospect things look a lot more cut and dried than they were at the time. It wasn't cut and dried that Kemp-Roth was established policy. That was due most of all to [William E.] Bill Brock, I think, and I came across the tribute that we did for Bill Brock when he retired in 1981. He did a great deal to implement the vision that Jack was talking about, to which Jude was interjecting ideas, but the inclusiveness—reaching out to African-Americans—Jack had always done that, ever since he was a professional football player. But Bill Brock made that a centerpiece of his tenure as head of the RNC [Republican National Committee] and also saw the same opportunity, political opportunity, for the Republicans, in having a positive vision to project, where so many Republicans, having been the majority for so long, just seemed so negative. That was what Jack was trying to blow a little of that [unclear] pressure.

Kondracke: There was one speech from 1979 that I want to ask you about particularly, and that's the speech to the longshoremen. This is July 16, 1979, and he says in here, "Back in 1976 a major Republican figure running for national office came to my district to campaign. At the time unemployment in Buffalo was running at 16 percent and the factory workers said reducing inflation is fine, but they wanted to know what he planned to do about unemployment. He said, not much in the short-run and if we could balance the budget by 1978, by 1980 we could work toward reducing unemployment. He was operating under the same theory that is still guiding us today, the theory is simply asinine." I have a feeling he was talking about [Robert J.] Bob Dole, but, was he?

Mueller: I think it was. I was not with Jack.

Kondracke: But you wrote the speech.

Mueller: I did write the speech. I suspect that asinine was my interjection but Jack certainly didn't shrink away. He felt strongly that what the Republicans were proposing at the time was not just stupid politically, it was inhuman. Not to care that people were supposed to be unemployed for several years in order to combat inflation. Almost everyone on the conservative side, including Friedrich Hayek, he talked about how it was necessary to have a depression for several years to solve double-digit inflation. And of course Jack and most conservatives revered Friedrich Hayek, but he just got it wrong on this issue, and it was what Jack called the Phillips curve mentality, that the way you fought inflation was with unemployment. And that was the predominant doctrine in those days. Keynesianism said you had one policy level demand which you either increased or decreased, so you had to live with the consequences, even if that included high unemployment.

Kondracke: Was the person involved here Bob Dole, who obviously was an exponent of that philosophy, right?

Mueller: I believe it was.

Kondracke: So, just looking ahead though, in fact, the way Ronald Reagan defeated inflation, was through Paul [A.] Volcker [Jr.]'s creation of a recession. I mean, it did basically work, didn't it, to kill inflation?

Mueller: Well, that's what the supply-side agenda was about attempting to avoid. What the supply-side innovation was was that you don't only have one policy lever to push, but you had at least two. To control inflation you use monetary policy, and to fight recession you use tax policy, and the two could be combined. So the trick in and after 1980 was to end double-digit inflation without causing a big recession. We understood the problem. Jack wanted to do, his initial plan was to do a 30 percent across-the-board cut in marginal tax rates in one year. To get a Senate cosponsor, [William V.] Bill Roth, to go along with it had to be stretched out over three years, and by the end of the process, the Reagan tax cuts had been reduced to 23 percent spread over four years, and the first year was only one and a quarter percent. And that was exactly in the year when Paul Volcker was putting on the brakes. And so we had monetary restraint without the tax cuts. The tax cuts only began in part in 1982.

Kondracke: So you and Jack believed that had the tax cuts been instituted the way you had originally intended there would not have been a recession?

Mueller: Well, it certainly would have been a much, much milder one. Depending on the size, I mean a 30 percent cut in marginal rates can do a whole lot. But we got the most we could get to have a presidential candidate, Ronald Reagan, get its importance and to overcome the opposition that he had to implement it was doing well. Yes, we could have done better, but we did the best we could with the resources we had.

Kondracke: Let me go back a second. [Randal C.] Randy Teague, his one-time chief of staff, said that Jack Kemp was interested in tax policy as far back as 1973, before you arrived. What got him into tax policy? Why did he decide to, he wasn't on the Ways and Means Committee. What was it that made him interested in tax policy?

Mueller: There'd be a couple of things, I suppose. The core constituency of the Republican Party, and this is my theory of politics, for what it's worth, is that the two parties differ economically primarily in the degree to which their constituents rely on human versus non-human capital for their livelihood. When we did the oral history symposium at UVA [University of Virginia] on the 1981 and '86 tax reforms, I used the chart showing how voter self-identification parallels the share of voter family income almost perfectly, whether it comes from labor or property income. So even back then there was always a strong core of support within the Republican Party to give breaks for owners of productive property. So the Jobs Creation Act, which was Jack's big tax initiative before Kemp-Roth was like 10 different incentives for various kinds, mostly for some kind of incentive for investment in property. In Jack's speeches, looking back, my files included speeches he had given previously, and he argued with a lot of Republicans at the time that the main factor that increases productivity and therefore growth and living standards of workers is the amount of capital invested per worker. So having this understanding, it was natural that Jack would focus on Jobs Creation Act-type incentives. What he did in Kemp-Roth was different, though. It was across-the-board. At that UVA conference on the '81 and '86 tax reforms, Bruce [R.] Bartlett recalled that it wasn't Jude Wanniski or even Bruce that came up with the idea for Kemp-Roth, but Jack himself, who stuck his head in one day, Jude had been talking, possibly with [Robert] Mundell's influence about the positive impact of the Kennedy tax cuts, and so, according to Bruce's recollection, one day Jack just stuck his head into Bruce's cubicle and said why don't we just re-do the Kennedy tax cuts? That's why Bruce tried to design something as closely as possible to mirror the Kennedy tax cuts. And so this was a different approach to the Republican approach. It was a more, it was tying into a bipartisan not center of gravity—to win in presidential elections, the way that American voters identify themselves, roughly speaking about 50 percent, even after the Reagan Revolution, still identify themselves as Democrats. About 40 percent as Republicans and about 10 percent as independents, and so if you want to become a successful president, you have to, as a Republican, you have to get all of the Republicans, all of the independents and some of what in 1980 used to be called the Reagan Democrats. You can't do that with a policy that only gives tax incentives to owners of productive property, because if you add up all the voters you just don't—

Kondracke: Incentives for productive property are depreciation write-offs, investment tax credits, are capital gains taxes, etc. Whereas reducing taxes on labor income is just wages.

Mueller: Well, the across-the-board nature of the Kennedy tax cuts, the Reagan-Kemp tax cuts, also the [Andrew W.] Mellon tax cuts of the 1920s were applied across the board, meaning on all income, that's both labor and property income. That was not only economically effective, getting the rates down, increased the after-tax incentives and did produce positive results, but it also had the effect that even people who were at the bottom of the income scale, or lower down on the income scale, they didn't mind the rich guy having a tax cut as long as they didn't feel that they weren't participating. Jack was a big believer in the Lincolnian vision, that it was natural for everyone to try and improve his lot in life and to improve it not just for himself but for his family. So Jack always had dynamic forward-looking view of things and I think this is why he gravitated towards the across-the-board nature, meaning by cutting tax rates across the board on both workers and Wall Street investors, we would provide the economic incentives that the whole economy needed, but it would also be fair and provide the incentives in which the blue collar worker could get ahead too, because he wanted to improve his lot. Maybe he was in a blue collar job but wanted his son or daughter to have an education.

Kondracke: That's they way it turned out later, but way back in 1973 when Randy Teague got employed, he was looking for a tax person. Now do you think it was because of the distress of Buffalo and he was looking for ways to trigger growth in Buffalo, and looked at tax policy as the way to do it?

Mueller: Well, it would be natural because it was a steel industry town in those days and the steel industry has big investments in equipment and plant. So doing incentives for that would make sense economically and politically if you were the representative of a steel district.

Kondracke: But do you know who his early influences on that were, leading to the Jobs Creation?

Mueller: On the Jobs Creation Act? I think it was Norman [B.] Ture who had a great deal to do with it. We spoke a little bit about this at the UVA oral history symposium. He originally provided the investment tax credit idea to Kennedy and he was always much more concerned with what he called tax neutrality. And this was something that took me a couple years to work my way through to figure out how do you treat people and machines on the same footing? Norman had a view of tax neutrality which in effect meant that you would have zero tax on property and property income. They would be expensing, an immediate write-off, for the initial investment, and there would be no taxation of return on that investment. So, in end what you have left in the tax base if you take that to its logical conclusion is a glorified payroll tax. I didn't see that at the beginning because I, like Jack in the 1970s, accepted the prevailing wisdom on the subject. Not just the political community but also the economists at the time had not internalized Theodore [W.] Schultz's discovery in coining the term human capital. He had done that back in 1960 and '61 when Norman Ture, he has already been educated and was already working at the White House, Theodore Schultz—

Kondracke: Who was who?

Mueller: Theodore Schultz had been initially an agricultural economist, but he had been tasked after World War II to try and predict the growth in Germany and Japan, which had been devastated. Schultz recognized that all of their forecasts of what would happen say in Germany after the War were way, way off, way, way too low, and rather than doing what most people do, is just ignore your mistakes, Schultz went back to try to figure out what they had done wrong, and he came up the theory that the problem was that we were assuming that all the growth had to come from the plant and equipment that was available, so you had to increase the plant equipment per worker and you had to increase it at a certain rate to have a good rate of growth. But when Germany and Japan's capital stock had been decimated, there was nothing to begin with. And Schultz realized, and he said in a famous article where he coined the term human capital, published in 1960, that the economies had been growing much, much faster than to be accounted for in this way. And he hypothesized that the missing growth was caused by the investment people. So that's what his article was about. Other economists like Gary [S.] Becker, also with the University of Chicago, wrote a book called *Human Capital*, in which he tried to articulate that. John W. Kendrick tried to formalize Schultz's idea into what he called the total capital theory, in which it was possible to classify not only the human capital, but also non-human capital, tangible and intangible forms. For example, tangible human capital is our bodies, which we can see and touch and feel. But our education or our experience or our judgment, these are intangibles and so what Kendrick did was to comprehensively try to formalize the theory but also to measure these things for the United States, going back as far as we national income data. And he showed that all of the growth is in fact accounted for by these various forms of human and non-human capital, tangible and intangible.

Kondracke: In other words, the growth, is it more accounted for by the growth in human capital than it is in property capital.

Mueller: Right. About three-fifths of the growth comes from human capital.

Kondracke: But the Republican Party tends to still devote its energy to incentivizing property capital, no?

Mueller: Yes, and there's always been this tug of war. The questions you're asking really are asking how did Jack emerge from this mindset into a new mindset.

Kondracke: Yes. It was instinctive rather than theoretical?

Mueller: It was both. You could call it instinctive but Jack early on also had a very deep interest in Lincoln. 1976 was the Bicentennial and any politician in Congress at the time was thinking his way through that, back to the Founders, certainly, but also interpreting what America means. Jack, pretty early on, focused on Lincoln's interpretation and what he did both politically and economically. He stole the clothes of Thomas Jefferson and tied it to the Republican constituency of the time, in what he called "free labor." He tied the anti-slavery issue with the pro-growth issue. Lincoln had been a former Whig and believed in the Hamiltonian notion of growth where you had. . . .

Kondracke: Public works.

Mueller: Exactly. Transportation. Lincoln grew up in Kentucky and Illinois where getting your goods to market was key. He floated merchandise on barges down the Mississippi and he was a railroad buyer. He was a Whig before he was a Republican, and I think Jack was captured by this notion of a forward-looking, optimistic strategy, but also one that was actually pretty crafty in its politics.

Kondracke: So, you build both public works and private plant and human capital, you do it all, that's the Kemp vision?

Mueller: Yes, I think how much you emphasize depends on what the state of development of the country is and so forth. Certainly when I became familiar with Schultz and Becker and Kendrick, I more consciously tried to correct some of the earlier not just Republican rhetoric but also some of the mistakes in the economics that we were all trying to use to implement.

Kondracke: So, you and Jack had these deep discussions about this economic history?

Mueller: We might have discussions, but Jack was so busy that the way it normally would happen was in terms of talking points. Jack had most time not in his office to sit down and chat, but to read when he was on the plane or in the car to some place. My office was right next to his, so it was possible to talk on short notice, but it was mostly done in terms of talking points and speech drafts.

Kondracke: Would you talk about Schultz and Becker?

Mueller: I'm trying to keep clear the chronology of my own understanding of these things. No, it would happen more in terms of the content of speeches, because this was the action item. He had many speeches to give and was constantly interpreting what was going on politically. I understand it was done very similarly in the Reagan White House, is that policy was made through speechwriting. No, we would not have the leisure to sit around and discuss these folks, and I was still learning about them too. Supply-siders are notoriously argumentative, and every couple weeks or so, especially later in his Congressional career, Jack would have supply-side gatherings of economists and staffers. Any big name supply-siders like [Arthur B.] Art Laffer or Bob Mondell, [Lewis E.] Lew Lehrman, would be there when he was in town to discuss things. Jude Wanniski. And these would often wound up in shouting matches because no one could agree on some of the most basic things. This is something I didn't realize until I wrote my own book much, much later, is that the history of economics has been abolished. It's no longer taught by economists. In fact it was formally ended, the practice that to get a degree in economics you had to have mastered its history, that was ended formally in 1972 at the University of Chicago. Many if not most of the supply-siders were Chicago-trained, so much of this disagreement about the history of economics was being played out in front of my eyes. And I was a speechwriter, I was not an economist to begin with, and yet it was my job to try to come up with a coherent explanation for all these things taking in the various points of view. So I would always have a six-foot shelf of books from the Library of Congress to try and figure out who was right on these things.

Kondracke: So you synthesized all the learning that you did from these books into speeches without reference to the books, necessarily, which was a daunting job.

Mueller: Yes, but Jack was a big reader too. He was a voracious reader from early on. There were anecdotes from his football days about how other folks would be studying the play book and he'd have some book—

Kondracke: And he absorbed it.

Mueller: He did, he did. This notion he was a dumb jock—one of his advantages, like Reagan or Lincoln—was that everyone underestimated his intelligence.

Kondracke: So what were the fights about among the supply-siders?

Mueller: Could be about many things. Monetary policy was a very important part, in fact it was the core of supply-side economics as it began. If you go back to Wanniski, he wrote a piece called "The Mundell-Laffer Hypothesis for Public Interest," I think, in 1975, and the Laffer Curve is literally a footnote in that article. Everything else is about the world monetary system. This is where, I guess, credit for supply-side policy mix really belongs to Mundell, that you don't have just one lever that is always on or off, but you have two levers. So Jack was drawing on the most advanced economists of the time. Mundell went on much later to get a Nobel Prize; I guess it was in 1999. But Jack was party to it and was trying to translate it into policy at that time, and Jude was the link between Jack and Mundell on that. But there would be disagreements about this. Shortly after I started working for Jack I met Lew Lehrman. He was among other things was of course the cofounder of Rite Aid drug stores. He sold it in the mid-to-late seventies; used his money the first of several times to found the Lehrman Institute where the supply-side ideas were debated. Lehrman had known Jacques Rueff, the French economist, who understood the peculiarities of having one nation's currency—it's now the dollar—but when Rueff started it was the pound sterling and the dollar. Using one nation's currency as international money. So there was always a debate going on between Mundell and Wanniski on monetary policy. They thought that all we had to do was to restore the Bretton Woods system, according to which the dollar was convertible into gold, but other nations' currencies were convertible into dollar securities, buying and selling, say U.S. Treasury securities. Lehrman, because he had been a protégé of Rueff, and published the complete works of Rueff through the Lehrman Institute, in French, unfortunately. I learned French in order to read him well enough to understand him. So I was introduced to these ideas and understood there was a flaw in the Bretton Woods system, the same flaw that led to the breakdown in the 1920s and early thirties caused by the massive expansions and contractions that are possible under such a system and they're still at the center of what's been going on in the world economy lately. So being exposed to the Rueffian theory through Lehrman, I became convinced that Lehrman was correct, Rueff was correct, and that Bretton Woods was not a viable solution. It had broken down the first time and it would break down again. Mundell saw it and still sees it as a way station toward a world central bank. The Keynes plan of 1943 is what Mundell is always trying to implement.

Kondracke: Which there will never be.

Mueller: It will never happen. It's a political non-starter for one thing.

Kondracke: Yes.

Mueller: But he thinks it's politically doable and Wanniski thought it was politically doable, and what Wanniksi wanted, I mean, he was a very resourceful and articulate guy. Of course he had been very influential in making the connection on tax cuts and persuaded Jack of the importance of the across-the-board nature of the income tax cuts. So certainly monetary policy would be one source—

Kondracke: Jude Wanniski was not a Lehrmanite or Rueffian?

Mueller: No, there had always been a debate between them. Then there was a third component which were the domestic monetarists. Outside the immediate circle of supply-siders those were probably much more numerous, who thought that, with Milton Friedman, if you just got the M's to—

Kondracke: The Fed [Federal Reserve Board] could peg currency to something that it invented itself and just determine what the money supply was and thereby control inflation.

Mueller: Yes, he had the image of, you didn't need a Federal Reserve. All you needed was a computer program that would just increase the money supply at a steady rate. Paul Volcker actually tried to do that from '79 to '82 and discovered that it doesn't work because, among other reasons he overlooked the fact that the foreign dollar reserves had the same impact on the U.S. economy as what the Fed creates itself. As soon as the Fed tried to target the M's, their previous supposedly stable relationship with the U.S. economy exploded, broke down. And so certainly monetary policy was a big source of disagreement. Later on there would be also professional disagreements which figured into it. Jude, when he was fired from the *Wall Street Journal*, founded Polyconomics, Inc., the consulting firm in which he combined political analysis with a growing reliance on economic analysis, when he hired economists like Allen Reynolds. These conflicts, when [David M.] Dave Smick left after being chief of staff, he found his own consulting firm. First it was called Smick-Medley, and then Johnson Smick. So there would be some jockeying back and forth

Kondracke: Over what?

Mueller: It would be like needling Jude for driving a Japanese car when some of his clients were Detroit automakers. So it was not just the policy things.

Kondracke: This was professional rivalry.

Mueller: Professional rivalry, yes. After I left Jack I joined in founding what was then Bell, Mueller, Cannon but which became Lehrman, Bell, Mueller, Cannon, the rump of which, LBMC LLC, I still conduct on the side. And that led to frictions with Jude.

Kondracke: Was this over contracts?

Mueller: No, it was actually over the predictiveness of the various theories. After I left Jack, and this is jumping ahead, I suppose, in our story, I didn't want to work for any other politician that I knew, and I did not think, having looked at the process, that I would survive the White House or the Executive Branch. I'm an introvert, so I would not thrive in that environment. So Jeff Bell and Frank Cannon had the idea to start the firm, and my initial response to it was nah, if anybody could make money doing this they would already be doing it, which was kind of stupid. But part of what we wanted to do was to support ourselves, but we had also failed to persuade policy-makers to change the policy.

Kondracke: This is monetary policy.

Mueller: Monetary policy, though it shades into fiscal policy because what kind of a monetary system determines how much automatic finance there is for budget deficits. And we can see this today, for example, with the Federal Reserve doubling its balance sheet overnight in 2008 and tripling it, almost entirely by buying U.S. Treasury securities. The monetary system has a huge impact on the budget, and one of the first casualties of going off gold convertability was the loss of federal budget discipline, and it's now built into Congressional Budget Office's long-term projection. So the rivalry between Polyconomics, Jude, and LBMC was mostly over the predictiveness, whether what I called the world dollar base, can predict as much as two years in advance, episodes of commodity inflation, which Jude denied. So he would attack, he would write newsletters attacking LBMC for its predictions and we would respond to that. These were not, because I left after Jack, these were not the substance of the disagreements at the time. They were the nature of the disagreements that were going on between Jude and other folks who were trying to needle him for personal reasons or, as with Dave Smick, partly for Congressional rivalry.

Kondracke: What was the relationship between Smick and Wanniski? Was Smick the chief of staff the whole time that you were there?

Mueller: No. First there was Randy Teague, who left, I think about a month after I came. I was the chief of staff for a month before Jack realized I was totally unsuited for that, which I agreed I did not want to actually be chief of staff in the first place. Dave Smick then came on, I think in February of 1979, and he stayed, I think, until through ’84 and left to start his own firm. In the last year or more and continuing beyond that, Jack was involved in various conferences on Third World debt, which Jude would put together—this was before Jude had left us to found his firm—he put together these conferences on Third World debt and we’d do them with Democrats interested in the issue, like Bill Bradley and [Richard A.] Dick Gephardt, with central bankers, which he would bring together and economists like Mundell, and I think [Arthur B. “Art”] Laffer was involved in monetary conferences as well. Dave turned it into a business model.

Kondracke: Wanniski originally founded these things and then Smick?

Mueller: No, it was Smick who founded them.

Kondracke: Oh, Smick. I see. He did them while he was working for Kemp?

Mueller: These were Kemp initiatives, but the same relationships that Dave could use as a business model because he knew all these central bankers. Manuel [H.] Johnson joined as a partner, so they do a pretty good and lucrative job of schmoozing central bankers and policy-makers.

Kondracke: So just to go back now, Smick arrives in ’79 and how did Smick get along with Wanniski and Paul Craig Roberts and all these other people? Smick was a politician, right? Had run for office and—

Mueller: Yes, and so he wasn’t abrasive in the way that say Jude could be. Dave has a wry sense of humor; he can be pointed in his remarks. So for Dave to needle Jude for having, I think, Chrysler as a client, while he himself was driving a Japanese car. What Jude got upset about, I think that Dave had mentioned that in passing to a Chrysler executive or something like that.

Kondracke: For purposes of wresting away a contract or something, or undermining—

Mueller: I don’t think Dave at that time, well actually he might have started his own firm at that time. So there was professional rivalry there. I don’t think they were actually looking at the same clients but just—

Kondracke: But going back to the Kemp staff now, Smick arrives about the same time you do, then.

Mueller: Shortly thereafter. He had been involved with Jack, he wrote and also helped publish some pamphlets I think in the Senate Finance Committee.

Kondracke: Yes, or Policy Committee.

Mueller: Yes, Policy Committee, on behalf of Kemp-Roth, so Jack knew him from that point of view first. I should go back.

Kondracke: I'll ask Smick himself how that all came about. A lot of the focus of '79-'80 is trying to get the Reagan campaign to adopt Kemp-Roth, right? So give me the history on that. Reagan had said some nice things about Kemp-Roth, but [Rowland] Evans [Jr.] and [Robert D.S. "Bob"] Novak's book about this whole era say that Reagan was ambivalent and that he had various advisors who were hot and cold about Kemp-Roth and sometimes he would sound like Bob Dole. So what did you all do to try to influence the Reagan campaign and Reagan?

Mueller: It was part of this yin-yang back and forth on the importance of business incentives. From the beginning there were folks in the Reagan campaign who had big connections to, for example, the American Council for Capital Formation, a lobbying group for big business, and there was always a tug of war

Kondracke: That's Charles [E.] Walker?

Mueller: Charlie Walker, right. To try and water down the personal rate reductions and juice up the business deductions, the depreciation—

Kondracke: Which is the battle that you're talking about.

Mueller: Right. So that was always going on, and what Jack had going for him with Reagan was that Reagan was in the same business that Jack was. He was trying to talk to people. You know he had these radio addresses, and some of his positive what seemed to be endorsements of Kemp-Roth for example were the Steiger Amendment, occurred fairly early on.

Kondracke: Steiger Amendment being a cut in capital gains, right?

Mueller: Right. So Reagan is writing his own radio addresses, he doesn't have a staff that does it for him. As we know [Martin] Marty Anderson, I think, published a book of his radio scripts, so this was Reagan. But certainly the closer he got to becoming a presidential candidate and to be president, the more and more you had people coming on board who were jostling to deflect the personal rate cuts. When Jack would publish a speech he would send it to Reagan.

Kondracke: Which was read by Reagan?

Mueller: I'm pretty sure it was. There was no way for me to tell that. I do know that Reagan seemed to be taken with that longshoremen speech that you mentioned. I think there was an anecdote in it about a blue-collar worker who got a $65 raise and wound up with $66 more in taxes. Those kinds of anecdotes appealed to him, and also Jack's general way of describing it appealed to him. I remember briefing Reagan in the White Plains, New York, there was a hotel there, I think, where he was staying, and I was supposed to go up and brief him on enterprise zones. Reagan was there and Nancy [Reagan] came in in her bathrobe I remember, a pink bathrobe and I was there just to give Reagan a memo on enterprise zones.

Kondracke: When was this?

Mueller: This would have been, I think, late '79 or '80. No, it would have been late '80, I think.

Kondracke: So you were deputized by Kemp to go up there.

Mueller: Yes. We also wrote a speech for Reagan, which he did deliver, I believe, to the NAACP [National Association for the Advancement of Colored People], because this was another thing, you know, Jack's outreach efforts, the Brockian component. When Reagan had to give a speech to the NAACP they asked for a draft from Jack. I don't think it was a great draft. I drafted it, but I had no experience in writing for Reagan. But still, he, I think was attracted by Jack's way of connecting with constituencies that Republicans had been writing off for decades. So Jack was always trying to reinforce those instincts on Reagan's part.

Kondracke: Were you at the January 1980 meeting at LAX [Los Angeles International Airport]?

Mueller: Yes, and we talked about this I think at—

Kondracke: Now, Lehrman told us that this was referred to in the Kemp campaign as the boarding party, as in pirate ships. That you guys were going out there to finally capture Ronald Reagan's mind about Kemp-Roth.

Mueller: That was partly it, but I think that the boarding party analogy was borrowed from Democratic politics. I suspect it was Jude's formulation, though I heard Jack using it too, the notion that liberal staffers, when you had the emergence of a candidate like [James E.] Jimmy Carter there would be a boarding party of liberals from the [Walter F.] Mondale wing of the party to try and staff up the campaign, and Jude possibly he borrowed it from some other journalist, referred to that as a boarding party. So this was a kind of wry way of saying that this was our effort to influence the Reagan policy. Certainly there was a lot of disagreement within the Reagan campaign between the various persona who didn't always get along with each other. John [P.] Sears was one of Jude's main conduits as a go-between with Jack, and so the ups and downs of Sears versus the other Reaganites would have repercussions on the relations between Jack and—

Kondracke: Sears finally got fired. But this was later. At that meeting did Reagan commit to Kemp-Roth? What did Reagan say about Kemp-Roth at that meeting?

Mueller: I think we had, I'm relying here on a memo that Jude did at a time describing— [looking through papers] It was a memo called "With Reagan in California," and that's what I used.

Kondracke: Jude was in the meeting too?

Mueller: Yes, he was there, and he described the cast of characters and what we talked about, which is why I found it valuable in my research. Oh, here we are. Yes, it's called "F.Y.I. with Reagan in California," it's a Polyconomics thing and he describes the three days of policy briefings at his headquarters in Los Angeles. It says, "The purpose was not only to tune up Ronald Reagan going into the serious stage of the primary campaign but also to outline the issue orientation for the primary and general election." He describes the schedule of meetings, which is like 9:30 am to, the first day was from 2:00-5:00 pm since I think it was a Friday. This was January 2nd. "Three hours on agriculture with some spillover for energy-related topics." Jude says "I did not attend this session arriving in L.A. just as it ended. The second day, from 9:30 am to 5:45 pm was devoted to foreign and defense policies. The final session, Friday, the fourth"—I got the days of the week mixed up—"the final session, Friday, the fourth, was devoted to economic policy and energy and lasted from 9:30 am to 6:00 pm. I—Jude—attended these two full-day sessions." It says, "These were not action meetings in that they were not meant to produce on-the-spot decisions or conclusions. They were, though, extremely lively, with a wide range of views represented on most topics. It would be improper for me to report on the details of discussions and I took no notes, but the ground rules were not drawn so tightly that I cannot share my general impressions." So, he describes a cast of characters, there were about 30 people involved. He describes who they were, describes Reagan—

Kondracke: What do you remember of, were there differences in the Reagan camp at that meeting about Kemp-Roth?

Mueller: Jack, as I recall, gave a presentation on Kemp-Roth. I believe Art Laffer gave a presentation on gold. I don't recall there being any opposition from the Reagan folks. I think their style was more, since they were with Reagan the whole time, they had time to work on him afterwards. So they gave us time to say our pieces. Jack had the title of chief policy spokesman. This is the reason for Jack being there with his putative boating party.

Kondracke: Were you satisfied at the end of the meeting that Reagan was a supply-sider?

Mueller: I think Reagan didn't commit himself. He mostly just asked questions. He had by this time campaigned on Kemp-Roth—well, I take that back. This is January 1980, and he had said things in his radio talks that had in effect endorsed Kemp-Roth, but the back and forth was mostly in response to the other folks who were close to Reagan, pushing—

Kondracke: Who were the other folks that were doubters?

Mueller: Well, certainly all of the . . . we mentioned Charlie Walker.

Kondracke: Right. Were was Marty Anderson in all this?

Mueller: Marty was positive on the effects of incentives, but he was more concerned with cutting spending, because he was not a big believer in Laffer curve effects. So I think he would be supportive but only up to a point. But that's fair enough. I myself went through a, in dealing with the statistics, I began as a more doctrinaire supply-sider in thinking that major tax cuts would increase revenues. But when I went into IRS [Internal Revenue Service] income statistics what I saw was that there is indeed a Laffer curve, but it is not an overall curve that affects the whole economy. But there is a Laffer curve for each marginal tax rate. Every time the United States Congress has cut marginal income tax rates, there has always been a break-even point below which you lose revenue and above which you gain revenue. Revenue gains have to do especially with the income that's already there, especially in the form of capital gains, but which investors can shift to their tax advantage. So I discovered that there is no such thing as a single Laffer curve, but that there are Laffer curve effects that we can take advantage of by designing tax reductions properly. By way of saying that I don't fault Marty Anderson for being skeptical on the supply-side effects.

Kondracke: Both Jude Wanniski and Lew Lehrman wrote articles at the time saying that there was a battle for Reagan's mind.

Mueller: A battle for Reagan's soul. Jude Wanniski used the term in a *Village Voice* interview or something like that.

Kondracke: So did Lehrman.

Mueller: Yeah, he wrote an article called "Stop the Battle for Reagan's Soul." And Lehrman was essentially saying we have to do it all or we're not going to get any bits of it, and my view was that Lehrman was right. Lew and I were a minority among the supply-siders in being balanced budget supply-siders. I believed and still believe in Laffer curve effects, but you still have to balance the budget, and a big part of the necessity of monetary reform is due to the fact that the only way to ensure the discipline that Congress will get its act together is that you have to have monetary reform done, along with proper incentives through tax reduction, deregulation.

Kondracke: That's where Stockman comes out now, you know. Stockman—we had a long interview with Stockman. And Stockman says, he says in his book, that what he was in favor of doing was doing it all, you know, balancing the budget, cutting tax rates, eliminating loopholes, all of those things. And the process that he went through was to see that politically it was impossible. That you were never going to get the tax cuts that were necessary to make room for the—you weren't going to get the spending cuts to make room for the tax cuts, and the consequence was going to be a ballooning deficit. And that's why he began to oppose the tax cuts, because he thought they were unaffordable.

Mueller: Well, that's arguable in retrospect certainly. I certainly had a different perspective at the time. Being a Rueffian or a Lehrmanian or, to a certain extent even a Mundellian, I recognize that the dollar's role as a reserve currency gives Congress an ability to finance deficits far beyond what one would think if we were assuming that the United States were a closed economy. As Mundell often stated, the only closed economy is the world economy. So I thought it was perfectly feasible to do it all, feasible both economically and politically. A big part of what Reagan was doing was his defense buildup. He was trying to defeat the Evil Empire. And to do that he had to increase the defense budget. The deficits came in part not just because of tax rate reductions but because of the defense buildup.

Kondracke: He doubled the national debt.

Mueller: Yeah. But it did start at a fairly low level, and in the end we were able to have what was called the peace dividend. Bill Clinton claims credit for balancing the budget, but that was in large part due to the defense build-down that was possible after the end of the Cold War. So I think it was a difficult set of challenges that Reagan faced, but he put together a package which accomplished pretty much what we needed to. We did not have to sacrifice national defense in order to balance the budget. We might have done things better, but there were political constraints. I just, though Lew Lehrman and I favored and still favor a gold standard, which puts brakes on how much debt Congress can finance, in order to get from here to there and defeat the Soviet Union, I recognized certainly and I think Mundell recognized and counted on the fact that OPEC [Organization of the Petroleum Exporting Countries], for example, would be financing a large part of it through recycling their oil surpluses. So I think Stockman's economic perspective may still be too narrow to—

Kondracke: He is now a Lehrman acolyte.

Mueller: Yes, well, he's on board. I think he sees the big picture. I don't think he saw it whole at the time. He has come around on gold, certainly, and he was not in favor of gold at the time. I remember talking to [Lawrence] Larry Kudlow at the time who was his assistant at OMB [Office of Management and Budget] and he was essentially a monetarist at the time. So we all evolve, I think.

Kondracke: What was Kemp's reaction when the *Atlantic Monthly* article came out that dismissed Kemp-Roth as trickle-down economics and Trojan Horse for cutting the top rate?

Mueller: This is the one reporting on Stockman's . . . ?

Kondracke: Yes, [William] Bill Greider's interview with Stockman.

Mueller: Yes, it was certainly an aggravation.

Kondracke: Do you remember anything he said, specifically? Because, after all, he'd gotten Stockman his job.

Mueller: Yeah, so it did reflect negatively on Jack for having promoted him. The economic Dunkirk memo that Stockman drafted, Jack pushed that very hard. So to have the impression that it was all a Trojan Horse, that was, certainly Jack viewed it as a betrayal but I think it was more, not anger but just aggravation. He did not carry grudges.

Kondracke: Were you there? Do you remember, I mean, the article comes out and must have landed like a bomb.

Mueller: It did, but Jack was always looking on to the next thing. I think he spoke on the phone to Stockman about it. I was not a party to that so I can't really tell you what he said. I think it was more feeling betrayed but having to move on.

Kondracke: Right, okay, now in 1981 when ERTA [Economic Recovery Tax Act of 1981] is being considered, as I understand it, Kemp looked at the process of adding on the Charlie Walker agenda, 10-5-3, and all those other business benefits, with dismay. However, in 1982 and '83 and '84 when the Reagan administration tried to pull back on those excesses, Kemp opposed it.

Mueller: TEFRA [Tax Equity and Fiscal Responsibility Act of 1982].

Kondracke: TERFA, right. So isn't that inconsistent?

Mueller: I think Jack viewed it as, he did view all the capital incentives as junk that was added on, but necessary to get the thing past. It was the price that was paid. Afterwards I think it seemed, see we were in a recession by that point, and that was widely claimed to be a disproof of the supply-side idea. This goes back to what we were talking about earlier that back-loading the tax cuts while front-loading the monetary restraint, we viewed that at the time as problematic. We were certainly—

Kondracke: Kemp wanted [Paul A.] Volcker [Jr.] fired.

Mueller: Yeah. So that's when monetary policy loomed large. Dave Smick was instrumental in getting Jack to introduce legislation to have Congress exert pressure on the Federal Reserve. I didn't think that that was a good idea.

Kondracke: Do you remember what that bill was called?

Mueller: I would have to look it up.

Kondracke: So that was the context. You're in a recession; you don't raise taxes. That was the argument?

Mueller: Yeah, basically.

Kondracke: So what was the argument in favor of them raising taxes in a recession? Because the deficit was so big?

Mueller: Yes, it was saying that reducing the deficit would bring down interest rates, and bringing down interest rates would revive the economy. Volcker had already implemented his supposed effort to implement the Friedmanite rule of actually holding the money supply to three percent or something like that, and it was at that point that interest rates went through the roof.

Kondracke: On purpose. I mean he was going to create a recession that would curl your hair in order to stamp inflation out of the economy, right?

Mueller: He knew what he was doing. I think he was convinced at first that the Friedmanite policy would work, but he abandoned it in 1982, and it was that abandonment that caused interest rates to fall sharply and that's when the stock market took off like in August of '82.

Kondracke: Well he'd accomplished his mission, hadn't he?

Mueller: It was coming, I think the inflation rate was coming down sharply, but certainly in the headline inflation it was not mission accomplished. That took a little while longer, but, yes, Volcker's efforts were instrumental in bringing down inflation, no question.

Kondracke: Why couldn't you say that the economic boom, which by the way Stockman doesn't think was all that great, that followed, but compared to the 1970s it clearly was, was Keynesian, in that it was deficit-financed and it was largely based on defense spending as opposed to tax cuts?

Mueller: Are you asking my response?

Kondracke: I'm asking you as a theoretical matter. I mean some people said, Democrats said after Reagan, that the economy came back, that Reagan had given it a Keynesian kick in the pants.

Mueller: Yeah, but it was the same Keynesians who said that tax cuts themselves would cause runaway inflation, and in fact, what the experience showed was that policy instruments really are separable. You can have monetary policy work on the inflation. You have to remember, with double-digit inflation that was, stagflation was the big problem. And because the tax code was not indexed, double-digit inflation meant that if you had 13 percent inflation, that meant your tax burden was going up 20 percent because not only—

Kondracke: Lifted into a higher bracket.

Mueller: Exactly. So it wasn't that much of a Keynesian tax cut for most people because all the tax cuts were doing in the lower and middle ranges was just keeping the problem from getting worse, but we did get the top rate down from 70 to 50 at once. So I think that—

Kondracke: But the argument would be that what you're is injecting demand into the economy and it grows as a result of that, that whatever you did—double defense spending—I guess it wasn't doubling, but seven percent increases in defense spending, plus running these big recessions, was what stimulated the boom.

Mueller: That explanation doesn't work out because we had a sharp rise in the dollar at the same time. As I mentioned, you know, the United States is not a closed economy and so the sharp rise in the dollar was disinflationary. You might call it the natural result of large deficits at the same time you had a tight money policy. But those deficits were easily financed as the Mundellian or Rueffian would predict because of the dollar's role as a reserve currency. So I think that explanation is really too simple to fit the facts. If it was an increase of demand, why did the inflation rate come down so sharply?

Kondracke: You've done an analysis of what Reaganomics did, have you?

Mueller: Others have. Bruce [Brian] Domitrovic wrote this book *Econoclast*. I think he goes into the details on that. I think Alan Reynolds has written stuff on it. I have not written a piece specifically on it.

Kondracke: What do you make of the Bruce Bartlett argument that, okay, supply-side was right for that time because of high inflation, high unemployment. It was the right formula, but it's not the right policy for all time; that sometimes when you have a deflationary circumstance what you need is a Keynesian stimulus, a big Keynesian stimulus, as in 2008, 2009.

Mueller: And you ask me my response to it?

Kondracke: Yes, what is your counter-argument.

Mueller: Well certainly Bruce, by his own account, has changed his understanding in a more Keynesian direction. My perspective is shaped by the fact that Rueff was a contemporary and constant debating partner of Keynes in all the questions that mattered at the time. Rueff who explained why Keynesianism, by focusing purely on domestic money, missed out most of what went on in the 1920s and '30s, and for that matter misses most of what went on in 2007-2009. I have done stuff on that explaining that it's really in both cases a monetary phenomenon—both the rise and fall of the price level in the 1920s and '30s and what happened to unemployment in the '20s and '30s, what happened to inflation in each of the double-digit episodes in the United States, '73, '74, '79-80, '89-90, and the most recent, these are all traceable to U.S. monetary policy. And to explain that you have to include the dollars not merely created by the Federal Reserve, but also the ones purchased by foreign central banks, for example the People's Bank of China, which owns trillions of dollars of U.S. securities; the Bank of Japan; the European Central Bank. All these purchases and sales of U.S. securities factor into what happens in the economy, and the theories you mention by Dave Stockman and Bruce Bartlett essentially ignore this. Well, Stockman, as you mentioned is moving in a more Rueffian-Lehrmanian direction recently; he wasn't when he was at OMB, and I think Bruce, who was pretty much a standard domestic monetarist when he was a supply-sider on Capitol Hill is still mostly domestic in his orientation. I think that accounts for his thinking that we have only these two alternatives. It is a pretty Keynesian view of things, as Bruce himself admits.

Kondracke: Let's go to the gold issue. How did Kemp get into the issue of gold?

Mueller: Well, as I mentioned, supply-side theory from the beginning was oriented towards monetary policy. But Jack because of his interests related to the Bicentennial and 1776, he was a big student of American history. From the beginning he talked about a dollar as good as gold, that was one of his catch phrases.

Kondracke: When did that enter? That was already in the speeches when you were—

Mueller: That was already in his—Jude's book, *The Way the World Works* has a great deal to do with the importance of gold convertibility, the Bretton Woods system, Jack's *American Renaissance*. But I was struck yesterday by going through just the speeches from '79-80, how early on the speeches I was doing for Jack and that Jack was delivering, the articles written were essentially Lehrmanian, but that was because I was arguing for that, but it was also my role to be an honest broker between the various factions. So I didn't think it was proper for me to pull a fast one and try to put one over on another faction, so it would always be my duty to do memos back and forth, not just with Jack but with other interested parties. In these supply-side confabs in Jack's offices, when Lew was there he would do the argument in favor of Lerhmanian's position. When he wasn't there then I would do it. So I would have two hats. I would certainly be a Rueffian on economic policy, but Jack was the ultimate decider of what was written. A dollar good as gold was there from the beginning.

Kondracke: Which is a kind of a finesse of the final argument as to whether Bretton Woods.

Mueller: It was a finesse because he had—it was a statement that was anti-monetarist in the sense that Jude was pretty fanatical against domestic monetarists as being demand-siders. So even perhaps the majority of supply-siders on fiscal policy, tax policy, were domestic monetarists, Jack was pretty much a believer in the price rule. And that the best price rule was the price of gold. The disagreement that continued among those who believed in gold convertibility was whether we should go back to Bretton Woods or go forward to a reconstituted international gold standard. We had many debates about that in the conferences in 1985 and 1986.

Kondracke: Now the Bretton Woods formula ties the value of the dollar to gold, right?

Mueller: Right.

Kondracke: And the Fed manages the supply according to the supply of gold. Is that right?

Mueller: No, the way it works is that—

Kondracke: That's Mundellian.

Mueller: That's Mundellian. What happens is the Federal Reserve, its task is to maintain convertibility of the dollar into gold. But all the other central banks are maintaining convertibility of their currencies into U.S. dollars. And they're doing so by buying and selling not gold, although they could do so, in practice what they do is buy and sell U.S. Treasury securities. So what it does is it builds in this big elastic, usually elastic expansionary but it can be elastic deflationary component in the system. So the Rueffian-Lehrmanian position is that we have to get rid of that elasticity because that is what causes the loss of federal budget discipline, that's what causes the episodes of commodity inflation

Kondracke: But if the dollar is tied to the value of gold, why is that necessarily inflationary or deflationary? I don't understand what the difference is in the effects. Because you've still got the dollar tied to gold, and all the other currencies instead of being tied to gold are tied to the dollar, so what's the difference?

Mueller: In a symmetrical international gold standard, every central bank trades gold with each other. They settle their accounts in gold. What central backs are doing is settling the residual balances that are left over after all the imports and exports and all the investments abroad and the investments received at home there's a residual balance, so what central banks are doing is settling this residual balance. Under a gold standard the balances are settled entirely in gold, but under a gold exchange standard, of which Bretton Woods is an example, the settlement, though it can occur in terms of gold, in practice it occurs entirely in terms of securities. What happens in fact, and this is the essence of the predicted disagreement between LBMC and Polyconomics the purchase of sales of U.S. Treasury securities by foreign central banks have exactly have the same ultimate impact on the U.S. commodity inflation as what the Federal Reserve does. That's why we have to add them all together to figure out what is going to happen when the central banks do something. So if we don't include the foreign component of the dollar reserves we're leaving out of account most of what's important that's going on and it's the result of the constant surprises by central bankers like [Ben S.] Bernacke or [Timothy F.] Geithner at the result of what they do. Because the Fed is at most the director of the symphony of central banks, but if the woodwinds are doing something else it will have a different tune coming out.

Kondracke: Why couldn't Jack ever get gold on the national agenda? He put it there again and again and again.

Mueller: I think the ultimate cause was a disagreement among supply-siders about the practicalities. I made great efforts to try and hammer out an agreement that both the Mundellians and the Rueffians could—

Kondracke: When was this?

Mueller: This was in '85-86. And in fact we did reach an agreement on a system in which the major central banks, say today it would be the European Central Bank, the United States and other major central banks would be on a gold standard with one another but peripheral countries could still use dollar reserves, so it would be kind of a hybrid system, sort of a graduation policy when a country's per capita income got to a certain point it would have to switch from dollars to gold. And we hammered out that agreement between Lehrman and Mundell but—

Kondracke: Was it embodied in legislation?

Mueller: No, it was done just in terms of, it never made it that far because when Jack described the policy in Rueffian-Lehrmanian terms, Jude backed out of the agreement.

Kondracke: Did you have a conference, or how did you put this deal together? Was it your doing or was it Jack's doing?

Mueller: It was a combination of both. Jack wanted to get his advisers to agree. The Gold Commission, I think it was authorized in 1980 and reported in 1982 and it was dominated by domestic monetarists, and so it essentially endorsed the current system. And then we in '85 and '86 in the context of these international monetary conferences and conferences on debt, tried to put together a policy which was consistent among the supply-siders and did reach agreement on this hybrid policy, which was in its core a Rueffian gold standard. But as I mentioned, Jude—

Kondracke: Where was Smick in all this?

Mueller: Well, he had started his business I think by early 1985, possibly even late '84, so in '85 and '86 he would be involved in helping to get central bankers involved in conferences and he would not be taking a position on the merits of things. He was more trying to make the early conferences before he left run smoothly, which he did. And then to use these contacts as a business model, which he still does and I think does pretty effectively.

Kondracke: Why did he get these conferences started while he was with Kemp? I mean what did that have to do with Kemp's work?

Mueller: Because Jack was interested in—

Kondracke: Was it part of his Foreign Ops [Foreign Operations Subcommittee of the House Committee on Appropriations] responsibility?

Mueller: It was part of it. It was more that central issues in the political debate, the trade deficit, for example, were the Third World indebtedness, many issues that are out there today were salient back then. The trade issue became salient when the dollar rose so sharply, peaking in 1985, and that created enormous pressure, especially on the Democratic side, for protectionist legislation. Dick Gephardt was a leader in that. So these monetary conferences were an effort to point out the monetary aspect in causing all this and to air the issue among competent economists and interested politicians and try to hammer out alternative solutions to the trade problem that wouldn't make it worse rather than better.

Kondracke: So the theory was that the dollar was too strong, and therefore we had a trade deficit on account of it, and if there were a gold standard the dollar would not be as strong?

Mueller: The dollar would not have risen as high in the first place. Because if all currencies were convertible with one another there would be no possibility for these huge trade imbalances to develop in the first place. The international imbalances of payments are related to the flows of these official reserves, which have to equal the private trade and capital accounts. They're only really basically three things you can trade in the world, whether on a micro level or on the macro level. Money, goods, and securities. At the broadest level all three of those have to add up. So for example if two people or two countries have a payment—if I pay you for something, I have to get something in return and that something has to be some combination of goods. Say I give you five bucks and you sell me that cup and make a promise to repay the rest of the balance that we agree on. So those are the three things that we can trade, and it's the same in the world economy. But using the U.S. dollar as an international reserve asset means that say the People's Bank of China buys a trillion dollars of

U.S. Treasury securities, it means there has to be an opposite flow of trade and private capital combined. So the trade imbalances, which politicians like Gephardt were concerned about, if they were due to the malfunctioning of the international monetary system, then the way to affect those trade imbalances is with monetary reform, not with protectionism.

Kondracke: Right.

Mueller: So that was the economic theory and also the political impetus for putting on these conferences in the first place is to say, we see the problem, and you're right that there is a problem, but you're wrong about the causes and the solution.

Kondracke: So there was an agenda to these conferences which was to change monetary policy.

Mueller: Yes, to try and determine and bring about a bipartisan agreement on this.

Kondracke: What was Bradley's position in all this?

Mueller: He wanted to do something about Third World debt, and he had worked with Jack on the tax reform issue, or he was working at the same time with Jack on the tax reform issue. So just as in tax reform, he saw it as an opportunity to work with Jack to highlight an issue that both of them thought was important and though they had different solutions and proposals—

Kondracke: What was Bradley's solution?

Mueller: I think he wanted debt forgiveness, though I have to go back and look.

Kondracke: Did he want monetary change?

Mueller: He was open to that possibility but I don't think he ever made as explicit a statement about it as Jack did.

Kondracke: Okay, we're going to finish up here pretty soon. The tax commission that Kemp served on in 1996, how did that come about and what was its consequence?

Mueller: He was chairman. Jack had announced, I think in March of 1995, that he was not running for the '96 presidential election and Dave Smick and Jeff Bell had spoken with Scott [W.] Reed and folks in Gingrich's office about having Jack appointed the director of a Tax Reform Commission. The general purpose of which was, as Dave, Jeff, and I understood it, to come up with a comprehensive tax reform proposal that the Republican candidate in '96 could use to run on. Be sort of an winning, updated version of Kemp-Roth, say, that would be a way of doing something good in terms of tax policy but also something positive for the Republican candidate. I think that it was in our minds too that Jack might be selected as a vice presidential candidate if he did succeed in crafting such a package. So that was the genesis of the issue. I was appointed as one of five outside advisers to the Commission.

Kondracke: The others were who?

Mueller: Let's see, [Stephen J.] Steve Entin, I'm blanking on the guy's name from the Heritage Foundation.

Kondracke: Not Stuart [M.] Butler.

Mueller: He might have been. I'll have to go back.

Kondracke: Don't worry about it. Who was on the Commission?

Mueller: There were John [W.] Snow, who was then the head of CXCSX [CSX Corporation], the train corporation, later the Treasury secretary under George W. Bush. Herman Cain was on the Commission.

Kondracke: Was Jack the chairman?

Mueller: Jack was the chairman and [Edwin J.] Ed Feulner [Jr.] was the vice chairman.

Kondracke: How long did it proceed and what did it come up with?

Mueller: Well, it held public hearings at various cities around the country in 1995, and came up with a report, I believe in January or February of '96, which was into the presidential primaries. The four principles of Lehrman, Bell, Mueller, Cannon, Inc. came up with a proposal for a comprehensive tax reform, which we thought was the logical next step. And it was a flat rate, broad-based income tax that would tax all income equally by getting rid of all deductions or loopholes, credits, and so forth, except for a single credit which would be against both the income and payroll taxes below a certain level of income, which would exceed the poverty level. It would be revenue-neutral. There was also a combined reform in the Social Security pay-as-you-go retirement system. There were several options, but the basic plan was to have this flat rate, broad-based income tax with this single credit and a reduction in the payroll tax rate, which was tied to a commensurate reduction in promised future Social Security benefits. The problem with Social Security at the time was that the 1983 reforms with the bipartisan Reagan commission had produced decades of surpluses in the Social Security Trust Fund, but there were prospects of deficits as far as the eye could see once the Baby Boom retired and the benefits exceeded the income. So the idea was to cut the payroll tax rates now, get rid of the surplus, which Congress was spending to finance the rest of the budget, and reduce the promised future benefits so that we'd get rid of the future deficit so that the retirement system would balance now and in the future. So that was the essential LBMC plan, as it was called.

Kondracke: And it was adopted by the commission?

Mueller: No it was not. We proposed it, but at the same time that this was going on [Malcolm S.] Steve Forbes [Jr.]was running on a flat tax, which was a variation of the Hall-Rabushka plan from back in 1981, which had a history in tax reform, because when I was tasked to come up with the Republican prototype for tax reform, we had that famous poolside meeting in the summer of 1983 about that. I noticed at the Library of Congress yesterday that Jack was talking about tax reform in 1980, so it was something that was on his scope from an early time. But it was really, as he talks about in that article about the lessons of conservatives from 1988, I'm losing my train of thought.

Kondracke: You were talking about Hall-Rabushka and what happened with the tax commission.

Mueller: Sorry.

Kondracke: I've strained you here. We'll quit pretty soon.

Mueller: My MS does a number on short-term memory and also being able to focus on point.

Kondracke: Why don't we stop? This is not the end of John Mueller interviews. It's gone two hours and 15 minutes and I think I've worn you out.

Mueller: No, I think I can finish the question.

Kondracke: The bottom line is what happened with this tax commission and what did it finally end up with.

Mueller: What the tax commission wound up with was essentially it did not get down to specifics enough. This is one of the problems with the commission, it didn't really come up with a plan and that was a difficulty for Jack as a potential vice presidential candidate because Bob Dole in the meantime was going on to become the candidate for '96 and did in fact choose Jack as his running mate. The problem was that the Tax Reform Commission had not come up with a plan that Dole could run on. And this is where the history of Hall-Rabushka comes in. The Hall-Rabushka plan of 1981 essentially—

Kondracke: Hall was who?

Mueller: Alvin Hall, no, I'm sorry, Robert [E.] Hall and Alvin Rabushka came up with a plan in late 1981 that would apply a single flat rate above a standard deduction, but the tax base would be what was defined as consumption, but which was entirely labor income, in effect. It was a tax that was collected partly at the individual level and partly at the business level, so it seemed to be even-handed. But in fact the tax base was in the long run entirely labor income. So apart from the Bradley-Gephardt plan, which was introduced at almost exactly the same time as the Hall-Rabushka plan came out, so the Hall-Babushka plan was almost the first one that I analyzed in any depth. I went to the Joint Tax Committee and ran numbers on what it would do to income distribution, and it turned out, actually it didn't have any deductions at the bottom in those days. But even in the version that Steve Forbes and [Richard K.] Dick Armey later, Steve Forbes later ran on, they did have deductions at the bottom, but because the tax base effectively removed all property income from the tax base, the distribution of the tax burden was sort of dome-shaped. It started out low at the bottom where the bulk of income is from social benefits—transfer payments. But in the middle, middle-income and middle-upper-income classes, 80 or 90 percent of the income comes from wages and salaries. And then at the top as the share of property income increases so that less than half of the income at the top is labor income. So if you apply a flat rate to this tax base, you found that there would be a substantial increase, for any revenue-neutral version, a substantial tax increase for families in the middle and middle-upper income. Not much change if you kept the deductions and credits at the bottom, which the Forbes and Armey plans did. But at the top it would be a sharp fall in tax liabilities. And so it was one of the first plans that I analyzed and it was attractive because of its simplicity, but I realized it was a non-starter. I did this and informed Jack of these findings and also analyzed many other plans that had been proposed in Congress by other people. And so we realized that it was a non-starter because it just wouldn't fly politically. So what the Tax Reform Commission in 1996 comes up with is a variation of precisely that plan. When I testified and LBMC wrote a letter to all Republican Congressmen, describing the problems with the Hall-Rabushka approach, back then the middle-class squeeze was a really salient issue and it's perhaps even more so an issue today.

Kondracke: Sure is.

Mueller: And so when I testified I made the pitch for treating human and non-human capital and labor and property income equally as far as possible. We put out these various permutations that they could choose from and I pointed out the economic and political problems. It was a suicide note for the Republican Party rather than some positive vision that they could run on. [Frederic W.] Fred Barnes wrote an article describing a hearing, drawing on unnamed sources who were in fact Dave Smick and Jeff Bell, describing the problems created by the way the Tax Reform Commission was going. I was blamed for having leaked internal knowledge. In fact I had nothing to do with it. But I was dropped as an outside adviser from the Commission. It caused the first and really the only disagreement that was a serious one with Jack.

Kondracke: Jack's the one who dropped you?

Mueller: No, it was Ed Feulner, I think.

Kondracke: These were closed hearings?

Mueller: Yes. There was open testimony that you can give and did give and then there were also closed sessions. But there were also memos going back and forth I had supplied. I have a whole briefing book of stuff that we provided to all the members of the Tax Reform Commission, including source readings and analyses of these various tax proposals, the distributional analysis of what would result. The same kind of work that I did for Jack on tax reform I applied to the 1995-96 Commission. The commissioners voted essentially to go with the Hall-Rabushka type approach because that's where the Party was moving politically. I wrote a couple of op-eds at the time saying that it was a bad plan. When Jack was in fact picked for the vice president, he didn't have anything from the Commission that he could run on. Scott Reed was relieved to jettison the Tax Reform Commission and they came up with another sort of mini Kemp-Roth tax cut in which the tax cuts would be paid for by unspecified spending cuts, so it wasn't as bad as what costing out the actual Tax Reform Commission proposal would have looked like, but it wasn't enough to be winning. So it failed to fulfill the purpose for which Jack was appointed director of the Tax Reform Commission.

Kondracke: Okay, thank you, John, very much. And we will resume at another date.